

MINUTES

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

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN CHASE HIBBARD**, on January 4, 1995, at
8:00 a.m.

ROLL CALL

Members Present:

Rep. Chase Hibbard, Chairman (R)
Rep. Marian W. Hanson, Vice Chairman (Majority) (R)
Rep. Robert R. "Bob" Ream, Vice Chairman (Minority) (D)
Rep. Peggy Arnott (R)
Rep. John C. Bohlinger (R)
Rep. Jim Elliott (D)
Rep. Daniel C. Fuchs (R)
Rep. Hal Harper (D)
Rep. Rick Jore (R)
Rep. Judy Murdock (R)
Rep. Thomas E. Nelson (R)
Rep. Scott J. Orr (R)
Rep. Bob Raney (D)
Rep. John "Sam" Rose (R)
Rep. William M. "Bill" Ryan (D)
Rep. Roger Somerville (R)
Rep. Robert R. Story, Jr. (R)
Rep. Emily Swanson (D)
Rep. Jack Wells (R)
Rep. Kenneth Wennemar (D)

Members Excused: None

Members Absent: None

Staff Present: Lee Heiman, Legislative Council
Donna Grace, Committee Secretary

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

Committee Business Summary:

Hearing: HB 67

Executive Action: None

The educational session being provided by Department of Revenue employees [EXHIBIT 1, January 2, 1995] continued with **Jeff Miller, Administrator of the Individual Income and Miscellaneous Tax Division**, responding to questions asked at the meeting on January 3 which clarified some of the information previously provided by DOR.

Don Hoffman, Natural Resources Bureau Chief, provided information on tax rates, filing requirements, revenue collections, distribution of taxes and production incentives for the various natural resources taxes. He said that Montana has historically relied on its store of natural resources wealth as a primary source of tax revenue, supplementing the individual income tax and the property tax as the three major sources of revenue. However, natural resources revenues have dropped to less than one-half of the FY 1985 collections. DOR personnel again responded to questions from Committee Members requesting further information on points brought out during the presentation.

The educational session will be continued at 8:00 a.m. on January 5. **John Tubbs, Department of Natural Resources**, will be invited to attend the meeting to provide information on the Resource Indemnity Trust and the resource indemnity and groundwater assessment tax.

{Tape: 1; Side: A}

HEARING ON HB 67

Opening Statement by Sponsor:

REP. ROYAL C. JOHNSON, House District 10, Billings, said that this bill would remove the rate of interest cap on registered warrants purchased by the Board of Investments which, by law, is set at 4 percent. He noted that warrants have never been registered in Montana since the bill was passed in 1927 but it could happen in the future. **REP. JOHNSON** reserved the right to close.

Proponents' Testimony:

Carroll South, Director of the Board of Investments, explained that the Board of Examiners had asked the Board of Investments to do some credit enhancements to improve the state's rating position when it was involved in borrowing money. In connection with this request, an agreement was reached which guaranteed that the Board of Investments would agree to purchase registered warrants. When interest rates are low, the 4% cap does not present a problem. However, in 1994, when interest rates had risen, the Board of Investments was again asked to sign an agreement and there was concern that an agreement signed in October guaranteeing to purchase registered warrants at 4% might violate the Prudent Expert Principle if by June 30, the interest

rates were 6%. The financial position of the State of Montana was strong enough at the close of the last fiscal year that the Board was not asked to sign an agreement. If this bill is passed, when the Board of Investments is asked to sign an agreement to purchase warrants, it could set the rate to be charged at the prevailing rate as opposed to 4%. For this reason, he encouraged the Committee to pass this bill.

Opponents' Testimony:

George Bennett, Montana Bankers' Association, representing all commercial banks in Montana, said his organization actually supports the bill because they are in favor of any legislation which would help the Board of Investments buy registered warrants which would assist the banking industry and the State of Montana. His concern was that the way the bill is written, there would be no interest paid on warrants not purchased by the Board of Investments, and, if this is the case, it should be corrected.

Questions From Committee Members and Responses:

REP. SWANSON asked why the 4% rate was set. Mr. South said that he assumed that was the rate the Legislature was willing to pay in 1927 when the bill was originally passed.

REP. ELLIOTT inquired about the interest paid on warrants that were not registered. REP. JOHNSON replied that each individual warrant is not registered. If the state were short of money, only one warrant would be registered to cover all outstanding warrants. REP. JOHNSON commented that this is the one reason why the Coal Tax Trust should be kept intact as it provides an asset that guarantees Montana's credit rating.

REP. BOHLINGER asked when the banking industry had found it prudent to use floating rates. REP. JOHNSON said it was a recent occurrence, probably within the last twenty years. REP. BOHLINGER then asked why the bill requires the Board to pick a rate rather than tying the rate to the prime rate or some other index. REP. JOHNSON said he thought that was what the banking industry would be suggesting.

REP. HARPER asked for more details regarding the Bankers Association's concerns. Mr. Bennett replied that the concern was that if the Board of Investments did not buy the registered warrants, it would appear that the 4% is being deleted, and there would be no interest. If a bank treated a warrant as a check, it would have an endorser's liability and would essentially be lending money to the state with no interest.

VICE CHAIRMAN REAM asked how local government units handle this problem. Mr. Heiman explained that cities, counties and schools ran into this same problem when interest rates escalated; however, because they are covered by a different statute, they have the privilege of setting rates by ordinance.

In response to a question from **REP. RANEY**, **Mr. South** explained how the state accounting system works in relation to transferring funds from one account to another.

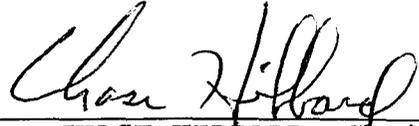
Closing by Sponsor:

In closing, **REP. JOHNSON** said he hoped the Committee would look closely at the bill and noted that the bill did not address how the State Treasurer would handle registered warrants because there have been no registered warrants in the State of Montana. The purpose of the bill is to provide for efficient business management for the State of Montana. He asked that the Committee provide some time for the Bankers Association to review the bill prior to Executive Action.

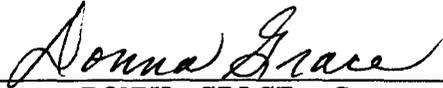
CHAIRMAN HIBBARD announced that Executive Action on this bill would be scheduled for Tuesday, January 10, which would give the banking industry time to examine the bill in depth.

ADJOURNMENT

Adjournment: 10:40 a.m.



CHASE HIBBARD, Chair



DONNA GRACE, Secretary

CH/dg

HOUSE OF REPRESENTATIVES

Taxation

ROLL CALL

DATE 1/4/95

NAME	PRESENT	ABSENT	EXCUSED
Rep. Chase Hibbard, Chairman	✓		
Rep. Marian Hanson, Vice Chairman, Majority	✓		
Rep. Bob Ream, Vice Chairman, Minority	✓		
Rep. Peggy Arnott	✓		
Rep. John Bohlinger	✓		
Rep. Jim Elliott	✓		
Rep. Daniel Fuchs	✓		
Rep. Hal Harper	✓		
Rep. Rick Jore	✓		
Rep. Judy Rice Murdock	✓		
Rep. Tom Nelson	✓		
Rep. Scott Orr	✓		
Rep. Bob Raney	✓		
Rep. Sam Rose	✓		
Rep. Bill Ryan	✓		
Rep. Roger Somerville	✓		
Rep. Robert Story	✓		
Rep. Emily Swanson	✓		
Rep. Jack Wells	✓		
Rep. Ken Wennemar	✓		

