

## **MINUTES**

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

#### **JOINT SUBCOMMITTEE ON LONG-RANGE PLANNING**

**Call to Order:** By Rep. Ernest Bergsagel, Chairman, on February 16, 1993, at 8:00 AM.

#### **ROLL CALL**

**Members Present:**

Rep. Ernest Bergsagel, Chair (R)  
Sen. Bob Hockett, Vice Chair (D)  
Rep. Francis Bardanouve (D)  
Sen. Ethel Harding (R)  
Sen. Eleanor Vaughn (D)  
Rep. Tom Zook (R)

**Members Excused:** None

**Members Absent:** None

**Staff Present:** Jim Haubein, Legislative Fiscal Analyst  
Jane Hamman, Office of Budget & Program Planning  
Sandra Boggs, Committee Secretary

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

**Committee Business Summary:**

Hearing: DEPARTMENT OF ADMINISTRATION; AND  
UNIVERSITY SYSTEM  
Executive Action: DEPARTMENT OF ADMINISTRATION

#### **ANNOUNCEMENTS/DISCUSSION**

**CHAIRMAN ERNEST BERGSAGEL** stated that DNRC is unclear if the committee intended for the North Toole County Oil Field Reclamation project to be fully funded at \$294,284 and require additional funds of \$25,000 in match, or if the committee meant for the \$294,284 appropriation to be reduced by \$25,000.

**REP. FRANCIS BARDANOUVE** stated that it was his intent the appropriation would be reduced by \$25,000 and require the sponsor to raise the \$25,000 as a match.

**CHAIRMAN BERGSAGEL** stated that he has received three committee bills: 1) changing the construction limit to \$50,000; 2) Arts Council; and, 3) inmate labor.

HEARING ON DEPARTMENT OF ADMINISTRATION

Tape No. 1:A:075

BUDGET ITEM #21 SOCIAL AND REHABILITATION SERVICES COMMODITIES  
WAREHOUSE:

Tape No. 1:A:075

Informational Testimony: Debra Fulton, Administrator, General Services Division, Department of Administration, presented information to the committee on the operational costs of a new building, and the debt repayment schedule for bonds. **EXHIBIT 1.**

Questions, Responses, and Discussion: REP. BARDANOUVE asked if an increase in general funds to SRS would be required as a result of this project. Ms. Fulton replied there would not be an increase in appropriations from the General Fund.

SEN. BOB HOCKETT stated that he has visited the warehouse and thought that an enlarged freezer was necessary. The current freezer is jammed full and is terrible to work in. The roof was leaking in numerous places as well. He believes this is a good project.

HEARING ON UNIVERSITY SYSTEM

Tape No. 1:A:235

BUDGET ITEM COGENERATION SYSTEM:

Tape No. 1:A:239

Bill Rose, Director, Facilities, Montana State University, presented information on a proposed Cogeneration System at MSU. **EXHIBITS 2 and 3.** He presented an amendment to the committee requesting authorization to replace, instead of repair, the existing heating system at MSU. The amendment will reallocate previously authorized funds to the Improve Steam and Condensate Lines - MSU project in HB 5. **EXHIBIT 4.**

Questions, Responses, and Discussion: REP. BARDANOUVE asked if all the money would be lost if the project does not work. Mr. Rose stated that this project will not be executed in the traditional way. The developer will build the plant and if, for some reason, no electricity is produced, the university does not have to pay for or accept the project. This is typical of the way cogeneration projects are implemented. The university wants to hold onto the \$865,000 previously authorized for repairs because if this project does not work, that money will be spent on the repairs that will still be needed. The technology exists for this type of steam generation.

Proponent's Testimony: Mike Liebleson, L.S. Power Corp., stated that his company has built cogeneration plants that are typically larger than the one necessary for MSU. He is confident that there are low risks associated with this project. The cost per kilowatt is not known at this time, but he can provide that information to

the committee at a later date. He estimates the cost is probably in the \$.03/kilowatt range. This system of steam generation operates at a 95% efficiency rate as compared to the 80% efficiency rate of the current system.

Tape 1:B:043

**Jim Isch, Vice-President, Montana State University**, spoke on the financial aspects of this project. Four assumptions have been made in regards to this project: 1) cost of the retrofit; 2) a 7% interest rate; 3) commodity costs; and, 4) legislative continuation of current utility appropriations. One option to finance the project is to go out on the open market. Conversations have been held with various underwriters who feel this project is a viable one. There have been conversations with federal agencies about the possibility of a direct purchase. The federal Sallie Mae program purchases debt, and has looked at assuming this debt. The people involved in the finances of the project believe it will not be a problem to issue debt for this project. He assured the committee that the project will be done within available resources or it will not be done. That is why MSU would like to have the assurance that if the project fails, funds will still be available to repair existing boilers.

**Questions, Responses, and Discussion:** **REP. BARDANOUE** asked when the interest would begin to accrue. **Mr. Isch** stated that interest will accrue when the project begins, he believes within the year. It is to MSU's advantage to begin interest payments right away.

**CHAIRMAN BERGSAGEL** asked why Sallie Mae funds would be involved in state-issued and state-assumed debt of \$5.5 Million. **Mr. Isch** replied that the bonds would not be sold on the open market, they would be directly placed with Sallie Mae funds. This cuts issuance costs. He stated that MSU wants the authority to work with the Department of Administration's Architectural and Engineering Division to look for the best way to issue the debt.

**SEN. ETHEL HARDING** commented that MSU predicts a savings of \$500,000 per year in utilities with this project. She asked how much their annual utility budget is currently. **Mr. Isch** stated that in FY93 the utility budget is \$1.9 million.

**SEN. HOCKETT** asked if the Architectural and Engineering Division has to review this, or if the committee needs to review the project again. **Tom O'Connell, Architecture and Engineering Division, Department of Administration**, stated that he has not been involved in this project proposal, but that it seems to make sense. The methods involved to accomplish the project are unique. The project is exempted from Title 18, the typical bidding procurement statute. There needs to be further review from the A&E division, and the sale of bonds needs to be coordinated with the A&E division.

**SEN. HOCKETT** asked if MSU has worked with DNRC. **Mr. Rose** stated

that they have not worked with DNRC, but will be happy to do so. The Montana Power Company was asked to give the project a critical review, and MSU is happy to get that feedback. **Tom Livers, DNRC**, stated that he does not know very much about the project but that MSU seems to have a good approach. Cogeneration is a proven technology. DNRC is willing to look at the project and is willing to run the project through review in the Energy Audit Program. He stated that there is no requirement for departments or agencies to run energy efficiency or energy conservation projects through DNRC. The benefit of doing so is the coordination of the project. This allows both the executive branch and the legislative branch to prioritize projects based on need and cost effectiveness. A mechanism is in place for bond authority and for energy savings to be placed in a debt service account.

**Proponent's Testimony:** **John Lahr, Montana Power Company**, stated that a senior engineer at MPC is reviewing the plans and has not yet finished that review. The project, however, is obviously feasible.

**Questions, Responses, and Discussion:** **Jim Haubein, Legislative Fiscal Analyst**, asked if this project would fit better in HB 97. **Mr. Livers** stated that it would fit better in HB 97. **Jane Hamman, Office of Budget and Program Planning**, stated that the OPBB would prefer the project to be in HB 97. **CHAIRMAN BERGSAGEL** asked that DNRC and the A&E Division spend more time talking with MSU and come back to the committee with more information on how the project would be bonded. The committee will decide at that time if the project should be in HB 97 or in HB 5.

**BUDGET ITEM ADDITIONAL PROJECTS APPROVED BY THE BOARD OF REGENTS:**  
Tape No. 2:A:021

**Informational Testimony:** **Bill Lannan, University of Montana**, stated that the Board of Regents recently approved two additional projects that need authority only from the legislature. **EXHIBIT 5**. The Language Laboratory will be paid for by private funds and student building fees. The gas bypass of Mt. Sentinel will be paid for with savings realized on the price of natural gas.

**Jim Todd, Vice-President, Administration and Finance, University of Montana**, reminded the committee that both of these projects were presented during testimony on Wednesday, January 13th. He stated that the natural gas bypass project will negate the annual cost of \$60,000 to \$80,000 per year currently paid for transmission of the gas through the Missoula valley to the campus. The university feels that transportation can be accomplished more quickly and more efficiently with this bypass. Funds from auxiliary and university accounts will be sufficient to repay the \$350,000 in a maximum of ten years. The university believes the money will be paid back in six to seven years.

**BUDGET ITEM PROPOSAL TO PURCHASE BUTTE VOCATIONAL TECHNICAL CENTER:**

Tape No. 2:A:298

Gene Huntington, Manager of Public Finance, Dain Bosworth, stated that as interest rates on bonds have declined, the state has reviewed bond issues that school districts have outstanding. The state determines if new bonds can be underwritten to save money. He presented information on the proposal to purchase Butte Vo-Tech instead of leasing the facility. EXHIBIT 6.

**Questions, Responses, and Discussion:** REP. BARDANOUVE asked if this means that \$1.7 Million in general obligation bonds will be issued. Mr. Huntington stated that it also means that more than that amount is currently outstanding under the lease-purchase agreement. Therefore, there will actually be a net decrease in debt as a result of this purchase.

Ms. Hamman stated that OBPP appreciates Mr. Huntington's efforts and the University System's efforts at keeping the OBPP informed. She stated that OBPP supports this project as a way of saving general funds.

Mr. Huntington informed the committee that his figures show exactly what appropriation would be needed given interest projections for this week. He suggested that the committee allow up to \$2 Million in authority to allow some flexibility for changes in interest rates.

**EXECUTIVE ACTION ON DEPARTMENT OF ADMINISTRATION**

Tape No. 2:A:666

**BUDGET ITEM SRS COMMODITIES WAREHOUSE:**

Tape No. 2:A:667

**Motion:** REP. BARDANOUVE moved approval of \$1.7 Million for construction of an SRS Commodities Warehouse with the understanding that there will be no impact on the General Fund.

**Discussion:** CHAIRMAN BERGSAGEL stated that the committee needs to determine the amount of money and the terms of the funds for this project. Mr. Haubein stated that SRS is requesting \$1.7 million which would require \$147,000 in debt service per year. SRS does have fairly secure funding of \$138,000. There are other potential savings. If the committee approves \$1.7 million and SRS cannot come up with the total \$147,000 debt service payment, the project will be scaled back to \$1.6 million. SRS will be able to pay the \$138,000 in debt service each year. If the project is scaled back to \$1.6 million, the facility will be only 32,500 square feet instead of 40,000 square feet. The A&E division will have the authority to decide what size warehouse to build dependent on SRS's ability to pay debt service.

REP. BARDANOUVE wondered if construction of a new warehouse will

be efficient if the facility has to be downsized. **Jim Whaley, A&E**, stated that the final \$100,000 buys essentially 7,500 square feet of facility space. There will be a lot of site development costs regardless of the size of the warehouse; therefore it is beneficial to have the authorization to go up to a 40,000 square foot warehouse. The 32,000 sq./ft. warehouse will meet current needs, but may not meet future needs.

**SEN. HOCKETT** stated that he was hoping the school lunch program would get together with SRS on this project. **Mr. Whaley** stated that there is a real potential for benefits to both agencies; however this is a situation where one branch can't control the operations of the Office of Public Instruction. The project has been presented to OPI, but there has not been a chance to get a firm response.

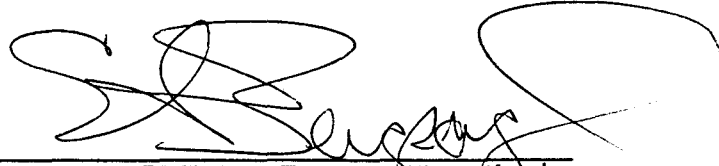
**REP. TOM ZOOK** stated that this is an advantageous time for bonds to be issued for this project; however, he cannot support the project due to the creation of additional debt for the state.

**REP. BARDANOUVE** withdrew his motion. He requested that OPI come to the committee and give some input on this project.

**CHAIRMAN BERGSAGEL** stated that executive action would not occur at this time. Mr. Haubein will schedule a hearing for both OPI and SRS to speak to the committee about the possibility of working together.

ADJOURNMENT

Adjournment: 10:00 AM



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ERNEST BERGSAGEL, Chair



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SANDRA BOGGS, Secretary

EB/sb

# HOUSE OF REPRESENTATIVES

LONG - RANGE PLANNING

SUB-COMMITTEE

ROLL CALL

DATE

Tues. 2/16/93

NAME	PRESENT	ABSENT	EXCUSED
SEN. BOB HOCKETT, VICE-CHAIR	✓		
REP. FRANCIS BARDONOUVE	✓		
SEN. ETHEL HARDING	✓		
SEN. ELEANOR VAUGHN	✓		
REP. TOM ZOOK	✓		
REP. ERNEST BERGSAGEL, CHAIR	✓		



**SRS COMMODITIES WAREHOUSE**

**DEBT SERVICE**

Based on 5.9% interest rate

<u>Bond Amount</u>	<u>Term of Bond</u>	<u>Annual Payment</u>
\$1,600,000	15 years	\$163,666
\$1,600,000	20 years	\$138,365
\$1,700,000	15 years	\$173,895
\$1,700,000	20 years	147,013

**AVAILABLE FUNDING**

Current level General Fund	\$ 14,850
Current level Federal Fund	93,150
Current committed Federal Funds	<u>30,365</u>
TOTAL AVAILABLE FUNDS	\$138,365

**POTENTIAL ADDITIONAL FUNDS**

Expand distribution to ND Tribes	\$ 17,000
Expand distribution to UT Tribes	8,000
Include school lunch program (est)	36,000
Commodity supplemental feeding program	11,850

**OPERATIONAL COST**

Current average utility expenditure	\$17,300
Anticipated utilities for new building (based on costs for New Liquor Warehouse)	
40,000 sq. ft. building (\$1.7m)	\$13,674
32,500 sq. ft. building (\$1.6m)	\$11,110

INNOVATION AND SAVINGS AT MONTANA STATE UNIVERSITY  
THE COGENERATION ALTERNATIVE

## HISTORY

The Central Heating Plant at MSU was built in 1922, and provides steam for space heating and hot water production for most campus facilities. The three existing boilers range in age from 26 to 38 years old. The plant is primarily dependent on a single main boiler to meet wintertime steam demands.

## PROBLEM

All burners and controls in the existing Heating Plant are obsolete, and parts are now unavailable for the older equipment. The failure of this plant would have catastrophic consequences for MSU and the State. If the plant experienced an operational shutdown during cold weather, 12,000 students, faculty, and staff would be sent home, millions of dollars of research would be lost, and millions of dollars of freeze damage in 45 buildings would result. The Heating Plant is on the verge of collapse, and has failed to operate twice in the last nine (9) months.

## CURRENT PLAN

The current plan calls for retrofitting the older equipment that exists in the Heating Plant. The first phase of this retrofit process is currently the number three (3) priority for the State's 1994-95 Long Range Building Program (LRBP) at a cost of \$865,000. Once all phases of the project are completed over the next few biennia, the cost will exceed \$2.5 million.

## ALTERNATIVE SOLUTION

The installation of new cogeneration equipment within the existing Heating Plant structure would provide for the complete replacement of the existing system, and would provide for long-term operational reliability. This alternative would also reduce plant emissions and increase plant efficiency with respect to energy use, providing both ecologically and socially responsible benefits. The execution of the project would not result in additional operating budget expense above current levels. The necessary capital (\$5,500,000) would be borrowed to finance this project, and the debt would be serviced from the energy savings that result from self-generating electrical power. LRBP funds would not be needed for this alternative project, and could be utilized for other priority deferred maintenance.

## POSITIVE OUTCOMES FROM IMPLEMENTING THE ALTERNATIVE

### The Project:

- Provides the lowest possible environmental impact by utilizing best available technology and natural gas fuel.
- Provides for highly efficient use of natural resources by the very nature of cogeneration design - burning clean natural gas simultaneously generates both electrical and thermal (heating and cooling) energy.
- Produces less nitrous oxide (NO<sub>x</sub>) emissions and noise emissions than the current MSU Heating Plant.
- Generates the base-level electrical needs of MSU (peak electrical power demand will continue to be purchased from Montana Power Company).
- Provides for reliable steam production. The current Heating Plant is on the verge of collapse.
- Avoids significant capital costs to the State Long Range Building Program (LRBP) for necessary repairs, retrofits, and replacements of the current MSU Heating Plant.
- Provides long-term, significant energy savings to the State of Montana.
- Utilizes energy savings to finance the project, and does not require new revenue for either capital or operations.

### ASSUMPTIONS NECESSARY TO IMPLEMENT THE ALTERNATIVE

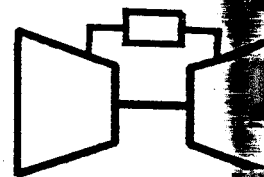
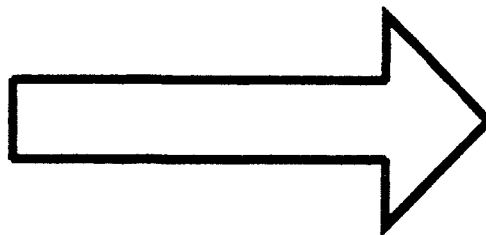
- MSU's combined appropriation for electrical and natural gas utilities and operations will need to be maintained at its current level, including inflationary increases (i.e., rate increases).
- MSU's procurement of natural gas will need to remain on an individualized basis.

## IF WE CONTINUE WITH THE CURRENT PLAN

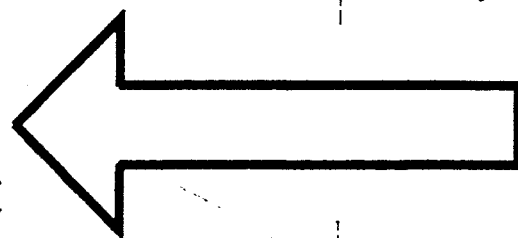
- It will be necessary for the State's LRBP to fund the retrofit of the old Heating Plant equipment over the next two (2) to three (3) biennia at a cost of more than \$2.5 million, rather than completely replacing the facility with new equipment.
- MSU's combined appropriation for electrical and natural gas utilities and operations will still be at its current level, including inflationary increases (i.e., rate increases).
- The State will not realize the long-term energy savings that will result from the cogeneration alternative after the debt is retired (approximately 20 years).
- Operational reliability of the current plant will continue to be marginal for the next several years.

NEW GAS  
TURBINE

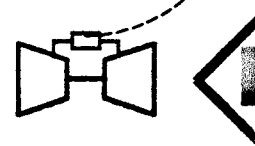
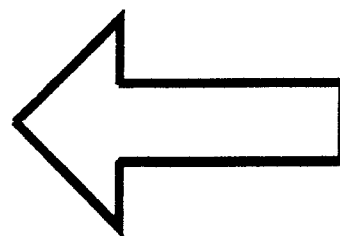
GAS



CAMPUS  
ELECTRIC



CAMPUS  
STEAM



EXISTING  
STEAM  
TURBINE

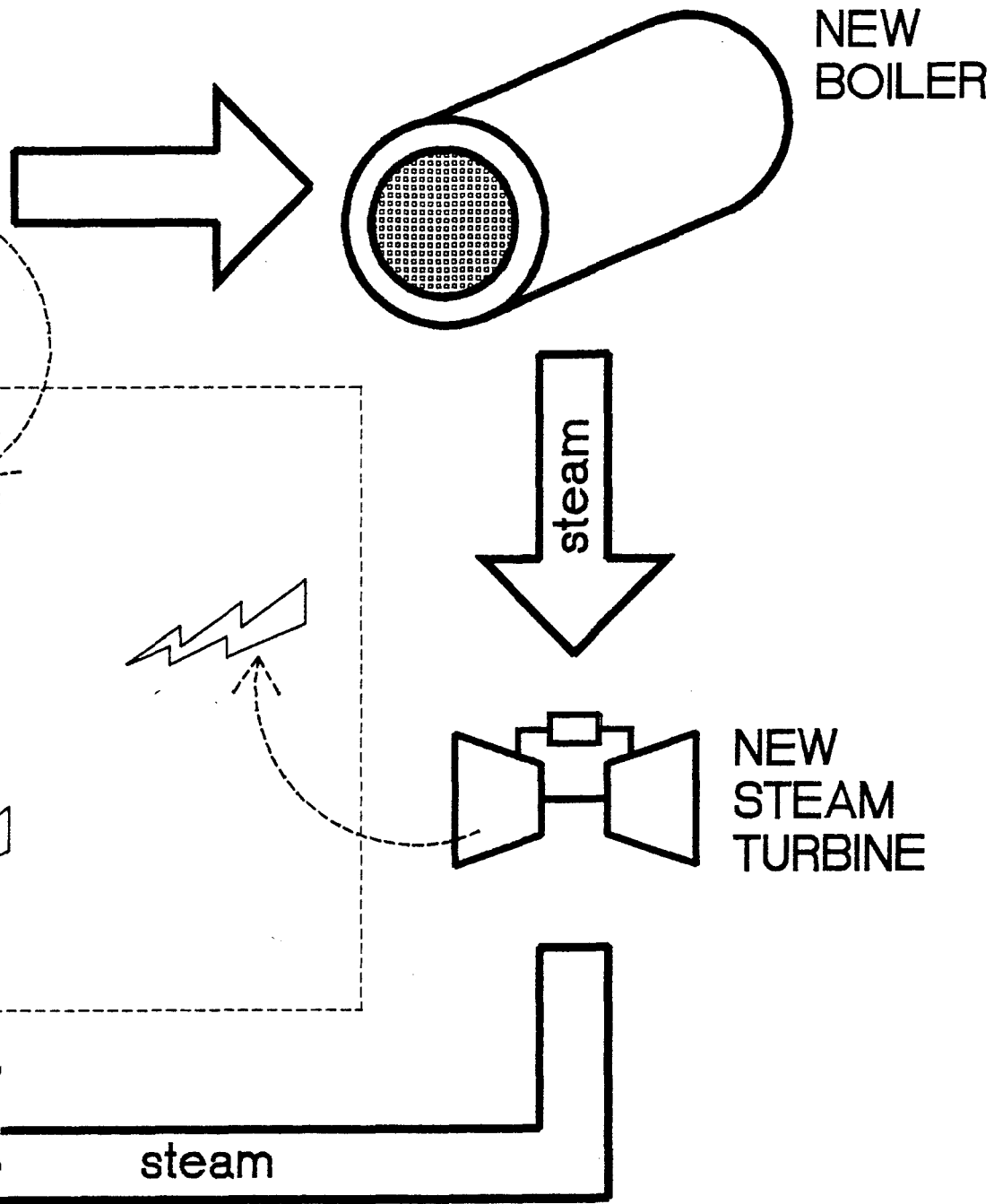
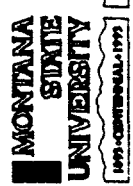
MSU COGENERATION

EXHIBIT 3

DATE 2-16-93

88

REVISIONS	
NUMBER	DESCRIPTION DATE



ON CYCLE DIAGRAM

DATE	1-20-93
A1	
PPA NO.	X

EXHIBIT 4

DATE 2-16-83

88

AMENDMENT TO HB 5

Montana State University is authorized to repair or replace its existing Heating Plant Components, including the installation of cogeneration equipment for \$5,500,000. These repairs and replacements will not be subject to the requirements of Title 18 (MCA), except that:

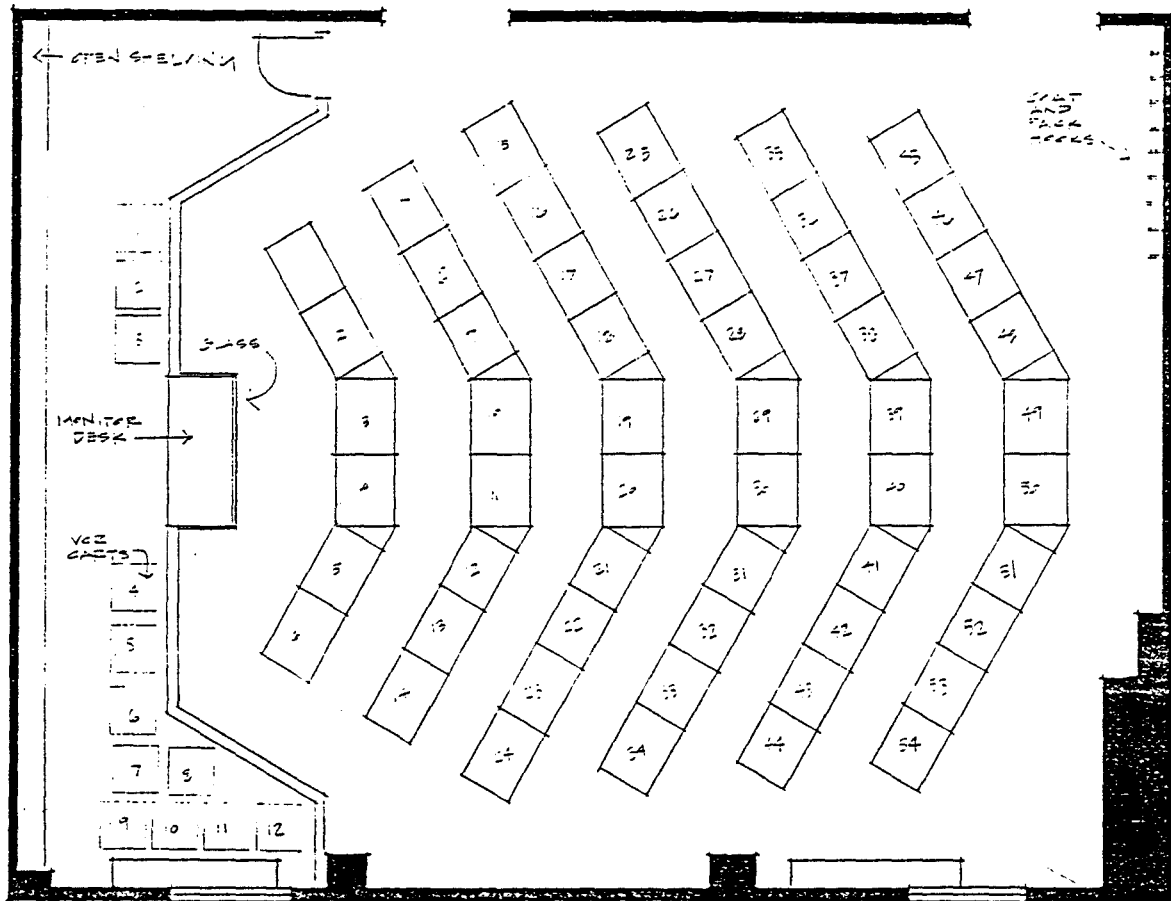
the Department of Administration shall execute the provisions of 18-2-103(1) (a) and (1) (e).

If this special project is implemented, \$519,000 of LRBP funds and \$346,000 of Other Funds authorized in HB 5 for the project titled Upgrade of Boiler #3 - MSU Heating Plant will be reallocated to increase the authority (including the \$519,000 of LRBP funds) for the project titled Improve Steam and Condensate Lines - Montana State University, also contained in HB 5.

Include the following project in the bond section:

Project Title  
Montana State University  
Cogeneration Facility

G.O. Bonding Authority  
\$5,500,000



## Language Laboratory

Regents Priority: -  
Governor's Priority: -

### Description

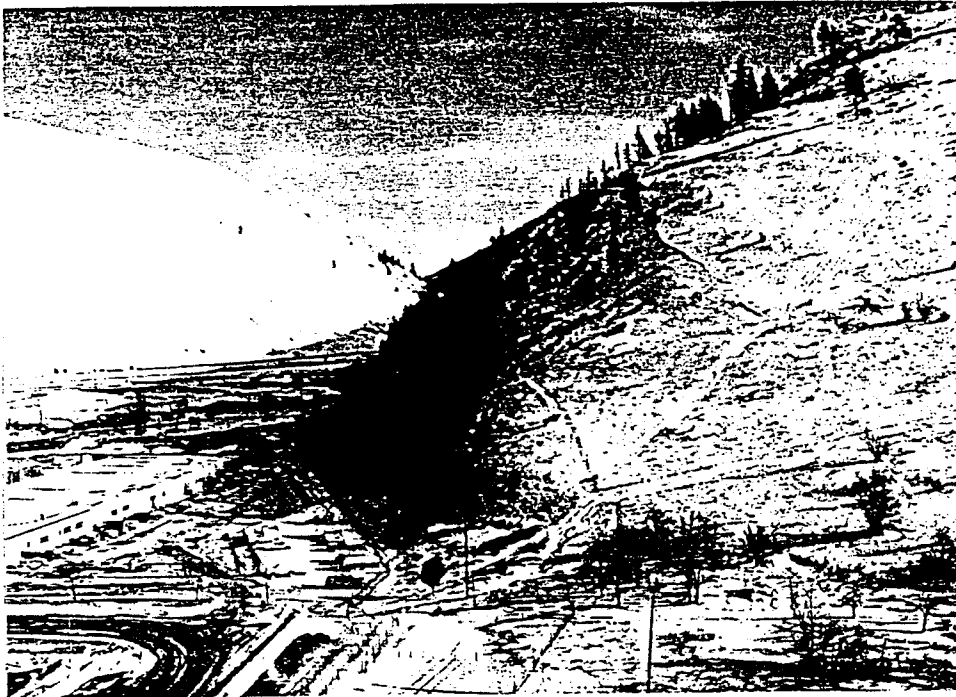
The University is requesting spending authority for the construction of a new language laboratory in the Liberal Arts building. The existing language laboratory is antiquated. The new facility will take advantage of the current technologies available for instruction in the language arts.

### Recommended Amount

\$350,000



EXHIBIT 5  
DATE 2-16-53  
\$5



### Gas By-Pass at Mount Sentinel

Regents Priority: -  
Governor's Priority: -

<u>Description</u>	<u>Recommended Amount</u>
The University is requesting spending authority for the construction of a main distribution line to feed natural gas to campus. The University currently pays an exorbitant cost to the utility company to provide this service.	\$500,000

## Proposal to Purchase Butte Vo-Tech

### Background

In 1987 The Montana Board of Regents assumed operation of Butte Vo-Tech. The Board of Regents entered into a lease or purchase agreement with Butte-Silver Bow School District No. 1 to purchase the Vo-Tech land and facility by payments equal to the debt service payments on the District's outstanding bonds.

The District's bonds are currently outstanding in the amount of \$2,040,000, at an average coupon rate of 9.96%. Dain Bosworth estimates that in today's market the average rate on bonds of the same amount and term would have an average coupon of 4.42%. However, the District cannot refund the bonds by selling new bonds without paying a substantial penalty under federal arbitrage rules.

### Proposal

The State of Montana would sell General Obligation bonds to purchase the Vo-tech facility. The purchase price would be the sum required to be invested in federal securities and placed in an irrevocable escrow in an amount adequate to make payments on the outstanding bonds and to redeem all outstanding bonds on April 29, 1994. Authorization of the General Obligation bonds would require legislative approval.

Dain Bosworth estimates that the potential present value savings generated by making lower state debt service payments than Vo-Tech lease payments would be \$112,326, of which over \$104,000 could be saved in the upcoming biennium.

### Calculation of Appropriation and Authority

Bonds Outstanding	\$2,040,000	
Less April Payment	( <u>\$270,000</u> )	
Principal to Be Refunded		\$1,770,000
Plus October 1993 Interest		\$87,557
Plus April 1994 Interest		<u>\$87,557</u>
Total Principal and Interest to be Refunded by Escrow		\$1,945,114
Cost of Securities for Escrow		\$1,915,000
Costs of Issuance		\$30,000
Estimated Underwriter's Discount		<u>\$25,285</u>
Total Expenditure Authority Required		\$1,970,285

### Estimate of Savings

<u>Fiscal Year</u>	<u>Current Debt Service</u>	<u>Projected Debt Service</u>	<u>Projected Savings</u>
1994	\$465,115	\$410,878	\$54,237
1995	\$467,275	\$417,253	\$50,022
1996	\$466,075	\$464,478	\$1,597
1997	\$466,425	\$463,078	\$3,347
1998	\$467,925	\$464,803	\$3,122
	Total Future Value Savings		\$112,325
	Total Present Value Savings		\$107,891

HOUSE OF REPRESENTATIVES  
VISITOR'S REGISTER

Long Range Planning

COMMITTEE

BILL NO. \_\_\_\_\_

DATE Jan. 2/16/93 SPONSOR(S) \_\_\_\_\_

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NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
Shula Strains	UMT		
Michael Liebelson, <sup>101 E. MAIN ST.</sup> Bozeman	LS Power Corp.		
Bob Lashaway Bozeman	MSU		
JIM NOLAN	SRS		
GORDON DAVIDSON	SRS		
JOHN LAIR	MPL		
Tom Lives	DNRC		
Debra Fulton	Dept of Administration		
Bill Lanna	Mont Mail Syst		
Bill Rose	MSU		
Jim Whaley	AEE		
Tom Connell	AEE		

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