

MINUTES

MONTANA SENATE 53rd LEGISLATURE - REGULAR SESSION

COMMITTEE ON FINANCE & CLAIMS

Call to Order: By Senator Judy Jacobson, Chair, on April 12, 1993, at 9:00 a.m., Room 108.

ROLL CALL

Members Present:

Sen. Judy Jacobson, Chair (D)
Sen. Eve Franklin, Vice Chair (D)
Sen. Gary Aklestad (R)
Sen. Tom Beck (R)
Sen. Don Bianchi (D)
Sen. Chris Christiaens (D)
Sen. Gerry Devlin (R)
Sen. Gary Forrester (D)
Sen. Harry Fritz (D)
Sen. Ethel Harding (R)
Sen. Bob Hockett (D)
Sen. Greg Jergeson (D)
Sen. Tom Keating (R)
Sen. Chuck Swysgood (R)
Sen. Daryl Toews (R)
Sen. Larry Tveit (R)
Sen. Eleanor Vaughn (D)
Sen. Mignon Waterman (D)
Sen. Cecil Weeding (D)

Members Excused: Senator Lynch

Members Absent: None.

Staff Present: Terry Cohea, Legislative Fiscal Analyst
Lynn Staley, Committee Secretary

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

Committee Business Summary:

Hearing: None
Executive Action: HB 11, HB 3

LONG RANGE BUILDING BILLS - DISCUSSION

Senator Jacobson said the committee will not take action on the Long Range Building Program this day since there are people that

want to be present but are curtailed because of bad weather. She said there is someone here from D.A. Davidson to talk about the bonding, and Senator Jergeson presented a handout. (Exhibit 1, 2)

Senator Jergeson said one of the reasons the House delayed the construction of several buildings was an attempt to eliminate the considerable debt service costs that existed under the financing of the university buildings, particularly the ones that were anticipated when the bonding was approved for those buildings in the last session. Since that time, there has been a lot of work done on variations of how the financing could be done. Capitol appreciation bonds was one of the variations, which would minimize the debt service necessary in this biennium. It would have to be picked up in the out years and the interest income from the proceeds of the bond issue would be sufficient this biennium to cover the debt service for this biennium. He said he asked D.A. Davidson Company to prepare the letter submitted as Exhibits.

Craig Jones, D.A. Davidson, Great Falls, said the question was whether Capital Appreciation Bonds serve as a reasonable financing tool for projects such as those currently under consideration in HB 5. He said they believe Capital Appreciation Bonds serve as a viable financing tool. Also, many times they are used when there has been a determination made, that there is a need or desire to defer a debt service. He said in this case, they believe Capital Appreciation Bonds could be used very economically to finance the buildings without an increase in debt service overall over the term of the bonds on a present value basis. He said they think, given current market conditions, that zero debt service can be achieved and that Capital Appreciation Bonds serve as a viable and reasonable means of financing this type of project.

Senator Aklestad asked what was so significant about the Capital Appreciation Bonds compared to other bonds; are they tax exempt, and what is the rate.

Mr. Jones said the significance of the Capital Appreciation Bonds is that they do not pay the investor interest on a current basis. Capital Appreciation Bonds are bought at a discount and the interest comes in the form of appreciation on the face value of the bond. The original investment accrues interest in the form of appreciation on the original investment at a rate of 5.5 percent and allows the purchaser of the bond that fixed rate over the life of the bonds.

Senator Aklestad asked what would be the rate of return on an investor next year, and is it a fixed rate. Mr. Jones said yes. Senator Aklestad asked if it was tax exempt on the state and federal level. Mr. Jones said yes, and they are registered bonds.

Senator Jergeson said a U S Savings bond is essentially a Capital Appreciation Bond. Mr. Jones said that was correct.

Mr. Jones said under the assumption that the bonds for the women's prison would be sold one year after the original issue of bonds, the debt service in the first year would be \$470,000. During the next fiscal year, it would be an additional \$941,000, so the total debt service for the biennium would be \$1,411,000.

Senator Waterman asked what the debt service would be for the biennium 96-97.

Senator Jergeson said the Women's Prison would be \$960,000 a year. Mr. Jones said that was correct, during the next biennium, however, the only payment would be \$244,000. The total debt service for the next biennium would be \$1,667,000.

Jim Todd, Vice President for Administration and Finance, University of Montana, referred to Exhibit 1, which is a letter from G. M. Dennison, President of the University of Montana to Senator Jacobson. He referred to Exhibit 1, and said the interest earnings in the next biennium would be greater than the debt service.

Senator Aklestad asked about the time frame for the completion of the bond sale.

Mr. Jones said for the 3 initial projects, the University of Montana, Montana State University and the Armory, the bonds would be issued by October 1, 1993 and the bonds sold for the Women's Prison would be 1 year later on October 1, 1994. There would be no interest due on bonds for the Women's Prison until the following April 1, 1995.

Senator Aklestad said assuming on the first issuance they are selling the bonds and reinvesting the money during the construction phase, that would be a wash. Mr. Jones said that was right.

Senator Aklestad said it would appear the time frame from the sale of bonds and through the construction phase wouldn't calculate out to be a wash.

Mr. Jones said the university buildings construction phase would run over a two year period for each of the two construction projects. There is a delay in the beginning of the construction for the University of Montana project. There will not be a significant amount of draws because of the time of year and the timing of the construction of the project. The analysis they used for the interest earnings were the construction draw down schedules provided them for the two projects and the interest rate on a one year T bill for reinvestment purposes.

Senator Aklestad asked how much the interest earnings was for 12

months.

Mr. Jones said the interest earnings for the first FY 93-94, were calculated to be \$841,595, and for the second FY \$649,770.

Senator Jergeson said interest rates are at a historical low in recent history.

Mr. Jones said in recent history they are the lowest since the mid 70's.

Senator Jergeson asked if there was some analysis that interest rates may start going back up.

Mr. Jones said there was more fear of them going up rather than going down further. He said there are concerns that any inflationary pressures could cause rates to go up.

Senator Jergeson said if we make the assumption that interest rates are about as low as they are going to go, and we go ahead with these, we would probably be well advised to sell the entire bond issue.

Mr. Jones said he thinks it is safe to say we enjoy an extremely efficient cost of capital for construction of the buildings.

Senator Swysgood asked what happens if the interest rates go up between now and the bond letting in October.

Mr. Jones said the interest rates borne by the bonds would go up, but in turn it is a reasonable assumption that the reinvestment rate would go up. The ability to achieve zero debt service would be based on how far long term rates go up relative to the ability to reinvest the bond proceeds during a shorter period of time. If interest rates went up markedly, it may become more difficult to achieve zero debt service during the next biennium.

Senator Waterman said since the rates are low now, what is the rationale for delaying the sale of the Women's Prison bonds, and would it be cheaper to sell those now.

Mr. Jones said the costs of issuing a general obligation bond are not dramatic. Additional costs would be incurred each time bonds are sold.

Senator Waterman said in all likelihood the interest rates will be higher. Mr. Jones said he was not sure about that.

Senator Beck said he doesn't think there are any indicators that indicate interest rates are going to go up.

Mr. Jones said their professional assumption is that rates will stay in a fairly tight trading range during the next 6 months.

Senator Beck asked when payment would be started on the Appreciation Bonds, and what is the picture of bonds for the state of Montana. He wondered if we would be paying off bonds as we go along.

Senator Jacobson said the last page of the University of Montana handout shows the existing debt service. (Exhibit 1)

Mr. Jones said Capital Appreciation Bonds are not fancy. They do not pay interest currently but you are still able to schedule debts so the overall fiscal payment can remain constant over the life of the bond.

Senator Bianchi asked if there was a way to set the interest rates now, or do we have to wait until the bonds are sold.

Mr. Jones said no, bonds are typically sold by a bond purchase agreement, or in this case, a competitive sale whereby the purchaser of the bonds would bid a fixed rate at the time of the sale of the bonds. October would allow time for the structuring of the issue and that is the first time the process would be needed for construction of the facilities.

Senator Christiaens asked how quickly a bond package could be put together and if it could be done by July 1.

Mr. Jones said he thought so, 60 to 90 days would probably be the minimum time frame.

Senator Christiaens said if we went with July 1, we might be a little more assured the interest rates would not be going up.

Mr. Jones said the earlier the bonds are sold, the earlier interest is accrued.

Senator Beck said he assumes the rating should still be the same after selling these.

Mr. Jones said the rating has recently been reaffirmed by the rating agencies for the sale of \$1.5 million of the state's general obligation bonds. He said they are a AA minus rating.

Senator Vaughn said if we could let some of them in July, there would be a possibility some of them could start building earlier.

Mr. Jones said he is unsure whether the state would make other monies available for construction purposes prior to the issuance of bonds. If bonds are not sold until October 1, there would be no proceeds available until that time for construction purposes from the bond issue itself.

Senator Swysgood asked what kind of a market there was for the Capital Appreciation Bonds.

Mr. Jones said it is difficult to answer because they haven't been sold. They think there is a dramatic amount of interest. There is a high level of demand for municipal bonds, particularly Montana municipal bonds at the current time. They believe \$19 million is a reasonable amount to sell.

Senator Swysgood asked why, if there is so much interest, none has been sold.

Mr. Jones said Capital Appreciation Bonds are typically only used if there is interest in deferring payment of principal and interest on the bonds.

Senator Beck asked the scenario if we went with general obligation bonds, would we pay a little less interest and would we be facing the debt up front.

Mr. Jones said yes, if we sold bonds immediately and began paying principal and interest immediately, the total debt service over the next biennium would be about \$3.7 million. He said they would also save over the entire issue \$660,000 in interest payments and that is over the entire 15 year period without giving any benefit to present valuing those dollars back to today's dollars. We use the true rate borne by the bond and present value of those dollars back; it is essentially zero cost over the next 15 years. The most efficient means of selling the bonds would be to sell them immediately.

Senator Beck asked if interest rates started to climb before selling the bonds, would it make it more difficult to sell.

Mr. Jones said they do not think increased interest rates would affect the marketability of the bonds.

Senator Jacobson said action on HB 5 would be delayed until later this day.

EXECUTIVE ACTION ON HOUSE BILL 11

Discussion: Senator Jacobson said the amendments offered coordinate this with action in HB 2. (Exhibit 3) An amendment was put in HB 2 allowing funds to be utilized, and this puts OPI back in the bill and coordinates with what we did in HB 2.

Motion/Vote: Senator Christiaens moved the amendments. (Exhibit 3) The motion CARRIED unanimously.

Motion: Senator Jacobson said Senator Waterman has an amendment and it would be a \$600,000 obligation from the general fund in the next biennium. (Exhibit 3a) Senator Waterman said it would restore the funding to the level it left the subcommittee, and she would Move the amendment.

Discussion: Tony Herbert, Department of Administration, said the funding that is in the amendment would restore the Department of Administration's funding to the current level in the current biennium. It would give them the ability to take the video network in the Capitol Building and expand it to 4 or 5 other communities.

Senator Swysgood said the bill didn't come out of subcommittee with any general fund. It came out minus general fund, just federal fund.

Senator Christiaens said it says from "federal or other sources", and asked what the make up is.

Terry Cohea, LFA, said it is simply spending authority, they haven't identified where they can get that money. U S West or TCI did give them some money in the last biennium, but there is no projected source at this point.

Mr. Herbert said that money is authority that in the event we are able to track private, federal or other funding, we would have the spending authority. In the past we have been fortunate and have received some private grants from TCI and US West, but there is nothing earmarked right now.

Senator Christiaens asked if a general fund match is needed.

Mr. Herbert said sometimes the federal government may require that, but they do not have that sense right now.

Senator Jacobson said if a match were needed, would it be possible to use some of OPI money as a match.

Mr. Herbert said he does not think that would work. OPI money approved in HB 2 is substantially for operations in that office.

Senator Keating asked if line 9 on page 2 of the bill was amended out of the bill.

Terry Cohea said the subcommittee left that language in and subsection 2 was amended out in House Appropriations Committee.

Senator Keating asked how much that would have raised. Ms. Cohea said about \$600,000 per year.

Mr. Herbert said the OPI in the current biennium has been funded based upon the numbers of ANB students in the state, and that was the original attempt in HB 11. That is not needed now because in HB 2, a direct appropriation was put into OPI. That would have created about \$600,000 for the biennium for OPI. In HB 2, \$400,000 has been appropriated for the biennium. That language is no longer needed in HB 11.

Senator Aklestad spoke against the amendment saying under the

budget restraints he questions whether we should be going along these lines. He said we have cut areas of service that people probably are more demanding of than this particular service.

Senator Waterman said for clarification, this money was put in in subcommittee and Senator Swysgood opposed it. She said we have made a lot of difficult cuts, but it is important we continue to utilize the technology that is available. These type of programs will allow us to do a better job with communications in Montana, and it will cut down on the costs of traveling to meetings and providing for educational programs.

Vote: Senator Waterman's amendment motion FAILED.

Motion/Vote: Senator Franklin moved House Bill 11 AS AMENDED BE CONCURRED IN. The Motion CARRIED Unanimously.

EXECUTIVE ACTION ON HOUSE BILL 3

Discussion: Senator Jacobson said there are extensive amendments on HB 3, including adding in the special election for the sales tax, which has not yet been acted on in the House. (Exhibit 4)

Senator Jergeson said several amendments are technical amendments and another amendment regards using a supplemental to buy automobiles.

Senator Jacobson said we would delete lines 19 and 20 on page 2.

Senator Jergeson said if we didn't adopted amendments 3 through 7 which applies to SB 235, adopted 1, 2, 8, 9 and 10 and strike the cars out of lines 19 and 20, we should have amendments sufficient to get House rejection of the Senate amendments to get a conference committee to deal with SB 235.

Senator Keating asked if they were talking about striking the motor pool amount of \$600,000.

Senator Jacobson said yes, the summary says they are utilizing a fund balance to replace 53 vehicles in the Department of Transportation. Several feel that if they are going to be purchasing new vehicles, it should not come in a supplemental as it is not an emergency and should more appropriately be dealt with in HB 2.

Senator Keating said his concern is that this is a proprietary fund, which means they are using rental they charge other departments for the vehicles into the proprietary fund for the purchase of vehicles. A couple of the departments indicated that if they are not able to rent from the motor pool at half price, it will increase their expenditures in the department to rent private rental cars.

Senator Jacobson said the part that bothers her is that we are talking about a period from April to the end of June.

Senator Keating said he has not had any testimony on it, and he is confused. He said usually in House Appropriations they get testimony from the various departments and our committee does not.

Ms. Cohea said in the July Special Session based on a legislative audit, approximately \$200,000 was taken out of the proprietary account and transferred to the general fund because the legislative audit found that there were too many cars in the fleet, and the size of the fleet should be reduced. The subcommittee gave no recommendation on the supplemental; they were divided on whether it was necessary or not, given that it reversed a special session action. In full House Appropriations, there was a vote to put it in the bill.

Senator Keating asked why the House voted to put it back in. He would like to see some testimony and facts.

Senator Jergeson said if we take it out of this bill and make the other amendments, the facts will be available.

Senator Waterman said her concern is, are they going to reduce the size of the motor pool, or are they going to take the lease cars from Probation and the Department of Family Services, who have no funds to replace those leased cars.

Senator Jacobson said we are talking about a period of May and June of this year. If they have lease agreements, they probably go through the end of the year. She said that is why she is questioning this and she thinks if we take this out of here, we will get at the truth of the matter.

Senator Tveit said there was a reason in the subcommittee for doing this and he thinks we should get the department in to comment on it.

Senator Jacobson said the testimony in subcommittee was they were reversing the special session action by putting it back in. She thinks if they need the cars and the money is in their proprietary account, it belongs in HB 2 for the next biennium and not in supplemental that is taking care of emergencies that have occurred this biennium.

Senator Tveit suggested getting the department to testify so the committee would know what is going on.

Motion: Senator Franklin moved to delete lines 19 and 20 on page 2 of the supplemental bill.

Motion: Senator Waterman made a substitute motion to delay action on this bill until someone from the department can answer

what is going to happen with the leases.

Senator Jacobson said she doesn't think this is going to be the final action on the bill.

Vote: The substitute action by Senator Waterman FAILED.

Vote: The motion by Senator Franklin to delete lines 19 and 20 on page 2 of the supplemental bill carried.

Motion: Senator Jergeson moved amendments 1, 2, 8, 9 and 10.

Senator Jacobson directed the committee's attention to the amendments by Rep. Cobb. She said we are dealing with amendment 1 which deals with the Montana Supreme Court. Amendment 2 is the Department of Natural Resources, Amendment 8, Department of Military Affairs. Amendments 8, 9 and 10 are presented because it appears the attorneys will request the hearing date for the case by postponed. She said it is on page 3 under Explanation. (Exhibit 4)

Vote: The motion to adopt amendments 1, 2, 8, 9 and 10 CARRIED.

Motion: Senator Fritz moved the amendment that allows the department to continue its repairs over the summer from one fiscal year to the next. (Exhibit 5)

Vote: The motion CARRIED.

Motion/Vote: Senator Franklin moved HB 3 AS AMENDED BE CONCURRED IN. The motion CARRIED with Senators Swysgood, Devlin, Beck, Keating, Harding, Toews, Tveit and Aklestad opposed.

ADJOURNMENT

Adjournment: The meeting adjourned at 10:10 a.m.


SENATOR JUDY JACOBSON, Chair


LYNN STALEY, Secretary

JJ/ljs

ROLL CALL

SENATE COMMITTEE FINANCE AND CLAIMS

DATE 4/12/93

NAME	PRESENT	ABSENT	EXCUSED
SENATOR JACOBSON	✓		
SENATOR FRANKLIN	✓		
SENATOR AKLESTAD	✓		
SENATOR BECK	✓		
SENATOR BIANCHI	✓		
SENATOR CHRISTIAENS	✓		
SENATOR DEVLIN	✓		
SENATOR FORRESTER	✓		
SENATOR FRITZ	✓		
SENATOR HARDING	✓		
SENATOR HOCKETT	✓		
SENATOR JERGESON	✓		
SENATOR KEATING	✓		
SENATOR LYNCH			✓
SENATOR TOEWS	✓		
SENATOR SWYSGOOD	✓		
SENATOR TVEIT	✓		
SENATOR VAUGHN	✓		
SENATOR WATERMAN	✓		
SENATOR WEEDING	✓		

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Attach to each day's minutes

SENATE STANDING COMMITTEE REPORT

Page 1 of 1
April 12, 1993

MR. PRESIDENT:

We, your committee on Finance and Claims having had under consideration House Bill No. 11 (third reading copy -- blue), respectfully report that House Bill No. 11 be amended as follows and as so amended be concurred in.

Signed: Judy H. Jacobson
Senator Judy H. Jacobson, Chair

That such amendments read:

1. Title, line 9.

Following: "SECTION"

Strike: "SECTIONS 20-32-102 AND"

Insert: "SECTION"

2. Title, lines 9 and 10.

Following: "MCA;"

Strike: "REPEALING SECTION 20-32-104, MCA;"

3. Page 3, line 1 through page 7, line 2.

Strike: sections 3 and 4 in their entirety.

Renumber: subsequent section

-END-

AM Amd. Coord.
M Sec. of Senate

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Senator Carrying Bill

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SENATE STANDING COMMITTEE REPORT

Page 1 of 1
April 12, 1993

MR. PRESIDENT:

We, your committee on Finance and Claims having had under consideration House Bill No. 3 (third reading copy -- blue), respectfully report that House Bill No. 3 be amended as follows and as so amended be concurred in.

Signed: Judy H. Jacobson
Senator Judy H. Jacobson, Chair

That such amendments read:

1. Page 1, line 7.

Following: "SERVICES"

Insert: "AND THE DEPARTMENT OF MILITARY AFFAIRS"

2. Page 2.

Strike: lines 19-20 in their entirety

3. Page 3, line 12.

Strike: "125,000"

Insert: "200,000"

4. Page 5, line 11.

Following: line 10

Insert: "DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
Board of Water Well Contractors 1993 3,290 State
Special"

5. Page 6, line 25.

Following: "SERVICES"

Insert: "and department of military affairs"

6. Page 7, line 3.

Following: "PSYCHIATRIC SERVICES"

Insert: "and any unexpended funds in the appropriation to the
department of military affairs for disaster and emergency
services"

7. Page 7, line 11.

Following: "EXPENDITURES"

Insert: ", with the exception of the department of military
affairs for repair and maintenance contracts"

-END-

APV
Amd. Coord.
Sec. of Senate

Jacobson
Senator Carrying Bill

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The University of
Montana

Office of the President
The University of Montana
Missoula, Montana 59812-1291
(406) 243-2311, FAX (406) 243-2797

DATE: April 9, 1993

TO: Senator Judy Jacobson, Chair
Senate Finance and Claims Committee

FROM: G.M. Dennison, President

SENATE FINANCE AND CLAIMS

EXHIBIT NO. 1

DATE 4/12/93

BILL NO. Long Range

Building

Enclosed are summaries of the financing scenarios prepared by D.A. Davidson on capital construction projects. Senator Greg Jergeson asked me to send these to you in preparation for Executive Action on HB5 on Monday, 12 April 1993.

gmd/mmww

Enclosures

FINANCING SCENARIO

Libby Armory (\$400,000)

MSU Engineering/Physical Science Building (\$18,401,510)

UM Business Administration Building (\$13,022,975)

Historically low interest rates and the dedication of interest earnings on the unexpended balances on the construction fund for the three proposed state buildings make it possible for the Montana Legislature to proceed with the three projects at a FY1995 biennial cost substantially below the cost estimate based on December 1992 interest rates considered by the Long Range Building Committee.

Debt service payments for the FY1995 and FY1997 biennia could be reduced by utilizing a combination of serial bonds and Capital Appreciation Bonds (CABs). Utilizing the combination of serial bonds and CABs would reduce the bond payment for the three projects for the next biennium to \$1,411,808

An additional technique could be used in the next biennium to reduce the obligation on the General Fund. After the bonds are issued, interest earnings on the bond proceeds deposited in the construction funds could be dedicated to the debt service for FY1994 and FY1995. The interest earnings on the construction funds in the FY1995 biennium are estimated to be \$1,491,365.

Therefore, the fiscal impact is as follows:

	FY1995 Principal and Interest Payments	FY1995 Interest Earnings, Construction Fund	FY1995 General Fund Obligation
December 1992 Estimate	\$4,145,798	\$ --	\$4,145,798
Proposed Financing	1,411,808	<1,491,365>	<79,557>

A detailed schedule on the principal and interest costs is attached. The information on debt service and interest earnings has been provided by D.A. Davidson.

FINANCING SCENARIO
Libby Armory (\$400,000)

MSU Engineering/Physical Science Building (\$18,401,510)
UM Business Administration Building (\$13,022,975)

EXHIBIT #1
 DATE 4-12-93
Long Range Building

	1985 Series 1992 Refinancing Existing Debt. Service	MSU/UM Armory Debt Service	Interest Earnings Construction Fund	TOTAL
FY1994	\$9,221,523	\$470,603	(841,595)	\$8,850,531
FY1995	10,822,522	941,205	(649,770)	11,113,957
Biennial Total	20,044,045	1,411,808	(\$1,491,365)	\$19,964,488
FY1996	10,651,135	3,282,530		13,933,665
FY1997	3,087,936	3,283,252		6,371,188
FY1998	(119,628)	3,281,450		3,161,822
FY1999	(85,626)	3,279,285		3,193,659
FY2000	(58,852)	3,282,050		3,223,198
FY2001	(75,127)	3,278,850		3,203,723
FY2002	(228,728)	3,279,483		3,050,755
FY2003	(219,684)	3,283,522		3,063,838
FY2004	(218,753)	3,280,000		3,061,247
FY2005	(210,772)	3,280,000		3,069,228
FY2006	(215,129)	3,280,000		3,064,871
FY2007	(223,459)	3,280,000		3,056,541
FY2008	(220,944)	3,280,000		3,059,056
FY2009	(224,894)	3,280,000		3,055,106
FY2010	(64,159)	-		(64,159)
FY2011	-	-		-
FY2012	-	-		-
FY2013	-	-		-
FY2014	-	-		-

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Total Principal	N/A	32,297,585
Total Interest	N/A	15,044,645
Total		\$47,342,230
Average Coupon	N/A	5.955%
Present Value Savings	N/A	\$207,700

FINANCING SCENARIO

Women's Correctional Center (\$10,075,600)

Libby Armory (\$400,000)

MSU Engineering/Physical Science Building (\$18,401,510)

UM Business Administration Building (\$13,022,975)

Historically low interest rates and the dedication of interest earnings on the unexpended balances on the construction fund for the four proposed state buildings make it possible for the Montana Legislature to proceed with the four projects at a FY1995 biennial cost substantially below the cost estimate based on December 1992 interest rates considered by the Long Range Building Committee.

Debt service payments for the FY1995 and FY1997 biennia could be reduced by utilizing a combination of serial bonds and Capital Appreciation Bonds (CABs). Utilizing the combination of serial bonds and CABs, and delaying the issuance of bonds for the Women's Correctional Center to October 1995 would reduce the bond payment for the four projects for the next biennium to \$1,655,814.

An additional technique could be used in the next biennium to reduce the obligation on the General Fund. After the bonds are issued, interest earnings on the bond proceeds deposited in the construction funds could be dedicated to the debt service for FY1994 and FY1995. The interest earnings on the construction funds in the FY1995 biennium are estimated to be \$1,667,365.

Therefore, the fiscal impact is as follows:

	FY1995 Principal and Interest Payments	FY1995 Interest Earnings, Construction Fund	FY1995 General Fund Obligation
December 1992 Estimate	\$5,448,842	\$ --	\$5,448,842
Proposed Financing	1,655,814	< 1,667,365 >	< 11,551 >

A detailed schedule on the principal and interest costs is attached. The information on debt service and interest earnings has been provided by D.A. Davidson.

FINANCING SCENARIO

Libby Armory (\$400,000)

Women's Correctional Center (\$10,075,600)

MSU Engineering/Physical Science Building (\$18,401,510)

UM Business Administration Building (\$13,022,975)

EXHIBIT #1

DATE 4-12-93

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	1985 Series 1992 Refinancing Existing Debt. Service	MSU/UM Armory Debt Service	Women's Corr Ctr Debt Service	Interest Earnings Construction Fund	TOTAL
FY1994	\$9,221,523	\$470,603		(841,595)	\$8,850,531
FY1995	<u>10,822,522</u>	<u>941,205</u>	<u>\$244,006</u>	<u>(825,770)</u>	<u>11,181,963</u>
Biennial Total	\$20,044,045	\$1,411,808	\$244,006	(\$1,667,365)	\$20,032,494
FY1996	10,651,135	3,282,530	960,213		14,893,878
FY1997	3,087,936	3,283,252	963,162		7,334,350
FY1998	(119,628)	3,281,450	963,513		4,125,335
FY1999	(85,626)	3,279,285	961,773		4,155,432
FY2000	(58,852)	3,282,050	963,003		4,186,201
FY2001	(75,127)	3,278,850	962,003		4,165,726
FY2002	(228,728)	3,279,483	963,708		4,014,463
FY2003	(219,684)	3,283,522	963,058		4,026,896
FY2004	(218,753)	3,280,000	960,134		4,021,381
FY2005	(210,772)	3,280,000	964,773		4,034,001
FY2006	(215,129)	3,280,000	961,783		4,026,654
FY2007	(223,459)	3,280,000	961,085		4,017,626
FY2008	(220,944)	3,280,000	962,338		4,021,394
FY2009	(224,894)	3,280,000	960,541		4,015,647
FY2010	(64,159)	-	960,713		896,554
FY2011	-	-	-	-	-
FY2012	-	-	-	-	-
FY2013	-	-	-	-	-
FY2014	-	-	-	-	-

Total Principal
Total Interest
Total

32,297,585
15,044,645
\$47,342,230

10,075,000
4,600,800
\$14,675,800

Average Coupon

5.955%

5.135%

Present Value Savings

\$207,700

-



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

April 9, 1993

Senator Judy Jacobson
Chairperson
Finance & Claims Committee
Montana State Legislature
State Capitol
Helena MT 59620

SENATE FINANCE AND CLAIMS

EXHIBIT NO. 2

DATE 4/12/93

BILL NO. Long Range
Building

Dear Senator Jacobson:

We have been asked to express our views regarding the use of capital appreciation bonds (cabs) for possible use in structuring state general obligation bonds for the purpose of financing certain projects presently under consideration. In addition, we have been asked to comment on the use of interest earnings on the available bond proceeds for purposes of financing the construction.

Capital appreciation bonds can serve as a viable financing tool when there is a desire or necessity to defer debt service. Typically the investor will require a yield somewhat higher on a capital appreciation bond than a current coupon bond would bear. However, it is our opinion that the demand for capital appreciation bonds in Montana is sufficiently significant enough that the yield differential could be minimized to as little as five basis points (or 1/20 of 1%). Clearly, the most cost effective means of financing any project would be through the use of all current coupon bonds to minimize the total interest cost born by the bonds. However, we would like to reiterate that capital appreciation bonds are commonly accepted as an excellent financing tool for the deferral of the payment of principal and interest. Moreover, not all of the bonds must be capital appreciation bonds to achieve the goal of not raising debt service beyond the existing levels for the next biennium. We believe, given current market conditions, it is possible to achieve net debt service (gross debt service less interest earnings on bond proceeds) of zero during the current biennium. This analysis is predicated on the utilization of approximately \$19.68 million of cabs.

With respect to the utilization of interest earnings on available bond proceeds during the construction period, it is appropriate from both a legal and financing standpoint to allocate the interest earnings on the bond proceeds for the payment of debt service during the construction period. While these funds do not necessarily have to be earmarked, the interest earnings on the available proceeds will flow into the general fund which, in turn, is responsible for the payment of debt service on the obligations. We believe the appropriate way to view the earnings of interest on the construction fund is very clearly that those funds

SENT BY:

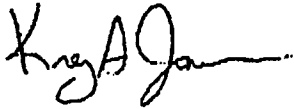
4- 9-93 ; 1:00PM ; DORSEY & WHITNEY-

0404:# 2/ 7

are an additional source of revenue available to the state's general fund which may be used for the purpose of paying debt service on the proposed issuance of bonds.

We hope that this information is helpful and trust that should you have any additional questions you will contact us. Thank you.

Very truly yours.

A handwritten signature in cursive script, appearing to read "Kreg A. Jones".

Kreg A. Jones
Vice President

STATE OF MONTANA
LONG-RANGE BUILDING PROGRAM BONDS
PROJECTS INCLUDE : UM , MSU , AND ARMORY - SERIAL & CAB's

DEBT SERVICE SCHEDULE

EXHIBIT #2

DATE 4-12-93

1 Long Range Building

DATE	PRINCIPAL	COUPON	INTEREST	PERIOD TOTAL	FISCAL TOTAL
4/ 1/94			470,602.50	470,602.50	470,602.50
10/ 1/94			470,602.50	470,602.50	
4/ 1/95			470,602.50	470,602.50	941,205.00
10/ 1/95	2,380,000.00	3.250000	470,602.50	2,850,602.50	
4/ 1/96			431,927.50	431,927.50	3,282,530.00
10/ 1/96	2,445,000.00	3.700000	431,927.50	2,896,927.50	
4/ 1/97			386,325.00	386,325.00	3,283,252.50
10/ 1/97	2,560,000.00	4.000000	386,325.00	2,946,325.00	
4/ 1/98			335,125.00	335,125.00	3,281,450.00
10/ 1/98	2,645,000.00	4.200000	335,125.00	3,000,125.00	
4/ 1/99			279,160.00	279,160.00	3,279,285.00
10/ 1/99	2,785,000.00	4.400000	279,160.00	3,064,160.00	
4/ 1/ 0			217,890.00	217,890.00	3,282,050.00
10/ 1/ 0	2,910,000.00	4.600000	217,890.00	3,127,890.00	
4/ 1/ 1			150,960.00	150,960.00	3,278,850.00
10/ 1/ 1	3,050,000.00	4.750000	150,960.00	3,200,960.00	
4/ 1/ 2			78,522.50	78,522.50	3,279,482.50
10/ 1/ 2	3,205,000.00	4.900000	78,522.50	3,283,522.50	
4/ 1/ 3					3,283,522.50
10/ 1/ 3	1,991,944.00		1,288,056.00	3,280,000.00	
4/ 1/ 4					3,280,000.00
10/ 1/ 4	1,874,815.20		1,405,184.80	3,280,000.00	
4/ 1/ 5					3,280,000.00
10/ 1/ 5	1,761,130.40		1,518,869.60	3,280,000.00	
4/ 1/ 6					3,280,000.00
10/ 1/ 6	1,651,152.00		1,628,848.00	3,280,000.00	
4/ 1/ 7					3,280,000.00
10/ 1/ 7	1,545,044.00		1,734,956.00	3,280,000.00	
4/ 1/ 8					3,280,000.00
10/ 1/ 8	1,453,499.20		1,826,500.80	3,280,000.00	
4/ 1/ 9					3,280,000.00
	32,297,584.80		15,044,645.20	47,342,230.00	
ACCRUED	32,297,584.80		15,044,645.20	47,342,230.00	

Dated 10/ 1/93 with Delivery of 10/ 1/93

Band Years

252,619.052

Average Coupon

5.955467

Average Life

7.821608

N I C %

5.955467 % Using 100.0000000

STATE OF MONTANA
LONG-RANGE BUILDING PROGRAM BONDS
COMPARISON OF SERIALS & CAS' & YRS. ALL SERIALS

SAVINGS REPORT

DATE	PRINCIPAL	COUPON	INTEREST	TOTAL	PRIOR D/S	SAVINGS	CUMULATIVE SAVINGS
4/ 1/94			470,602.50	470,602.50	771,396.25	300,793.75	300,793.75
10/ 1/94			470,602.50				
4/ 1/95			470,602.50	941,205.00	1,542,792.50	601,587.50	902,381.25
10/ 1/95	2,380,000.00	3.250000	470,602.50				
4/ 1/96			431,927.50	3,282,530.00	3,220,086.25	-62,443.75	839,937.50
10/ 1/96	2,465,000.00	3.700000	431,927.50				
4/ 1/97			386,325.00	3,283,252.50	3,219,727.50	-63,525.00	776,412.50
10/ 1/97	2,560,000.00	4.000000	386,325.00				
4/ 1/98			335,125.00	3,281,450.00	3,220,375.00	-61,075.00	715,337.50
10/ 1/98	2,665,000.00	4.200000	335,125.00				
4/ 1/99			279,160.00	3,279,285.00	3,218,565.00	-60,720.00	654,617.50
10/ 1/99	2,785,000.00	4.400000	279,160.00				
4/ 1/ 0			217,890.00	3,282,050.00	3,219,565.00	-62,485.00	592,132.50
10/ 1/ 0	2,910,000.00	4.600000	217,890.00				
4/ 1/ 1			150,960.00	3,278,850.00	3,217,720.00	-61,130.00	531,002.50
10/ 1/ 1	3,050,000.00	4.750000	150,960.00				
4/ 1/ 2			78,522.50	3,279,482.50	3,217,871.25	-61,611.25	469,391.25
10/ 1/ 2	3,205,000.00	4.900000	78,522.50				
4/ 1/ 3				3,283,522.50	3,219,750.00	-63,772.50	405,618.75
10/ 1/ 3	1,991,944.00		1,288,056.00				
4/ 1/ 4				3,280,000.00	3,218,272.50	-61,727.50	343,891.25
10/ 1/ 4	1,874,815.20		1,405,184.80				
4/ 1/ 5				3,280,000.00	3,218,380.00	-61,620.00	282,271.25
10/ 1/ 5	1,761,130.40		1,518,869.60				
4/ 1/ 6				3,280,000.00	3,219,317.50	-60,682.50	221,588.75
10/ 1/ 6	1,651,152.00		1,628,848.00				
4/ 1/ 7				3,280,000.00	3,215,432.50	-64,567.50	157,021.25
10/ 1/ 7	1,545,044.00		1,734,956.00				
4/ 1/ 8				3,280,000.00	3,215,912.50	-64,087.50	92,933.75
10/ 1/ 8	1,453,499.20		1,826,500.80				
4/ 1/ 9				3,280,000.00	3,220,428.75	-59,571.25	33,362.50
	32,297,584.80		15,044,645.20	47,342,230.00	47,375,592.50		33,362.50
ACCRUED	32,297,584.80		15,044,645.20	47,342,230.00	47,375,592.50		33,362.50

Dated 10/ 1/93 with Delivery of 10/ 1/93
Bond Years 252,619.052
Average Coupon 5.955467
Average Life 7.821608
M I C % 5.955467 % Using 100.0000000

Net Present Value Savings at: 5.0700% Equals 207,699.51 or 0.6431% of Par of the Current Issue
or 0.6430% of Par of the Prior Issue

STATE OF MONTANA
LONG-RANGE BUILDING PROGRAM BONDS
WOMEN'S PRISON

DEBT SERVICE SCHEDULE

EXHIBIT #2
DATE 4-12-93
Long Range
Building

DATE	PRINCIPAL	COUPON	INTEREST	PERIOD TOTAL	FISCAL TOTAL
4/ 1/95			244,006.25	244,006.25	244,006.25
10/ 1/95	480,000.00	3.250000	244,006.25	724,006.25	
4/ 1/96			236,206.25	236,206.25	960,212.50
10/ 1/96	500,000.00	3.700000	236,206.25	736,206.25	
4/ 1/97			226,956.25	226,956.25	963,162.50
10/ 1/97	520,000.00	4.000000	226,956.25	746,956.25	
4/ 1/98			216,556.25	216,556.25	963,512.50
10/ 1/98	540,000.00	4.200000	216,556.25	756,556.25	
4/ 1/99			205,216.25	205,216.25	961,772.50
10/ 1/99	565,000.00	4.400000	205,216.25	770,216.25	
4/ 1/ 0			192,786.25	192,786.25	963,002.50
10/ 1/ 0	590,000.00	4.600000	192,786.25	782,786.25	
4/ 1/ 1			179,216.25	179,216.25	962,002.50
10/ 1/ 1	620,000.00	4.750000	179,216.25	799,216.25	
4/ 1/ 2			164,491.25	164,491.25	963,707.50
10/ 1/ 2	650,000.00	4.900000	164,491.25	814,491.25	
4/ 1/ 3			148,566.25	148,566.25	963,057.50
10/ 1/ 3	680,000.00	5.000000	148,566.25	828,566.25	
4/ 1/ 4			131,566.25	131,566.25	960,132.50
10/ 1/ 4	720,000.00	5.100000	131,566.25	851,566.25	
4/ 1/ 5			113,206.25	113,206.25	964,772.50
10/ 1/ 5	755,000.00	5.200000	113,206.25	868,206.25	
4/ 1/ 6			93,576.25	93,576.25	961,782.50
10/ 1/ 6	795,000.00	5.300000	93,576.25	888,576.25	
4/ 1/ 7			72,508.75	72,508.75	961,085.00
10/ 1/ 7	840,000.00	5.400000	72,508.75	912,508.75	
4/ 1/ 8			49,828.75	49,828.75	962,337.50
10/ 1/ 8	885,000.00	5.450000	49,828.75	934,828.75	
4/ 1/ 9			25,712.50	25,712.50	960,541.25
10/ 1/ 9	935,000.00	5.500000	25,712.50	960,712.50	
4/ 1/10					960,712.50
	10,075,000.00		4,600,800.00	14,675,800.00	
ACCRUED					
	10,075,000.00		4,600,800.00	14,675,800.00	

Dated 10/ 1/94 with Delivery of 10/ 1/94
Bond Years 89,605.000
Average Coupon 5.134535
Average Life 8.893797
M I C % 5.134535 % Using 100.0000000

STATE OF MONTANA
LONG-RANGE BUILDING PROGRAM BONDS
UM, MSU AND ARMORY PLUS WOMEN'S PRISON

COMBINED DEBT SERVICE

DATE	PRINCIPAL	COUPON	INTEREST	PERIOD TOTAL	FISCAL TOTAL	PRIOR D/S	COMBINED FISCAL TOTAL
4/ 1/94			470,602.50	470,602.50	470,602.50		470,602.50
10/ 1/94			470,602.50	470,602.50			
4/ 1/95			470,602.50	470,602.50	941,205.00	244,006.25	1,185,211.25
10/ 1/95	2,380,000.00	3.250000	470,602.50	2,850,602.50			
4/ 1/96			431,927.50	431,927.50	3,282,530.00	960,212.50	4,242,742.50
10/ 1/96	2,465,000.00	3.700000	431,927.50	2,896,927.50			
4/ 1/97			386,325.00	386,325.00	3,283,252.50	963,162.50	4,246,415.00
10/ 1/97	2,560,000.00	4.000000	386,325.00	2,946,325.00			
4/ 1/98			335,125.00	335,125.00	3,281,450.00	963,512.50	4,244,962.50
10/ 1/98	2,665,000.00	4.200000	335,125.00	3,000,125.00			
4/ 1/99			279,160.00	279,160.00	3,279,285.00	961,772.50	4,241,057.50
10/ 1/99	2,785,000.00	4.400000	279,160.00	3,064,160.00			
4/ 1/ 0			217,890.00	217,890.00	3,282,050.00	963,002.50	4,245,052.50
10/ 1/ 0	2,910,000.00	4.600000	217,890.00	3,127,890.00			
4/ 1/ 1			150,960.00	150,960.00	3,278,850.00	962,002.50	4,240,852.50
10/ 1/ 1	3,050,000.00	4.750000	150,960.00	3,200,960.00			
4/ 1/ 2			78,522.50	78,522.50	3,279,482.50	963,707.50	4,243,190.00
10/ 1/ 2	3,205,000.00	4.900000	78,522.50	3,283,522.50			
4/ 1/ 3					3,283,522.50	963,057.50	4,246,580.00
10/ 1/ 3	1,991,944.00		1,288,056.00	3,280,000.00			
4/ 1/ 4					3,280,000.00	960,132.50	4,240,132.50
10/ 1/ 4	1,874,815.20		1,405,184.80	3,280,000.00			
4/ 1/ 5					3,280,000.00	964,772.50	4,244,772.50
10/ 1/ 5	1,761,130.40		1,518,869.60	3,280,000.00			
4/ 1/ 6					3,280,000.00	961,782.50	4,241,782.50
10/ 1/ 6	1,651,152.00		1,628,848.00	3,280,000.00			
4/ 1/ 7					3,280,000.00	961,085.00	4,241,085.00
10/ 1/ 7	1,545,044.00		1,734,956.00	3,280,000.00			
4/ 1/ 8					3,280,000.00	962,337.50	4,242,337.50
10/ 1/ 8	1,453,499.20		1,826,500.80	3,280,000.00			
4/ 1/ 9					3,280,000.00	960,541.25	4,240,541.25
10/ 1/ 9							
4/ 1/10						960,712.50	960,712.50
	32,297,584.80		15,044,645.20	47,342,230.00		14,675,800.00	62,018,030.00
ACCRUED	32,297,584.80		15,044,645.20	47,342,230.00		14,675,800.00	62,018,030.00

Dated 10/ 1/93 with Delivery of 10/ 1/93
Bond Years 252,619.052
Average Coupon 5.955467
Average Life 7.821608
M I C % 5.955467 % Using 100.0000000

Amendments to House Bill No. 11
Third Reading Copy

Requested by Senator Jacobson
For the Committee on Finance and Claims

Prepared by Taryn Purdy
April 2, 1993

SENATE FINANCE AND CLAIMS
ENROLL NO. 3
DATE 4/12/93
BILL NO. HB 11

1. Title, line 9.

Following: "SECTION"

Strike: "SECTIONS 20-32-102 AND"

Insert: "SECTION"

2. Title, lines 9 and 10.

Following: "MCA;"

Strike: "REPEALING SECTION 20-32-104, MCA;"

3. Page 3, line 1 through page 7, line 2.

Strike: sections 3 and 4 in their entirety.

Renumber: subsequent section

{Office of Legislative Fiscal Analyst

444-2986}

Amendments to House Bill No. 11
Second Reading Copy

Requested by Sen. Waterman

For the Committee on Finance and Claims

March 24, 1993

1. Page 2, line 4.

Following: "and"

Insert: "\$300,000 from the general fund and"

SENATE FINANCE AND CLAIMS

EXHIBIT NO. 3a

DATE 4/12/93

BILL NO. HB 11

AMEND HOUSE BILL 3, THIRD READING

Senate Finance and Claims
Representative John Cobb

April 2, 1993

SENATE FINANCE AND CLAIMS

EXHIBIT NO. 4
DATE 4/12/93
BILL NO. HB 3

1. Page 3, line 12.
Strike: "125,000"
Insert: "200,000"

Explanation: A March 17, 1993, Montana Supreme Court decision (No. 91-558 Loos vs. Waldo & Uninsured Employers Fund) ruled that the uninsured employers fund pay out a death benefit. The amount payable in FY93 will be about \$75,000.

2. Page 5, line 11.
Following: line 10
Insert: "DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
Board of Water Well Contractors 1993 3,290 State Special"

Explanation: This appropriation is needed for costs associated with an ongoing license revocation case. Funds are water well contractors fees from the board's state special revenue account, which will be repaid through forfeiture of a \$4,000 performance bond if the case is decided in the board's favor.

3. Page 1, line 7.
Following: "SERVICES"
Insert: "AND THE SECRETARY OF STATE'S OFFICE"
4. Page 2, line 6.
Following: line 5
Insert: "SECRETARY OF STATE
SB235 Special Election 1993 786,156 General Fund"

5. Page 6, line 24.
Following: line 23
Insert: "(3) The appropriation in subsection (1) for the June, 1993, special election costs in the Secretary of State's Office is contingent on the passage and approval of Senate Bill No. 235."

6. Page 6, line 25.
Following: "SERVICES"
Insert: "and the Secretary of State's Office"

[over]

Amend HB3, third reading

7. Page 7, line 3.

Following: "Services"

Insert: "and any unexpended funds in the appropriation made to the Secretary of State's Office for the costs of the June, 1993, special election"

Explanation: Amendments 3-7 relate to the passage and approval of SB235. SB235 generally revises taxation and provides for a special election for approval. The primary costs to be incurred by the Secretary of State's Office, as shown in the fiscal note for the bill, include \$688,504 reimbursement to counties for expenses associated with administration of the special election and the distribution of the voter information pamphlet. A temporary 0.25 FTE is added to the Secretary of State's Office to enable the office to meet the reduced election timeframes mandated in SB87 which is a companion bill to SB235. It is expected that some expenses associated with the election will not be incurred until after fiscal year end 1993; therefore, language is added to allow the unexpended balance of the appropriation to be reappropriated as necessary in fiscal 1994.

8. Page 1, line 7.

Following: "SERVICES"

Insert: "AND THE DEPARTMENT OF MILITARY AFFAIRS"

9. Page 6, line 25.

Following: "SERVICES"

Insert: "and the Department of Military Affairs"

10. Page 7, line 3.

Following: " Services"

Insert: "and any unexpended funds in the appropriation to the Department of Military Affairs for Disaster and Emergency Services"

Explanation: Amendments 8-10 are presented because it now appears likely the attorneys will request that the hearing date for the case be postponed and, if this occurs, some of the authority would be required in FY93 and some in FY94.

AMEND HOUSE BILL 3, THIRD READING

Senate Finance and Claims

SENATE FINANCE AND CLAIMS

April 2, 1993

EXHIBIT NO. 5

DATE 4/12/93

BILL NO. 243

1. Page 7, Line 11.

Following: "expenditures"

Insert: "with the exception of the Department of Military
Affairs for repair and maintenance contracts."

Explanation: Due to the short construction season repair contracts for state buildings, such as armories and maintenance shops, might not be completed by June 30. Types of problems that arise which can push the completion date into the next fiscal year are inclement weather, contractors' schedules, delays in the delivery of material, labor problems, etc.