

Senate Bill 476

In The Senate

February 13, 1981	Introduced and referred to Committee on Taxation.
March 16, 1981	Fiscal note requested.
March 19, 1981	Fiscal note returned.
March 23, 1981	Committee recommend bill do pass as amended.
March 24, 1981	Bill printed and placed on members' desks.
March 25, 1981	Second reading pass consideration.
March 26, 1981	Second reading indefinitely postponed.
March 27, 1981	On motion Senate reconsider its action taken on second reading. Motion failed.

1 *Senate* BILL NO. *476*  
 2 INTRODUCED BY *Mr. Esk* *Mr. Baller* *Bob Brown*

3  
 4 A BILL FOR AN ACT ENTITLED: "AN ACT TO CREATE A MONTANA  
 5 MUNICIPAL BOND BANK; TO AUTHORIZE THE BOND BANK TO LEND  
 6 MONEY TO MUNICIPALITIES, SPECIAL IMPROVEMENT DISTRICTS,  
 7 SPECIAL TAXING DISTRICTS, AND OTHER POLITICAL SUBDIVISIONS  
 8 THROUGH THE PURCHASE BY THE BANK OF MUNICIPAL SECURITIES; TO  
 9 AUTHORIZE THE BANK TO ISSUE BONDS AND NOTES IN ORDER TO  
 10 FINANCE ITS LOANS; TO PERMIT THE BOARD OF INVESTMENTS TO  
 11 PURCHASE THE BONDS OF THE BANK; TO REMOVE INTEREST RATE  
 12 CEILINGS AND OTHER RESTRICTIONS FROM THE BONDS OF POLITICAL  
 13 SUBDIVISIONS FOR PURPOSES OF THIS ACT; AMENDING SECTION  
 14 17-6-103, MCA."

15  
 16 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

17 NEW SECTION. Section 1. Short title. [Sections 1  
 18 through 19] may be cited as the "Montana Municipal Bond Bank  
 19 Act".

20 NEW SECTION. Section 2. Policy. (1) It is declared to  
 21 be in the public interest and to be the policy of the state  
 22 of Montana to:

23 (a) foster and promote by all reasonable means the  
 24 provision of adequate capital markets and facilities for  
 25 borrowing money by counties, cities, towns, school

1 districts, special taxing districts, or other political  
 2 subdivisions or public corporations and for the financing of  
 3 their respective public improvements and other municipal  
 4 purposes within the state from proceeds of bonds or notes  
 5 issued by those governmental units;

6 (b) assist those governmental units in fulfilling  
 7 their needs for those purposes by creation of indebtedness;

8 (c) reduce, to the extent possible, costs of  
 9 indebtedness to taxpayers and residents of the state; and

10 (d) encourage continued investor interest in the  
 11 purchase of bonds or notes of those governmental units as  
 12 sound and preferred securities for investment.

13 (2) It is in the public interest and is the policy of  
 14 the state to encourage its governmental units to continue  
 15 their independent undertakings of public improvements and  
 16 other municipal purposes and the financing thereof and to  
 17 assist them by making funds available at reduced interest  
 18 costs for orderly financing of those purposes, especially  
 19 during periods of restricted credit or money supply,  
 20 particularly for those governmental units not otherwise able  
 21 to borrow for such purposes.

22 (3) It is further declared that current credit and  
 23 municipal bond market conditions require the exercise of the  
 24 powers of the state in the interest of its governmental  
 25 units to promote and implement such policies by:

1 (a) authorizing a state instrumentality to borrow  
 2 money and to issue its bonds and notes to make funds  
 3 available through its facilities at reduced rates and on  
 4 more favorable terms for borrowing by governmental units  
 5 through the purchase by the instrumentality of the bonds or  
 6 notes of the governmental units in fully marketable form;  
 7 and

8 (b) granting broad powers to the instrumentality to  
 9 accomplish and to carry out these policies of the state.

10 NEW SECTION. Section 3. Definitions. As used in  
 11 [sections 1 through 19], the following definitions apply:

12 (1) "Bank" or "bond bank" means the municipal bond  
 13 bank created by [section 4].

14 (2) "Bond bank finance account" or "finance account"  
 15 means the account established as provided in [section 13].

16 (3) "Bondholder" or "holder" or "noteholder" or any  
 17 similar term if used with reference to a bond or note of the  
 18 bank means any person who is the bearer of any outstanding  
 19 bond or note of the bank, registered to bearer or not  
 20 registered, or the registered owner of any outstanding bond  
 21 or note of the bank that is at the time registered other  
 22 than to bearer.

23 (4) "Bonds" means bonds of the bank issued pursuant to  
 24 [sections 1 through 19].

25 (5) "Fully marketable form" means a municipal security

1 executed and accompanied by an approving legal opinion of a  
 2 bond counsel of recognized standing in the field of  
 3 municipal law whose opinions are generally accepted by  
 4 purchasers of municipal bonds. The municipal security so  
 5 executed need not be printed or lithographed or be in more  
 6 than one denomination.

7 (6) "Governmental unit" means any county, city, town,  
 8 municipality, or municipal corporation; any school district;  
 9 or any special taxing district, special improvement  
 10 district, or other political subdivision of state government  
 11 or public corporation, including but not limited to any  
 12 irrigation, drainage, conservancy, conservation, community  
 13 college, utility, industrial development, transportation, or  
 14 urban renewal district, authority, or commission. The term  
 15 does not include the state of Montana, the board of regents,  
 16 the board of examiners, the board of housing, or any other  
 17 board, department, or commission of the state.

18 (7) "Municipal security" means a bond, note, or  
 19 evidence of debt issued by a governmental unit and payable  
 20 from taxes or from rates, charges, or assessments.

21 (8) "Notes" means any notes of the bank issued  
 22 pursuant to [sections 1 through 19].

23 (9) "Required debt service reserve" means the amount  
 24 required to be on deposit in the reserve fund as prescribed  
 25 by [section 12].

1 (10) "Reserve account" means the municipal bond bank  
2 reserve account established as provided in [section 12].

3 (11) "Revenues" means all fees, charges, money,  
4 profits, payments of principal of or interest on municipal  
5 securities and other investments, gifts, grants,  
6 contributions, appropriations, and all other income derived  
7 or to be derived by the bank under [sections 1 through 19].

8 NEW SECTION. Section 4. Municipal bond bank -- board  
9 of housing. (1) There is a municipal bond bank that consists  
10 of the board of housing created in 2-15-1908.

11 (2) The bank is a public body corporate and is  
12 constituted as an instrumentality of the state exercising  
13 public and essential governmental functions. The exercise by  
14 the bank of the powers conferred by [sections 1 through 19]  
15 shall be considered an essential governmental function of  
16 the state.

17 NEW SECTION. Section 5. Lending and borrowing powers  
18 generally -- loans to governmental units. (1) The bank, for  
19 the purposes authorized by [sections 1 through 19], may lend  
20 money to governmental units through the purchase by the bank  
21 of municipal securities of governmental units in fully  
22 marketable form. The bank may purchase or hold municipal  
23 securities of governmental units at the price and in the  
24 manner that the bank considers advisable and may sell  
25 municipal securities acquired or held by it at any price

1 without relation to cost and in the manner that the bank  
2 considers advisable. The bank, for the purposes authorized  
3 by [sections 1 through 19], may issue its bonds and notes  
4 payable solely from the revenues or funds therefor available  
5 to the bank and may otherwise assist governmental units as  
6 provided in [sections 1 through 19]. All expenses incurred  
7 in carrying out the purposes of [sections 1 through 19] are  
8 payable solely from revenues or accounts provided under  
9 [sections 1 through 19], and nothing in [sections 1 through  
10 19] may be construed to authorize the bank to incur any  
11 indebtedness or liability on behalf of or payable by the  
12 state.

13 (2) In connection with any loan to a governmental  
14 unit, the bank shall:

15 (a) fix and prescribe the form of application or  
16 procedure to be required of the governmental unit for the  
17 purpose of any loan or the purchase of its municipal  
18 securities and fix the terms and conditions of the loan or  
19 purchase and enter into agreements with the governmental  
20 unit with respect to the loan or purchase;

21 (b) consider the need, desirability, or eligibility of  
22 each loan, the ability of the governmental unit to secure  
23 borrowed money from other sources and the costs thereof and  
24 the particular public improvement or purpose to be financed  
25 by the municipal securities to be purchased by the bank; and

1 (c) fix and establish each term and provision with  
 2 respect to the purchase of municipal securities by the bank,  
 3 including dates and maturities of the bonds, provisions as  
 4 to redemption or payment prior to maturity, and any other  
 5 matters that in connection therewith are necessary,  
 6 desirable, or advisable in the judgment of the bank.

7 NEW SECTION. Section 6. Powers of the bank. (1) The  
 8 bank has the powers granted to the board of housing under  
 9 subsections (1), (2), (4), (5), (7), (8), (10), (16), and  
 10 (19) of 90-6-104, and those provisions apply to [sections 1  
 11 through 19].

12 (2) In addition, the bank has the following powers:

13 (a) to make and enforce bylaws and rules for the  
 14 conduct of its affairs and business and for use of its  
 15 services and facilities;

16 (b) to borrow money; to issue its negotiable bonds or  
 17 notes; to provide for and secure the payment thereof and to  
 18 provide for the rights of the holders thereof; and to  
 19 purchase, hold, and dispose of any of its bonds or notes;

20 (c) to invest any funds or money of the bank not then  
 21 required for loan to governmental units and for the purchase  
 22 of municipal securities in the manner provided in Title 17,  
 23 chapter 6, except as otherwise permitted or provided by  
 24 [sections 1 through 19]. All investment income from accounts  
 25 of the bank less the cost for investment as prescribed by

1 law shall be deposited in the bond bank account from which  
 2 derived.

3 (d) to procure insurance against any losses in  
 4 connection with its property, operations, or assets in such  
 5 amounts and from such insurers as it considers desirable;

6 (e) to consent, to the extent permitted under its  
 7 contracts with the holders of bonds or notes of the bank, to  
 8 any modification with respect to rate of interest, time, and  
 9 payment of any installment of principal or interest,  
 10 security, or any other term of bond or note, contract, or  
 11 agreement of any kind to which the bank is a party; and

12 (f) to do all acts and things necessary, convenient,  
 13 or desirable to carry out the powers expressly granted or  
 14 necessarily implied in [sections 1 through 19].

15 NEW SECTION. Section 7. Prohibited acts and  
 16 limitation of powers. (1) Under [sections 1 through 19] the  
 17 bank may not:

18 (a) make loans of money to any person, firm, or  
 19 corporation other than a governmental unit or purchase  
 20 securities issued by any person, firm, or corporation other  
 21 than a governmental unit or for investment, except as  
 22 provided in [sections 1 through 19];

23 (b) emit bills of credit or accept deposits of money  
 24 for time or demand deposit or administer a trust or engage  
 25 in any form or manner in or in the conduct of any private or

1 commercial banking business or act as a savings bank or  
2 savings and loan association; or

3 (c) be or constitute a bank or trust company within  
4 the jurisdiction or under the control of the department of  
5 business regulation or the comptroller of the currency of  
6 the United States or the department of the treasury.

7 (2) Nothing contained in [sections 1 through 19] may  
8 be construed to authorize the bank to be or to constitute a  
9 dealer in securities within the meaning of or subject to any  
10 securities law, securities exchange law, or securities  
11 dealers law of the United States or of this state or of any  
12 other state or jurisdiction, domestic or foreign.

13 NEW SECTION. Section 9. Bonds and notes of the bank.

14 (1) The bank may, from time to time, issue its bonds in such  
15 principal amounts as it considers necessary to provide funds  
16 for any purposes authorized by [sections 1 through 19],  
17 including the making of loans; the payment, funding, or  
18 refunding of the principal of or interest or redemption  
19 premiums on any bonds issued by it, whether the bonds or  
20 interest to be funded or refunded have or have not become  
21 due or subject to redemption prior to maturity in accordance  
22 with their terms; the establishment or increase of reserves  
23 to secure or to pay the bonds or interest thereon; and all  
24 other costs or expenses of the bank incident to and  
25 necessary or convenient to carry out its purposes and

1 powers.

2 (2) The bank may issue its notes for any corporate  
3 purpose of the bank from time to time, in such principal  
4 amounts as it considers necessary and renew or pay and  
5 retire or refund such notes from the proceeds of bonds or of  
6 other notes or from any other funds or money of the bank  
7 available or to be made available for such purpose in  
8 accordance with any contract between the bank and the  
9 holders of the notes and not otherwise pledged.

10 (3) The bank shall issue, secure, and purchase its  
11 bonds, notes, and refunding obligations in the manner  
12 provided in subsections (3) and (4) of 90-6-111, 90-6-112  
13 through 90-6-118, 90-6-121, and 90-6-122, and the provisions  
14 of those sections apply to bonds and notes issued under  
15 [sections 1 through 19]. However, the bank may not pledge  
16 revenue, assets, property, or income of the board acquired  
17 under Title 90, chapter 6, part 1, to secure the payment of  
18 the notes or bonds.

19 NEW SECTION. Section 9. Credit of state not pledged.  
20 Obligations issued under the provisions of [sections 1  
21 through 19] do not constitute a debt or liability or  
22 obligation or a pledge of the faith and credit of the state  
23 but are payable solely from the revenues or assets of the  
24 board. An obligation issued under [sections 1 through 19]  
25 shall contain on the face thereof a statement to the effect

1 that the state of Montana is not liable on the obligation  
 2 and the obligation is not a debt of the state and the faith  
 3 and credit and the taxing power of the state are not pledged  
 4 to the payment of the principal of or the interest on the  
 5 obligation.

6 NEW SECTION. Section 10. Tax exemption of bonds.  
 7 Bonds, notes, or other obligations issued by the bank under  
 8 [sections 1 through 19] and their income (including any  
 9 profits made on their sale) are free from taxation by the  
 10 state or any political subdivision or other instrumentality  
 11 of the state, except inheritance, estate, and gift taxes.  
 12 The bank is not required to pay recording or transfer fees  
 13 or taxes on instruments recorded by it.

14 NEW SECTION. Section 11. Pledge of the state. In  
 15 accordance with the constitutions of the United States and  
 16 the state of Montana, the state pledges that it will not in  
 17 any way impair the obligations of any agreement between the  
 18 bank and the holders of notes and bonds issued by the bank,  
 19 including but not limited to an agreement to administer a  
 20 loan program financed by the issuance of bonds and to employ  
 21 a staff sufficient and competent for this purpose.

22 NEW SECTION. Section 12. Reserve fund. The bank shall  
 23 establish and maintain a reserve account called the  
 24 municipal bond bank reserve account in the manner provided  
 25 in 90-6-107(2), 90-6-119, and 90-6-120, and the provisions

1 of those sections apply to the reserve account and the use  
 2 of revenues under [sections 1 through 19].

3 NEW SECTION. Section 13. Bond bank finance account.  
 4 (1) The bank shall establish and maintain an account in the  
 5 bond proceeds and insurance clearance fund provided for in  
 6 17-2-102(6), called the bond bank finance account or finance  
 7 account, that consists of and in which there are deposited:

8 (a) fees received or charges made by the bank for use  
 9 of its services or facilities;

10 (b) any money that the bank transfers thereto from the  
 11 reserve account pursuant to [section 12];

12 (c) money received by the bank as:

13 (i) payments of principal of or interest on municipal  
 14 securities purchased by the bank;

15 (ii) proceeds of sale of any municipal securities or  
 16 investment obligations of the bank; or

17 (iii) proceeds of sale of bonds or notes of the bank;  
 18 and

19 (d) money required, under the terms of any resolution  
 20 of the bank or contract with the holders of its bonds or  
 21 notes, to be deposited therein; and

22 (e) any money transferred thereto by the state from  
 23 any other finance account or made available for the purpose  
 24 of the finance account or for the operating expenses of the  
 25 bank.

1           (2) Any money in the finance account may, subject to  
2 any contracts between the bank and its bondholders or  
3 noteholders, be transferred to the reserve account or, if  
4 not so transferred, must be used for the payment of the  
5 principal of or interest on bonds or notes of the bank when  
6 the principal or interest becomes due and payable, whether  
7 at maturity or upon redemption, including payment of any  
8 premium upon redemption prior to maturity. Any money in the  
9 finance account may be used for the purchase of municipal  
10 securities and for all other purposes of the bank, including  
11 payment of its operating expenses.

12           (3) No amount may be paid or expended out of the  
13 finance account or from any subaccount therein, which  
14 account the bank may establish for the purpose of payment of  
15 its operating expenses, for operating expenses of the bank  
16 in any year in excess of the amount provided for the  
17 operating expenses of the bank by the annual budget then in  
18 effect with respect to such year or any amendment thereof in  
19 effect at the time of such payment or expenditure for  
20 operating expenses.

21           (4) The bank may at any time use any available money  
22 in the finance account for the purchase of its bonds or  
23 notes or for the redemption thereof, and any such bonds  
24 purchased for retirement are thereupon canceled.

25           (5) The bank may establish in the finance account such

1 subaccounts or special accounts which in the opinion of the  
2 bank are necessary, desirable, or convenient for the  
3 purposes of the bank under [sections 1 through 19].

4           ~~NEW SECTION.~~ Section 14. Additional reserves and  
5 funds. The bank may establish any additional and further  
6 reserves or other accounts that are necessary, desirable, or  
7 convenient to further the accomplishment of the purposes of  
8 the bank or to comply with the provisions of any agreement  
9 made by or any resolution of the bank.

10           ~~NEW SECTION.~~ Section 15. Bonds as legal investments  
11 and security. Notwithstanding any restrictions contained in  
12 any other law, the state and all public officers,  
13 governmental units, and agencies thereof (including the  
14 board of investments); all national banking associations,  
15 state banks, trust companies, savings banks and  
16 institutions, building and loan associations, savings and  
17 loan associations, investment companies, and other persons  
18 carrying on a banking business; all insurance companies,  
19 insurance associations, and other persons carrying on an  
20 insurance business; and all executors, administrators,  
21 guardians, trustees, and other fiduciaries may legally  
22 invest any sinking funds, money, or other funds belonging to  
23 them or within their control in any bonds or notes issued by  
24 the bank pursuant to [sections 1 through 19], and the bonds  
25 or notes are authorized security for any and all public



1 deposits.

2 NEW SECTION. Section 16. Exemption of property from  
3 execution sale -- period of limitation. (1) All property of  
4 the bank is exempt from levy and sale by virtue of an  
5 execution, no execution or other judicial process may issue  
6 against the property, and no judgment against the bank may  
7 be a charge or lien upon its property; however, nothing  
8 contained in [sections 1 through 19] applies to or limits  
9 the rights of the holder of any bonds or notes to pursue any  
10 remedy for the enforcement of any pledge or lien given by  
11 the bank on its revenues or other money.

12 (2) Any action or proceeding in any court to set aside  
13 a resolution authorizing the issuance of bonds or notes by  
14 the bank under [sections 1 through 19] or to obtain any  
15 relief upon the ground that the resolution is invalid must  
16 be commenced within 30 days after the adoption of the  
17 resolution by the bank. After the expiration of the period  
18 of limitation, no right of action or defense founded upon  
19 the invalidity of the resolution or any of its provisions  
20 may be asserted and the validity of the resolution or any of  
21 its provisions is not open to question in any court on any  
22 ground whatever.

23 NEW SECTION. Section 17. Purchase or exchange of  
24 municipal securities. (1) Notwithstanding any law applicable  
25 to or constituting any limitation on the maximum rate of

1 interest per year payable on bonds or notes or to annual  
2 interest cost to maturity of money borrowed or received upon  
3 issuance of bonds or notes, every governmental unit is  
4 authorized to contract to pay interest on or an interest  
5 cost per year for money borrowed from the bank and evidenced  
6 by its municipal securities purchased by the bank without  
7 regard to any statutory limitations as to rate of interest  
8 per year payable or as to annual interest cost to maturity  
9 of money borrowed by the governmental unit. Every  
10 governmental unit is authorized to contract with the bank  
11 with respect to the loan or purchase, and the contract shall  
12 contain the terms and conditions of such loan or purchase.  
13 Every governmental unit is authorized to pay fees and  
14 charges required to be paid to the bank for its services.

15 (2) Notwithstanding any law applicable to or  
16 constituting any limitation on the sale of bonds or notes,  
17 except the limitation on amount of bonded indebtedness, any  
18 governmental unit may sell bonds or notes to the bank  
19 without limitation as to denomination and the bonds or notes  
20 may be fully registered or registerable as to principal only  
21 or in bearer form or may bear interest at the rate or rates,  
22 all in accordance with this section, may be evidenced in the  
23 manner and may contain other provisions not inconsistent  
24 herewith, and may be sold to the bank without advertisement  
25 at the price or prices as may be determined, all as provided

1 in the proceedings of the governing body of the governmental  
 2 unit pursuant to which the bonds or notes are authorized to  
 3 be issued. The governing body of the governmental unit may  
 4 provide for the exchange of coupon bonds for fully  
 5 registered bonds and of fully registered bonds for coupon  
 6 bonds and for the exchange of any such bonds after issuance  
 7 for bonds of larger or smaller denominations, all in the  
 8 manner provided in the proceedings authorizing their  
 9 issuance, provided the bonds in changed form or  
 10 denominations are exchanged for the surrendered bonds in the  
 11 same aggregate principal amounts and in such manner that no  
 12 overlapping interest is paid and the bonds in changed form  
 13 or denominations bear interest at the same rate or rates and  
 14 mature on the same date or dates as the bonds for which they  
 15 are exchanged. If any exchange is made under this  
 16 subsection, the bonds surrendered by the holders at the time  
 17 of the exchange shall be canceled. The exchange may be made  
 18 only at the request of the holders of the bonds to be  
 19 surrendered. The governmental unit may require all expenses  
 20 incurred in connection with the exchange to be paid by the  
 21 holders. In case any of the officers whose signatures appear  
 22 on the bonds or coupons cease to be officers before the  
 23 delivery of the bonds, the signatures shall be valid or  
 24 sufficient for all purposes, the same as if they had  
 25 remained in office.

1 NEW SECTION. Section 18. Purchase of anticipation  
 2 notes. The bank may purchase notes of any governmental unit  
 3 issued in anticipation of the sale of municipal securities  
 4 in an amount not exceeding at any one time outstanding the  
 5 authorized amount of the municipal securities. The issue and  
 6 sale of the anticipation notes must be in accordance with  
 7 the laws applying to the governmental unit issuing such  
 8 notes. In connection with any purchase of anticipation  
 9 notes, the bank may by agreement with the governmental unit  
 10 impose the terms, conditions, and limitations that in its  
 11 opinion are proper in the circumstances and for the purposes  
 12 and security of the bank and the holders of its bonds or  
 13 notes; and the bank shall thereupon enforce all the rights,  
 14 remedies, and provisions of law that it has under this  
 15 section or as otherwise provided by law.

16 NEW SECTION. Section 19. Application of money. Money  
 17 or investments in any account of the bank established or  
 18 held for any bonds, notes, indebtedness, or liability to be  
 19 paid, funded, or refunded by issuance of bonds or notes  
 20 shall, unless the resolution authorizing the bonds or notes  
 21 provides otherwise, be applied to the payment or retirement  
 22 of the bonds, notes, indebtedness, or liability and to no  
 23 other purpose. In the event that there is in any account  
 24 any money in excess of the amount required for the payment,  
 25 funding, or refunding of the bonds, the money may be removed

1 from the account but only to the extent that the money or  
 2 investments thereafter remaining in the account are not less  
 3 than the outstanding bonds, notes, indebtedness, or  
 4 liability of the bank to be paid, funded, or refunded and  
 5 for which the account was established or held.

6 Section 20. Section 17-6-103, MCA, is amended to read:  
 7 "17-6-103. Security for deposits of public funds. The  
 8 following kinds of securities may be pledged or guaranteed  
 9 may be issued to secure deposits of public funds:

- 10 (1) direct obligations of the United States;  
 11 (2) securities as to which the payment of principal  
 12 and interest is guaranteed by the United States;  
 13 (3) securities issued or fully guaranteed by the  
 14 following agencies of the United States or their successors,  
 15 whether or not guaranteed by the United States:  
 16 (a) commodity credit corporation;  
 17 (b) federal intermediate credit banks;  
 18 (c) federal land bank;  
 19 (d) bank for cooperatives;  
 20 (e) federal home loan banks;  
 21 (f) federal national mortgage association;  
 22 (g) government national mortgage association;  
 23 (h) small business administration; and  
 24 (i) federal housing administration;  
 25 (4) general obligation bonds of the state or of any

1 county, city, school district, or other political  
 2 subdivision of the state;

3 (5) revenue bonds of any county, city, or other  
 4 political subdivision of the state, when backed by the full  
 5 faith and credit of such subdivision or when the revenues  
 6 pledged to the payment of the bonds are derived from a water  
 7 or sewer system and the issuer has covenanted to establish  
 8 and maintain rates and charges for the system in an amount  
 9 sufficient to produce revenues equal to at least 125% of the  
 10 average annual principal and interest due on all bonds  
 11 payable for such revenues during the outstanding term of  
 12 such bonds;

13 (6) interest-bearing warrants of the state or of any  
 14 county, city, school district, or other political  
 15 subdivision of the state issued in evidence of claims in an  
 16 amount which, with all other claims on the same fund, do not  
 17 exceed the amount validly appropriated in the current budget  
 18 for expenditure from the fund in the year in which they are  
 19 issued;

20 (7) obligations of housing authorities of the state  
 21 secured by a pledge of annual contributions or by a loan  
 22 agreement made by the United States or any agency thereof  
 23 providing for contributions or a loan sufficient with other  
 24 funds pledged to pay the principal of and interest on the  
 25 obligations when due. Subject to rules prescribed by the

1 department of community affairs, the bonds and other  
 2 obligations made eligible for investment in 32-1-424(3) and  
 3 7-15-4505 may be used as security for all deposits of public  
 4 funds or obligations for which depository bonds or any kind  
 5 of bonds or other securities are required or may by law be  
 6 deposited as security.

7 (8) general obligation bonds of other states and of  
 8 municipalities, counties, and school districts of other  
 9 states;

10 (9) undertaking or guarantees issued by a surety  
 11 company authorized to do business in the state;

12 (10) first mortgages and trust indentures on real  
 13 property. The depository shall, on a quarterly basis,  
 14 certify to the state treasurer that sufficient first  
 15 mortgages and trust indentures on real property are  
 16 available and segregated to secure deposits of public funds.  
 17 The board of investments shall determine the amount of  
 18 security required.

19 (11) bonds issued pursuant to Title 7, chapter 12,  
 20 parts 21 and 41;

21 (12) bonds issued pursuant to Title 90, chapter 6, part  
 22 1;

23 (13) revenue bonds issued by any unit of the university  
 24 system of the state of Montana; and

25 (14) advance refunded bonds secured by direct

1 obligations of the United States treasury held in  
 2 irrevocable escrow; and

3 ~~(15) bonds issued pursuant to [sections 1 through 19]."~~

4 Section 21. Codification instruction. Section 4 is  
 5 intended to be codified as an integral part of Title 2,  
 6 chapter 15, part 10, and the provisions of Title 2, chapter  
 7 15, apply to section 4. However, if \_\_\_Bill No. \_\_\_ (LC 1350)  
 8 is passed and approved, section 4 is intended to be codified  
 9 in Title 2, chapter 15, part 18.

10 Section 22. Severability. If a part of this act is  
 11 invalid, all valid parts that are severable from the invalid  
 12 part remain in effect. If a part of this act is invalid in  
 13 one or more of its applications, the part remains in effect  
 14 in all valid applications that are severable from the  
 15 invalid applications.

-End-

## STATE OF MONTANA

REQUEST NO. 431-81

## FISCAL NOTE

Form BD-15

In compliance with a written request received March 16, 19 81, there is hereby submitted a Fiscal Note for Senate Bill 476 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

Description of Proposed Legislation

Senate Bill 476 is an act to create a Montana Municipal Bond Bank; to authorize the bond bank to lend money to political subdivisions through the purchase by the bank of municipal securities; to authorize the bank to issue bonds and notes in order to finance its loans; to permit the Board of Investments to purchase the bonds of the bank; to remove interest rate ceilings and other restrictions from the bonds of political subdivisions.

Assumptions

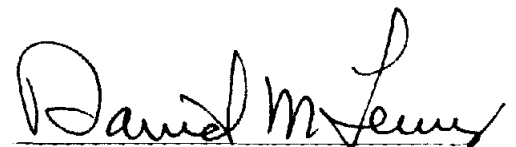
1. No limit on sale of bonds.
2. Sale of \$50 million of bonds in each year of the biennium.
3. 1/8% arbitrage limitation.
4. General Fund to finance initial activity to be repaid when possible.
5. A supreme court test is not necessary.
6. Requires 2 FTE and operating expenses for same.

<u>Fiscal Impact</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>Total Biennium</u>
Expenditures Under Proposed Law			
Personal Services	\$38,757	\$42,635	\$81,392
Operating Expenses	29,000	29,000	58,000
Equipment	2,000		2,000
Total Expenditures Under Proposed Law	\$69,757	\$71,635	\$141,392

Funding: General Fund

Comment

Section 10 of this proposal provides that bonds and other obligations issued by the proposed Municipal Bond Bank shall be tax exempt. It is not possible to estimate the revenue impact of this exemption.



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 3-20-81

Approved by Committee  
on Taxation

SENATE BILL NO. 476

INTRODUCED BY TOWE, ECK, McCALLUM, B. BROWN

A BILL FOR AN ACT ENTITLED: "AN ACT TO CREATE A MONTANA MUNICIPAL BOND BANK; TO AUTHORIZE THE BOND BANK TO LEND MONEY TO MUNICIPALITIES, ~~SPECIAL IMPROVEMENT DISTRICTS, SPECIAL TAXING DISTRICTS, AND OTHER POLITICAL SUBDIVISIONS AND SCHOOL DISTRICTS~~ THROUGH THE PURCHASE BY THE BANK OF MUNICIPAL SECURITIES; TO AUTHORIZE THE BANK TO ISSUE BONDS AND NOTES IN ORDER TO FINANCE ITS LOANS; TO PERMIT THE BOARD OF INVESTMENTS TO PURCHASE THE BONDS OF THE BANK; TO REMOVE INTEREST RATE CEILINGS AND OTHER RESTRICTIONS FROM THE BONDS OF POLITICAL SUBDIVISIONS FOR PURPOSES OF THIS ACT; AMENDING SECTION 17-6-103, MCA."

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

NEW SECTION. Section 1. Short title. [Sections 1 through 19] may be cited as the "Montana Municipal Bond Bank Act".

NEW SECTION. Section 2. Policy. (1) It is declared to be in the public interest and to be the policy of the state of Montana to:

(a) foster and promote by all reasonable means the provision of adequate capital markets and facilities for borrowing money by counties, cities, towns, OR school

~~districts, special taxing districts, or other political subdivisions or public corporations~~ and for the financing of their respective public improvements and other municipal purposes within the state from proceeds of bonds or notes issued by those governmental units;

(b) assist those governmental units in fulfilling their needs for those purposes by creation of indebtedness;

(c) reduce, to the extent possible, costs of indebtedness to taxpayers and residents of the state; and

(d) encourage continued investor interest in the purchase of bonds or notes of those governmental units as sound and preferred securities for investment.

(2) It is in the public interest and is the policy of the state to encourage its governmental units to continue their independent undertakings of public improvements and other municipal purposes and the financing thereof and to assist them by making funds available at reduced interest costs for orderly financing of those purposes, especially during periods of restricted credit or money supply, particularly for those governmental units not otherwise able to borrow for such purposes.

(3) It is further declared that current credit and municipal bond market conditions require the exercise of the powers of the state in the interest of its governmental units to promote and implement such policies by:

1 (a) authorizing a state instrumentality to borrow  
 2 money and to issue its bonds and notes to make funds  
 3 available through its facilities at reduced rates and on  
 4 more favorable terms for borrowing by governmental units  
 5 through the purchase by the instrumentality of the bonds or  
 6 notes of the governmental units in fully marketable form;  
 7 and

8 (b) granting broad powers to the instrumentality to  
 9 accomplish and to carry out these policies of the state.

10 NEW SECTION. Section 3. Definitions. As used in  
 11 [sections 1 through 19], the following definitions apply:

12 (1) "Bank" or "bond bank" means the municipal bond  
 13 bank created by [section 4].

14 (2) "Bond bank finance account" or "finance account"  
 15 means the account established as provided in [section 13].

16 (3) "Bondholder" or "holder" or "noteholder" or any  
 17 similar term if used with reference to a bond or note of the  
 18 bank means any person who is the bearer of any outstanding  
 19 bond or note of the bank, registered to bearer or not  
 20 registered, or the registered owner of any outstanding bond  
 21 or note of the bank that is at the time registered other  
 22 than to bearer.

23 (4) "Bonds" means bonds of the bank issued pursuant to  
 24 [sections 1 through 19].

25 (5) "Fully marketable form" means a municipal security

1 executed and accompanied by an approving legal opinion of a  
 2 bond counsel of recognized standing in the field of  
 3 municipal law whose opinions are generally accepted by  
 4 purchasers of municipal bonds. The municipal security so  
 5 executed need not be printed or lithographed or be in more  
 6 than one denomination.

7 (6) "Governmental unit" means any county, city, town,  
 8 municipality, or ~~municipal corporation~~ any school district,  
 9 ~~or any special taxing district, special improvement~~  
 10 ~~district, or other political subdivision of state government~~  
 11 ~~or public corporation, including but not limited to any~~  
 12 ~~irrigation, drainage, conservancy, conservation, community~~  
 13 ~~college, utility, industrial development, transportation, or~~  
 14 ~~urban renewal district, authority, or commission. The term~~  
 15 does not include the state of Montana, the board of regents,  
 16 the board of examiners, the board of housing, or any other  
 17 board, department, or commission of the state.

18 (7) "Municipal security" means a bond, note, or  
 19 evidence of debt issued by a governmental unit and payable  
 20 from taxes or from rates, charges, or assessments.

21 (8) "Notes" means any notes of the bank issued  
 22 pursuant to [sections 1 through 19].

23 (9) "Required debt service reserve" means the amount  
 24 required to be on deposit in the reserve fund as prescribed  
 25 by [section 12].

1 (10) "Reserve account" means the municipal bond bank  
2 reserve account established as provided in [section 12].

3 (11) "Revenues" means all fees, charges, money,  
4 profits, payments of principal of or interest on municipal  
5 securities and other investments, gifts, grants,  
6 contributions, appropriations, and all other income derived  
7 or to be derived by the bank under [sections 1 through 19].

8 NEW SECTION. Section 4. Municipal bond bank -- board  
9 of housing. (1) There is a municipal bond bank that consists  
10 of the board of housing created in 2-15-1008.

11 (2) The bank is a public body corporate and is  
12 constituted as an instrumentality of the state exercising  
13 public and essential governmental functions. The exercise by  
14 the bank of the powers conferred by [sections 1 through 19]  
15 shall be considered an essential governmental function of  
16 the state.

17 NEW SECTION. Section 5. Lending and borrowing powers  
18 generally -- loans to governmental units. (1) The bank, for  
19 the purposes authorized by [sections 1 through 19], may lend  
20 money to governmental units through the purchase by the bank  
21 of municipal securities of governmental units in fully  
22 marketable form. The bank may purchase or hold municipal  
23 securities of governmental units at the price and in the  
24 manner that the bank considers advisable and may sell  
25 municipal securities acquired or held by it at any price

1 without relation to cost and in the manner that the bank  
2 considers advisable. The bank, for the purposes authorized  
3 by [sections 1 through 19], may issue its bonds and notes  
4 payable solely from the revenues or funds therefor available  
5 to the bank and may otherwise assist governmental units as  
6 provided in [sections 1 through 19]. All expenses incurred  
7 in carrying out the purposes of [sections 1 through 19] are  
8 payable solely from revenues or accounts provided under  
9 [sections 1 through 19], and nothing in [sections 1 through  
10 19] may be construed to authorize the bank to incur any  
11 indebtedness or liability on behalf of or payable by the  
12 state.

13 (2) In connection with any loan to a governmental  
14 unit, the bank shall:

15 (a) fix and prescribe the form of application or  
16 procedure to be required of the governmental unit for the  
17 purpose of any loan or the purchase of its municipal  
18 securities and fix the terms and conditions of the loan or  
19 purchase and enter into agreements with the governmental  
20 unit with respect to the loan or purchase;

21 (b) consider the need, desirability, or eligibility of  
22 each loan, the ability of the governmental unit to secure  
23 borrowed money from other sources and the costs thereof and  
24 the particular public improvement or purpose to be financed  
25 by the municipal securities to be purchased by the bank; and



1 (c) fix and establish each term and provision with  
 2 respect to the purchase of municipal securities by the bank,  
 3 including dates and maturities of the bonds, provisions as  
 4 to redemption or payment prior to maturity, and any other  
 5 matters that in connection therewith are necessary,  
 6 desirable, or advisable in the judgment of the bank.

7 NEW SECTION. Section 6. Powers of the bank. (1) The  
 8 bank has the powers granted to the board of housing under  
 9 subsections (1), (2), (4), (5), (7), (8), (10), (16), and  
 10 (19) of 90-6-104, and those provisions apply to [sections 1  
 11 through 19].

12 (2) In addition, the bank has the following powers:

13 (a) to make and enforce bylaws and rules for the  
 14 conduct of its affairs and business and for use of its  
 15 services and facilities;

16 (b) to borrow money; to issue its negotiable bonds or  
 17 notes; to provide for and secure the payment thereof and to  
 18 provide for the rights of the holders thereof; and to  
 19 purchase, hold, and dispose of any of its bonds or notes;

20 (c) to invest any funds or money of the bank not then  
 21 required for loan to governmental units and for the purchase  
 22 of municipal securities in the manner provided in Title 17,  
 23 chapter 6, except as otherwise permitted or provided by  
 24 [sections 1 through 19]. All investment income from accounts  
 25 of the bank less the cost for investment as prescribed by

1 law shall be deposited in the bond bank account from which  
 2 derived.

3 (d) to procure insurance against any losses in  
 4 connection with its property, operations, or assets in such  
 5 amounts and from such insurers as it considers desirable;

6 (e) to consent, to the extent permitted under its  
 7 contracts with the holders of bonds or notes of the bank, to  
 8 any modification with respect to rate of interest, time, and  
 9 payment of any installment of principal or interest,  
 10 security, or any other term of bond or note, contract, or  
 11 agreement of any kind to which the bank is a party; and

12 (f) to do all acts and things necessary, convenient,  
 13 or desirable to carry out the powers expressly granted or  
 14 necessarily implied in [sections 1 through 19].

15 NEW SECTION. Section 7. Prohibited acts and  
 16 limitation of powers. (1) Under [sections 1 through 19] the  
 17 bank may not:

18 (a) make loans of money to any person, firm, or  
 19 corporation other than a governmental unit or purchase  
 20 securities issued by any person, firm, or corporation other  
 21 than a governmental unit or for investment, except as  
 22 provided in [sections 1 through 19];

23 (b) emit bills of credit or accept deposits of money  
 24 for time or demand deposit or administer a trust or engage  
 25 in any form or manner in or in the conduct of any private or

1 commercial banking business or act as a savings bank or  
2 savings and loan association; or

3 (c) be or constitute a bank or trust company within  
4 the jurisdiction or under the control of the department of  
5 business regulation or the comptroller of the currency of  
6 the United States or the department of the treasury.

7 (2) Nothing contained in [sections 1 through 19] may  
8 be construed to authorize the bank to be or to constitute a  
9 dealer in securities within the meaning of or subject to any  
10 securities law, securities exchange law, or securities  
11 dealers law of the United States or of this state or of any  
12 other state or jurisdiction, domestic or foreign.

13 NEW\_SECTION. Section 8. Bonds and notes of the bank.  
14 (1) The bank may, from time to time, issue its bonds in such  
15 principal amounts as it considers necessary to provide funds  
16 for any purposes authorized by [sections 1 through 19],  
17 including the making of loans; the payment, funding, or  
18 refunding of the principal of or interest or redemption  
19 premiums on any bonds issued by it, whether the bonds or  
20 interest to be funded or refunded have or have not become  
21 due or subject to redemption prior to maturity in accordance  
22 with their terms; the establishment or increase of reserves  
23 to secure or to pay the bonds or interest thereon; and all  
24 other costs or expenses of the bank incident to and  
25 necessary or convenient to carry out its purposes and

1 powers.

2 (2) The bank may issue its notes for any corporate  
3 purpose of the bank from time to time, in such principal  
4 amounts as it considers necessary and renew or pay and  
5 retire or refund such notes from the proceeds of bonds or of  
6 other notes or from any other funds or money of the bank  
7 available or to be made available for such purpose in  
8 accordance with any contract between the bank and the  
9 holders of the notes and not otherwise pledged.

10 (3) The bank shall issue, secure, and purchase its  
11 bonds, notes, and refunding obligations in the manner  
12 provided in subsections (3) and (4) of 90-6-111, 90-6-112  
13 through 90-6-118, 90-6-121, and 90-6-122, and the provisions  
14 of those sections apply to bonds and notes issued under  
15 [sections 1 through 19]. However, the bank may not pledge  
16 revenue, assets, property, or income of the board acquired  
17 under Title 90, chapter 6, part 1, to secure the payment of  
18 the notes or bonds.

19 NEW\_SECTION. Section 9. Credit of state not pledged.  
20 Obligations issued under the provisions of [sections 1  
21 through 19] do not constitute a debt or liability or  
22 obligation or a pledge of the faith and credit of the state  
23 but are payable solely from the revenues or assets of the  
24 board. An obligation issued under [sections 1 through 19]  
25 shall contain on the face thereof a statement to the effect

1 that the state of Montana is not liable on the obligation  
 2 and the obligation is not a debt of the state and the faith  
 3 and credit and the taxing power of the state are not pledged  
 4 to the payment of the principal of or the interest on the  
 5 obligation.

6 NEW SECTION. Section 10. Tax exemption of bonds.  
 7 Bonds, notes, or other obligations issued by the bank under  
 8 [sections 1 through 19] and their income (including any  
 9 profits made on their sale) are free from taxation by the  
 10 state or any political subdivision or other instrumentality  
 11 of the state, except inheritance, estate, and gift taxes.  
 12 The bank is not required to pay recording or transfer fees  
 13 or taxes on instruments recorded by it.

14 NEW SECTION. Section 11. Pledge of the state. In  
 15 accordance with the constitutions of the United States and  
 16 the state of Montana, the state pledges that it will not in  
 17 any way impair the obligations of any agreement between the  
 18 bank and the holders of notes and bonds issued by the bank,  
 19 including but not limited to an agreement to administer a  
 20 loan program financed by the issuance of bonds and to employ  
 21 a staff sufficient and competent for this purpose.

22 NEW SECTION. Section 12. Reserve fund. The bank shall  
 23 establish and maintain a reserve account called the  
 24 municipal bond bank reserve account in the manner provided  
 25 in 90-6-107(2), 90-6-119, and 90-6-120, and the provisions

1 of those sections apply to the reserve account and the use  
 2 of revenues under [sections 1 through 19].

3 NEW SECTION. Section 13. Bond bank finance account.  
 4 (1) The bank shall establish and maintain an account in the  
 5 bond proceeds and insurance clearance fund provided for in  
 6 17-2-102(6), called the bond bank finance account or finance  
 7 account, that consists of and in which there are deposited:

8 (a) fees received or charges made by the bank for use  
 9 of its services or facilities;

10 (b) any money that the bank transfers thereto from the  
 11 reserve account pursuant to [section 12];

12 (c) money received by the bank as:

13 (i) payments of principal of or interest on municipal  
 14 securities purchased by the bank;

15 (ii) proceeds of sale of any municipal securities or  
 16 investment obligations of the bank; or

17 (iii) proceeds of sale of bonds or notes of the bank;  
 18 and

19 (d) money required, under the terms of any resolution  
 20 of the bank or contract with the holders of its bonds or  
 21 notes, to be deposited therein; and

22 (e) any money transferred thereto by the state from  
 23 any other finance account or made available for the purpose  
 24 of the finance account or for the operating expenses of the  
 25 bank.

1           (2) Any money in the finance account may, subject to  
 2 any contracts between the bank and its bondholders or  
 3 noteholders, be transferred to the reserve account or, if  
 4 not so transferred, must be used for the payment of the  
 5 principal of or interest on bonds or notes of the bank when  
 6 the principal or interest becomes due and payable, whether  
 7 at maturity or upon redemption, including payment of any  
 8 premium upon redemption prior to maturity. Any money in the  
 9 finance account may be used for the purchase of municipal  
 10 securities and for all other purposes of the bank, including  
 11 payment of its operating expenses.

12           (3) No amount may be paid or expended out of the  
 13 finance account or from any subaccount therein, which  
 14 account the bank may establish for the purpose of payment of  
 15 its operating expenses, for operating expenses of the bank  
 16 in any year in excess of the amount provided for the  
 17 operating expenses of the bank by the annual budget then in  
 18 effect with respect to such year or any amendment thereof in  
 19 effect at the time of such payment or expenditure for  
 20 operating expenses.

21           (4) The bank may at any time use any available money  
 22 in the finance account for the purchase of its bonds or  
 23 notes or for the redemption thereof, and any such bonds  
 24 purchased for retirement are thereupon canceled.

25           (5) The bank may establish in the finance account such

1 subaccounts or special accounts which in the opinion of the  
 2 bank are necessary, desirable, or convenient for the  
 3 purposes of the bank under [sections 1 through 19].

4           NEW SECTION. Section 14. Additional reserves and  
 5 funds. The bank may establish any additional and further  
 6 reserves or other accounts that are necessary, desirable, or  
 7 convenient to further the accomplishment of the purposes of  
 8 the bank or to comply with the provisions of any agreement  
 9 made by or any resolution of the bank.

10           NEW SECTION. Section 15. Bonds as legal investments  
 11 and security. Notwithstanding any restrictions contained in  
 12 any other law, the state and all public officers,  
 13 governmental units, and agencies thereof (including the  
 14 board of investments); all national banking associations,  
 15 state banks, trust companies, savings banks and  
 16 institutions, building and loan associations, savings and  
 17 loan associations, investment companies, and other persons  
 18 carrying on a banking business; all insurance companies,  
 19 insurance associations, and other persons carrying on an  
 20 insurance business; and all executors, administrators,  
 21 guardians, trustees, and other fiduciaries may legally  
 22 invest any sinking funds, money, or other funds belonging to  
 23 them or within their control in any bonds or notes issued by  
 24 the bank pursuant to [sections 1 through 19], and the bonds  
 25 or notes are authorized security for any and all public

1 deposits.

2 NEW SECTION. Section 16. Exemption of property from  
3 execution sale -- period of limitation. (1) All property of  
4 the bank is exempt from levy and sale by virtue of an  
5 execution, no execution or other judicial process may issue  
6 against the property, and no judgment against the bank may  
7 be a charge or lien upon its property; however, nothing  
8 contained in [sections 1 through 19] applies to or limits  
9 the rights of the holder of any bonds or notes to pursue any  
10 remedy for the enforcement of any pledge or lien given by  
11 the bank on its revenues or other money.

12 (2) Any action or proceeding in any court to set aside  
13 a resolution authorizing the issuance of bonds or notes by  
14 the bank under [sections 1 through 19] or to obtain any  
15 relief upon the ground that the resolution is invalid must  
16 be commenced within 30 days after the adoption of the  
17 resolution by the bank. After the expiration of the period  
18 of limitation, no right of action or defense founded upon  
19 the invalidity of the resolution or any of its provisions  
20 may be asserted and the validity of the resolution or any of  
21 its provisions is not open to question in any court on any  
22 ground whatever.

23 NEW SECTION. Section 17. Purchase or exchange of  
24 municipal securities. (1) Notwithstanding any law applicable  
25 to or constituting any limitation on the maximum rate of

1 interest per year payable on bonds or notes or to annual  
2 interest cost to maturity of money borrowed or received upon  
3 issuance of bonds or notes, every governmental unit is  
4 authorized to contract to pay interest on or an interest  
5 cost per year for money borrowed from the bank and evidenced  
6 by its municipal securities purchased by the bank without  
7 regard to any statutory limitations as to rate of interest  
8 per year payable or as to annual interest cost to maturity  
9 of money borrowed by the governmental unit. Every  
10 governmental unit is authorized to contract with the bank  
11 with respect to the loan or purchase, and the contract shall  
12 contain the terms and conditions of such loan or purchase.  
13 Every governmental unit is authorized to pay fees and  
14 charges required to be paid to the bank for its services.

15 (2) Notwithstanding any law applicable to or  
16 constituting any limitation on the sale of bonds or notes,  
17 except the limitation on amount of bonded indebtedness, any  
18 governmental unit may sell bonds or notes to the bank  
19 without limitation as to denomination and the bonds or notes  
20 may be fully registered or registerable as to principal only  
21 or in bearer form or may bear interest at the rate or rates,  
22 all in accordance with this section, may be evidenced in the  
23 manner and may contain other provisions not inconsistent  
24 herewith, and may be sold to the bank without advertisement  
25 at the price or prices as may be determined, all as provided

1 in the proceedings of the governing body of the governmental  
 2 unit pursuant to which the bonds or notes are authorized to  
 3 be issued. The governing body of the governmental unit may  
 4 provide for the exchange of coupon bonds for fully  
 5 registered bonds and of fully registered bonds for coupon  
 6 bonds and for the exchange of any such bonds after issuance  
 7 for bonds of larger or smaller denominations, all in the  
 8 manner provided in the proceedings authorizing their  
 9 issuance, provided the bonds in changed form or  
 10 denominations are exchanged for the surrendered bonds in the  
 11 same aggregate principal amounts and in such manner that no  
 12 overlapping interest is paid and the bonds in changed form  
 13 or denominations bear interest at the same rate or rates and  
 14 mature on the same date or dates as the bonds for which they  
 15 are exchanged. If any exchange is made under this  
 16 subsection, the bonds surrendered by the holders at the time  
 17 of the exchange shall be canceled. The exchange may be made  
 18 only at the request of the holders of the bonds to be  
 19 surrendered. The governmental unit may require all expenses  
 20 incurred in connection with the exchange to be paid by the  
 21 holders. In case any of the officers whose signatures appear  
 22 on the bonds or coupons cease to be officers before the  
 23 delivery of the bonds, the signatures shall be valid or  
 24 sufficient for all purposes, the same as if they had  
 25 remained in office.

1 NEW SECTION. Section 18. Purchase of anticipation  
 2 notes. The bank may purchase notes of any governmental unit  
 3 issued in anticipation of the sale of municipal securities  
 4 in an amount not exceeding at any one time outstanding the  
 5 authorized amount of the municipal securities. The issue and  
 6 sale of the anticipation notes must be in accordance with  
 7 the laws applying to the governmental unit issuing such  
 8 notes. In connection with any purchase of anticipation  
 9 notes, the bank may by agreement with the governmental unit  
 10 impose the terms, conditions, and limitations that in its  
 11 opinion are proper in the circumstances and for the purposes  
 12 and security of the bank and the holders of its bonds or  
 13 notes; and the bank shall thereupon enforce all the rights,  
 14 remedies, and provisions of law that it has under this  
 15 section or as otherwise provided by law.

16 NEW SECTION. Section 19. Application of money. Money  
 17 or investments in any account of the bank established or  
 18 held for any bonds, notes, indebtedness, or liability to be  
 19 paid, funded, or refunded by issuance of bonds or notes  
 20 shall, unless the resolution authorizing the bonds or notes  
 21 provides otherwise, be applied to the payment or retirement  
 22 of the bonds, notes, indebtedness, or liability and to no  
 23 other purpose. In the event that there is in any account  
 24 any money in excess of the amount required for the payment,  
 25 funding, or refunding of the bonds, the money may be removed

1 from the account but only to the extent that the money or  
 2 investments thereafter remaining in the account are not less  
 3 than the outstanding bonds, notes, indebtedness, or  
 4 liability of the bank to be paid, funded, or refunded and  
 5 for which the account was established or held.

6 Section 20. Section 17-6-103, MCA, is amended to read:

7 "17-6-103. Security for deposits of public funds. The  
 8 following kinds of securities may be pledged or guarantees  
 9 may be issued to secure deposits of public funds:

- 10 (1) direct obligations of the United States;
- 11 (2) securities as to which the payment of principal  
 12 and interest is guaranteed by the United States;
- 13 (3) securities issued or fully guaranteed by the  
 14 following agencies of the United States or their successors,  
 15 whether or not guaranteed by the United States:
- 16 (a) commodity credit corporation;
- 17 (b) federal intermediate credit banks;
- 18 (c) federal land bank;
- 19 (d) bank for cooperatives;
- 20 (e) federal home loan banks;
- 21 (f) federal national mortgage association;
- 22 (g) government national mortgage association;
- 23 (h) small business administration; and
- 24 (i) federal housing administration;
- 25 (4) general obligation bonds of the state or of any

1 county, city, school district, or other political  
 2 subdivision of the state;

3 (5) revenue bonds of any county, city, or other  
 4 political subdivision of the state, when backed by the full  
 5 faith and credit of such subdivision or when the revenues  
 6 pledged to the payment of the bonds are derived from a water  
 7 or sewer system and the issuer has covenanted to establish  
 8 and maintain rates and charges for the system in an amount  
 9 sufficient to produce revenues equal to at least 125% of the  
 10 average annual principal and interest due on all bonds  
 11 payable for such revenues during the outstanding term of  
 12 such bonds;

13 (6) interest-bearing warrants of the state or of any  
 14 county, city, school district, or other political  
 15 subdivision of the state issued in evidence of claims in an  
 16 amount which, with all other claims on the same fund, do not  
 17 exceed the amount validly appropriated in the current budget  
 18 for expenditure from the fund in the year in which they are  
 19 issued;

20 (7) obligations of housing authorities of the state  
 21 secured by a pledge of annual contributions or by a loan  
 22 agreement made by the United States or any agency thereof  
 23 providing for contributions or a loan sufficient with other  
 24 funds pledged to pay the principal of and interest on the  
 25 obligations when due. Subject to rules prescribed by the

1 department of community affairs, the bonds and other  
 2 obligations made eligible for investment in 32-1-424(3) and  
 3 7-15-4505 may be used as security for all deposits of public  
 4 funds or obligations for which depository bonds or any kind  
 5 of bonds or other securities are required or may by law be  
 6 deposited as security.

7 (8) general obligation bonds of other states and of  
 8 municipalities, counties, and school districts of other  
 9 states;

10 (9) undertaking or guarantees issued by a surety  
 11 company authorized to do business in the state;

12 (10) first mortgages and trust indentures on real  
 13 property. The depository shall, on a quarterly basis,  
 14 certify to the state treasurer that sufficient first  
 15 mortgages and trust indentures on real property are  
 16 available and segregated to secure deposits of public funds.  
 17 The board of investments shall determine the amount of  
 18 security required.

19 (11) bonds issued pursuant to Title 7, chapter 12,  
 20 parts 21 and 41;

21 (12) bonds issued pursuant to Title 90, chapter 6, part  
 22 1;

23 (13) revenue bonds issued by any unit of the university  
 24 system of the state of Montana; and

25 (14) advance refunded bonds secured by direct

1 obligations of the United States treasury held in  
 2 irrevocable escrow; and

3 (15) bonds issued pursuant to [sections 1 through 19]."

4 Section 21. Codification instruction. Section 4 is  
 5 intended to be codified as an integral part of Title 2,  
 6 chapter 15, part 10, and the provisions of Title 2, chapter  
 7 15, apply to section 4. However, if \_\_\_Bill No. \_\_\_ (LC 1350)  
 8 is passed and approved, section 4 is intended to be codified  
 9 in Title 2, chapter 15, part 18.

10 Section 22. Severability. If a part of this act is  
 11 invalid, all valid parts that are severable from the invalid  
 12 part remain in effect. If a part of this act is invalid in  
 13 one or more of its applications, the part remains in effect  
 14 in all valid applications that are severable from the  
 15 invalid applications.

-End-