MINUTES

MONTANA HOUSE OF REPRESENTATIVES
52nd LEGISLATURE - REGULAR SESSION

SUBCOMMITTEE ON LONG-RANGE PLANNING

Call to Order: By CHAIR MARY ELLEN CONNELLY, on February 13, 1991, at 8 a.m.

ROLL CALL

Members Present:

Rep. Mary Ellen Connelly, Chair (D)
Sen. Bob Hockett, Vice Chairman (D)
Rep. Francis Bardanouve (D)
Sen. Ethel Harding (R)
Sen. J.D. Lynch (D)
Rep. Bob Thoft (D)

Staff Present: Jim Haubein, Principal Fiscal Analyst (LFA)
Jane Hamman, Senior Budget Analyst (OBPP)
Claudia Montagne, Secretary

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

INFORMATIONAL HEARING ON COLLEGE SAVINGS BONDS

Jack Noble, Deputy Commissioner for Management and Fiscal Affairs, reported on College Savings Bonds. **EXHIBIT 1** He also distributed a Montana Tax Equivalent Yield Table and an article on the bonds published in State Government News, September 1990. **EXHIBITS 2 & 3**

REP. BARDANOUVE said he could not see the big advantage in these bonds over General Obligation bonds, and asked how many bonds would be needed to build the Engineering/Physical Science Building at MSU. **Mr. Noble** said at a cost of $22 million, bonds in the amount of three times the face value of expenditure would be needed. He noted that the advantage of these bonds is that they are sold in state to Montana investors. The State would get a low interest rate, and parents would get a tax free yield. He said this was just a different type of general obligation bond. **REP. BARDANOUVE** said there was no need for another layer of debt. **Mr. Noble** said the market would be directed at the Montana middle income investor, so more bonds would be sold.

Gary Buchanan, Manager, Dain Bosworth Office, Billings, said the zero coupon bond was the most popular investment vehicle ten years ago. He described its advantages to the investor and the University System, and said Montana does issue these bonds as a State. The Board of Housing has been issuing them for years, as

recently as 1985. From a marketing standpoint, they are the most popular. Regarding selling the bonds before maturity, they are extremely marketable, but like any bond, are at market risk. He listed the advantages. **EXHIBIT 4**

SEN. HOCKETT asked the rate of interest. **Mr. Buchanan** said the rate is locked in, but if a person sells, he/she is at the mercy of the market. **SEN. HOCKETT** asked Mr. Nobel the advantages and disadvantages. **Mr. Noble** said there were no disadvantages to the State. For the investor, conditions may change from the time the bond is bought; therefore, these are not designed for short term investments. Also, college costs may outstrip the investment.

SEN. LYNCH commented that this was not the best deal. **Mr. Noble** said they would not be marketed as the best deal, but as a vehicle for the average investor to enter the bond market.

REP. BARDANOUVE expressed concern that money would not be put into the sinking fund to repay the bond. He also expressed concern about the face value of the bonds required, approximately $68,000,000. **Mr. Buchanan** said the debt service would be similar with the use of zero coupon bonds, but more bonds would have to be issued to create the same amount of money.

REP. BARDANOUVE said the only advantage he saw was that it channels money towards the University system. **Mr. Noble** said these bonds could fund a prison if it were permissive. It seems logical to tie a higher education facility to a college savings bond, but it is not mandatory.

REP. JIM RICE, HD 43, East Helena Valley, reported on a bill he had introduced to establish a College Savings Bond Program for the State. It would draw non-investors into the market and would provide a service to the public by educating them about the cost of future higher education.

Mae Nan Ellingson, Dorsey and Whitney, State Bond Counsel, answered two questions that were raised. Regarding the question that significantly larger principal amount of bonds would have to be issued in order to accommodate the college savings bond. The answer is yes if the bonds were zero coupon bonds; no, if sold as capital appreciation bonds, which would require a par amount in the amount of the construction project. Regarding Sen. Hockett's question, a capital appreciation bond, once sold, would have a schedule in the official statement that shows an accreted amount that bond is worth on any interest payment date over its term.

REP. BARDANOUVE asked why the Board of Housing discontinued issuing college savings bonds since 1985. **Mr. Buchanan** said depending on the market, they have the flexibility to offer zero coupon bonds, which they have done twice in order to better structure their overall debt payments.

INFORMATIONAL HEARING ON THE STATE BONDING PROGRAM

Karen Munro, Department of Administration, addressed the bonding program proposed by the Governor, other pending bonding proposals, and the three financing options, assuming level debt payments, level principal payments, and deferred principal until FY 98. **EXHIBIT 5** The peak in debt service in FY 93 though FY 96 is primarily due to the 1983 issue, a refinancing. By 1998, only $300,000 on that particular bond issue would be paid.

2:A:000

REP. BARDANOUVE expressed concern that the administration wants to postpone issuing bonds as long as possible to avoid incurring debt. He feared that the favorable interest rates existing now would be lost if the State did not act now. He also commented that Havre or NMC would not be able to repay a $8 million bond issue on the gymnasium. They will have to lower their expectations or figure out another way of financing this facility. They will come back in April with a scaled down version of their project. **Ms. Munro** said she had not included NMC in this proposal, because it was in the Governor's proposal but did not have a General Fund impact.

Ms. Munro distributed the cost comparisons, 1985/1987 and 1991, for the two University buildings, as requested by Rep. Thoft. **EXHIBIT 6** **REP. BARDANOUVE** asked if the projects had become larger over the years.

Jim Whaley, A & E, noted that the Business Administration Building remained constant with the exception of the additional money for the telecommunications equipment. For MSU, they scaled back their needs in 1985, and came up with $14-$15 million. In 1987, their request was at the full amount of $18 million, and remained constant. This session, they reviewed the original program, adjusted it for inflation, added furnishings and expanded the program, at a cost of $22 million. The bonded debt would be $17 million.

Bill Rose, MSU, testified that the two projects, Cobbleigh structural improvements at $170,000 and the Gaines Hall sprinkler system at $288,000.00, have been included and absorbed in the requested amount for the Engineering/Physical Science Building. The other change is the inclusion of laboratory equipment the design people missed. This represents the difference between the $20 million estimate by A&E and the $22 million estimated by MSU. The breakdown is $14 million in new construction and $3 million in the remodel. He noted that although there have been additions to the facility project, they have also had to subtract by virtue of the maintenance projects included in the program.

REP. BARDANOUVE asked how much could be left out of the Bonding Program. **Tom O'Connell, A & E,** said the additions are critical, and would have to come out of the Long Range Building Program if the bonding program were not to go.

Regarding cutting back portions of the project in order to reduce the bond debt, **Mr. Rose** said the need for the facility has only increased; nothing could be dropped.

Bill Lannan, Commissioners Office, said the renovation on Roberts or A.J.M. Johnson Hall could be precluded to accommodate the construction of the new facility. **Mr. Rose** commented that the major renovations in those five existing buildings are needed to satisfy basic infrastructure needs and are necessary to avoid violating federal standards. **Mr. Whaley** said the proposal was integrated, and there are not discrete sections to be removed.

2:B:265

Bill Lannan had asked each campus, per Sen. Hockett's request, to make a presentation on their projects and the return to the state.

Ken Heikes, Eastern Montana College, EMC, addressed the remodel of Apsaruke Hall, and their willingness to forgo that project if the money were used for the deferred maintenance needs of the University System. He described the remodel of this old residence hall for some office areas and other programs such as Upward Bound. The total cost is $1.3 million, or $65 per square foot.

Larry Gianchetta, Dean, School of Business, UM, testified that they had outgrown the Business Administration facility in 1975. Overall, there has been a 4% increase in general student population and a 12% increase in business majors. They have a 20% growth over the last academic year in the Business School and are up 8% this winter quarter. 80% of the 2000 students in the Business Administration program are located outside the space. He distributed a fact sheet on the proposed building and the architectural drawings. **EXHIBITS 7 & 8** Although they were recently taken off their academic probation by the accrediting agency, they are under a continuing review because of the space situation.

Bill Rose, MSU, distributed and reviewed a fact sheet on the Engineering/Physical Science Building at MSU. **EXHIBIT 9** He said their engineering accreditation was in jeopardy. A primary cited example in the review is the current facility and the equipment. The largest curriculum in the University System at 2100 students is at risk.

SEN. HARDING asked for comments on the 15% match requirement. **Mr. Lannan** said **Commissioner Hutchinson** had previously acknowledged it would be very difficult to raise that amount of money. When asked if the facility could be reduced by 15%, **Mr. Lannan** said they would do the best they could with the amount of money provided. When asked about the contingency amount of $2 million, **Mr. Rose** said the contingency had been trimmed already by 5%; in addition, they had also trimmed the cost per square foot for both new and remodel construction. It could be trimmed

further. However, a phased approach to building the facility would be difficult due to the need to integrate the buildings, activities and disciplines.

REP. BARDANOUVE commented that the committee was also faced with the project at the Montana Developmental Center at Boulder. It was left out of the Executive budget and the present bonding program, and the amount would exceed the bonding limit. He would like to pick up some money here and there so the impact to bonding would not be quite so severe.

ADJOURNMENT

Adjournment:

M. E. Connelly
MARY ELLEN CONNELLY, Chair

Claudia Montagne
CLAUDIA MONTAGNE, Secretary

MEC/cm

HOUSE OF REPRESENTATIVES

LONG-RANGE PLANNING SUBCOMMITTEE

ROLL CALL **DATE** 2-13-91

NAME	PRESENT	ABSENT	EXCUSED
REP. FRANCIS BARDANOUVE	✓		
SEN. ETHEL HARDING	✓		
SEN. BOB HOCKETT, VICE-CHAIRMAN	✓		
SEN. J.D. LYNCH	-		
REP. BOB THOFT	✓		
REP. MARY ELLEN CONNELLY, CHAIR	✓		

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EXHIBIT 1
DATE 2-13-91
HB 5 Long Range Plan.

COLLEGE SAVINGS BONDS
February 13, 1991
Long Range Building Program Committee

Jack Noble
Deputy Commissioner for Management and Fiscal Affairs

Three Basic Questions:

- What are college savings bonds?
- Why should the Legislature consider using CSB's as debt instruments in a bonded LRBP program?
- How could the college savings bonds concept best be incorporated into the LRBP bill?

Premise Used:

A. College Savings Bonds should not be considered as an end product to a LRBP bill.

1) The demonstrated need for the facilities is paramount in the decision.
2) The methods of long-term financing should be selected that are the most cost efficient to the state.
3) LRBP language regarding college savings bonds should be permissive not mandatory.

It is the opinion of the Board of Regents that the following three major objectives are extremely important to our state's higher education system.

1) A broadbased effort that will increase the general public's awareness of the difficulty that future generations will face in meeting the cost of tuition in post-secondary education.

2) A Montana sponsored program that will provide our citizens with an investment opportunity to accumulate college savings and invest in the future of Montana's post-secondary education system.

3) A college savings bond program that will complement the first two objectives and provide the needed money using one of the most cost efficient means of obtaining capital in the financial markets today to provide the means to construct needed higher education facilities.

I would like to clarify some confusion regarding the difference between a "Guaranteed Tuition or Tuition Prepayment plan" and a College Savings Bond plan.

Under the guaranteed tuition trust approach, the state creates a new agency or separate administering authority to encourage parents, through various incentives, to begin to invest specifically for college costs. The agency accepts funds from the public and invests the funds on behalf of the parents.

EXHIBIT I

STATE OF MONTANA
COLLEGE SAVINGS BOND PROGRAM

EXHIBIT 1 p.4
DATE 2-13-91
HB Long Range Planning

Key Advantages

- Provides needed funds for construction of State facilities with no increase in the current level of taxation or debt service.
- Utilizes one of the most efficient means of financing capital improvements - estimated net effective borrowing rate of less than 7.50% at current market levels.
- Provides a conservative savings vehicle for Montanans wishing to save for their children's college education.
- There is no unidentified financial risk to the State with a College Savings Bond Program as is assumed by the State with a Guaranteed Tuition Program.
- No additional State staffing requirements or administrative costs. Again, with a Guaranteed Tuition Program additional staffing would be required resulting in substantial administrative costs.
- Virtually all College Savings Bonds could be sold to Montanans.
- Broadbased marketing and promotion of the bonds helps achieve public awareness of the future problem of meeting college costs.
- The savings device is flexible and totally portable with regard to public/private schools or in-state and out-of-state institutions.
- The tax exempt status of zero coupon type bonds is currently in existence.
- The investment vehicle is not single purpose in nature and the process upon maturity can be redirected if circumstances have changed.

EXHIBIT II

Projected Annual Cost of Attending a Unit of the Montana University System 1987-2011[1]

Year		Required Tuition, Room and Board Total Cost[2]
0	1989-1990	$ 4,162
1	1990-1991	4,411
2	1991-1992	4,676
3	1992-1993	4,957
4	1993-1994	5,254
5	1994-1995	5,570
6	1995-1996	5,903
7	1996-1997	6,258
8	1997-1998	6,633
9	1998-1999	7,031
10	1999-2000	7,451
11	2000-2001	7,900
12	2001-2002	8,374
13	2002-2003	8,877
14	2003-2004	9,410
15	2004-2005	9,974
16	2005-2006	10,572
17	2006-2007	11,207
18	2007-2008	11,880
19	2008-2009	12,592
20	2009-2010	13,348
21	2010-2011	14,149
22	2011-2012	14,998

[1] All Costs Projected at 6% Average Inflation.

[2] Excludes Books, Supplies and Other Incidentals.

In addition, the trust approach guarantees the investment will cover tuition at public institutions at some future date. The guarantee aspect is a critical feature. While the guaranteed tuition approach may meet its primary objective of encouraging parents to save for higher education costs, several disadvantages or obstacles remain.

1) State assumes risk that tuition costs may increase faster than investment earnings with the state or the college having to furnish or subsidize the difference.
2) Requires substantial administrative cost to the state.
3) Creates a separate Board that will want to influence tuition-setting practices to stay within projected investment yields.
4) Potential student admission conflicts may arise between being financially prepared versus academically prepared to meet admission criteria or to gaining access to limited enrollment programs.
5) Limited choice of institutions. Michigan's plan, for instance, is limited to the state publicly-supported schools.
6) Lack of portability between public/private schools or in-state versus out-of-state institutions.
7) Consumer risk is greater because of the single purpose nature of the investment and refunds are limited or conditioned.
8) Seems to underestimate the mobility of the investing parent.

The Regents have considered and rejected the Guaranteed Tuition approach but have enthusiastically endorsed the College Savings Bond approach. Exhibit I highlights the key advantages of a college savings bond plan.

A College Savings Bond plan proposes selling long-established debt vehicles, -- zero coupon bonds and Capital Appreciation Bonds to parents and grandparents seeking an investment approach for college savings. A zero coupon bond -- similar to a U.S. Savings Bond, is bought at deep discount and all of the interest and principle is accumulated until the time a bond matures. For instance, a $5,000 zero coupon bond bearing 7.5% interest with an 18 year maturity could be purchased for $1,312.50. The bond holder would be paid $5,000 tax free at maturity. Since the bond is tax free at both the federal level and the state level, the investor would have to buy a taxable bond yielding 9.61% to obtain an equivalent yield (see attached).

The state, on the other hand, only incurs an interest cost of 7.5% if the bonds are marketed in Montana. So the cost to the state is lower or just as low as other means of financing.

I provided conservative estimates of the annual cost of attending the Montana University System through the year 2012 (Exhibit II). The projected cost of four years of education for children with current ages of 1 year through age 15 is provided in Exhibit III. Exhibit IV shows how a zero coupon bond purchased with a single outlay compares to a monthly savings program that would yield an equivalent amount over the same period of time.

It would appear that the CSB approach would fit the current financial situation of Montana. You are faced with a demonstrated need for various types of facilities but you are also faced with very limited financial resources for the coming biennium.

The state's general obligation debt schedule drops off dramatically in FY 97 and is virtually paid off in FY 98. Few, if any states enjoy that opportunity (see schedule).

Since zero coupon bonds require no interest or principal payments until maturity, the state can defer a major portion of its obligation until the current general fund debt is paid off.

Last year, the investment firm of D.A. Davidson was asked to provide the Regents with an estimate of bond proceeds using the following three scenarios:

1) Future commitment of 40% of current G.O. debt of $11,057,000;
2) Future commitment of 50% of current G.O. debt of $11,057,000;
3) Future commitment of 60% of current G.O. debt of $11,057,000.

The estimates provided by D.A. Davidson revealed the following amounts:

	A) 40%	B) 50%	C) 60%
Total Bond Proceeds	$31,050,000	$39,335,000	$47,680,000
Net (available for construction)	$27,274,000	$34,562,300	$41,903,400
Annual Debt Service	$ 4,420,000	$ 5,520,000	$ 6,630,000

In summary, providing the flexibility in an LRBP bill to market college savings bonds offers real potential to begin construction of needed facilities in a cost efficient manner and also initiates a public awareness program regarding the need for parents to plan ahead and begin a savings program for their children's college education.

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EXHIBIT 1 p.3
DATE 2-13-91
HB Long Range Planning

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EXHIBIT IV

Estimated Investment Required
To Meet Projected College Cost
Montana University System

Child's Current Age	Total 4 Yr. Cost	Cost of $5,000 Zero Coupon Bond (7% Yield)		Number of $5,000 Units Required	Total Cost of Single Cash Outlay	Monthly Savings Req. @ 7% to Yield Total [1]
1	$51,969	$1,582	17 yrs.	10.394	$16,443	$133.21
5	$41,163	$2,075	13 yrs.	8.233	$17,083	$162.49
9	$32,602	$2,720	9 yrs.	6.52	$17,734	$217.55

[1] Assumes Tax Exempt Yields on Monthly Investment.

It is obvious why there is a sudden national interest in college savings programs. The required monthly investment increases very rapidly as the child approaches matriculation. Public awareness appears to be the necessary first step in any approach that is to succeed. It would seem that there would be a natural marketing target for grandparents. Zero coupon bonds could be a valuable investment device in estate planning.

STATE OF MONTANA
CURRENT DEBT REPAYMENT

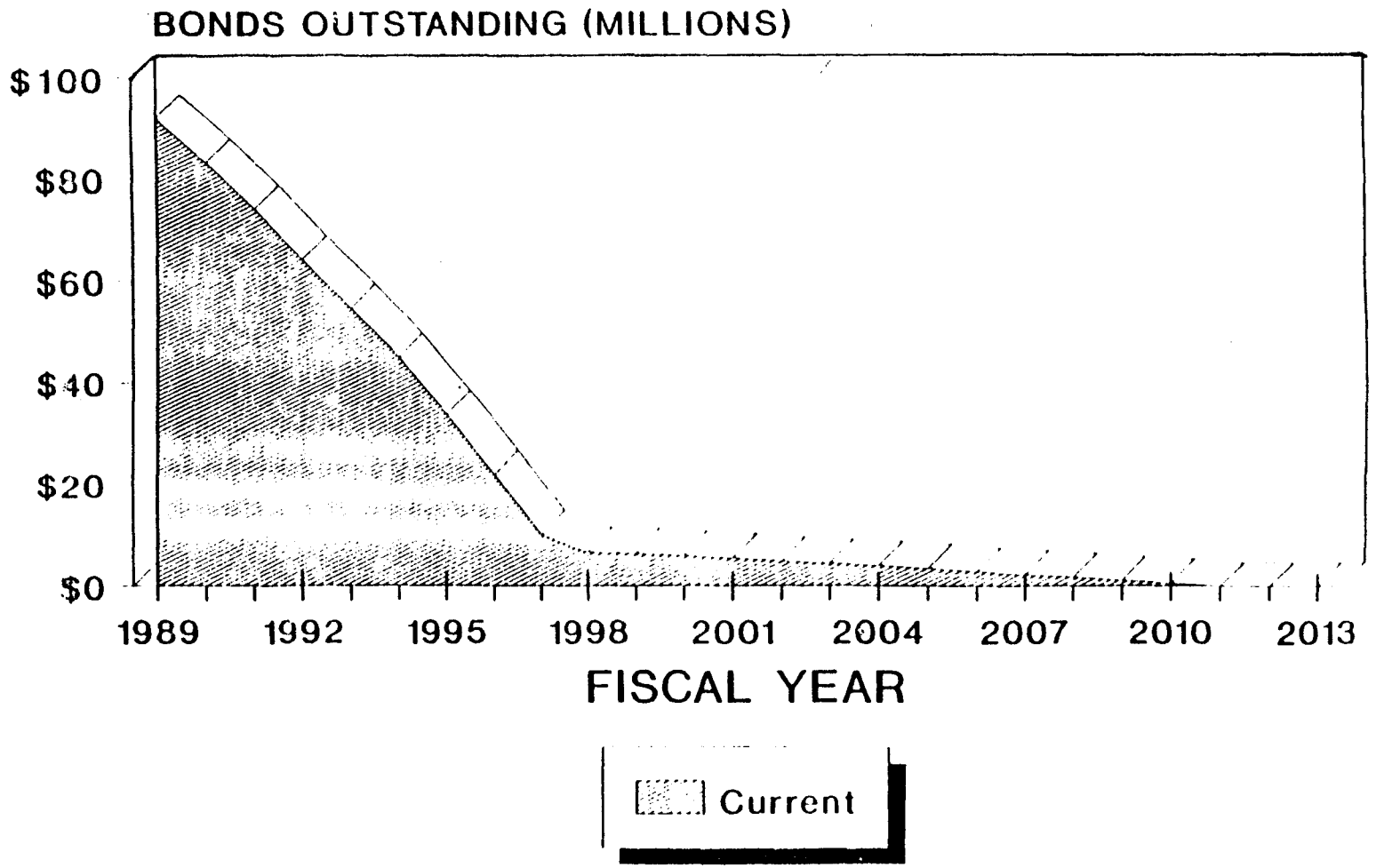

EXHIBIT 1
DATE 1-23-91
HB Long Range Planning
P. 8

D.A. Davidson & Co.

Great Falls: Davidson Bldg., 8 Third St. No. • P.O. Box 5015
Great Falls, MT 59403 • (406) 727-4200 • 1-800-332-5915

EXHIBIT 2
DATE 2-13-91
HB 5 Long Range A.

APPENDIX 4
MONTANA TAX EQUIVALENT YIELD TABLE
INDIVIDUAL INCOME BRACKETS - JOINT RETURN

TAXABLE INCOME-JOINT RETURN	$11,000 TO $13,700	$13,700 TO $19,200	$19,200 TO $27,500	$27,500 TO $29,750	$29,750 TO $8,100	$48,100 TO $71,900	$71,900 TO $171,090	$171,090 TO ABOVE
AMOUNT OF FEDERAL TAX	$1,530 TO $1,935	$1,935 TO $2,760	$2,760 TO $4,005	$4,005 TO $4,570	$4,570 TO $9,925	$9,925 TO $18,255	$18,255 TO $55,810	$55,810 TO ABOVE
FEDERAL TAX RATE (%)	15.00%	15.00%	15.00%	15.00%	28.00%	28.00%	33.00%	28.00%
MONTANA TAX RATE (%)	7.70%	8.80%	9.90%	11.00%	11.00%	11.55%	11.55%	11.55%
TAX FREE YIELD								
5.00%	5.88%	5.88%	5.88%	5.88%	6.94%	6.94%	7.46%	6.94%
	6.28%	**6.36%**	**6.40%**	**6.47%**	**7.53%**	**7.60%**	**8.12%**	7.60%
5.50%	6.47%	6.47%	6.47%	6.47%	7.64%	7.64%	8.21%	7.64%
	6.91%	**7.00%**	**7.04%**	**7.12%**	**8.28%**	**8.36%**	**8.93%**	8.36%
6.00%	7.06%	7.06%	7.06%	7.06%	8.33%	8.33%	8.96%	8.33%
	7.53%	**7.64%**	**7.68%**	**7.76%**	**9.04%**	**9.12%**	**9.74%**	9.12%
6.50%	7.65%	7.65%	7.65%	7.65%	9.03%	9.03%	9.70%	9.03%
	8.16%	**8.27%**	**8.33%**	**8.41%**	**9.79%**	**9.88%**	**10.55%**	9.88%
7.00%	8.24%	8.24%	8.24%	8.24%	9.72%	9.72%	10.45%	9.72%
	8.79%	**8.91%**	**8.97%**	**9.06%**	**10.54%**	**10.64%**	**11.36%**	10.64%
7.50%	8.82%	8.82%	8.82%	8.82%	10.42%	10.42%	11.19%	10.42%
	9.42%	**9.55%**	**9.61%**	**9.70%**	**11.30%**	**11.40%**	**12.17%**	11.40%
8.00%	9.41%	9.41%	9.41%	9.41%	11.11%	11.11%	11.94%	11.11%
	10.05%	**10.18%**	**10.25%**	**10.35%**	**12.05%**	**12.16%**	**12.98%**	12.16%
8.50%	10.00%	10.00%	10.00%	10.00%	11.81%	11.81%	12.69%	11.81%
	10.67%	**10.82%**	**10.89%**	**11.00%**	**12.80%**	**12.92%**	**13.80%**	12.92%
9.00%	10.59%	10.59%	10.59%	10.59%	12.50%	12.50%	13.43%	12.50%
	11.30%	**11.46%**	**11.53%**	**11.64%**	**13.56%**	**13.68%**	**14.61%**	13.68%
9.50%	11.18%	11.18%	11.18%	11.18%	13.19%	13.19%	14.18%	13.19%
	11.93%	**12.09%**	**12.17%**	**12.29%**	**14.31%**	**14.43%**	**15.42%**	14.43%
10.00%	11.76%	11.76%	11.76%	11.76%	13.89%	13.89%	14.93%	13.89%
	12.56%	**12.73%**	**12.81%**	**12.94%**	**15.06%**	**15.19%**	**16.23%**	15.19%
10.50%	12.35%	12.35%	12.35%	12.35%	14.58%	14.58%	15.67%	14.58%
	13.19%	**13.37%**	**13.45%**	**13.58%**	**15.82%**	**15.95%**	**17.04%**	15.95%
11.00%	12.94%	12.94%	12.94%	12.94%	15.28%	15.28%	16.42%	15.28%
	13.81%	**14.00%**	**14.09%**	**14.23%**	**16.57%**	**16.71%**	**17.85%**	16.71%

College

States prepare for future with college savings plans

EXHIBIT 3 p.2
DATE 2-13-91
HB 5 Long Range Planning

by Kathy Tyson

Photo courtesy of Ohio State University

Susan and Larry Valencic leapt at the chance to put aside money in Michigan's prepaid college tuition plan when it began operating in 1988. They now know their nine-year-old son, Joshua, will be able to attend college and they won't have to worry about soaring tuition costs in the next decade.

"If I had another child I'd do it again," Larry said. "My nest egg was real estate and I haven't needed to use it."

Parents of more than 50,000 other children have invested $350 million in Michigan's plan. Their reasons include escalating college costs and the prospect of little or no federal aid. They believe in education and know a college degree will mean a higher standard of living for their children.

States also have a stake in such plans because their economic vitality depends on an educated work force. To help families save for children's college education, states have developed innovative college savings and prepayment programs.

Michigan's tuition prepayment plan, enacted in December 1986, guarantees future tuition for the student beneficiary.

Kathy Tyson is a research associate with the National Association of State Treasurers at The Council of State Governments.

The Michigan Education Trust offers plans based on the age of the participating child. In 1989, for example, securing one year of prepaid tuition for a newborn cost $2,000. The trust guarantees college tuition and mandatory fees, excluding room and board.

If a child chooses to attend college at a school outside of Michigan, or does not wish to pursue a higher education, the invested money is fully reimbursed with interest when the child turns 18. Also, the contracts can be transferred to family members such as siblings or cousins.

In the past, participating in the plan required payment in one lump sum. Beginning in 1990, however, payments can be made in monthly installments, determined by an actuary.

Sabrina Keeley, the executive director of Michigan's plan said, "Our goal is to make the program accessible for families. People are real worried about sending their kids to college. They will be better able to afford it with the monthly installments because the payments will be small and spread over time."

One criticism of prepayment programs is that tuition costs must be guaranteed, even if inflation outdistances invested money. Annual projections of college costs made in 1988 and 1989, however, showed the Michigan fund would have $1.5 million to spare after paying future costs.

In addition to uncertainty over investments keeping pace with college costs, an Internal Revenue Service ruling subjecting invested money to annual taxes has curbed interest in the plans. The IRS also ruled it could tax future students on the difference of the amount paid in and received. These taxes make the program 10 to 15 percent more expensive for parents and other investors.

The Michigan Education Trust is suing the IRS to get the tax ruling changed. If Michigan is successful, participants may get a rebate from the over-payments.

A plan in Indiana, modeled after Michigan's program, was shelved because of repercussions from the IRS ruling. "The rate of return we

projected does not make the program feasible with the tax consequences," said Jim Snyder, Indiana's chief deputy treasurer. "You'll have to put in more money now than you'd get out. One-third of your return would be lost to taxes."

Instead, college savings bonds are available to Indiana residents. More states are offering these bonds to help parents save for their children's education. States sell the bonds at discount prices and use the compounded interest over the life of the bond to help meet college expenses. Although the bonds do not guarantee tuition, they can be used for any college expense and are exempt from federal and state taxes.

Ross Hodel, deputy director of the Illinois Board of Higher Education, said the state chose to sell college bonds because they had fewer administrative costs and risks than prepaid tuition plans.

College savings bonds are usually sold for values from $1,000 to $5,000 and can mature in five to 20 years, depending on the age of the child. The interest rates for these bonds vary from 6 to 8 percent.

A 1989 survey by the Education Commission of the States showed zero-coupon bonds relieve the state of liability for the interest payment until maturity. College savings bonds do not pose a special risk to states because of unknown financial liability. Unlike prepayment plans, bonds do not promise that the security return will keep pace with higher education costs.

Also, the use of bonds allows the beneficiary complete flexibility in the choice of colleges. Illinois, however, offers a $20 per bond bonus annually to those who use the bonds to attend state institutions.

Participating in either plan may still seem costly to many parents. With the exception of Louisiana, the costs of college bonds start at $1,000. At the same time, U.S. Savings Bonds can be purchased in smaller denominations, but the interest rate is lower.

Illinois plans to make college savings bonds affordable by selling them in smaller denominations to smaller savers. According to Hodel, these bonds will be tax-exempt and will pay a higher rate of interest than the U.S. Savings Bonds. Hodel said an added incentive to Illinois bonds is the scholarship application process. "When kids apply for state sponsored scholarships, the bonds don't count toward assets or savings. The students' chances to get a scholarship are better."

Regardless of the type of plan a state uses, saving ahead for college helps a student's family with the financial burden and enables the state to assist in the education of its future workforce. □

STATE COLLEGE PREPAYMENT PLANS

From the 1989 Survey of
College Savings & Guaranteed Tuition Programs
Conducted by the Education Commission of the States

State	Type of Plan	Status of Plan
Alabama	Tuition Guarantee	Active
Arkansas	G.O. Bonds	Initiative approved
Colorado	G.O. or Revenue Bonds	Initiative approved
Connecticut	G.O. Bonds	Active
Delaware	G.O. Bonds	Active
Florida	Tuition Guarantee	Active
Hawaii	College Bonds	Active
Illinois	G.O. Bonds	Active
Indiana	Tuition Guarantee	Not implemented (a)
Iowa	G.O. Bonds	Active
Kentucky	Savings Trust	Active
Louisiana	Prepaid Tuition & Savings	Pending
Maine	Tuition Guarantee	Pending
Massachusetts	Savings Plan	Pending
Michigan	Tuition Guarantee	Active
	Savings Bonds	Active
Minnesota	College Bonds	Not implemented
Missouri	Prepaid Tuition	Pending
	Savings Bonds	One issue completed
North Carolina	Savings Bonds	Active
North Dakota	Savings Bonds	Active
	Tuition Certificates	Active
Ohio	Prepaid Tuition & Bonds	Active
Oklahoma	Prepaid Tuition	Pending
Oregon	G.O. Bonds	Active
Rhode Island	G.O. Bonds	Active
Tennessee	Savings Bonds	Active
Texas	Savings Bonds	Active
Virginia	Savings Bonds	Active
Washington	G.O. Bonds	Active
West Virginia	Prepaid Tuition	Pending
Wisconsin	Savings Bonds	Active
Wyoming	Prepaid Tuition	Active

Key:
G.O. Bonds – General Obligation Bonds (usually designated as college savings bonds)
(a) Savings bonds have been sold instead

College

States prepare for future with college savings plans

by Kathy Tyson

Photo courtesy of Ohio State University

Susan and Larry Valencic leapt at the chance to put aside money in Michigan's prepaid college tuition plan when it began operating in 1988. They now know their nine-year-old son, Joshua, will be able to attend college and they won't have to worry about soaring tuition costs in the next decade.

"If I had another child I'd do it again," Larry said. "My nest egg was real estate and I haven't needed to use it."

Parents of more than 50,000 other children have invested $350 million in Michigan's plan. Their reasons include escalating college costs and the prospect of little or no federal aid. They believe in education and know a college degree will mean a higher standard of living for their children.

States also have a stake in such plans because their economic vitality depends on an educated work force. To help families save for children's college education, states have developed innovative college savings and prepayment programs.

Michigan's tuition prepayment plan, enacted in December 1986, guarantees future tuition for the student beneficiary.

Kathy Tyson is a research associate with the National Association of State Treasurers at The Council of State Governments.

The Michigan Education Trust offers plans based on the age of the participating child. In 1989, for example, securing one year of prepaid tuition for a newborn cost $2,000. The trust guarantees college tuition and mandatory fees, excluding room and board.

If a child chooses to attend college at a school outside of Michigan, or does not wish to pursue a higher education, the invested money is fully reimbursed with interest when the child turns 18. Also, the contracts can be transferred to family members such as siblings or cousins.

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DAIN BOSWORTH INCORPORATED
INTER-REGIONAL FINANCIAL GROUP

Tax-Exempt Zeros
Build Assets Tax-Free

EXHIBIT 4
DATE 2·13·91
HB 5 Long Range Plan.

INTRODUCTION

Municipal bonds have traditionally been issued with one of two debt retirement structures, or a combination of both. Either a bond issue has a "serial" maturity (wherein a portion of principal is retired each year) or a "term" maturity (wherein the principal is repaid on a final date). However, to provide municipalities with lower interest costs and investors with new financial opportunities, innovative debt structures have evolved. One of these new debt structures is known as a "tax-exempt zero coupon" bond.

WHAT ARE TAX-EXEMPT ZEROS?

Tax-exempt zeros are intermediate to long-term bonds which do not pay current interest to the bondholder. Instead, the interest earned is added to the principal and earns interest at the same yield. An investment in zeros can grow to many times the original investment, because of the compounding effect of interest being earned on interest. An initial investment of $10,000 invested in zero coupon bonds yielding 7% will compound after 30 years to a value at maturity of $78,781. See table below.

	Total Investment Value		
	6.00%	7.00%	8.00%
5 years	$13,439	$14,106	$14,800
10 years	18,061	19,898	21,900
15 years	24,213	28,068	32,434
20 years	32,626	39,593	48,010
25 years	43,839	55,849	71,067
30 years	58,916	78,781	105,196

TAX CONSEQUENCES

There are no federal income tax consequences for individuals who hold their zero coupon municipals to maturity. However, if you sell your tax-exempt zero prior to maturity at a different price than its book value (shown in the official statement), you would have a capital gain or loss based on that difference. Book value (also known as "accreted value") increases every year to recognize the additional interest earned. Capital gain or loss at sale will be based on the actual acreted value of the bond at the time of sale. Your tax advisor should be consulted for specific tax questions.

ADVANTAGES TO YOU—THE INVESTOR

- ***Small Initial Investment***
  Zeros can be bought for amounts as low as $500 to $1,000. This is considerably lower than for other municipal bonds.

- ***Tax-Exempt Compounding***
  The initial investment compounds in amounts which are free from Federal Income Taxes, and, in some states, also free from state income taxes to residents in the state of issuance. If held to maturity or early redemption, there is no capital gains tax and unlike an annuity, there are no deferred taxes. Interest accretes semi-annually.

- ***No Reinvestment Risk***
  A zero coupon bond's interest is automatically reinvested at the bond's original yield. There are no problems of coupon reinvestment or interest rate fluctuations.

- ***Financial Planning***
  Since zero coupon municipals may be available for any length maturity beyond 15 years, they are excellent for meeting future financial goals, such as:

  —Individuals in high tax brackets who want to set aside tax-free income for retirement.

  —Younger, higher income investors who want tax-free income for retirement.

  —Parents or grandparents who want to provide for a child's or grandchild's education.

- ***Liquidity***
  Zeros can be easily sold in the secondary market, thus providing flexibility and liquidity not generally available with other annuity-type investments.

(Continued on back)

EXHIBIT 6
DATE 2.13.91
HB 5

To: Members of the Long-Range Building Subcommittee
From: Karen Munro, Department of Administration
Re: Response to Representative Thoft's Question
Date: February 13, 1991

Question: What was the cost of the two University buildings in 1985 as opposed to the cost in 1991?

Business Administration Building, UM

	1985	1991
Building Cost	$11,960,000	
adjusted for inflation (21.04%)		$14,476,384
Interest rate	8.5%	6.875%
Maturity period	20 years	20 years
Total debt cost	$25,360,300	$27,064,656 *

Engineering/Physical Science Complex, MSU

	1987	1991
Building Cost	$18,000,000	
adjusted for inflation (13.92%)		$20,505,600
Interest rate	8.5%	6.875%
Maturity period	20 years	20 years
Total debt cost	$38,048,100	$38,336,715 *

* Inflation projected to allow 2 years for campuses to raise 15% match per Governor's proposal.

CONSTRUCT MAJOR BUILDINGS
MONTANA UNIVERSITY SYSTEM

Business Administration Building, UM

YEAR	AMOUNT REQUESTED	PER CENT INCREASE FROM '85 BASE
1985	$11,960,000	0.00%
1987	12,500,000	4.52
1989	13,786,000	15.27
1991	15,486,000*	29.95

Cost reflects program expansion of $770,400 for communication and interactive classroom equipment. Deducting this amount reduces the project to $14,715,600 a 23.04% increase above 1985 request. There was information provided in 1989 regarding additional computer lab space, but no cost increase was identified.

Engineering/Physical Science Complex, MSU

YEAR	AMOUNT REQUESTED	PER CENT INCREASE FROM '87 BASE
1985	$15,000,000	NA
1987	18,000,000	0.00%
1989	18,000,000	0.00%
1991	22,235,000	71.04

Request for 1985 reflects a scaled back version of the program developed by the architect. It represents reduced space allocations for departments and eliminated nonessential elements such as tunnel to AJMJ hall. 1991 Requests modifies 1987 program to account for portions of project completed, integrate project with new electrical distribution system, and add items omitted or under funded in original program. The current request reflects a 23.53% increase from the 1987 request, however program alterations make accurate inflation comparison difficult to identify.

Historic and Projected Inflation in Construction Costs

	from 1985	from 1987
1985	0.00%	
1987	6.24%	0.00%
1989	11.56%	5.01%
1991	15.61%	8.81%
Fund Raising*	21.04%	13.92%

* Additional time required for units to solicit 15% share of project funds.

EXHIBIT 7
DATE 2-13-91
HB 5 Long Range Plan

AT - A - GLANCE

PROPOSED UM BUSINESS ADMINISTRATION BUILDING

SIZE	104,600 Sq. Ft.
FACILITIES	
Classrooms	30,000 Sq. Ft.
1-200 Seat Lecture Hall 5-60 Seat Lecture Halls 7-50 Seat Lecture Halls 2 Seminar Rooms 1 Small Business Institute Case Room Telecourse Classrooms & Production Facility 1-100 Seat Telecourse Origination Classroom 1-50 Seat Telecourse Origination Classroom 1-Central Control Classroom 4-50 Seat Telecourse Participation Classrooms	
Faculty Offices and Support	15,404 Sq. Ft.
Administrative Office & Support	6,818 Sq. Ft.
Bureau of Business & Economic Research	5,100 Sq. Ft.
The Montana Entrepreneurial Center	752 Sq. Ft.
Study Area/Public Spaces	4,226 Sq. Ft.
Behavorial Science Lab Complex	2,625 Sq. Ft.
Computer Lab Area	2,260 Sq. Ft.
Circulation, Laboratories, Mechanical Space, Janitorial Space, Wall Thickness, Etc.	37,415 Sq. Ft.

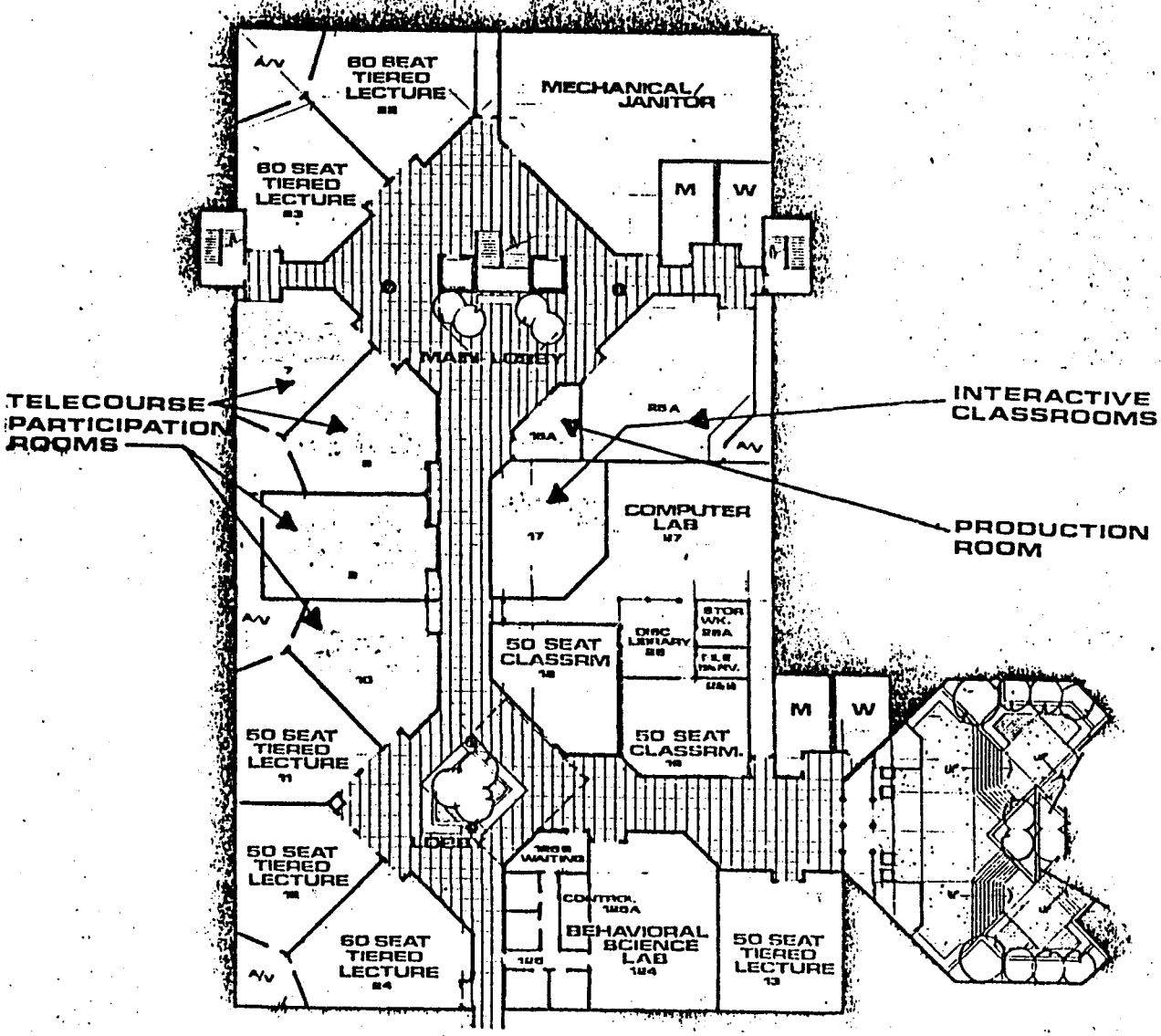
AT - A - GLANCE

PROPOSED UM BUSINESS ADMINISTRATION BUILDING

COSTS (Construction start June, 1992/Pricing at June, 1993)

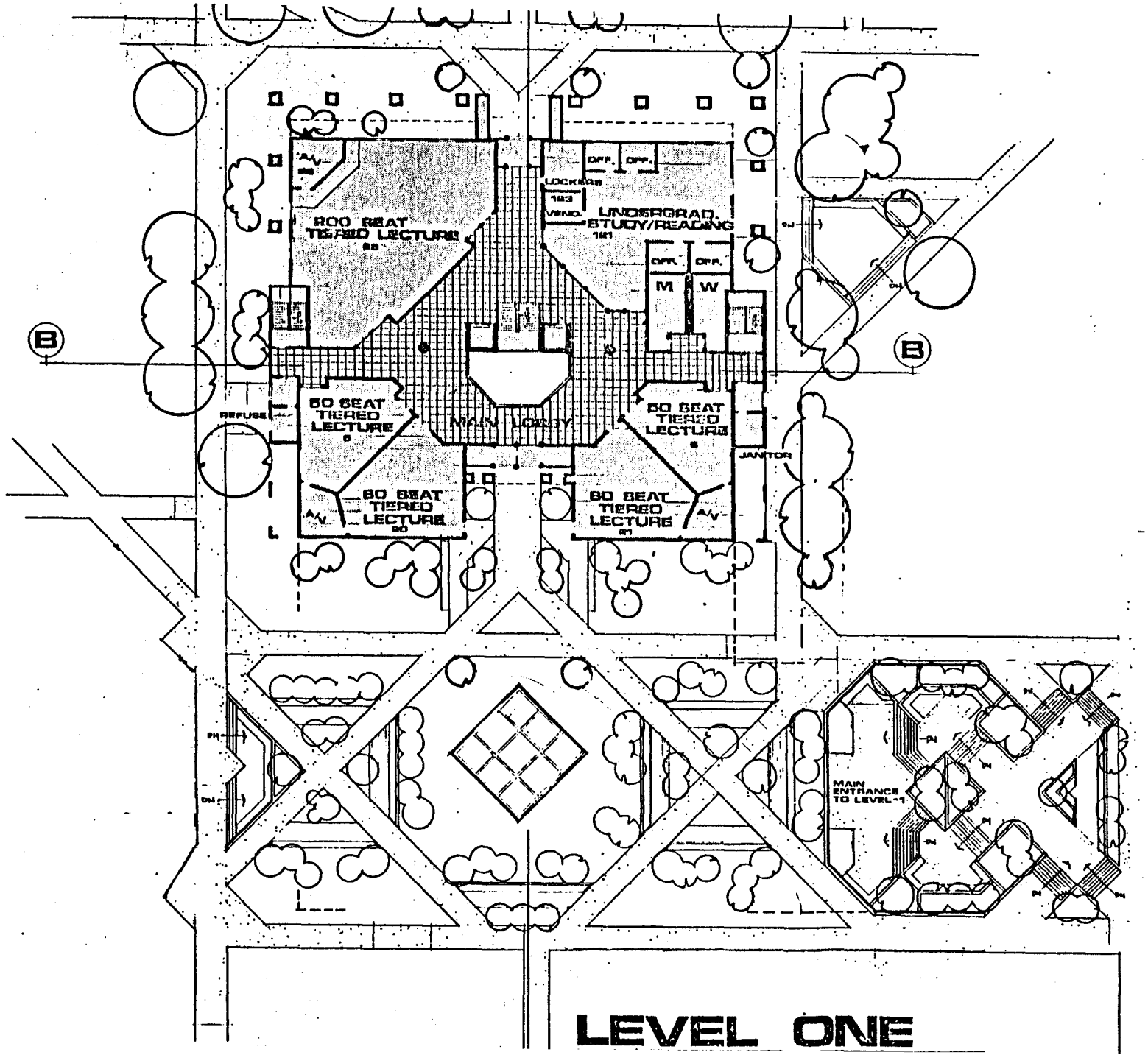
1.	Land Acquisition	$ 0
2.	Preliminary Expense	$ 14,500
	a) Site Survey...... $ 3,800	
	b) Soil Survey...... $10,700	
	c) Other..... $ 0	
3.	Construction Cost ($110.64/sq. ft. x 104,600 sq. ft.)	$11,573,000
4.	Architectural, Engineering & Consultant Fees.... (7.5% of 3, 5, 6, 7a & 7b)	$ 963,000
5.	Utilities	$ 267,500
6.	Landscaping & Site Development	$ 235,000
7.	Equipment	$ 1,697,000
	a) Telecommunications Equip..... $128,400	
	b) Interactive Classroom Eq..... $642,000	
	c) Furnishings..... $926,600	
8.	Contingencies.(4.5% of 3, 5, 6, 7a & 7b)	$ 578,000
9.	Other	$ 158,000
	a) Legal, Administration & Code... $ 30,000	
	b) Art..... $128,000	
	TOTAL PROJECT COST	$15,486,000

December 14, 1989



LEVEL -ONE (BELOW GRADE)

EXHIBIT 8
DATE 2.13.91
HB 5 Long Range Plan


800 SEAT TIERED LECTURE
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OFF.
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W
60 SEAT TIERED LECTURE
MAIN LOBBY
60 SEAT TIERED LECTURE
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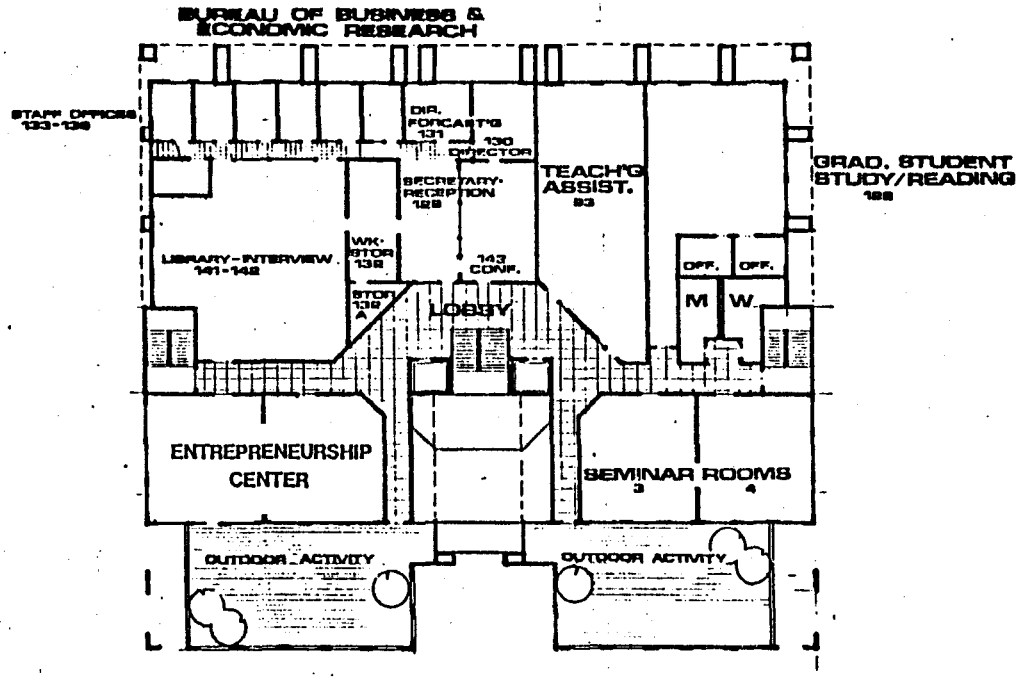
60 SEAT TIERED LECTURE
REFUSE
JANITOR
MAIN ENTRANCE TO LEVEL -1
B
B
L

LEVEL ONE

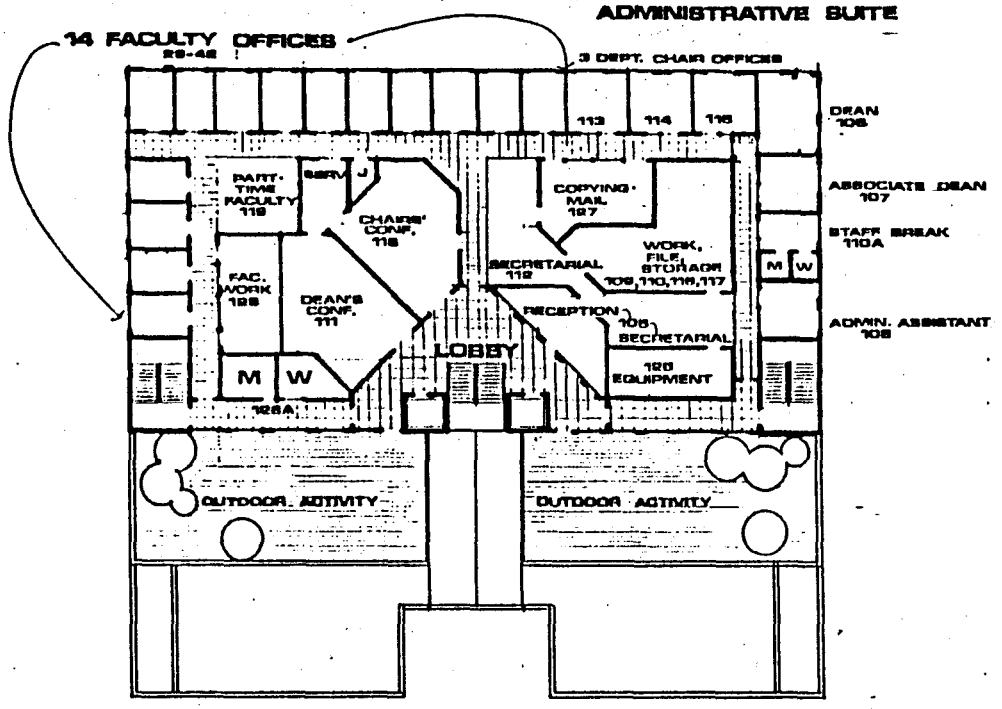


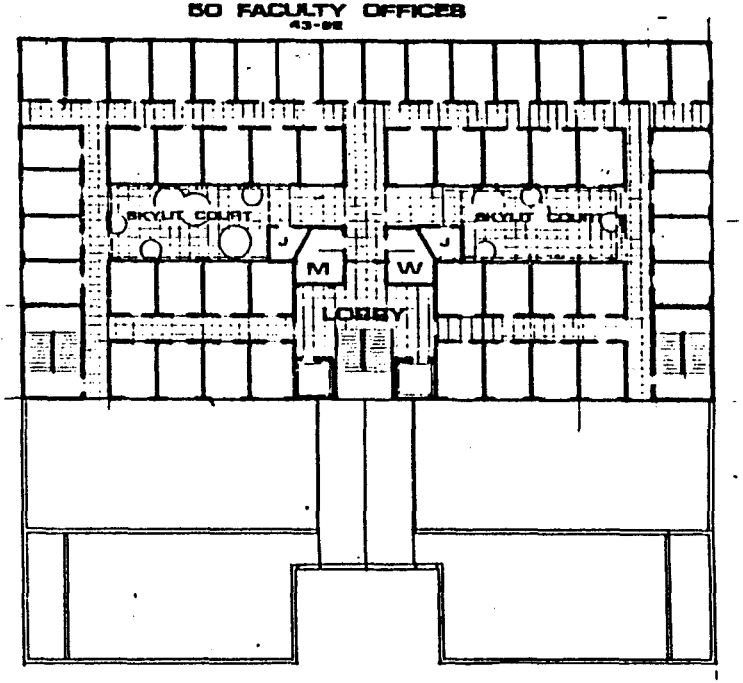
LEVEL TWO

1/8"=1'-0"

0 5 10 25 50 100

EXHIBIT 8
DATE 2-13-91
Henry Penny Plan.





LEVEL THREE

1/16" = 1'-0"

0 5 10 25 50 100

LEVEL FOUR

1/16" = 1'-0"

0 5 10 25 50 100

EXHIBIT 9
DATE 2.13.91
HB 5 Long Rang Pla

MONTANA STATE UNIVERSITY
ENGINEERING/PHYSICAL SCIENCES COMPLEX
PROJECT COST SUMMARY

	TOTAL GROSS SQUARE FEET	NET ASSIGNABLE SQUARE FEET	ESTIMATED COST
A. NEW CONSTRUCTION ($135/sq.ft.)			
Classrooms			
4 @ 50 Student Stations	4,901		
1 @ 219 Student Stations	5,031		
1 @ 197 Student Stations	4,526		
SUBTOTAL	14,458		
Academic, Lab, and Technical Service Areas	15,699		
Teaching Labs and Research Labs	61,947		
Offices	12,896		
SUBTOTAL NEW CONSTRUCTION	105,000	70,000	$14,175,000
B. REMODELING*			
Roberts Hall		12,391	
Cobleigh Hall		49,212	
Ryon Laboratory		25,804	
AJM Johnson Hall		14,816	
Gaines Hall		12,456	
SUBTOTAL-REMODELING		114,679	$ 2,766,780

* Teaching Labs, Classrooms, Academic and Technical Service Areas

HOUSE OF REPRESENTATIVES
VISITOR REGISTER

Long Range Planning SUBCOMMITTEE DATE 2-13-91

DEPARTMENT(S) Bonding Program
Univ System DIVISION

PLEASE PRINT PLEASE PRINT

NAME	REPRESENTING	

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

C. RELATED ELEMENTS

Parking/Landscaping (150 Spaces)	$ 79,800
Cobliegh Hall Structural Improvements	170,000
Utilities	135,000
SUBTOTAL-RELATED ELEMENTS	$ 384,800
TOTAL CONSTRUCTION COST	$17,326,580

D. OTHER COSTS

Code Review	$ 50,000
Architectural & Related Fees (9.5%)	1,647,943
Contingency (10%)	1,734,677
Laboratory Furnishings & Equipment	1,129,432
Art (1%)	173,468
Furnishings (Non-Technical Equipment)	172,900
SUBTOTAL-OTHER COSTS	$ 4,908,420
GRAND TOTAL-PROJECT COST	$22,235,000

January 15, 1990