

MINUTES

**MONTANA HOUSE OF REPRESENTATIVES
53rd LEGISLATURE - REGULAR SESSION**

JOINT SUBCOMMITTEE ON NATURAL RESOURCES

Call to Order: By **CHAIRMAN ROGER DEBRUYCKER**, on February 15, 1993, at 8:00 A.M.

ROLL CALL

Members Present:

Rep. Roger DeBruycker, Chairman (R)
Sen. Cecil Weeding, Vice Chairman (D)
Sen. Gerry Devlin (R)
Sen. Greg Jergeson (D)
Rep. John Johnson (D)
Rep. William Wiseman (R)

Members Excused: None

Members Absent: None

Staff Present: Terri Perrigo, Legislative Fiscal Analyst
Florine Smith, Office of Budget & Program
Planning
Theda Rossberg, Committee Secretary

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

Committee Business Summary:

Hearing: DEPARTMENT OF COMMERCE
Science and Technology Alliance
Board of Horse Racing
Montana Promotion Division
Financial Division

Executive Action: DEPARTMENT OF COMMERCE
Science and Technology Alliance
Board of Horse Racing
Montana Promotion Division
Financial Division

HEARING

SCIENCE AND TECHNOLOGY ALLIANCE

Carl Russell, Executive Director, Science and Technology Alliance reviewed the history and function of this division with the committee.

The Montana Science and Technology Alliance program invests state funds in science and technology development through two programs: 1) the Seed Capital Investment program, which has authority to invest \$7.5 million of permanent coal trust monies in new technology businesses in Montana. 2) Research and Development Financing program that has authority to invest up to \$5.1 million of the permanent coal trust for research that has technological and commercial potential.

In the Seed Capital program the value of the portfolio has increased, which has brought a significant amount of money into Montana. Since 1989 they have invested close to \$5 million, which returned \$11 million of new money into the state.

He reviewed an overhead chart showing the timeframes of monies invested and their returns. The rate of return on investments is close to 10 percent.

Investment of permanent coal trust funds in seed capital projects is important because the money borrowed has to go back to the permanent coal trust. The value of those companies is very strong at the moment. There are five companies raising \$20 million outside of Montana. Five companies are in the planning stages or construction stages, building new labs and manufacturing sites. There are two in Bozeman, one in Butte and two in Missoula. New high paying jobs are being created because of the new businesses.

The company in Missoula has raised \$4 million plus the \$750,000 invested and presently has 13 employees.

Mr. Russell gave considerable testimony on the companies and their products.

He stated that HB 394 passed second reading in the House. The bill allocates additional investment authority to Science and Technology of \$8 million for Seed Capital projects for a four-year period. For research and development projects, \$3 million more for the next two years is allocated, for a total of \$11 million more permanent coal trust fund investment authority. Also, in that bill there is a mechanism to take Science and Technology off of the general fund: 1) pay-backs from the investments will be used to pay operating expenses; and 2) the program will receive a management fee on its investments like the Board of Investments does. It is anticipated that loan repayments and earnings will generate enough revenue to cover operating expenses in the 1997 biennium.

SEN. DEVLIN asked what kind of money would be raised by HB 394. Mr. Russell answered that the bill authorizes an additional \$8 million in seed capital to add to the \$7.5 million they already have and \$3 million for research and development which is in addition to the \$5.1 million they currently have. The total amount for the two programs through 1997 would be \$23.6 million.

REP. JOHNSON asked if he would elaborate on how the royalties come in and what the university share is. Mr. Russell replied that when the royalties come in, the researcher takes half of the return of that royalty and the university takes the other half. The state has first priority on the return to the universities.

There is language in HB 394 that says the university system has to guarantee \$250,000 annual payback to the coal trust starting in 1994.

REP. JOHNSON asked whether over the long run they would see any benefit from this alliance spreading to the other parts of the state. Mr. Russell replied they have projects now with the agriculture areas such as canola, safflower, barley, etc.

SEN. WEEDING inquired how this would flow back into the coal trust. Mr. Russell responded that the investments are from the permanent coal trust itself. They currently have spending authority of \$12.6 million from the permanent trust. They cannot hold common stock of a company, so they own the right to purchase stock which can be sold. They would call the debt at the end of the term and sell their stock option back to the company or some other company which would buy them out. The principal has to always go back to the coal trust. Current law restricts the amount that can be loaned to one company to \$750,000. Of the \$7.5 million, \$5 million is committed. It is anticipated that the remainder of the \$7.5 million will be committed by the end of fiscal 1993. This is part of the 25% of the permanent coal trust fund that has to be used in the "Build Montana Program."

Tape 1, B.

Ms. Perrigo, Legislative Fiscal Analyst, reviewed the budget difference with the committee. EXHIBIT 1.

Mr. Russell said the division was willing to accept the LFA recommendation for this budget.

Contracted Services:

He said the biggest impact is in Contracted Services which involves legal and outside experts for what is called the "due diligence process."

Travel:

Mr. Russell said there would be fewer board meetings in the next biennium so they could cut back on travel.

SEN. WEEDING asked if they have the flexibility to move funds around.

Mr. Andrew Poole, Deputy Director, Department of Commerce, said it was his understanding that all agencies will have the authority to move personal services funds into operating expenses after this biennium. The division's House Resolution 2 General

Fund target is \$41,145; if the legislature approves the LFA budget on all items, they will meet the target.

SEN. DEVLIN asked why the LFA's total program costs were higher than the 1992 expenditures. Ms. Perrigo explained in FY92 the department had some grant funds they spent and some of those expenditures were continued into the FY94-95 base. With additions for the pay plan implemented in fiscal 1992, the 94-95 budget has increased.

SEN. DEVLIN asked if the division was still on target. Mr. Poole replied this division has not been addressed yet, but they are still above their target.

Repair & Maintenance:

Ms. Smith said Repair & Maintenance is the global issue again for fixed costs for new computers.

Equipment:

Mr. Russell said this is to continue the upgrading of the local area network computer system.

Minor Differences:

SEN. JERGESON asked if the division pays dues to any lobbying organizations. Mr. Russell replied no.

EXECUTIVE ACTION
SCIENCE & TECH. ALLIANCE

Motion/Vote: SEN. JERGESON moved to approve the Executive of (\$481) in FY94 and (\$893) in FY95 for Minor Differences. Motion CARRIED unanimously.

Language:

Motion/Vote: SEN. JERGESON moved to approve the language, "Contingent upon passage of House Bill 394, general fund in (Item X) is eliminated and replaced with state special revenue funds." Motion CARRIED 5-1 with CHAIRMAN DEBRUYCKER voting no.

Target Reduction:

Motion/Vote: SEN. JERGESON moved to approve \$40,654 in FY94 and \$40,381 in FY95 for the Target Reduction which is minus the Minor Differences amount. The Minor Differences amounts and the Target Reduction amounts will equal the total target amounts. Motion CARRIED unanimously.

HEARING
MONTANA PROMOTION DIVISION

Mathew Cohn, Director, Montana Promotion Division, showed some videos on Travel Montana. He reviewed the Travel Montana 5 Year Marketing Plan for 1994-1998. EXHIBIT 2.

He said the industry generates \$47.4 billion in tax revenues from

federal, state and local governments. All 50 states allocate a total of \$337 million for tourism, and Montana ranks 24th in the nation. Americans spend \$926 billion on travel in the United States; \$64.4 billion was generated by foreign travelers.

Currently, non-resident travel is the only growing industry in Montana. He showed some overhead charts on the data derived from tourism travel. In 1992 6.5 million travelers spent \$900 million in Montana which is \$1,700 per minute. A traveler will spend 15% in lodging and the rest goes into food, gasoline, retail sales, and other transportation. Tourists will pay \$10 million on the state gasoline tax alone. People employed in Montana because of tourism in Montana is up by 28%. Those people pay payroll taxes to Montana which goes into the general fund. Also, employers are contributing to Workers' Compensation and Unemployment Insurance.

Questions:

CHAIRMAN DEBRUYCKER asked where all the literature was printed. Mr. Cohn replied the department receives bids from publications and graphics. Montana companies are given an 8 percent advantage. Because of the nature of the printing, there have been no bids in Montana. Some of the printing has to have specialized equipment. One guide was done in Iowa, one in Florida and one in Los Angeles.

Tape 2, A.

See EXHIBIT 2 for continued testimony and statistics.

Ms. Perrigo reviewed the budget differences with the committee. EXHIBIT 3.

Ms. Smith, Office of Budget Program and Planning, received notification in December after the Executive books were out that the agency was requesting to switch positions in the 5 percent reduction. They offered position #5203, Promotion Assistant. However, they would like that position reinstated and eliminate position #07740 in the Montana Lottery budget which will be heard tomorrow. With the approval of the committee, they would like to make that switch.

Actual expenditures for national advertising in FY92 were \$2.7 million, \$2.8 million in FY94 and \$2.95 million in FY95.

Local Assistance expenditures were \$1.8 million in FY94. They requested \$2 million for FY94 and \$2.1 million in FY95 which includes the 25% increase. The Executive is supporting the 2.0 FTE that were added in FY92 from the accommodations tax.

SEN. DEVLIN asked if the estimate that the 4 percent will bring in was \$7.1 million in FY94 and \$7.4 million in FY95. Ms. Perrigo said those numbers are what the Revenue Oversight Committee estimated for the accommodations tax.

SEN. DEVLIN asked for an explanation of how \$7.5 million was spent out of that fund when only \$7.1 million was taken in the first year. Mr. Cohn responded that it is what the Revenue Oversight Committee estimated, based upon historical averages.

Since the accommodations tax began, the department has seen an increase of approximately 8 to 10 percent per year, but it may slow down in the future.

SEN. DEVLIN inquired what the department would do if those monies didn't reach the anticipated level. Mr. Cohn said if the department didn't have it, they couldn't spend it.

SEN. DEVLIN asked whether there had been any carryover before. Mr. Cohn explained that carryover that occurs is with the Local Assistance Program. The fiscal year ends June 30th, and the department doesn't know what the collections will be until August; local communities don't request those funds until the next fiscal year. He stated there is generally about a \$300,000 carryover.

SEN. WEEDING said he thought the department was about \$.5 million strong on the appropriations side. Ms. Doering said previously, all the money was appropriated that came in from the accommodations tax. The Executive budget has the appropriate amount of revenue coming in.

SEN. WEEDING inquired whether if, the committee approves the Executive budget, they will be appropriating \$7.5 million the first year and about \$7.8 million the second year. He said he understood the revenue was only \$6.1 million.

Ms. Doering said the difference between the LFA and the Executive budget is that in FY92 they had an appropriation from the prior legislative session. That appropriation did not meet all of the revenue that came in. It increased the appropriation by about \$1.4 million. Therefore, the Executive reflects the actual expenditures.

SEN. DEVLIN asked what the FTE from the Lottery Division was worth. Ms. Doering responded the Lottery Division will be giving up a grade 13 and a grade 7 so they would not be jeopardizing their 5% vacancy amount.

CHAIRMAN DEBRUYCKER asked what other divisions would be taking a hit if the committee approved the Executive Budget. Ms. Doering said that is not general fund; it is a statutory appropriation. The law allows whatever comes in from the accommodations tax to be spent by the Montana Promotions Division.

EXECUTIVE ACTION
MONTANA PROMOTION DIVISION

Current Level Differences

5 Percent Personal Services Reduction:

Motion/Vote: SEN. JERGESON moved to approve the reinstatement of position #5203, Promotion Assistant. Motion CARRIED unanimously.

Contracted Services:

Motion/Vote: SEN. WEEDING moved to approve the Executive for \$40,517 in FY94 and \$62,939 in FY95 for Contracted Services. Motion CARRIED 5-1 with CHAIRMAN DEBRUYCKER voting no.

National Advertising:

Motion/Vote: REP. JOHNSON moved to approve the Executive of \$1,265,739 in FY94 and \$1,406,307 in FY95 for National Advertising. Motion CARRIED 4-2 with CHAIRMAN DEBRUYCKER and SEN. DEVLIN voting no.

Equipment:

Motion/Vote: REP. WISEMAN moved to approve the Executive of (\$17,562) each year of the biennium. Motion CARRIED 5-1 with SEN. DEVLIN voting no.

Local Assistance:

Motion/Vote: REP. JOHNSON moved to approve the Executive of \$173,184 in FY94 and \$199,411 in FY95 for Local Assistance. Motion CARRIED unanimously.

Minor Differences:

SEN. JERGESON inquired if the department paid dues to any lobbying organizations. Mr. Cohn said no.

Motion/Vote: SEN. WEEDING moved to approve the Executive of \$4,850 in FY94 and \$4,904 in FY95 for Minor Differences. Motion FAILED 3-3.

Budget Modifications

Montana Promotion FTE:

Motion/Vote: SEN. JERGESON moved to approve the Executive of \$40,752 in FY94 and \$40,800 in FY95. Motion CARRIED 5-1 with CHAIRMAN DEBRUYCKER voting no.

Language and Other Issues

Vacant Positions:

Mr. Cohn said position #5209, Promotion Officer is the publicity coordinator who does a lot of work with television, newspapers, magazines and other media. The person who was in that position notified the department in November that she would be leaving on December 20th. That position was advertised before Thanksgiving

and interviews were held on December 27th and 28th. The position was filled on December 30th. That position was only vacant for three weeks and it was not intended to be left vacant.

Motion/Vote: SEN. JERGESON moved to retain position #5209, Promotion Officer. Motion CARRIED 5-1 with SEN. DEVLIN voting no.

HEARING
BOARD OF HORSE RACING

Sam Murfitt, Executive Secretary, Board of Horse Racing, gave an overview of this division. EXHIBIT 4.

He said the program is funded by a state revenue fund tax of 1% of parimutuel handle. Other revenue sources are medication fees, fines imposed and sale of annual licenses. Since 1988, Montana has experienced a significant decrease in revenue based upon dollars wagered. This is partly due to the lottery and video gaming.

Ms. Perrigo reviewed the budget difference with the committee. EXHIBIT 5.

Ms. Smith said the position that was eliminated was position #07872 for a grade 8.

Mr. Murfitt reviewed the budget items with the committee.

Current Level Differences

5 Percent Personal Services Reduction:

Mr. Murfitt said because of the 5% reduction in FTE, the staff was reduced from 4.78 FTE to 3.78 FTE. The LFA did not take that into account and that is the reason for the discrepancy.

Motion/Vote: SEN. WEEDING moved to approve the Executive for (\$19,509) in FY94 and (\$19,531) in FY95 for Personal Services Reduction. Motion CARRIED unanimously.

State Veterinarian:

Mr. Murfitt said in the past, veterinarians were employed by each racing association. It was determined there was a potential conflict when the veterinarian is employed by the association he regulates. He stated they are planning to charge each race track a per race track fee to pay the commission to pay the veterinarian. It would become a contract employee.

Motion/Vote: SEN. DEVLIN moved to approve the Executive of \$27,503 each year of the biennium for State Veterinarian. Motion CARRIED 5-1 with SEN. JERGESON voting no.

Computer Maintenance:

Indirect Charges:

Ms. Doering said the two items are the global issues that appear in each division.

Motion/Vote: REP. WISEMAN moved to approve the Executive for \$600 each year of the biennium for Computer Maintenance and \$964 in FY94 and \$952 in FY95 for Indirect Charges. Motion CARRIED unanimously.

Minor Differences:

SEN. JERGSON asked if the division paid dues to any lobbying organizations. Mr. Murfitt said no.

Motion/Vote: SEN. WEEDING moved to approve the Executive of (\$520) in FY94 and (\$537) in FY95 for Minor Differences. Motion CARRIED unanimously.

Discussion:

REP. WISEMAN asked Mr. Murfitt if he could give him a figure on what the Great Falls racing track makes per year. Mr. Murfitt stated he couldn't give him a specific figure, but he knew they were not making a profit.

SEN. WEEDING asked if the veterinarian was full-time. Mr. Murfitt said no, that individual is hired on a contract basis.

Tape 3, A.

HEARING O
FINANCIAL DIVISION

Donald Hutchinson, Commissioner, Financial Division, reviewed a draft of HB 201. EXHIBIT 6

He reviewed the Montana State Banking Code Advisory Council. Governor Stephens issued an Executive Order 34-91 on December 3, 1991, creating the Montana State Banking Code Advisory Council. The Council was created to identify outdated language, omissions or conflicts in statute that are not conducive to the proper supervision of state banks. EXHIBIT 7

He stated approximately 85 bank examinations are done per year. EXHIBIT 8

The recommendation on bank examiner's pay and training is outlined in EXHIBIT 9.

In 1992 five national chartered banks converted to state chartered banks. There are 127 state chartered banks and branches, 3 trust companies, 16 credit unions, 20 consumer loan companies, 86 sales finance companies and 5 private escrow companies regulated and examined by the division. The institutions regulated and examined range from small institutions with few assets to large institutions with assets from \$5 million to \$7 million. EXHIBIT 10

Discussion:

REP. WISEMAN asked how many days it takes to complete an examination. Mr. Hutchinson said the examiner is allowed 120 days to return the final report to the bank.

REP. WISEMAN asked how often the state chartered banks were inspected by the federal government. Mr. Hutchinson said the first year they are inspected by the state and the next year by the FDIC.

REP. WISEMAN asked what percentage of credit unions were inspected by the state. Mr. Hutchinson replied approximately 12% are inspected by the state.

SEN. WEEDING asked why federal banks become state banks. Mr. Hutchinson said federal banks are converting to state banks because they have access to state regulators and the communications between them are better. The state staff consists of 13 field examiners, 2 examiner supervisors, and 5 office staff.

REP. WISEMAN asked why Montana savings and loan companies didn't have the problems they have had in other states. Mr. Hutchinson said part of the problem in other states was that there were not enough bank examiners to thoroughly look into their operations.

Ms. Perrigo reviewed the budget differences. EXHIBIT 11

Ms. Smith reviewed the Executive Budget with the committee. The travel was annualized on the assumption the division would be fully staffed. The division anticipates an increase in rent in the Billings facility. Computer maintenance and indirect charges are global issues previously discussed. The Executive supports the budget modification for 6.0 FTE, supported with state special revenue funds.

Mr. Hutchinson reviewed the budget items.

Travel:

The travel budget is based upon the FY92 current level when the division was short 2.0 FTE. The increased request reflects the full staff.

Rent:

The Billings office was too small after all the staff positions were filled. Also, the disability law required disability access. Therefore, the division moved to a facility that met the requirements and, consequently, increased the rent.

EXECUTIVE ACTION
FINANCIAL DIVISION

Motion/Vote: SEN. JERGSON moved to approve the Executive of

\$4,800 each year of the biennium for rent. Motion CARRIED unanimously.

Computer Maintenance:

Indirect Charges:

Motion/Vote: SEN. DEVLIN moved to approve the Executive of \$5,804 each year of the biennium for Computer Maintenance and (\$1,380) in FY94 and (\$1,423) in FY95 for Indirect Charges. Motion CARRIED unanimously.

Equipment:

Mr. Hutchinson said some software was removed from the original request, resulting in the budget differences.

Motion/Vote: SEN. WEEDING moved to approve the Executive of (\$1,380) in FY94 and (\$1,423) in FY95 for Equipment. Motion CARRIED unanimously.

Minor Differences:

SEN. JERGESON asked if they paid any dues to lobbying organizations. Mr. Hutchinson said they belong to two national associations, primarily for educational purposes.

Motion/Vote: SEN. JERGESON moved to approve the Executive of \$849 in FY94 and \$2,105 in FY95 for Minor Differences. Motion CARRIED 5-1 with SEN.DEVLIN voting no.

Budget Modifications

Discussion:

REP. WISEMAN asked if Montana bank depositors were going to receive less interest on their checking accounts because of the increase in bank audits.

Mr. Poole said increasing frequency of bank examinations is not a major part of this budget modification request. Assets of the loans are larger and more complex, and banks realize they need more frequent examinations. The banks prefer state examiners because they cost about 30 percent less than federal examiners.

SEN. WEEDING asked about the formula for bank fee assessment. Mr. Hutchinson explained banks are assessed a flat charge plus square floor footage. A number of banks are changing the fee structure to so much per \$1,000 regardless of the size of the bank.

Tape 3, B.

SEN. WEEDING asked how their fee assessment compared to the federal amount. Mr. Hutchinson said that a \$10,000 assessment on a similar size federal bank would cost approximately \$21,000.

Banking Code Revision:

Motion: SEN. DEVLIN moved to approve the addition of 4.0 FTE and the analyst adjust the figures accordingly.

HOUSE NATURAL RESOURCES SUBCOMMITTEE

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Substitute Motion: SEN. JERGESON moved to approve the modification for 6.0 FTE for \$256,000 in FY94 and \$241,784 in FY95.

SEN. WEEDING asked if they didn't get the full FTE request would they have longer intervals between examinations. Mr. Hutchinson replied they have to examine every bank at least once every 24 months by statute.

Language and Other Issues

Vacant Positions:

Mr. Hutchinson said they had advertised for this position and received 40 applications. The position would be an entry level position for a grade 13.

CHAIRMAN DEBRUYCKER asked if that FTE was in addition to the 6.0 FTE that the committee approved. Mr. Hutchinson said they needed the 6.0 FTE plus the entry level FTE.

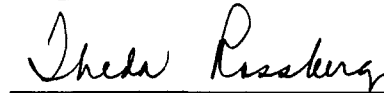
Vote: Motion CARRIED 5-1 with CHAIRMAN DEBRUYCKER voting no.

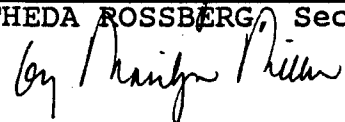
ADJOURNMENT

Adjournment: 11:35 A.M.



ROGER DEBRUYCKER, Chairman



THEDA ROSSBERG, Secretary


RD/tr

HOUSE OF REPRESENTATIVES

NATURAL RESOURCES SUB-COMMITTEE

ROLL CALL

DATE

2-15-93

NAME	PRESENT	ABSENT	EXCUSED
REP. ROGER DEBRUYCKER, CHAIRMAN	X		
SEN. CECIL WEEDING, VICE CHAIRMAN	X		
SEN. GERRY DEVLIN	X		
REP. WILLIAM WISEMAN	X		
REP. JOHN JOHNSON	X		
SEN. GREG JERGESON	X		

6501 73 00000

DEPARTMENT OF COMMERCE

Program Summary

Mt Science & Tech Alliance

EXHIBIT #1

DATE 2-15-93

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	7.00	7.00	7.00	7.00	0.00	7.00	7.00	0.00
Personal Services	244,496	229,280	303,431	303,431	0	304,417	304,417	0
Operating Expenses	202,630	184,570	187,383	197,128	(9,745)	185,798	195,173	(9,375)
Equipment	6,534	0	4,100	0	4,100	4,100	0	4,100
Grants	0	38,500	0	0	0	0	0	0
Total Costs	\$453,660	\$452,350	\$494,914	\$500,559	(\$5,645)	\$494,315	\$499,590	(\$5,275)
Fund Sources								
General Fund	453,660	452,350	494,914	500,559	(5,645)	494,315	499,590	(5,275)
Total Funds	\$453,660	\$452,350	\$494,914	\$500,559	(\$5,645)	\$494,315	\$499,590	(\$5,275)

Page References

LFA Budget Analysis (Vol II) pp, C 146-147 and C 122-124
 Stephens Executive Budget, pp. C 59-C61

Current Level Differences

Contracted Services - The Executive Budget includes \$21,174 more than LFA current level for contracted services. The additional funds are primarily for legal services.

10,604 11,170

Travel - The Executive Budget contains \$28,148 less for travel than LFA current level which continues fiscal 1992 expenditures.

(14,074) (14,074)

Repair & Maintenance - The Executive Budget includes \$11,372 less for repair and maintenance than the LFA current level which continues fiscal 1992 expenditures.

(5,794) (5,578)

Equipment - The Executive Budget contains \$8,200 more for equipment than LFA current level.

4,100 4,100

Minor Differences*Delegated by Exec Passed*

(481) (893)

TOTAL CURRENT LEVEL DIFFERENCES

(5,645) (5,275)

Budget Modifications

None

Language and Other Issues**Executive Policy Issues and Legislation**

House Bill 394 - Approval of this proposed legislation would eliminate MSTAs general fund appropriation. It would replace general fund with project paybacks and management fees collected for administration of instate investment funds. This legislation also provides MSTAs additional funds from the instate investment fund for seed capital and research and development projects, and requires that the university system payback \$250,000 each year from intellectual property licenses, fees, royalties, etc to the Coal trust fund.

Language

Contingent upon passage of House Bill 394, general fund in [Item X] is eliminated and replaced with state special revenue funds. *Delegated Passed*

Target Reduction

The agency proposes to reduce MSTAs expenditures by \$82,470 general fund over the biennium.

41,145 41,275

- 481 - 893

40654 40382

EXHIBIT #2
DATE 2-15-93
HB

TRAVEL MONTANA

5-YEAR MARKETING PLAN

FY 1994-1998

Executive Summary

A COMMON VISION FOR MONTANA'S TOURISM INDUSTRY.

Early in 1992, Travel Montana and the Governor's Tourism Advisory Council launched a process to produce a long-range plan for tourism in Montana. Completed in October 1992, the **Five-Year Strategic Plan for the Travel and Tourism Industry** reflects the input of a broad range of industry participants, including travel-related business operators, tourism industry associations, tourism regions and convention and visitor bureaus (CVBs), Indian tribes, legislators and officials from State and Federal tourism-related agencies.

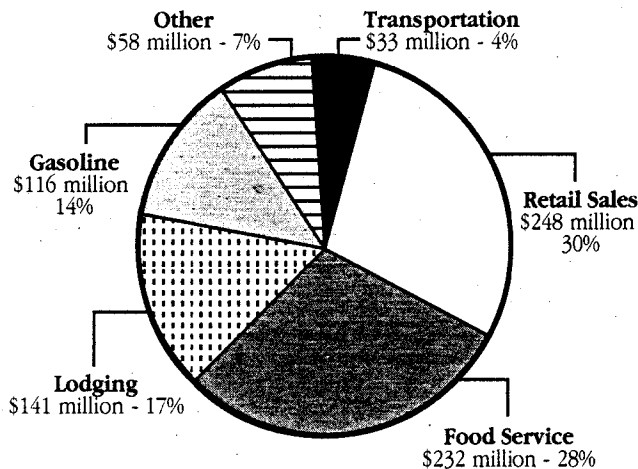
In concert with the Governor's Tourism Advisory Council, Travel Montana is now developing a **Five-Year Marketing Plan** to address those areas of the Industry Strategic Plan which are within its responsibility and authority. The document that follows is an **Executive Summary** of Travel Montana's full **Five-Year Marketing Plan**.

THE IMPORTANCE OF TOURISM

Tourism is one of Montana's most important industries, and also our fastest-growing. From 1988 to 1991, the number of non-resident visitors to the state increased by 16%, from 5.17 million to 6 million visitors. In 1991, those 6 million visitors spent an estimated \$828 million in Montana.

More Than Hotel Rooms

Visitor Expenditures by Category



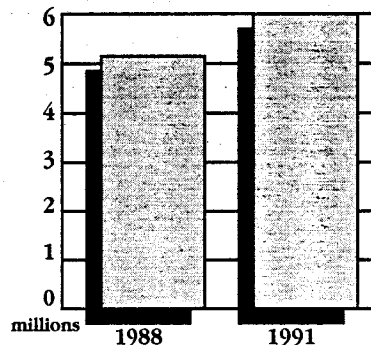
As the chart above shows, visitor expenditures have impacts far broader than the lodging industry, and circulate through a broad cross-section of the Montana economy. **Total economic impact of tourism to Montana was \$1.84 billion in 1991.**

In direct benefit to all Montana citizens, visitors to Montana pay many millions of dollars annually into our general and highway funds through various Montana taxes. Non-resident travel expenditures in the state also sustained an estimated 29,300 travel-related jobs in Montana in 1991. In total, these jobs accounted for \$469 million in travel payroll, including an estimated \$24 million contribution to the general fund in the form of income taxes.

These measurements represent significant growth since 1988. Visitor expenditures have risen 26%, travel-related or dependent jobs increased by 17% and labor income from tourism has grown by 28%.

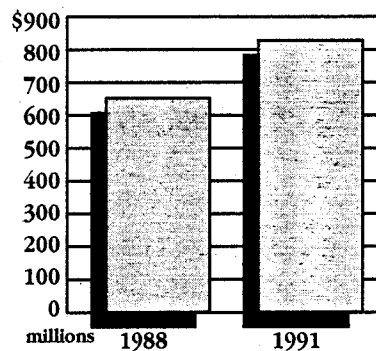
In addition, the filming of movie and commercial productions in Montana generated income to Montana of \$12 million in 1991, nearly double the 1988 figure.

Non-Resident Visitors Up 16%



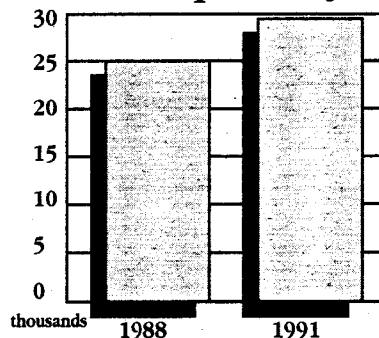
Six million people visited Montana in 1991, spending more than \$800 million in our state.

Visitor Expenditures Up 26%



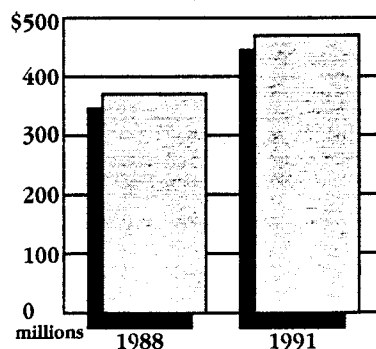
An estimated 5% of visitor expenditures in Montana contribute to our general and highway funds in the form of various Montana taxes.

Travel-Dependent Jobs Up 17%



More than 29,000 jobs in Montana are dependent on the travel trade – in hotels, restaurants, gas stations, retail stores, and more.

Travel Payroll Up 28%



Montana workers earned \$469 million in 1991 from jobs dependent upon non-resident travel, contributing \$24 million in income taxes to the general fund.

5-YEAR MARKETING OBJECTIVES

Seven marketing objectives have been set to guide the activities of Travel Montana during the five-year period covered by this plan. They fall into categories which reflect Montana's key tourism industry issues.

ECONOMIC BENEFITS & OPPORTUNITIES

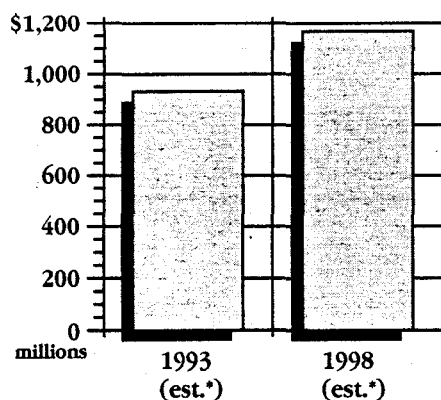
Objectives 1 and 2 point to developing promotional programs that strengthen the contributions of tourism to the Montana economy and increase economic opportunities for Montana citizens.

Objective 3 seeks to continue Montana's success in marketing the state as a location for film projects. This marketing endeavor not only generates expenditures in Montana, it often results in significant national publicity for Montana.

OBJECTIVE #1

Increase visitor expenditures in Montana an average of 5% per year, with emphasis on raising per-visit expenditures and length of stay.

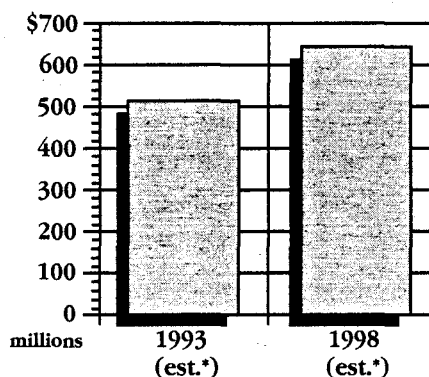
Increase Visitor Expenditures By 25%



OBJECTIVE #2

Increase overall labor income (travel payroll) from the tourism and recreation industry an average of 3% - 5% per year.

Increase Travel Payroll By 25%



OBJECTIVE #3

Increase in-state expenditures generated from motion picture and commercial productions filmed in Montana.

DIVERSIFYING THE INDUSTRY

Objectives 4 and 5 focus on the goal of the Montana travel industry to diversify the seasonal, geographical and cultural distribution of visitors, broadening the in-state economic benefits and capacity of Montana tourism.

OBJECTIVE #4

Increase labor income (travel payroll) derived from the tourism industry during the fall, spring and winter seasons.

* Source for all charts: Institute for Tourism and Recreation Research. Actual figures from ITRR for 1993 in charts for Objectives 1 and 2 will not be available until 1994. Basis for 1993 visitor expenditures estimate is 1992 plus 5%; basis for 1993 travel payroll estimate is 1991 plus 10%. Dollar objectives for 1998 cannot be calculated accurately until firm 1993 baseline data is available.

EXHIBIT 2
DATE 2-15-93

MONTANA TOURISM ADVISORY COUNCIL

The Montana Tourism Advisory Council (TAC) was created by statute in July of 1987, as a result of the inception of the Montana accommodations tax. The Council is composed of no less than 12 members from Montana's private-sector travel industry, with representation including each of Montana's six tourism regions. Members of the Council are appointed by the Governor and meet quarterly.

DUTIES OF THE COUNCIL ARE AS FOLLOWS:

- Advise the Governor on matters which relate to travel and tourism in Montana.
- Set policies and guide the efforts of Travel Montana, Department of Commerce.
- Oversee distribution of funds and set guidelines for nonprofit regional tourism corporations and nonprofit convention and visitors bureaus.
- Prescribe allowable administrative expenses for which accommodations tax proceeds may be used by nonprofit regional tourism corporations and nonprofit convention and visitors bureaus.
- Direct the university system's travel research and approve all projects prior to their being undertaken.

Henry Gehl, Chair
Park Inn, Lewistown

Maureen Averill, Vice Chair
Flathead Lake Lodge, Bigfork

Terry Abelin
Bridger Bowl Ski Area, Bozeman

Diane Brandt
Sam's Supper Club, Glasgow

Arnold "Smoke" Elser
Wilderness Outfitters, Missoula

Ken Hickel
Best Western Ponderosa Inn, Billings

Ken Hoovestol
Century 21, Great Falls

Tom Johnson
Village Red Lion Inn, Missoula

Dick Krott
Reeder's Alley, Helena

Herb Leuprecht
Best Western Butte Plaza Inn, Butte

Edythe McCleary
Custer Country, Hardin

Larry McRae
Best Western Outlaw Inn, Kalispell

Barbara Moe
Anderson-Elerding Travel, Great Falls

Art Peterson
KOA, Inc., Billings

Velda Shelby
Confederated Salish and Kootenai Tribes, Pablo

Travel Montana
1424 9th Avenue • Helena, MT 59620 • (406) 444-2654

EXHIBIT 2
DATE 2-15-93

OBJECTIVE #5

Increase labor income derived from the tourism industry in less traveled areas of the state.

RESOURCE PROTECTION

The intent of Objective 6 is to encourage protection of Montana's natural, historical and cultural resources in order to preserve quality of life for Montana residents and offer quality vacation experiences for visitors.

OBJECTIVE #6

Support tourism development and growth which enhances Montana's natural, historical and cultural resources, and mitigates negative impact.

TOURISM INDUSTRY COOPERATION

Objective 7 recognizes the various roles that Travel Montana must assume in working with private and public sector entities as it carries out its mission.

OBJECTIVE #7

Foster cooperation in tourism promotion and development through all sectors of the tourism industry.

The marketing objectives outlined in this **Executive Summary**, along with strategies detailed in the full **Five-Year Marketing Plan**, will be used each year to guide Travel Montana's tourism promotion programs. As in the past, detailed descriptions of upcoming programs will be provided in Travel Montana's annual marketing plans for FY 1994 through FY 1998.

MONTANA'S TOURISM FUNDING

Our state's dramatic tourism growth since 1988 is directly tied to the Montana Legislature's creation, in 1987, of a dedicated accommodations tax. Montana funds its travel and tourism marketing programs solely from this source, **with no dollars from the general fund**. The accommodations tax is allocated as shown below.

Projected Accommodations Tax

Revenues FY '93 \$7,500,000

Department of Revenue – 3%

(Tax collection & return of tax paid by state employees) \$225,000

University System – 2.5%

(Tourism & Recreation Research) ... \$187,500

Historical Society – 1%

(Historical Sites and Signage) \$75,000

Department of Commerce

(Regions/CVBs and Travel

Montana) \$7,012,500

Department of Commerce

FY '93 Budget

Regions/CVBs (25%) \$1,753,125

Travel Montana (75%) \$5,259,375

Total \$7,012,500

The existence of this funding, and the valuable promotional efforts it has allowed, are essential to maintaining and increasing tourism growth into the future, with widespread economic benefits to all Montanans.

EXHIBIT

2

DATE

2-15-93

KEY

INDUSTRY

ISSUES

These key issues are recognized by Travel Montana as vital to the continued success of the Montana tourism industry and are summarized for the **Five-Year Marketing Plan** as reference for the development of appropriate marketing objectives.

1 ***TOURISM GROWTH, RESOURCE PROTECTION AND QUALITY OF LIFE***

The desire to continue tourism development and tourism promotion is widespread within the industry, as tourism offers considerable economic benefit. At the same time, the **Industry Strategic Plan** encourages development which is balanced by protection of Montana's natural, historical and cultural resources, as well as the quality of life enjoyed by Montanans.

2 ***IMPACT AND BENEFITS OF TOURISM***

The success of the tourism industry in Montana has created some problems and challenges in managing visitor capacity in heavily traveled parts of the state during the peak summer season.

This suggests both a need and an opportunity to diversify seasonal and geographical visitor patterns through development and promotion efforts focused on the shoulder seasons, winter vacations, historical and Native American tourism, or less traveled areas of the state.

3 ***TOURISM INFRASTRUCTURE AND VISITOR SATISFACTION***

Within the tourism industry there is notable awareness of the need to maintain and develop Montana's tourism infrastructure. It is important to ensuring visitor satisfaction, and also benefits Montana residents by enhancing the quality of their own in-state travel experiences. This issue demands strong focus within Travel Montana's coordination efforts with other groups in the industry.

EXHIBIT 2
DATE 2-15-93

DEPARTMENT OF COMMERCE
Program Summary

Montana Promotion Division

EXHIBIT #3

DATE 2-15-93

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	17.33	17.33	16.33	17.33	(1.00)	16.33	17.33	(1.00)
Personal Services	568,066	515,926	541,667	562,014	(20,347)	543,189	563,586	(20,397)
Operating Expenses	3,658,526	3,732,314	5,054,920	3,743,814	1,311,106	5,209,978	3,735,828	1,474,150
Equipment	5,605	1,000	0	17,562	(17,562)	0	17,562	(17,562)
Local Assistance	1,267,652	1,920,088	1,968,750	1,795,566	173,184	2,067,187	1,867,776	199,411
Debt Service	554	0	0	0	0	0	0	0
Total Costs	\$5,500,404	\$6,169,328	\$7,565,337	\$6,118,956	\$1,446,381	\$7,820,354	\$6,184,752	\$1,635,602
Fund Sources								
State Revenue Fund	5,500,404	6,169,328	7,565,337	6,118,956	1,446,381	7,820,354	6,184,752	1,635,602
Total Funds	\$5,500,404	\$6,169,328	\$7,565,337	\$6,118,956	\$1,446,381	\$7,820,354	\$6,184,752	\$1,635,602

Page References

LFA Budget Analysis (Vol II), pp C134-135
 Stephens Executive Budget, p C 51

Current Level Differences

Jergensen approved # 5203 FTE
5 Percent Personal Service Reduction - The Executive Budget reflects elimination of 1.0 FTE to comply with Section 13 of House Bill 2.

Contracted Services - The Executive Budget includes \$103,456 more for contracted services than LFA current level: 1) approximately \$60,000 for consultant services; 2) \$37,052 for promotional aids, and 3) \$5,536 for contracts with non-profits. *meeting passed*

National Advertising - The Executive Budget contains \$2,672,046 more for national advertising than LFA current level. The Executive Budget reflects continuation of fiscal 1992 expenditures from the statutory appropriation of accommodations tax revenue. LFA current level reflects fiscal 1992 expenditures from House Bill 2 appropriated funds. *Johann passed*

Equipment - The Executive Budget contains \$35,124 less for equipment than LFA current level which reflects average annual equipment expenditures. *Wisconsin Ave*

Local Assistance - The Executive Budget includes \$372,595 more local assistance than the LFA current level. The department is required to distribute 25 percent of its accommodations tax allocation to regional nonprofit tourism groups. LFA budgets these pass-through funds at 25 percent of the Revenue Oversight Committee's estimate of DOC's accommodations tax allocation. *Johann passed*

Minor Differences *Wegman*

TOTAL CURRENT LEVEL DIFFERENCESBudget Modifications

Montana Promotions FTE - Two temporary FTE were added to the program in fiscal 1992. The Executive Budget includes this modification to continue these 2.0 FTE in the 1995 biennium with accommodations tax funding. *5209 Jergensen passed*

Language and Other Issues

Vacant Positions - The joint House Appropriations and Senate Finance and Claims committee eliminated 1.0 FTE that was vacant as of the 12-29-92 snapshot *accom tax at 25*

Excc. Over(Under) LFA
 Fiscal 1994 Fiscal 1995

(20,347) (20,397)

40,517 62,939

1,265,739 1,406,307

Exec
(17,562) (17,562)

173,184 199,411

4,850 4,904

1,446,381 1,635,602

40,752 40,800

(33,917) (33,949)

Montana Promotion Division

Positions Removed by Joint Committee Action
House Appropriations & Senate Finance and Claims
January 6, 1993

Position #		Position Description	Total Personal Services		FTE Removed By		Total FTE Removed	Non-Approp. FTE
			Fiscal 1994	Fiscal 1995	5% Reduction	Being Vacant		
All or Partial General Fund Positions								
None								
Sub-Total			0	0	0.00	0.00	0.00	0.00
Non-General Fund Positions								
5203	Promotion Assistant	Greyfox	20,347	20,347	removed	1.00	1.00	
5209	Promotion Officer	Degean	33,917	33,949		1.00	1.00	
Sub-Total			54,264	54,296	1.00	1.00	2.00	0.00
TOTAL			54,264	54,296	1.00	1.00	2.00	0.00

EXHIBIT 3
DATE 2-15-93

HORSE RACING BUREAU

The Horse Racing Bureau is responsible for the overall regulation of the parimutuel horse racing industry within the State of Montana. Through this regulation, the integrity of the industry which the industry itself requires and the wagering public demands is insured.

Of specific concern to the Bureau is the day to day regulation of 8 live race tracks totaling 90-100 racing days and 8 simulcast network sites located statewide offering approximately 150 days of simulcast wagering.

The Bureau is charged with the responsibility of licensing and determine licensure of 66 occupational categories which translates into 3000 licenses issued annually.

The Bureau employs the equivalent of 3.78 FTE's.

In 1992 the Bureau was responsible for insuring the correct distribution of \$6.5 million wagered live on track and \$3.7 million wagered through simulcast. The Bureau is responsible for adoption, administration, and enforcement of all racing rules including but not limited to licensing, permissible medication and drug testing, auditing, supervision and investigations pertaining to all parimutuel racing.

The Bureau is funded by a state special revenue fund tax (1% of parimutuel handle). Its other revenue sources include, medication fees,, fines imposed and sale of annual licenses.

Since 1988, horse racing in Montana has experienced significant decreases in revenue based on dollars wagered. Horse racing revenues statewide have steadily decreased as the video gaming and lottery industries have expanded their operations.

Estimates of a 20% reduction in total race track handles due to other forms of legalized gambling and increase costs of workers compensation are thought to be accurate. Since the major form of revenue (track handles) has decreased, numerous cost cutting measures must be and has been employed by the Bureau to insure that bottom lines will balance at year end. There is however a limit to what may be eliminated and still continue to have a viable regulatory program.

When budgets for 92 and 93 were adopted there was optimism that simulcast wagering would supplement on track handles to the point that revenues would exceed expenses. However, what was not factored into this equation was the continued growth in gambling, which has further affected the direction which the gambling dollar has gone. However, some reasons for optimism in the resurrection for the industry exists, while on track handles continue to lag, they are beginning to stabilize, simulcast revenues continue to increase yearly and this is encouraging.


The origination of the Budweiser \$100,000 Stakes race has created interest in the Breeding and ownership once again of Thoroughbred horses. The restructuring of the Montana Thoroughbred Breeders organization and their creation of the Montana Cup Championship racing series should once again create interest in breeding, owning and racing Montana Bred horses.


The horse racing industry itself (breeders, track management, owners and trainers) is well aware of the financial problems with which it is faced. Increased emphasis on creating a new fan base and increased family promotions are just a few of the new concepts which the industry is sponsoring to help resurrect its lagging revenues.

Hopefully, with all of these measures being taken throughout the industry, the future holds promise for the survival of parimutuel horse racing in Montana.

EXHIBIT 4
DATE 2-15-93

COMPARISON OF HORSE RACING AND VIDEO GAMING 1987 - 1992

HORSE RACING (calendar years) 

GAMBLING (FISCAL YEARS) 

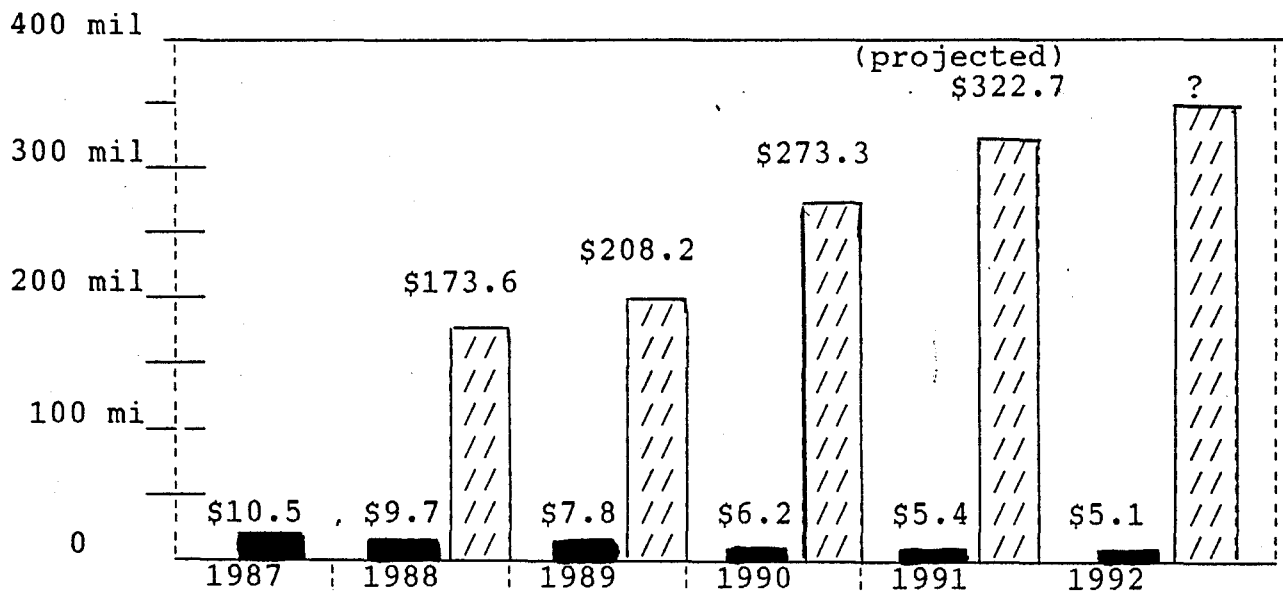


EXHIBIT 4
DATE 2-15-93

6501 78 00000 DEPARTMENT OF COMMERCE Program Summary		Board Of Horse Racing						
Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	4.78	4.78	3.78	4.78	(1.00)	3.78	4.78	(1.00)
Personal Services	96,787	119,744	114,973	134,482	(19,509)	115,095	134,626	(19,531)
Operating Expenses	91,037	194,921	124,128	95,581	28,547	124,498	95,980	28,518
Equipment	0	2,000	2,000	2,000	0	2,000	2,000	0
Total Costs	\$187,825	\$316,665	\$241,101	\$232,063	\$9,038	\$241,593	\$232,606	\$8,987
<u>Fund Sources</u>								
State Revenue Fund	187,825	316,665	241,101	232,063	9,038	241,593	232,606	8,987
Total Funds	\$187,825	\$316,665	\$241,101	\$232,063	\$9,038	\$241,593	\$232,606	\$8,987

Page References

LFA Budget Analysis (vol II), p C 153
Stephens Executive Budget, p C 65

Current Level Differences

5 Percent Personal Services Reduction - The Executive Budget reflects the elimination of 1.0 FTE to comply with Section 13 of House Bill 2. *Weedmy passed*

State Veterinarian - The Executive Budget includes funds to hire a state veterinarian for horse races. Current veterinarians are paid by race tracks. LFA current level does not include funds for the state veterinarian. *Revised passed*

Computer Maintenance - The Executive Budget includes \$1,200 more than LFA current level for computer maintenance contracts. *revised passed*

Indirect Charges - The Executive Budget includes \$1,916 more than LFA current level for indirect charges for management Services/Directors office support.

Minor Differences *weedmy passed*

TOTAL CURRENT LEVEL DIFFERENCES

Budget Modifications

Language

Exec. Over(Under) LFA
Fiscal 1994 Fiscal 1995

(19,509) (19,531)

27,503 27,503

600 600

964 952

(520) (537)

9,038 8,987

Draft Copy

Printed 9:43 am on December 24, 1992

EXHIBIT 6
DATE 2-15-93
HB _____

LC0768

**** Bill No. ****

Introduced By *****

HB 101

By Request of the department of commerce

A Bill for an Act entitled: "An Act generally revising the laws of banking; reducing the time between bank inspections; authorizing the acceptance of federal reports in lieu of examinations; clarifying the purpose of the banking laws; providing state banking personnel with immunity from suit; applying general corporate law to the formation and reorganization of banks; excluding repurchase agreements from the ceiling on borrowing; revising bank investments; removing the limit on safe deposit functions; revising reserve requirements; revising dissolution, closing, and liquidation procedures; statutorily appropriating unclaimed funds for the payment of claims; amending sections 2-18-103, 17-7-502, 32-1-101, 32-1-109, 32-1-211, 32-1-218, 32-1-234, 32-1-301, 32-1-302, 32-1-307, 32-1-308, 32-1-322, 32-1-325, 32-1-339, 32-1-340, 32-1-361, 32-1-374.

This exhibit is 64 pages long. The original is stored at the Historical Society at 225 North Roberts Street, Helena, MT 59620-1201. The phone number is 444-2694.

MONTANA STATE BANKING CODE ADVISORY COUNCIL HB

BACKGROUND

Montana state chartered banks and trust companies are chartered and regulated by the Financial Division of the Montana Department of Commerce. The Division currently regulates 86 banks and 3 trust companies with total assets approaching 4 billion dollars. The Commissioner of Financial Institutions is the Administrator of the Financial Division.

The bulk of Montana's banking laws (the Bank Act, Title 32, Chapter 1, MCA) were written in 1927. Many of the banking laws have been amended one or more times since then, in an attempt to keep pace with changes in the banking industry and public needs. However, no comprehensive review of banking law appears to have taken place since 1927. Amendments to existing laws occasionally have created conflicts or inconsistencies with other laws. Certain laws which are dealt with only infrequently may not have been amended or updated and address archaic concepts. Coupled with very rapid changes in federal laws, and changes in other pertinent state laws (especially the Uniform Commercial Code and the corporate code) it has become increasingly difficult for banks, regulators and the legal system to confidently and effectively deal with the Bank Act.

In response to this situation, Governor Stephens issued Executive Order 34-91 on December 3, 1991, creating the Montana State Banking Code Advisory Council. The Council was created for "...identifying outdated language and requirements as well as omissions or conflicts in statute that are not conducive to the proper supervision of state banks." Issues to be addressed, at a minimum, included:

"(a) Ensuring the powers and duties of the Commissioner of Financial Institutions are clearly set forth in the Banking Code.

(b) Defining a comprehensive mission and purpose for the Financial Division as it relates to the regulation and supervision of state banking institutions.

(c) Ensuring that the Commissioner of Financial Institutions is involved in the legislative process with the responsibility for drafting legislation and determining the impact on the public, the banking community and the Financial Division.

(d) Ensuring that statutory authority is developed to address the areas where supervision is now lacking but deemed necessary for the proper supervision of state banks, including the examination of holding companies, electronic data processing and community reinvestment requirements, etc."

The members of the Council agreed not to address interstate banking, interstate branching or intrastate branching.

The Council is composed of 18 members: 6 from the banking industry, 2 attorneys representing both of the state's banking associations, 2 accountants, 1 member of the State Banking Board, 2 private citizens, the Commissioner of Financial Institutions, the attorney for the Financial Division, the Director of the Department of Commerce, a member of the Montana Senate, and a member of the Montana House of Representatives.

The recommendations of the Council have been reported to and reviewed by the Financial Division of the Department of Commerce, the State Banking Board and are in the process of being reviewed by a committee of the State Bar Association. The report has been submitted to the Governor's Office and to the Legislative Council for drafting.

RECOMMENDATIONS OF THE COUNCIL

Most of the recommendations made by the Council are of a "house-keeping" nature: modernizing language, clarifying duties and responsibilities, eliminating sections of law that clearly are obsolete, and correcting conflicts with other laws. Significant real changes affecting the operation of banks or the Financial Division include:

<u>Section</u>	<u>Change</u>
----------------	---------------

- | | |
|----------|---|
| 32-1-211 | Reduces from 30 months to 24 months the time allowed between bank examinations by the Financial Division. Also reduces from 120 days to 60 days the time allowed for submitting the completed examination report to the bank. |
| 32-1-218 | Broadens the Financial Division's rulemaking authority to better meet its responsibilities and obligations. |
| 32-1-3xx | This Part of the law generally governs the formation and organization of the banking <u>corporation</u> . Wherever reasonable and prudent, general corporation law will be incorporated into this Part. A number of existing sections will be deleted. The intent is to modernize and standardize bank's corporate matters. |
| 32-1-412 | Increases, to a certain extent, the ability of banks to borrow money to accommodate the use of repurchase agreements, which possess characteristics of both deposits and borrowings; and to allow participation in certain federal housing programs. |
| 32-1-422 | Gives the Financial Division rulemaking authority to permit bank investments in certain types of corporate stock. |

32-1-432 Addresses long-time problems and misunderstandings of legal lending limits to borrowers.

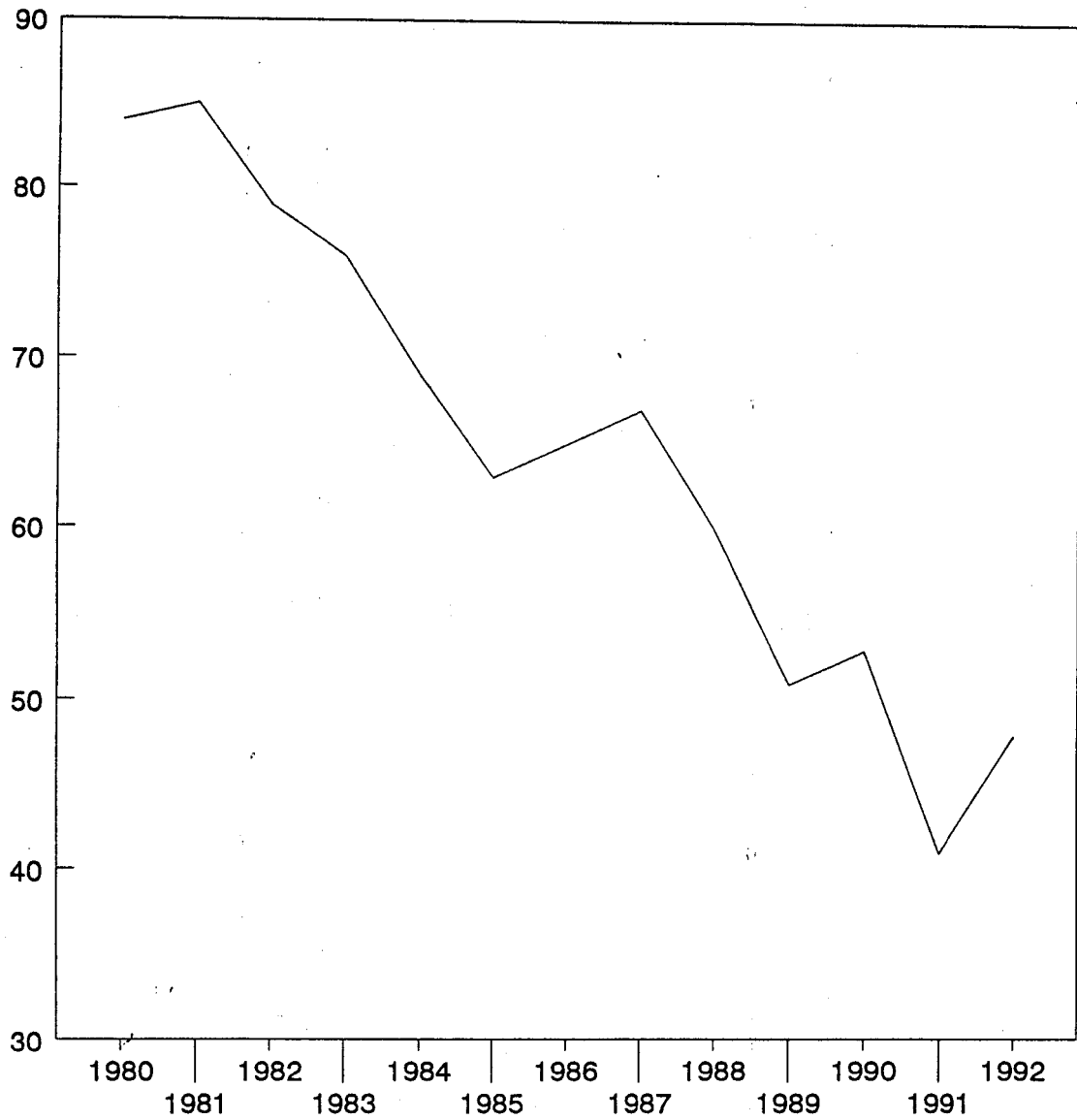
32-1-465 &

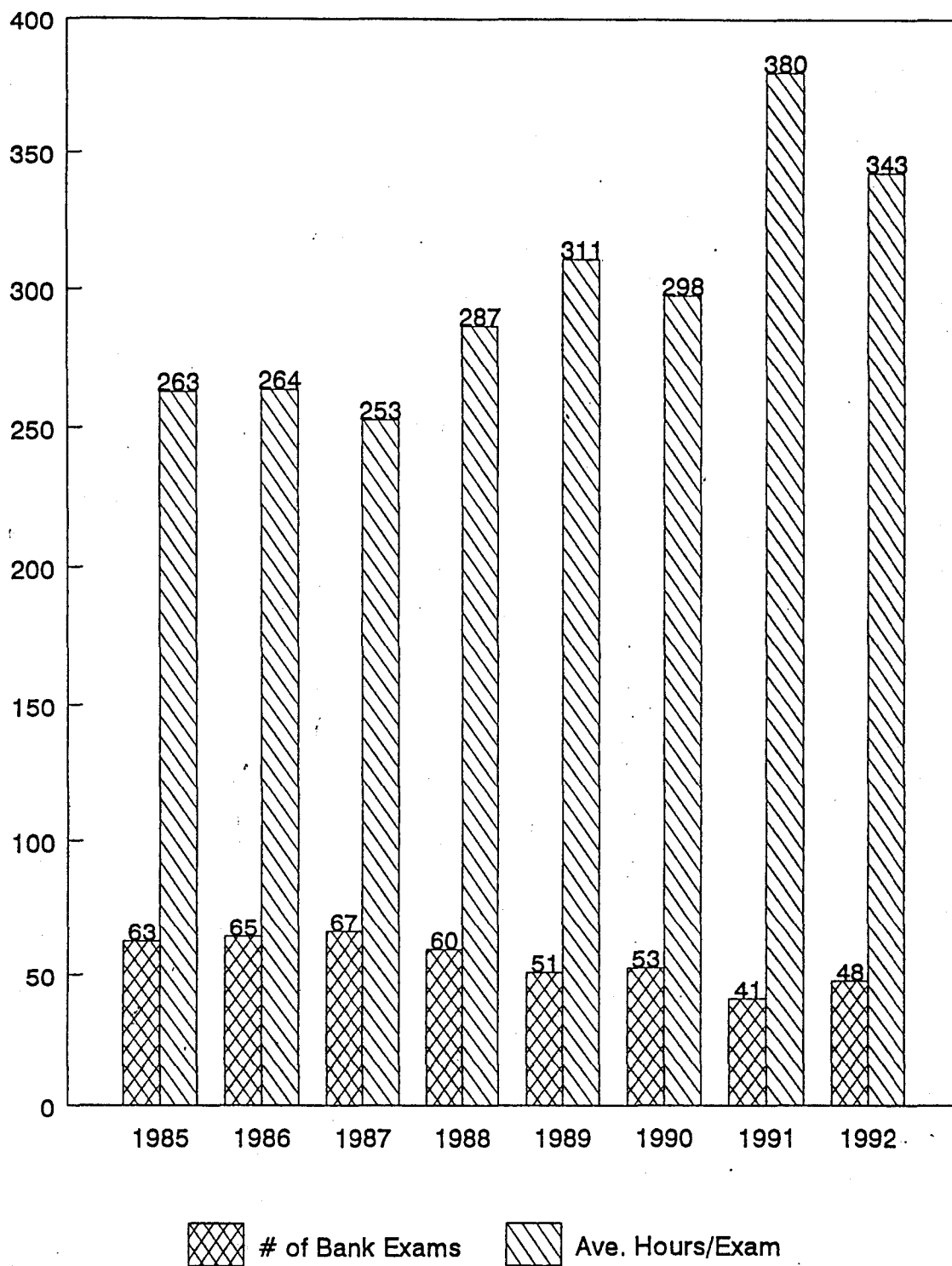
32-1-467 Reduces restrictions on bank officer, director and employee overdrafts and loans to directors or a bank's managing officer. Brings state law into conformance with existing federal law.

In addition to the legal recommendations, the Council also recognized staff retention problems within the Financial Division and recommended increasing bank examiner salaries and using certain incentives in an attempt to retain experienced examiners.

EXHIBIT 7
DATE 2-15-93

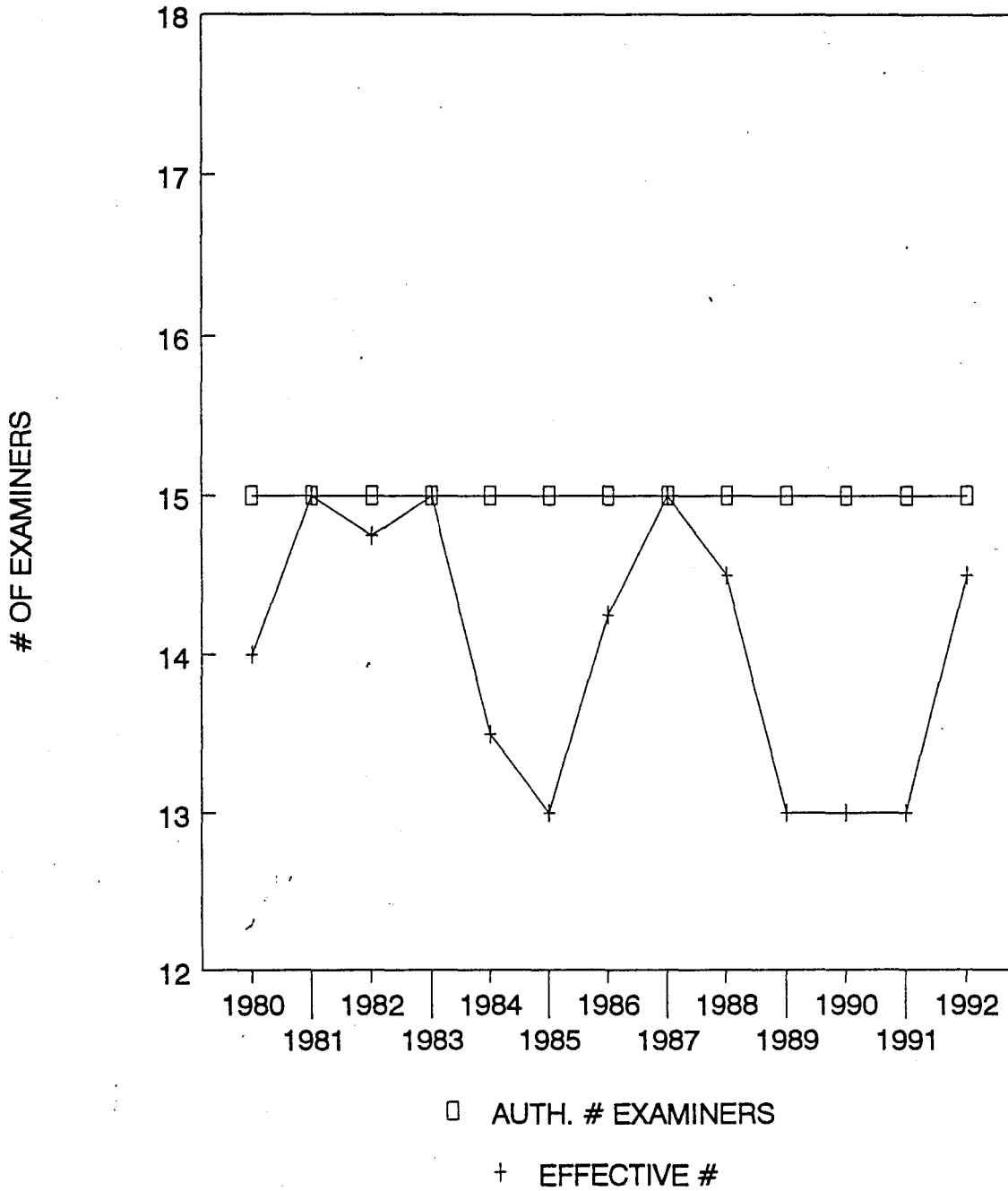
NUMBER OF EXAMINATIONS PER YEAR



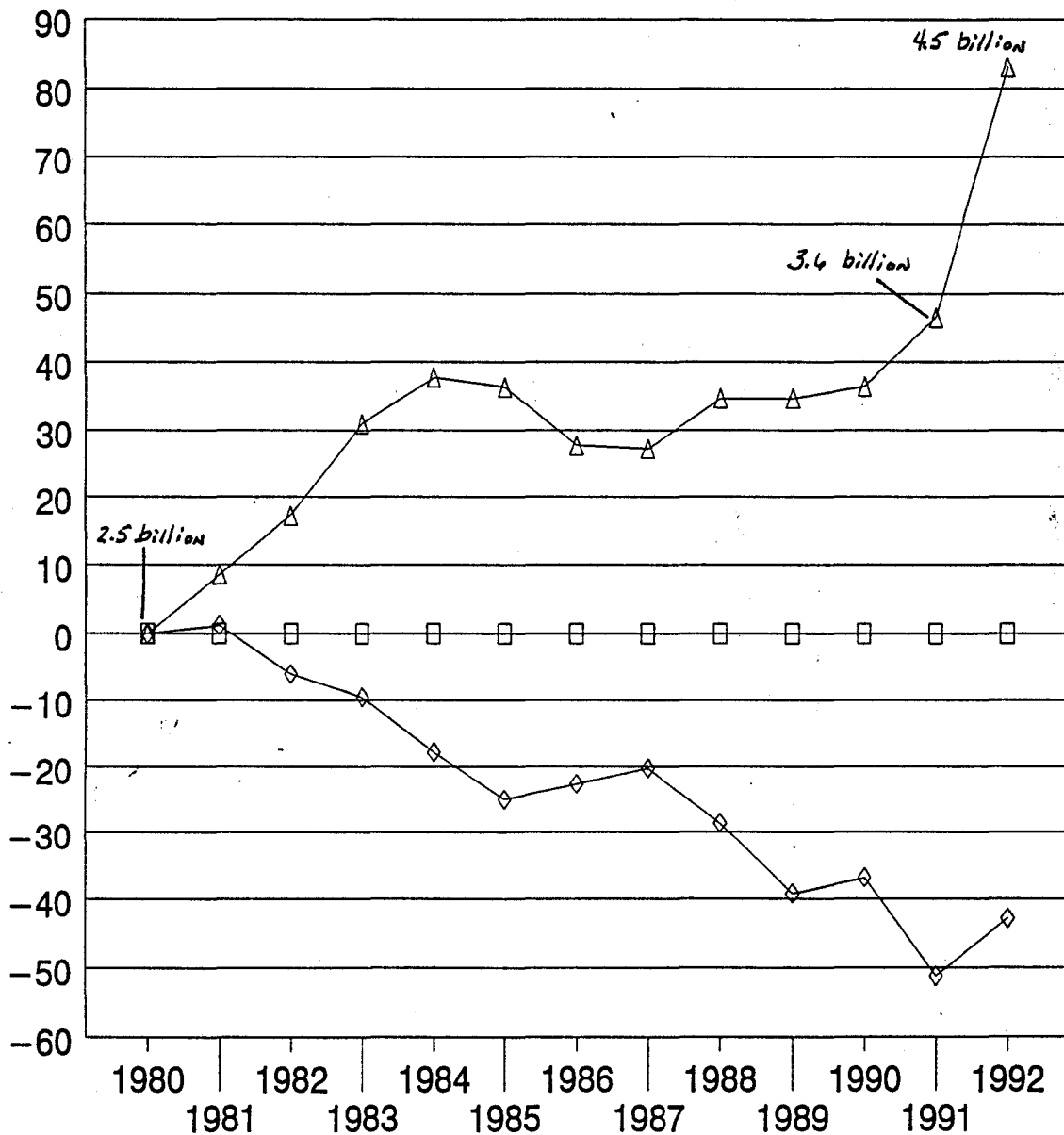


EFFECTS OF TURNOVER ON

EFFECTIVE STAFF SIZE



PERCENTAGE CHANGES SINCE 1980



□ Auth. # Examiners

◇ Number of Exams △ Supervised Assets

15-Staff

BANKING CODE ADVISORY COUNCILRECOMMENDATION ON BANK EXAMINER PAY

The history of employing financial institution examiners within the Department of Commerce has been one of frustration and inefficiency. The Financial Division has been able to advertise for and employ entry level examiners with little difficulty. The entry level examiners are usually hired upon graduation in accounting from an accredited university or college. The degree they received in college is basically the minimum qualification required to enter a training period to become a qualified financial institution examiner. After employment, the division will spend over \$5,000 in direct training costs for schools administered by the Federal Deposit Insurance Corporation (FDIC) and the Council of State Bank Supervisors (CSBS). Additional funds will be spent on travel, meals and lodging. In addition, this training period greatly reduces the examiner-in-training's ability to perform useful examination work for the division and the financial institutions being examined.

Following this initial training period, examiners spend several years performing progressively responsible duties in the examination process. Ultimately, a seasoned examiner earns the title of "Examiner-in-Charge" and is responsible for the supervision of other examiners while performing an examination of a financial institution. Unfortunately, once the examiners have been educated by the state, their worth in the market place is such that the state can no longer afford to employ these individuals. The tenure with the department is typically 2.5 years which is well before the department receives a return on the training investment cost which has already been committed.

Employees of the Financial Division have opportunities for employment with surrounding states and with federal agencies which include the Federal Reserve Bank of Helena, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the National Credit Union Administration. The comparatively low salaries for examiners working for the State of Montana creates a situation where the state is in many instances a training program for other states, federal agencies, and private financial institutions. This diminishes the quality, effectiveness and timing of the Financial Division in performing its statutorily mandated examination responsibility to financial institutions. It also adversely affects those financial institutions who pay annual fees to the state for examinations.

Since January of 1988, the Financial Division has hired 17 permanent, full-time examiners to fill the 15 legislatively authorized examination positions. Of these 17 new hires, 10 remain with the division but 7 of those have been employed for less than one year. Only two of the existing examiners have been employed with the Financial Division since 1989. This turnover is thought to occur because of two main factors -- travel demands in the job and comparatively low pay for higher level examiners. These two factors combined result in the loss of virtually every new employee hired within the first two and one-half years. These employees leave just at the time they have received sufficient education and experience provided by the state to independently perform the examinations.

Because of the turnover in 1991, the Division attempted to hire two experienced examiners. An advertisement was placed in a trade newsletter that goes directly to the homes of more than 400 examiners and also to every banking department in the U.S. No inquiries were received by the Financial Division as a result of this advertisement and it is assumed that the comparatively low pay for experienced examiners was the reason. The attached schedule compares Montana bank examiner salaries with the average of those paid by other employers in the region. Entry level examiner positions are similar in pay while more experienced examiners in the grade 15 and 16 level are paid substantially less by the State of Montana.

GRADE 14 PAY COMPARISON TO PEER GROUP

EMPLOYER:	MINIMUM	MIDRANGE	MAXIMUM
Montana - 1992	\$23,587	\$28,627	\$34,740
Peer Group Average	\$25,305	\$30,269	\$35,656
Difference	-\$1,718	-\$1,642	-\$ 916

Note: The peer group compared in the analysis consists of the states of North Dakota, South Dakota, Wyoming, Idaho, National Credit Union Association, Office of the Comptroller of the Currency, Federal Reserve Board, and the Federal Deposit Insurance Corporation. All of the peer group federal agencies use salary figures for Montana assigned employees.

GRADE 15 PAY COMPARISON TO PEER GROUP

EMPLOYER:	MINIMUM	MIDRANGE	MAXIMUM
Montana - 1992	\$25,694	\$31,258	\$38,026
Peer Group Average	\$29,799	\$37,369	\$46,803
Difference	-\$4,105	-\$6,111	-\$8,777

See Note on previous page

GRADE 16 PAY COMPARISON TO PEER GROUP

EMPLOYER:	MINIMUM	MIDRANGE	MAXIMUM
Montana - 1992	\$28,044	\$34,199	\$41,706
Peer Group Average	\$39,323	\$46,994	\$55,429
Difference	-\$11,279	-\$12,795	-\$13,723

See Note on previous page

RECOMMENDATION:

It is the recommendation of the Governor's Banking Code Advisory Council that management within the Department of Commerce be given the discretion to;

- a) increase the salaries of bank examiners up to the peer group average in accordance with state policy and law;
- b) maximize incentives for experienced examiners through salary, recognition, and increasingly responsible supervisory and examination responsibilities.
- c) the State Banking Board shall periodically review salary information and establish the current group average.

A. PROGRAM OVERVIEW (Statutes & Objectives)

Mission

The mission of Montana's Financial Institutions Division and the State Banking Board is to allocate, through quality management, available resources to implement effective regulatory programs for the institutions we regulate. Our primary focus is to ensure the continuance of safe and sound financial practices in state chartered banks. It follows that the financial services offered by these sound institutions should foster economic growth, and meet the public demand for these financial services in their communities. To accomplish this mission, the division and board are committed to the development of a work environment conducive to high productivity.

Responsibilities

The division accomplishes its responsibilities through several information gathering sources. However, the principal method is the periodic examination of each state chartered institution by field examiners. The result of an examination is a detailed analysis of an institution's condition. The examiner analyzes the capabilities of officers and directors; adequacy of the bank's policies, capital, earnings and liquidity; the quality of assets, asset/liability mix; and compliance with laws and regulations. The examination may indicate conditions ranging from banks with no problems, ones with potential problems, or to ones with severe and continuing problems. While the majority of Montana banks are financially sound, some do develop problems. Problems frequently encountered are large volumes of poor quality assets (usually loans), that become uncollectible and are a loss to the bank, poor earnings, an unstable or declining deposit base, inadequate capital or liquidity and internal control problems.

"Problem banks" usually exhibit an array of problem areas rather than one specific problem area. The early detection of problems within a bank enables the division to concentrate its resources most effectively to control or eliminate problems. In extreme cases the Commissioner has legal authority to initiate formal or informal actions such as board resolutions, memorandums of understanding, or cease and desist orders. These documents specify the banks problems, require corrective actions, and allow reasonable time for correction.

Institutions regulated and examined by the division include 127 state chartered banks and branches, 3 trust companies, 16 credit unions, 20 consumer loan companies, 86 sales finance companies and 5 private escrow companies. We presently have an authorized staff of 13 field examiners, 2 examiner supervisors, and an office staff of 5. The institutions regulated and examined by the division range from small and relatively uncomplicated institutions with assets of only a few million dollars, to large and highly sophisticated banks with assets in the 5 to 7 hundred million dollar range.

The division's authority to regulate banks extends only to state chartered banks. National banks are regulated by the Comptroller of the Currency. State chartered banks are composed of two groups, those which are members of the Federal Reserve System and those which are not. Membership in the Federal Reserve System is a

matter of choice for each state chartered bank. Member banks, in addition to state regulation and examination, are also subject to regulation and examination by the Federal Reserve System. Non-member banks are subject to examination by the FDIC and this division. The division may examine a bank independently or may be joined by examiners from the Federal Reserve or FDIC for a concurrent examination.

Authorization

Title 2-15-1803, MCA	Establishes the State Banking Board
Title 31-1-221-222, MCA	Licensing of sales finance companies
Title 32-1-202, MCA	Duties of State Banking Board
Title 32-1-211, MCA	Examination and supervision of banks and trust companies
Title 32-2-205, MCA	Chartering savings & loan associations
Title 32-2-301, MCA	Examination of savings & loan associations
Title 32-3-301, MCA	Chartering credit unions
Title 32-3-203, MCA	Examination of credit unions
Title 32-4-306, MCA	Examination of Development Corporations
Title 32-5-201, MCA	Licensing of consumer loan companies
Title 32-5-403, MCA	Examination of consumer loan companies
Title 32-7-109, MCA	Licensing of escrow companies
Title 32-7-108, MCA	Examination of escrow companies
Title 72-27-203, MCA	Reports on prearranged funeral plans
U.S.C. Sec.10 FDÍ Act	FDIC Improvement Act requires less time between examinations

EXHIBIT 10
DATE 2-15-93

6501 36 00000 DEPARTMENT OF COMMERCE Program Summary		Financial Division						
Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	20.25	20.00	20.25	20.25	0.00	20.25	20.25	0.00
Personal Services	605,545	655,951	675,231	675,235	(4)	676,587	676,592	(5)
Operating Expenses	234,559	232,934	269,850	235,414	34,436	288,877	248,110	40,767
Equipment	22,386	4,000	21,300	22,680	(1,380)	21,300	22,723	(1,423)
Total Costs	\$862,491	\$892,885	\$966,381	\$933,329	\$33,052	\$986,764	\$947,425	\$39,339
<u>Fund Sources</u>								
State Revenue Fund	862,491	892,885	966,381	933,329	33,052	986,764	947,425	39,339
Total Funds	\$862,491	\$892,885	\$966,381	\$933,329	\$33,052	\$986,764	\$947,425	\$39,339

Page References

LFA Budget Analysis (Vol II), p C127
Stephens Executive Budget, p C47

Current Level Differences

Travel—The Executive Budget includes \$44,296 more for travel than the LFA current level. LFA continues fiscal 1992 expenditures, while the executive budgets for travel of 2.0 FTE more than reflected in fiscal 1992.

Rent—The Executive Budget includes a 135 percent increase in rent for an anticipated move. LFA continues fiscal 1992 expenditures.

Computer Maintenance—The Executive Budget includes \$6,246 more than LFA current level for computer maintenance.

Indirect Charges—The Executive Budget includes 11,591 more than LFA current level for indirect charges for Management Services/Directors office support.

Equipment—The Executive Budget includes \$2,803 less for equipment than LFA current level.

Minor Differences

TOTAL CURRENT LEVEL DIFFERENCES

Budget Modifications

Banking Code Revision—The Executive Budget includes this modification to fund an anticipated workload increase related to conversion of national bank charters to state bank charters. The modification would add 6.0 FTE each year and would be funded from service fees assessed state financial insititutions.

Language and Other Issues

Vacant Positions—The joint House Appropriations and Senate Finance and Claims committees eliminated 1.0 FTE vacant as of the 12-29-93 snapshot.

Exec. Over(Under) LFA	
Fiscal 1994	Fiscal 1995
19,611	24,685
(4,800)	(4,800)
(3,368)	(3,368)
5,804	(5,804)
(1,380)	(1,423)
849	2,105
33,052	39,339
256,707	(241,784)
(26,961)	(26,987)

Financial Division

Positions Removed by Joint Committee Action
House Appropriations & Senate Finance and Claims
January 6, 1993

Position #		Position Description	Total Personal Services		FTE Removed By		Total FTE Removed	Non-Approp. FTE
			Fiscal 1994	Fiscal 1995	5% Reduction	Being Vacant		
All or Partial General Fund Positions								
None							0.00	
Sub-Total			0	0	0.00	0.00	0.00	0.00
Non-General Fund Positions								
3610 7072 Administrative Aide II			26,961	26,987	1.00	1.0	1.00	
Sub-Total			26,961	26,987	1.00	1.00	1.00	0.00
TOTAL			26,961	26,987	1.00	1.00	1.00	0.00

EXHIBIT 11
DATE 2-15-93

HOUSE OF REPRESENTATIVES
VISITOR'S REGISTER

NATURAL RESOURCES SUB-COMMITTEE

BILL NO. _____

DATE 2-15-93 ~~SPONSOR~~ (S) _____

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PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
ANDY POOLE	Commerce	X	
Jon Noel	"	X	

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