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MONTANA CONSTITUTIONAL CONVENTION
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REVENUE AND FINANCE COMMITTEE

Place of Meeting: Room 215
Mitchell Building

Date Meeting Held: 1/21/72
Time Meeting Held: 1:48 p.m.

Committee Chairman: Sterling Rygg

MINUTES OF THE FIFTH MEETING OF THE REVENUE AND FINANCE COMMITTEE

SUBJECT OF MEETING: Investment Funds

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: 3:40 p.m.

DISCUSSION:

Chairman Sterling Rygg opened the fifth meeting of the Revenue and Finance Committee and announced the names of those individuals expected to testify before the committee next week, beginning January 24. Vice Chairman Driscoll suggested that the committee also ask Norris Nichols of Stevensville, chairman of the House Appropriations Committee during the 42nd Legislative Assembly, and Chief Justice James T. Harrison of the Montana Supreme Court. Mr. Artz told the committee that he had contacted the Montana Association of CPA's and that they would have a representative testify before the committee. Mr. McDonough asked that Dr. William Diehl, author of the Fiscal Report, also be asked to testify.

The committee then heard testimony concerning investment funds from the following persons: Alton Hendrickson, Executive Secretary of the Teachers' Retirement System; Larry Nachtsheim, Executive Secretary of the Public Employees Retirement System; James Carden of the Industrial Accident Board; and Ted Schwinden, State Land Commissioner.

Following the testimony, Chairman Rygg asked the members to be thinking over the weekend about what should be in the taxation article and to form more or less a mental image of this article. Mr. Rygg told the committee that he personally envisioned one article coming out of the committee.

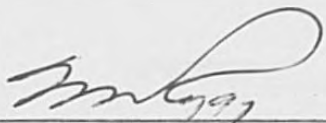
Mr. Berthelson handed out to the committee a "skeleton article" for the committee to use as a beginning base.

Chairman Rygg explained that the committee had received several Citizen Suggestions which would be processed and gone over during the coming week, possibly on Tuesday.

Mr. Driscoll told the committee that Mr. Wagner had assigned Roger Barber the task of looking into the federal implications in the earmarking of revenue. It was decided that future assignments for the research analyst and interns would be processed through the committee chairman.

The meeting was adjourned.

Time of Adjournment: 3:40 p.m.



Chairman



Secretary

TESTIMONY:

Mr. Schwinden referred the committee to an August 1 opinion of the Montana Supreme Court on Article XXI, the Montana Trust and Legacy Fund.

He recommended that the committee retain the restrictions contained in Section 8, upon investments of state funds, since return on investments is secondary to security of investment.

Mr. McKeon asked why these restrictions couldn't be statutory instead of constitutional. Mr. Schwinden replied that many of the restrictions governing investment of school funds were found in the United States Constitution and thus could not be changed in the Montana Constitution. He felt that possibly different restrictions might apply to school funds that those that apply to other investment funds.

Mr. Drum asked Mr. Schwinden if he felt the new Investment Board was the answer to the state's investment problems. Mr. Schwinden replied that, with certain exceptions and some of the problems involved in getting the Board started, he felt the new plan was working generally pretty well.

Mr. Schwinden added that the state law which now allows the investment of school funds in federally guaranteed investments is very good and should be retained. He re-emphasized that return is secondary to safety.

Mr. Drum stated that he believed the current investment safeguards were too hazy and wondered if Mr. Schwinden would recommend any additional safeguards. Mr. Schwinden thought that any additional safeguards should be statutory in nature. He did say that he thought the state could invest still more capital, adding that Oregon invests 99.6% of its capital at any given time. This would give the state more flexibility in the area of investment funds. This flexibility could be given through statute. He added that while all state books are open to the public, one suggestion would be to make up a monthly portfolio of investments which would be available upon request of any citizen.

Mr. Furlong asked Mr. Schwinden if he would object to a "prudent man" rule. Mr. Schwinden replied that he was not opposed to it, but reminded the committee that he believed safety of investment was still the most important factor. He ended by saying that having the Supreme Court act as the overseer is superfluous.

TESTIMONY:

Mr. Carden appeared upon request before the committee to talk about the Industrial Accident Board's investment funds. He told the committee that the IAB presently has about \$17 million in four funds, main trust and reserve funds.

Mr. McDonough asked if the IAB investments were under the new Board of Investments. Mr. Carden replied that they were, and that he was happy with the new system because the investment officer had the time and background to analyst investments.

He explained to the committee that the \$17 million represents the difference between premiums assessed and claims paid. The IAB has an actuary firm estimate future claims and the IAB keeps reserves based upon future needs. He told the committee that he feels the new Board of Investments, under Executive Reorganization, has vastly improved the investment function of state funds.

TESTIMONY:

Mr. Alton Hendrickson appeared upon request of the committee to discuss investment of Teachers Retirement Funds. He explained that teachers were at first hesitant to turn investment funds over to a Board of Investments, but he believed that it is a fulltime job which requires the attention of a separate agency. The Teachers Retirement System did not have the investment capability that we now have under the Board of Investments.

Mr. Furlong asked Mr. Hendrickson if he favored the "prudent man rule". Mr. Hendrickson said that he doubted if teachers would go for it, but that personally he favored it. He emphasized the importance of return on investments and told the committee that a 1% increase on return could mean as much as a 25% decrease in the cost of the program, and that each member would benefit accordingly.

Mr. Driscoll asked if he thought Montana teachers were a conservative group. Mr. Hendrickson replied that he thought many were, but that most, especially the younger teachers, were quite liberal.

Mr. Hendrickson told the committee that he thought restrictions on investments should be statutory in nature and not constitutional. Whether or not voters would accept the "prudent man rule" in a new constitution would depend greatly upon how the document was "sold." Mr. Hendrickson added that he personally believed that public school funds should be more conservatively invested than perhaps Teachers Retirement or Public Employees funds.

Mr. Artz asked him if he would invest teachers retirement funds in voting common stock; Mr. Hendrickson replied that he would, depending upon the risk involved.

Mr. Drum commented that he thought the Teachers' Retirement System had been rather aggressive in investments in the past.