HOUSE BILL 500

Introduced by Vincent, et al.

2/01	Introduced
2/02	Referred to Appropriations
2/03	Fiscal Note Requested
2/09	Fiscal Note Received
2/13	Fiscal Note Printed
3/02	Sponsor Fiscal Note Requested
3/03	Sponsor Fiscal Note Received
3/04	Sponsor Fiscal Note Printed
3/14	Hearing
3/16	Tabled in Committee
4/06	Motion Failed to Take From Committee

House BILL NO. 500

INTRODUCED BY Vincent, Bob Brown, Addy, Rehberg, McDonough, Ramirez, Tom Nelson, R. Nelson, Kimberley, Bradley, Whalen

A BILL FOR AN ACT ENTITLED: "AN ACT CREATING A COLLEGE SAVINGS BOND PROGRAM; AUTHORIZING THE SALE OF STATE GENERAL OBLIGATION ZERO COUPON BONDS; PROVIDING TAX-EXEMPT STATUS FOR EARNINGS ON THE BONDS; REQUIRING THAT BOND PROCEEDS BE USED FOR CONSTRUCTING AND EQUIPPING BUILDINGS AND FACILITIES FOR THE UNITS OF THE MONTANA UNIVERSITY SYSTEM; REQUIRING THE BOARD OF REGENTS OF HIGHER EDUCATION TO DEVELOP MARKETING STRATEGIES FOR SALE OF THE BONDS; SPECIFICALLY AUTHORIZING THE ISSUANCE AND SALE OF COLLEGE SAVINGS BONDS IN THE NET AMOUNT OF $18 MILLION FOR CONSTRUCTION OF AN ENGINEERING AND PHYSICAL SCIENCES BUILDING AT MONTANA STATE UNIVERSITY, $13.786 MILLION FOR CONSTRUCTION OF A BUSINESS ADMINISTRATION BUILDING AT THE UNIVERSITY OF MONTANA, AND $8.5 MILLION FOR EXPANSION OF A CLASSROOM-OFFICE BUILDING AT EASTERN MONTANA COLLEGE; AND APPROPRIATING THE NET PROCEEDS OF THE BONDS."

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

NEW SECTION. **Section 1.** Short title. [This act] may be cited as the "College Savings Bond Act".

NEW SECTION. **Section 2.** Findings -- purpose. The legislature finds it essential that this and future

generations of children be allowed the fullest opportunity to learn and to develop their intellectual and mental capacities and skills at the postsecondary level. The legislature is concerned about the escalating costs of obtaining higher education. The purpose of [this act] is to assist Montana residents in their quest for higher education and to encourage financial planning to meet higher education costs by creating a college savings bond program.

NEW SECTION. **Section 3.** Definitions. As used in [this act], the following definitions apply:

(1) "Approved budget amendment" means approval by the budget director of a request submitted through the architecture and engineering division of the department of administration to transfer excess funds appropriated to a capital project within an agency in order to increase the appropriations of another capital project within that agency or to obtain financing to expand a project with funds that were not available for consideration by the legislature.

(2) "Board" means the board of examiners established under 2-15-1007.

(3) "Capital projects account" means the capital projects account provided for in 17-5-801(4).

(4) "College savings bonds" or "bonds" are state general obligation zero coupon bonds issued under [this act].

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NEW SECTION. **Section 4.** **Bond authorization -- issuance -- requirements.** (1) (a) The board may issue and sell college savings bonds under the conditions and in the manner prescribed in [this act] in a net amount not exceeding $18 million for the purpose of acquiring, constructing, furnishing, and equipping an engineering and physical sciences facility at Montana state university; $13.786 million for construction of a business administration building at the university of Montana; and $8.5 million for expansion of a classroom-office building at eastern Montana college. These amounts shall include administrative costs of the projects, including:

(i) costs of bond issuance;

(ii) retirement, salaries, and related costs of officials and employees of the state; and

(iii) other expenses incidental to the administration of capital projects.

(b) The authority granted to the board by this section is in addition to any other authorization given to the board to issue and sell long-range building program general obligation bonds.

(2) Bonds authorized in this section must be sold in a manner, at times, in amounts, and at a price determined by the board. The bonds may not be sold without prior legislative appropriation of the net proceeds of the sale of

the bonds. The board may obtain insurance or letters of credit and may authorize the execution and delivery of agreements, promissory notes, and other obligations to insure the payment or enhance the marketability of college savings bonds. Promissory notes or other obligations issued under this section do not constitute a debt or a contract for indebtedness under any constitutional or statutory limitation if their payment is conditioned upon the failure of the state to pay the principal of or interest on the bonds with respect to which the notes or other obligations are issued.

(3) The board may sell the bonds at a deep discount from their par value if it determines the sale is economically feasible and in the best interest of the state.

(4) Except as provided in [this act], college savings bonds authorized under this section must be sold in accordance with Title 17, chapter 5, part 8.

NEW SECTION. **Section 5.** **Deposit and use of bond sale proceeds.** The proceeds from the sale of the college savings bonds must be deposited as required by 17-5-803 and must be used exclusively for the purposes designated in [section 4].

NEW SECTION. **Section 6.** **Bonds to be legal investment.** College savings bonds are a legal investment for all state funds or funds under state control and for all funds of any other public body. The bonds are acceptable as security for any deposit of public money.

NEW SECTION. **Section 7. Marketing.** Prior to the sale of bonds under [section 4], the board of regents of higher education shall create and implement marketing strategies and educational programs designed to publicize the bonds to Montana residents.

NEW SECTION. **Section 8. Tax exemption.** Interest and income earned on the bonds, including any profit from their sale, are exempt from taxation by the state, any political subdivision of the state, or other instrumentality of the state.

NEW SECTION. **Section 9. Full faith and credit pledge.** The full faith and credit and taxing power of the state are pledged for the payment of all bonds and notes issued pursuant to [section 4].

NEW SECTION. **Section 10. Appropriation.** There is appropriated from the capital projects account to the department of administration the following amounts, contingent upon the sale of college savings bonds by the board:

Engineering and Physical Sciences Facility	
at Montana State University	$18 million
Business Administration Building	
at the University of Montana	13.786 million
Classroom-office Building	

at Eastern Montana College	8.5 million

NEW SECTION. **Section 11. Budget amendment required for expansion.** No capital project authorized in [this act] may be expanded beyond the scope of the project as approved by [this act] unless the capital project expansion is authorized by an approved budget amendment.

NEW SECTION. **Section 12. Requirements for approval of state debt.** Because [this act] authorizes creation of a state debt, a vote of two-thirds of the members of each house of the legislature is required for enactment of [this act].

NEW SECTION. **Section 13. Severability.** If a part of [this act] is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of [this act] is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

-End-

STATE OF MONTANA - FISCAL NOTE
Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB500, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

A bill for an Act entitled: "An Act creating a college savings bond program; authorizing the sale of state general obligation zero coupon bonds; providing tax-exempt status for earnings on the bonds; requiring that bonds proceeds be used for constructing and equipping buildings and facilities for the units of the Montana University System; requiring the Board of Regents of higher education to develop marketing strategies for sale of the bonds; specifically authorizing the issuance and sale of college savings bonds in the net amount of $18 million for construction of an engineering and physical sciences building at Montana State University, $13.786 million for construction of a business administration building at the University of Montana, and $8.5 million for expansion of a classroom-office building at Eastern Montana College; and appropriating the net proceeds of the bonds."

ASSUMPTIONS:

1. The State Board of Examiners would issue approximately $41 million in zero coupon general obligation bonds payable from the general fund of the state.
2. Bonds will be structured as zero coupon bonds with scheduled repayment of principal and interest commencing in 1996 and extending through 2013. Annual debt service is estimated at $7.6 million.
3. The bonds would be issued in several series commencing in 1989 or 1990 with annual or semi-annual issuance in the range of $10 to $15 million.
4. The marketing strategy must be developed by the Board of Regents prior to the sale of bonds.
5. Project design and construction cannot start until a sufficient amount of bonds have been sold to cover the costs of those contracts.
6. We assume that a sufficient amount of bonds will not be sold in Fiscal Years 1990 and 1991 to enable design and construction to proceed.

FISCAL IMPACT:

Under the assumptions listed above, there would be no fiscal impact in FY90 or FY91, but principal and interest payments of approximately $7.6 million per year payable from the state General Fund would commence in 1996 and extend through 2013.

Ray Shackleford 2/9/89
RAY SHACKLEFORD, BUDGET DIRECTOR DATE
OFFICE OF BUDGET AND PROGRAM PLANNING

2/11/89
JOHN VINCENT, PRIMARY SPONSOR DATE

Fiscal Note for HB500, as introduced

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LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

1. The deferral of principal payments to a considerably greater amount than the state has historically structured its debt will be viewed as a negative factor in the rating process and may have an adverse credit rating implication.
2. The continued demand for zero coupon tax-exempts is subject to much speculation because the demand for zero coupon tax-exempts has historically been quite unstable and unpredictable. If the state chooses to finance the cost of these academic buildings with zero coupon bonds, it should have an alternative financing plan if the market's demand for zero coupon bonds becomes weak and other alternatives provide a more efficient financing method.
3. This also creates a financial obligation in the future for buildings constructed today.

STATE OF MONTANA - FISCAL NOTE
Form BD-15

In compliance with a written request, there is hereby submitted a Revised Fiscal Note for HB500, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

A bill for an Act entitled: "An Act creating a college savings bond program; authorizing the sale of state general obligation zero coupon bonds; providing tax-exempt status for earnings on the bonds; requiring that bonds proceeds be used for constructing and equipping buildings and facilities for the units of the Montana University System; requiring the Board of Regents of higher education to develop marketing strategies for sale of the bonds; specifically authorizing the issuance and sale of college savings bonds in the net amount of $18 million for construction of an engineering and physical sciences building at Montana State University, $13.786 million for construction of a business administration building at the University of Montana, and $8.5 million for expansion of a classroom-office building at Eastern Montana College; and appropriating the net proceeds of the bonds."

ASSUMPTIONS:

1. The State Board of Examiners would issue approximately $41 million in zero coupon general obligation bonds payable from the general fund of the state.
2. Bonds will be structured as zero coupon bonds with scheduled repayment of principal and interest commencing in 1996 and extending through 2013. Annual debt service is estimated at $7.6 million.
3. The bonds would be issued in several series commencing in 1989 or 1990 with annual or semi-annual issuance in the range of $10 to $15 million.
4. The marketing strategy must be developed by the Board of Regents prior to the sale of bonds.
5. Project design and construction cannot start until a sufficient amount of bonds have been sold to cover the costs of those contracts.
6. We assume that a sufficient amount of bonds will not be sold in Fiscal Years 1990 and 1991 to enable design and construction to proceed.

FISCAL IMPACT:

	FY90			FY91		
Expenditures:	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
Capital Outlay	$ -0-	$ 40.286M	$ 40.286M	$ -0-	$ -0-	$ -0-

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

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Ray Shackleford 3/2/89

RAY SHACKLEFORD, BUDGET DIRECTOR DATE
OFFICE OF BUDGET AND PROGRAM PLANNING

John Vincent 3/2/89

JOHN VINCENT, PRIMARY SPONSOR DATE

Revised Fiscal Note for HB500, as introduced

< CORRECTED COPY > HB 500