

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON APPROPRIATIONS

Call to Order: By **CHAIRMAN TOM ZOOK**, on April 4, 1995, at
9:00 a.m.

ROLL CALL

Members Present:

Rep. Tom Zook, Chairman (R)
Rep. Edward J. "Ed" Grady, Vice Chairman (Majority) (R)
Rep. Joe Quillici, Vice Chairman (Minority) (D)
Rep. Beverly Barnhart (D)
Rep. Ernest Bergsagel (R)
Rep. John Cobb (R)
Rep. Roger Debruycker (R)
Rep. Gary Feland (R)
Rep. Marjorie I. Fisher (R)
Rep. Don Holland (R)
Rep. Royal C. Johnson (R)
Rep. John Johnson (D)
Rep. Mike Kadas (D)
Rep. Betty Lou Kasten (R)
Rep. Matt McCann (D)
Rep. William T. "Red" Menahan (D)
Rep. Steve Vick (R)
Rep. William R. Wiseman (R)

Members Excused: None.

Members Absent: None.

Staff Present: Clayton Schenck, Legislative Fiscal Analyst
Marjorie Peterson, Committee Secretary

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

Committee Business Summary:

Hearing: SJR 19
Executive Action: SJR 19 BE CONCURRED IN,
SB 55 BE CONCURRED IN

HEARING ON SJR 19Opening Statement by Sponsor:

SEN. MIKE SPRAGUE, SD 6, Billings, opened the hearing on SJR 19 which requests an interim study on a state-chartered or state-owned financial institution for foreign investors. He feels the state of Montana would be in a unique position by developing this institution, and likened it to Swiss banking. He estimated Montana would receive 1% from the investments, and used the example of Montana receiving \$10 million on \$1 billion worth of investments. This resolution requests an interim study committee to examine the feasibility of such an institution. He told the committee that the investors would remain anonymous, therefore, we would not know who they were or where the money was coming from. **SEN. SPRAGUE** said it could possibly be drug-laundering money. **EXHIBIT 1.**

Proponents' Testimony:

John Cadby, Montana Bankers Association, supported the bill in the Senate. He alluded to the possibility that Congress would not necessarily allow a state to have a Swiss-style banking institution, but feels that the study would be interesting. There are millions of dollars invested by anonymous investors in the Cayman Islands, as well as in Switzerland, and this would be an opportunity for the U.S. to recapture some of the money. It is worthy of the study.

Questions From Committee Members and Responses:

REP. ROYAL JOHNSON, HD 10, Billings, asked if other states had this kind of bank and **SEN. SPRAGUE** said no. **REP. JOHNSON** asked why investors would want privacy and **SEN. SPRAGUE** said there could probably be drug money invested. **REP. JOHNSON** then noted Item 2 on the fiscal note, which said the resolution study would receive high priority and a committee will be appointed. He thought only the legislature could decide if it were a high priority or not. The costs of the study would be included in the interim committee's appropriations to the Legislative Council.

REP. JOE QUILICI, HD 36, Butte, asked if there would be only foreign deposits accepted. **SEN. SPRAGUE** wasn't sure, but thought the study would come up with that information. He reiterated that it was an intriguing concept, but **REP. QUILICI** was concerned about laundering drug money in Montana.

REP. WILLIAM WISEMAN, HD 41, Great Falls, asked **Mr. Cadby** why the Citibank hasn't done this yet. **Mr. Cadby** said that this would not be a FDIC-insured bank, that the federal and state

regulations would not allow it. This would be a state-owned enterprise and the federal government would not regulate it. This would be purely a depository for foreign depositors only. He also suggested that the Internal Revenue Service may not let U.S. citizens use it, only foreign investors. **REP. WISEMAN** then asked about the tax situation -- would Congress allow such a situation. **Mr. Cadby** said that Congress would probably not have authority over foreign investors. **REP. WISEMAN** asked if it would be dollar-denominated and if that would attract foreign investors. **Mr. Cadby** said that the investments made in the U.S. are still the safest in the world.

REP. MARJORIE FISHER, HD 80, Whitefish, asked about Item 5 on the fiscal note which says that existing staff from the State Auditor's Office and Departments of Commerce and Administration would assist in the study and report. She said that this is such a new concept, she wondered about their expertise in this field. **SEN. SPRAGUE** agreed that this bill was breaking new ground. He thinks they would show the report to a law office after it's written. **REP. FISHER** then asked how the accounts would be audited. **SEN. SPRAGUE** said that they would audit it the same way banks are audited, but the accounts would have numbers instead of names to keep anonymity. He also said that a Mr. Swoboda from California had called him to sponsor the bill.

REP. BEVERLY BARNHART, HD 29, Bozeman, asked about the appropriate interim committee, if the sponsor thought it would include legislators. He said he didn't know.

REP. BETTY LOU KASTEN, HD 99, Brockway, thought that this should have been researched through legislative staff and not by interim committee. Federal investment laws must be researched and she felt it could have been done by the legislative council staff.

REP. STEVE VICK, HD 31, Belgrade, wanted an explanation of the difference between state-chartered and state-owned financial institution. **SEN. SPRAGUE** didn't know the difference. **REP. VICK** also asked about the probable security problems with holding this amount of money. **Mr. Cadby** said he didn't think it would be state-chartered, but state-owned. It wouldn't be owned by private parties, either. He then compared it to the state Board of Investments, which already is investing over \$5 million a year.

REP. ROGER DEBRUYCKER, HD 89, Floweree, clarified that this would not be FDIC-insured and that the state would have to insure it. **SEN. SPRAGUE** thought they could buy insurance somewhere.

REP. DON HOLLAND, HD 7, Forsyth, asked if it were possible that there would be no state fee, he compared the potential revenue to an income tax. Once it is chartered, it is put into the private sector.

REP. ROYAL JOHNSON said it still sounded "too good to be true." He suggested to acquire private money for the study and it was decided that private money could not fund Senate Joint Resolutions. CHAIRMAN ZOOK asked what the motivation would be for foreign investors to put their money in Montana when they can have accounts in Switzerland or the Cayman Islands. SEN. SPRAGUE agreed that the only incentive would probably be that the american dollar is still an ideal investment. The investments would probably be treasury notes and bonds, etc.

REP. MATT MCCANN, HD 92, Harlem, questioned if the study would give them enough information; they should find out what the federal regulations are before much time is spent on the study.

Closing by Sponsor:

SEN. SPRAGUE said there were more questions than answers. This would definitely bring money into the state if it could be done. And, he wanted Montana to do it before other states caught on to his idea.

{Tape: 1; Side: A; Approx. Counter: 51.8.}

EXECUTIVE ACTION ON SJR 19

Motion: REP. WISEMAN MOVED SJR 19 BE CONCURRED IN.

Discussion: REP. ROYAL JOHNSON said that he would like to take the funding out of this bill. Clayton Schenck, Legislative Fiscal Analyst, said that there is no money in this bill unless it is put in during the HB 2 hearings. Mr. Schenck said there was no prohibition against accepting private money and they could put a sentence in the bill to include that. REP. QUILICI said this could go on the list for interim studies and be appropriated there. REP. FISHER said she liked REP. KASTEN's proposal of having the legislative council do the research before an interim committee is formed.

Vote: Motion that SJR 19 Be Concurred In carried 14 - 4, with REPS. BARNHART, KASTEN, ROYAL JOHNSON and MCCANN voting no.

{Tape: 1; Side: A; Approx. Counter: 58.8.}

EXECUTIVE ACTION ON SB 55

Motion: REP. GRADY MOVED SB 55 BE TAKEN OFF THE TABLE.

Discussion: REP. GRADY said he would make an amendment to omit the money in the bill. REP. BARNHART asked if the department would have to absorb the costs. REP. COBB said that the conference committee could put the money back in. REP. KASTEN said that the counties and DFS must come to an agreement and get this finalized. There is no appropriation now.

{Tape: 1; Side: B; Approx. Counter: 0.2.}

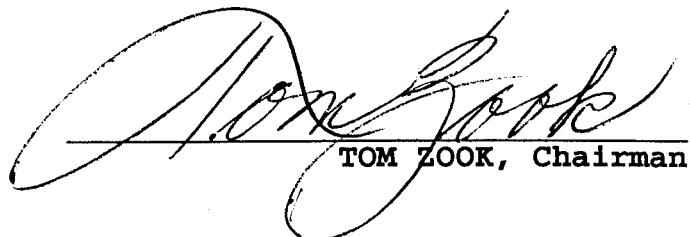
REP. VICK said that doesn't address REP. KASTEN's concerns. County commissioners have mentioned that don't have any control over the amount the state could bill them. CHAIRMAN ZOOK said his county also felt the administrative costs were "open-ended." He said this bill would compensate them and take care of the agreement. REP. COBB reminded everyone that the new reorganization of agencies could possibly come up with the money in the budget.

Vote: Motion that SB 55 Be Reconsidered carried 17 - 1, with REP. KASTEN voting no.

Motion/Vote: REP. COBB MOVED SB 55 BE CONCURRED IN. Motion carried 17 - 1, with REP. KASTEN voting no.

ADJOURNMENT

Adjournment: 10:30 a.m.


TOM ZOOK, Chairman


MARJORIE PETERSON, Secretary

TZ/mp

HOUSE OF REPRESENTATIVES

Appropriations

ROLL CALL

DATE 4-4-95

NAME	PRESENT	ABSENT	EXCUSED
Rep. Tom Zook, Chairman	✓		
Rep. Ed Grady, Vice Chairman, Majority	✓		
Rep. Joe Quilici, Vice Chairman, Minority	✓		
Rep. Beverly Barnhart	✓		
Rep. Ernest Bergsagel	✓		
Rep. John Cobb	✓		
Rep. Roger DeBruycker	✓		
Rep. Gary Feland	✓		
Rep. Marj Fisher	✓		
Rep. Don Holland	✓		
Rep. John Johnson	✓		
Rep. Royal Johnson	✓		
Rep. Mike Kadas	✓		
Rep. Betty Lou Kasten	✓		
Rep. Matt McCann	✓		
Rep. Red Menahan	✓		
Rep. Steve Vick	✓		
Rep. Bill Wiseman	✓		



HOUSE STANDING COMMITTEE REPORT

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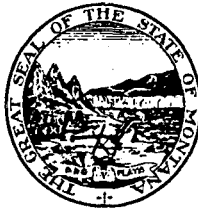
Mr. Speaker: We, the committee on Appropriations report that Senate Bill 55 (third reading copy -- blue) be concurred in.

Signed. 
Tom Zook, Chair

Carried by: Rep. Cobb

Committee Vote:
Yes 12, No 1.

771052SC.Hbk



HOUSE STANDING COMMITTEE REPORT

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Mr. Speaker: We, the committee on Appropriations report that Senate Joint Resolution 19 (third reading copy -- blue) be concurred in.

Signed: 
Tom Zook, Chair

Carried by: Rep. Wiseman

Committee Vote:
Yes 14, No 4.

771051SC.Hbk

SENATE JOINT RESOLUTION 19

This Joint resolution requests an interim study to examine the feasibility of setting up a self-chartered or state owned financial institution to accept and invest foreign deposits. While it appears to be feasible, we need to know for certain. In addition, we need to determine whether it is legally feasible and practically feasible.

The Interim Study Committee would meet approximately six times between July 1, 1995 and September 15, 1996. Total costs incurred for this study are projected at \$16, 950.

BACKGROUND

For years, Switzerland was the only safe and private haven for investors in the world. After WWII, Luxembourg, Liechtenstein, Panama, and the Cayman Islands have seen the value in capitalizing on this real and sizable market.

WHY NOT MONTANA ?

Investors in this type of financial institution are not looking for the highest rate of return. Rather they are looking for privacy, safety and convenience. True, investors can get safety and convenience in every state in the Union -- but they can not be guaranteed privacy. Under Section 10, of the Montana Constitution, we have a right to privacy, "The right of individual privacy is essential to the well-being of a free society and shall not be infringed without showing of a compelling state interest." This study will determine if investors would be allowed a right of individual privacy under this resolution. Importantly, this type of financial institution does not interfere with or impact existing state or national banks operating in Montana.

POTENTIAL IMPACT FOR MONTANA.

- * State fee for invested capital per billion dollars deposited at one percent equals \$10 million.
- * Assuming total investment capital of \$100 billion, Montana would realize annual revenues of \$1 billion.
- * For fiscal year 1994, the total collection of all taxes in Montana was approximately \$1 billion.