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MONTANA CONSTITUTIONAL CONVENTION
STATE CAPITOL • HELENA, MONTANA 59601 • TELEPHONE 406/449-3750

REVENUE AND FINANCE COMMITTEE

Place of Meeting: Room 215
Mitchell Building

Date Meeting Held: 1/20/72
Time Meeting Held: 10:25 a.m.
2:00 p.m.

Committee Chairman: Sterling Rygg

MINUTES OF THE FOURTH MEETING OF THE REVENUE AND FINANCE COMMITTEE

SUBJECT OF MEETING: Article XXI

Roll Call:

Sterling Rygg, Chairman	<u>Present</u>
Maurice Driscoll, Vice Chairman	<u>Present</u>
William Artz	<u>Present</u>
E. M. Berthelson	<u>Present</u>
Dave Drum	<u>Present</u>
Noel Furlong	<u>Present</u>
Russell McDonough	<u>Present</u>
Mike McKeon	<u>Present</u>
Roger Wagner	<u>Present</u>

Time of Adjournment: 4:05 p.m.

DISCUSSION, MORNING SESSION:

Chairman Sterling Rygg called to order the fourth meeting of the Revenue and Finance Committee at 10:25 a.m., Thursday, January 20. A prepared agenda was distributed, but the committee departed from the agenda in order to hear testimony from two witnesses invited by Vice Chairman Maurice Driscoll. Both witnesses, Don Gibson of Glendive and Burt Hurwitz of White Sulphur Springs, represented the Association of County Commissioners and discussed debt limitations. After their testimony, the two witnesses were thanked by Mr. Rygg and excused. They told the committee they would send in a written statement.

Chairman Rygg told the committee that the leadership hopes to get things done much faster than originally thought, with February 19 being the deadline for our final draft, along with the minority draft. This gives the committee four full weeks, with the possibility of a recess at that time.

Discussion followed concerning when the constitution would be submitted to a vote of the people. Mr. Rygg told the committee that there were three logical alternatives. It could be voted on during the November 4 general election; it could also go before the people in the primary election in June, but the Convention would have to be finished by April 6; or it could go to a special election. The decision will be made on the floor of the Convention.

Mr. Rygg told the committee that if the state's printing facilities in the Capitol were used to reproduce minutes for the members, it would take about two days, but costs would be considerably reduced. The committee agreed to have the minutes printed in the printing department.

Mr. Rygg also told the committee that during the Committee Chairmen's meeting the previous night, the Revenue and Finance Committee was assigned Sections 5 and 6 of Article XI to study, along with

Ordinance No. 1, sections 2 and 3, which deal with the taxation of Indians and their lands.

Mr. Drum announced that his subcommittee had invited Mr. James Howeth, State Investment Officer, Mr. Paul Caruso, Chairman of the Board of Investments, and Doyle Saxby, State Controller, to testify before the committee this afternoon at 2:00 p.m. Mr. Artz announced that Senator Pat Gilfeather of Great Falls would testify before the committee Monday at 10:00 a.m. Mr. Drum asked that the following people also be asked to testify before the committee: Ted Schwinden, Commissioner of Lands; Mons Tiegen, former Commissioner of Lands; Francis Bardanouve, Chairman of the Legislative Council; the director of the Public Employees Retirement System; and the director of the Teachers' Retirement System. It was agreed that an invitation would be issued through Chairman Rygg.

Mr. McKeon suggested that perhaps the State AFL-CIO be contacted, perhaps Harry Billings. Mr. Wagner suggested that the director of the League of Cities and Towns also be invited, and Mr. Driscoll said the Montana School Boards Association and the two teachers' organizations, the Montana Education Association and the American Federation of Teachers, also be invited.

Mr. Wagner asked Mr. Rygg if hearings would be held Saturday, January 29. Mr. Rygg replied that the committee would take testimony if particular witnesses were scheduled for that day, and that possibly the committee would have some proposals to consider by that time.

The committee discussed whether or not a \$5000 figure in the budget allocated for consultants included expenses for anyone who was invited to testify. It was uncertain if this money could be used for nonprofessional testimony.

Mr. Rygg said that the meeting would continue at 2:00 p.m. this afternoon. The meeting was recessed at 11:50 a.m.

DISCUSSION, AFTERNOON SESSION:

Mr. Rygg introduced three invited witnesses, Mr. James Howeth, Mr. Paul Caruso and Mr. Doyle Saxby, and a fourth observer, former Judge Victor Fall, now a member of the State Board of Investments. The gentlemen presented testimony and answered questions from the committee and were excused.

Chairman Rygg announced that the Education and Public Lands Committee had requested a joint meeting with this committee, and that it was tentatively scheduled for February 1.

Mr. Driscoll said he believed the committee should begin their consideration of the earmarking of funds as soon as possible.

Mr. Berthelson told the committee that he was preparing, with the help of Roger Barber, a very rough draft of a proposed taxation article, just as a "jumping off place" for the committee. He said the article would be ready Friday.

The committee discussed whether or not to draw up a rough draft on local government indebtedness now, or wait until they had informally discussed the matter with members of the Local Government Committee. Chairman Rygg emphasized the point that anything in writing now was strictly "unofficial." Driscoll told the committee that nothing would be put in writing until after the subcommittee had met with the Local Government Committee on an informal basis.

The meeting was adjourned.

Time of Adjournment: 4:05 p.m.



Chairman



Secretary

TESTIMONY:

Investment function of the state has been widely dispersed prior to Executive Reorganization. Prior to this, there had never been a complete audit of all state funds. This was done immediately.

Relating to Article XXI, Montana Trust and Legacy Fund, I will make the following comments:

Section 4 requires the state treasurer to keep a record of all funds. It is doubtful if there is time to do this, and under the new Investment Board, there is no need for the treasurer to do so.

Section 8 restricts the state from making certain types of investments. These restrictions should be removed and this prerogative given to the legislature.

Section 17 gives duplicate authority to the Montana Supreme Court to oversee all state investment capital. Under Executive Reorganization, the Board of Investments now does this. If it is wished that the Supreme Court retain some authority, it should be in an adjudicating capacity only; the administrative authority should lie solely with the Board of Investments.

When questioned by Mr. Drum, Mr. Saxby told the committee that while several attempts had been made to unify investments in the past, none of these attempts had ever been successful until Executive Reorganization. He also told Mr. Drum that the Board of Investments uses professional advice in making investments in that the Board's Investment Officer, James Howeth, has had an extensive background in investments.

In reply to the question asked by Mr. Driscoll, Mr. Saxby told the committee that even under Executive Reorganization, there are still too many different sets of regulations governing investments by various agencies of state government.

Mr. Saxby told the committee that he would prepare a written statement concerning the Montana Trust and Legacy fund for the group.

TESTIMONY:

I am handing out to the committee a summary of investments from the past six months. (Summary attached).

I would recommend to this committee the removal of restrictions on types of investments from money in the Montana Trust and Legacy Fund. The criteria for investments should be left up to the discretion of the legislature, as the climate for particular types of investments changes rapidly, and the Constitutional restrictions prevent us from taking advantage of new trends in investments.

Under Executive Reorganization, the investment of state funds has been unified under one board. As a result, during the first six months of the Board's existence, we have been able to invest an additional \$7.8 million.

Mr. Drum asked Mr. Howeth "What is the system of checks and balances now applicable to your office."

Mr. Howeth replied that the Board of Investments, appointed by the Governor for varying terms, is the check on the investment officer. Technically, the Board can approve or reject investment suggestions made by the investment officer. The Board sets policy; the investment officer implements it.

Mr. Drum asked if the Board of Investments had any authority over the individual checking accounts of such agencies as the Board of Cosmetologists, etc.

Mr. Howeth replied that the Board invested much of this capital. Under Executive Reorganization, much capital that was lying unused in checking accounts has been invested. As of December 31, only \$2.8 million in checking accounts has been left uninvested. This amount is deposited in approximately 144 banks around the state.

Mr. Drum asked Mr. Howeth how he evaluated investments from day to day. Mr. Howeth replied that although the Board meets only once a month, they still oversee all investments; many decisions are left up to the investment officer, who makes day to day evaluations of investments. The Board rarely makes individual recommendations on particular investments, but recommends the investment officer make investments where the greatest return is possible, with the greatest safety.

Mr. Drum asked about the makeup of the Board of Investments. Mr. Howeth replied that all were appointed by the Governor, 2 members for 2 year terms, and 3 members for 4 year terms.

Mr. Howeth summarized by saying that he thought the constitutional provisions for investment of funds were too restrictive. Limits should be statutory and set by the legislature.

TESTIMONY:

Mr. Caruso told the committee that he is the chairman of the Board of Investments and a banker in Helena. He explained that he thought the new investment policy under Executive Reorganization was doing wonders, in view of the fact that investments were unified. The investment officer has a chance for a better return on money invested in that he can work with larger funds. He told the board that a great deal of state money was invested in Certificates of Deposit. Any CDs over \$100,000 have varied returns, since the rate of interest is negotiated with the bank in question. CDs under \$100,000 are subject to the usual interest rate given by the bank.

Mr. Drum asked why more money couldn't be invested within the state, thus putting money back into the Montana economy and giving it a boost.

Mr. Caruso explained that every dollar invested in a Montana bank must be backed by a dollar in guaranteed United States securities. This is a state law.

Mr. Drum asked Mr. Caruso what his recommendations to the committee would be. Mr. Caruso told the committee that the Board of Investments would forward a written statement of their recommendations and also a progress report on the Board's investments.