

## MINUTES

### MONTANA HOUSE OF REPRESENTATIVES 54th LEGISLATURE - REGULAR SESSION

#### COMMITTEE ON APPROPRIATIONS

**Call to Order:** By CHAIRMAN TOM ZOOK, on January 25, 1995, at  
3 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:** Taryn Purdy, Office of 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 10, HB 12, HB 197  
Executive Action: HB 10 DO PASS AS AMENDED, HB 12 DO PASS  
AS AMENDED, HB 116 TABLED

HEARING ON HB 197Opening Statement by Sponsor:

REP. DAVID EWER, HD 53, Helena, opened the hearing on this bill which deals with investments made with public money by local governments and school districts. He stated this bill would specifically define the ways local government and school districts could invest their monies. Under current law, local governments can invest money in direct obligations, such as U.S. treasury bills, notes and bonds which are held in a special custody account by an independent trust company with the federal reserve bank of agencies of the U.S. REP. EWER believes that we should spell out precisely what is meant by "agencies" and he specified the following: (1) a federal home loan bank; (2) a federal national mortgage association; (3) a federal home mortgage corporation and, (4) a federal farm credit bank. He then referred to page 2, line 11 which stated, "An investment in an agency of the U.S. is authorized under this section if the investment is a general obligation of the agency and has a fixed or zero-coupon rate and does not have prepayments that are based on underlying assets or collateral, including but not limited to, residential or commercial mortgages, farm loans, multi-family housing loans, or student loans." REP. EWER referred to the recent financial problems in Orange County, California, where money was invested in federal government bonds. The county lost millions of dollars as the values of their securities dropped dramatically -- he does not want that to happen to the state of Montana. This bill would strip out of the present law any unnecessary and unclear language, and specifically provide guidelines and policies to the people authorized to transact financial business for local governments and school districts. Under current law, school district money can only be invested in direct obligations. REP. EWER wanted to reiterate that the average maturity for these funds would not exceed 397 days, making long-term investments impractical. He stated he wanted this bill to define specifics on investment policies, but be flexible enough for local governments and school districts to make responsible decisions. He tried to clarify investment practices so newly elected county treasurers with little or no experience in investments would understand the law.

{Tape: 1; Side: A; Approx. Counter: 19.4.}

Proponents' Testimony:

Tim Burton, Executive Assistant, Lewis and Clark County Commission, Helena, said this legislation was well thought out and the county commissioners fully support it. It would greatly enhance the ability of the counties to manage their investments properly.

**Courtney Harrington, Montana County Treasurers Association, Helena,** agreed with **REP. EWER** and fully supports this bill. Legislation that was introduced in past sessions did not contain the specific language included here. He mentioned that, in hindsight, it was good the previous bills did not pass.

**Jim Haweth, Taxpayer in Lewis and Clark County, Helena,** said he retired from the Board of Investments as Chief Investment Officer in 1988. At that time there was a 180-day limit on market securities purchased by certain school districts. Last year in the bond market, direct obligations of US treasury notes would have lost 17 to 18 percent of the principle if they were bought the beginning of the year and sold at the end of the year. He said he was only talking about counties and school districts' operating funds. He suggests a limit of maturity placed on investments of one year or less. This would not apply to bonds or endowment funds for counties or school districts. When a long-term maturity is bought, there is risk of the interest rate fluctuating and becoming volatile. These policies are clear and would minimize those problems.

*{Tape: 1; Side: A; Approx. Counter: 25.8.}*

**Gary Buchanan, President of Dain Bosworth, Co., Billings,** worked with **REP. EWER** on this issue. Municipality investments were limited to 180 days when he first started in this business. He has seen many extremes in this type of market -- the pendulum swings too far -- and he fully supports the specific language provided for in this bill. The Attorney General's office has a list of the investments that are legal for municipalities, and that has probably kept them out of trouble. There are more mutual funds today than stocks at the New York Stock Exchange, and they have created mobility for municipalities. He feels it is paramount to be able to hold investments to maturity. He also stated that most people don't know who they are investing with and they should. The five investments on page 1 of the bill have always been proven to be well respected. This bill would eliminate the collateral mortgage obligations (CMOs), so basically it limits types of securities, class of direct obligations bonds and reduces the potential for local governments to get in trouble with their investments.

**John Cadby, Montana Bankers Association,** said he also supports the bill.

**REP. WILLIAM WISEMAN, HD 41, Great Falls,** is in favor of the bill but stated it needs some fixing. He used an example of a newly elected county treasurer who doesn't know enough about investments, federal notes, bonds, etc. to invest the money properly. He cited a January 20, 1995, Wall Street Journal article, where a branch of the U.S. Army had invested \$19 million in a federal home loan which paid 4 3/4 percent. When the interest rates changed, the federal home loan bank rate changed

and today the U.S. Army fund is getting "zero" interest until maturity. **REP. WISEMAN** then referred to a memo dated January 25, 1995 to Scott Seacat, Legislative Auditor, which deals with county investments. At the request of **SPEAKER JOHN MERCER**, a survey was conducted in all the counties across Montana to determine how public funds were being invested. Each county treasurer was contacted to see if they followed any certain investment policies. Of the 31 counties that responded so far, there was a wide variation of policies being used -- some counties invest with local banks and credit unions, some with the state investment pool, some with in-state securities brokerage firms, and some with out-of-state firms and independent brokers. This survey showed a real potential for concern regarding investment practices. **REP. WISEMAN** wants to fix this bill so county treasurers know what is expected of them. He would like to cut out the mutual funds and limit anyone with a short term rate to simply invest funds in STIP (the short-term investment pool). It would be a good rate of interest. He also feels that school district money should be invested the same as local government money. He further stated that this bill is a good start, but needs the proper amendments to make it work better.

**EXHIBIT 1.**

**Opponents' Testimony:**

None.

*{Tape: 1; Side: A; Approx. Counter: 41.9.}*

**Questions From Committee Members and Responses:**

**REP. ROGER DEBRUYCKER, HD 89, Floweree**, asked **REP. EWER** if he agreed with **REP. WISEMAN's** recommendations. **REP. EWER** stated he is against some of the recommendations. The U.S. Army investment would not be legal under this bill and therefore that problem would not occur. He referred to page 2 of the bill, line 12, "...investment... has a fixed or zero-coupon rate..." He also disagrees that the term needs to be tied down to a certain timeframe. He appreciates this process as it enables them to have a difference of opinion.

**REP. MIKE KADAS, HD 66, Missoula**, asked **REP. EWER** if he had seen the memo referred to by **REP. WISEMAN**. He said he was aware of their research efforts and that the memo covers some good points. He also said that some guidelines are too hard to define, but he wouldn't be opposed to changing some of them. Many out-of-state securities dealers are unscrupulous. **REP. EWER** hopes investments are clear enough so people know what they are. Maybe it would require more paperwork but that is apparent.

**REP. KADAS** asked **REP. WISEMAN** if he knew why **SPEAKER MERCER** asked for the county survey. **REP. WISEMAN** stated that because of the

financial fiasco in Orange County, California, and problems in Lewis and Clark County, **SPEAKER MERCER** had requested the survey to find out exactly how investments were handled in our state, what guidelines and policies the counties used and if they were the same across the state.

**Scott Seacat, Legislative Auditor, Helena**, told the committee that **SPEAKER MERCER** asked them to conduct the survey to see how many different ways the counties were investing money.

{Tape: 1; Side: A; Approx. Counter: 52.6.}

**REP. JOE QUILICI, HD 36, Butte**, referred to page 3 of the memo to **Scott Seacat**. He was surprised to find that 31 of the counties that responded had total investments of over \$391 million. He asked **REP. EWER** to explain the CMOs (collateral mortgage obligations) because over \$65 million of those funds were invested in those. **REP. EWER** explained that until 15 years ago, the standard way was to get bank loans. They wanted to standardize the way home buyers could invest, so the federal government tried to find a way to fund mortgages into a large pool and have those pools approved by **GINNIE MAE** and other companies. They put all the mortgages into a federal bond. These investors are buying a whole pool of mortgages guaranteed by the federal government; their coupon is a payment in interest and principle. But, the problems caused by this were from people prepaying their loans without any penalty. The life of the bond was an unknown if the mortgage was paid off early because that would significantly reduce the number of years. This bill would eliminate those problems.

**REP. KADAS** asked **Scott Seacat** if he knew when the rest of the counties would be responding. **Mr. Seacat** said that his office is continuing to receive the information and will update the survey results as they come in.

**REP. ROYAL JOHNSON, HD 10, Billings**, asked **Mr. Buchanan** if the CMOs were a good investment. **Mr. Buchanan** stated that the risks from CMOs were considerably higher than other securities. **REP. JOHNSON** asked if he knew of other serious investment losses in the last two years. **Mr. Buchanan** said some risks include the amount of time it takes to get the principle to rise back up. Investors base their presumptions on how long it takes money to make a return. It used to take about eight months for a bond to get one-half of the principle back. Now, it could take 12 years. **REP. JOHNSON** asked if he could identify a group of derivatives that have caused the most problems in Montana and **Mr. Buchanan** said that probably would be the CMOs.

**REP. JOHNSON** said the 397 days allowed in this bill would take care of a lot of problems. He stated that for 40 years he has tried to suggest limiting the use of out-of-state investment vendors. **Mr. Seacat** said the current investment advisor for the state of Montana is an out-of-state person.

{Tape: 1; Side: A; Approx. Counter: 65.8.}

**Closing by Sponsor:**

REP. EWER closed by stating that not all CMOs are derivatives. We need to invest our money for longer than 180 days and this bill should provide sufficient guidelines and policies for local governments and school districts across the state. We know we have a problem in Montana and it's time to get back money on our investments.

{Tape: 1; Side: A; Approx. Counter: 68.0.}

**HEARING/EXECUTIVE ACTION ON HB 12**

**Discussion:** REP. QUILICI sponsored this bill which was heard in Long Range Planning Subcommittee. REP. BERGSAGEL summarized the hearing on HB 12 which deals with issuing general obligation bonds to fund the energy conservation program. He also reviewed REP. QUILICI's amendment that deals with the Northern Campus of Montana State University where they will be involved in a pilot retrofit project. This will also include private money as well as general obligation bonds. **EXHIBIT 2.**

**Motion:** REP. QUILICI MOVED HB 12 AMENDMENT DO PASS.

**Discussion:** REP. QUILICI stated this program started in 1989 and has worked quite well. The Northern campus of Montana State University worked with Johnson Controls Company to perform an energy audit. He discussed the issue with Johnson Controls and they said if they do the retrofit, they would "pick up the tab." This amendment puts the private sector with the public sector on retrofits. In the long run, it would save the state money and save a lot of energy.

**Proponents' Testimony:**

Tom Livers, Energy Division, Department of Natural Resources and Conservation, Helena, submitted his written testimony on HB 12. Specifically referring to the amendment, the performance contracting is one mechanism that has been used in the private sector throughout the state for financing retrofits. The main benefit of performance contracting is that the work can be done faster and will increase the economic return for the state. He recommends the pilot project with DNRC last for two years at which time they will have the results and recommendations available. **EXHIBIT 3.**

REP. ROYAL JOHNSON asked about the amendment where it stated that Northern shall use general obligations bonds as well as fees and revenues provided by students. REP. QUILICI answered that they wanted to differentiate between the two because the student fees go into the long range building program.

Vote: Motion that HB 12 Amendment Do Pass carried unanimously.

Motion/Vote: REP. COBB MOVED HB 12 DO PASS AS AMENDED. Motion carried unanimously.

{Tape: 1; Side: A; Approx. Counter: 75.3.}

#### HEARING ON HB 10

Discussion: REP. MATT MCCANN, HD 92, Harlem, opened the discussion on HB 10 which appropriates oil overcharge money for state programs. This bill had also been heard in the Long Range Planning Subcommittee. These funds are appropriated to the state by the federal Department of Energy. The Department of Natural Resources and Conservation (DNRC) oversees the oil and gas program for the state of Montana. When the program first began in 1973, funds came from the oil overcharge payments. The money in the amendment is from stripper well payments. \$10,000 is appropriated from stripper well payments and \$125,000 to Northern Campus of Montana State for the college tractor resource center. \$200,000 per biennium will be used to fund additional conservation programs that assist schools and hospitals and efficiency study projects. These funds are matched with private funds. EXHIBIT 4.

#### Proponents' Testimony:

REP. QUILICI stated he thought this was a good project and supports this bill.

#### Opponents' Testimony:

None.

#### Questions From Committee Members and Responses:

REP. ROYAL JOHNSON, HD 10, Billings, asked REP. BERGSAGEL if he considered this bill earmarking money, since most of the legislature has been trying to de-earmark money. REP. BERGSAGEL said since this was federal money they could not de-earmark it. After settlements of lawsuits in the 1970s, the federal

government regulated that the money be spent on energy efficiency programs. The lawsuits stemmed from larger oil companies overcharging consumers. When the lawsuits were settled, funds were allocated back to the states with the stipulation that the states spend the money on retrofit systems, energy assistance or energy savings programs. **REP. JOHNSON** asked how a department or institution applies for the money. **REP. BERGSAGEL** said most apply to the Governor. In the case of Northern, they requested to be involved in the ethanol project for their tractor resource center.

**REP. BETTY LOU KASTEN, HD 99, Brockway**, said that this is not the first time the Northern campus has been included. **REP. BERGSAGEL** said that Northern was approved in the last session. At that time they started new programs for energy efficiency and had indicated they would be self sufficient if funded. They requested about \$200,000, but were only half funded in the Special Session. They are still not self sufficient in the program but know they are not going to receive additional funds. **REP. KASTEN** asked if they gave any reason why they wanted to extend the program. **REP. BERGSAGEL** pointed out that their program was well received and they were showing significant savings on evaluations. **REP. QUILICI** clarified that when we start receiving oil overcharge funds, the federal government set some stringent guidelines as to how those funds were to be allocated. It was very specific that the Legislature would appropriate money every biennium so they would have a handle on these funds.

**REP. MIKE KADAS, HD 66, Missoula**, asked **Van Jamison, Administrator of the Energy Division, DNRC, Helena**, if he anticipated \$200,000 new money in this biennium. **Mr. Jamison** said that there were three major oil overcharge settlements outstanding -- Chevron, City Services and Citronel. He doesn't anticipate those being settled in the next two years. They could have \$500,000 in settlements or \$1.5 million for all three. **REP. KADAS** asked if there were any carryover funds. **Mr. Jamison** told the committee that DNRC starts with a zero balance concerning stripper well allocations. Once the funds are in the programs, they have to stay in those programs and cannot be legally transferred from one program to another.

*{Tape: 1; Side: B; Approx. Counter: 0.1.}*

**REP. ZOOK** said it was his understanding that the amendments adopted in the Long Range Planning Subcommittee were part of the bill. **REP. BERGSAGEL** agreed but said that the Appropriations Committee needed to adopt the amendments also.

**Motion/Vote:** **REP. COBB MOVED HB 10 AMENDMENT DO PASS.** Motion carried 17-1 with **REP. KASTEN** voting no.

Motion/Vote: REP. BERGSAGEL MOVED HB 10 AS AMENDED DO PASS.  
Motion carried 15-3 with REPS. COBB, KASTEN and ROYAL JOHNSON  
voting no.

{Tape: 1; Side: B; Approx. Counter: 1.5.}

EXECUTIVE ACTION ON HB 116

Motion: REP. COBB MOVED HB 116 AMENDMENT DO PASS. EXHIBIT 5.

Discussion: HB 116 appropriates money to the state fund for rate reduction and stabilization for workers' compensation insurance. There would be \$20 million per biennium allocated from the general fund to maintain or reduce rates for workers' compensation insurance.

Vote: Motion that HB 116 Amendment Do Pass carried 13 - 1, with REP. DEBRUYCKER voting no.

Motion: REP. COBB MOVED HB 116 DO PASS AS AMENDED.


Discussion: REP. WISEMAN asked where the \$20 million was going to come from. REP. COBB said that if the Governor would veto the bill to return the surplus money back to the taxpayers, the money could come from that. He then said that it could come from Coal Tax money or property tax relief.

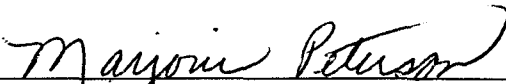
Vote: Motion HB 116 Do Pass As Amended failed 5 - 9 on a roll call vote, with REPS. BERGSAGEL, COBB, DEBRUYCKER, HOLLAND and QUILICI voting yes.

Motion/Vote: REP. COBB MOVED HB 116 AS AMENDED BE TABLED.  
Motion carried 12 - 2 with REPS. DEBRUYCKER and WISEMAN voting  
no.

ADJOURNMENT

Adjournment: 5:10 p.m.

  
TOM ZOOK, Chairman

  
MARJORIE PETERSON, Secretary

TZ/mp

# HOUSE OF REPRESENTATIVES

## Appropriations

ROLL CALL

DATE 1-25-95

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

January 26, 1995

Page 1 of 3

Mr. Speaker: We, the committee on Appropriations report that **House Bill 10** (first reading copy -- white) do pass as amended.

Signed: \_\_\_\_\_

*Tom Zook*  
Tom Zook, Chair

And, that such amendments read:

1. Page 1, line 10.  
Following: "through."  
Strike: "8"  
Insert: "10"

2. Page 1, line 13.  
Following: "through"  
Strike: "8"  
Insert: "10"

3. Page 3.  
Following: line 9  
Insert: "NEW SECTION. Section 5. Petroleum substitutes from agricultural products -- appropriation. There is appropriated \$10,000 from the stripper well payments contained in the federal special revenue fund to the department of natural resources and conservation to foster expanded use of alternative transportation fuels derived from agricultural products that may reduce petroleum consumption, produce environmental benefits to Montana, and result in potential new cash crops for Montana farmers. Money expended under this appropriation must be matched at least dollar for dollar with private or federal revenue, or both."

Committee Vote:  
Yes 15, No 3.

221109SC.Hdh

Renumber: subsequent sections.

4. Page 3.

Following: line 14

Insert: "NEW SECTION. Section 7. Northern Montana college tractor resource center -- appropriation. There is appropriated \$125,000 from the stripper well payments contained in the federal special revenue fund to northern Montana college to support the ongoing activities of the northern Montana college tractor resource center."

Renumber: subsequent sections.

5. Page 3, line 26.

Following: "through"

Strike: "6"

Insert: "8"

6. Page 3, line 27.

Following: "sections 4"

Strike: "and 5"

Insert: "through 7"

7. Page 4, line 1.

Following: "section"

Strike: "6"

Insert: "8"

8. Page 4, line 4.

Following: "(1)"

Strike: "The appropriation in [section 4] is given a higher priority than the appropriation in [section 5]."

Insert: "The appropriations in [section 4 through 7] are approved in order of priority as they appear in [sections 4 through 7]."

9. Page 4, line 6.

Strike: "the program that is funded by [section 4]"

Insert: "one or more of the programs that are funded by [sections 4 through 7]"

10. Page 4, line 8.

Strike: "1"

Insert: "4"

11. Page 4, line 9.

Following: "sections"

Strike: "1"

Insert: "4"

12. Page 4, line 13 and 18.  
Following: "sections 4"  
Strike: "and 5"  
Insert: "through 7"

13. Page 4, line 23.  
Following: "sections 4"  
Strike: "and 5"  
Insert: "through 7"

-END-



## HOUSE STANDING COMMITTEE REPORT

January 26, 1995

Page 1 of 2

Mr. Speaker: We, the committee on Appropriations report that House Bill 12 (first reading copy -- white) do pass as amended.

Signed: \_\_\_\_\_

*Tom Zook*  
Tom Zook, Chair

And, that such amendments read:

1. Page 2, line 2.

Following: "[section 4]"

Strike: "\$600,000"

Insert: "\$625,000"

2. Page 2.

Following: line 27

Insert: "Montana State University-Northern"

3. Page 3.

Following: line 8

Insert: "(5) The retrofit of Montana state university-northern must be conducted as a pilot project, using performance contracting. Montana state university-northern shall use state general obligation bonds authorized under [section 4] to fund energy efficiency improvements in campus buildings used for instructional purposes. Montana state university-northern may provide financing other than state general obligation bonds for energy efficiency improvements in buildings supported by student fees and revenue. Whenever state general obligation bonds are used, resulting energy cost savings must be transferred to the energy conservation program account as provided in 90-4-614, MCA. If funding other than state general obligation bonds is used for improvements in buildings supported by student fees and revenue, a performance contract must be developed jointly by

Committee Vote:

Yes 18, No 0.

221132SC.Hbk

Montana state university-northern, the department of natural resources and conservation, and the department of administration and any resulting energy cost savings in these buildings in excess of debt service and program costs must remain with the auxiliary services at Montana state university-northern."

4. Page 3, line 12.  
Following: "exceed"  
Strike: "\$5"  
Insert: "\$5.5"

-END-

**HOUSE OF REPRESENTATIVES  
54TH LEGISLATIVE SESSION - 1995**

**ROLL CALL VOTE**

**APPROPRIATIONS COMMITTEE**

DATE 1-25-95 BILL NO. HB 116

MOTION Rep. Cobb moved HB 116 Do Pass  
As Amended. motion failed 5-9.

NAME	AYE	NO
Rep. Ed Grady, VICE CHAIRMAN, MAJORITY		✓
Rep. Beverly Barnhart		
Rep. Ernest Bergsagel	✓	
Rep. John Cobb	✓	
Rep. Roger DeBruycker	✓	
Rep. Gary Feland		
Rep. Marjorie Fisher		✓
Rep. Don Holland	✓	
Rep. John Johnson		
Rep. Royal Johnson		
Rep. Mike Kadas		✓
Rep. Betty Lou Kasten		✓
Rep. Matt McCann		✓
Rep. Red Menahan		✓
Rep. Joe Quilici, VICE CHAIRMAN, MINORITY	✓	
Rep. Steve Vick		✓
Rep. Bill Wiseman		✓
Rep. Tom Zook, CHAIRMAN		✓

EXHIBIT 1  
DATE 1-25-95  
HB 197

M E M O R A N D U M

DATE: January 25, 1995

TO: Scott A. Seacat

FROM: Wayne Kedish, Audit Manager  
Chuck Nemec, Financial-Compliance Auditor

RE: County Investments

At the request of Speaker John Mercer, we surveyed the 56 counties to determine how public funds are invested. Each county treasurer was contacted to determine if the county followed a written investment policy or made investment decisions through an investment committee. We requested investment account balances to determine the type of investment alternatives. As of January 24, 1995 we have received data from 31 counties.

Our analysis indicated there is a wide variation of investment policies. Counties may invest funds by following written policy or by relying on county personnel. Investment decision responsibility is not clearly and consistently defined at the county level. Authority may be held by the commissioners, the treasurer, an investment officer, or an investment committee composed of county and community representatives. We found a broad diversity of investment alternatives available to the counties. Counties invest funds with local financial institutions (banks and credit unions), the state investment pool, in-state securities brokerage firms, out-of-state brokerage firms, and independent brokers. Financial representatives offer a broad choice of investment alternatives to the counties. These choices range from passbook accounts to complex market-sensitive financial instruments such as Collateralized Mortgage Obligations (CMOs) which derive value from the performance of other securities.

Our survey indicates there is a potential for concern regarding county investment practices.

Because of the broad latitude of investment alternatives available, the legislature may wish to consider the following:

1. limitations on allowable investments;
2. guidelines for investment maturity dates;
3. guidelines for establishing a management structure and policies for local government investment activities;

4. limitations on the use of out-of-state investment vendors;
5. requiring investment vendors to certify that investments offered for sale to local governments are legal investments for the invested funds.

The attached spreadsheets provide results of the survey. Exhibit 1 presents the types of investments and amounts invested by the 31 responding counties. Exhibit 2 illustrates a market value analysis of CMOs from two selected county portfolios.

WK/k/aa7.mem

EXHIBIT 1  
DATE 1-25-95  
HB 197

OFFICE OF THE LEGISLATIVE AUDITOR  
INVESTMENT DATA FROM 31 COUNTIES AS OF JANUARY 24, 1995

EXHIBIT 1

POOLED INVESTMENTS TOTAL      PERCENT OF  
TOTAL

CDs	\$35,357,349	9.04%
Mutual Funds	\$1,779,193	0.45%
Savings Accts.	\$7,779,728	1.99%
Checking Acct	\$10,376,615	2.65%
TREASURIES	\$15,636,995	4.00%
FNMA	\$983,662	0.25%
STIP	\$162,134,585	41.44%
Money Market Accts	\$17,153,060	4.38%
Repurchase Agreements	\$33,099,369	8.46%
U.S. Govn't Securities	\$34,868,974	8.91%
Mortgages	\$6,121,050	1.56%
Other -- Specify	\$4,790	0.00%
CMO	\$65,273,158	16.68%
Federal Farm Credit	\$500,000	0.13%
Registered Warrants	\$224,866	0.06%
FUNDS INVESTED	\$391,293,394	100.00%

OFFICE OF THE LEGISLATIVE AUDITOR  
EXHIBIT 2 – ANALYSIS OF SAMPLE CMO'S FROM  
SELECTED COUNTIES – JANUARY 24, 1995

	SECURITY	COUPON	MATURITY	SECURITY	PURCHASE	MARKET*	HIGH RISK
		RATE	DATE	AMOUNT	PRICE	VALUE IF SOLD 1/24/95	TEST RESULTS
COUNTY "A"							
#1	5%	4/25/21	\$1,000,000	\$939,375	\$800,000	FAIL	
#2	5.75%	4/25/23	\$875,500	\$835,829	\$621,605	FAIL	
#3	6.5%	11/15/18	\$1,000,000	\$992,656	\$880,000	PASS	
#4	5%	1/25/07	\$1,000,000	\$939,375	\$800,000	FAIL	
#5	6.26%	7/25/19	\$2,000,000	\$1,999,688	\$1,760,000	PASS	
#6	7%	11/15/22	\$620,000	\$620,000	\$527,087	FAIL	
#7	7.5%	11/25/22	\$855,000	\$859,275	\$749,835		
#8	7%	4/15/23	\$440,012	\$440,012	\$374,010	FAIL	
#9	7%	4/25/23	\$1,218,328	\$1,218,328	\$1,012,991	FAIL	
#10	7%	4/25/23	\$1,195,000	\$1,197,988	\$997,801	FAIL	
#11	7%	9/15/23	\$1,200,000	\$1,200,000	\$1,023,336	FAIL	
#12	7%	9/15/24	\$850,525	\$850,525	\$695,253	FAIL	
#13	8.25%	9/15/23	\$1,600,000	\$1,502,000	\$1,495,184	FAIL	
#14	7%	3/25/24	\$1,635,757	\$1,603,042	\$1,364,532		
#15	6.25%	8/25/19	\$1,000,000	\$999,688	\$870,000	PASS	
COUNTY "B"							
#1	7%	5/15/08	\$500,000	\$500,000	\$437,500	FAIL	
#2	7%	11/15/22	\$500,000	\$490,000	\$425,070	FAIL	

NOTE: WE DID NOT VALUE PORTFOLIO ITEMS OTHER THAN COLLATERALIZED  
MORTGAGE OBLIGATIONS (CMO's) OR SIMILAR SECURITIES.

\*MARKET QUOTES ARE DETERMINED USING BLOOMBERG ANALYSIS ON 1-24-95.

**Amendments to House Bill No. 12**

**For the House Appropriations Committee**

**January 25, 1995**

1. Page 2, Line 2.

Following: "[section 4]"

Strike: "\$600,000"

Insert: "\$625,000"

2. Page 2.

Following: line 27

Insert: "Montana State University--Northern"

3. Page 3.

Following: line 8

Insert: "(5) The retrofit of Montana State University--Northern shall be conducted as a pilot project using performance contracting. Montana State University--Northern shall use state general obligation bonds authorized under [Section 4] to fund energy efficiency improvements in campus buildings used for instructional purposes. Montana State University--Northern may provide financing other than state general obligation bonds for energy efficiency improvements in buildings supported by student fees and revenues. Whenever state general obligation bonds are used, resulting energy cost savings shall be transferred to the energy conservation program account as provided in 90-4-614, MCA. If funding other than state general obligation bonds is used for improvements in buildings supported by student fees and revenues, the financing terms for these buildings shall be provided for in a performance contract developed jointly by Montana State University--Northern, the department, and the department of administration, and any resulting energy cost savings in these buildings in excess of debt service and program costs shall remain with the auxiliary services at Montana State University--Northern."

4. Page 3, Line 12.

Following: "exceed"

Strike: "\$5 million"

Insert: "\$5.5 million"

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION  
TESTIMONY ON HOUSE BILL 12

INTRODUCTION

My name is Tom Livers. I'm representing the Department of Natural Resources and Conservation, and I'm here to support House Bill 12.

In 1989 the Montana Legislature unanimously established the state buildings energy conservation program. This program sells general obligation bonds to pay for energy efficiency improvements, then uses the energy cost savings to cover debt service on the bonds.

Each biennium the Department of Natural Resources and Conservation presents the Governor's Office and the Legislature a proposed energy retrofit package. House Bill 12 contains the retrofit package proposed by DNRC and recommended by the Governor's Office for the 1996-97 biennium.

WHAT HOUSE BILL 12 DOES

This bill saves state government money. It reduces operating costs in state buildings by increasing their energy efficiency. In doing so, the program creates private sector jobs, and saves the state more money than it spends.

I'd like to call your attention to the chart I've handed out. The top line shows current utility costs for the facilities we're proposing to retrofit, projected over twenty years. This is the projected cost to the state if we do none of this work.

The lower line shows the projected annual cost if the bonds are sold and the energy conservation work is done. It includes both the reduced utility costs and the bond repayment. In this example, the bonds are retired in ten years, which accounts for the sharp drop halfway through on the lower line.

The area between the two lines represents the estimated savings to the state. As you can see, the state realizes a small net savings, even while the bonds are being repaid, and considerably greater savings once the bonds are retired.

In this manner, the program operates as a profit center for state government, even in the short term. Last year, after paying debt service and operating expenses, the program transferred \$194,488 of excess savings into the state's long-range buildings program.

I think this chart clearly points out that there is a significant cost to the state associated with not doing this work. In other words, the cost of doing nothing is greater than the cost of doing the work proposed in this bill. We've reached the point where we can't afford the cost of doing nothing.

**Specifically, House Bill 12 does four things:**

1. It authorizes up to \$5 million in general obligation bonds for energy conservation projects for the coming biennium.
2. It appropriates \$600,000 in bond proceeds to the Department of Natural Resources and Conservation to pay for engineering analysis, design work, training of state building operators and program administration.
3. It reappropriates \$100,000 in oil overcharge money to the Department of Natural Resources and Conservation for this same purpose.
4. It streamlines and reduces program administration.

I'll speak briefly to each of these actions.

1. Authorization for up to \$5 million in general obligation bonds for the 1996-1997 biennium.

The \$5 million in bond proceeds will fund energy efficiency improvements at several state facilities:

- Montana Tech of the University of Montana
- Montana State University at Billings
- University of Montana at Missoula
- Veterans' Home, Columbia Falls
- Kalispell National Guard Armory
- Helena National Guard Armory
- Capitol Complex:
  - Scott Hart Building
  - Office of Public Instruction Building
  - Mitchell Building (heating system)
  - State Capitol

As you can anticipate, some of these projects may be impacted by other restoration and maintenance work proposed this session. My department will continue to work closely with the state's Architecture & Engineering Division to ensure that all work is coordinated and that we minimize costs and maximize work accomplished. Where appropriate, these energy projects will be incorporated into larger maintenance and restoration efforts coordinated by A&E. The energy projects proposed here make economic sense regardless of what action the Legislature chooses to take on state maintenance and restoration projects. I've included in your packet a summary of these projects; at the end of the testimony I would be happy to answer questions on them.

Last session the Legislature directed the Department to ramp up this program, thus capturing more energy and cost savings sooner. The increase this biennium from \$3 million to \$5 million in bond authorization reflects this ramp up. The second action in HB 12 -- the appropriation of \$600,000 in bond proceeds -- also reflects this ramp up.

**2. Appropriation of \$600,000 in bond proceeds.**

This past October the Department issued \$1.5 million in general obligation bonds authorized last session to fund retrofits at several state buildings. We plan to issue up to an additional \$1.5 million this spring for more projects. This provision in HB 12 would appropriate \$600,000 of the proceeds from these two issuances to pay for engineering analysis, design work, training of state building operators and program administration. Most of this work is contracted out to private sector engineers and architects.

Each biennium, a portion of the bond proceeds is set aside to pay for these costs for the next cycle of buildings. In this manner the program reseeds itself and is able to continue to operate without any general fund expenditures. This \$600,000 will enable the Department to operate the program at the ramped up \$5 million level requested by the 1993 Legislature.

**3. Appropriation of \$100,000 in oil overcharge money.**

This program was originally seeded with \$550,000 in oil overcharge money to pay for engineering analyses, design work, training of state building operators and program administration. HB 12 reappropriates unspent oil overcharge money to be used for the same purposes this biennium, which also reduces and delays the amount of bond proceeds needed for these activities, thus reducing financing costs.

**4. Streamlining and reducing program administration.**

When we first designed this program, we patterned it after the state's existing long-range building program. Parts of that process work well for this program, other parts don't. The administrative changes outlined here reduce and streamline program administration.

## SUMMARY

- This bill increases the efficiency and reduces the cost of state government. It saves both energy and money.
- It provides needed improvements to more than a dozen state buildings.
- The retrofit projects provide work in the private sector for local engineers, architects, craftsmen and suppliers.

It's often said that government should operate more like a business. In certain areas, that's possible. This is one place in which government does operate like a business. This program actually is a profit center for state government. It makes more money than it spends. And, in the process, it saves energy, creates jobs, and provides needed improvements to state facilities.

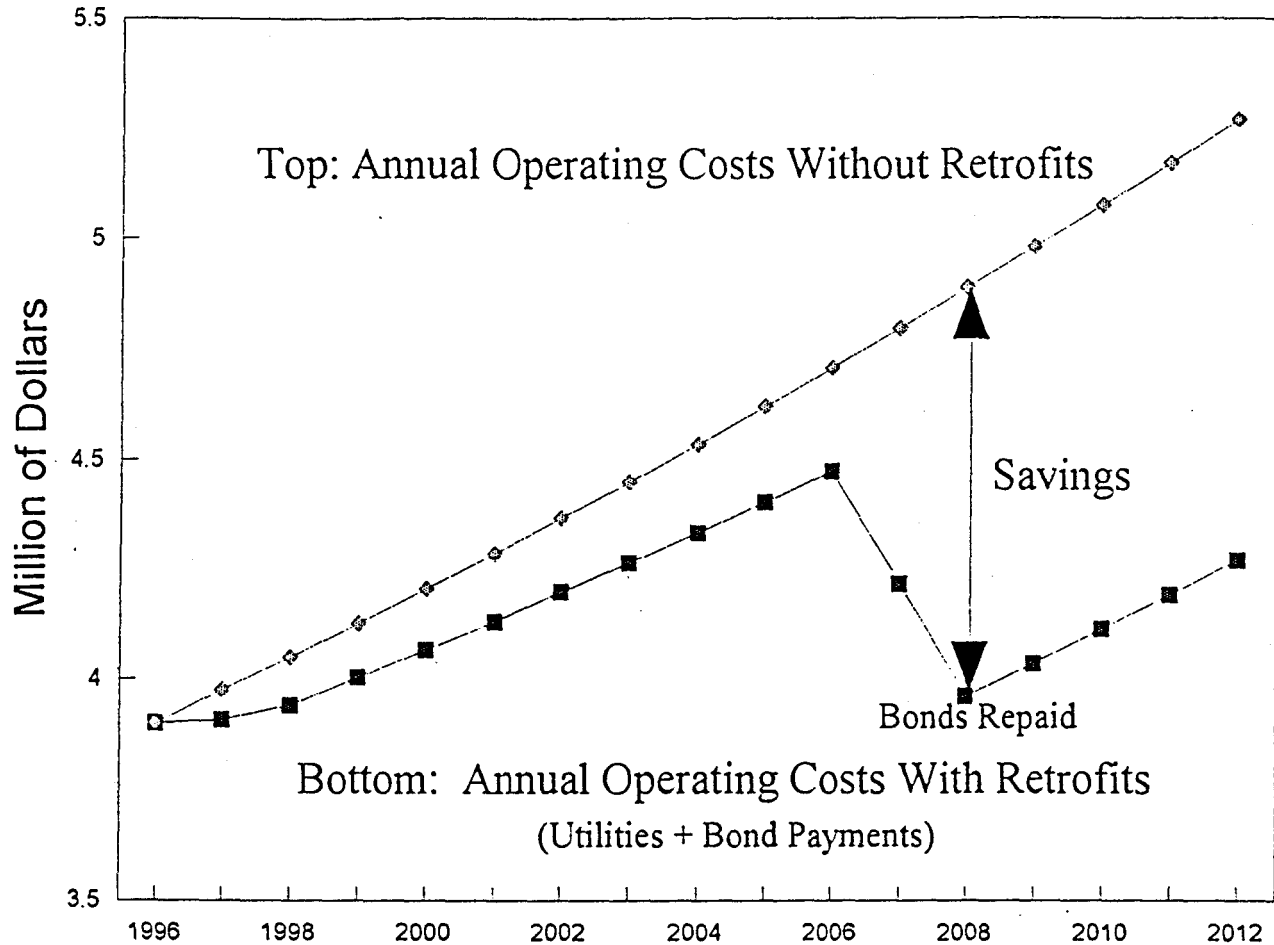
Previous legislatures have been so supportive of this program they have given us two specific directives: (1) to ramp up this program, and (2) to replicate this concept for other government facilities, starting with schools. We have managed to meet both directives.

To date we've completed 18 retrofits under the State Buildings Energy Conservation Program, and another 20 are in progress. I have included a list of these projects in your packet. We have ramped this program from \$3 million per biennium up to \$5 million. This is the maximum increment we believe feasible at this time while still maintaining a positive cash flow and ensuring program quality without increasing staff.

As for schools, during the testimony on House Bill 10 I mentioned  $E=mc^2$ , the energy program for schools developed and operated by the Department of Natural Resources and Conservation, the Montana Power Company, the State Board of Investments and the Office of Public Instruction. Like the State Buildings Program,  $E=mc^2$  is saving energy and tax money while creating work in the private sector.

The State Buildings Energy Conservation Program was seen as a good idea each of the last three sessions. It saves the state money, and it costs the state less to do this work than it does not to do it. The program was designed so that the Legislature has an opportunity to review and approve the work proposed each biennium. House Bill 12 represents your opportunity to review and approve the work for the coming biennium. I urge you to support this bill, and I will try to answer any questions you have. Thank you.

Projected Savings From HB 12



Fuel Cost Escalation Rate = 1.9% (Fuels Producer Price Index, compounded annual growth rate, Source: Fig 9, Attachment A, MPC's Load Forecast and ILCRP, Technical Appendix, March 1993. )

January, 1995

## SUMMARY OF PROJECTS UNDER HB 12

- **Montana Tech of the University of Montana**
  - **Mining Geology Building:** Upgrade heating and ventilation system controls, upgrade lighting, and add heat recovery ventilation.
  - **Central Heating Plant:** Add waste heat recovery from the exhaust gases to preheat the combustion air, upgrade boiler controls, and install small pony boiler for light load periods.
- **Montana State University at Billings**
  - **College of Technology Building:** Upgrade lighting and temperature control system, replace existing rooftop heating and ventilation systems, and rebalance heating and ventilation system.
  - **Physical Education Building:** Upgrade lighting system, replace existing motors with high efficiency motors, insulate pipes and boiler feedwater unit, install condensate return system from the main air handler pre-heat coil, modify boiler controls, expand the control function of existing energy management system, modify domestic hot water heating and laundry water system, add pool cover, and revise humidity control in pool area.
- **University of Montana at Missoula**
  - **College of Technology Building:** Upgrade temperature controls for heating and ventilation systems, convert electric resistance heating and electric domestic hot water heating to natural gas fired systems, and upgrade lighting.
- **Veterans' Home, Columbia Falls:** Upgrade fluorescent lighting fixtures and replace incandescent fixtures, upgrade control of mechanical systems to allow for nighttime setback, replace high KW electrical kitchen appliances including: ovens, griddle, frier and convection oven with gas fired appliances, replace electric commercial type dryer with gas fired type, and increase boiler combustion air and pre-heat combustion air with an air-to-air heat recovery system using hot exhaust gases from boiler stack.

- **Kalispell National Guard Armory:** Replace the boiler and domestic hot water heater with new high efficiency pony boilers, and replace thermostats with day/night thermostats.
- **Helena National Guard Armory:** Replace thermostats controlling the steam radiators with day/night thermostats, install a automatic damper control system to close the outside air dampers to the drill area when heating is required and replace standard fluorescent fixtures with new high efficiency electronic ballasts and T-8 lamps.
- **Capitol Complex:**
  - **Scott Hart Building:** Upgrade the heating system to allow the building to be heated with the new, energy efficient boiler that was recently installed, install a cooling tower to provide cooling water to the chillers, install new high efficiency motors and new temperature controls for the air handling systems in the newer section of the building, rebalance air handling systems to provide the required air flow in building, replace existing lighting with new high efficiency electronic ballasts and T8 lamps, reduce window area by 60% by installing R19 insulated panel, and remove remaining single pane windows and install low E, thermal-pane windows.
  - **Office of Public Instruction Building:** Replace rooftop heating units, upgrade lighting.
  - **Mitchell Building:** The Mitchell Building lighting system has been completely upgraded this past year. Current analysis is looking to reduce the cost of operating this building's HVAC systems as well as other components of the facility.
  - **State Capitol:** Upgrade the existing mechanical air handling equipment with variable air volume systems and new temperature control systems, upgrade lighting systems with high efficiency electronic ballasts and T8 lamps, compact fluorescent lamps and new metal halide fixtures. This project will be coordinated with any major renovation and restoration work.

Table 1  
STATUS OF PROJECTS SEPTEMBER 1, 1994

PROJECTS COMPLETED

Montana State Hospital  
Center for Aged  
SRS Headquarters  
School for Deaf and Blind  
U of M Campus Lighting  
Brockman Center, MSU  
Physical Education, MSU  
National Guard Armory  
National Guard Armory  
National Guard Armory  
Eastmont Services  
Pine Hills School  
Cogswell Building  
SRS - Lights  
Mitchell Building - Lights  
Cogswell Building - Lights  
Montana State Hospital  
Mansfield Library, UM

LOCATION

Warm Springs  
Lewistown  
Helena  
Great Falls  
Missoula  
Havre  
Havre  
Hamilton  
Sidney  
Miles City  
Glendive  
Miles City  
Helena  
Helena  
Helena  
Helena  
Galen  
Missoula

PROJECTS IN DESIGN/CONSTRUCTION

Student Union Building, UM  
Field House, UM  
Health Science, UM  
Old Business Administration, UM  
Sreiber Gym, UM  
Central Plant, UM  
Pharm/Psych Building, UM  
Social Science Building, UM  
Music Building, UM  
Performing Arts Building, UM  
Liberal Arts Building, MSU  
Science Complex, UM  
Special Ed Building, MSU

Dillon  
Missoula  
Missoula  
Missoula  
Missoula  
Missoula  
Missoula  
Missoula  
Missoula  
Missoula  
Billings  
Missoula  
Billings

PROJECTS BEING STUDIED

National Guard Headquarters  
National Guard Armory  
Mining/Geology, UM  
Heating Plant, UM  
Veterans Home  
Scott-Hart Building  
State Capitol Building

Helena  
Kalispell  
Butte  
Butte  
Columbia Falls  
Helena  
Helena

Amendments to House Bill No. 10

For the Joint Appropriation/Finance and Claims  
Long-Range Planning Subcommittee

January 4, 1995

EXHIBIT 4  
DATE 1-25-95  
HB 10

1. Page 1, line 10.

Following: "through"

Strike: "8"

Insert: "10"

2. Page 1, line 13.

Following: "through"

Strike: "8"

Insert: "10"

3. Page 3.

Following: line 9

Insert: "NEW SECTION. Section 5. **Petroleum substitutes from agricultural products -  
- appropriation.** There is appropriated \$10,000 from the stripper well payments contained in the federal special revenue fund to the department of natural resources and conservation to foster expanded use of alternative transportation fuels derived from agricultural products that may reduce petroleum consumption, produce environmental benefits to Montana, and result in potential new cash crops for Montana farmers. Money expended under this appropriation must be matched at least dollar for dollar with private or federal revenue, or both."

Renumber: subsequent sections.

4. Page 3.

Following: line 14

Insert: "NEW SECTION. Section 7. **Northern Montana college tractor resource center -  
- appropriation.** There is appropriated \$125,000 from the stripper well payments contained in the federal special revenue fund to northern Montana college to support the ongoing activities of the northern Montana college tractor resource center."

Renumber: subsequent sections.

5. Page 3, line 26.

Following: "through"

Strike: "6"

Insert "8"

6. Page 3, line 27.

Following: "sections 4"

Strike: "and 5"

Insert: "through 7"

7. Page 4, line 1.

Following: "section"

Strike: "6"

Insert: "8"

8. Page 4, line 4.

Following: "(1)"

Strike: "The appropriation in [section 4] is given a higher priority than the appropriation in [section 5]."

Insert: "The appropriations in [sections 4 through 7] are approved in order of priority as they appear in [sections 4 through 7]."

9. Page 4, line 6.

Strike: "the program that is funded by [section 4]"

Insert: "one or more of the programs that are funded by [sections 4 through 7]"

10. Page 4, line 8.

Strike: "1"

Insert: "4"

11. Page 4, line 9.

Following: "sections"

Strike: "1"

Insert: "4"

12. Page 4, lines 13 and 18.

Following: "sections 4"

Strike: "and 5"

Insert: "through 7"

13. Page 4, line 23.

Following: "sections 4"

Strike: "and 5"

Insert: "through 7"

Amendments to House Bill No. 116  
First Reading Copy

Requested by Representative Cobb  
For the Committee on Appropriations

Prepared by Greg Petesch  
January 23, 1995

1. Title, lines 5 through 8.  
Following: ";" on line 5  
Strike: remainder of line 5 through ";" on line 8  
Following: "AN"  
Insert: "IMMEDIATE"
2. Page 1, line 12 through page 2, line 19.  
Strike: sections 1 and 2 in their entirety  
Renumber: subsequent sections
3. Page 2, line 21.  
Strike: "Appropriations"  
Insert: "Appropriation"  
Following: the third "."  
Strike: remainder of line 21 in its entirety  
Insert: "There"
4. Page 2, lines 22 through 29.  
Following: "insurance fund" on line 22  
Strike: remainder of line 22 through "as a" on line 29  
Following: "million"  
Strike: "appropriation"
5. Page 3, line 1.  
Following: "9%"  
Insert: "overall average"
6. Page 3, line 4.  
Strike: "July 1, 1995"  
Insert: "on passage and approval"

## HOUSE OF REPRESENTATIVES

## VISITOR'S REGISTER

Appropriations COMMITTEE BILL NO. HB 10  
 DATE 1-25-95 SPONSOR(S) HB 12  
HB 197

PLEASE PRINT

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Thu Jamison	DNEC	10		X
Jim Dolman	Johnson Controls	12		X
Dave Farrcett	Johnson Controls	12		X
Melisa Kaiser	Energy Share	10		X
Jim Hewzoth	Anna Corp	197		X
Gary Buchanan	Pain Posmort	197		X
Port Harrison	Montana Power Pres	197		X
Jim Benton	Lewis & Clark County	197		X
Don Becker	Helewa Schools	197		X
Dordon Morris	MAC.	197		X
Gary Willis	Mont. Power	12		X
Tom Livers	DNR C	12		X

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