

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON APPROPRIATIONS

Call to Order: By **CHAIRMAN TOM ZOOK**, on February 6, 1995, at
3:00 p.m.

ROLL CALL

Members Present:

Rep. Tom Zook, Chairman (R)
Rep. Edward J. "Ed" Grady, Vice Chairman (Majority) (R)
Rep. Joe Quilici, 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: HB 13, HB 189, HB 279
Executive Action: None.

HEARING ON HB 279**Opening Statement by Sponsor:**

REP. KARL OHS, HD 33, Harrison, opened the hearing on HB 279 which deals with the renewable resource program at the Department of Natural Resources and Conservation (DNRC). This program, which started in 1981 for \$5 million and increased to \$10 million in 1995, deals with projects to improve and conserve water and natural resources. This bill authorizes the creation of state debt by issuing general obligation bonds. The bill has no fiscal impact to the state and the program has been very well respected and worthwhile.

Proponents' Testimony:

Ray Beck, Administrator, Renewable Resource and Development Division, DNRC, Helena, stated this program provided financial assistance for private water development projects. To date, 107 loans have been made, totalling \$7.4 million. These included 100 loans for irrigation systems, three loans for potable water, two small hydropower projects, one geothermal development and one stream stabilization project. There have been only 13 loans default over the life of the program with a total loss of only \$245,000. These were mainly older loans that were made when the program was first established and there were not enough assets. To reduce the potential of default, the department now seeks a security interest in land that has a net value in excess of 150 percent of the loan amount. Since this policy has been implemented, there have been no new defaults. The most common project funded is for irrigation development. The terms of these loans are usually for 10-15 years. **EXHIBITS 1, 2, 3, 4 and 5.**

Gary Pierson, Fairfield, is a farmer who first became involved in the program at DNRC in 1985. He developed his third project this year and the DNRC program is continuing to help him. He would like the program to continue as long as possible.

Mike Murphy, Executive Director, Montana Water Resources Association, supports HB 279 also.

Mike Volesky, Montana Association of Conservation Districts, stated there are 58 conservation districts throughout the state of Montana who strongly support this bill.

Opponents' Testimony:

None.

{Tape: 1; Side: A; Approx. Counter: 9.0.}

Questions From Committee Members and Responses:

REP. MARJORIE FISHER, HD 80, Whitefish, wanted to know why the bonds are GO (general obligation) bonds instead of revenue bonds. Mr. Beck said the GO bonds were taxable bonds. John Tubbs, DNRC, answered that the department sells taxable GO bonds. They have a higher rate than regular GO bonds which are generally used for highway construction projects.

REP. ROYAL JOHNSON, HD 10, Billings, asked why the department doesn't just change part of the law that includes the amount, that way if the outstanding debt was under \$5,000, the department could issue as many as they wanted. Mr. Tubbs said that would be a good idea, but this provides the legislature with a chance to review the program every five years.

REP. MIKE KADAS, HD 66, Missoula, was curious why the new Section 1 deals with adding \$5 million to \$10 million instead of changing the amount to \$15 million. Mr. Beck said the legislative council drafted the bill and thought that changing the \$10 million to \$15 million would make the program look like it was just growing. They wanted to make sure the legislature understood that the appropriation was for just \$5 million. REP. KADAS suggested that they could probably just change the cap in Section 85-1-623 to satisfy their needs as well. REP. KADAS would like to fix this so DNRC doesn't have to come back all the time for the same issue. He asked that their bond counsel do some research and give them the results.

Closing by Sponsor:

REP. OHS closed by agreeing that changing the monetary cap on bonds issued in Section 85-1-623 would be a good way to consider this problem. DNRC will get the information for the committee.

{Tape: 1; Side: A; Approx. Counter: 17.0.}

HEARING ON HB 13

Opening Statement by Sponsor:

REP. BOB PAVLOVICH, HD 37, Butte, opened the hearing on HB 13 which provides an honorary cash benefit to veterans of Grenada, Lebanon, Panama, Desert Shield or Desert Storm. The honorarium was first passed in 1950 for veterans of World War I and II. These veterans should have the same chance to receive a benefit. The benefit would be \$120 for each month served, totaling an appropriation of \$2.5 million from the general fund. This bill request could be funded with an additional 2¢ cigarette tax.

Proponents' Testimony:

Jim Jacobsen, Administrator, Montana Veterans Affairs Division, said this was a good piece of legislation in that it extends due respect to veterans.

Dick Baumberger, Disabled American Veterans of Montana, agrees with the other proponents to give these vets the same consideration.

Joe Brand, Montana State Chairman, Veterans of Foreign Wars, stated his organization also supports this bill. These veterans should receive this recognition.

Hal Manson, American Legion of Montana, also supports this bill. The people who are called to war work for their country and are definitely entitled to this recognition.

Jerry Cramer, 1st Class, US Navy, Helena, said he was a navy recruiter. He served in the Navy for four years. Both his grandfathers served in World War II and his father served in Vietnam. Montana has the highest per capita US military recruits in the nation. The military does not get you rich; you live from paycheck to paycheck. This honorarium that the legislature is considering is no small matter -- it would have a tremendous affect on Montana's sailors, soldiers, marines and airmen.

Opponents' Testimony:

None.

Questions From Committee Members and Responses:

REP. MARJORIE FISHER, HD 80, Whitefish, asked about the anticipated numbers of veterans who would receive this money and how it would be handled. **Mr. Jacobsen** stated the legislative council developed the criteria for this bill. In the past, there has been only one full time FTE to handle the work. Initially, they expect to receive a large volume of applications.

REP. STEVE VICK, HD 31, Belgrade, wanted to know how the history that started the honorarium. **REP. PAVLOVICH** said that the honorarium started for World War I veterans who were in combat for their country and these veterans should also be honored in the same way.

{Tape: 1; Side: A; Approx. Counter: 29.6.}

Closing by Sponsor:

REP. PAVLOVICH closed by stating that the two-year timeframe should give the veterans enough time to get the paper work into the department. He doesn't think it will cost the projected \$2 million since Montana doesn't have that many veterans.

HEARING ON HB 189

Opening Statement by Sponsor:

REP. ERNEST BERGSAGEL, HD 95, Malta, introduced HB 189 which deals with creating a general fund budget stabilization and cash reserve fund from excess ending general fund balances to reduce state equalization aid. This bill is an effort to address the financial "peaks and valleys" in state government by creating a stabilization act and would be effective from January 1, 1995 to 1997. There are only 14 states that do not have a stabilization fund, with Utah having the most successful account. The provisions in this bill would allow the governor to address special needs, for example, special legislative sessions.

Proponents' Testimony:

None.

Opponents' Testimony:

None.

Questions From Committee Members and Responses:

REP. MIKE KADAS, HD 66, Missoula, wasn't sure how much money would be in the account and how it would be established. REP. BERGSAGEL said at the end of 1997 they would establish how much money is in excess of the general fund balance. This year, for example, the surplus \$20 million would have been put into a stabilization account. To use the money, the governor has to declare an emergency situation for: (1) fire suppression, (2) a response to a disaster or emergency, or (3) a response to a significant revenue shortfall. This is also an attempt to avoid a special session of the legislature. REP. KADAS said another fiscal crisis could include expenditures above the estimates and that was not included here. REP. BERGSAGEL said it was not the intent to create situations that would have to be addressed in the next legislative session. REP. KADAS feels the bill is creating a potential problem by not including expenditures and

runs the risk of creating a cause for a special session. **REP. KADAS** also stated he would rather have the earnings from interest go back into the general fund instead of into this account.

REP. JOE QUILICI, HD 36, Butte, said he understands the stabilization fund, but is not sure how much money is involved. **REP. BERGSAGEL** thought it would be between \$50 million and \$70 million. **REP. QUILICI** referred to the possible appropriated uses of fund in Section 4 and asked **REP. BERGSAGEL** to explain what a significant revenue shortfall might be. **REP. BERGSAGEL** said that there was built into the system the expenditures level which was based on current revenue. **REP. QUILICI** mentioned that he could be looking at a shortfall in school equalization and that could fall in that category. **REP. BERGSAGEL** agreed.

CHAIRMAN ZOOK told the committee that the figure would only be that great if the de-earmarking bill went through. He said he knows **REP. BERGSAGEL** isn't a wild spender, but he wondered if he knew how many dollars were sitting in school districts' billing reserves, bus fund reserves, county and city government reserves, etc. He wondered if that was what they would be doing here. Personally, he would rather leave the money in taxpayers' pockets until the need for a bus arose and then the district would convince the community to pay for it. **REP. BERGSAGEL** had no idea how much money was held in school districts but that was certainly not the intent to build a reserve fund. He thinks government should be run like a business that has a savings account. He wants to see stability in government and to create a better financial picture.

{Tape: 1; Side: A; Approx. Counter: 47.2.}

Closing by Sponsor:

REP. BERGSAGEL closed by stating that the legislature comes to Helena for only 90 days and tries to do good things. Sometimes the work is good, sometimes it is questionable. This is an opportunity to do something good - an opportunity to provide a sense of security for government by providing a helpful management tool.

DISCUSSION WITH SPEAKER JOHN MERCER

SPEAKER MERCER appeared before the Appropriations Committee to request a committee bill before the Saturday deadline. He thinks the legislature gets a bum rap on the levels of state spending they appropriate because the state's budget and accounting system (SBAS) is not understood by most Montanans. He asked the committee to request a bill to include trust in spending or truth in government expenditures. The primary purpose of the bill is to clarify the accounting system which uses a double accounting.

People think the legislature is spending more money than it actually is. There are certain funds that pass through that they only act as a conduit on. **SPEAKER MERCER** wants a new method used to report honestly to the public the level of state spending that is actually involved.

REP. JOE QUILICI, HD 36, Butte, reiterated that the committee should get the bill in by Saturday. He assumed that **SPEAKER MERCER** wants more than just fiscal answers, but also expenditures and personnel costs from the SBAS system as well as the PPP system. **SPEAKER MERCER** agreed that he just wants a "common sense answer" to what the total state spending contains. **REP. KADAS** said it was a commendable goal and the committee should be able to come up with what he wants. There are different ways to look at this problem and they may be more complicated than initially thought. He also said there would be some critics of the bill.

SPEAKER MERCER said that the budget office and legislative fiscal analyst office would certainly help them define the bill to minimize any confusion or criticism.

REP. GRADY said that they had found \$65 million in the Department of Transportation budget that is not actual money but is included in the budget. He said the legislature needs realistic budgets to work with and this would be one way to help solve that problem.

Clayton Schenck, Legislative Fiscal Analyst, said that the definition of appropriation in the statute encompasses any transaction that goes through the treasury of the state of Montana; that's why all appropriations are required. The committee could work on that and possibly consider changing the definition of appropriation in the statute as part of a solution. Currently, they measure appropriations to report total state spending.

REP. QUILICI suggested the committee start the process going and fine-tune it.

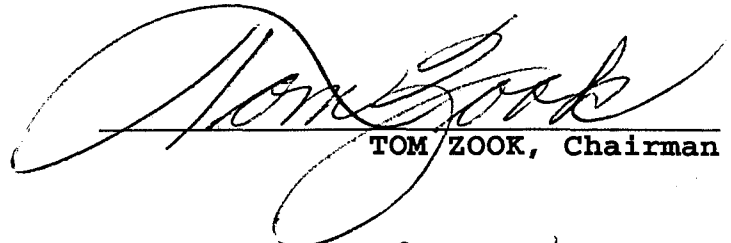
Motion: **REP. GRADY** MOVED THAT HOUSE APPROPRIATIONS COMMITTEE REQUEST THE BILL.

Discussion: **REP. GRADY** felt that the public deserves to know what really happens here and should have an accounting system that they can understand. **REP. RED MENAHAN** said the committee should have some ideas about the draft of the bill; if the council or budget office could direct the committee. They would also work with the LFA for specific language. **CHAIRMAN ZOOK** reiterated that they all want to work with accurate figures.

Vote: Motion to request the bill carried unanimously.

ADJOURNMENT

Adjournment: 4:45 p.m.

A large, stylized handwritten signature in black ink, appearing to read "Tom Zook", is written over a horizontal line.

TOM ZOOK, Chairman

A handwritten signature in black ink, appearing to read "Marjorie Peterson", is written over a horizontal line.

MARJORIE PETERSON, Secretary

TZ/mp

HOUSE OF REPRESENTATIVES

Appropriations

ROLL CALL

DATE 2-6-95

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	✓		

EXHIBIT 1
DATE 2-6-95
HB 279

TESTIMONEY FOR

HOUSE BILL NO. 279

BY RAY BECK REPRESENTING

THE DEPARTMENT OF NATURURAL RESOUCES AND CONSERVATION

The Renewable Resource Development Private Loan program provides financial assistance for private water development and rehabilitation projects. Any private entity may apply to the program for a water project. The project must promote or enhance water use, be economically feasible, be an efficient use of natural resources, and preference must be given to projects that will be used as part of a family farm.

To date 107 loans have been made for \$7.4 million. These include 100 loans for irrigation systems, 3 loans for potable water, 2 small hydropower projects, one geothermal development, and 1 rip rap/stream stabilization project. Of these loans, 24 loans for \$3.59 million have been paid off, and there are 83 loans outstanding with a balance of \$3.84 million.

The most common project that is funded is irrigation development. Generally, the agricultural operator comes to the program to finance a new sprinkler irrigation system to replace an existing flood system or to expand on to lands that can only be irrigated with sprinklers. Fixed rate, medium term loans are offered. The term of these loans are typically 10 to 15 years, which reflects the useful life of these systems.

The state issues taxable, general obligation bonds and then loans the proceeds of these bonds to the borrowers. The loan rate reflects the rate on the state bonds and no subsidies are provided. To date the department has issued \$8.55 million in bonds. The outstanding balance on these bonds is \$2.97 million. The department has completely paid off 5 of the 10 bond issues. Even

though there is less than \$3 million outstanding, the statutory language only allows the issuance of \$1.45 million in additional bonds. At that point the department would have issued a total of \$10 million in bonds and, without the passage of this bill, could not issue any more bonds to finance these loans.

Originally, there was only \$5 million in bond authority for this program. This was increased to \$10 million in 1985. House Bill No. 279 will provide authority to issue an additional \$5 million in bonds. This will carry the program through the end of the century. Without this bill the department will probably run out of authority next biennium

Borrowers make payments to the state and this is deposited into a debt service account. In addition, the state has pledged 0.95 percent of the coal severance tax proceeds to support this debt service. This pledge allows the state to make timely payments in cases of defaults and to carry the debt between when the department issues the bonds and borrowers close the loans and start repayment.

It is important to note that assets (outstanding loans) exceed liabilities (bonded debt) by nearly \$1 million. This reflects the department's efforts to prepay bonds that were made during the high interest rate period of the mid to late 80s. A combination of prepayments for borrowers and the support that these loans have from the coal severance tax allocation made this possible. It is expected that in the 97 biennium, that loan repayments plus the coal severance tax allocation will exceed the state's debt service cost by \$900,000. The excess will be swept out of the debt service account into the renewable resource grant and loan program state special revenue account.

A total of 13 loans for \$1,149,586.73 have defaulted over the life of the program. All but one of these 13 loans has either been assumed, paid off, or written off. To date, total losses

EXHIBIT 1
DATE 2-6-95
HB 279

associated with these defaults is \$245,224. One loan for \$119,000 remains in default and the department is continuing to work with the borrower to correct this situation. These problem loans were made in the mid 80s and the department has its adjusted policies to prevent future defaults. The loans are secured by a lien against real property. The loans that have defaulted were under-secured. When the borrower had cash-flow problems, the department was in a weak position. Our current loan officer has over 15 years experience in ag. banking. To reduce the potential of default, the department now seeks a security interest in land that has a net value in excess of 150 percent of the loan amount. Since these policies have been implemented, there have been no new loans that have defaulted. This doesn't mean that a default wont occur; but it does mean that the state will be in a secure position if it does occur.

✓

CARD

02/03/1995 01:39:08 PM P.1
EXHIBIT 2
DATE 2-6-95
HB 279

Facsimile Cover Sheet

TO: Chairman Appropriations Comm.
Rep. Tom Zook

FROM: Bolstad Angus Ranch
Jon Bolstad
Homestead, Mt. 59242

DATE: 02/03/1995

Number of Pages: 1

Message:

Dear Rep. Zook,

I would like to express my support for House Bill 279, which would increase the bonding authority of the Renewable Resource Loan Program, which our farm/ranch has been a part of.

This program has been very helpful to many producers throughout the state in developing our natural resources. Many producers would not have been able to develop their natural resources if it wouldn't have been for this money being available at a reasonable rate of interest.

Development of Montana's natural resources benefits every person in the state in one way or another. So the passage of HB 279 should be strongly considered and supported. Thank you.

Sincerely,

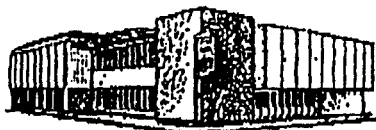
Jonathan Bolstad
James S. Bolstad

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(406) 963-2325

11-05-91 06:33PM P001 #15

GARY R. LOVE
SR. VICE PRESIDENT
(406) 683-2303



EXH. BIT 3
DATE 2-6-95
HB 279

STATE BANK & TRUST COMPANY

ESTABLISHED 1899

P.O. BOX 1227

DILLON, MONTANA 59725

February 3, 1995

Tom Zook, Chairman House Appropriations Committee

RE: House Bill 279

Dear Representative Zook:

State Bank and Trust Company supports the passage of House Bill 279 which will increase the bonding authority of the Renewable Resource Loan Program.

This program has been very beneficial to several of our customers by making funds available for sprinkler irrigation enhancements. This program has helped fill a needed source for the financing of sprinkler equipment.

Please support the bill.

Thank you,

Gary R. Love
Sr. Vice President

GRL/jd

EXHIBIT 4

DATE 2-6-95

HB 279

STEVE COTTOM
PO BOX 1007
MILLON, MT 59725

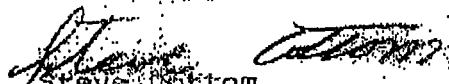
FEB 6, 1995

STATE LEGISLATURE
CHAIRMAN OF HOUSE APPROPRIATIONS COMMITTEE
REPRESENTATIVE TOM ZOOK

Dear Representative Zook:

I would like to support House Bill 279 to increase bonding authority for the DNRC. We received a water development loan in 1994 for the construction of a gravity system that enabled us to eliminate 8 electric irrigation pumps, and to save the seepage loss on 4.5 miles of irrigation ditches. Without this program we would have not been able to put this project together.

Sincerely,



Steve Cottom
Cotton & Sons Inc
Cotton Farms Inc



EXHIBIT 5
DATE 2-6-95
HB 279

P.O. BOX 417
TWIN BRIDGES, MONTANA 59754-0417
PHONE (406) 684-5878
FAX (406) 684-5842

P.O. BOX 587
SHERIDAN, MONTANA 59749-0587
PHONE (406) 842-5411
FAX (406) 842-5570

CORRESPONDENCE FROM:

Twin Bridges

February 6, 1995

Representative Tom Zook
Chairman, House Appropriations Committee
Montana Legislature
Helena MT

Dear Chairman Zook:

I would like to go on record that Ruby Valley National Bank is in support of HB 279 which will increase the bonding authority of the Renewable Resource Loan Program.

We have customers who have used this loan program in the past, and they have been helping in their overall financial situations.

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'Ken Walsh', is written over a horizontal line.

Kenneth M. Walsh
President

KMW/mmp

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Appropriations COMMITTEE BILL NO. AB 13
 DATE 2-6-95 SPONSOR(S) AB 189
AB 279

PLEASE PRINT

PLEASE PRINT

PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
MIKE MURPHY	MT. WATER RES. ASSN.	HB279		X
Joe Thomas	CASH BENEFIT FOR VETERANS	HB 13		X
Dick Baumbarger	DAV	HB13		X
Ray Beck	INRC	HB279		X
Jim Tupper	DNRC	HB279		X
Joe Brand	VFW	HB13		X
Jim Jeske	MT VET AFF D'U	HB13		X
W. CRAMER	US NAVY	HB13		X
Rep Pavlovich	HD 37	HB-13		X
Mike Volesky	MT Assoc of Cons. Districts	HB 279		

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