

MINUTES OF THE MEETING
LONG RANGE PLANNING SUBCOMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

January 11, 1985

An informational meeting on the Montana Debt Management Plan was held on January 11, 1985 at 8:00 a.m. in the old Supreme Court Chambers of the State Capitol Building. All Senators and Representatives were invited to attend this meeting due to the importance of the subject.

Ellen Feaver, Director of the Department of Administration spoke directly from the contents of Exhibit 1.

Mr. Patrick Born, state financial advisor, with Evensen-Dodge, Inc. in Minneapolis, Minnesota gave a presentation on the Montana Debt Management Plan (Exhibit 2). He also answered questions from subcommittee members and from the floor on his presentation.

David Ashley, Deputy Director of the Department of Administration spoke about the interaction of the state bonding program with the general fund (Exhibits 3 and 4).

There being no further business to discuss the subcommittee adjourned at 9:35 a.m.



ROBERT THOFT, Chairman

This meeting was taped but the tape was not transcribed. See tape labeled: 1/11/85, "Presentation of Patrick Born, Montana Debt Management Program", Side A
1/11/85, "Presentation of Patrick Born, Montana Debt Management Program", Side B
1/11/85, "David Ashley presentation on Bonding and the General Fund", Side B:160 to 250

CURRENT GENERAL OBLIGATION RATING

Montana has maintained ratings of Aa1 from Moody's and AA from Standard and Poors for over the last three years. Moody's improved our rating in 1981. Our G.O. debt per capita is modest. 25 states have a higher ratio and still maintain a double "A" rating or above. Our bonds are considered strong double A bonds by the rating agencies and sell as triple A bonds as indicated by the interest rates we acquire.

Although our ratings are strong, the rating agencies' perception of Montana as a triple A state will be hard to achieve because of the state's continued economic concentration on sectors involving agriculture, mining, and timber. If our economy were more diversified in areas such as manufacturing, the state would have a better chance of improving our rating. Although a triple A rating would do little in improving the interest rates received on general obligation bonds, it would help revenue bond issues as they are typically rated one step below the general obligation rating.

Montana maintains a strong position with the rating agencies on rating criteria which the state controls, i.e. financial, debt, and administrative factors.

1. The state's financial statements received an unqualified opinion for Fiscal Year 1984.
2. Our debt ratios are low compared to other states.
3. The administration is perceived as strong by the rating agencies. These factors under the state's control have a positive impact on our rating because they create an environment of enhanced credibility.

AN UNQUALIFIED OPINION ON THE STATE'S FINANCIAL STATEMENTS

The Department of Administration received an unqualified opinion resulting from an audit of the state's fiscal year 1984 financial statements. This further supports the state's position to receive excellent ratings from the national rating agencies.

This achievement was the result of fund structure changes made by the Legislature and a high level of expertise on the part of our accounting staff. Very few states have received unqualified opinions on their financial statements. The Governmental Accounting Standards Board received 31 financial reports in 1983 from various states of which 17 were audited. Only one had an unqualified opinion. We are aware of one other state that received an unqualified opinion in 1983. Information concerning the number of states that received unqualified opinions in 1984 is not yet available.

This achievement is considered a strong plus by the rating agencies and indicates good management practices throughout state government.

CONTROLS ON THE ISSUANCE OF DEBT

1. The state is authorized by Article VIII, Section 8 of the Montana Constitution to incur debt upon either a two-thirds vote of the members of each house of the Legislature, or a favorable vote of a majority of the state's electors voting thereon.

2. Chapter 184, Laws of Montana 1983 authorizes the Board of Examiners, consisting of the Governor, the Secretary of State, and the Attorney General, to issue general obligation bonds when authorized by votes of two-thirds of the members of each house of the Legislature, or a majority of the electors voting thereon.

INCREASED BOND ISSUANCE AUTHORIZATION BY THE 48TH LEGISLATURE

<u>Agency</u>	<u>New Authorization</u>
Department of Administration	\$ 97,494,000
Department of Natural Resources and Conservation	-0-
Department of Highways	150,000,000
Board of Housing	-0-
Montana Economic Development Board	
- Municipal Pooled Program	25,000,000
- Stand alone Program	50,000,000
- Composite Industrial Development Program	25,000,000
Health Facilities Authority (each 2 year period)	50,000,000
Agriculture Loan Authority	200,000,000
University System	exempt from legislative authorization
Montana Higher Education Student Assistance Corp.	exempt from legislative authorization
<hr/>	
Total new authorization	\$ 597,494,000
Prior authorization	980,000,000
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Total authorization	\$1,577,494,000
Percentage increase	61%

New bond issuing agencies created by the 1983 Legislature:

1. Montana Economic Development Board
2. Health Facilities Authority
3. Agriculture Loan Authority

FORMATION OF THE STATE CAPITAL FINANCE ADVISORY COUNCIL

The Governor created this council with a membership of 14 including department directors, board/authority/corporation chairpersons and two legislators. The duties of the council are to:

1. Provide continued oversight of state obligations, and review the form of obligations to ensure consistency with authorizing legislation and state financial policies;
2. Prepare a State Debt Management Plan with the help of the statewide financial advisor and review, analyze, and monitor the trends in state obligations to provide information to issuers to make informed decisions about financing methods and the structures and timing of obligations. This information will be available to the Legislature;
3. Compile and continually update a statewide master debt issuance schedule from agency financing plans to facilitate coordination of debt issues;
4. Furnish, advise, gather information, and make recommendations to the Governor as deemed appropriate;
5. Serve as a coordinating council to provide a formal linkage of information among and between state obligation issuers thereby serving as an effective mechanism to promote fiscal management and enhance coordination of bond issue timing;
6. Suggest legislation to improve present debt policy; and
7. Provide a forum for educational presentation of topics such as federal legislation to council meetings.

The accomplishments of the council to date are significant.

- A. The council developed executive order 8-84 and 13-84 signed by the Governor which established the procedures for allocating the statewide private activity bond allocation among state and local bond issuers for years 1984 and 1985. This was necessary as a result of changes to the tax law by the Tax Reform Act of 1984. Subsequent to calendar year 1985, the Act requires the state to have legislation in place for the private activity bond allocation. The council drafted this legislation considering the concerns of both state and local governmental units.
- B. The council coordinated the development of the State Debt Management Plan and approved the final draft in its meeting held in December. The debt management plan will benefit the overall interests of the state and the Legislature and the individual interests of the boards, authorities, and departments which issue debt.
- C. Also council discussions concerning the bond authority outstanding resulted in the Agriculture Loan Authority proposing legislation that will reduce their authority to issue bonds from \$200,000,000 to \$40,000,000 and DNRC's proposal to reduce its authority by \$50,000,000.

We believe that the selection of a statewide financial advisor and the creation of the State Capital Finance Advisory Council and their accomplishments to date are positive signs to the financial markets, rating agencies, and other concerned groups that Montana is sensitive to its fiscal posture and is in control of its future indebtedness.

STATEWIDE FINANCIAL ADVISOR

Montana is the only state that has a statewide financial advisor. Other states have financial advisors but they are limited to specific areas. Our financial advisor's responsibilities are to:

1. Review bond debt capacity considering the rating agency concerns;
2. Guide the state in establishing debt management objectives and policies. As a result of this, the state has developed a debt management plan that will be available to the Legislature;
3. Provide financial expertise at both the statewide and the agency levels;
4. Assist the agencies with their bond financings. This may include:
 - A. Expert advice as to the proper method of sale;
 - B. Selection of financial service providers;
 - C. Negotiating the gross spread with underwriters;
 - D. Representing the state at the bond pricing if the bond sale is negotiated; and
 - E. Providing computer expertise.
5. Coordinate the timing of bond issues considering the market conditions, and other agencies preparing to issue bonds;
6. Assist the agencies with their rating presentations to ensure that all the proper and necessary information is disclosed and a consistent theme is presented by all agencies;
7. Provide information to educate the investing public; and
8. Keep the agencies informed of IRS and other federal legislation concerning tax exempt bonds.

Exhibit #2
1-11-85
DOA

DRAFT NUMBER 3
December 1, 1984

STATE OF MONTANA
DEBT MANAGEMENT PLAN

Prepared for the
Montana Capital Finance Advisory Council

by
Evensen Dodge, Inc.
Minneapolis, Minnesota
Financial Advisor to the State

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STATE OF MONTANA
DEBT MANAGEMENT PLAN

I. PURPOSE AND SCOPE OF PLAN

Beginning in the 1970's, states have increasingly taken advantage of the capital raising abilities of the tax-exempt credit markets and favorable investor perceptions of state government credits. States have created new agencies, authorities and special purpose entities to act as financing conduits for a wide variety of purposes. States are continuing to fund traditional state-owned projects, as well as assisting their political subdivisions and quasi-public and private projects.

As states increase their use of tax-exempt debt and create special state agencies, the importance of a coordinated approach to debt management has increased. However, Montana and only a handful of other states have established a system to coordinate debt issuing authorities on a statewide basis. State leaders in Montana agree that the following are benefits of a coordinated debt management approach:

1. Coordination of the financing plans and market entry among state agency bond issuers.
2. Establishment of sound financing programs.
3. Development of an understanding of the interrelationships among various types of debt instruments and sources of security so that the financial capacity of individual programs is maintained.
4. Development of the most effective measures for maintaining and improving market access for all market issuers.
5. Maximization of the state's leverage in obtaining superior financial services at reasonable costs.

Montana's Image in the Credit Markets

Historically, the State of Montana has been a relatively minor issuer of tax-exempt debt. The State's credit image has been excellent, with Montana general obligation bonds trading as if they were rated Aaa/AAA, while the rating on such bonds is Aa1/AA. Because of the scarcity of Montana bonds and the excellent "name" image of Montana, agencies have enjoyed good market access at competitive interest rates, even during times of unstable market conditions. While the measure of these "assets" is undefinable, the benefits to the State have been significant. State officials understand these characteristics and wish to maintain these positive features in the future.

In 1983, the State enacted new capital financing laws and programs. Many of these new programs were part of the "Build Montana" theme of Governor Schwinden. Past State financing activities were limited to general obligation bonds, general obligation tax anticipation notes and housing revenue bonds. Newly enacted programs include virtually all the major financing programs and activities in which states across the nation are involved. They include:

- Student loan
- Health care
- Economic development
- State bond bank (municipal)
- Water development and hydropower
- Highways
- Agriculture

With the exception of student loan, highways and water development and hydro power, which have issued bonds, these newer programs are in their initial development stages, struggling with policy issues, procedural matters and defining their roles. Many currently have defined financing programs and some are in advanced stages of bringing their first bond issue to market. By the close of 1984, initial issues for the following purposes have been completed: agriculture, coal severance tax, economic development, and health facilities.

The addition of authorized tax-exempt debt has caused investment banks and institutional investors to perceive that Montana may substantially increase its tax-exempt bond issuance activity. See Appendix D, an article from The Bond Buyer. The presence of a debt management plan will indicate that the State is capable of issuing additional debt in a manageable way.

Purpose of the Debt Management Plan

This Debt Management Plan, prepared by Evensen Dodge, Inc., financial advisor to the State and its agencies, will be a working document of the Montana Capital Finance Advisory Council. The Advisory Council includes the heads of departments and authorities which issue debt and provides a tool for cooperation among the agencies and monitoring the debt activities of the State.

The Plan has been prepared to benefit two constituencies: the overall interests of the State and its Legislature and the individual interests of the agencies, authorities and departments which issue debt.

The State will benefit from a coordinated Debt Management Plan in the following ways:

1. Maintaining the State's excellent name and image in the credit markets, thereby maintaining market access to fund agency programs, even during difficult market conditions.
2. Increasing cooperative actions among agencies so that individual programs can benefit from the activities and learning curves of other more experienced agencies.
3. Monitoring the nature and level of debt financing activities to assure the overall financial stability of programs.

Individual agencies, authorities and departments can benefit from this Debt Management Plan by:

1. Gaining a higher level of service at competitive prices from investment bankers, trustees and other financial service providers due to the cooperative sharing of resources and information among the agencies.
2. Improving marketability of individual financing programs due to the perception of investors that State financing activities are well-focused, carefully planned and coordinated on a state-wide basis.

The Debt Management Plan: A Working Tool

While initially drafted by the State's financial advisor, this Debt Management Plan should become a working tool for State financing agencies. The document is expected to change as agency programs develop, State financial conditions and structures change, and financing needs are defined. The plan should be reviewed and revised not less than annually and more often if the members of the Capital Finance Advisory Council deem it necessary.

II. ANALYSIS OF AGENCY DEBT LEVELS

Description of Debt Authorizations

The Montana legislature has authorized the issuance of tax-exempt debt by nine State agencies, departments and boards. The purposes of the debt and the maximum amounts authorized by agency are summarized in Appendix A. In some cases, definitive debt limits are established, while in other cases, debt authorizations at levels in excess of amounts that are expected to be issued have been set. In still other cases, specific debt limits are not established.

A brief description of the responsible department or agency and the types of debt authorized is provided below:

1. Department of Administration

The Board of Examiners issues general obligation bonds and general obligation tax anticipation notes for the State. These instruments are secured by a pledge of taxes and revenues of the State. Funding is provided for State facilities and the State's cash flow needs.

2. Department of Agriculture

The Montana Agricultural Loan Authority was created to help eligible farmers and ranchers obtain credit at lower interest rates for agricultural purposes. The Authority has the power to issue and have outstanding up to \$200 million in bonds to provide financing to achieve the purposes of the Beginning Farm Loan Program administered by the Montana Agricultural Loan Authority. The Authority's bonds are non-recourse obligations of the Authority. The Authority must manage its loan program so that the bonds issued are repaid by the revenue generated by the repayment of loans provided through the program. The full faith and credit and taxing powers of the State are not pledged for the payment of bonds issued by the Authority.

Loan repayment terms may not exceed 30 years, however, bonds issued by the Authority cannot have terms greater than 60 years from the date of issue. The bonds may be sold at public or private sale.

Bonds issued by the Authority, their transfer and income, including any profits made on their sale, are exempt from taxation by the State or any of its political subdivisions, except for corporate license tax, inheritance, estate and gift taxes.

The State of Montana pledges that it will not impair the obligations of any agreement between the Authority and the holders of notes and bonds issued by the Authority.

The members of the Agricultural Loan Authority and the Department of Agriculture are not personally liable for any debt incurred by the Authority.

The Authority's refunding obligations may be sold or exchanged for outstanding obligations previously issued by the Authority. Where these refunding obligations are sold, their proceeds may be applied to the purchase, redemption or payment of outstanding obligations, including the payment of any redemption premium and any interest accrued or to accrue to the date of the redemption of the refunded obligations.

3. Department of Commerce

a. Economic Development Board

The Board may issue revenue bonds in three areas: industrial development bonds (single loan), pooled industrial development bonds (multiple loans) and pooled municipal loans. The industrial development bonds may be secured with a moral obligation pledge, together with revenues and loans pledged by borrowers, a 35% "top-end" letter of credit pledged by originating lenders and revenues deposited in a guarantee fund accruing from a 0.5% interest rate surcharge on outstanding bonds. Although not currently authorized, the industrial development bonds may additionally be secured with some form of pledge of coal severance taxes.

b. Health Facility Authority

The Authority may issue revenue bonds, notes and refunding bonds of two types to provide financing to non-profit health care institutions in Montana. First, the Authority may issue revenues bonds for individual institutions on a "stand alone" basis. Bonds are payable solely from program reserves, loan repayments, and pledges from an individual health care institution. Second, the Authority may issue composite or "pooled" revenue bonds to provide financing to multiple institutions for capital needs. Bonds are payable from program reserves, loan repayments, pledges from participants in the loan pool, and letters of credit securing certain loans.

c. Board of Housing

The Board issues revenue bonds to finance low and moderate income housing. A substantial amount of bonds have been issued, and all are secured solely by revenues and assets of the Board. The Board has the authority, but has chosen not to use the moral obligation mechanism.

4. Montana Higher Education Student Assistance Corporation

The Corporation may issue revenue bonds to finance student loans. The bonds are secured solely by revenues of the program and no provision has been made for any other security or obligation on the part of the State.

5. Department of Highways

The Department issues revenue bonds secured by highway related taxes and fees to finance construction of various highway related projects.

6. Department of Natural Resources and Conservation

The Board of Examiners may issue coal severance tax bonds to finance water related projects. In addition to coal severance taxes, the bonds are paid and secured by revenues pledged by projects including loan repayments of local government jurisdictions.

The Board of Examiners may issue general obligation water development bonds to finance certain private and public water projects. The bonds are general obligations of the State and are additionally secured (and initially paid) by a pledge of one and one quarter percent of the collections of the State's coal severance tax remaining after allocation of 50% of the severance tax collections to the constitutionally created trust fund.

7. Board of Regents

The Board of Regents may issue revenue bonds to finance buildings and other facilities at the State universities. The bonds are secured by revenue produced from the facilities. No state-collected taxes or general state revenues are pledged for the repayment of these bonds.

Interrelationships Among Agency Debt

While each of the nine debt issuing entities of the State operates its programs within the confines of statutory law, there exist real and perceived relationships among the programs and the sources of security and revenues available to pay debt service on the bonds. Attempting to analyze the State's debt capacity and the credit analysis of individual programs made by the national credit rating services, it is important to understand how these various programs relate to one another. Such relationships are of concern to bondholders, credit analysts and State officials.

Debt authorized for Montana agencies can be classified in four categories. As shown below, the classifications begin with direct obligations of the State and become more independent from general State financial resources. From a bondholder's standpoint, such relationships and the degree to which the State is a party in providing security for the repayment of bonds determines the credit perception and creditworthiness of bond issues.

It is not necessarily the case that the more independent agencies are less creditworthy. In fact, the credit ratings of some of the independent agencies may be better than other issuers as a result of unique circumstances or special security provisions. What is important to the State is the varying but related nature of the various obligations of the State agencies. In the event of a deficiency of revenues to pay debt service, some agencies are more likely than others for bondholders to expect active State supervision or intervention to prevent a default.

In developing the following classifications, the State can begin to understand and analyze its debt exposure. To simply look at the total outstanding and authorized indebtedness of all State agencies does not consider the relationship or lack thereof among the debt instruments of the agencies.

The following is a classification of the various State agency debt obligations. The first classification is direct State debt and each succeeding classification represents an increasing level of independence from general State resources to secure bond issues.

1. Direct State Debt

The following debt instruments are general obligations of the State for which its full faith and credit is pledged. The payment of principal and interest on bonds or notes is expected to derive from general State revenues.

- a. General Obligation Bonds (tax supported)
- b. General Obligation Tax and Revenue Anticipation Notes
- c. General Obligation Water Development Bonds

2. Limited Tax Obligations

Bonds issued in this category are secured by specific State taxes or revenues and such taxes and revenues are pledged for the repayment of bonds. In each case cited below, the type of taxes and revenues pledged are also used for other State purposes.

- a. Department of Highway Bonds
- b. Coal Severance Tax Bonds issued by the Department of Natural Resources and Conservation
- c. Other State agencies may in the future be able to secure some kinds of bond issues in less direct ways from coal severance taxes. These agencies include the Health Facility Authority and the Economic Development Board.

3. Moral Obligation Debt

Bonds issued with the "moral obligation" provision represent the third level removed from an obligation secured by general State revenues. To be a moral obligation bond, State law sets forth a mechanism whereby the Governor or the Chairman of the appropriate debt issuing authority requests an appropriation from the legislature to make up deficiencies in debt service reserves. The legislature is not obligated to appropriate for such deficiencies, but may in its discretion.

- a. Industrial Development Revenue Bonds issued by the Economic Development Board (umbrella IDB program)
- b. Housing Revenue Bonds issued by the Board of Housing

To date, neither of the above State agencies has issued bonds with a moral obligation mechanism. The Board of Housing has issued a substantial amount of debt without the moral obligation pledge contained in its bond resolutions. The Economic Development Board plans to use the moral obligation provision in structuring bond issues for the umbrella (pooled) loan program.

4. Independent State Agencies

Independent State agencies which issue debt secure their bonds from revenues and assets derived solely from the programs which they administer. State taxes or general State revenues are not used to support programs nor to secure bonds. These agencies are viewed as stand-alone entities whose bonds are secured solely from the programs financed.

- a. Housing Revenue Bonds issued by the Board of Housing
- b. Revenue Bonds issued by the Health Facility Authority
- c. Student Loan Revenue Bonds issued by the Higher Education Student Assistance Corporation
- d. University Revenue Bonds issued by the Board of Regents
- e. Agricultural Revenue Bonds issued by the Agricultural Loan Authority.
- f. Municipal Bonds issued by the Montana Economic Development Board.
- g. Industrial Development Bonds with no Board backing issued by the Economic Development Board.

Interrelationships Among Agency Programs

The previous section identified relationships among the types of bonds issued by Montana agencies and the similarities and differences among them. This section identifies program similarities so that agency administrators may understand where similar programs may exist or have been developed for other agencies.

Certain obvious program similarities exist, such as structuring of bond issues, selection of trustees, selection of attorneys and underwriters, and other matters which relate to the financing transaction. Such program similarities will not be addressed in this section, but rather similarities relating to how the programs are implemented.

From a review of the current tax-exempt bond programs administered by state agencies, we find certain similarities in the manner in which the programs are structured. These similarities have been organized into two groups: the types of borrowers that receive loans and the method of originating and servicing loans.

Many of the revenue bond programs and some of the general obligation bond programs are structured to make loans to a variety of parties. The nature of these parties and who may receive loans financed from tax-exempt bonds are listed below.

1. Non-Profit Health Facilities

Health Facilities Authority (Pooled and Stand Alone)

2. Businesses, Including Farmers and Ranchers

Economic Development Board (Pooled and Stand Alone)

Natural Resources and Conservation (G.O. Water Development Bonds)

Agricultural Loan Authority

3. Local Units of Government

Economic Development Board (Municipal Bond Bank)

Health Facilities Authority (Publically Owned Health Facilities)

Natural Resources and Conservation (Coal Severance Tax Bonds)

4. Individuals

Board of Housing

Higher Education Student Assistance Corporation

Agricultural Loan Authority

The number of potential recipients of loans may be quite large and may not overlap to the extent which the above lists may suggest. Where overlaps might exist, state agencies may be well served to establish similar loan application forms and procedures to reduce confusion that may exist by potential borrowers regarding state programs.

A second area in which state loan programs have similarities is the manner in which loans are originated and serviced. Nearly as many mechanisms for origination and servicing are present as there are agencies and programs. They are generally organized in the following two categories.

1. State Agencies

Department of Natural Resources and Conservation
for the Coal Severance Tax Program and the
Water Development (G.O. Bonds) Programs

Health Facility Authority Pooled Equipment Program
(Servicing Through the Trustee and Letter of
Credit Bank)

2. Montana Banks

Board of Housing
Higher Education Student Assistance Corporation
Agricultural Loan Authority
Economic Development Board (Umbrella Program)

The decisions regarding the manner of servicing and originating loans, as well as the costs and agreements for servicers, presently exist between each agency and the servicing organizations. State agencies may wish to jointly monitor the level of servicing fees and origination fees based on surveys and discussions among program administrators. Differences in servicing and origination fees are likely due to different levels of participation and responsibility on the part of service providers and banks.

Guidelines for Analyzing Debt Levels

This section of the Plan proposes certain criteria for analyzing and establishing maximum debt levels within each of the four classifications of State obligations. The criteria reflect the State's objectives to provide a sound financial management approach to debt issuance, insure market access for all State agency debt issuance, maintain the excellent name image of Montana in the financial markets, and to provide an adequate degree of control and supervision over the authorization and administration of State obligations.

1. Direct State Obligations

The following are suggested criteria for general obligation bonds of the State:

- a. The primary debt ratios should be at levels which are representative of the highest rated State general obligation bonds, using the criteria of the two major credit rating services. Such criteria shall include the ratio of outstanding debt to non-farm personal income and the ratio of outstanding debt per capita.
- b. General obligation bonds are expected to be paid from general State revenues. Annual debt service in proportion to general State revenues should be one that is sustainable and consistent with long term budget plans.

2. Moral Obligation Bonds

Many municipal credit analysts add State moral obligation debt to the State's general obligation debt to arrive at a "total state debt" amount. This amount is used in computing the G.O. debt ratios indicated earlier. In addition to this debt ratio, some consideration of the annual debt service needs of moral obligation debt together with the annual G.O. debt service may be appropriate. In circumstances where some kinds of moral obligation bonds have substantial security such as a letter of credit or bond insurance, significant revenue flows or other forms of collateral, ratios may be adjusted.

3. Limited Tax Obligations

Traditionally, maximum debt levels for limited tax obligations are established using coverage ratios and other financial tests contained in Trust Indentures or Bond Resolutions. Such coverage ratios may establish minimum standards for the amount of annual debt service "covered" by net taxes or revenues pledged for repayment. Specific coverage ratios should depend upon the nature and certainty of specific taxes and revenues. Additionally, the State may wish to consider establishing an upper limit for debt to personal income where debt is defined as the sum of general obligation debt, moral obligation debt and limited tax debt. Historic trends, comparisons with other states and examination of specific programs should be made before establishing specific ratios.

4. Independent State Agency Obligations

Criteria for establishing maximum debt limits for individual independent State agency debt are primarily a function of the funding needs, security devices, financial structure, availability of credit enhancements and other resources of the individual agencies.

Changes in Current Debt Authorizations

As shown in Appendix A, the debt authorizations for several of the agencies are substantial in relation to the current expected funding needs of the agencies. While these excess debt authorizations provide substantial latitude and flexibility for the agencies to conduct their programs, credit analysts may view the size of authorized debt negatively, in spite of plans not to issue substantially all of the debt authorized within the near future.

In view of the need to accommodate agency funding programs, as well as the desirability of establishing agency debt authorizations which reflect near term needs, each agency should annually or at least prior to each biennial legislative session, prepare a brief report indicating its current debt authorization and funding needs for the following five year period. Adjustments above or below the current debt authorization should be viewed in light of funding needs and the desirability to maintain realistic debt authorization levels.

III. PROCEDURAL MATTERS

The purpose of this section of the State's Debt Management Plan is to identify the need for certain coordinating activities to take place among the debt issuing agencies. Specifically, two coordinating areas have been identified:

1. Common disclosure information to be contained in Official Statements of certain bond issues.
2. Schedule of bond issues and other financing activities.

Providing consistent information regarding the State's financial condition, budget information, economic and demographic statistics and State agency obligations is important in maintaining the credibility of State Official Statements to the credit rating analysts of the major rating services and the primary underwriters and investors. Inconsistent information or information which is inadvertently not included can cause problems for individual financings. Not all agency financings, however, are affected by or need to consider common disclosure of certain state-wide financial information. Generally, common state-wide information on economics, finances and other matters should be considered in those bonds secured by State taxes or State administered revenue collections. The following is a list of the agencies most likely to be affected by the need for common disclosure:

1. General Obligation Bonds and Notes issued by the Department of Administration and the General Obligation Water Development Bonds issued through the Department of Natural Resources and Conservation.
2. Coal Severance Tax Bonds issued by the Department of Natural Resources and Conservation.
3. Revenue Bonds issued by the Department of Highways.
4. Bonds issued by any of the Commerce Department-related authorities if coal severance taxes are used to secure any bond issue.

Coordination of the information which should be used in such state-wide information disclosures will be the responsibility of the State's financial advisor, staff of the Department of Administration and the issuing agency.

The scheduling of individual financings should be determined by individual agency programs and their funding needs. In scheduling such financings, however, agencies should be aware of the plans of other Montana issuers so that conflicts can be avoided.

It is the responsibility of the State's financial advisor to maintain a master obligation schedule (see Appendix B) to be updated not less than quarterly and reviewed at each meeting of the Montana Capital Finance Advisory Council. Agency financing programs are continually changing and where potential conflicts may arise, the State's financial advisor will bring to the attention of the affected debt issuing authorities any potential problems which may occur.

IV. FINANCIAL SERVICES: SELECTION AND EVALUATION

The planning, structuring and execution of bond issues requires the use of certain financial intermediaries and professional financially related services. These providers of financial and services related to a bond issue include:

- Investment bankers
- Bond attorneys
- Underwriter's counsel
- Trustees
- Registrars and Transfer Agents
- Paying Agents
- Verification Agents/Accountants
- Feasibility Consultants
- Bank credit facilities
- Municipal bond insurers
- Other credit providers

Individual debt issuing agencies routinely use some or all of the above financially related services in conducting a bond or note issue. Selection of the appropriate provider of services is accomplished using several different methods, including prior experience, competitive proposals and competitive bidding.

Although most State debt issuing agencies have special needs for each of the above, each of the agencies may be able to increase its negotiating leverage with potential service providers by cooperatively sharing information about selection processes, prior performance in similar circumstances, competitive fees and evaluations. To accomplish these objectives, the financial advisor and the Department of Administration will maintain a library of the following information sources which will be available to any State agency:

1. Requests for Proposal
2. Scope of Services
3. Prior performance with other agencies
4. Fee quotations
5. Proposals provided to other agencies

With this information available, agencies may be able to assess the actual performance of a candidate in addition to reviewing specific proposals for services. This library of information may also be used to quickly identify which underwriters, banks, trustees and attorneys have been interested or have provided services to other Montana agencies.

APPENDIX A

Agency Debt Levels, Authorizations, Purposes

SUMMARY OF STATE AGENCY/CORPORATION INDEBTEDNESS

(\$ in Millions)

Information as of December, 1984

Type	Authorized(1)	Outstanding Debt 6/30/84	Issued in FY 1985(2)	Planned FY 1985(3)
1. <u>Direct State Debt</u>				
a. G.O. Bonds	\$ 97.494	\$ 97.490(4)	\$ 0.000	\$ 0.000
b. G.O. Bonds (Water)	5.000	1.300	.900	0.000
c. Tax Anticipation Notes	50.000	0.000	38.000	0.000
Subtotal	\$ 152.494	\$ 98.790	\$ 38.900	\$ 0.000
2. <u>Limited Tax Obligations</u>				
a. Highway	\$ 150.000	\$103.075	\$ 0.000	\$ 0.000
b. Coal Severance	250.000	0.000	10.485	28.000
Subtotal	\$ 400.000	\$103.075	\$ 10.485	\$ 28.000
3. <u>Moral Obligation</u>				
a. Economic Development (Umbrella)	\$ 25.000	\$ 0.000	\$ 0.000	\$ 10.000
4. <u>Independent</u>				
a. Housing (5)	\$ 675.000	\$449.382	\$ 75.000	\$ 0.000
b. Health	50.000(6)	0.000	24.700	20.000
c. Student Loan	No limit	33.565	0.000	68.000
d. Board of Regents	No limit	37.219	20.360	19.200
e. Agriculture	200.000	0.000	0.000	5.000
f. Economic Development (Municipal)	25.000	0.000	0.000	4.000
g. Economic Development (Stand Alone)	50.000	0.000	0.000	10.000
Subtotal	\$1,000.000	\$520.166	\$120.060	\$126.200
GRAND TOTAL	\$1,577.494	\$722.031	\$169.445	\$164.200

(1) Authorized amounts further described in remainder of Appendix A.

(2) Issued through December 1, 1984. Further information for individual issues contained in Appendix C.

(3) Information regarding bonds planned for issuance between December 1, 1984 and June 30, 1985 contained in Appendix B.

(4) The G.O. bonds outstanding on 6/30/84 include the \$58.16 million of G.O. refunding bonds and \$39.33 million of G.O. bonds (new money) issued in FY 1984.

(5) The Board of Housing has issued bonds where the Board receives proceeds in a lesser amount than what appears on the face amount of the bonds. These bonds are known as "Capital Accumulator Bonds" (CAB's), also known as zero coupon bonds. The authorized amount of bonds (face amount) is \$675.0 million. The amount of bonds outstanding as of 6/30/84 is \$449.382 million, which consists of the face amount of serial and term bonds plus the accreted value of the CAB's issued to date.

(6) The Health Facility Authority may issue up to \$50 million in each two year period.

STATE AGENCIES
Bonding Authority - 1984-85 Biennium

<u>Agency</u>	<u>Purpose and Authority</u>	<u>Amount & Type of Issue</u>
Administration	<p>HB 448 and HB 558, approved by the 1983 Session, authorized the refunding of outstanding LRBP bonds when deemed in the State's best interest. In addition, <u>\$39,334,695</u> in additional bonds for long range building program bonds were approved.</p> <p>Short term borrowing is authorized pursuant to 17-1-201 to cover anticipated shortfalls in taxes and revenue.</p>	<p>No dollar limits were set on the refunding. On August 10, 1983, the Board of Examiners sold <u>\$58,160,000</u> in General Obligation Refunding Bonds. The sale of <u>\$39,330,000</u> LRBP, 1983, Series "B" General Obligation Bonds was held October 12. Included in the sale is <u>\$1,300,000</u> Series "C" bonds for DNRC water projects bringing the total issue to <u>\$40,630,000</u>.</p> <p>The maximum notes that can be issued in any year is \$50 million. No notes were issued during FY 1983-84. \$38,000,000 of notes were issued during FY 1984-85. The notes, when issued, are general obligation notes. During each of the past four years, the Board of Examiners has sold \$38 - \$47 million of Tax Anticipation Notes.</p>

Prepared By:
Montana Department of Administration

STATE AGENCIES
Bonding Authority - 1984-85 Biennium

<u>Agency</u>	<u>Purpose and Authority</u>	<u>Amount & Type of Issue</u>
Department of Natural Resources	<p>Section 17-5-7, MCA, authorizes the issuance of bonds to finance water resource development projects. Specific projects must be approved by the legislature.</p> <p>1. Three bond programs are authorized. The water development loan program is financed with the sale of general obligation bonds issued by the Board of Examiners upon recommendation by the Board of Natural Resources. HB 851 (Ch. 507, L. 1981) authorized \$5 million in bonds for the program. Bond proceeds are used to make loans to political subdivisions, state entities or private parties. Water development refunding bonds are also authorized (85-1-620, MCA).</p> <p>2. Coal severance tax bonds in the amount of \$250 million are authorized (17-5-719) to finance interdevelopment projects.</p> <p>3. Renewable resource department bonds are authorized (90-2-121) in the amount of \$5 million (90-20-127) to develop renewal resources including: a) timber stand improvements, b) water development projects, c) improvement of agricultural lands. Bonds are issued by the Board of Examiners and are general obligations of the State. Refunding bonds are also authorized (90-2-122).</p>	<p>Of the \$5 million authorized, the Department anticipates issuing \$2.2 million in the 1984-85 biennium. These bonds were sold in two issues: \$1.3 million in October, 1983, and \$.9 million in October, 1984.</p> <p>HB 885 appropriates \$62,946,635 for bonded projects. More than \$46 million is for rehabilitation and hydropower development on State-owned projects. The remainder, nearly \$16 million, is to be loaned to local public entities for water development projects.</p> <p>No appropriation exists for the 1984-85 biennium.</p>

STATE AGENCIES
Bonding Authority - 1984-85 Biennium

<u>Agency</u>	<u>Purpose and Authority</u>	<u>Amount & Type of Issue</u>
Highways	1. SB 454, 1983 Session, authorized a maximum of \$150 million of bonds to be sold by the Board of Examiners to pay the costs of highway projects. Both bonds and notes are authorized and the refunding of the obligations is authorized.	The bonds and notes authorized are revenue bonds secured by highway revenue. The Department has issued \$64,000,000 of bonds and \$39,075,000 in bond anticipation notes.

STATE AGENCIES
Bonding Authority - 1984-85 Biennium

<u>Agency</u>	<u>Purpose and Authority</u>	<u>Amount & Type of Issue</u>
Commerce (Board of Housing)	<p>1. The Board of Housing, under 90-6-1, MCA, may issue notes and bonds for the purpose of promoting home ownership and construction in the State. Bond proceeds are used to purchase mortgages from financing institutions.</p>	<p>Under 90-6-111(5), the Board may have up to \$675 million outstanding at any one time. The bonds are mortgage revenue bonds. Federal law currently restricts issuance to no more than \$200 million annually. \$115 million has been issued in FY 1984. \$75 million has been sold to date in FY 1985. Approximately \$522 million in bonds (issue amount) is currently outstanding.</p>
Montana Economic Development Board	<p>2. The Municipal Finance Consolidation Act of 1983 (HB 733) creates a means for public bodies to pool the debt instruments they are otherwise authorized to offer in order to obtain economics of scale and reduce marketing and interest costs.</p> <p>3. The seven member Economic Development Board is authorized to issue "stand alone" bonds (and refunding bonds) to provide capital for loans, mortgages, commitments or purchases of individual projects as defined in 90-5-101(6), i.e., land, buildings or improvements for commercial, manufacturing, agricultural or industrial enterprises, including local, state and federal government facilities.</p> <p>4. The Board may issue Composite Industrial Revenue Bonds.</p>	<p>The Montana Economic Development Board is authorized to issue up to \$25 million in bonds. Bonds are not secured by the State, but may be secured, in part, by State Board of Investment funds.</p> <p>The Board may issue up to \$50 million in bonds or notes. The bonds are industrial development bonds secured by project revenues and are not an obligation of the State.</p> <p>The Board may issue up to \$25 million in bonds or notes to finance a series of loans under \$1 million which must be originated by a Montana financial institution. The bonds are industrial development revenue bonds secured by project revenues and the moral obligation of the State.</p>

STATE AGENCIES
Bonding Authority - 1984-85 Biennium

<u>Agency</u>	<u>Purpose and Authority</u>	<u>Amount & Type of Issue</u>
Montana Health Facility Authority	4. HB 721 authorizes the Health Facility Authority, a seven member Board, to issue bonds and notes to contain health care costs by providing funds to public or private non-profit hospitals, corporations or other organizations operating health care facilities in the State.	The Board is limited to the issuance of \$50 million for any two year period. Bonds are secured by project revenues. The bonds are not an obligation of the State.
University System	1. Section 20-25-402 gives the Board of Regents authority to issue bonds and notes (and refund the same) to finance the purchase or construction of revenue producing facilities.	The Bonds are revenue bonds secured by project revenues and other sources specified in 20-25-402. The bonds are not obligations of the State.

STATE AGENCIES
Bonding Authority - 1984-85 Biennium

<u>Agency</u>	<u>Purpose and Authority</u>	<u>Amount & Type of Issue</u>
Department of Agriculture	1. SB 316 authorizes the Montana Agricultural Loan Authority to issue revenue bonds to facilitate making loans to beginning farmers and ranchers through private financial institutions in the State.	The bonds are revenue bonds. \$200 million is authorized.

APPENDIX B
Master Obligation Schedule

STATE OF MONTANA

CAPITAL FINANCE ADVISORY COUNCIL
MASTER OBLIGATION SCHEDULE

<u>Agency/Program</u>	<u>Contact Person</u>	<u>Amount/Type of Financing</u>	<u>Approx. Sale Date</u>	<u>Status</u>
1. Department of Administration (Board of Examiners)	Dave Ashley Marvin Eicholtz 444-2032	No issues for balance of 1984.		
2. Department of Agriculture (Agricultural Loan Authority)	Mike Murphy 444-2402	Various private placements in amounts of up to \$750,000 totalling approximately \$10 million per year.	First sale expected December, 1984	Most program provisions established after results of federal legisla- tion. Program operational in September, 1984.
3. Department of Commerce				
A. Economic Devel- opment Board	Mark Semmens 444-4388	\$2-4 million Industrial Development Revenue Bonds (pooled program)	12/15/84	Sale to be negotiated with D.A. Davidson.
B. Health Facility Authority	Jack Nielson 444-5435	Pooled Municipal Bond Program. \$3-4 million	February, 1985	D.A. Davidson is managing underwriter.
		\$18,000,000 Variable Rate Revenue Bonds (Billings Deaconess Project)	January, 1985	Negotiated sale. John Nuveen & Co. is senior underwriter, Comerica- Bank - Detroit providing letter of credit.
C. Board of Housing	Jay McLoed 444-3040			Future financing pending additional state debt authorization.

STATE OF MONTANA
CAPITAL FINANCE ADVISORY COUNCIL
MASTER OBLIGATION SCHEDULE

<u>Agency/Program</u>	<u>Contact Person</u>	<u>Amount/Type of Financing</u>	<u>Approx. Sale Date</u>	<u>Status</u>
4. Higher Education Student Assistance Corporation	Jim Stipcich 444-6597	\$68,000,000 Student Loan Revenue Bonds	December 7, 1984	Negotiate sale with Smith Barney, et al.
5. Department of Highways	Bill Gosnell 444-6201	No financings under active consideration.		
6. Department of Natural Resources and Conservation (Board of Examiners)	Bob Robinson Caralee Chaney Ann Mulroney 444-6668	Up to \$28 million in Coal Severance Tax Bonds	Through June 30, 1985	In process of analyzing alternative financing mechanisms, amount of funding and scheduling.
7. The Board of Regents	Jack Noble 444-6581	\$9,700,000 Revenue Bonds (Montana State University)	November 20, 1984	Negotiated sale.
		\$9,500,000 Revenue Bonds (Montana State University)	December 10, 1984	Negotiated sale.

Prepared by:
EVENSEN DODGE, INC.

APPENDIX C
Results of Sales - 1985

STATE OF MONTANA
Bond Issues Completed Through November, 1984

<u>Sale Date</u>	<u>Agency</u>	<u>Issue</u>	<u>Page</u>
4/26/84	Board of Regents	\$9,000,000 Revenue Bonds (Montana State University)	
6/27/84	Board of Regents	\$3,745,000 Revenue Bonds (University of Montana)	
8/1/84	Department of Natural Resources and Conservation	\$10,485,000 Coal Severance Tax Bonds, 1984 Series A	
8/8/84	Department of Administration	\$38,000,000 Tax and Revenue Anticipation Notes	
8/24/84	Board of Housing	\$75,000,000 Single Family Mortgage Bonds, 1984 Series A	
9/1/84	Board of Regents	\$4,980,000 Revenue Bonds (University of Montana)	
9/1/84	Board of Regents	\$7,380,000 Revenue Bonds (Eastern Montana College)	
9/12/84	Health Facilities Authority	\$23,500,000 Variable Rate Revenue Bonds (Pooled Loan Program), 1984 Series A	
9/ /84	Health Facilities Authority	\$1,200,000 Hospital Revenue Notes (Francis Mahon Deaconess Hospital)	
10/11/84	Department of Natural Resources and Conservation and Department of Administration	\$900,000 General Obligation Water Development Bonds, Series 1984 A	
11/15/84	Board of Regents	\$8,000,000 Revenue Bonds (Montana College of Mineral Science and Technology)	

<u>Agency:</u>	Department of Natural Resources and Conservation
<u>Name of Issue:</u>	\$10,485,000 Coal Severance Tax Bonds, Series 1984 A
<u>Date of Sale/Delivery:</u>	8-1-84/8-16-84
<u>Purpose of Financing:</u>	To make loans to certain local government entities, political subdivisions and water user associations to finance various water development projects.
<u>Method of Sale:</u>	Negotiated
<u>Rating:</u>	A1/AA
<u>Structure of Financing:</u>	Serial revenue bonds from 1985 to 1996, term bonds in 1999 and 2005. Fixed rate of interest.
<u>Net Interest Rate:</u>	10.135%
<u>Cost of Issuance:</u>	
<u>Underwriters Spread:</u>	
Management Fee:	\$ 4.00/\$1,000
Expenses:	5.50
Takedown/Concessions:	13.57
Net:	<u>1.00</u>
Total:	\$24.07/\$1,000
<u>Participants in the Financing:</u>	
<u>Bond Counsel:</u>	Oitzinger & Mullendore
<u>Underwriters:</u>	First Boston Corporation D.A. Davidson Dain Bosworth
<u>Underwriters' Counsel:</u>	Dorsey & Whitney
<u>Trustee/Paying Agent:</u>	Norwest Bank, Minneapolis
<u>Credit Support/Enhancement:</u>	Bonds are secured by the Coal Tax Trust Fund.

Agency: Department of Administration

Name of Issue: \$38,000,000 Tax and Revenue Anticipation Notes

Date of Sale/Delivery: 8-8-84/8-22-84

Purpose of Financing: To provide money, pending the receipt of taxes and revenues, for expenditure from the State's general fund for the fiscal year ending June 30, 1985.

Method of Sale: Competitive (Auction)

Rating: MIG-1

Structure of Financing: Fixed interest rate, single maturity.

Net Interest Rate: 6.9656%

Cost of Issuance:

Underwriters Spread: \$ 1.37/\$1,000

Participants in the Financing:

Bond Counsel: Dorsey & Whitney

Underwriters: First Interstate Bank of California
Goldman Sachs & Co.
Irving Trust Company
Ehrlich-Bober & Co.

Trustee/Paying Agent: Norwest Bank, Minneapolis

<u>Agency:</u>	Board of Housing
<u>Name of Issue:</u>	\$75,000,000 Single Family Program Revenue Bonds, 1984 Series A
<u>Date of Sale/Delivery:</u>	8-15-84/9-20-84
<u>Purpose of Financing:</u>	To finance single family mortgage loans to persons of low and moderate income.
<u>Method of Sale:</u>	Negotiated
<u>Rating:</u>	Aa/AA
<u>Structure of Financing:</u>	Fixed interest rates in serial bonds from 1986 - , term bonds in and capital accumulator bonds in . The mortgages must be FHA insured or VA guaranteed.
<u>Net Interest Rate:</u>	
<u>Cost of Issuance:</u>	\$136,571
<u>Underwriters Spread:</u>	
Management Fee:	\$ 3.00/\$1,000
Expenses:	3.23
Takedown/Concessions:	14.73
Net:	<u>1.00</u>
Total:	\$21.96/\$1,000
<u>Participants in the Financing:</u>	
<u>Bond Counsel:</u>	Oitzinger & Mullendore
<u>Underwriters:</u>	First Boston Corporation Shearson/American Express Dain Bosworth D.A. Davidson Piper Jaffray & Hopwood
<u>Underwriters' Counsel:</u>	Hawkins, Delafield & Wood
<u>Trustee/Paying Agent:</u>	First Interstate Bank of California

Agency: Health Facilities Authority

Name of Issue: \$23,500,000 Variable Rate Revenue Bonds
(Pooled Program)

Date of Sale/Delivery: 9-12-84/9-12-84

Purpose of Financing: To make loans to qualified health care institutions for the purpose of primarily acquiring equipment, but also refunding outstanding debt and minor capital improvements which can be amortized over a period not to exceed seven years.

Method of Sale: Negotiated

Rating: Standard & Poor's: AA-/A1+

Structure of Financing: The Bonds are variable rate revenue bonds which can be tendered on seven day notice by holders to the remarketing agent. The remarketing agent may tender unmarketed bonds to the letter of credit bank after a seven day period. The Bonds are secured by a pledge of payments by each health institution. Other security arrangements, bond proceeds and irrevocable letter of credit from the First National Bank of Chicago.

Net Interest Rate: The interest rate varies weekly depending upon market conditions and rates for seven day tax-exempt paper.

Cost of Issuance:

Underwriters Spread: \$7.50/\$1,000

Participants in the Financing:

Bond Counsel: Dorsey & Whitney

Underwriters: Dain Bosworth
Bear, Stearns & Co.

Underwriters' Counsel: Kutak, Rock & Huie

Trustee/Paying Agent: First Trust Company of Montana/Chase
Manhattan Bank

Credit Enhancement: Letter of Credit from the First National
Bank of Chicago

Agency: Health Facilities Authority

Name of Issue: \$1,200,000 Health Care Loan Anticipation Note (Francis Mahon Deaconess Hospital)

Date of Sale/Delivery:

Purpose of Financing: To finance construction of new facilities at the hospital.

Method of Sale: Negotiated

Rating: None

Structure of Financing: Financing is an 18-month fixed rate note to be taken out by a loan from the Farmers Home Administration.

Net Interest Rate:

Cost of Issuance:

Underwriters Spread: \$10.00/\$1,000

Participants in the Financing:

Bond Counsel: Dorsey & Whitney

Underwriters: D.A. Davidson

Underwriters' Counsel: None

Trustee/Paying Agent:

Credit Enhancement: None

Agency: Department of Natural Resources and Conservation

Name of Issue: \$900,000 General Obligation Water Development Bonds

Date of Sale/Delivery: 10-12-84/10-25-84

Purpose of Financing: To make loans to private persons in the state for various water development projects.

Method of Sale: Competitive

Rating: Aa1/AA

Structure of Financing: Serial bonds with fixed interest rates from 1988 to 1995.

Net Interest Rate: 8.7029%

Cost of Issuance:

Underwriters Spread:

Participants in the Financing:

Bond Counsel: Dorsey & Whitney

Underwriters: Mercantile Trust Company, NA, St. Louis

Trustee/Paying Agent: Norwest Bank, Minneapolis

APPENDIX D

Bond Buyer Article
Dated September 13, 1984
Montana Tax-Exempt Financing Activity

Reprinted from

The Bond Buyer

The Authority on Municipal Bonds Since 1891

September 13, 1984

Montana Is on the Rise in the Market With a Plethora of New Bond Issues

By Kent Pierce

PASADENA, Calif., Sept. 12 — Observers of the municipal market may have noticed a relatively new presence among issuers of municipal bonds — Montana.

Today, the Montana Health Facilities Authority closed on a \$23 million, seven-year, variable rate demand note issue. The authority's first issue was negotiated by a syndicate led by Dain Bosworth Inc. and sold primarily to bond funds, said Mark Semmens, bond program manager for the Montana Economic Development Board.

The Montana Higher Education Student Assistance Corp., a non-profit corporation with quasi state agency status, is expected to close its second issue, a \$68 million student loan revenue bond offering, in October.

Last month, the state sold its first coal severance tax bond issue for water development. The \$10.5 million issue, rated AA-plus by Standard & Poor's Corp., was underwritten by a syndicate led by Bear, Stearns & Co. Roughly \$240 million in coal severance tax bonds for water development remain authorized.

Expected before yearend are the market debuts of several other state bond programs: the Composite Industrial Development Revenue Bond Program, the Pooled Municipal Bond Program, and possibly the Montana Agricultural Loan Authority.

Dale Harris, deputy administrator of the Montana Economic Development Board, said the new programs are the result of legislation passed by state lawmakers during its last biennial session in 1983. The source of that legislation, how-

ever, can be traced back to the 1981 legislative session, the first session after Gov. Ted Schwinden took office in 1980.

"Before Gov. Schwinden took office, we didn't even have a Department of Commerce," said Mr. Harris, "and we never had a state economic development plan."

By the end of the 1981 session, under the guidance of Gov. Schwinden, the state had both. Between 1981 and 1983, state officials sought information on the various techniques of development finance, including tax-exempt financing alternatives. Mr. Harris said that by the 1983 legislative session, the governor was ready to launch his "Build Montana" program, which included the formation of authorities with the ability to issue tax-exempt bonds.

"We looked at what was happening in other states and decided it would be good to initiate some of those programs in Montana," said the deputy administrator. He added that the state's health facilities authority was modeled on the authorities in Colorado and Illinois, and that the composite revenue bond program is very similar to the Alaska Industrial Development Authority.

Mr. Semmens expects the composite revenue bond program to sell its first issue in December and every four months thereafter. It will be aimed at providing long-term fixed-rate financing of \$1 million or less for qualified Montana businesses, and the state will pool together the debt of approved projects and sell bonds in amounts ranging from \$5 million to \$10 million to finance the debt.

Participating banks will service all the loans. The bonds will be secured by the businesses themselves, a five-year 35% letter of credit from the participating bank, and the moral obligation of the state. Mr. Semmens added that in time the Economic Development Board hopes to build up its own reserve fund to secure issues sold through the program.

Shortly after the composite revenue bond offering, the Economic Development Board hopes to go forward with a pooled municipal bond issue — Montana's equivalent of a state bond bank. Mr. Semmens said that the size of that issue will be determined after the general election in November, when many municipalities will be holding local bond elections. To qualify for the state pool, a local issue must not exceed \$500,000.

Patrick Born, a senior vice president at Evensen Dodge, Inc., headquartered in Minneapolis, financial adviser to all the state authorities, said the Montana Agricultural Loan Authority is beginning to operate and may sell an issue before yearend. He estimated the authority would sell between \$5 million and \$10 million per year.

Evensen Dodge, Inc., which was hired by the state last November, is currently putting together a debt management plan for the state's Capital Finance Advisory Council that would help coordinate the debt activities of the various state agencies.

Despite the proliferation of new bonding programs in the state, Mr. Born does not expect there will be a huge boom in the issuance of new Montana tax-exempt securities. "The new authorities are just starting, and we will have to see just how strong the demand is and how large the projects will get before we can develop a picture of how much tax-exempt financing" there is in Montana's future, he said.

APPENDIX E

Comparative GO Debt by State

STATE DEBT STATISTICS (2)

State	(1) Moody's	(1) S & P	G.O. Debt (Million)	G.O. Debt Per Capita	G.O. Debt/ Personal Income
Alabama	Aa	AA	1,627	418	.048
Alaska	Aa	AA-	1,100	2,736	.168
Arizona	-	-	-	-	-
Arkansas	-	-	20	9	.001
California	Aa	AA	6,767	286	.023
Colorado	-	-	-	-	-
Connecticut	Aa	AA-	2,200	708	.051
Delaware	Aa	AAA	609	1,025	.087
Florida	Aa	AA	2,943	302	.028
Georgia	Aaa	AA	1,680	308	.032
Hawaii	Aa	AA	1,640	1,700	.146
Idaho	Aa	AA	20	21	.002
Illinois	Aaa	AA+	3,188	279	.023
Indiana	-	-	-	-	-
Iowa	-	-	-	-	-
Kansas	-	-	-	-	-
Kentucky	Aa	AA	226	62	.007
Louisiana	Aa	AA	3	1	.000
Maine	Aa1	AAA	327	290	.032
Maryland	Aaa	AAA	2,463	584	.048
Massachusetts	Al	AA-	2,900	505	.042
Michigan	Baa1	A+	309	33	.003
Minnesota	Aa	AA	1,087	267	.024
Mississippi	Aa	AA-	697	276	.036
Missouri	Aaa	AAA	180	37	.004
Montana	Aa1	AA	107	136	.014
Nebraska	-	-	-	-	-
New Hampshire	Al	AA-	360	391	.036
New Jersey	Aaa	AAA	2,463	334	.026
New Mexico	Aa1	AA	16	12	.001
New York	A	A+	3,841	219	.018
Nevada	Aa	AA	46	58	.005
North Carolina	Aaa	AAA	970	165	.018
North Dakota	Aa	AA	61	94	.009
Ohio	Aa	AA	1,002	93	.009
Oklahoma	Aaa	-	147	49	.004
Oregon	Al	AA	5,776	2,194	.212
Pennsylvania	A	A+	4,000	337	.031
Rhode Island	Aa	AA-	238	251	.023
South Carolina	Aaa	AAA	621	199	.023
South Dakota	-	-	-	-	-
Tennessee	Aaa	AA+	583	127	.014
Texas	Aaa	AAA	1,100	77	.007
Utah	Aaa	AAA	240	164	.019
Vermont	Aa	-	277	542	.057
Virginia	Aaa	AAA	337	63	.006
Washington	A	AA-	2,266	548	.047
West Virginia	Al	AA+	898	461	.053
Wisconsin	Aa	AA	1,965	418	.039
Wyoming	-	-	-	-	-
Average - All			1,364	400	.035
Average - Aaa/AAA			1,047	203	.019

(1) Credit Ratings as of November, 1984.

(2) Debt Statistics as of December, 1983.

SUMMARY OF ANTICIPATED LEGISLATION CONCERNING BONDS - 1/9/85

Department of Administration

The department is drafting legislation providing a method for allocating the state's Industrial Development Bond Authority between political subdivisions and state agencies in response to the Tax Reform Act of 1984.

The Long Range Building Program recommends the issuance of approximately \$5 million in General Obligation bonds for construction of Department of Fish, Wildlife & Parks facilities. These bonds would be retired by Department of Fish, Wildlife & Parks' license revenues.

Department of Natural Resources and Conservation

The department is drafting legislation to amend 17-5-703, MCA, to provide a reserve equal to one years debt service in the coal severance tax bond fund. Currently the reserve requirement is an amount equal to the next ensuing semi-annual debt service payment. Also the department is drafting legislation to reduce the authority to issue coal severance tax bonds from \$250 million to \$200 million.

Montana Health Facilities Authority

The authority is drafting legislation to increase their ceiling on the issuance of bonds wherein the authority cannot issue bonds in excess of \$50 million per biennium. Amending Section 90-7-302, MCA.

Montana Board of Housing

The board is drafting legislation to increase the ceiling for the total amount of notes and bonds which may be outstanding at any one time from \$675 million to \$975 million. Amending Section 90-6-111(5), MCA. Also capital appreciation bonds will be accounted for by issue value.

Montana Economic Development Board

The board is drafting legislation to:

1. Allow the Board to use the in-state investment fund to guarantee bond issues;
2. Allow the Board to issue bonds which are general obligations of the Board payable out of any and all of its assets including the in-state investment fund;
3. Permit stand-alone IDB projects that are not secured by the Board's guarantee or the capital reserve account; and
4. Authorize \$75 million in bonding authority by consolidating existing \$25 and \$50 million authority.

Agriculture Loan Authority

The authority is drafting legislation to reduce their authority to issue bonds down from \$200 million to \$40 million; to use a portion of the coal severance tax to make guarantee loans and participation loans for the beginning program; and to use the moral obligation of the state to back their bonds.

LRBP EFFECT ON THE GENERAL FUND

Revenues Pledged for Debt Service	Fiscal Year		
	1985	1986	1987
Income tax 11% (17-5-408 MCA)	\$20,050,000	\$21,221,000	\$22,452,000
Corporation License Tax 11% (15-31-702 MCA; 17-5-408 MCA)	6,018,000	5,148,000	5,552,000
Cigarette Sales Tax 79.75% (16-11-119 MCA)	11,633,000	11,683,000	11,732,000
Other Tobacco Tax 100% (16-11-206 MCA)	748,000	828,000	916,000
Long Range Bond Excess	<u>\$38,449,000</u>	<u>\$38,880,000</u>	<u>\$40,652,000</u>
LRBP General Fund Debt Service	<u>(10,005,000)</u>	<u>(10,070,000)</u>	<u>(10,131,000)</u>
Benefit of Pledged Revenues to General Fund	<u>\$28,444,000</u>	<u>\$28,811,000</u>	<u>\$30,520,000</u>
Effect of a hypothetical \$20 million bond issue on the General Fund, even Principal and Interest payments, 20 year maturity		<u>\$ 2,224,000</u>	<u>\$ 2,224,000</u>

¹The Budget Analysis 1987 Biennium prepared by the Office of the Legislative Fiscal Analyst reports long-range bond excess estimates for FY'85, FY'86, and FY'87, as \$36,185,000, \$37,479,000, and \$39,582,000 respectively.

Long Range Planning Subcommittee
Agenda
January 11, 1985
Old Supreme Court Chambers, 8:00 a.m.

I. Presentation

1. Patrick Born
State Financial Advisor
Evensen - Dodge, Inc.
Minneapolis, MN

Mr. Born will speak about the Montana debt management plan.

2. Department of Administration presentation on the interaction
of the bonding program with the general fund.

All Representatives and Senators are encouraged to attend this meeting.

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