

HOUSE BILL 775

Introduced by J. Rice, et al.

2/12	Introduced
2/12	Referred to Appropriations
2/12	First Reading
2/12	Fiscal Note Requested
2/16	Fiscal Note Received
2/19	Fiscal Note Printed
3/05	Hearing
3/23	Tabled in Committee

1 INTRODUCED BY HOUSE BILL NO. 775
2 *Jill Schuyler*
3

4 A BILL FOR AN ACT ENTITLED: "AN ACT CREATING A COLLEGE
5 SAVINGS BOND PROGRAM; AUTHORIZING THE SALE OF STATE GENERAL
6 OBLIGATION CAPITAL APPRECIATION BONDS; PROVIDING TAX-EXEMPT
7 STATUS FOR EARNINGS ON THE BONDS; REQUIRING THAT BOND
8 PROCEEDS BE USED FOR CONSTRUCTING AND EQUIPPING BUILDINGS
9 AND FACILITIES FOR THE UNITS OF THE MONTANA UNIVERSITY
10 SYSTEM; REQUIRING THE BOARD OF EXAMINERS TO DEVELOP
11 MARKETING STRATEGIES FOR SALE OF THE BONDS; SPECIFICALLY
12 AUTHORIZING THE ISSUANCE AND SALE OF COLLEGE SAVINGS BONDS
13 IN THE NET AMOUNT OF \$22.5 MILLION FOR CONSTRUCTION OF AN
14 ENGINEERING AND PHYSICAL SCIENCES FACILITY AT MONTANA STATE
15 UNIVERSITY, \$15.5 MILLION FOR CONSTRUCTION OF A BUSINESS
16 ADMINISTRATION BUILDING AT THE UNIVERSITY OF MONTANA, AND
17 \$10.5 MILLION FOR EXPANSION OF A CLASSROOM-OFFICE BUILDING
18 AT EASTERN MONTANA COLLEGE; AND APPROPRIATING THE NET
19 PROCEEDS OF THE BONDS."
20

21 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

22 NEW SECTION. Section 1. Short title. [Sections 1
23 through 12] may be cited as the "College Savings Bond Act".

24 NEW SECTION. Section 2. Findings -- purpose. The
25 legislature finds it essential that this and future

1 generations of children be allowed the fullest opportunity
2 to learn and to develop their intellectual and mental
3 capacities and skills at the postsecondary level. The
4 legislature is concerned about the escalating costs of
5 obtaining higher education. The purpose of [sections 1
6 through 12] is to assist Montana residents in their quest
7 for higher education and to encourage financial planning to
8 meet higher education costs by creating a college savings
9 bond program.

10 NEW SECTION. Section 3. Definitions. As used in
11 [sections 1 through 12], the following definitions apply:

12 (1) "Approved budget amendment" means approval by the
13 budget director of a request submitted through the
14 architecture and engineering division of the department of
15 administration to transfer excess funds appropriated to a
16 capital project within an agency in order to increase the
17 appropriations of another capital project within that agency
18 or to obtain financing to expand a project with funds that
19 were not available for consideration by the legislature.

20 (2) "Board" means the board of examiners established
21 under 2-15-1007.

22 (3) "Capital projects account" means the capital
23 projects account provided for in 17-5-801(4).

24 (4) "College savings bonds" or "bonds" are state
25 general obligation capital appreciation bonds issued under



1 [section 4].

2 NEW SECTION. **Section 4. Bond authorization -- issuance**
 3 -- requirements. (1) (a) The board may issue and sell
 4 college savings bonds under the conditions and in the manner
 5 prescribed in [sections 1 through 12] in a net amount not
 6 exceeding \$22.5 million for the purpose of acquiring,
 7 constructing, furnishing, and equipping an engineering and
 8 physical sciences facility at Montana state university;
 9 \$15.5 million for construction of a business administration
 10 building at the university of Montana; and \$10.5 million for
 11 expansion of a classroom-office building at eastern Montana
 12 college. These amounts must include administrative costs of
 13 the projects, including;

- 14 (i) costs of bond issuance;
 15 (ii) retirement, salaries, and related costs of
 16 officials and employees of the state; and
 17 (iii) other expenses incidental to the administration of
 18 capital projects.

19 (b) The authority granted to the board by this section
 20 is in addition to any other authorization given to the board
 21 to issue and sell long-range building program general
 22 obligation bonds.

23 (2) Bonds authorized in this section must be sold in a
 24 manner, at times, in amounts, and at a price determined by
 25 the board. The bonds may not be sold without prior

1 legislative appropriation of the net proceeds of the sale of
 2 the bonds. The board may obtain insurance or letters of
 3 credit and may authorize the execution and delivery of
 4 agreements, promissory notes, and other obligations to
 5 insure the payment or enhance the marketability of college
 6 savings bonds. Promissory notes or other obligations issued
 7 under this section do not constitute a debt or a contract
 8 for indebtedness under any constitutional or statutory
 9 limitation if their payment is conditioned upon the failure
 10 of the state to pay the principal of or interest on the
 11 bonds on which the notes or other obligations are issued.

12 (3) The board may sell the bonds at a deep discount
 13 from their par value if it determines the sale is
 14 economically feasible and in the best interest of the state.

15 (4) Except as provided in [sections 1 through 12],
 16 college savings bonds authorized under this section must be
 17 sold in accordance with Title 17, chapter 5, part 8.

18 NEW SECTION. **Section 5. Deposit and use of bond sale**
 19 proceeds. The proceeds from the sale of college savings
 20 bonds must be deposited as required by 17-5-803 and must be
 21 used exclusively for the purposes designated in [section 4].

22 NEW SECTION. **Section 6. Bonds to be legal investment.**
 23 College savings bonds are a legal investment for all state
 24 funds or funds under state control and for all funds of any
 25 other public body. The bonds are acceptable as security for

1 any deposit of public money.

2 NEW SECTION. Section 7. Marketing. Prior to the sale
3 of bonds under [section 4], the board shall create and
4 implement marketing strategies and educational programs
5 designed to publicize the bonds to Montana residents.

6 NEW SECTION. Section 8. Tax exemption. Interest and
7 income earned on the bonds, including any profit from their
8 sale, are exempt from taxation by the state, any political
9 subdivision of the state, or any other instrumentality of
10 the state.

11 NEW SECTION. Section 9. Full faith and credit pledge.
12 The full faith and credit and taxing power of the state are
13 pledged for the payment of all bonds and notes issued
14 pursuant to [section 4].

15 NEW SECTION. Section 10. Appropriation. There is
16 appropriated from the capital projects account to the
17 department of administration the following amounts,
18 contingent upon the sale of college savings bonds by the
19 board:

20	Engineering and Physical Sciences	
21	Facility at Montana State	
22	University	\$22.5 million
23	Business Administration Building at	
24	the University of Montana	15.5 million

1	Classroom-Office Building at Eastern	
2	Montana College	10.5 million

3 NEW SECTION. Section 11. Budget amendment required for
4 expansion. A capital project authorized in [sections 1
5 through 12] may not be expanded beyond the scope of the
6 project as approved by [sections 1 through 12] unless the
7 capital project expansion is authorized by an approved
8 budget amendment.

9 NEW SECTION. Section 12. Requirements for approval of
10 state debt. Because [sections 1 through 12] authorize
11 creation of a state debt, a vote of two-thirds of the
12 members of each house of the legislature is required for
13 enactment of [sections 1 through 12].

14 NEW SECTION. Section 13. Severability. If a part of
15 [this act] is invalid, all valid parts that are severable
16 from the invalid part remain in effect. If a part of [this
17 act] is invalid in one or more of its applications, the part
18 remains in effect in all valid applications that are
19 severable from the invalid applications.

-End-

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0775, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:


An act creating a College Savings Bond program; authorizing the sale of State General Obligation Capital Appreciation Bonds; providing tax-exempt status for earnings on the bonds; requiring that bond proceeds be used for constructing and equipping buildings and facilities for the units of the Montana University System; requiring the Board of Examiners to develop marketing strategies for sale of the bonds; specifically authorizing the issuance and sale of College Savings Bonds in the net amount of \$22.5 million for construction of an Engineering and Physical Sciences facility at Montana State University, \$15.5 million for construction of a Business Administration building at the University of Montana, and \$10.5 million for expansion of a classroom-office building at Eastern Montana College; and appropriating the net proceeds of the bonds.

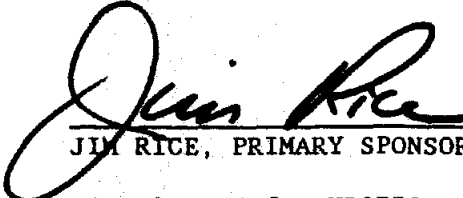
ASSUMPTIONS:

1. The State Board of Examiners would issue approximately \$48.5 million in Capital Appreciation General Obligation Bonds payable from the general fund of the state.
2. Bonds will be structured as capital appreciation bonds with scheduled repayment of principal and interest commencing in 1997 and extending through 2014. This delay in the financing structure will take advantage of the rapid drop off in debt for the state in FY97.
3. The capital appreciation bonds are issued and sold bearing interest which periodically accrues and is compounded, but is payable only at the maturity of the bonds or earlier redemption. It is assumed that there will be no maturities in the 92-93 biennium.
4. The marketing strategy must be developed by the Board of Examiners in consultation with the Statewide Financial Advisor and Bond Counsel and the Board of Regents of Higher Education, prior to the sale of bonds.
5. Project design and construction cannot start until a sufficient amount of bonds have been sold to cover the costs of those contracts.
6. It is assumed that a sufficient amount of bonds will be sold in FY91 and FY92 to enable design and construction to proceed. Annual debt payments would depend on interest rates and structure of the financing.

FISCAL IMPACT:

see next page


ROD SUNDSTED, BUDGET DIRECTOR 2-16-91 DATE
Office of Budget and Program Planning


JIM RICE, PRIMARY SPONSOR 2/19/91 DATE
Fiscal Note for HB0775, as introduced

HB 775

FISCAL IMPACT:

	FY '92			FY '93		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
<u>Expenditures:</u>						
Capital Outlays	0	17,000,000	17,000,000	0	31,500,000	31,500,000
<u>Funding:</u>						
Capital Projects (05)	0	17,000,000	17,000,000	0	31,500,000	31,500,000
<u>Revenues:</u>						
College Savings Bond Sales (05)	0	17,000,000	17,000,000	0	31,500,000	31,500,000

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The Board of Examiners, in consultation with its state financial advisor, currently has the flexibility to use capital appreciation bonds in conjunction with regular general obligation bonds to ensure the marketability of the bonds. Capital appreciation bonds do not require that interest be paid semiannually. However, they do bear interest that periodically accrues and is compounded, but is payable only at the maturity of the bonds. Thus, even though there would be no debt service in the FY92-93 biennium, the issuance requires a general fund obligation in the future to retire the bonds at their maturity.

TECHNICAL NOTES:

House Bill 5 includes \$1,769,995 funded with current revenues of the Capital Projects Fund for preliminary design costs for the Engineering/Physical Sciences Facility, MSU and Business Administration Building, U of M. Since this proposal bonds the entire costs of these projects, the funds designated for preliminary design would be available for appropriation to other projects.