MINUTES

MONTANA SENATE
52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON BUSINESS & INDUSTRY

Call to Order: By Chairman J.D. Lynch, on April 12, 1991, at 8:00 a.m.

ROLL CALL

Members Present:
J.D. Lynch, Chairman (D)
John Jr. Kennedy, Vice Chairman (D)
Betty Bruski (D)
Eve Franklin (D)
Delwyn Gage (R)
Thomas Hager (R)
Jerry Noble (R)
Gene Thayer (R)
Bob Williams (D)

Members Excused: None

Staff Present: Bart Campbell (Legislative Council).

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

Announcements/Discussion: None

HEARING ON HOUSE BILL 995

Presentation and Opening Statement by Sponsor:

Representative Hal Harper, sponsor of the bill, stated that this bill will save the businesses paying into the old fund about one hundred and seventeen million, it will save businesses paying into the new fund about seventy nine million.

Proponents' Testimony:

Scott Seacat, a legislative auditor, stated that his office is neither a proponent or an opponent to the bill. He speaks on the bill for information purposes only. He submitted a spreadsheet of an analysis of the bill in terms of taking the existing worker's compensation program, a loan from the reserves of the new fund, and loaning them to the old fund (See Exhibit 1).

Dave Lewis, executive director of the state board of investments, stated at the present time, they have two pots of money, the new fund and the old fund. We are loaning the reserve to the new fund from the old fund at a fixed interest rate of seven and a half percent. This bill will allow the board of investments, given the constraints that they have, number one, the payroll tax of point zero two eight, and the need to make the payments that it would allow them to go out and get:a cheaper source of money. They could sell bonds to repay the loans to the new fund. It puts the new fund in better shape, because they don't have to use those reserves to pay off the old claims. They are able to build the reserves, and invest at a higher interest rate, and hopefully keep the worker's compensation rates down. This bill is simply a strategy to come up with a cheaper source of money in using the reserves of the new fund.

Jim Tutweiler, representing the Montana chamber of commerce, stated that there are some advantages for bonding. A year ago, there was a lot of uncertainty and lack of confidence in what the size of the liability was. There was a feeling of uncertainty to commit one's self to a long term in debt if you don't know what you are paying for. Since that time, with actuarial work, they have a good idea on what the size and the nature of the in debt is. HB 995 makes good financial sense at this time, using the lower rate. They can contribute to the help of the reserves that they claim. By allowing the revenue that they have now and allowing the premiums to be invested at nine percent instead of seven percent they stand ahead about eighty million dollars at the end of the program. The language of the bill contains language that allows additional outside income, should it become available.

George Wood, executive secretary of the Montana's self insurer's association, stated that they rise in support of this piece of legislation for many of the reasons that Mr. Tutweiler mentioned. He has one concern, that the proceeds of the bonds that are going to be sold, be used only to repay the state fund. He has some concerns about whether or not any diversion might be allowed under bonding. He suggested that the committee and the legislature provide a statement of intent that says this is what it is going to be used for. It will repay those loans, and repay the unpaid claims.

<u>Opponents' Testimony:</u>

None

<u>Questions From Committee Members:</u>

Senator Williams asked Representative Harper to comment on what Mr. Wood proposed.

Representative Harper stated that he sees no reason to amend this bill, it has already received a two thirds vote for a bonding bill. Nobody has offered any amendments.

Senator Lynch stated that he would rather not amend the bill, if it is made perfectly clear that this is where the money will go. He asked if they have to state that any further.

George Wood stated that he didn't think so. He doesn't want anymore amendments. He would like the committee to indicate in their minutes that this is what the bill says, and that is what it is intended for.

Closing by Sponsor:

Representative Harper closed.

EXECUTIVE ACTION ON HOUSE BILL 995

Motion:

Senator Williams moved to concur in HB 995.

Discussion:

None

Amendments, Discussion, and Votes:

None

Recommendation and Vote:

The motion by Senator Williams to concur in HB 995 passed unanimously. Senator Mazurek will carry the bill to the floor.

ADJOURNMENT

Adjournment At: 8:45 a.m.

J.D. Lynch

J.D. LYNCH, Chairman

Dara Anderson

DARA ANDERSON, Secretary

JDL/dia

ROLL CALL

B & I COMMITTEE

DATE 4/12/91

____ LEGISLATIVE SESSION ____

NAME	PRESENT	ABSENT	EXCUSED
Sen. Bruski	X		
Sen. Franklin	X		
Sen. Gage	X		
Sen. Hager	X		
Sen. Noble	X		
Sen. Thayer	X		
Sen. Williams	X		
Sen. Kennedy	X		
Sen. Lynch	X		

Each day attach to minutes.

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 1
DATE 4/12/91
BILL NO. HB 995

TO: SCOTT SEACAT, LEGISLATIVE AUDITOR

FROM: JOHN FINE, AUDIT SENIOR

RE: STATE COMPENSATION MUTUAL INSURANCE FUND
SAVINGS ASSOCIATED WITH FUNDING PRE JULY 1, 1990
CLAIMS WITH 6.75% TAX FREE BONDS VS. FUNDING WITH
7.5% LOANS FROM THE NEW FUND

DATE: JANUARY 29, 1991 91L-34

The attached spreadsheets show the costs associated with financing the pre- July 1, 1990 claims liability of the State Fund.

1) Attachment 1 calculates the costs of financing the claims liability with 7.5% loans from the assets of the new State Fund established by House Bill 2.

2) Attachment 2 calculates the costs of financing the claims liability with 6.75% tax exempt bonds. The scenario assumes the bonds will be sold at the end of fiscal year 1991-92. The loans from the New Fund will be repaid at the time the bonds are sold. We do not include the repayment in the calculated debt service cost so as not to count this item twice.

In both attachments, we assumed a payroll tax of .28% and a growth in covered payroll of 5% per year. The table below compares certain cost categories between the two scenarios.

	ATTACHMENT 1 LOAN FINANCED	ATTACHMENT 2 BOND FINANCED
Projected debt service	$554,256,785	$693,821,960
Less refinanced loans		80,106,160
	------------	-------------
Net debt service cost	$554,256,785	$613,715,800
Payroll Tax	$760,246,277	$643,320,539
Payroll Tax Duration	28 years	25.5 years

Attachment 3 shows $79,255,157 in increased interest earnings for the State Compensation Mutual Insurance Fund if the State Fund finances the Pre-July 1, 1990 claims liability with bonds rather than with loans. The increase results from investing the New Fund assets at a 9% market rate of return rather than at the 7.5% rate set for loans by law.

Debt service reserves and issuance costs may necessitate bond sales beyond the amount needed to cash flow the project of 10% and 2% respectively. Amounts required for reserves and costs can be provided from sources other than bond proceeds as set by issuer. Attachment 2 covers issuance costs and debt service reserves in the amount of bonds sold.

SCHEDULE OF PROJECTED LIABILITY PAYMENTS AND CASH NEEDS

91L-04
11:17 AM
01/25/91

PAYROLL TAX (ANNUAL) $13,283,000
COVERED PAYROLL $4,427,666,667

FISCAL YEAR	TOTAL PROJECTED LIABILITY PAYMENTS	PROJECTED ADMIN EXPENSES	PROJECTED DEBT SERVICE EXPENSES	TOTAL PROJECTED LIABILITY + EXPENSES	PAYROLL TAX INCOME	PROJECTED END OF YEAR CASH	PROJECTED INTEREST EARNINGS
1991	$99,077,000	$4,000,000	$0	$103,077,000	$13,017,340	$440,340	$33,026
1992	$54,473,000	$3,500,000	$0	$57,973,000	$13,668,207	$535,556	$40,167
1993	$46,246,000	$2,713,000	$0	$48,959,000	$14,351,617	$968,340	$72,626
1994	$35,396,000	$2,054,000	$0	$37,450,000	$15,069,198	$660,164	$49,512
1995	$26,129,000	$1,587,000	$0	$27,716,000	$15,822,658	$816,334	$61,225
1996	$22,554,000	$1,396,000	$0	$23,950,000	$16,613,791	$541,350	$40,601
1997	$17,317,000	$1,123,000	$0	$18,440,000	$17,444,481	$586,432	$43,982
1998	$14,180,000	$957,000	$3,000,000	$18,137,000	$18,316,705	$810,119	$60,759
1999	$11,305,000	$837,000	$7,000,000	$19,142,000	$19,232,540	$961,418	$72,106
2000	$10,322,000	$802,000	$9,000,000	$20,124,000	$20,194,167	$1,103,691	$82,777
2001	$8,755,000	$711,000	$12,000,000	$21,466,000	$21,203,875	$924,343	$69,326
2002	$8,020,000	$673,000	$13,000,000	$21,693,000	$22,264,069	$1,564,738	$117,355
2003	$7,616,000	$652,000	$16,000,000	$24,268,000	$23,377,272	$791,366	$59,352
2004	$6,906,000	$600,000	$17,000,000	$24,506,000	$24,546,136	$890,854	$66,814
2005	$6,094,000	$529,000	$19,000,000	$25,623,000	$25,773,443	$1,108,111	$83,108
2006	$5,142,000	$446,000	$21,000,000	$26,588,000	$27,062,115	$1,665,334	$124,900
2007	$4,131,000	$358,000	$24,000,000	$28,489,000	$28,415,221	$1,716,455	$128,734
2008	$3,103,000	$268,000	$27,000,000	$30,371,000	$29,835,982	$1,310,171	$98,263
2009	$2,044,000	$176,000	$29,000,000	$31,220,000	$31,327,781	$1,516,214	$113,716
2010	$1,026,000	$87,000	$32,000,000	$33,113,000	$32,894,170	$1,411,100	$105,833
2011	$52,000	$2,000	$34,000,000	$34,054,000	$34,538,878	$2,001,811	$150,136
2012	$48,000	$2,000	$36,000,000	$36,050,000	$36,265,822	$2,367,769	$177,583
2013	$44,000	$2,000	$38,000,000	$38,046,000	$38,079,113	$2,578,465	$193,385
2014	$42,000	$2,000	$40,000,000	$40,044,000	$39,983,069	$2,710,919	$203,319
2015	$0	$0	$42,000,000	$42,000,000	$41,982,223	$2,896,461	$217,235
2016	$0	$0	$44,000,000	$44,000,000	$44,081,334	$3,195,029	$239,627
2017	$0	$0	$47,000,000	$47,000,000	$46,285,400	$2,720,056	$204,004
2018	$0	$0	$44,256,785	$44,256,785	$48,599,670	$7,266,946	$545,021
2019	$0	$0	$0	$0			
2020	$0	$0	$0	$0			
2021	$0	$0	$0	$0			
	$390,022,000		$554,256,785		$760,246,277		$3,454,491

THIS SPREADSHEET PREPARED WITH THE FOLLOWING ASSUMPTIONS:

COST OF CAPITAL-->	7.5000%
PAYROLL INFLATION RATE->	5.0000%
PAYROLL TAX OF-->	0.2800%
BEGINNING CASH BALANCE->	$58,500,000
BOND PROCEEDS->1991	$0
BOND PROCEEDS->1994	$0
BOND PROCEEDS->1997	$0
TOTAL BOND PROCEEDS	$0

THIS SPREADSHEET CALCULATED THE FOLLOWING FINANCIAL RELATED DATA:

DEBT SERVCE EXPENSE	$554,256,785
YEAR PAYROLL TAX ENDS	2018
NET INTEREST EXPENSE	$400,856,785
AMOUNT BORROWED	$153,400,000
AMOUNT OWED AT TIME OF FIRST PAYMENT	$216,340,567

OFFICE OF THE LEGISLATIVE AUDITOR 91L-34RH
SCHEDULE OF PROJECTED LIABILITY PAYMENTS AND CASH NEEDS 08:30 AM
ATTACHMENT 2- PRE JULY 1, 1990 CLAIMS FINANCED WITH 6.75% TAX EXEMPT BONDS 01/31/91

FISCAL YEAR	TOTAL PROJECTED LIABILITY PAYMENTS	PROJECTED ADMIN EXPENSES	PROJECTED DEBT SERVICE EXPENSES	TOTAL PROJECTED LIABILITY + EXPENSES	PAYROLL TAX INCOME	PROJECTED END OF YEAR CASH	PROJECTED INTEREST EARNINGS
1991	$99,077,000	$4,000,000	$0	$103,077,000	$13,017,340	$440,340	$29,723
1992	$54,473,000	$3,500,000	$80,106,160	$138,079,160	$13,668,207	$188,203,405	$12,084,018
1993	$46,246,000	$2,713,000	$21,876,075	$70,835,075	$14,351,617	$142,284,849	$10,564,902
1994	$35,396,000	$2,054,000	$17,286,075	$54,736,075	$15,069,198	$110,660,339	$8,042,368
1995	$26,129,000	$1,587,000	$17,286,075	$45,002,075	$15,822,658	$87,799,110	$6,318,188
1996	$22,554,000	$1,396,000	$17,286,075	$41,236,075	$16,613,791	$68,141,413	$4,964,586
1997	$17,317,000	$1,123,000	$17,286,075	$35,726,075	$17,444,481	$53,739,183	$3,879,365
1998	$14,180,000	$957,000	$17,286,075	$32,423,075	$18,316,705	$42,704,157	$3,071,345
1999	$11,305,000	$837,000	$17,286,075	$29,428,075	$19,232,540	$34,984,483	$2,475,860
2000	$10,322,000	$802,000	$17,286,075	$28,410,075	$20,194,167	$28,802,940	$2,034,366
2001	$8,755,000	$711,000	$17,286,075	$26,752,075	$21,203,875	$24,971,517	$1,716,777
2002	$8,020,000	$673,000	$17,286,075	$25,979,075	$22,264,069	$22,784,116	$1,527,605
2003	$7,616,000	$652,000	$17,286,075	$25,554,075	$23,377,272	$22,044,060	$1,436,747
2004	$6,906,000	$600,000	$18,286,075	$25,792,075	$24,546,136	$22,219,136	$1,421,015
2005	$6,094,000	$529,000	$20,218,575	$26,841,575	$25,773,443	$22,590,679	$1,439,674
2006	$5,142,000	$446,000	$23,016,075	$28,604,075	$27,062,115	$22,496,993	$1,448,275
2007	$4,131,000	$358,000	$25,611,075	$30,100,075	$28,415,221	$22,248,784	$1,436,645
2008	$3,103,000	$268,000	$28,003,575	$31,374,575	$29,835,982	$22,135,218	$1,425,027
2009	$2,044,000	$176,000	$30,193,575	$32,413,575	$31,327,781	$22,482,594	$1,433,170
2010	$1,026,000	$87,000	$33,181,075	$34,294,075	$32,894,170	$22,528,643	$1,445,954
2011	$52,000	$2,000	$35,898,575	$35,952,575	$34,538,878	$22,563,149	$1,448,203
2012	$48,000	$2,000	$37,346,075	$37,396,075	$36,265,822	$22,893,119	$1,460,222
2013	$44,000	$2,000	$39,591,075	$39,637,075	$38,079,113	$22,802,937	$1,467,780
2014	$42,000	$2,000	$41,566,075	$41,610,075	$39,983,069	$22,634,891	$1,458,961
2015	$0	$0	$43,271,075	$43,271,075	$41,982,223	$22,805,373	$1,459,334
2016	$0	$0	$42,796,075	$42,796,075	$22,040,667	$2,852,904	$802,940
2017	$0	$0	$0	$0			
2018	$0	$0	$0	$0			
2019	$0	$0	$0	$0			
2020	$0	$0	$0	$0			
2021	$0	$0	$0	$0			
	$390,022,000		$693,821,960		$643,320,539		$76,293,048

COVERED PAYROLL $4,427,666,667
6.75% BONDS-NEW FUND PAYBACK IN 1992
PAYROLL TAX SUNSETS SECOND QUARTER FY 201

PAYROLL INFLATOR OF 5% USED
AS REQUESTED BY LEGISLATORS

THIS SPREADSHEET PREPARED WITH
THE FOLLOWING ASSUMPTIONS:

COST OF CAPITAL-->	6.7500%
PAYROLL INFLATION RATE->	5.0000%
PAYROLL TAX OF-->	0.2800%
BEGINNING CASH BALANCE->	$58,500,000
BOND PROCEEDS->1992	$256,090,000

BOND PROCEEDS COVER 2% ISSUANCE COSTS

BOND PROCEEDS COVER RESERVE
FOR DEBT SERVICE OF $20,000,000

THIS SPREADSHEET CALCULATED THE
FOLLOWING FINANCIAL RELATED DATA:

DEBT SERVCE EXPENSE	$693,821,960
YEAR PAYROLL TAX ENDS	2016
NET INTEREST EXPENSE	$361,438,912

LOANS FROM NEW FUND		OTHER FUNDS
FY 1990-91	$32,000,000	$0
FY 1991-92	$44,000,000	
FY 1992-93		
FY 1993-94		
FY 1994-95		
FY 1995-96		
FY 1996-97		
FY 1997-98		
FY 1998-99		
FY 1999-2000		
FY 2000-01		

OFFICE OF THE LEGISLATIVE AUDITOR
OPPORTUNITY COST TO NEW FUND OF LOANS TO OLD FUND AT 7.5%
WHEN THE MARKET RATE OF INTEREST IS 9%

91L-04,34
12:22 PM
01/29/91

FISCAL YEAR	NEW FUND LOAN INTEREST AT 7.5% RATE	NEW FUND INVESTMENTS AT 9% RATE OF RETURN	INTEREST EARNINGS INCREASE MARKET VS. LOAN RATE
1991	$480,000	$576,000	$0
1992	$4,101,000	$4,921,200	$0
1993	$7,386,075	$8,863,290	$1,477,215
1994	$10,077,531	$12,093,037	$2,015,506
1995	$12,108,345	$14,530,015	$2,421,669
1996	$13,728,971	$16,474,766	$2,745,794
1997	$15,058,644	$18,070,373	$3,011,729
1998	$16,225,542	$19,470,651	$3,245,108
1999	$17,217,458	$20,660,950	$3,443,492
2000	$17,983,768	$21,580,521	$3,596,754
2001	$18,657,550	$22,389,060	$3,731,510
2002	$19,156,866	$22,988,240	$3,831,373
2003	$19,618,631	$23,542,358	$3,923,726
2004	$19,890,029	$23,868,034	$3,978,006
2005	$20,106,781	$24,128,137	$4,021,356
2006	$20,189,789	$24,227,747	$4,037,958
2007	$20,129,024	$24,154,828	$4,025,805
2008	$19,838,700	$23,806,440	$3,967,740
2009	$19,301,603	$23,161,923	$3,860,321
2010	$18,574,223	$22,289,068	$3,714,845
2011	$17,567,290	$21,080,748	$3,513,458
2012	$16,334,837	$19,601,804	$3,266,967
2013	$14,859,949	$17,831,939	$2,971,990
2014	$13,124,446	$15,749,335	$2,624,889
2015	$11,108,779	$13,330,535	$2,221,756
2016	$8,791,937	$10,550,325	$1,758,387
2017	$6,151,333	$7,381,599	$1,230,267
2018	$3,087,683	$3,705,219	$617,537
2019	($0)	($0)	($0)
2020	($0)	($0)	($0)
2021	($0)	($0)	($0)
	$400,856,785	$481,028,142	$79,255,157

ASSUMPTIONS

- -NEW FUND LOANS @ 7.5%
- -MARKET INTEREST RATE @ 9%
- -NEW FUND LOANS RETIRED WITH BOND PROCEEDS AT THE END OF FY 1992

ROLL CALL VOTE

SENATE COMMITTEE B&I

Date 4/12/91 Bill No. HB995 Time 8:00 AM

NAME	YES	NO
Sen. Williams	X	
Sen. Thayer	X	
Sen. Noble	X	
Sen. Hager	X	
Sen. Gage	X	
Sen. Franklin	X	
Sen. Bruski	X	
Sen. Kennedy	X	
Sen Lynch	X	

Dara Anderson
Secretary

JD Lynch
Chairman

Motion: BE CONCURRED IN

SENATE STANDING COMMITTEE REPORT

April 12, 1991

MR. PRESIDENT:

We, your committee on Business and Industry having had under consideration House Bill No. 995 (third reading copy as amended--blue), respectfully report that House Bill No. 995 be concurred in.

Signed: J.D. Lynch
John "J.D." Lynch, Chairman

LB 4/12/91
Amd. Coord.

SB 4/12 9:50
Sec. of Senate

780932SC.Sji