

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON APPROPRIATIONS

Call to Order: By Chairman Francis Bardanouve, on January 15, 1991, at 9:12 a.m.

ROLL CALL

Members Present:

Francis Bardanouve, Chair (D)
Dorothy Bradley (D)
John Cobb (R)
Dorothy Cody (D)
Mary Ellen Connelly (D)
Larry Grinde (R)
Mike Kadas (D)
Berv Kimberley (D)
Wm. "Red" Menahan (D)
Jerry Nisbet (D)
Chuck Swysgood (R)
Bob Thoft (R)

Members Excused: Ray Peck, Ed Grady, John Johnson, Mary Lou Peterson, Joe Quilici and Tom Zook

Staff Present: Jim Haubein (LFA).

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion: CHAIRMAN BARDANOUE said several members were tied up in subcommittee meetings, welcomed the Senators, and said the important visitor we had today was with the Montana Financial Advisory office, the Public Resource Advisory group, and asked Mr. Marks or Mr. Ashley to introduce the speaker.

INFORMATIONAL MEETING

Montana Financial Advisor
Public Resources Advisory Firm

Mr. Dave Ashley, Department of Administration thanked the committee and said they appreciate the opportunity of appearing before the committee with Mr. Malcolm Jones, Public Resource Advisory Group, Los Angeles, California. They are one of the leading municipal financial advisory firms in the United States. The Capitol Financial Advisory Council, with Rep. Bardanouve and Sen. Gage as members, selected the firm this summer. CFAC is a

group of agency directors in the state of Montana that have debt issuing authority by virtue of Legislative statutes that have been passed. The Public Resources Advisory Group (PRAG) was selected this summer as the state wide financial advisor, and Mr. Malcolm Jones will give you an overview of the state's debt situation, how the rating agencies view the state of Montana's credit, the Governor's bonding proposals, and will answer questions you may have in regard to bonding proposals you may see this session.

(Tape 1, A, 40)

Mr. Malcolm Jones, Public Resources Advisory Firm, gave his presentation by following through on EXHIBIT 1 and requesting questions throughout the presentation. He gave a short review of his firm (page 4, #2) and then discussed the situation as it is in Montana and as it is viewed by the outside world. (starting on page 5) The focus will be on the Tax-supported debt position in Montana, consistency is important and Moody's wanted to be reasonably sure they were comparing apples with apples. Montana has a double A rating with Moody's, the general fund balances mean strength and with the performance of this biennium over previous bienniums view this as very positive. The Highway Revenue bonds, the Coal Tax bonds and your coal tax supported debt bring up the rating. There is not a single state when Highway Revenue bonds are supported by fuel tax, where they don't include that in the calculations for ratings.

Mr. Jones said the rapidity of repayment gave Montana a good bond rating but was also a burden on the general fund. The per capita personal income is a critical factor in the ability to pay and if that number falls below median, the state should start to look carefully at the debt program as it pertains to the numbers. He referred to page 8 and said this reflects the rapid amortization of our debt.

On page 9, **Mr. Jones** discussed the future debt issuances, said we were retiring bonds at a rate which makes it possible to do more bonding without raising the payments. He said in the projected 1994 column it shows the proposed Governor's budget being included. On page 10 is shown the debt at the beginning of the year and retirements based on the existing schedule plus assumptions made on any new debt. This is then compared to population, debt per capita, debt to personal income and debt to estimated full value and this is an additional measurement of debt service to revenue. The bottom line is in 1995 when you issue up to \$60 million in general obligation bonds (GO). In terms of the Governor's proposal, your financial snapshot is actually no worse off, but slightly better than it is today. This reflects the rapid amortization, the significant pay-downs of the debt service through the years. In terms of pure debt capacity the ability to issue bonds close to \$60 million, the answer will be "no problem". The issue will be "how do you pay for it" and the impact on the general fund in regard to the ability to fund the other citizens of the state. Even if you add

another \$30 million in 1995 your total outstanding debt at the end of FY'95 ends up statistically not much different than what you are seeing at the end of '90. He referred to page 11 and said it is viewed as a credit strength for the state of Montana.

(376)

REPRESENTATIVE CODY asked if Crow Tribe's assessment against the state so far as the monies are concerned is included in these figures. We are supposedly going to pay some money to the Crow Tribe on the coal tax. **Mr. Jones** said the coal tax numbers you are referring to reflect current legal settlements with the Tribes and any arrangements they have in regard to coal or lands. They do not include any proposed legislation or future litigation.

REPRESENTATIVE CODY said we do have some in reserve from the time they found against us, but was wondering about the back amount they might be assessed by the court, and that is not in this material? **Mr. Jones** said no.

REPRESENTATIVE COBB referred to page 10 in regard to retirements in '96, '97 and '98, which aren't on the sheet, with the rapid payment of our debt to about 80% this would be \$26 million or \$27 million? **Mr. Jones** said no, the big jump that occurs in 1994 is reflected in the footnote that states it reflects the amortization of the Highway Revenue bonds when the principal starts in 1993. He said the GO bonds are at a rather high rate now with \$6 million in '91, \$8 million in '92 and \$10 million in '95. He pointed out how the payments had gone down over that period.

REPRESENTATIVE COBB said then we could issue about \$30 million a year in '96, '97 and '98 a year and be in the same situation on debt service to revenue if everything else remained the same. **Mr. Jones** said he would show a couple of charts on the overhead projector which would show some relation to debt service. He later said these could be made available to the committee. He discussed deferred payments and pointed out that pushing them ahead would spread out the payments which would make them considerably less, but the overall debt would increase, and is rather expensive. The key is how to handle the impact of new debt on the general fund and it is necessary to at least pay interest on those securities for the first years and that will cost money. He said there are other alternatives, and discussed some of them. (495)

SENATOR NATHE said he realized this was a snapshot taken of a limited amount of information, but if we throw in all of the bonds we have in the state and compare that to our median income, how would it look? This would be student loans, housing etc., the obligations coming out of that median income figure. Is there any advantage of taking a look at this obligation that the people of the state are also carrying on their personal incomes?

Mr. Jones said probably no, it would not give an advantage to achieving a lower cost for future financing. The agencies have been consistent in how they have reviewed states with that component, basically called foreign debt. The state's general fund may have an impact on the states citizenry in terms of their ability to make payments to Higher Education, loans, etc. He felt the way the rating agencies would classify it would not be advantageous to the state.

REPRESENTATIVE ROYAL JOHNSON asked, where do the rating agencies structure leases in the overall function of the state? **Mr. Jones** said they look at a lease as an obligation of the state and on the general fund. While it may not be a debt outstanding, they will look at it as a debt service.

REPRESENTATIVE ROYAL JOHNSON asked, in that case if you are going to lease a lease, would the buyers of securities consider that under a double rating and assume that as a double obligation of the state? **Mr. Jones** said as a matter of general policy, the rating agencies look at leases that have non-appropriation clauses. **Mae Nan Ellingson** said the Legislature could authorize a lease that would be a long term lease subject to the right to not appropriate every biennium. By the same token, if they determined it would present a better interest rate they could enter into a 20 year lease that would not be subject to non-appropriation, which would be deemed debt. **Mr. Jones** said this would be two different scenarios, the latter one you would enter into a lease where you basically commit a fund to appropriate annual lease payments and is called the California lease, and is what is issued in the state of California. The rating agencies as a matter of general policy, rated those securities a half notch lower than the GO bond debt of the same issue. The first example where on any 2 year biennium, the state could exercise it's option and not appropriate, have been rated a whole notch lower.

REPRESENTATIVE GRINDE said the Legislature might be faced with the question of whether or not to allow the issuance of (unintelligible) bonds. Are they normally structured as revenue bonds or as GO bonds in the other states? **Mr. Jones** said he would like to get back to him on that since his partner who had done most of the Higher Education bond figures isn't here and he has the answers to that question.

Mr. Jones referred to page 12 on the market update. (Tape side 2) Two pages past page 12 is the Merrill Lynch State General Obligation Bonds Comparative Value Trading Chart as of 11/21/90 and said this is published every 6 months and the year end data was not yet available. It groups states under a number of categories based under relative trading value and the base group is group 3. These show on 11/21 what their debt securities would be in terms of yield in each of the 4 years. In an attempt to categorize how the states trade relative to their "base group", the strongest is the state of California which has a triple A

rating and has their high proportional tax rate. Montana is in group 6, and trades about 10 base points or 1/10 of 1% higher than the numbers we have seen for the 5, 10, 15 and 20 years in base group.

CHAIRMAN BARDANOUVE asked for clarification on what this really signifies and **Mr. Jones** said it reflects a very strong trading pattern. It costs a little more to borrow than it does groups 1 through 4 and it is reflected for your credit rating. The higher rated triple A states tend to be in the top group. It is reflected in your tax rate which is rather high, but is an advantage in this case. The biggest issue for the state of Montana is an estimated yield because the supply of your paper in the secondary market is so thin that it makes it more difficult.

REPRESENTATIVE BARDANOUVE asked if this was because we did not have too many bonds for sale at any one time and **Mr. Jones** said that is correct, with only \$78 million in GO bonds outstanding, the amount available in the secondary market at any one time is a very small amount. He discussed the graph titled Comparative Value Trading Chart and the sheet called Relative Value Study of General Bonds - 20 year maturities. He said #11 was New Jersey which is the base group for this study and it says, relative to New Jersey, how do you trade, and Montana is # 13. Montana has gone from 9.85 to 3.64 basic points. This reflects the narrowing spread, but Montana ranked 15 for the period ending 12/89 and 13 for 6/12/90. The next page is a longer term of data and following Montana you can see the difference between 12/87 and 6/90.

CHAIRMAN BARDANOUVE asked to have "basic point" explained and **Mr. Jones** said there are two basic points. There has been a compression of the yield per differential based on credit quality. There is a half and a full category rating difference which if taken on an average might have cost you 1/2 of a percentage point a year and a half ago and may only cost 1/4 of a point today. This has happened across the country as the overall credit quality of portfolios has risen it has forced a narrowing of that differential. Within that, the state of Montana, relative to other factors has improved. The state has weathered some difficult times in the past with strong financial management and strong year-end cash balances.

(082) **Mr. Jones** discussed the last section on Market Update showing how interest rates have come down significantly. At last weeks levels, interest rates were lower than that only 5% of the time during the whole decade of the '80's. In terms of the state's borrowing programs, the state is entering a decade that in the perspective of the '80's looks very practical.

CHAIRMAN BARDANOUVE asked, if worse comes to worse, and we are in a war, what do you suggest? **Mr. Jones** said he could give something for the first weeks, if it lasted longer he did not know how long it would last or what the impact would be. He felt

he could say with some certainty that the stock market will suffer, that money will come out of the stock market and it has to go somewhere. He said they have in the last 2 weeks, they have seen it go to the very short end of the treasury market, and the very short end of the municipal market. He felt in a war environment, the spread in interest rates from very short and long term, which in the '80's was very flat has begun to steepen, will steepen very significantly. The 30 year or 20 year obligation bonds will be at 7% will be better, probably below 7%, your ability to issue floating rate debt--most of the nations floating rate debt is in weekly variable rate paper although some of it is in daily--which is the most liquid market. Dailies in December were anywhere from 5 to 8%, depending on what you were looking at. Dailies over the last couple days have been 1 1/2 or 2% yield because all the monies they were seeing that had to go someplace, is going into the very short end of the market.

CHAIRMAN BARDANOUVE asked if by short he meant short term instruments? **Mr. Jones** answered yes, short term instruments have gotten much lower yield, and while they anticipate that will continue, that is premised on the belief that people want to get their money out of the short term and back into long term bonds or the stock market if it has some beneficial impact.

SENATOR KEATING said war is generally inflationary. If this is an extensive war, wouldn't that increase inflation and drive interest rates higher? **Mr. Jones** said while your statement is actually true in terms of a war tending to be inflationary. This war will certainly be immediately inflationary in the price of gas you pay, and that will have an impact. The numbers coming out of the economy seem to show inflation as a secondary issue. The big question is how long the conflict goes on, what is the damage to either supply systems due to resistance or the impact of availability of oil in the future. World oil supply inventory is at a 10 year high right now although it is well below where everyone would like to see us. It says that a long and protracted war that has an impact on oil supplies will shift this trend downward.

SENATOR KEATING said if this is not an inflationary period and we either stay flat or there is a recession or depression in our economy--on page 10, debt to personal income--Moody's call for a 2.2% median and Montana floats above and below that as the years go on. If personal income were to come down and that debt to personal income ratio goes up, how serious a factor is that in your evaluation? **Mr. Jones** said it is an important factor. While both agencies have cited the dollars in debt outstanding as not being critical criteria in the rating, the per capita income, or the ability of the state to pay for a bond, the resources available to pay for the services is critical.

REPRESENTATIVE JOHNSON asked, the \$60 million you refer to in the Governor's proposal, does that include the Big Sky Dividend Proposal? **Mr. Jones** said no, it is independent of the Big Sky

Dividend Proposal.

CHAIRMAN BARDANOUVE asked if there was any possibility that Montana's rates will change in the near future. Is there any move to re-evaluate our rates? **Mr. Jones** said both rating agencies rate you as stable, citing on the plus the ability to manage difficult times in the '80's, and the success in building an unreserved fund balance which will eventually decline in the next 4 years. With CI 55 behind you this is not looming ahead, with potentially higher oil prices and higher coal prices. They do not anticipate a short run and would like to see the state take a run at getting rid of the minus.

CHAIRMAN BARDANOUVE discussed the dam that has been operating for 1 1/2 years, the electricity is sold to Montana Power, and this makes the payments. **Mr. Jones** suggested that it is now backed by coal tax but has not used any of those funds. He suggested it might improve the rating if this were to stand alone.

CHAIRMAN BARDANOUVE, in reference to page 6, said he had concern that even though our situation might not be of too much concern, we are moving to a higher per capita and total personal income and we are moving up in the full value. The long term trend concerned him in that we are becoming more "hooked" on bonded debt. **Mr. Jones** said this is true. **CHAIRMAN BARDANOUVE** said his concern is that this might be a nice way of doing business so let's just keep doing it. It is quite significant percentage wise of where we were a couple years ago. **Mr. Jones** said he would like to make two comments, one was in regard to the presentation **CHAIRMAN BARDANOUVE** had made last month for the CFAC where we cautioned that in the total debt venture both agencies have cited a significant growth due largely to the limited obligation bonds that have been issued in terms of good debt outstanding. We are saying, in terms of your total debt picture, the sky is not the limit. In the specific question of GO debt, particularly as shown on the screen as your rapid amortization, the ability to issue more GO bond debt is substantial. It is certainly \$60 million and probably beyond that. The point is the rating agencies look very closely at the actions state governments take to address their problems. They recognize your main obligation is not issuing bonds but providing services to your citizens at the level they need. Agencies look negatively at deferred maintenance and at the huge infrastructure backlog that faces every state in the Union.

CHAIRMAN BARDANOUVE said another concern he has that does not show up in the report is the highway monies which depend on the federal highway laws. Our financial reserves for the Highway Department are dwindling. In the present Governor's budget the program is continued at a fairly high spending level, but in the next biennium after this, our Highway reserves will be very low and we will either have to have a real serious cutback in the highway program or we will have to issue more debt to build up some cash. We cannot continue spending at the level we are at on

Highways and have any reserve left in a couple years. It means either cutting back severely or finding some new money. Someone answered that the agencies are aware that the highway reserves are being depleted, and know there will be decreasing declines. **Mr. Jones** said Montana is in a tough situation in terms of the size of the state and the need for roads and the maintenance of those roads which are relative to your population. That is why your highway debt represents a good portion of the new debt compared to other states.

CHAIRMAN BARDANOUVE said the additional 5 cents a gallon tax on gasoline makes it more difficult for states to add on assessments.

Mr. Jones, noting time was nearly up, summed up his presentation.

REPRESENTATIVE MENAHAN referred to a statement earlier in regard to a college not accepting a new building unless the operational costs were included. When you issue bonds and are going into prisons and things that have high operational cost, what is the effect of that on our bonding and our ability to go into bonding? **Mr. Jones** said we are currently in the mid 5% to 6% and the key is to look at the ability to pay from the general fund. If you have to pull it down to a lower balance it is probably a negative.

SENATOR BECK asked if there was a \$150 million highway bond, and if that were not issued, would our bond rating be much better if we had gone on a cash basis with a gas tax for the state of Montana. **Mr. Jones** said the agencies have found it is very difficult on highways to be on a pay as you go basis and put in place expansion or improvements in the system necessary to provide the required level of services. If you were issuing another \$150 million tomorrow he felt they would have to work hard to keep the rating.

SENATOR BECK said this seems to skew all the figures. We are looking at the 365, and are above the Moody's meridian. If that wasn't in there, those figures would be substantially less, wouldn't they? **Mr. Jones** said each of the agencies look at things a little differently. Moody's tend to look at a lot of numbers. He said after they get done creating the sheet (page 5) they look at the other items, build the debt structure and then say it is or is not the same.

REPRESENTATIVE CONNELLY said she was not clear on how House Bill 28 reflects on the bond issue. **Mr. Jones** said the impact of the House bill is two fold on the general fund. (473) It increases the revenues and decreases your expenditures and it changes the numbers because of the ratio of debt service to revenues.

REPRESENTATIVE COBB asked (466) if the group was starting to prepare for when the baby boom starts retiring since we get a high and then the baby boomers will start retiring in about 15

years. What happens to our ability to pay for those bonds. The income will decrease rapidly over a period of time. **Mr. Jones** said they were probably as guilty as other agencies are. We can recognize the demography but cannot issue less 20 year bonds now on that assumption; it is not a factor at the present time.

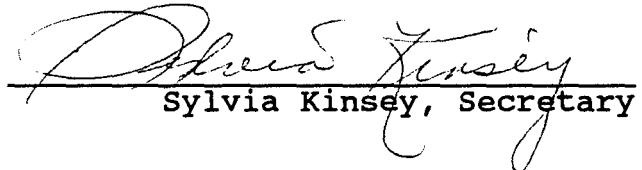
Mr. Bob Marks, Director, Department of Administration thanked the committee for the opportunity of offering their help and **Karen Munro, Department of Administration** said their office would be available to assist the committee.

REPRESENTATIVE BARDANOUE asked if it would be possible for all members of the House and Senate to receive a copy of the report, **EXHIBIT 1**, and **Mr. Marks** assured him this could be done.

ADJOURNMENT

Adjournment: 10:32 a.m.


FRANCIS BARDANOUE, Chair


Sylvia Kinsey, Secretary

FB/sk

HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE

ROLL CALL

DATE

1/15/91

NAME

PRESENT

ABSENT

EXCUSED

REP. FRANCIS BARDANOUVE, CHAIRMAN	✓		
REP. RAY PECK, VICE-CHAIRMAN			✓
REP. DOROTHY BRADLEY	✓		
REP. JOHN COBB	✓		
REP. DOROTHY CODY	✓		
REP. MARY ELLEN CONNELLY	✓		
REP. ED GRADY			✓
REP. LARRY GRINDE	✓		
REP. JOHN JOHNSON			✓
REP. MIKE KADAS	✓		
REP. BERV KIMBERLEY	✓		
REP. WM. "RED" MENAHAN	✓		
REP. JERRY NISBET	✓		
REP. MARY LOU PETERSON			✓
REP. JOE QUILICI			✓
REP. CHUCK SWYSGOOD	✓		
REP. BOB THOFT	✓		
REP. TOM ZOOK			✓

EXHIBIT 1
DATE 1/15/91
HB Def. mtg.

**Presentation to the
State of Montana**

January 15, 1991

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State of Montana

January 15, 1991

SECTION I

INTRODUCTION TO
PUBLIC RESOURCES ADVISORY GROUP

- ◆ Independent Financial Advisory Firm
- ◆ Headquartered in New York with a Full Service Office in Los Angeles
- ◆ Employee-owned and Managed
- ◆ Extensive Credit Rating Experience
- ◆ Broad Market Knowledge
- ◆ Sophisticated Analytic Skills
- ◆ General Advisor to the Cities of New York and Los Angeles
- ◆ Leading Advisor to States and their Agencies
- ◆ Advisor on More Than \$32 Billion in Financings

DIRECT EXPERIENCE IN ADVISING STATE GOVERNMENTS

Statewide Financial Advisor

States of:

- Alabama
- Connecticut
- Montana
- New Hampshire
- New York
- Oklahoma
- Virginia

State-level Agencies

- Alabama Higher Education Loan Corporation
- Alabama State Docks Department
- Alabama Housing Finance Authority
- California Pollution Control Financing Authority
- Connecticut Resources Recovery Authority
- Delaware Solid Waste Authority
- Montana Department of Natural Resources and Conservation
- New Jersey Highway Authority
- New Hampshire Turnpike System
- Northeast Maryland Waste Disposal Authority
- Oklahoma Turnpike Authority
- Oklahoma Housing Finance Agency
- University of Maryland
- University of Massachusetts
- Virginia College Building Authority

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PROJECT TEAM AND EXPERIENCE

Wesley Hough	Managing Director/ Los Angeles	Project Supervisor.	Served as advisor to States of New York, Virginia, Connecticut, Alaska and University of Maryland. Lead advisor to City of Los Angeles on general credit matters.
Malcolm Jones	Managing Director	Project Manager Day-to-Day Responsibility	Financial advisor experience includes advisor to State of California, cities of Los Angeles and San Diego.
Karen Keller	Managing Director/ New York	Project Manager	Project Manager of State of Connecticut and State of Oklahoma engagements.
William Cobbs	Chairman/ New York	State Credit Matters	More than 20 years experience in corporate and public finance at Salomon Brothers, Dillon Read, and Assistant Deputy Mayor for Finance of the City of New York.
David Rush	President/ New York	Analytical Support	Ph.D. Applied Mathematics, directs all PRAG quantitative work, Project Manager of Virginia Treasury Board work.
Steven Peyser	Managing Director/ New York	Project Assistance	Project Manager of State of Alabama engagement.
Brian Richman	Assistant Vice President/ Los Angeles	Project Assistance	Statewide pooled financings while an analyst at major investment bank.

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FINANCIAL ADVISOR RANKINGS

Tax Exempt New Issues 1990

<u>Rank</u>	<u>Firm</u>	<u>Amount</u> (000's)	<u>Issues</u>
1	Public Financial Management	6,605,900	175
2	PUBLIC RESOURCES ADVISORY GROUP	5,824,200	40
3	Lazard Freres & Co.	3,963,700	46
4	P. G. Corbin & Co., Inc.	3,936,600	25
5	Security Pacific Securities, Inc.	2,986,800	15
6	Caine Gressel Midgley Slater, Inc.	2,135,400	69
7	First Southwest Company	2,069,600	145
8	Evenson Dodge	1,784,800	193
9	Raucher Pierce Refsnes, Inc.	1,743,500	105
10	W. R. Lazard & Laidlaw	1,482,900	14

Source: Securities Data, Inc./Bond Buyer

State of Montana

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Section II

STATE OF MONTANA
Net Tax-Supported Debt Position

(000's)

General Obligation Bonds	<u>6/30/90</u>	<u>12/31/90</u>
Highway Building Complex	\$ 3,135	\$ 3,135
SRS Lease Purchase Agreement	860	810
Refunding Bonds	53,885	53,085
Long-Range Building Program	15,840	7,040
Water Development	3,490	3,045
Renewable Resource	<u>900</u>	<u>850</u>
Total General Obligation Bonds	78,110	67,965
Certificates of Participation (Telecommunications)	<u>4,795</u>	<u>3,475</u>
Gross Direct Debt	82,905	71,440
Limited Obligation Bonds		
Highway Revenue	150,000	150,000
Coal Severance Tax	<u>57,145</u>	<u>55,380</u>
Limited Obligation Bond Total	207,145	205,380
NET TAX-SUPPORTED DEBT	<u>\$290,050</u>	<u>\$276,820</u>

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Section III

STATE OF MONTANA

Current and Historic Net Tax-Supported Debt Ratios

	<u>1976⁽¹⁾</u>	<u>1981⁽¹⁾</u>	<u>1990</u>
Total Net Tax-Supported Debt (000's)	\$32,790	\$77,917	\$290,050
Debt Per Capita	\$ 44	\$ 99	\$365
Moody's Median		203	349
State Rank	⁽³⁾	33	23
Debt to Personal Income	0.9%	1.2%	2.6%
Moody's Median		2.5%	2.2%
State Rank	⁽³⁾	32	15
Debt to Estimated Full Value ⁽²⁾	0.4%	0.4%	1.1%
Moody's Median		1.1%	1.0%
State Rank	⁽³⁾	33	23

⁽¹⁾ Source: Moody's Investors Service, Inc.

⁽²⁾ Assessed Value per Department of Revenue

⁽³⁾ Information for 1976 not available from Moody's

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Section IV

Comparison to Moody's State Median Debt Ratios

	<u>Montana</u>	<u>Moody's Median⁽¹⁾</u>	<u>Ratio to Moody's Median</u>	<u>State Rank⁽¹⁾</u> (high to low)
Debt Per Capita	\$365	\$349	1.05X	23
Debt to Personal Income	2.6%	2.2%	1.18X	15
Debt to Estimated Full Value	1.1%	1.0%	1.10X	23
Debt Service to Revenues ⁽²⁾	6.4%	10.0%	0.64X	--
Rapidity of Repayment ⁽³⁾				
5 years	60.0%	25.0%	2.40X	--
10 years	92.4	50.0	1.85X	--
20 years	100.0	100.0	1.00X	--
1989 Per Capita Personal Income ⁽⁴⁾	\$14,078	\$17,596	.80X	38

⁽¹⁾ Source: Moody's Public Finance Department, 1990 Medians, Selected Indicators of Municipal Performance.

⁽²⁾ There is no Moody's median for this ratio. Figure listed is "rule-of-thumb".

⁽³⁾ Montana repayment is for general obligation debt only. Source: Moody's Investors Service. There is no Moody's median for these ratios. Figure listed is "rule-of-thumb".

⁽⁴⁾ Source: U.S. Bureau of Economic Analysis. Median is U.S. average.

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Section V

STATE OF MONTANA

Comparison of Debt Ratios with Other States

	<u>Ratings</u> (Moody's/S&P)	<u>Debt Per Capita⁽¹⁾</u>	<u>Debt to Personal Income⁽¹⁾</u>	<u>Debt to Estimated Full Value⁽¹⁾</u>	<u>Debt Service to Revenues⁽²⁾</u>	<u>Year Last Issued Short-Term Debt⁽²⁾</u>
Montana	(Aa/AA-)	\$365	2.6%	1.1%	6.4%	1987 Cash Flow Borrowing
Utah	(Aaa/AAA)	199	1.7	0.6	2.4% ⁽³⁾	1988 Cash Flow Borrowing
Nevada	(Aa/AA)	385	2.3	0.8	2.1% ⁽⁴⁾	None for Cash Flow Purposes
New Mexico	(Aa/AA)	336	2.7	1.2	5.1% ⁽³⁾	Not Allowed
Washington	(Aa/AA)	759	4.7	2.0	5.4% ⁽³⁾	1983 Biennium Cash Flow Borrowing
Oregon	(Aa/AA-)	221	1.5	0.7	N/A	1989 For Veteran's Program
Moody's Medians	--	349	2.2	1.0	--	--

(1) Source: Moody's Public Finance Department, 1990 Medians, Selected Indicators of Municipal Performance.

(2) Source: Moody's Credit Reports, except Montana

(3) Operating Funds Revenues

(4) General Fund Revenues

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Section VI

STATE OF MONTANA

Future Debt Issuances

Fiscal Year 1991 (planned)

Coal Severance Tax Refunding	\$ 9,625,000
Proposed Coal Severance Tax	1,000,000
Proposed State Revolving Fund	2,000,000
Proposed Water Development	<u>750,000</u>
	13,375,000

Fiscal Year 1992 (proposed):

Coal Severance tax	\$ 4,000,000
State Revolving Fund	1,000,000
Energy Conservation	<u>3,000,000</u>
	8,000,000

Fiscal Year 1993 (proposed):

Coal Severance tax	\$ 4,000,000
State Revolving Fund	1,000,000
Governor's Budget - LRBP	<u>19,360,745</u>
	24,360,745

Fiscal Year 1994 (proposed):

Governor's Budget - LRBP	\$39,521,215
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State of Montana

January 15, 1991

STATE OF MONTANA

Future Debt Ratios

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
<u>Net Tax-Supported Debt (000's)</u>					
Debt at Beginning of Fiscal Year	\$290,050	\$281,086	\$276,042	\$278,618	\$293,840
Issuances	13,375	8,000	24,360	39,521	0
Retirements ⁽¹⁾	<u>22,339</u>	<u>13,044</u>	<u>21,784</u>	<u>24,299</u>	<u>26,257</u>
Debt At End of Fiscal Year	\$281,086	\$276,042	\$278,618	\$293,840	\$267,583
Population (000's) ⁽²⁾	802	810	818	826	835
Debt Per Capita	\$351	\$341	\$341	\$356	\$321
Total Personal Income (000,000's) ⁽³⁾	\$11,682	\$12,033	\$12,394	\$12,766	\$13,148
Debt To Personal Income	2.4%	2.3%	2.2%	2.3%	2.0%
Estimated Full Value (000,000's) ⁽⁴⁾	\$27,708	\$28,539	\$29,395	\$30,277	\$31,186
Debt To Estimated Full Value	1.0%	1.0%	0.9%	1.0%	0.9%
Debt Service (000's)	\$34,211	\$34,387	\$43,387	\$46,107	\$47,841
Revenues (000's)					
General Fund ⁽⁵⁾	\$432,700	\$573,300	\$587,400	\$605,022	\$623,173
Highway ⁽⁶⁾	138,227	139,051	139,774	139,774	139,774
Coal Severance Tax ⁽⁷⁾	<u>31,429</u>	<u>25,063</u>	<u>25,073</u>	<u>25,073</u>	<u>25,073</u>
Total Revenues	\$602,356	\$737,414	\$752,247	\$769,869	\$788,020
Debt Service To Revenues	5.7%	4.7%	5.8%	6.0%	6.1%

- ⁽¹⁾ Includes retirements on new debt to be issued. New debt is assumed to be retired in equal installments over 20 years at an average interest rate of 8%. Highway Revenue Bonds start principal payments in 1993.
- ⁽²⁾ Population projections based on the 1990 population estimate of the U.S. Census Bureau. Projected to grow by 1.0% per year.
- ⁽³⁾ Most recent data (1989) from U.S. Bureau of Economic Analysis increased by 3% per year.
- ⁽⁴⁾ Most recent data (1989) from Department of Revenue increased by 3% per year.
- ⁽⁵⁾ Figures through 1993 are budget estimates. Substantial Increase from 1991 to 1992 reflects (primarily) impact of HB28. 1994 and 1995 are assumed to grow at 3% per year.
- ⁽⁶⁾ Budget Estimates
- ⁽⁷⁾ Figures through 1993 are budget estimates. 1994 and 1995 are assumed to be at 1993 levels.

State of Montana

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Section VII

STATE OF MONTANA

General Fund Balance Trends
(000's)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Unreserved, Undesignated General Fund Balance	\$16,002	\$10,557	\$39,472	\$67,234
General Fund Revenues	\$319,734	\$277,570	\$306,508	\$317,651
Balance as a Percent of Revenues	5.0%	3.8%	12.9%	21.2%
<hr/>				
	<u>1990</u>	<u>1991⁽¹⁾</u>	<u>1992⁽¹⁾</u>	<u>1993⁽¹⁾</u>
Unreserved, Undesignated General Fund Balance	\$89,038	\$63,000	\$60,000	\$40,000
General Fund Revenues	\$346,188	\$432,700	\$573,300	\$587,400
Balance as a Percent of Revenues	25.7%	14.6%	10.5%	6.8%

⁽¹⁾ Current estimates, Budget and Program Planning.

Section VIII

STATE OF MONTANA

Market Update

A. Relative Trading Values of State General Obligation Debt

1. Merrill Lynch Comparative Value Trading Chart
2. Chubb Relative Value Study

B. Historical Yield Comparisons

1. Bond Buyer 11-Bond Index
2. Fixed vs. Floating Rate
3. Yield Spread: Fixed vs. Floating Rate Bonds

State of Montana

January 15, 1991

STATE OF MONTANA

Market Update

Relative Trading Values of State General Obligation Debt

Merrill Lynch
State General Obligation Bonds Comparative Value Trading Chart
As of 11/21/90

Exhibit # 1
1/15/91 Info. Mt.

	<u>Moody's</u>	<u>S&P</u>		<u>5 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>
<u>Group 1</u>	Aaa	AAA	California	.00	-.05	-.10	-.20
<u>Group 2</u>	Aaa	AA+	Georgia	-.10	-.10	-.10	-.10
	Aaa	AAA	Maryland	-.10	-.10	-.10	-.10
	Aaa	AAA	Missouri	-.10	-.10	-.10	-.10
	Aaa	AAA	North Carolina*	-.10	-.10	-.10	-.10
	Aaa	AAA	South Carolina	-.10	-.10	-.10	-.10
	Aaa	AAA	Virginia	-.10	-.10	-.10	-.10
<u>Group 3</u>	Aa	AA	Connecticut	5.95	6.40	6.75	6.95
<u>Base Group</u>	Aaa	AAA	New Jersey	5.95	6.40	6.75	6.95
	Aa	AA	Ohio	5.95	6.40	6.75	6.95
	Aaa	AA+	Tennessee	5.95	6.40	6.75	6.95
	Aaa	AAA	Utah	5.95	6.40	6.75	6.95
<u>Group 4</u>	Aa	AA+	Delaware	+.05	+.05	+.05	+.05
	Aa	AA	Kentucky	+.05	+.05	+.05	+.05
	Aa1	AAA	Maine	+.05	+.05	+.05	+.05
	Aa	AA+	Minnesota	+.05	+.05	+.05	+.05
	Aa1	AA+	New Hampshire*	+.05	+.05	+.05	+.05
	Aa	AA-	Oregon	+.05	+.05	+.05	+.05
	A1	AA-	Pennsylvania	+.05	+.05	+.05	+.05
	Aa	AA	Rhode Island	+.05	+.05	+.05	+.05
<u>Group 5</u>	Aa	AA	Hawaii	+.10	+.10	+.10	+.10
	Aa	AA	Vermont	+.10	+.10	+.10	+.10
	Aa	AA	Washington	+.10	+.10	+.10	+.10
<u>Group 6</u>	Aa	AA	Alabama	+.10	+.10	+.10	+.10
	Aa	AA-	Alaska	+.10	+.10	+.10	+.10
	Aa	AA	Florida	+.10	+.10	+.10	+.10
	Aaa	AA+	Illinois	+.10	+.10	+.10	+.10
	A1	AA	Michigan	+.10	+.10	+.10	+.10
	Aa	AA-	Mississippi*	+.10	+.10	+.10	+.10
	Aa	AA-	Montana*	+.10	+.10	+.10	+.10
	Aa	AA	Nevada	+.10	+.10	+.10	+.10
	Aa	AA	New Mexico*	+.10	+.10	+.10	+.10
	Aa	AA-	North Dakota*	+.10	+.10	+.10	+.10
	Aa	AA	Oklahoma*	+.10	+.10	+.10	+.10
	Aa	AA	Texas	+.10	+.10	+.10	+.10
	Aa	AA	Wisconsin	+.10	+.10	+.10	+.10
<u>Group 7</u>	A1	A+	West Virginia	+.30	+.30	+.30	+.30
<u>Group 8</u>	A	A-	New York	+.55	+.55	+.55	+.55
<u>Group 9</u>	Baal	A	Puerto Rico	+.40	+.40	+.55	+.55
<u>Group 10</u>	Baal	BBB+	Louisiana	+.50	+.50	+.50	+.50
<u>Group 11</u>	Baa	BBB	Massachusetts	+1.40	+1.20	+1.20	+1.10

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

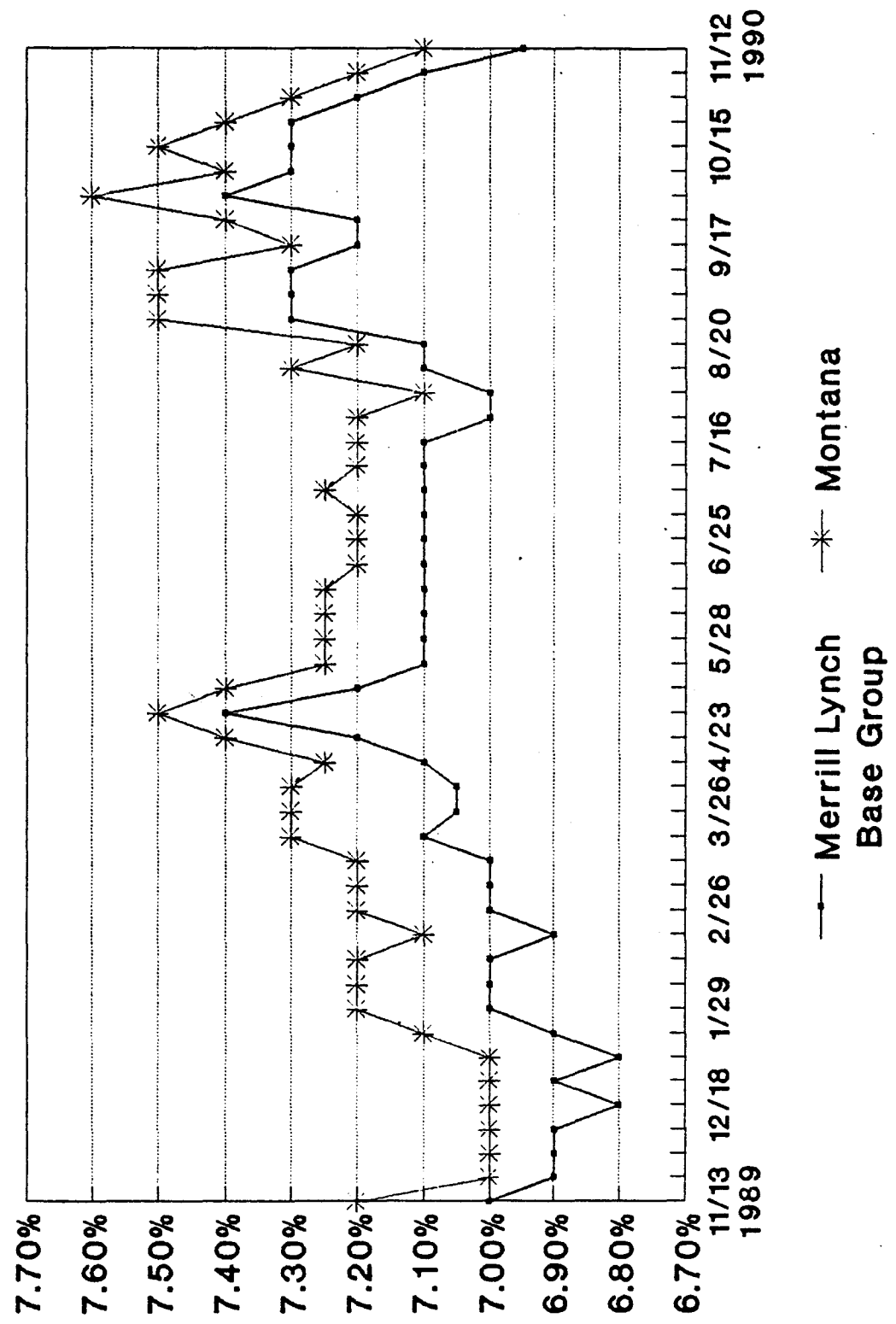
Note: Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have little or no outstanding state general obligation debt.

It should be noted that supply factors and in-state demand by investors caused by local tax structures vary from state-to-state and affect yields in ways not always correlated with credit quality; also bond yields may vary widely from day-to-day and do not necessarily reflect new issue bond yields.

Comparative Value Trading Chart

Montana to Merrill Lynch Base Group

11/89 - 11/90



State of Montana

January 15, 1991

RELATIVE VALUE STUDY OF GENERAL BONDS - 20 YEAR MATURITIES

<u>New</u>	<u>Old</u>	<u>Moody's</u>	<u>New Average</u> <u>06/12/90</u>	<u>Average</u> <u>12/12/89</u>	<u>Average</u> <u>6/15/89</u>	
1	1	California	Aaa	-12.96	-14.04	-11.65
2	3	Virginia	Aaa	-11.96	-10.65	-11.75
3	2	North Carolina	Aaa	-10.16	-11.91	-10.80
4	5	Missouri	Aaa	-8.84	-8.30	-8.30
5	6	South Carolina	Aaa	-8.52	-6.74	-8.20
6	8	Maryland	Aaa	-6.96	-4.65	-3.95
6	7	Georgia	Aaa	-6.96	6.39	4.45
8	9	Tennessee	Aaa	-5.96	-4.09	-3.90
9	4	Connecticut	Aa	-5.36	-9.96	-7.50
10	11	Ohio	Aa	-1.92	1.39	5.25
11	10	New Jersey	Aaa	0.00	0.00	0.00
12	12	Utah	Aaa	1.00	5.57	3.55
13	15	Montana	Aa	3.64	8.39	9.85
14	17	Kentucky	Aa	5.52	8.70	9.55
14	14	Minnesota	Aa	5.52	8.13	8.25
16	16	Delaware	Aa	5.76	8.61	9.15
17	13	Maine	Aa1	6.00	7.00	7.75
18	21	Alabama	Aa	7.72	12.09	11.95
18	19	Rhode Island	Aa	7.72	10.26	11.30
20	18	New Hampshire	Aa1	8.12	9.52	10.75
21	26	Michigan	A1	8.96	14.04	17.80
22	20	Vermont	Aa	9.00	11.17	11.25
23	23	Pennsylvania	A1	9.40	12.91	13.25
24	25	Hawaii	Aa	9.68	13.87	14.65
24	22	Wisconsin	Aa	9.68	12.13	13.15
26	24	Mississippi	Aa	9.92	13.39	13.55
27	27	Illinois	Aaa	11.08	14.48	14.00
28	29	Oregon	Aa	11.48	16.57	13.30
29	27	New Mexico	Aa	12.64	14.48	15.75
30	30	Florida	Aa	13.48	17.26	16.00
31	33	Oklahoma	Aa	14.40	21.61	19.11
32	31	Nevada	Aa	15.40	18.74	19.50
33	36	Washington	Aa	15.72	24.48	26.30
34	35	North Dakota	Aa	16.44	22.83	17.95
35	34	Texas	Aa	18.72	22.74	21.75
36	37	Alaska	Aa	21.96	27.39	26.35
37	38	West Virginia	A1	23.44	28.22	27.10
38	32	New York	A	27.80	20.39	18.85
39	39	Puerto Rico	Baa1	38.84	48.09	48.35
40	41	Louisiana	Baa1	57.84	70.00	76.75
41	40	Massachusetts	Baa	60.12	62.39	22.70

Source: Chubb Relative Value Study

State of Montana

January 15, 1991

RELATIVE VALUE STUDY OF 20 YEAR GENERAL OBLIGATION BONDS - 12/87 - 6/90

STATE	MOODY'S	6/90	12/89	6/89	12/88	6/88	12/87
Alabama	Aa	7.72	12.09	11.95	14.68	16.28	15.94
Alaska	Aa	21.96	27.39	26.35	32.77	34.28	32.94
California	AA	-12.96	-14.04	-11.65	-12.32	-12.50	10.50
Connecticut	Aa1	-5.36	-9.96	-7.50	-9.09	-12.67	-11.67
Delaware	Aa	5.76	8.61	9.15	10.05	13.56	14.39
Florida	Aa	13.48	17.26	16.00	21.09	24.06	29.50
Georgia	Aaa	-5.96	-6.39	-4.45	-2.59	-2.11	-4.72
Hawaii	Aa	9.68	13.87	14.65	17.36	20.50	22.22
Illinois	Aaa	11.08	14.48	14.00	18.36	20.56	24.11
Iowa	Aaa	---	---	---	---	---	---
Kentucky	Aa	5.52	8.70	9.55	11.59	10.78	9.72
Louisiana	Baa1	57.84	70.00	76.75	93.18	105.83	111.94
Maine	Aa1	6.00	7.00	7.75	8.68	11.44	11.89
Maryland	Aaa	-6.96	-4.65	-3.95	-5.77	-6.00	-4.61
Massachusetts	A1	60.12	62.39	22.70	17.36	13.56	14.50
Michigan	A1	8.96	14.04	17.80	21.68	25.22	30.50
Minnesota	Aa	5.52	8.13	8.25	9.95	12.83	12.22
Mississippi	Aa	9.92	13.39	13.55	17.36	18.44	18.83
Missouri	Aaa	-8.84	-8.30	-8.30	-8.95	-6.22	-6.00
Montana	Aa	3.64	8.39	9.85	14.76	17.00	16.56
Nevada	Aa	15.40	18.74	19.50	25.09	29.17	32.56
New Hampshire	Aa	8.12	9.52	10.75	12.50	16.06	14.39
New Jersey	Aaa	0.00	Base	Base	Base	Base	Base
New Mexico	Aa	12.64	14.48	15.75	18.41	19.56	20.72
New York	A1	27.80	20.39	18.85	17.10	12.39	13.61
North Carolina	Aaa	-10.16	-11.91	-10.80	-11.32	-13.83	-14.50
North Dakota	Aa	16.44	22.83	17.95	21.15	23.28	24.11
Ohio	Aa	-1.92	1.39	5.25	7.64	9.06	10.67
Oklahoma	Aa	14.40	21.61	19.11	24.46	26.11	26.67
Oregon	A1	11.48	16.57	13.30	18.14	29.22	33.89
Pennsylvania	A1	9.40	12.91	13.25	15.41	17.44	18.06
Puerto Rico	Baa1	38.84	48.09	48.35	62.50	66.94	86.67
Rhode Island	Aa	7.72	10.26	11.30	13.36	13.94	14.39
South Carolina	Aaa	-8.52	-6.74	-8.20	-9.32	-10.50	-11.33
Tennessee	AAA	-5.96	-4.09	-3.90	-5.05	-4.61	-2.72
Texas	Aa	18.72	22.74	21.75	27.23	27.33	33.06
Utah	Aaa	1.00	5.57	3.55	5.90	1.94	1.00
Vermont	Aa	9.00	11.17	11.25	11.59	17.56	18.17
Virginia	Aaa	-11.96	-10.65	-11.75	-12.45	-14.33	-14.56
Washington	A1	15.72	24.48	26.30	37.32	38.89	42.17
West Virginia	A1	23.44	28.22	27.10	33.91	32.28	30.06
Wisconsin	Aa	19.68	12.13	13.15	15.91	18.36	18.67
Spread H-L		73.08	84.04	88.50	105.63	120.16	132.69

State of Montana

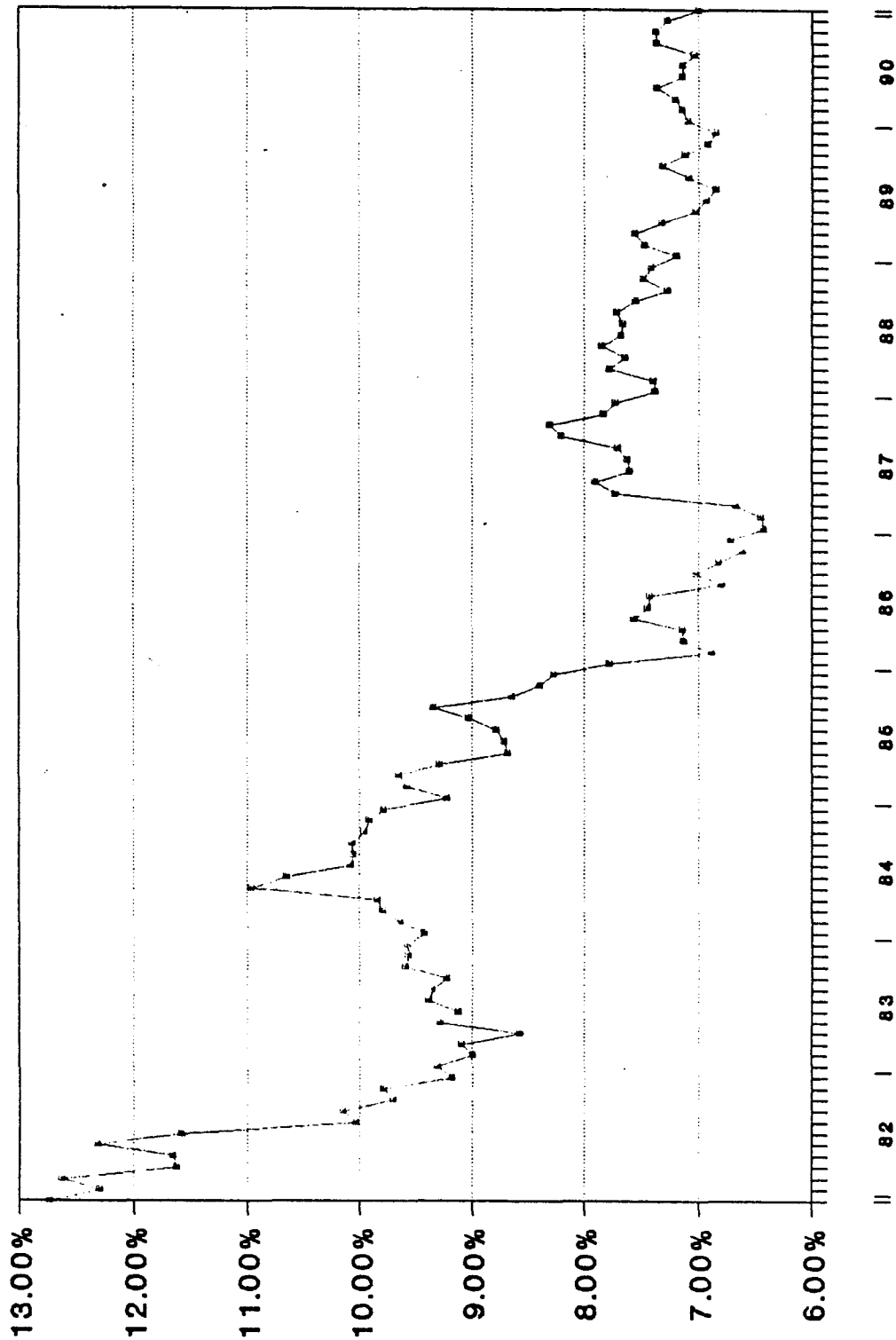
January 15, 1991

STATE OF MONTANA

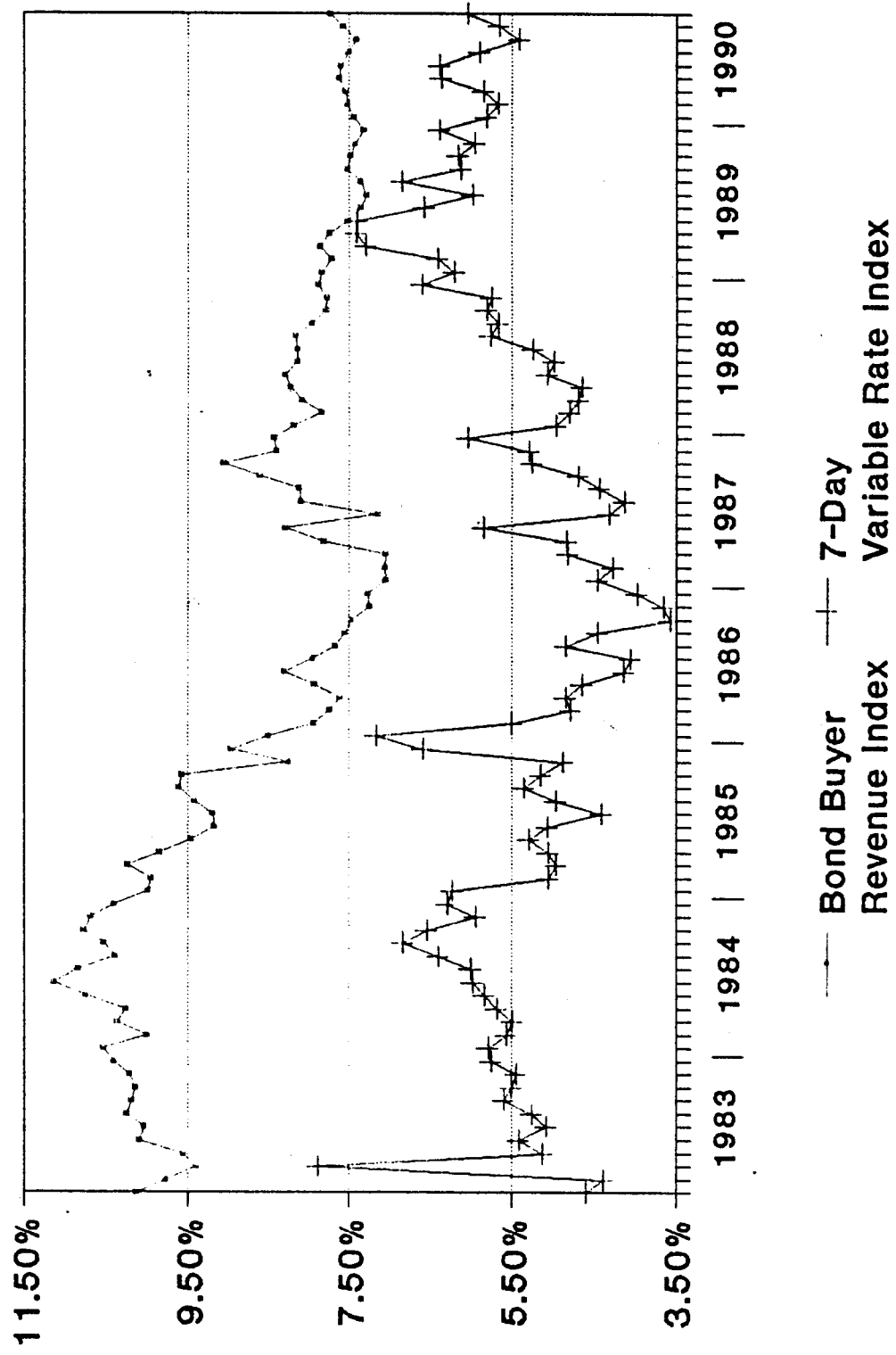
Market Update

Historical Yield Comparisons

BOND BUYER 11-BOND INDEX 1982 - 1990

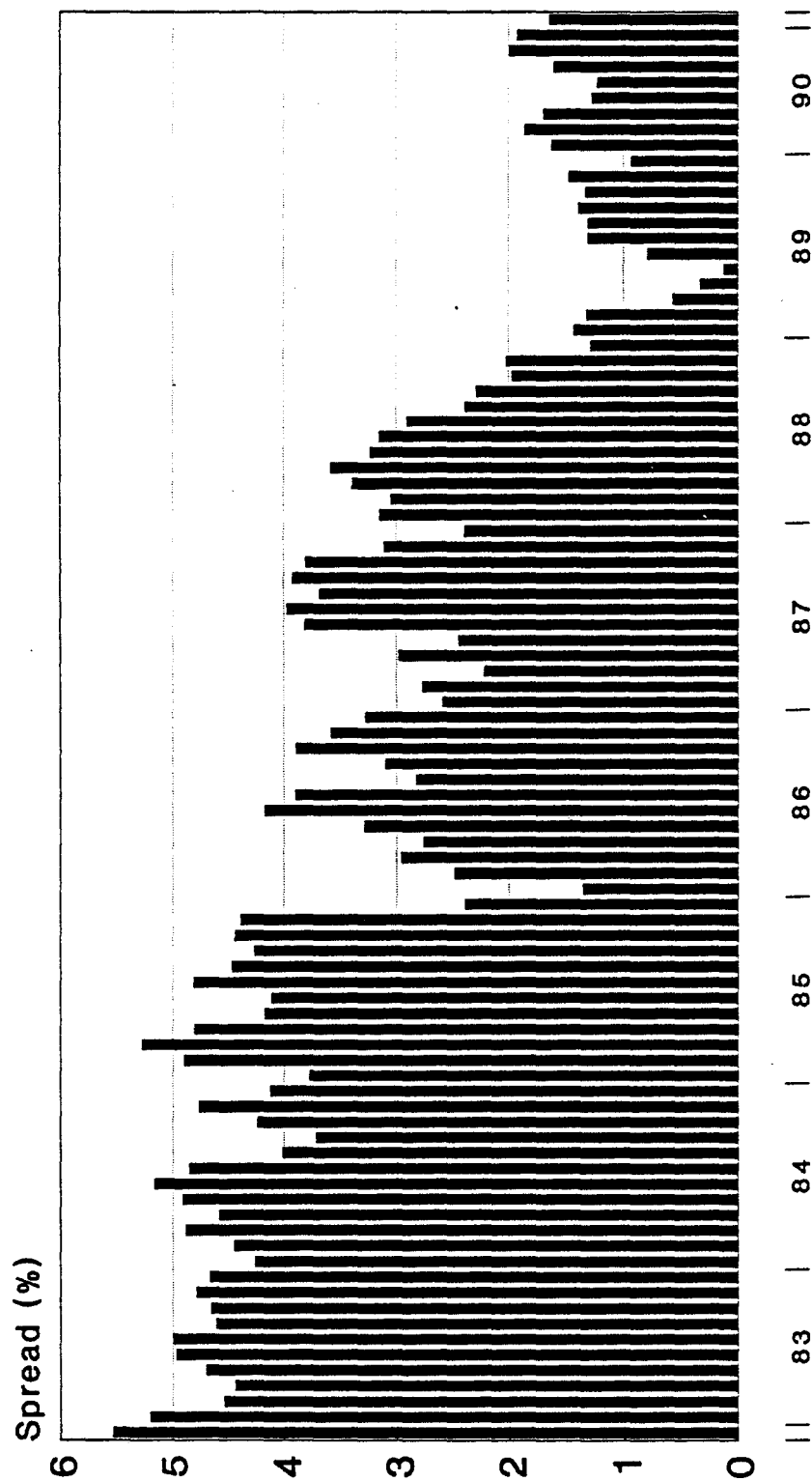


Historical Yield Comparison Fixed vs Floating Rate Bonds



HISTORICAL YIELD SPREAD

Bond Buyer Revenue Bond Index vs. 7-Day Floater



Average Spread 1983-1990 - 3.19%
 Average Spread 1986-1990 - 2.36%
 Average Spread 1989-1990 - 1.29%

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House Appropriations COMMITTEE

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DATE _____

SPONSOR

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PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.