

## **MINUTES**

### **MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION**

#### **SUBCOMMITTEE ON NATURAL RESOURCES**

**Call to Order:** By Berv Kimberley, on February 15, 1991, at 8:00 A.M.

#### **ROLL CALL**

**Members Present:**

Rep. Berv Kimberley, Chair (D)  
Sen. Esther Bengtson, Vice Chair (D)  
Sen. Gerry Devlin (R)  
Rep. Ed Grady (R)  
Rep. Jerry Nisbet (D)  
Sen. Cecil Weeding (D)

**Staff Present:** Roger Lloyd, Associate Fiscal Analyst (LFA)  
Terri Perrigo, Associate Fiscal Analyst (LFA)  
Carl Schweitzer, Budget Analyst (OBPP)  
Bill Mandeville, Budget Analyst (OBPP)  
Theda Rossberg, Secretary

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

#### **HEARING ON BOARD OF INVESTMENTS**

**Tape No. 1;A**

**CHAIRMAN KIMBERLEY** called for the first order of business, the Board of Investments proposed MOD for \$96,000.

**DAVE LEWIS, BOARD OF INVESTMENTS**, recalled the committee had questions about whether the General Fund would be impacted.

**EXHIBIT 1 JIM PENNER** explained the handout showed the growth of assets, income, budget and staff over the last ten years. Because the two FTEs would be involved exclusively in venture capital, equity real estate leveraged buyouts, convertibles and international investments, none of which are eligible securities for the Treasurers fund or the permanent Coal Trust fund, there would be no General Fund impact by these two FTEs.

**SEN. WEEDING** asked does the interest from some of these funds go to the General Fund? **JIM PENNER** answered no.

**SEN. WEEDING** asked where will the money for these positions come from? **JIM PENNER** answered from the retirement fund. Retirement funds are the only funds that can use equities by state statute.

**EXECUTIVE ACTION**  
**BOARD OF INVESTMENTS**

**SEN. BENGTON** moved to allow the MOD for two FTEs at \$96,000 each year of the biennium.

**Discussion:** **REP. GRADY** questioned whether one FTE would be enough. **DAVE LEWIS** replied that the Division feels two are needed now. An acceptable situation might be one FTE the first year and two the second year to address the growth. This would not solve all problems immediately.

**SEN. BENGTON WITHDREW THE MOTION.**

**SEN. BENGTON** moved to allow the MOD for one FTE at \$48,000 for the first year in the biennium, and \$96,000 for two FTEs in the second year of the biennium. **MOTION CARRIED WITH REP. GRADY VOTING NO.**

**DISCUSSION**

**DAVE LEWIS** stated that in the Appropriation Act, the Division is required to give a report to the Appropriations Committee each session on the use of soft dollars. Soft dollars are commission dollars rebated by brokers. The Board of Investments in 1983 made a decision to use soft dollars to develop the software package for the portfolio management system. In 1983, the product was not satisfactory, and the Division ended up in threatened litigation with the contractor. The commission dollars are being used to pay off this outstanding claim. \$38,000 of commissions were given to Westco, to pay part of a negotiated settlement that's four years old and another five years will be needed to pay off that settlement.

**HEARING ON BUSINESS DEVELOPMENT, DEPARTMENT OF COMMERCE**

**EXHIBIT 12 February 14 1991 Minutes.**

**BOB HEFFNER, ADMINISTRATOR BUSINESS DEVELOPMENT DIVISION,** began with testimony on Budget Base Differences. Both the LFA and the Executive budget contain a higher revenue estimate of income from the SBA than was actually received. \$62,000 additional funds shown under SBA income did not materialize in the past two years. A technical adjustment to the General Fund budget of \$62,489 per year, which was not expended because it did not come in from the federal government, must be put back in the General Fund side. The Division believes the LFA budget with this adjustment is sufficient.

**CHAIRMAN KIMBERLEY** asked, what happened to the money left over from the super collider fund that was to promote new business or jobs.

**CAROLYN DOERING, ADMINISTRATOR MANAGEMENT SERVICES DIVISION**, said that was a one time appropriation, money was funneled through Department of Commerce to the Ambassadors. That is not reflected in the budget.

**BOB HEFFNER** referred to the first MOD for Business Development Division, which is private income account from fees from trade shows, client participation in seminars, sales of publications. The Montana Manufacturers Directory is published annually, \$20 a copy is charged, so about \$35,000 additional income and expense is anticipated. This more frequent publication of that directory requires authority to expend the additional income. The Defense Logistics Agency Contract MOD asks for authority to spend funds from the Defense Logistics Agency of \$114,000, and approximately \$50,000 from local partners and private contractors such as US West and Montana Power. There are four FTE positions in this area.

**SEN. DEVLIN** asked what happens if this money does not come in? **BOB HEFFNER** said there is no guarantee that the federal government will continue to fund the program. People in this program are hired under explicit recognition that the position is dependent on federal funding.

**CAROLYN DOERING** said, if funding ceased, it would not be firing an employee, it would be a reduction in force, and since it is stated in the hiring agreement that the position is contingent on receipt of federal money, there is authority to RIF them if the federal dollars do not come in.

**SEN. DEVLIN** said, I am uncomfortable about new programs with federal money. Programs get started and the federal money is withdrawn. Does there need to be language relating to that possibility?

**ANDY POOLE** said the Department would have no problem with putting language to the effect that should federal funding end, those positions would no longer exist.

Tape 1;A;16.56

**BOB HEFFNER** addressed the third MOD EDA/CDBG the Revolving Loan fund. The state has applied for and received \$840,000 from the Economic Development Administration as part of loan package to Centennial Foods in Dillon. That loan package is matched \$300,000 of community development block grant funds. The total amount of money, \$1.14 million from those two sources, will be repaid to the state by Centennial, and will become a state level revolving loan fund pool which will be lent out to other industrial projects around the state on a competitive basis. It will work just like the Community Development block grant program, except these funds will come back to the state level, to form a continuing CDBG program on the state level not dependent on new federal funds. The Division is asking for one FTE, an administrative assistant position, to administer the revolving loan fund.

REP. GRADY should language be added that the position ends if federal funding ends? BOB HEFFNER said the Division has received the federal funds which are loaned out and when payments come in from the loans, that money supports the position. No more federal money is needed.

SEN. WEEDING asked is the entire block grant the \$1.14 million? BOB HEFFNER said yes. About \$170,000 per year in loan repayments will be received in the first two years and that is the money the Division is asking to spend. The plan is to lend \$137,000 per year and expend \$32,000 in administration, including the one FTE.

BOB HEFFNER referred to the last MOD at the bottom of Exhibit 12, Additions above the Executive Budget. The Small Business Administration has offered the Division \$50,000 in additional federal funding in the first year of the biennium and \$75,000 in the second year of the biennium to increase client service. The money requires a one to one match which will be provided by local partners in the cities affected. The Division would be entering into a subcontracting relationship with local development organizations to establish subcenters. No FTEs are associated with this. This MOD asks for authority to spend those federal dollars.

SEN. DEVLIN questioned the amount of the SBA funding.

BOB HEFFNER corrected the amount to \$75,000 in 1992 and \$100,000 in 1993.

SEN. WEEDING asked if the one FTE was to assist in administering the whole CDBG program, or just to administer that \$170,000. BOB HEFFNER said currently there is a CDBG that administers about \$2.5 million a year and every year generates more projects putting an increasing burden on one administrator, so the new person would spend some time on existing CDBG programs.

CHAIRMAN KIMBERLEY referred to the issue, Budget Based Differences. REP. NISBET asked if the Pacific Rim was part of this. CHAIRMAN KIMBERLEY said, it had been determined that would be heard separately, but whatever the committee wishes.

BOB HEFFNER said there are separate budgets, and it was felt it would be easier to deal with the Pacific Rim separately.

**EXECUTIVE ACTION**  
**BUSINESS DEVELOPMENT**

SEN. WEEDING moved to accept the LFA budget. MOTION CARRIED UNANIMOUSLY.

REP. NISBET moved to approve the technical adjustment to set General Fund funding at \$579,052. MOTION CARRIED WITH SEN. DEVLIN VOTING NO.

**REP. GRADY** moved to accept Item 1 under Budget Modifications.  
**MOTION CARRIED UNANIMOUSLY.**

**SEN. DEVLIN** moved to accept the MOD for Defense Logistics Agency Contract, specifying the modification would be dependent upon continued federal funds, and General Funds would not be used to replace federal funds. **MOTION CARRIED UNANIMOUSLY.**

**SEN. WEEDING** moved to accept MOD #3, the EDA/CDBG Revolving Loan fund. **MOTION CARRIED UNANIMOUSLY.**

**REP. NISBET** moved to approve increased federal funding for the Small Business Development Center program. **MOTION CARRIED UNANIMOUSLY.**

**HEARING ON PACIFIC RIM, INTERNATIONAL TRADE OFFICE**

**EXHIBIT 2.**

**MATTHEW COHN**, INTERNATIONAL TRADE OFFICER, PACIFIC RIM, presented an outline of the Pacific Rim program. **EXHIBIT 12** The program was funded by the legislature in 1987, to increase trade and opportunities.

**SEN. DEVLIN** said the Wheat and Barley Commission used to be involved in some of this activity. How does Pacific Rim coordinate with them. **MATTHEW COHN** said the program reports to the Wheat and Barley Committee at their annual meeting, works with their foreign buyers, and the committee works with the International Coordinator. The Commission has a marketing program in place, and have asked the state to help find markets for the non-traditional grain crops.

**CHAIRMAN KIMBERLEY** said, raw logs are not shipped to the Pacific Rim any more. How has that affected Montana's economy? **MATTHEW COHN** said this office has taken the stance from its beginning that shipment of raw logs would not be promoted. It was felt that the purpose was to create value added commodities. The federal prohibition on raw logs has increased the interest overseas in Montana wood products. Now the wood products must be purchased.

**BOB HEFFNER** stated that lumber sales from Montana to the Pacific Rim have increased from \$460,000 in 1987 to \$1.5 million in 1988 to \$2.4 million in 1989.

**REP. GRADY** said there is discussion that more packaged beef should be marketed rather than live cattle. **MATTHEW COHN** said that's true. The problem in Montana is having a packing plant with the ability to package meat acceptable to the foreign market. There is a shelf life problem, as fresh, not frozen, beef is desired. A Japanese-owned ranch at Dillon ships one container of chilled carcasses per week to Japan.

**REP. DEVLIN** asked where that beef is slaughtered? **MATTHEW COHEN**

replied in California.

**CHAIRMAN KIMBERLEY** asked, how much of the program is funded by the bed tax? **MATTHEW COHN** said approximately 1/3, \$144,000.

**CHAIRMAN KIMBERLEY** asked if the program needed a bigger share of the bed tax? **MATTHEW COHN** said realistically the money from the bed tax is well spent, very targeted and cost effective. If more money is available it will be used, however, no more is requested.

**SEN. WEEDING** said at one time live beef and lambs were being shipped out of Helena at the skyport. Has that market been lost? **MATTHEW COHN** said the number of live cattle going into Japan was going down due to the changing market. There are still Montana cattle being shipped out of Seattle, Washington.

**SEN. BENGTON** said everyone had been excited about international trade, and it is important to develop a system to monitor the growth of the program. The legislature has been very supportive, and there has been tremendous growth in the program. Since Mike Mansfield is no longer in Japan, has there been any impact on visibility or acceptance? **MATTHEW COHN** said no negative impact had been noted.

**SEN. BENGTON** are the trade missions regularly scheduled, or on a need basis. **MATTHEW COHN** said once a year is adequate for the Governor to do what is needed overseas. Tourism has one trade mission a year to Asia, and agriculture has one mission. Trade shows are handled case by case.

Tape 2;A

**REP. GRADY** asked if the program was going to work on the sale of packaged beef? **MATTHEW COHN** said a Taiwanese business looked at buying the Midland Packing Plant. The state program found and brought to Montana a qualified investor, but the deal fell apart. The program recognizes that beef is a very important issue, and attempts to target companies with the expertise to provide the product desired. A comparison of beef packing plants in Montana and South Dakota based on 300 head a day operation indicated it was more cost effective to locate in Billings than in Rapid City.

**SEN. WEEDING** asked is the Pacific Rim program involved in coal negotiations? **MATTHEW COHN** said yes, but not in day to day negotiations.

**ROGER LLOYD** said the budget continues on Exhibit 12. Exhibitions have been separated out in the budget. In 1990, the amount spent was 0. Executive budget recommends \$45,000 each year. The remaining differences are due to Budget Based differences. There are two MODs requested. The first is International Affairs Coordinator, one FTE, funded three-fourths with General Fund, approximately \$55,000 each year. The second MOD is to open a Canadian Trade Office, funded about one fifth with General Fund,

one FTE position, approximately \$70,000 each year. **MATTHEW COHN** explained the exchange rate since 1988 has fluctuated in a range of 117 to 152, averaging 182 yen per dollar, so not so many dollars had to be spent. Money not spent, is returned to General Fund. The exhibition budget was not spent. There were plans to move the office in Tokyo, and it was proposed to use money from the Pacific Rim budget to open a Canadian Trade Office. Because of these two things, the promotions were canceled in anticipation of needing that money.

**SEN. DEVLIN** asked if the money turned back was all General Fund money? **MR. COHN** said yes, that all entitlement funds are spent first.

**MATTHEW COHN** addressed the MODS. Because of the volume of visitors, the number of inquiries, and the type of cultural exchanges a temporary FTE was transferred from Transportation Division that was vacated to the International Trade Office. It now shows up as a modified request, both the funding and the FTE. The division is requesting that this temporary FTE become permanent.

**CHAIRMAN KIMBERLEY** asked, where would the FTE be located?

**MATTHEW COHN** said the FTE is physically located in the Governor's office to lend more authority to the position in the minds of the foreigners, and much of the coordination has to do with offices at the Capitol.

**CHAIRMAN KIMBERLEY** would it be necessary that he be bilingual?

**REP. COHN** said it has not been necessary. It must be someone who has had experience in dealing with foreign governments and people. Pat Owen who is in the position is a retired Marine. During latter part of his career, he was involved in base locations all over the world, and he knows protocol.

**MATTHEW COHN**, addressing the second MOD, said the program feels Canada is a market which cannot be overlooked, and anticipates a Canadian Trade Office in Calgary will produce results similar to what has been achieved in Asia. The request is for \$15,000 from General Fund, and the remainder will be raised through interest groups around the state.

**BOB HEFFNER** said a Canadian Trade Office would give opportunity to recruit companies and investment from Canada. Looking at Canada vs. Montana, Montana has cheaper land, utilities, labor and better access to U. S. markets.

**REP. GRADY** asked what groups help with private money? **MATTHEW COHN** said business who will gain by more business with Canada.

**SEN. WEEDING** asked if these special revenues are bed tax funds? **CAROLYN DOERING** said within the International Affairs Coordinator MOD there is \$15,000 in accommodations tax. Within the Canadian Trade Office, there are no accommodations taxes. The special

revenues will be provided through negotiations with Wheat and Barley Commission, with the Beef Council, and other private sources.

REP. GRADY asked why isn't there any promotion money for Canada? CAROLYN DOERING answered there is advertising through the tourism program now.

ROGER LLOYD said the Canadian Trade Office MOD is funded with \$15,000 General Fund, \$10,000 from the Wheat and Barley Commission, \$25,00 from private donations and \$20,000 through the Montana Growth Through Agriculture.

SEN. WEEDING inquired what the source of revenue was for the #4 MOD? CAROLYN DOERING replied that was from the accommodations tax.

REP. BENGTSON said she has a strong bias toward the budget because it is a multiplier. Having had the opportunity to go on the first trade mission, it has been rewarding to see the progress in less than ten years. The Department has been frugal and accountable.

**EXECUTIVE ACTION**  
**BUSINESS DEVELOPMENT DIVISION**

**EXHIBIT 12 February 14, 1991 Minutes.**

REP. GRADY moved to accept the LFA budget on Pacific Rim. **MOTION CARRIED UNANIMOUSLY.**

SEN. BENGTSON moved to accept the Executive on both Exhibitions and the Budget Based Differences. **MOTION CARRIED UNANIMOUSLY.**

SEN. BENGTSON moved to accept the Executive Budget Modification #4, the International Affairs Coordinator, and #5 the Canadian Trade Office. **MOTION CARRIED UNANIMOUSLY.**

CAROLYN DOERING said prior to the last session, there was an account called federal and private revenue, so if private funds were received above what were appropriate a budget amendment would permit expending the funds. Last session an accounting review was done and all private funds were moved into a state special revenue account. Once in a special revenue account, emergency criteria for a budget amendment must be met. If additional private funds are received, it must be certified that an emergency in order to spend them and that sometimes is very difficult to do.

BILL MANDEVILLE said one of the alternatives is to put some language in the bill to express the intent that if the agency did receive some additional funds, it would constitute an emergency and would qualify for the emergency criteria. Greg Pettish of the Legislative Council has rendered an opinion that language



does not override the statutory criteria for budget amendments.

**SEN. DEVLIN** asked what kind of language could be put in? **BILL MANDEVILLE** said a very simple approach on programs where there is a probability of non-state or non-federal funds, of private donations, would be put in some appropriation authority that recognizes the agency may receive these funds and the funds could be used to defray the cost of the current operation. The problem with that is, there would be many appropriations requiring this language. Mr. Mandeville would like to meet with Roger Lloyd to work something out and bring it back to the committee.

Tape 2;A;37.00

**HEARING ON BOARD OF HOUSING**

**EXHIBIT 3**

**GEORGE MCCOLLUM**, BOARD OF HOUSING gave an overview of this division.

Two public hearing were held, one in Great Falls and one in Missoula, and testimony indicated a great need for low income housing. There is a need to update office equipment to keep track of 15,000 loans, credit certificates, multifamily units, the reverse mortgage program, issuance of new bonds. A program has been discussed which would help eligible families make a down payment. The Board has provided all this service to low income families without using any money from the state General Fund. All funds are generated from the sale of bonds.

**ROGER LLOYD** presented the budget. **EXHIBIT 3** The differences between the Executive budget and the LFA are listed in the table. In both fiscal years, the Executive budget contains one FTE more than the LFA. It also contains \$371,394 more in FY92, \$282,796 more in FY93. This program is entirely funded through a proprietary account. Under personal services, per diem is budgeted at actual FY90 expenditures by LFA, the Executive recommends \$2000 more in each fiscal year. In the second issue, LFA reflects the elimination of one FTE which had been vacant since July 1988, resulting in a \$32,000 difference. The third item is foreclosure fees where the LFA budgeted at the actual FY90 expenditures, the Executive recommends \$112,000 greater in FY92 and \$232,000 greater in FY93. The LFA recommends the FY90 expenditure, the Executive recommends a higher level of \$21,000 more. The fifth item is equipment. The LFA allowed some, but did not include items listed on Exhibit 3.

**DICK KAIN** explained that the Per Diem under personal services is the amount paid board members to attend Board meeting. The larger number is \$32,636 is related to the FTE for the multifamily position that was deleted from the LFA's recommended budget. Needs for low income rental housing continue to escalate, and to address these needs, the FTE is needed. A Montana lender services each loan. While the loan is current the lender collects a monthly payment, makes sure taxes and insurance

are paid. When the loan is in delinquent status, and a foreclosure proceeding is started, the lender pays insurance and tax expenses and incurs attorney fees. Foreclosure fees reimburse the lender for expenses. The budget request for foreclosure fees is current level for FY90 with a 15 percent increase for the next biennium. The Board of Housing comes to the legislature for spending authority, not money.

**CAROLYN DOERING** said the foreclosure fees that are in the Governor's recommended budget are more than what was spent in FY90, but less than what was appropriated in FY91.

**SEN. DEVLIN** said he questioned the \$232,000 on the second year. **DICK KAIN** replied what is being projected is when the economy turns soft, there is a one year lag before significant delinquencies show up. The request projects a steady up slope curve, gathering momentum as it grows.

**SEN. BENGTON** asked, are the funds derived from the mortgages themselves? **DICK KAIN** responded that the Treasury regulations on sale of bonds allow a maximum spread of 1 1/8 percent between the cost of bonds and the mortgage rate. The 1 1/8 percent funds the operational expenses.

**CHAIRMAN KIMBERLEY** suggested that when this item is acted on, language should be included that foreclosure authority money should not be used for anything else.

**SEN. WEEDING** asked why the outstanding balances will be nearly twice as much in the second year? Are twice as many delinquencies expected? **DICK KAIN** stated the projection the first year of the biennium is there will be 50 additional loans foreclosed above current levels. In the second year, there will be 100 loans foreclosed. In FY90, our current level is just under \$700,000. Almost 80 percent of that is reimbursed by FHA or VA because loans are either FHA insured or VA guaranteed. Actually what is coming out of proprietary resources is about 20 percent of foreclosure expenditures, but in the appropriation process the full amount of reimbursement to the Montana lender must show.

**SEN. BENGTON** asked for clarification of the numbers of foreclosures and the number of loans. **DICK KAIN** said from 1977 through this date, there have been a total of 15,000 loans and currently there are 10,500 loans on the books. Current delinquency statistics on the 10,500 loans show about three percent in a delinquent status, that is, one payment down. So there are approximately 300 loans in delinquent status. In 1987, the delinquencies were above five percent on the same size loan portfolio. In every year there are about 600 to 800 new loans, with an equal amount that pay off during the year. The portfolio during the last several years has been about 10,500.

**SEN. BENGTON** asked if this rate of delinquency is about normal

for private lenders? **DICK KAIN** said the Montana Board of Housing delinquencies have been lower than Montana as a whole, and lower than the northwest region. There are 90 lending institutions in the state servicing the loans, so if someone in that community has problems the local lender can help head off delinquencies and foreclosures.

**SEN. BENGTON** asked what the interest rate on loans is? **DICK KAIN** said there have been 20 bond issues since 1977. A rule of thumb the Board uses when a new bond issue is considered is that the rate must be 1 1/2 percentage below the FHA-VA market is. That is an interest savings of \$600 to \$700 a year over the 30-year life of a loan. The annual family income of people getting into the home ownership program is around \$23,000. Typically they are buying a home that cost \$45,000 or \$46,000.

**DICK KAIN** stated the maintenance contracts are on the inhouse mortgage accounting system, a microcomputer, not hooked on to the state mainframe. In FY90, three new personal computers were purchased. The big issue is equipment. Of the \$145,600, \$5600 is for a word processor and a printer to replace an old word processor which cannot be serviced. The \$140,000 is for a new microcomputer. Since the system was put in 1986, 3500 mortgages have been added, the Board of Investments have accessed this microcomputer to do mortgage accounting. There is no more disc space to put new loans on.

**SEN. BENGTON** asked if the Board of Investments continues to use this computer, do they share part of the expense? **DICK KAIN** said about three years ago an agreement was made with the vendor that Board of Investments could use Board of Investment hardware and get a reduced price on software. The Board of Investments picks up a prorata share of the maintenance but are not paying part of the new equipment.

**SEN. BENGTON** asked if Board of Investments store information on this computer. **DICK KAIN** said yes, they have 3,000 loan files, and they access the computer every day with their own program.

**SEN. BENGTON** stated she thought it was appropriate the Board of Investment share the expense of this. **DICK KAIN** said some thought had been given to the idea of deal with the Board of Investment to take the old computer.

**SEN. BENGTON** asked if there was some weeding of old files that can be done? **DICK KAIN** replied that has been done.

**SEN. DEVLIN** said he has never understood why some are hooked into the mainframe and some are not. Doesn't the mainframe suit the purposes of Board of Housing? **DICK KAIN** said the software package that is used cannot be used on the mainframe computer.

**SEN. DEVLIN** said at the bottom of Exhibit 3 it shows that \$100,000 worth of software was needed. Why was it not purchased? **DICK KAIN** said in the 1989 session appropriation authority was

given for software purchase. About a year ago, the different vendors who provided this service were investigated.

A cash flow system has been identified, and the department is about four to five weeks away from initiating the process. It is estimated that rather than \$100,000, the software will cost slightly over \$60,000.

**CHAIRMAN KIMBERLEY** asked if the loan processing can be done on the mainframe. **DICK KAIN** said the software that runs the loan processing is now owned, it is licensed and it can only be run within a given environment. It cannot run on the state's mainframe.

**SEN. WEEDING** asked if the Investment Division can use the Board of Housing software, or do they have a separate package? **DICK KAIN** said yes, BOH uses the same software.

**CHAIRMAN KIMBERLEY** said the committee would like to look at a proposal.

#### **EXHIBIT 4**

**ROGER LLOYD** said in the budget based difference, the difference is due to actual FY90 versus what was appropriated in FY91. **DICK KAIN** itemized the amounts: \$2000 for office supplies, \$4600 for communications, \$2500 for board member travel, \$400 for rent and \$1900 for other expenses.

**SEN. BENGTON** said she thought the board member travel was under per diem, \$2000 each year. **DICK KAIN** said that was for the honorarium.

**ROGER LLOYD** said \$2000 is an increase over actual FY90 expenses. The budget represents more meetings than actually were held in FY90.

#### **EXECUTIVE ACTION** **BOARD OF HOUSING**

**SEN. DEVLIN** moved to accept the Executive Budget except the equipment MOD on which a report will be coming from the Budget Analysts. **MOTION CARRIED UNANIMOUSLY.**

#### **HEARING ON MONTANA SCIENCE AND TECHNOLOGY ALLIANCE**

#### **EXHIBIT 5**

**CARL RUSSELL**, EXECUTIVE DIRECTOR, MONTANA SCIENCE AND TECHNOLOGY ALLIANCE (MSTA), reviewed the program.

**CHAIRMAN KIMBERLEY** said he recalled that the Centers of Excellence were patterned after those in Utah. Utah has

approximately 46, and Montana has six. **CARL RUSSELL** said there are four, including the Engineering Research Center. Utah takes the whole field of biology and breaks it down whereas Montana has a Biotechnology Center. There are other interests in separating the laser and optics field into a separate center, and the University of Montana is moving toward adding a center for value added wood products.

**EXHIBIT 6.**

**ROGER LLOYD** explained differences in the budget. **EXHIBIT 6** The Executive budget for FY92 is greater than the LFA by one FTE, \$151,844, and in FY93 it is greater by one FTE, \$165,579. Under Personal Service, differences are all General Fund expenses. For per diem, LFA assumes FY90 expenditures, Executive requests \$2600 over FY90 actual expenditures. Secondly, a position vacant since November 1988 was eliminated by LFA. The third in contracted services and legal services, the LFA reflects the actual amounts expended FY90 and the Executive budget recommends approximately \$82,000 more in FY92 and \$97,000 more in FY93. These contracted services include \$32,000 in FY92 and \$30,000 in FY93 for authority to expend an increase in director's salary and salary increase for FTE proposed. Under grants, the LFA budget does not include the authority for the pay backs since there has been no use of that authority since FY86. That item is not funded with General Fund monies. On the issue of the Executive Director's salary, there is no difference between the LFA and Executive budget.

**CARL RUSSELL** said the per diem includes payment of \$50 per member per meeting with 12 meetings per year. Ten meetings are scheduled, with a minimum of two other meetings for legislation, budgeting or training. Contracted services grows as projects grow. The 1990 numbers were the base numbers, and as the pool of \$7.5 million fund is used, new companies will be evaluated. Liability concerns connected with putting this money out increases legal costs.

**SEN. BENGTSON** said she had problems with the costs of contracted legal services. Does the Board do any reviewing? **CARL RUSSELL** when the board makes a decision to begin "due diligence" process on a company, one staff person is selected for the project to research at the state library and the university system. At the point where that expertise goes no further, specialists are brought in. On the legal side, the critical question is when venture capital deals are put together, each is different from the other, and expertise is not available in this state.

**CARL RUSSELL** discussed the grants. The 1989 enabling legislation, House Bill 683, contains provisions which affect the potential pay back from loans. An account is set up for the pay backs and the Board makes decisions on using the returns. It is difficult to predict the yearly income. Refinancing C-capital projects brings money into the account. The Governor created an eleven-member council to do a plan for the state. The expense

for the council, which was not anticipated in the budget, was approved by the Board and paid from that account. Payment for the State Plan and one research project near \$100,000 will be allocated by the Board from the account. The account now has approximately a \$130,000 balance. Specific language was in the budget for this biennium that all income deposited to the Science and Technology Special Revenue Account created in HB683 is appropriated to the Montana Science and Technology Development Board. That language is not included in the current bill, and to use the pay backs, this issue will have to be addressed.

**BILL MANDEVILLE** stated the language Carl mentioned was included in the Executive Budget, and it is language that is desirable in the general appropriations bill.

**CARL RUSSELL** said the Budget Base Difference primarily includes rent for office space, copy machines and meeting rooms for Board meetings around the state. In the second year, there is travel growth and increased maintenance on Department of Commerce computer. Some increased expense is due to more meetings of the Board.

**SEN. BENGTON** asked if a person could make a biennial appropriation for \$10,000 in that area? **CAROLYN DOERING** said the problem in a biennial appropriation for operating expense is that in the system it must be set up as separate appropriations.

**ROGER LLOYD** said the purpose of a biennial appropriation is to handle expenses which may occur either in the first or second year. In this case, these expenses would be similar in each of the two years.

**REP. GRADY** asked if all the first year appropriation was not used, can it be used in the second year? **CARL RUSSELL** said no, it reverts back to General Fund.

**CHUCK BJORK** addressed issue of the Executive Director's salary. When a vacancy in the position occurred, it was the desire of the Department to obtain an experienced individual. The position was advertised in the state for three weeks, then it was advertised in the Wall Street Journal. Over 74 applicants responded, six were interviewed by a committee. The current salaries of the six people ranged from \$27,800 to \$90,000. Four of the six had existing salaries in excess of \$65,000. This indicates the market rate for this kind of expertise. The \$27,000 salary was from the existing staff. Mr. Russell was chosen and the salary was negotiated. The request is to move funds within the budget to meet this salary. Contracted Services proposal includes the increase in the Director's salary as well as the proposed FTE. Both positions are exempt from the classification pay plan.

**EXECUTIVE ACTION**  
**MONTANA SCIENCE & TECHNICAL ALLIANCE**

**Motion/Vote:** REP. GRADY moved to accept the LFA base. MOTION CARRIED UNANIMOUSLY.

**Motion/Vote:** SEN. BENGTON moved to accept Personal Services A and B, including FTE which has been vacant since November 1988. MOTION CARRIED UNANIMOUSLY.

**Motion/Vote:** REP. GRADY moved to accept the Executive budget on Contracted Services.

**Discussion:** SEN. BENGTON questioned if the amount could be reduced by \$30,000 by moving it from Operating into Personal Services. ROGER LLOYD said the difference between the first and second year is in two components: the salary increase for the Executive Director and the FTE. Both are exempt positions and are being paid more than is in the current level budget for Personal Services. The amount needed to fund the salary increase above the level in Personal Services is \$32,230 the first year, and \$30,815 the second year. CAROLYN DOERING said the remainder of the Contracted Services relates to due diligence expenses as the program grows, which are higher than what was spent in FY90. BILL MANDEVILLE explained by due diligence, it is meant legal services are contracted to put together loan documents to encumber the funds before they sunset. It involves legal and outside expertise.

REP. NISBET asked where the salaries of exempt positions are normally shown? ROGER LLOYD said usually those salaries are reflected in Personal Services. REP. NISBET asked why is this being treated different? Could the committee separate out the salaries and put them in Personal Services and keep the Contracted Services? ROGER LLOYD said that is the prerogative of the committee, but it may be unnecessary because if at least \$32,000 is allowed, the Department has the discretion to move that figure into Personal Services.

SEN. WEEDING asked why the FTE salary is exempt? CARL RUSSELL said the position was exempt as part of the original legislation, House Bill 683, to obtain expertise in the area of venture capital.

**Motion** CARRIED WITH SEN. BENGTON VOTING NO.

**Motion/Vote:** REP. NISBET moved to accept the Grants. MOTION CARRIED UNANIMOUSLY.

**Motion/Vote:** REP. NISBET moved to accept the Base Differences. MOTION CARRIED UNANIMOUSLY.


REP. GRADY asked if the language had to be acted on? ROGER LLOYD


replied that along with the Grants, it was suggested that language be included which states that all income deposited to the Science and Tech Development account would be appropriated to the Montana Board of Science and Technology Development.

**Motion/Vote:** REP. GRADY moved to include the language that all income deposited to the Science and Technology account be appropriated to the Montana Board of Science and Technology Development. MOTION CARRIED UNANIMOUSLY.

**ADJOURNMENT**

**Adjournment:** 12:00 noon

  
\_\_\_\_\_  
REP. BERV KIMBERLEY Chair

  
\_\_\_\_\_  
THEDA ROSSBERG, Secretary

BK/tr



HOUSE OF REPRESENTATIVES  
NATURAL RESOURCES SUBCOMMITTEE

ROLL CALL ~~VOTE~~

DATE 2-15-91 AGENCY \_\_\_\_\_ NUMBER \_\_\_\_\_

MOTION: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

NAME	AYE	NO
SEN. ESTHER BENGTSOM, VICE-CHAIR	✓	
REP. ED GRADY	✓	
REP. JERRY NISBET	✓	
SEN. GERRY DEVLIN	-	
SEN. CECIL WEEDING	✓	
REP. "BERV" KIMBERLY, CHAIRMAN	✓	
TOTAL		

Exhibit 1.  
Mar. 25. 1991

**MONTANA BOARD OF INVESTMENTS**  
Fact Sheet

	Assets Managed <u>Bil.</u>	Income Earned <u>Bil.</u>	Annual Budget <u>Mil.</u>	Staff Size <u>      </u>
Fiscal 1981	1.1	110	.5	8
Fiscal 1991(est.)	3.7	335	1.2	13
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
% Increase	227%	195%	140%	63%

Discussion:

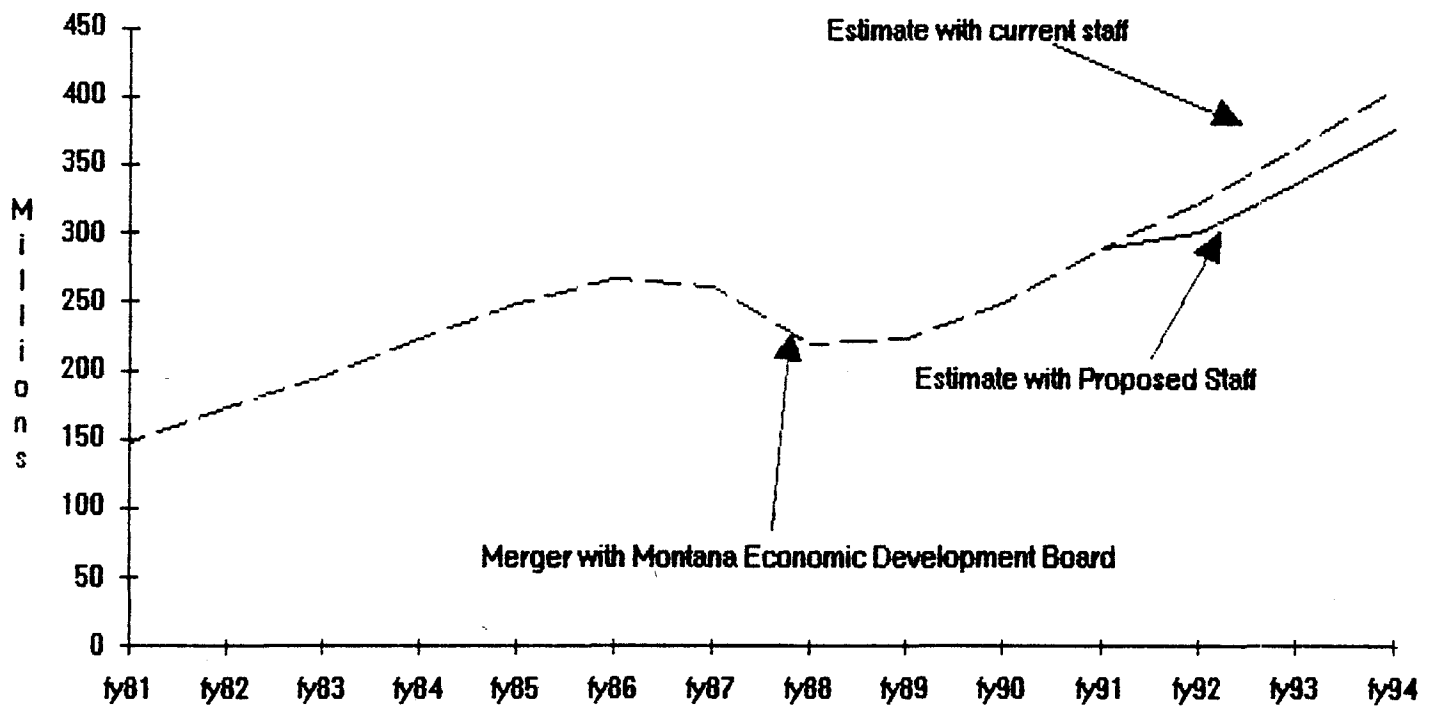
Projecting assets out to June 30, 1994, the Board of Investments will be managing assets valued in excess of \$5 billion generating \$500,000 of income annually. Though economies of scale will mitigate some growth in staff size and budget, it is also realistic to recognize that additional staff is necessary to maintain our standard of excellence.

The attached table quantifies investment staff productivity over the last 10 years as measured by assets managed by investment staff. Productivity has nearly doubled over the last 10 years from \$146 per staff member in 1981 to a projected \$288 per staff member in the current year. Even with a staff addition, productivity will continue to grow, increasing by 31% over the next three years.

It is vital to Montana's investment program that the Board obtain authorization in the 1991 legislative session for two additional investment portfolio managers to provide sufficient staff to properly monitor the growth in Montana's financial assets.

The new positions will be responsible for the following asset categories: venture capital, equity real estate, leveraged buyouts, convertibles, and international investments. None of these asset categories are eligible investments for the Treasurer's Fund or the Permanent Coal Trust. thus none of the salary and benefit cost of these two new positions will be charged to the general fund.

## Millions of Dollars Managed per Investment Staff Member



## BOARD OF INVESTMENTS

65017500.000

	Fiscal 1990 Actual	Fiscal 1991 Appropriated	Base	Fiscal 1992 Incr/Decr	Recommended	Base	Fiscal 1993 Incr/Decr	Recommended
Full Time Equivalent Employees	26.00	26.00	26.00	1.00	27.00	26.00	1.00	27.00
Personal Services	946,597.34	981,735	1,007,003	27,894	1,034,897	1,006,745	27,839	1,034,584
Operating Expenses	374,873.59	628,892	659,639	-18,783	640,856	555,542	5,030	560,572
Equipment	13,448.61	12,000	12,000	24,000	36,000	12,000	0	12,000
Total Agency Costs	\$1,334,919.54	\$1,622,627	\$1,678,642	\$33,111	\$1,711,753	\$1,574,287	\$32,869	\$1,607,156
Proprietary Fund	1,334,919.54	1,622,627	1,678,642	33,111	1,711,753	1,574,287	32,869	1,607,156
Total Funding Costs	\$1,334,919.54	\$1,622,627	\$1,678,642	\$33,111	\$1,711,753	\$1,574,287	\$32,869	\$1,607,156

## Overview

The Board of Investments (Investment Division) manages the state investment portfolio of \$3.2 billion. There are four separate investment portfolios. 1.) The fixed income portfolio of over \$2 billion is the largest and consists of the long term debt held by the Board. 2.) The equity portfolio consists of a common stock portfolio of over \$300 million. 3.) The Short Term Investment Pool (STIP) consists of a portfolio of nearly \$700 million in securities with maturities of less than one year. 4.) The residential loan and commercial loan portfolio consists of \$160 million of Montana residential and commercial loans. The commercial loan portfolio consists mainly of coal tax loans which carry low interest rates and are designed to stimulate the Montana economy. The Board also is responsible for administration of several different programs which issue bonds for the purpose of assisting local governments, cities and school districts or providing funds to improve our state economy.

## Goals

The Board's goal is to manage the state's money in a professional manner designed to yield returns greater than most public funds at a cost lower than those funds.

The Board also recognizes that as the largest repository of capital in the state, it has a responsibility to develop programs which can assist the economy to grow without violating the fiduciary responsibilities inherent in management of public funds.

## Authorization

Article VIII, Authority to invest funds.

Section A of the Montana Constitution

Title 17-6-201 - 331, MCA Investment Guidelines

Title 17-5-1500 - 1600, MCA Bond Issuance Authority

Title 90-8-100, MCA Montana Capital Company Act

## Base Program

The income returned by the investment program was \$295 million in the last fiscal year. Our performance was in the SEI 1st Quartile. This level of performance will be maintained as the portfolio grows. The basic investment function will continue under in-house management as long as the performance continues at current levels because the cost is less than a quarter of the cost of outside management. Continued growth of the portfolio will require

some modest increase in investment staff. Costs are allocated to the various portfolios based on the actual cost of managing those portfolios. Costs of investment management were \$2,830 per million of funds managed for the average public fund in the United States in 1989. Montana's cost was only \$430 per million in 1989.

#### Economic Development Bond Programs

The Board has two economic development bond programs: Stand Alone and Pooled. These programs provide lower capital to eligible Montana businesses through the use of tax-exempt bonds.

The Stand Alone Economic Development Bond Program provides only a means for satisfying certain eligibility requirements for businesses to obtain money raised from tax-exempt sources. Under this program, the Board does not extend, either directly or indirectly, credit or funds to program users but serves only as a legal conduit into the tax-exempt bond market. The Board did not issue any stand alone bonds in fiscal year 1989.

The Pooled Economic Development Bond Program provides not only a vehicle into the tax-exempt market but also, upon full satisfaction of program requirements, provides loan funds to Montana businesses raised by the Board through its pooled bond issues. The Board issued no pooled bonds in fiscal year 1989. As of June 30, 1989, \$6,695,000 in pooled bonds were outstanding, and all 17 loans in the program were current.

#### Montana Conservation Reserve Payment (CRP) Enhancement Program

In November 1989, the Board implemented a loan program which will allow farmers to receive a lump sum amount in return for assigning their federal CRP contracts to the Board. The loan funds will be made available from bond proceeds. It is anticipated that farmers can anticipate approximately 65 percent of the remaining CRP payments in an up-front loan amount under this program. The Board closed \$5.9 million in loans by Sept 1, 1990.

#### Municipal Consolidation Finance Act

The Municipal Consolidation Finance Act directs the Board to find ways to achieve borrowing efficiencies and reduce the cost of borrowing funds for Montana local governments. To this end, the Board has implemented various programs designed to save local governments money.

#### Montana Cash Anticipation Finance Program

The Montana Cash Anticipation Finance Program (MCAF) was initiated in 1985. The program provides Montana cities, schools, towns, and counties with funds to cover temporary cash deficits. In fiscal year 1990, the Board issued bonds totaling \$9,485,000 to finance its MCAF program.

On August 23, 1990, the Board issued \$7,385,000 to fund the fiscal year 1991 MCAF program.

#### Intermediate Term Capital program (INTERCAP)

In 1987, the former Montana Economic Development Board (MEDB) implemented a program to finance the intermediate-size capital needs (\$500,000 or less) of cities, towns, and counties to finance equipment, vehicles, and some real property projects. In March 1987, \$6.5 million of INTERCAP bonds were issued by the MEDB and backed by the Board of Investments. In July 1988, the Board issued another \$1 million in INTERCAP bonds and expanded the program to allow rural fire districts, county hospital districts, and county water and sewer districts to participate. Legislation passed by the 51st Legislature now allows school districts to participate in the INTERCAP program.

#### Base Funding

The investment management function is financed from charge back to the funds managed as follows for fiscal year 1990:

<u>Portfolio</u>	<u>Dollars Managed</u>	<u>Cost</u>
Fixed Income (1 year +)	\$2 billion	\$273,514
Short Term Inv. Pool	700 million	\$412,654
Common Stock Pool	300 million	\$288,425
Montana loans & mort.	160 million	\$281,280

1  
2-15-91  
Nat. Dev. Act

The cost of management for each portfolio reflects the actual cost of investment and accounting staff and the hours spent in each area. The staff processed nearly \$20 billion in transactions in fiscal year 1989. Obviously the long term fixed income portfolio is the least expensive to manage but the returns in the other areas justify the management cost for those areas.

The funding for each of the separate bond programs is generated by those programs and is as follows:

Bond Program Revenues

Local Government Bond Pools	\$115,059
Conservation Reserve Program	\$250,000

Performance Indicators

Manage funds held for the beneficiaries as required by the prudent expert rule, the legislature, and the Montana Constitution.

Performance Measurements

- STIP      Achieve an annualized rate of return at least 70 basis points greater than the average of the first 91 day treasury bill auction for each calendar quarter.
- MONTCOMP      Achieve an annualized time weighted total rate of return exceeding the S.E.I. median return.
- FIXED INCOME      Achieve annualized time weighted total rate of return exceeding the Shearson Lehman Corp. Index' in up markets (declining interest rates) and within 2 percentage points in down markets (rising interest rates) assuming the availability of hedging alternatives to mitigate severe market declines.
- MORTGAGES      Achieve a delinquency rate lower than a comparable regional delinquency rate while maintaining or increasing the number of services.
- COAL TAX LOANS      Submit all loans meeting policy requirements to Board for consideration while maintaining or increasing the number of services.
- BOND PROGRAMS      Provide funds for local governments at a lesser cost than bank certificate of deposit rates assuring continuous availability of funds.

1. Montana's average maturity significantly exceeds that of the Shearson Lehman Corp. Index.

## Increase or Decrease from Base

### Current Level Adjustments

Operating expenses reflect a net decrease in FY92 due to a projected reduction in the costs of administering the Conservation Reserve Payment Enhancement Program. Because this program is relatively new, it is projected that costs of the program will begin to increase in FY93. The reduction in the CPR Program is offset by increases in indirect cost charges due to increases in personal services and adjustments to department fixed costs.

FY92 - (\$18,783) FY93 - \$ 5,030

Equipment increases in FY92 for the purchase of computer hardware and a high speed printer. The need for additional equipment is caused by the Board's portfolio growth.

FY92 - \$24,000 FY93 - 0

### Program Enhancements

Additional FTE for Bond Programs  
BOI is requesting the addition of a Bond Program Specialist to provide technical program support for the bonding programs administered by the Board of Investments and the Health Facility Authority. Increased bonding activity in both areas has created the need for the additional position. The Health Facility Authority contracts for program support from the Board of Investments and will fund one half of the new position.

FY92 - \$27,894 FY93 - \$27,839

EXHIBIT 1

DATE 2-15-91

HB Mar. 2000 New

HB/Par. 2a. Sur

# INTERNATIONAL TRADE

65015150.986

	Fiscal 1990 Actual	Fiscal 1991 Appropriated	----- Base	Fiscal 1992 Incr/Decr	----- Recommended	----- Base	Fiscal 1993 Incr/Decr	----- Recommended
Full Time Equivalent Employees	1.00	1.00	1.00	2.00	3.00	1.00	2.00	3.00
Personal Services	44,629.59	37,263	38,120	71,185	109,305	38,058	71,021	109,079
Operating Expenses	340,715.11	435,451	438,936	48,605	487,541	437,844	48,598	486,442
Equipment	7,650.28	0	0	5,603	5,603	0	5,692	5,692
Total Agency Costs	\$392,994.98	\$472,714	\$477,056	\$125,393	\$602,449	\$475,902	\$125,311	\$601,213
General Fund	98,828.98	164,515	168,040	55,393	223,433	166,886	55,311	222,197
State Special Revenue Fund	294,166.00	308,199	309,016	70,000	379,016	309,016	70,000	379,016
Total Funding Costs	\$392,994.98	\$472,714	\$477,056	\$125,393	\$602,449	\$475,902	\$125,311	\$601,213

## Goals

The goal of the International Trade program is to enhance the marketability of Montana goods and services in International markets. The market areas being emphasized are:

- export of value-added merchandise
- export of bulk and value-added agricultural products
- promotion of Montana as a travel destination, and
- reverse investment (joint ventures and commercial projects in Montana)

# Base Program

The major components of the base level program are Pacific Rim Officer, the Tokyo Office and the Taipei Office.

Pacific Rim Officer -- coordinates the overall program, monitors the performance and activities of the Tokyo and Taipei offices, and provides direct assistance to Montana business firms.

Montana Tokyo Office and Montana Taipei Office -- locate markets for Montana products, assist Montana and Asian firms resolve technical and governmental problems that may be preventing the sale of Montana products, and coordinate

Montana-oriented public relations efforts.

The objective of this program is creation or retention of Montana jobs and increased sales by Montana firms. The program's success is measured by:

1. Number of contacts with Montana exporters and Asian buyers,
2. Dollar volume of reported client sales in Asian Markets,
3. Public relations exposure on Montana in Asian markets, and
4. Dollar volume of Asian investment in Montana.

## Base Funding

The base level program is supported by general fund, Growth Through Agriculture funds, Montana Promotion funds, and private funds.



Performance Indicators

	FY90 <u>Actual</u>	FY91 <u>Enacted</u>	FY92 <u>Base</u>	FY93 <u>Base</u>
--	-----------------------	------------------------	---------------------	---------------------

Pacific Rim

Contacts	3,000	3,000	3,000	3,000
Dollar Volume of Client Sales in Asian Markets	\$20 M	\$25 M	\$25 M	\$25 M
Public Relations Exposure	4	4	4	4
Asian Investment in Montana	\$10 M	\$5 to 30 M	\$5 to 30 M	\$5 to 30 M

**Increase or Decrease from Base**

**Current Level Adjustments**

Personal services & operating expenses show a net increase due to adjustments in employee benefits & department fixed costs.

FY92 - \$498 FY93 - \$491

**Program Enhancements**

**International Affairs Coordinator**

The Business Development Division has a Canadian and Pacific Rim International Trade Program that promotes Montana export, foreign investment, agriculture and tourism activities. An International Affairs Coordinator position has been created to support and complement these trade-specific programs by handling a broad range of international activities not directly related or confined to commercial activity. These activities include hosting, protocol, informational exchange related to educational/professional/cultural, mission and exhibition logistics, public relations, and coordination of interdepartmental projects. In the short time that the state has been involved in international trade, major economic benefits have materialized. The position is needed to expand the state's involvement in international trade. Funding will

come from \$40,079 of general fund and \$15,000 of accommodations tax per fiscal year. One vacant FTE has been transferred from the Transportation Division to the Business Development Division.

FY92 - \$55,079 FY93 - \$55,079

**Canadian Trade Office**

The Department has established a Canadian Trade Office to maximize opportunities for Montana firms to market their products in Canada. This office was established by utilizing borrowed resources and personnel loaned from the private sector in FY 91. Approval of this issue will make this office an on-going function of the Business Development Division. Continuation of this office is needed to expand sales by Montana firms to Canadian buyers. One FTE is associated with this program. The office will be funded by \$55,000 from a combination of four sources: Growth through Agriculture, Wheat and Barley Research, Beef Research and private funds and \$14,816 in FY 92 and \$14,741 in FY 93 from the general fund.

FY92 - \$69,816 FY93 - \$69,741

Board of Housing - Legislative Update

2-1591  
Exhibit 2  
Nor. Per Law

**Mission Statement:** To provide decent, safe, sanitary and affordable housing for lower income individuals and families in the State of Montana.

Homeownership Programs

Single Family Bond Program:

- Initiated in 1977 to assist lower income Montanans purchase homes via the issuance of tax-exempt mortgage revenue bonds
- 15,000 mortgage loans financed in 177 communities
- The Board sold four bond issues in 1989 and 1990, with 1,500 mortgage loans financed to date and expects to finance an additional 500 loans with the bond proceeds
- Only viable secondary mortgage market available to many rural lenders in Montana

Mortgage Credit Certificate Program:

- Implemented in July, 1987, as another mechanism to assist lower income Montanans in the purchase of homes through the issuance of federal tax credits
- 1,700<sup>families</sup> tax credit certificates issued since inception in 1987
- Benefits homeowner by either reducing their federal tax liability, or by providing more disposable income to assist in making monthly mortgage payments
- 700 tax credit certificates issued in 1989 and 1990, in conjunction with mortgage loans financed by Montana lenders

## Multifamily Programs

### Multifamily Bond Program:

- Initiated in 1978 to provide construction funds and to purchase permanent multifamily mortgage loans for projects that provide rental housing occupied by persons and families of lower income and the elderly
- 668 housing units financed in eleven projects

### Low Income Housing Tax Credit Program:

- Implemented in November, 1987, to promote the retention of existing and the provision of new low income rental housing through the use of federal tax credits
- 495 units of low income rental housing have been assisted with \$1,400,000 in allocated tax credits since 1987
- Credit offers a straight dollar-for-dollar reduction in tax liability to owners and investors in eligible housing
- Allocated \$550,000 of the credits in 1989 and 1990 to thirteen projects containing 223 units of low income rental housing

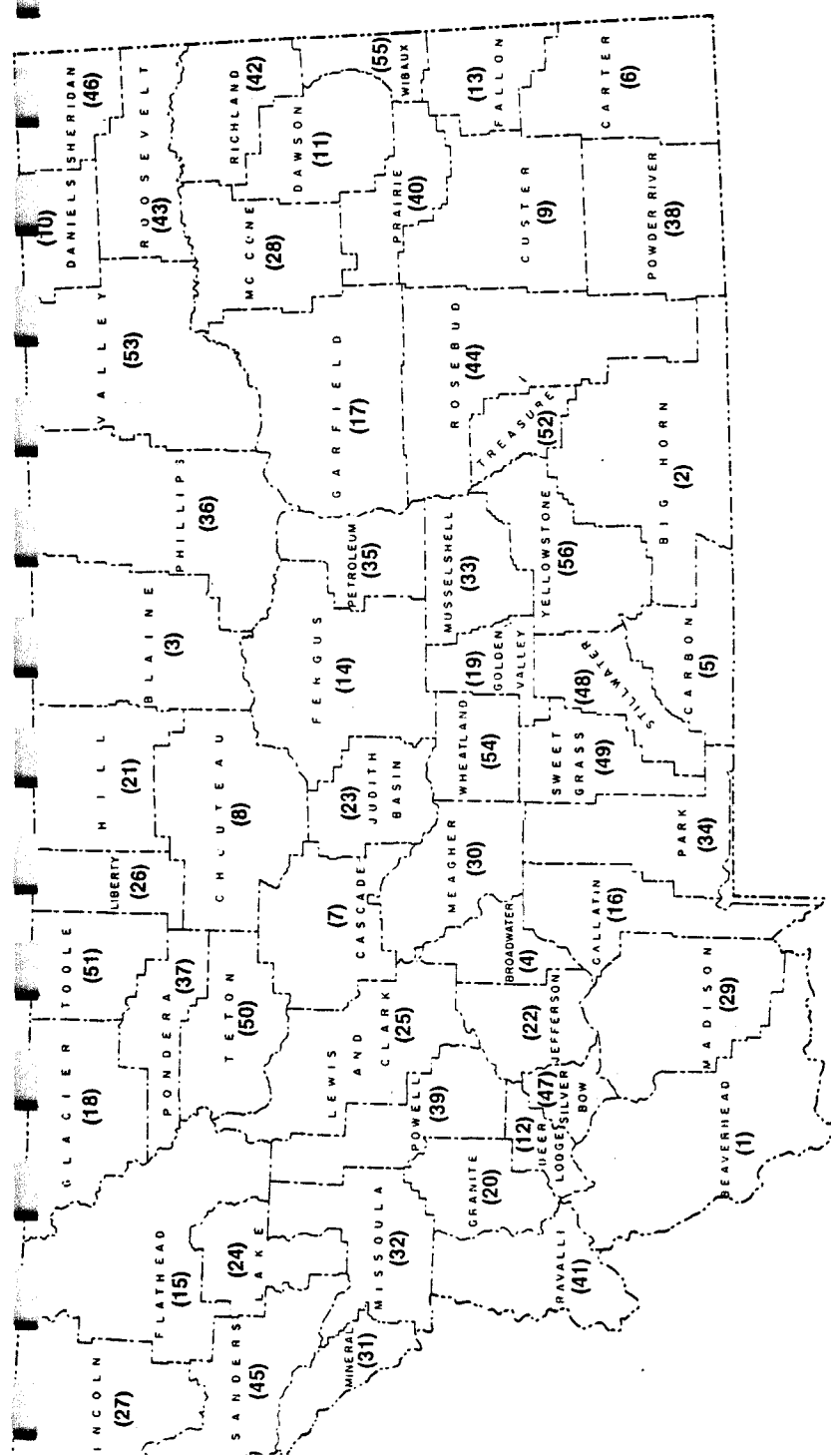
### Summary:

- Bond rating on outstanding single family and multifamily bonds is AA
- Funds to operate the current programs are generated through either the issuance of bonds or administrative fees
- Authorized staff size is 14, with one position (Multifamily Program Officer) currently vacant

County	4/1/77 thru 6/30/90 # of loans	Principal Purchase	For Period 7/1/87 thru 6/30/90 # of loans	Principal Purchase
21. Hill	293	\$ 12,294,549	65	2,882,253
22. Jefferson	89	4,102,525	12	646,421
23. Judith Basin	4	160,350	0	0
24. Lake	196	7,881,633	22	969,509
25. Lewis & Clark	1,100	48,020,190	179	8,408,842
26. Liberty	5	132,293	2	54,300
27. Lincoln	140	5,452,262	21	936,098
28. McCone	12	522,524	1	30,000
29. Madison	36	1,591,276	7	295,003
30. Meagher	33	1,110,561	1	44,634
31. Mineral	55	2,187,826	8	302,370
32. Missoula	2,052	101,179,151	424	21,434,715
33. Musselshell	16	648,826	5	180,770
34. Park	151	5,291,283	36	1,270,330
35. Petroleum	1	19,493	0	0
36. Phillips	20	841,456	1	50,700
37. Pondera	51	1,810,086	18	606,192
38. Powder River	5	178,893	0	0
39. Powell	58	2,112,319	5	235,074
40. Prairie	4	177,509	0	0
41. Ravalli	160	7,019,967	39	1,766,061
42. Richland	201	8,760,800	34	1,213,114
43. Roosevelt	67	2,766,674	13	485,005
44. Rosebud	31	1,527,193	3	65,435
45. Sanders	22	895,587	4	184,811
46. Sheridan	5	167,063	3	84,209
47. Silver Bow	505	16,952,091	98	3,669,122
48. Stillwater	43	1,924,883	7	310,536
49. Sweetgrass	11	442,162	1	33,500
50. Teton	23	859,116	3	130,877
51. Toole	44	1,505,313	16	512,873
52. Treasure	0	0	0	0
53. Valley	79	3,008,109	11	337,090
54. Wheatland	7	222,866	1	46,170
55. Wibaux	2	37,492	1	9,893
56. Yellowstone	3,742	184,029,105	594	25,771,032
STATE TOTAL	14,717	\$665,275,844	2,601	\$117,790,812

Ex 3  
2-15-91

SINGLE FAMILY MORTGAGE PROGRAM  
ORIGINAL PRINCIPAL BALANCE AND NUMBER OF  
MORTGAGE LOANS PURCHASED BY COUNTY



County	For Period 4/1/77 thru 6/30/90 # of loans	Principal Purchase	For Period 7/1/87 thru 6/30/90 # of loans	Principal Purchase
11. Dawson	212	\$ 8,349,567	24	\$ 689,375
12. Deer Lodge	120	3,599,325	22	713,630
13. Fallon	37	1,436,819	2	35,300
14. Fergus	108	3,603,027	13	491,183
15. Flathead	1,130	54,487,631	278	13,418,708
16. Gallatin	683	32,968,434	63	3,112,858
17. Garfield	3	80,514	0	0
18. Glacier	60	2,567,242	4	166,330
19. Golden Valley	3	109,387	1	40,000
20. Granite	5	181,679	2	77,819

County	For Period 4/1/77 thru 6/30/90 # of loans	Principal Purchase	For Period 7/1/87 thru 6/30/90 # of loans	Principal Purchase
Beaverhead	67	\$ 2,736,921	13	\$ 597,310
Big Horn	42	1,723,147	2	55,550
Blaine	49	1,761,048	7	242,562
Broadwater	36	1,476,392	2	83,100
Carbon	48	1,978,623	13	527,292
Carter	1	18,000	0	0
Cascade	2,488	109,472,756	483	23,522,934
Choteau	17	610,676	4	111,416
Custer	340	12,160,728	33	923,700
Daniels	1	30,702	0	0

### SET NEXT MEETING DATE

The next meeting was set for August 22, 1990, at 8:30 a.m., in the City Council Chambers of the Missoula City Hall.

### PUBLIC MEETING

Tom Mather, Chairman, introduced the Board to participants in the Public Meeting, and turned the meeting over to Dick Kain. Dick gave an overview of the reasons for the public hearing, and requested input from the participants on housing needs in the Great Falls area, and comments relative to the Board's current programs.

Kevin Hager, Great Falls Housing Authority, a low income housing provider, advised the Board that his agency receives 30 to 40 applications a month, and has a waiting list of 126 families, which includes 43 large families. The average tenant paid rent is \$98.00. He expressed a need for large family housing. Additionally, he expressed the desire to see homeownership programs in Great Falls similar to the new affordable housing program with NHS. In this program, lower income families could receive downpayment and closing cost assistance. A program like this would enable many of the current tenants in the Housing Authority's units to become homeowners, because they have the ability to make a moderate monthly mortgage payment, but have not accumulated the resources to pay downpayment and closing costs. If an Affordable Housing Program concept was expanded, it would allow the housing providers to better address their waiting lists, because some of the available rental units would become available for those families on the waiting lists.

Linda McNeill, Opportunities Inc., another low income housing provider, stated that her list includes 750 families, and they closed the waiting list for three-bedroom units two years ago, as there are no units available for large families. She estimated that of the 750 families on the waiting list, 150 to 200 are large families. Opportunities, Inc., stock of rental units consists of 244 Mod Rehab units, and 300 Section 8 vouchers. The average tenant paid rent is \$74 to \$100.

Alan Keavley of the St. Vincent DePaul Society, told the Board that even though his agency does not provide housing, they are a referral service to other types of housing providers. His agency has seen a large increase in demand, due to changes in the welfare system.

Lloyd Erickson, AARP State Director stated his group's housing concerns deal with failing health and the inability to maintain housing costs on fixed incomes. Additionally, AARP sees a need for home equity conversion programs for senior homeowners.

Nancy Stephenson, Executive Director of Neighborhood Housing Services, updated the Board on the progress her organization has achieved in assisting lower income families to purchase their first home. The recently approved Federal Home Loan Bank Affordable Housing program, in conjunction with the Board's setaside of \$1,000,000 in 7-3/4% mortgage funds will assist some of those homebuyers who have the ability to make

Ex. 3  
2-15-91  
Mr. Pres. Dow.

requirements to participate; and the reason for making the VA downpayment the same as the FHA requirements; combination of the FHA 203K program with the Board programs; the listing of personal items on a buy-sell for Board programs;

Dan Kemmis, Mayor of the City of Missoula, discussed multifamily housing in the Missoula area. He expressed the need for cooperative housing, wherein tenants become homeowners via the cooperative, as a means to meet the housing needs of Missoulians, and requested the Board's assistance in contacting qualified outside resources to develop a pilot program in Missoula.

Susan Kohler-Hurd, Area Agency on Aging, discussed needs of elderly in the Missoula area. Her agency offers an information and referral service, and 10% of the calls are housing related. Two particular problems are expressed - alternative housing, such as group homes or shared housing; and subsidized housing.

Laverne M. Hellyer, District Director of FmHa, generalized the housing needs in rural areas surrounding Missoula, where there are housing projects for the elderly in the development stages. There are no waiting lists for elderly housing in the rural areas, and some projects have vacancies; the subsidized units have the tenants paying 30% of their income for rent.

Cecil and Myrna Barnier, Missoula Housing Authority, stated that in Missoula, there are no vacancies for elderly housing. There is a waiting list of 705 families for 205 units and 200 Section 8 vouchers. The need at present is for two-bedroom units, even though Congress has determined the need to be in three to four bedroom units. Missoula Housing Authority has 38 two-bedroom units, with a waiting list of 298. The average tenant paid rent is \$115. The elderly pay higher rent because utilities are included in the rent.

Sister Anne Kovis, Poverello Center, told the Board that a lot of housing units are being lost to the conversion of older buildings to businesses. There is a problem for people in their 50's and 60's who are no longer self-sufficient are too young for Social Security. They have the ability to pay the first month's rent, but not the second.

At 12:45, the public meeting adjourned, and after a short recess, the Board meeting reconvened.

#### NEW BOND ISSUE

Discussion was held about the feasibility of a new bond issue, in light of developments in the Mid-East, and the volatility in the market. Additional discussion was held about the higher income limits adopted by the Board with the 1990 Series B issue, and the majority of the Board present preferred to leave the income limits where they are. Discussion was also held about the size of an issue, and whether the Board should consider a variable rate issue

6501 DEPARTMENT OF COMMERCE  
74 BOARD OF HOUSING  
00000

DATE : 01/08/94  
TIME : 21/29/24  
CURRENT LEVEL COMPARISONS

Budget Item	Actual Fiscal 1990	Executive Fiscal 1992	LFA Fiscal 1992	Difference Fiscal 1992	Executive Fiscal 1993	LFA Fiscal 1993	Difference Fiscal 1993
<b>FTE</b>	<b>14.00</b>	<b>14.00</b>	<b>13.00</b>	<b>1.00</b>	<b>14.00</b>	<b>13.00</b>	<b>1.00</b>
Personal Services	322,711	394,205	359,569	34,636	393,520	358,959	34,561
Operating Expenses	1,235,058	1,507,267	1,316,109	191,158	1,580,183	1,331,948	248,235
Equipment	13,169	147,450	1,850	145,600	3,950	3,950	0
Debt Service	1,499	0	0	0	0	0	0
<b>Total Expend.</b>	<b>\$1,572,437</b>	<b>\$2,048,922</b>	<b>\$1,677,528</b>	<b>\$371,394</b>	<b>\$1,977,653</b>	<b>\$1,694,857</b>	<b>\$282,796</b>
<b>Fund Sources</b>							
Proprietary Fund	1,572,437	2,048,922	1,677,528	371,394	1,977,653	1,694,857	282,796
<b>Total Funds</b>	<b>\$1,572,437</b>	<b>\$2,048,922</b>	<b>\$1,677,528</b>	<b>\$371,394</b>	<b>\$1,977,653</b>	<b>\$1,694,857</b>	<b>\$282,796</b>

DOC - Board of Housing

--Executive Over (Under) LFA--  
FY 92

RENT LEVEL ISSUES:

- NON-ACTION ITEMS  
A. Inflation  
B. Audit  
C. Network Fees

PERSONAL SERVICES *Grants Union.*

- A) Per Diem *excluded 90 expens.*  
B) The LFA eliminated 1.0 FTE which had been vacant since before July 1988

FORECLOSURE FEES - The LFA reflects actual fiscal 1990 expenditures

MAINTENANCE CONTRACTS - The LFA reflects actual fiscal 1990 expenditures

EQUIPMENT - The Executive Budget includes a Micovax System, word processor, and printer *Report Bank* not included in the LFA.

Budget Base Differences

TOTAL CURRENT LEVEL

UE

1989 legislature authorized \$100,000 to buy computer software. Board did not purchase the software in fiscal 1990 but plans on using excess enclosure authority to purchase it in fiscal 1991.

*San Delelin moved E & B on all items except Equipmt waiting for a report back on Equipmt.*

\$551	\$135
(\$26,276)	\$38,486
\$1,122	\$1,122
\$2,000	\$2,000
\$38,561	\$38,636
\$232,699	(\$111,749)
\$21,302	\$21,302
\$0	\$145,600
\$16,098	\$15,423
\$282,796	\$371,394

2-15-91  
Exp - 5  
Nac. Res. Sub.

## MONTANA SCIENCE & TECHNOLOGY ALLIANCE

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	6.00	6.00	5.00	5.00	-1.00
Personal Services	147,479	196,364	168,652	168,285	-2.01%
Operating Expenses	132,673	174,000	139,058	140,413	-8.87%
Equipment	5,805	0	0	0	-100.00%
Grants	115,000	112,580	50,500	38,500	-60.89%
Total Program	\$400,957	\$482,944	\$358,210	\$347,198	-20.19%
<b>Fund Sources</b>					
General Fund	400,957	482,944	358,210	347,198	-20.19%
Total Funds	\$400,957	\$482,944	\$358,210	\$347,198	-20.19%

### Program Description

The Montana Science and Technology Alliance manages two investment funds for the purpose of strengthening entrepreneurial business development in Montana by encouraging the utilization of innovative technology for the benefit of the state's economy. The Seed Capital Investment program was established by the 1989 legislature, which authorized use of over \$7.5 million of the In-State Investment Fund (part of the Coal Severance Tax Trust Fund) for investment in new and expanding technology-based businesses in Montana. The Research and Development Financing program assists in the accelerated development of technology by providing a source of funds to researchers and research organizations in Montana for projects that have technological and commercial potential. Financing under this program will be directed toward continuing the Technology Centers of Excellence program located within the Montana University System.

The nine-member Board of Science and Technology (which is appointed by the Governor) provides policy direction for the program and awards the loans and grants.

House Bill 759 of the 1989 session appropriated \$2 million from the interest earned on the permanent coal tax trust fund to match federally-

appropriated funds for construction and start-up costs for medical research facilities in Montana. The bill required the state funds be matched on a four-to-one basis by federal funds. In late 1990, Congress appropriated funds for expansion of the McLaughlin Research facility in Great Falls, qualifying the facility for \$1.25 million of the state funds.

As of November 30, 1990, the board had invested \$1.2 million of the \$7.5 million from the In-state Investment Fund authorized by the 1989 legislature.

Current law requires the board to submit a report to the legislature by January 1, 1991, on its accomplishments.

### Current Level Budget

Personal services in the current level budget decreases 2 percent as a result of the deletion of a senior investment analyst position which had been vacant since November 1988. This is offset by the salary of the executive director which increased substantially. The budgeted salary for the executive director for fiscal 1990 was \$36,960. However, the Science and Technology Board increased the salary to \$42,000 at the beginning of the fiscal year. This salary level (adjusted for the fiscal 1991 authorized pay plan increase) is continued in the current level budget for the 1993 biennium. As discussed



---

## MONTANA SCIENCE & TECHNOLOGY ALLIANCE

---

below, the board has recently increased the salary above this level.

Operating expenses are based on fiscal 1990 actual expenditures, except for rent which is based on the contract cost and the indirect costs which are at the agency's requested level. No equipment was requested by the program. Grants, which decrease 60.9 percent, are included at the level requested by the agency. The agency's budget request states that in order to increase its operational funds, it plans to reduce the grants made for technological research and development.

### Issue

The salary of the executive director was budgeted in the 1991 biennium as a grade 19 classified position. House Bill 683, enacted during the 1989 session, exempted this position from classification. In fiscal 1990, the board increased the salary for the position from \$36,960 to \$42,000. In August 1990, a new director was hired at a \$60,000 salary, with the understanding that the salary will increase to \$65,000 in fiscal 1992. The current level budget includes the fiscal 1990 salary adjusted for the authorized 2.5 percent pay plan increase in fiscal 1991 (\$43,380 in fiscal 1992 and \$43,215 in fiscal 1993).

2-15-91  
Exhibit 5  
Par. Res. Div

Montana Science and Technology Alliance

Seed Capital  
(4/89 - Present)

Executive Summaries and Business Plans Reviewed and Denied	<u>76</u>
Business Plans Requested but not yet received	<u>14</u>
Business Plans presently under review	<u>4</u>
Companies in the Portfolio	<u>10</u>

Research and Development  
(12/85 - Present)

29 Projects funded plus

3 Centers of Excellence and the

- \* Montana Entrepreneurship Center
- \* NSF Engineering Research Center
- \* McLaughlin Research Institute - pending final due diligence and approval.

**Exhibit 5 is a 20-page 1991 biennial report. The original is available at the Montana Historical Society, 225 North Roberts, Helena, MT 59601. (Phone 406-444-4775)**

6501 DEPARTMENT OF COMMERCE  
73 MT SCIENCE & TECH ALLIANCE  
00000

DATE : 01/08/91  
TIME : 21/29/24  
CURRENT LEVEL COMPARISONS

Budget Item	Actual Fiscal 1990	Executive Fiscal 1992	LFA Fiscal 1992	Difference Fiscal 1992	Executive Fiscal 1993	LFA Fiscal 1993	Difference Fiscal 1993
FTE	6.00	6.00	5.00	1.00	6.00	5.00	1.00
Personal Services	147,479	206,654	168,652	38,002	206,206	168,285	37,921
Operating Expenses	132,673	237,900	139,058	98,842	248,071	140,413	107,658
Equipment	5,805	0	0	0	0	0	0
Grants	115,000	65,500	50,500	15,000	58,500	38,500	20,000
Total Expend.	\$400,957	\$510,054	\$358,210	\$151,844	\$512,777	\$347,198	\$165,579
Fund Sources							
General Fund	400,957	495,054	358,210	136,844	492,777	347,198	145,579
State Revenue Fund	0	15,000	0	15,000	20,000	0	20,000
Total Funds	\$400,957	\$510,054	\$358,210	\$151,844	\$512,777	\$347,198	\$165,579

--Executive Over (Under) LFA--  
FY 92 FY 93

(221)	\$108
\$10,124	(\$534)
\$2,488	\$2,488
\$2,600	\$2,600
\$35,402	\$35,321
\$81,925	\$96,925
\$15,000	\$20,000
\$4,526	\$8,671
\$151,844	\$165,579

*Motion by Study for Ha - Union.*

PERSONAL SERVICES (General Fund) *Budget Union*  
A. Per Diem - The LFA reflects actual fiscal 1990 expenditures  
B. The LFA eliminates 1.0 FTE (#73003) which had been vacant since November 1988

CONTRACTED SERVICE FEES AND LEGAL SERVICES - The LFA reflect actual fiscal 1990 expenditures (General Fund) *Study - Ex - 5-1 Budget no*

GRANTS - The LFA does not include authority for paybacks of principal and earnings on capital and research and development loans executed between July 1, 1985 and March 31, 1989. There has been no use of this authority since fiscal 1986. (State Special) *for the salary*

BUDGET BASE DIFFERENCES (General Fund) *no*

TOTAL CURRENT LEVEL

SUE:

EXECUTIVE DIRECTOR'S SALARY - The LFA and the Executive Budget fund the salary at \$43,380 in fiscal 1992 and \$43,215 in fiscal 1993. This exempt position's salary has increased from \$36,960 in fiscal 1990 to \$65,000 in fiscal 1991. Excess authority in operations can be used to fund the difference. The position is funded with general fund.

# HOUSE OF REPRESENTATIVES

## VISITOR'S REGISTER

Natural Resources COMMITTEE BILL NO. \_\_\_\_\_

DATE 2-15-91 SPONSOR(S) \_\_\_\_\_

PLEASE PRINT

PLEASE PRINT

PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Jim Jernier 555 Fuller	BoI			
Dane Jones	BoI			
Carl Russell	MSTA			
Matthew Ahn	DOC - PAC Rm			
Moe Wozepka	DOC - PAC Rm			
George McCallum	Board of Housing			
Kelly Bursig	Board of Housing			
Dick Lahr	Board of Housing			
Carolyn Doering	Wgt. Serv.			

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.