

MINUTES

MONTANA SENATE
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON LOCAL GOVERNMENT

Call to Order: By Chairman Ethel Harding, on February 18, 1989, at 1:00 p.m. in room 405, State Capitol

ROLL CALL

Members Present: Chairman Ethel Harding, Vice Chairman Bruce D. Crippen, Senators R. J. "Dick" Pinsoneault, Tom Beck, Eleanor Vaughn, H.W. "Swede" Hammond, Mike Walker, Paul Boylan

Members Excused: None

Members Absent: None

Staff Present: Connie Erickson, Legislative Council;
Dolores Harris, Committee Secretary

Announcements/Discussion: Senator Aklestad received a rule suspension to have this bill heard quickly.

HEARING ON SENATE BILL 457

Presentation and Opening Statement by Sponsor: Senator Gary Aklestad, senate district 6, stated this bill is brought before you on behalf of the cities and towns around the state. This bill allows cities and towns to buy out FHA loans that they have. The FHA has instigated a buy out program where the cities and towns can save a substantial amount of money. This bill enables them to participate in this buy out. The old law states that they can not go into another loaning situation where the interest charged is higher. In fact the new interest rate was required to be 1/2% lower. Now under the new tax laws, even with higher interest rates, cities can save money by buying out their outstanding bonds or loans. On page 1 they can rebond and the interest can be higher. On page 3 a clause was added to make certain that they did have a resulting reduction of cost to the cities.

One town had an indebtedness of \$486,000. The FHA will let them buy that out for \$328,000 for a savings of \$158,000, which is a tremendous savings to a town. Which on the other hand is a tremendous loss to FHA.

The FHA are trying to raise capital. It's a great opportunity for communities.

List of Testifying Proponents and What Group they Represent:

None

List of Testifying Opponents and What Group They Represent:

None

Testimony:

None

Questions From Committee Members: Senator Crippen asked who issues the bonds. It can be DAD but FHA bought the bonds. The new bonds would go through the same mechanism. There has been some water districts that have used this buy out because they are county entities.

Senator Boylan asked if they refinance at a higher rate do they still save money? Yes, a great deal of money.

Senator Beck asked on the \$486,000 still owed, how many years bonds were they? 40 years. How many years were paid off on them? 13 years were paid off. Would they reissue 40 year bonds? No, and the new interest rate would be 7 or 8%

Senator Hammond asked what happens with tax free municipal bonds? This bill will work with FHA or in an advantageous situation.

Senator Beck are these loans? Senator Aklestad responded they are both bonds and loans.

Senator Vaughn asked is this for a limited time? This statute can work for other times also. The FHA does have a time limit of March 9 as a deadline to get their paperwork done.

Senator Crippen asked Senator Aklestad to define total debt service costs? Senator Aklestad responded that is the total costs for those bonds and the cities should know what they are. It would include the new interest rates and the new issuing of the bonds and all that goes into that plan for refinancing.

Closing by Sponsor: Senator Aklestad stated this bill is an opportunity to help cities and towns capitalize on a

money making opportunity. I want them to have this opportunity if they so desire.

DISPOSITION OF SENATE BILL 457

Discussion: None

Amendments and Votes: None

Recommendation and Vote: Senator Hammond MOVED that we DO PASS SB 457. The VOTE was UNANIMOUS in FAVOR of SB 457.

ADJOURNMENT

Adjournment At: 2:16 p.m


SENATOR ETHEL M. HARDING, Chairman

EMH/dh

minutes.218

ROLL CALL

LOCAL GOVERNMENT

COMMITTEE

51th LEGISLATIVE SESSION -- 1989

Date Feb 18, 1989

NAME	PRESENT	ABSENT	EXCUSED
Sen. Ethel Harding	X		
Sen. R.J. "Dick" Pinsoneault	X		
Sen. Tom Beck	X		
Sen. Eleanor Vaughn	X		
Sen. H.W. "Swede" Hammond	X		
Sen. Mike Walker	X		
Sen. Gene Thayer	X		
Sen. Paul Boylan	X		
Sen. Bruce D. Crippen	X		

Each day attach to minutes.

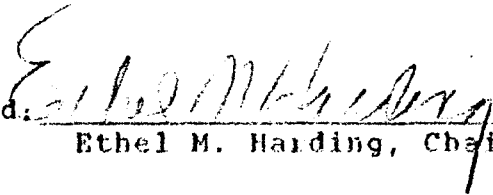
SENATE STANDING COMMITTEE REPORT

February 18, 1989

MR. PRESIDENT:

We, your committee on Local Government, having had under consideration SB 457 (first reading copy -- white), respectfully report that SB 457 do pass.

DO PASS

Signed: 
Ethel M. Harding, Chairman

1 *Senate* BILL NO. 457
 2 INTRODUCED BY R. K. WESTAD *Juan Lynch*
 3 *Justin* *Mazuch* NATHAN Beck
 4 A BILL FOR AN ACT ENTITLED: "AN ACT ALLOWING A COUNTY,
 5 CITY, OR TOWN TO ISSUE REFUNDING BONDS AT AN INTEREST RATE
 6 IN EXCESS OF THE RATE ON THE REFUNDED BONDS IF THE REFUNDING
 7 RESULTS IN A REDUCTION OF TOTAL DEBT SERVICE COST; AMENDING
 8 SECTIONS 7-7-2304, 7-7-4304, 7-7-4502, AND 7-7-4610, MCA;
 9 AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

10
 11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

12 **Section 1.** Section 7-7-2304, MCA, is amended to read:

13 "7-7-2304. Interest rate on refunding general
 14 obligation bonds. (1) No Except as provided in subsection
 15 (2), refunding bonds shall may not be issued unless such the
 16 refunding bonds shall bear interest at a rate of at least
 17 1/2 of 1% less than the outstanding bonds which are to be
 18 refunded.

19 (2) Refunding bonds may bear interest in excess of the
 20 rate on the refunded bonds if the issuance of the refunding
 21 bonds, including the total costs of refunding the bonds,
 22 results in a reduction of total debt service cost to the
 23 county."

24 **Section 2.** Section 7-7-4304, MCA, is amended to read:

25 "7-7-4304. Interest rate on refunding general

1 obligation bonds. (1) No Except as provided in subsection
2 (2), refunding bonds ~~shall~~ may not be issued unless ~~such the~~
3 refunding bonds ~~shall~~ bear interest at a rate of at least
4 1/2 of 1% less than the interest rate of the outstanding
5 bonds to be refunded.

6 (2) Refunding bonds may bear interest in excess of the
7 rate on the refunded bonds if the issuance of the refunding
8 bonds, including the total costs of refunding the bonds,
9 results in a reduction of total debt service cost to the
10 city or town."

11 **Section 3.** Section 7-7-4502, MCA, is amended to read:

12 "7-7-4502. Interest rates on refunding revenue bonds.

13 (1) Except as provided in subsection (2), refunding bonds
14 ~~shall~~ may not be issued unless their average annual interest
15 rate, computed to their stated maturity dates and excluding
16 any premium from such computation, is at least 3/8 of 1%
17 less than the average annual interest rate on the bonds
18 refunded thereby, computed to their respective stated
19 maturity dates.

20 (2) Refunding bonds may bear interest at a rate lower
21 or higher than the bonds refunded thereby if:

22 (a) they are issued to refund matured principal or
23 interest for the payment of which revenues on hand are not
24 sufficient; or

25 (b) the refunding bonds are combined with an issue of

1 new bonds for reconstruction, improvement, betterment, or
 2 extension and the lien of such new bonds upon the revenues
 3 of the undertaking must be junior and subordinate to the
 4 lien of the outstanding bonds refunded, under the terms of
 5 the ordinances or resolutions authorizing the outstanding
 6 bonds as applied to circumstances existing on the date of
 7 refunding; or

8 (c) the issuance of the refunding bonds, including the
 9 total costs of refunding the bonds, results in a reduction
 10 of (total debt service cost) to the municipality."

11 **Section 4.** Section 7-7-4610, MCA, is amended to read:

12 "7-7-4610. Details relating to refunding revenue
 13 bonds. The refunding bonds may, as provided by resolution of
 14 the governing body of the municipality:

15 (1) be issued in one or more series, bear such date or
 16 dates, and mature at such time or times, not exceeding the
 17 period of usefulness of the enterprise, as determined by the
 18 governing body in its discretion, and, in any event, not
 19 exceeding 40 years from their respective dates;

20 (2) bear interest at such rate or rates not exceeding
 21 the maximum rate of interest borne by the notes, bonds, or
 22 other obligations refinanced thereby, except that refunding
 23 bonds may bear interest in excess of the rate on the
 24 refunded bonds if the issuance of the refunding bonds,
 25 including the total costs of refunding the bonds, results in

1 a reduction of total debt service cost to the municipality;

2 (3) be in such denomination or denominations and be in
3 such form, either coupon or registered;

4 (4) carry such registration and conversion privileges;

5 (5) be executed in such manner;

6 (6) be payable in such medium of payment and at such
7 place or places;

8 (7) be subject to such terms of redemption, with or
9 without a premium;

10 (8) be declared or become due before the maturity date
11 thereof;

12 (9) provide for the replacement of mutilated,
13 destroyed, stolen, or lost bonds;

14 (10) be authenticated in such manner and upon
15 compliance with such conditions; and

16 (11) contain such other terms and covenants."

17 NEW SECTION. Section 5. Effective date. [This act] is
18 effective on passage and approval.

-End-

