

HOUSE BILL NO. 647

INTRODUCED BY KADAS, PINSONEAULT,  
HALLIGAN, EUDAILY, SPAETH

IN THE HOUSE

FEBRUARY 10, 1989	INTRODUCED AND REFERRED TO COMMITTEE ON LOCAL GOVERNMENT.
FEBRUARY 11, 1989	FIRST READING.
FEBRUARY 17, 1989	COMMITTEE RECOMMEND BILL DO PASS. REPORT ADOPTED.
FEBRUARY 18, 1989	PRINTING REPORT.
FEBRUARY 20, 1989	PASSED CONSIDERATION FOR THE DAY.
FEBRUARY 21, 1989	SECOND READING, DO PASS AS AMENDED.
FEBRUARY 22, 1989	ENGROSSING REPORT.
	THIRD READING, PASSED. AYES, 90; NOES, 10.
	TRANSMITTED TO SENATE.

IN THE SENATE

FEBRUARY 28, 1989	INTRODUCED AND REFERRED TO COMMITTEE ON LOCAL GOVERNMENT.
	FIRST READING.
MARCH 27, 1989	COMMITTEE RECOMMEND BILL BE CONCURRED IN AS AMENDED. REPORT ADOPTED.
MARCH 28, 1989	SECOND READING, CONCURRED IN.
MARCH 29, 1989	THIRD READING, CONCURRED IN. AYES, 40; NOES, 9.
	RETURNED TO HOUSE WITH AMENDMENTS.

IN THE HOUSE

MARCH 31, 1989

RECEIVED FROM SENATE.

SECOND READING, AMENDMENTS  
CONCURRED IN.

APRIL 1, 1989

THIRD READING, AMENDMENTS  
CONCURRED IN.

SENT TO ENROLLING.

REPORTED CORRECTLY ENROLLED.

1 *House* BILL NO. *647*  
 2 INTRODUCED BY *Kados* *Wallyn* *Embrey*  
 3 *Smith*  
 4 A BILL FOR AN ACT ENTITLED: "AN ACT AUTHORIZING CITIES AND  
 5 TOWNS TO ISSUE SMALL DENOMINATION GENERAL OBLIGATION BONDS,  
 6 TO BE KNOWN AS "CITIZEN BONDS"; AMENDING SECTIONS 7-7-103,  
 7 7-7-4208, 7-7-4236, AND 7-7-4251, MCA; AND PROVIDING AN  
 8 IMMEDIATE EFFECTIVE DATE."

9  
 10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

11 NEW SECTION. Section 1. Citizen bonds authorized. (1)  
 12 A city or town authorized to sell general obligation bonds  
 13 under this chapter may issue and sell any portion of the  
 14 bond in denominations of less than \$5,000, either by  
 15 competitive public sale or directly to members of the  
 16 public, at preestablished interest rates.

17 (2) Citizen bonds may be issued for any purpose for  
 18 which a city or town may issue general obligation bonds.

19 (3) Bonds issued under [sections 1 through 3] may be  
 20 known as "citizen bonds".

21 NEW SECTION. Section 2. Citizen bonds -- procedural  
 22 requirements prior to issuance. (1) Prior to final passage  
 23 of the resolution provided for in 7-7-4236, a city or town  
 24 shall notify the attorney general of its intention to issue  
 25 citizen bonds.

1 (2) Prior to issuing citizen bonds, a city or town  
 2 shall make available to interested investors:

3 (a) a preliminary official statement, a draft-form  
 4 legal opinion from a recognized bond counsel, and a  
 5 comparison to taxable yields at various income levels;

6 (b) application forms for the purchase of citizen  
 7 bonds, which must specify at a minimum:

8 (i) the time, date, and place that applications will be  
 9 received, the manner in which applications will be  
 10 processed, and the conditions under which the sale may be  
 11 canceled if the issue is not fully subscribed during the  
 12 application period;

13 (ii) the issue date, maturity dates, and the dates on  
 14 which interest will be earned and paid;

15 (iii) the denominations of the bonds and the maximum  
 16 amount of bonds that any one buyer may purchase;

17 (iv) the approximate yield on the bonds if held to  
 18 maturity and the manner in which interest rates have been  
 19 calculated; and

20 (v) the provision made for the transfer of ownership of  
 21 outstanding bonds; and

22 (c) any other information that the attorney general may  
 23 require.

24 NEW SECTION. Section 3. Citizen bonds -- procedure  
 25 when issue not fully subscribed. If an entire issue of

unsubscribed bonds is not fully subscribed during the period of time that the city or town has set for the sale of the bonds, the citizen bonds may be sold in the manner permitted for other municipal general obligation bonds.

**NEW SECTION. Section 4.** zero-coupon and capital appreciation bonds. The terms "zero-coupon bonds" and "capital appreciation bonds", as used in Title 7, chapter 7, part 42, mean those forms of bonds that make no periodic interest payments but rather are sold at a discount from their face value.

**Section 5.** Section 7-7-103, MCA, is amended to read:

"7-7-103. Review by attorney general -- report -- review of citizen bonds. (1) The attorney general shall examine certified copies of all proceedings preliminary to the issuance of general obligation bonds by any county, city, or town which are submitted to him for such examination, and if the proceedings are found to be regular and valid, he shall deliver to the recording officer of the local government a report of his examination and determination.

(2) A certified copy of the report shall be filed with the officer required by law to register the bonds, and a notation thereof of the filing shall be entered in the bond register.

(3) Within 10 days of receipt of the notice provided

for in [section 2], the attorney general may impose any requirements he considers necessary to adequately protect both the issuing city or town and the purchasers of the bonds."

**Section 6.** Section 7-7-4208, MCA, is amended to read:

"7-7-4208. Types of general obligation bonds. (1) All Except as provided in subsection (2), all bonds issued by any city or town shall be either amortization bonds or serial bonds. All things being equal, amortization bonds shall be issued in preference to serial bonds; otherwise, serial bonds may be issued.

(2) Citizen bonds may be amortization bonds, serial bonds, term bonds, capital appreciation bonds, or zero-coupon bonds, with no preference for amortization bonds."

**Section 7.** Section 7-7-4236, MCA, is amended to read:

"7-7-4236. **Resolution to issue bonds.** (1) If 40% or more of the qualified electors of the city or town entitled to vote on the question of issuing bonds voted thereon and a majority of the votes were cast in favor of the issuing of the bonds, the city or town council shall, at a regular or special meeting held within 30 days thereafter, pass a resolution providing for the issuance of the bonds.

(2) The resolution shall recite:

(a) the purpose for which the bonds are to be issued;

1 (b) the amount thereof;  
 2 (c) the maximum rate of interest the bonds may bear;  
 3 (d) the date they shall bear;  
 4 (e) the period of time through which they are payable;  
 5 and  
 6 (f) that any bond may be redeemed in full, at the  
 7 option of the city or town, on any interest payment date  
 8 after expiration of one-half of the term for which the bond  
 9 was issued.

10 (3) The resolution shall provide for the manner of  
 11 execution of the bonds. It shall provide that, except in a  
 12 bond issue of citizen bonds, preference shall be given  
 13 amortization bonds but shall fix the denomination of serial  
 14 bonds in case it shall be found advantageous to issue bonds  
 15 in that form. The council may in its discretion provide that  
 16 such bonds may be issued and sold in two or more series or  
 17 installments.

18 (4) The resolution shall adopt a form of notice of the  
 19 sale of the bonds."

20 **Section 8.** Section 7-7-4251, MCA, is amended to read:

21 "7-7-4251. **Form of notice of sale of bonds.** (1) The  
 22 notice of sale shall state the purpose or purposes for which  
 23 the bonds are to be issued and the amount proposed to be  
 24 issued for each purpose and shall be substantially in the  
 25 following form:

# 1 NOTICE OF SALE OF (CITY OR TOWN) BONDS

2 Notice is hereby given by the council of the (city or  
 3 town) of ....., Montana, that the council will, on the ....  
 4 day of ....., 19..., at the hour of ... ..m., at its council  
 5 chamber in the (city or town) of ....., Montana, sell to the  
 6 highest and best bidder for cash either amortization or  
 7 serial bonds of the said (city or town) in the total amount  
 8 of .... dollars, (\$....) for the purpose of .....

9 Amortization bonds will be the first choice and serial  
 10 bonds will be the second choice of the council.

11 If amortization bonds are sold and issued, the entire  
 12 issue may be put into one single bond or divided into  
 13 several bonds as the council may determine at the time of  
 14 sale, both principal and interest to be payable in  
 15 semiannual installments during a period of .... years from  
 16 the date of issue.

17 If serial bonds are issued and sold, they will be in the  
 18 amount of .... dollars (\$....) each and will become due and  
 19 payable according to the maturity schedule set forth below  
 20 (set forth maturity schedule adopted by the city or town  
 21 council).

22 The bonds, whether amortization or serial bonds, will  
 23 bear date of ....., 19..., will bear interest at a rate not  
 24 exceeding ....% per annum commencing on the .... day of ....  
 25 (month), 19..., and payable semiannually on the .... day of

1 .... and on the .... day of .... in each year thereafter and  
 2 will be redeemable (here insert the optional provisions, if  
 3 any, recited in the bonds).

4 Said bonds will be sold for not less than their par  
 5 value with accrued interest to date of delivery, and all  
 6 bidders must state the lowest rate of interest at which they  
 7 will purchase the bonds at par. The council reserves the  
 8 right to reject any and all bids and to sell said bonds at  
 9 private sale.

10 All bids other than by or on behalf of the board of  
 11 investments of the state of Montana must be accompanied by a  
 12 certified check in the sum of .... dollars (\$....), payable  
 13 to the order of the (city or town) clerk, which will be  
 14 forfeited by the successful bidder in the event he shall  
 15 fail or refuse to complete the purchase of said bonds in  
 16 accordance with the terms of his bid.

17 All bids shall be addressed to the council of the (city  
 18 or town) of .... and delivered to the clerk of said (city or  
 19 town).

20 .....  
 21 Mayor of the (city or town) of  
 22 ....., Montana

23 ATTEST:

24 .....  
 25 (City or Town) Clerk

1 (2) The form of notice required under this section may  
 2 be modified to accommodate changes necessary to issue  
 3 citizen bonds pursuant to [sections 1 through 3].

4 NEW SECTION. Section 9. Codification instruction.  
 5 [Sections 1 through 4] are intended to be codified as an  
 6 integral part of Title 7, chapter 7, part 42, and the  
 7 provisions of Title 7, chapter 7, part 42, apply to  
 8 [sections 1 through 4].

9 NEW SECTION. Section 10. Effective date. [This act] is  
 10 effective on passage and approval.

-End-

APPROVED BY COMM.  
ON LOCAL GOVERNMENT

1 *House* BILL NO. *647*  
2 INTRODUCED BY *Kadas* *Wells* *Eubank*  
3 *Spratt*  
4 A BILL FOR AN ACT ENTITLED: "AN ACT AUTHORIZING CITIES AND  
5 TOWNS TO ISSUE SMALL DENOMINATION GENERAL OBLIGATION BONDS,  
6 TO BE KNOWN AS "CITIZEN BONDS"; AMENDING SECTIONS 7-7-103,  
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18 which a city or town may issue general obligation bonds.

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20 known as "citizen bonds".

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24 shall notify the attorney general of its intention to issue  
25 citizen bonds.

1 (2) Prior to issuing citizen bonds, a city or town  
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3 (a) a preliminary official statement, a draft-form  
4 legal opinion from a recognized bond counsel, and a  
5 comparison to taxable yields at various income levels;

6 (b) application forms for the purchase of citizen  
7 bonds, which must specify at a minimum:

8 (i) the time, date, and place that applications will be  
9 received, the manner in which applications will be  
10 processed, and the conditions under which the sale may be  
11 canceled if the issue is not fully subscribed during the  
12 application period;

13 (ii) the issue date, maturity dates, and the dates on  
14 which interest will be earned and paid;

15 (iii) the denominations of the bonds and the maximum  
16 amount of bonds that any one buyer may purchase;

17 (iv) the approximate yield on the bonds if held to  
18 maturity and the manner in which interest rates have been  
19 calculated; and

20 (v) the provision made for the transfer of ownership of  
21 outstanding bonds; and

22 (c) any other information that the attorney general may  
23 require.

24 NEW SECTION. Section 3. Citizen bonds -- procedure  
25 when issue not fully subscribed. If an entire issue of

unsubscribed bonds is not fully subscribed during the period of time that the city or town has set for the sale of the bonds, the citizen bonds may be sold in the manner permitted for other municipal general obligation bonds.

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"7-7-103. Review by attorney general -- report -- review of citizen bonds. (1) The attorney general shall examine certified copies of all proceedings preliminary to the issuance of general obligation bonds by any county, city, or town which are submitted to him for such examination, and if the proceedings are found to be regular and valid, he shall deliver to the recording officer of the local government a report of his examination and determination.

(2) A certified copy of the report shall be filed with the officer required by law to register the bonds, and a notation thereof of the filing shall be entered in the bond register.

(3) Within 10 days of receipt of the notice provided

for in [section 2], the attorney general may impose any requirements he considers necessary to adequately protect both the issuing city or town and the purchasers of the bonds."

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"7-7-4208. Types of general obligation bonds. (1) Except as provided in subsection (2), all bonds issued by any city or town shall be either amortization bonds or serial bonds. All things being equal, amortization bonds shall be issued in preference to serial bonds; otherwise, serial bonds may be issued.

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(2) The resolution shall recite:

(a) the purpose for which the bonds are to be issued;



(b) the amount thereof;

(c) the maximum rate of interest the bonds may bear;

(d) the date they shall bear;

(e) the period of time through which they are payable;

and

(f) that any bond may be redeemed in full, at the option of the city or town, on any interest payment date after expiration of one-half of the term for which the bond was issued.

(3) The resolution shall provide for the manner of execution of the bonds. It shall provide that, except in a bond issue of citizen bonds, preference shall be given amortization bonds but shall fix the denomination of serial bonds in case it shall be found advantageous to issue bonds in that form. The council may in its discretion provide that such bonds may be issued and sold in two or more series or installments.

(4) The resolution shall adopt a form of notice of the sale of the bonds."

**Section 8.** Section 7-7-4251, MCA, is amended to read:

"7-7-4251. **Form of notice of sale of bonds.** (1) The notice of sale shall state the purpose or purposes for which the bonds are to be issued and the amount proposed to be issued for each purpose and shall be substantially in the following form:

# NOTICE OF SALE OF (CITY OR TOWN) BONDS

Notice is hereby given by the council of the (city or town) of ...., Montana, that the council will, on the .... day of ...., 19.., at the hour of ... ..m., at its council chamber in the (city or town) of ...., Montana, sell to the highest and best bidder for cash either amortization or serial bonds of the said (city or town) in the total amount of .... dollars, (\$....) for the purpose of .....

Amortization bonds will be the first choice and serial bonds will be the second choice of the council.

If amortization bonds are sold and issued, the entire issue may be put into one single bond or divided into several bonds as the council may determine at the time of sale, both principal and interest to be payable in semiannual installments during a period of .... years from the date of issue.

If serial bonds are issued and sold, they will be in the amount of .... dollars (\$....) each and will become due and payable according to the maturity schedule set forth below (set forth maturity schedule adopted by the city or town council).

The bonds, whether amortization or serial bonds, will bear date of ...., 19.., will bear interest at a rate not exceeding ....% per annum commencing on the .... day of .... (month), 19.., and payable semiannually on the .... day of

1 .... and on the .... day of .... in each year thereafter and  
 2 will be redeemable (here insert the optional provisions, if  
 3 any, recited in the bonds).

4 Said bonds will be sold for not less than their par  
 5 value with accrued interest to date of delivery, and all  
 6 bidders must state the lowest rate of interest at which they  
 7 will purchase the bonds at par. The council reserves the  
 8 right to reject any and all bids and to sell said bonds at  
 9 private sale.

10 All bids other than by or on behalf of the board of  
 11 investments of the state of Montana must be accompanied by a  
 12 certified check in the sum of .... dollars (\$....), payable  
 13 to the order of the (city or town) clerk, which will be  
 14 forfeited by the successful bidder in the event he shall  
 15 fail or refuse to complete the purchase of said bonds in  
 16 accordance with the terms of his bid.

17 All bids shall be addressed to the council of the (city  
 18 or town) of .... and delivered to the clerk of said (city or  
 19 town).

20 .....  
 21 Mayor of the (city or town) of  
 22 ....., Montana

23 ATTEST:

24 .....  
 25 (City or Town) Clerk

1 (2) The form of notice required under this section may  
 2 be modified to accommodate changes necessary to issue  
 3 citizen bonds pursuant to [sections 1 through 3].

4 NEW SECTION. Section 9. Codification instruction.  
 5 [Sections 1 through 4] are intended to be codified as an  
 6 integral part of Title 7, chapter 7, part 42, and the  
 7 provisions of Title 7, chapter 7, part 42, apply to  
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## HOUSE BILL NO. 647

INTRODUCED BY KADAS, PINSONEAULT,

HALLIGAN, EUDAILY, SPAETH

A BILL FOR AN ACT ENTITLED: "AN ACT AUTHORIZING CITIES AND TOWNS TO ISSUE SMALL DENOMINATION GENERAL OBLIGATION BONDS, TO BE KNOWN AS "CITIZEN BONDS"; AMENDING SECTIONS 7-7-103, 7-7-4208, 7-7-4236, AND 7-7-4251, 7-7-4261, AND 7-7-4265, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

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

NEW SECTION. Section 1. Citizen bonds authorized. (1)

A city or town authorized to sell general obligation bonds under this chapter may issue and sell any portion of the bond in denominations of less than \$5,000, either by competitive public sale or directly to members of the public, at preestablished interest rates.

(2) Citizen bonds may be issued for any purpose for which a city or town may issue general obligation bonds.

(3) Bonds issued under [sections 1 through 3] may be known as "citizen bonds".

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requirements prior to issuance. (1) Prior to final passage of the resolution provided for in 7-7-4236, a city or town shall notify the attorney general of its intention to issue

citizen bonds.

(2) Prior to issuing citizen bonds, a city or town shall make available to interested investors:

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(ii) the issue date, maturity dates, and the dates on which interest will be earned and paid;

(iii) the denominations of the bonds and the maximum amount of bonds that any one buyer may purchase;

(iv) the approximate yield on the bonds if held to maturity and the manner in which interest rates have been calculated; and

(v) the provision made for the transfer of ownership of outstanding bonds; and

(c) any other information that the attorney general may require.

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when issue not fully subscribed. If an entire issue of unsubscribed bonds is not fully subscribed during the period of time that the city or town has set for the sale of the bonds, the citizen bonds may be sold in the manner permitted for other municipal general obligation bonds.

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(2) A certified copy of the report shall be filed with the officer required by law to register the bonds, and a notation thereof of the filing shall be entered in the bond register.

(3) Within 10 days of receipt of the notice provided for in [section 2], the attorney general may impose any requirements he considers necessary to adequately protect both the issuing city or town and the purchasers of the bonds."

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**"7-7-4208. Types of general obligation bonds.** (1) All Except as provided in subsection (2), all bonds issued by any city or town shall be either amortization bonds or serial bonds. All things being equal, amortization bonds shall be issued in preference to serial bonds; otherwise, serial bonds may be issued.

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(2) The resolution shall recite:

- 1 (a) the purpose for which the bonds are to be issued;  
 2 (b) the amount thereof;  
 3 (c) the maximum rate of interest the bonds may bear;  
 4 (d) the date they shall bear;  
 5 (e) the period of time through which they are payable;

6 and

- 7 (f) that any bond may be redeemed in full, at the  
 8 option of the city or town, on any interest payment date  
 9 after expiration of one-half of the term for which the bond  
 10 was issued.

11 (3) The resolution shall provide for the manner of  
 12 execution of the bonds. It shall provide that, except in a  
 13 bond issue of citizen bonds, preference shall be given  
 14 amortization bonds but shall fix the denomination of serial  
 15 bonds in case it shall be found advantageous to issue bonds  
 16 in that form. The council may in its discretion provide that  
 17 such bonds may be issued and sold in two or more series or  
 18 installments.

19 (4) The resolution shall adopt a form of notice of the  
 20 sale of the bonds."

21 **Section 8.** Section 7-7-4251, MCA, is amended to read:

22 "7-7-4251. Form of notice of sale of bonds. (1) The  
 23 notice of sale shall state the purpose or purposes for which  
 24 the bonds are to be issued and the amount proposed to be  
 25 issued for each purpose and shall be substantially in the

1 following form:

2 NOTICE OF SALE OF (CITY OR TOWN) BONDS

3 Notice is hereby given by the council of the (city or  
 4 town) of ....., Montana, that the council will, on the ....  
 5 day of ....., 19..., at the hour of ... ..m., at its council  
 6 chamber in the (city or town) of ....., Montana, sell to the  
 7 highest and best bidder for cash either amortization or  
 8 serial bonds of the said (city or town) in the total amount  
 9 of .... dollars, (\$....) for the purpose of .....

10 Amortization bonds will be the first choice and serial  
 11 bonds will be the second choice of the council.

12 If amortization bonds are sold and issued, the entire  
 13 issue may be put into one single bond or divided into  
 14 several bonds as the council may determine at the time of  
 15 sale, both principal and interest to be payable in  
 16 semiannual installments during a period of .... years from  
 17 the date of issue.

18 If serial bonds are issued and sold, they will be in  
 19 the amount of .... dollars (\$....) each and will become due  
 20 and payable according to the maturity schedule set forth  
 21 below (set forth maturity schedule adopted by the city or  
 22 town council).

23 The bonds, whether amortization or serial bonds, will  
 24 bear date of ....., 19..., will bear interest at a rate not  
 25 exceeding ....% per annum commencing on the .... day of ....

1 (month), 19..., and payable semiannually on the .... day of  
 2 .... and on the .... day of .... in each year thereafter and  
 3 will be redeemable (here insert the optional provisions, if  
 4 any, recited in the bonds).

5 Said bonds will be sold for not less than their par  
 6 value with accrued interest to date of delivery, and all  
 7 bidders must state the lowest rate of interest at which they  
 8 will purchase the bonds at par. The council reserves the  
 9 right to reject any and all bids and to sell said bonds at  
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11 All bids other than by or on behalf of the board of  
 12 investments of the state of Montana must be accompanied by a  
 13 certified check in the sum of .... dollars (\$....), payable  
 14 to the order of the (city or town) clerk, which will be  
 15 forfeited by the successful bidder in the event he shall  
 16 fail or refuse to complete the purchase of said bonds in  
 17 accordance with the terms of his bid.

18 All bids shall be addressed to the council of the (city  
 19 or town) of .... and delivered to the clerk of said (city or  
 20 town).

21 .....  
 22 Mayor of the (city or town) of  
 23 ....., Montana

24 ATTEST:

25 .....

1 (City or Town) Clerk

2 (2) The form of notice required under this section may  
 3 be modified to accommodate changes necessary to issue  
 4 citizen bonds pursuant to [sections 1 through 3].

5 **SECTION 9. SECTION 7-7-4261, MCA, IS AMENDED TO READ:**

6 "7-7-4261. Maintenance of accounts for bond issues.

7 (1) The city treasurer or town clerk shall keep in his books  
 8 a special and separate sinking fund account for each issue  
 9 or series of outstanding bonds, including citizen bonds as  
 10 provided in [sections 1 through 4], issued by his city or  
 11 town. Each such fund must at all times show the exact  
 12 condition thereof.

13 (2) All taxes collected for interest and principal on  
 14 city or town bonds shall be placed to the credit of the  
 15 sinking fund for which the taxes were levied.

16 (3) The sinking fund shall be administered as provided  
 17 in 7-7-123, 7-7-124, and 7-7-4270."

18 **SECTION 10. SECTION 7-7-4265, MCA, IS AMENDED TO READ:**

19 "7-7-4265. Tax levy for payment of bonds. (1) The city  
 20 or town council, at the time of making the levy of taxes for  
 21 general city or town purposes, must levy a separate and  
 22 special tax upon all taxable property in the city or town  
 23 for the payment of interest and principal for each series or  
 24 issue of bonds outstanding. The tax levy for any one series  
 25 or issue of bonds must be entirely separate and distinct

1 from the levy for any other issue or series of bonds.

2 (2) The Except as provided in subsection (3), the levy  
 3 made for the purpose of paying interest on and principal of  
 4 each series or issue of bonds must be high enough to raise  
 5 an amount sufficient to pay all interest on and so much of  
 6 the principal, if any, of the bonds as will become due and  
 7 payable during the then-current fiscal year or within 90  
 8 days thereafter, as such amount is shown by the treasurer's  
 9 statement provided for by 7-7-4264. If no part of the  
 10 principal of such bonds will become due and payable within  
 11 such time, then such tax levy must be high enough to raise  
 12 an amount sufficient to pay all interest which will become  
 13 due and payable during the current fiscal year or within 90  
 14 days thereafter and to also place in the sinking fund for  
 15 such issue or series of bonds, for the payment of the  
 16 principal when the same becomes due, an amount not less than  
 17 a sum produced by dividing the whole amount for which the  
 18 series or issue of bonds were originally issued by the  
 19 number of years for which such series or issue of bonds were  
 20 originally issued to run, as such amounts are shown by the  
 21 treasurer's statement provided for by 7-7-4264.

22 (3) The annual levies made for the purpose of paying  
 23 off bonds that provide for no periodic interest payments but  
 24 rather are sold at a discount from their face value, as  
 25 provided in [sections 1 through 4], must be actuarially

1 sufficient so that at the time for redemption there is an  
 2 amount in the sinking fund sufficient to redeem the bonds."

3 NEW SECTION. Section 11. Codification instruction.  
 4 [Sections 1 through 4] are intended to be codified as an  
 5 integral part of Title 7, chapter 7, part 42, and the  
 6 provisions of Title 7, chapter 7, part 42, apply to  
 7 [sections 1 through 4].

8 NEW SECTION. Section 12. Effective date. [This act]  
 9 is effective on passage and approval.

-End-

**SENATE STANDING COMMITTEE REPORT**

March 27, 1989

MR. PRESIDENT:

We, your committee on Local Government, having had under consideration HB 647 (third reading copy -- blue), respectfully report that HB 647 be amended and as so amended be concurred in:

Sponsor: Kadas (Pinsoneault)

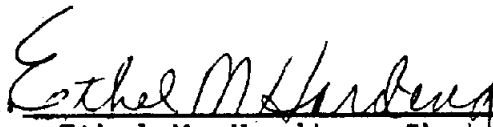
1. Page 1.

Following: line 21

Insert: "(4) An officer, employee, contracted financial consultant, or contracted advisor employed or retained by a city or town selling citizen bonds may not purchase those bonds."

AND AS AMENDED BE CONCURRED IN

Signed

  
Ethel M. Harding, Chairman

**SENATE  
HB 647**



HOUSE BILL NO. 647

INTRODUCED BY KADAS, PINSONEAULT,

HALLIGAN, EUDAILY, SPAETH

A BILL FOR AN ACT ENTITLED: "AN ACT AUTHORIZING CITIES AND TOWNS TO ISSUE SMALL DENOMINATION GENERAL OBLIGATION BONDS, TO BE KNOWN AS "CITIZEN BONDS"; AMENDING SECTIONS 7-7-103, 7-7-4208, 7-7-4236, AND 7-7-4251, 7-7-4261, AND 7-7-4265, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

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

**NEW SECTION. Section 1. Citizen bonds authorized. (1)**

A city or town authorized to sell general obligation bonds under this chapter may issue and sell any portion of the bond in denominations of less than \$5,000, either by competitive public sale or directly to members of the public, at preestablished interest rates.

(2) Citizen bonds may be issued for any purpose for which a city or town may issue general obligation bonds.

(3) Bonds issued under [sections 1 through 3] may be known as "citizen bonds."

(4) AN OFFICER, EMPLOYEE, CONTRACTED FINANCIAL CONSULTANT, OR CONTRACTED ADVISOR EMPLOYED OR RETAINED BY A CITY OR TOWN SELLING CITIZEN BONDS MAY NOT PURCHASE THOSE BONDS."

**NEW SECTION. Section 2. Citizen bonds -- procedural requirements prior to issuance.** (1) Prior to final passage of the resolution provided for in 7-7-4236, a city or town shall notify the attorney general of its intention to issue citizen bonds.

(2) Prior to issuing citizen bonds, a city or town shall make available to interested investors:

(a) a preliminary official statement, a draft-form legal opinion from a recognized bond counsel, and a comparison to taxable yields at various income levels;

(b) application forms for the purchase of citizen bonds, which must specify at a minimum:

(i) the time, date, and place that applications will be received, the manner in which applications will be processed, and the conditions under which the sale may be canceled if the issue is not fully subscribed during the application period;

(ii) the issue date, maturity dates, and the dates on which interest will be earned and paid;

(iii) the denominations of the bonds and the maximum amount of bonds that any one buyer may purchase;

(iv) the approximate yield on the bonds if held to maturity and the manner in which interest rates have been calculated; and

(v) the provision made for the transfer of ownership



1 of outstanding bonds; and

2 (c) any other information that the attorney general  
3 may require.

4 NEW SECTION. Section 3. Citizen bonds -- procedure  
5 when issue not fully subscribed. If an entire issue of  
6 unsubscribed bonds is not fully subscribed during the period  
7 of time that the city or town has set for the sale of the  
8 bonds, the citizen bonds may be sold in the manner permitted  
9 for other municipal general obligation bonds.

10 NEW SECTION. Section 4. Zero-coupon and capital  
11 appreciation bonds. The terms "zero-coupon bonds" and  
12 "capital appreciation bonds", as used in Title 7, chapter 7,  
13 part 42, mean those forms of bonds that make no periodic  
14 interest payments but rather are sold at a discount from  
15 their face value.

16 **Section 5.** Section 7-7-103, MCA, is amended to read:

17 "7-7-103. Review by attorney general -- report --  
18 review of citizen bonds. (1) The attorney general shall  
19 examine certified copies of all proceedings preliminary to  
20 the issuance of general obligation bonds by any county,  
21 city, or town which are submitted to him for such  
22 examination, and if the proceedings are found to be regular  
23 and valid, he shall deliver to the recording officer of the  
24 local government a report of his examination and  
25 determination.

1 (2) A certified copy of the report shall be filed with  
2 the officer required by law to register the bonds, and a  
3 notation thereof of the filing shall be entered in the bond  
4 register.

5 (3) Within 10 days of receipt of the notice provided  
6 for in [section 2], the attorney general may impose any  
7 requirements he considers necessary to adequately protect  
8 both the issuing city or town and the purchasers of the  
9 bonds."

10 **Section 6.** Section 7-7-4208, MCA, is amended to read:

11 "7-7-4208. Types of general obligation bonds. (1) At  
12 Except as provided in subsection (2), all bonds issued by  
13 any city or town shall be either amortization bonds or  
14 serial bonds. All things being equal, amortization bonds  
15 shall be issued in preference to serial bonds; otherwise,  
16 serial bonds may be issued.

17 (2) Citizen bonds may be amortization bonds, serial  
18 bonds, term bonds, capital appreciation bonds, or  
19 zero-coupon bonds, with no preference for amortization  
20 bonds."

21 **Section 7.** Section 7-7-4236, MCA, is amended to read:

22 "7-7-4236. Resolution to issue bonds. (1) If 40% or  
23 more of the qualified electors of the city or town entitled  
24 to vote on the question of issuing bonds voted thereon and a  
25 majority of the votes were cast in favor of the issuing of

the bonds, the city or town council shall, at a regular or special meeting held within 30 days thereafter, pass a resolution providing for the issuance of the bonds.

(2) The resolution shall recite:

- (a) the purpose for which the bonds are to be issued;
- (b) the amount thereof;
- (c) the maximum rate of interest the bonds may bear;
- (d) the date they shall bear;
- (e) the period of time through which they are payable;

and

(f) that any bond may be redeemed in full, at the option of the city or town, on any interest payment date after expiration of one-half of the term for which the bond was issued.

(3) The resolution shall provide for the manner of execution of the bonds. It shall provide that, except in a bond issue of citizen bonds, preference shall be given amortization bonds but shall fix the denomination of serial bonds in case it shall be found advantageous to issue bonds in that form. The council may in its discretion provide that such bonds may be issued and sold in two or more series or installments.

(4) The resolution shall adopt a form of notice of the sale of the bonds."

**Section 8.** Section 7-7-4251, MCA, is amended to read:

"7-7-4251. Form of notice of sale of bonds. (1) The notice of sale shall state the purpose or purposes for which the bonds are to be issued and the amount proposed to be issued for each purpose and shall be substantially in the following form:

#### NOTICE OF SALE OF (CITY OR TOWN) BONDS

Notice is hereby given by the council of the (city or town) of ...., Montana, that the council will, on the .... day of ...., 19.., at the hour of ... ..m., at its council chamber in the (city or town) of ...., Montana, sell to the highest and best bidder for cash either amortization or serial bonds of the said (city or town) in the total amount of .... dollars, (\$....) for the purpose of .....

Amortization bonds will be the first choice and serial bonds will be the second choice of the council.

If amortization bonds are sold and issued, the entire issue may be put into one single bond or divided into several bonds as the council may determine at the time of sale, both principal and interest to be payable in semiannual installments during a period of .... years from the date of issue.

If serial bonds are issued and sold, they will be in the amount of .... dollars (\$....) each and will become due and payable according to the maturity schedule set forth below (set forth maturity schedule adopted by the city or

1 town council).

2 The bonds, whether amortization or serial bonds, will  
3 bear date of ...., 19.., will bear interest at a rate not  
4 exceeding ....% per annum commencing on the .... day of ....  
5 (month), 19.., and payable semiannually on the .... day of  
6 .... and on the .... day of .... in each year thereafter and  
7 will be redeemable (here insert the optional provisions, if  
8 any, recited in the bonds).

9 Said bonds will be sold for not less than their par  
10 value with accrued interest to date of delivery, and all  
11 bidders must state the lowest rate of interest at which they  
12 will purchase the bonds at par. The council reserves the  
13 right to reject any and all bids and to sell said bonds at  
14 private sale.

15 All bids other than by or on behalf of the board of  
16 investments of the state of Montana must be accompanied by a  
17 certified check in the sum of .... dollars (\$....), payable  
18 to the order of the (city or town) clerk, which will be  
19 forfeited by the successful bidder in the event he shall  
20 fail or refuse to complete the purchase of said bonds in  
21 accordance with the terms of his bid.

22 All bids shall be addressed to the council of the (city  
23 or town) of .... and delivered to the clerk of said (city or  
24 town).

25 .....

1 Mayor of the (city or town) of  
2 ..... Montana

3 ATTEST:

4 .....

5 (City or Town) Clerk

6 (2) The form of notice required under this section may  
7 be modified to accommodate changes necessary to issue  
8 citizen bonds pursuant to [sections 1 through 3].

9 **SECTION 9. SECTION 7-7-4261, MCA, IS AMENDED TO READ:**

10 **"7-7-4261. Maintenance of accounts for bond issues.**  
11 (1) The city treasurer or town clerk shall keep in his books  
12 a special and separate sinking fund account for each issue  
13 or series of outstanding bonds, including citizen bonds as  
14 provided in [sections 1 through 4], issued by his city or  
15 town. Each such fund must at all times show the exact  
16 condition thereof.

17 (2) All taxes collected for interest and principal on  
18 city or town bonds shall be placed to the credit of the  
19 sinking fund for which the taxes were levied.

20 (3) The sinking fund shall be administered as provided  
21 in 7-7-123, 7-7-124, and 7-7-4270."

22 **SECTION 10. SECTION 7-7-4265, MCA, IS AMENDED TO READ:**

23 **"7-7-4265. Tax levy for payment of bonds.** (1) The city  
24 or town council, at the time of making the levy of taxes for  
25 general city or town purposes, must levy a separate and

special tax upon all taxable property in the city or town for the payment of interest and principal for each series or issue of bonds outstanding. The tax levy for any one series or issue of bonds must be entirely separate and distinct from the levy for any other issue or series of bonds.

(2) The Except as provided in subsection (3), the levy made for the purpose of paying interest on and principal of each series or issue of bonds must be high enough to raise an amount sufficient to pay all interest on and so much of the principal, if any, of the bonds as will become due and payable during the then-current fiscal year or within 90 days thereafter, as such amount is shown by the treasurer's statement provided for by 7-7-4264. If no part of the principal of such bonds will become due and payable within such time, then such tax levy must be high enough to raise an amount sufficient to pay all interest which will become due and payable during the current fiscal year or within 90 days thereafter and to also place in the sinking fund for such issue or series of bonds, for the payment of the principal when the same becomes due, an amount not less than a sum produced by dividing the whole amount for which the series or issue of bonds were originally issued by the number of years for which such series or issue of bonds were originally issued to run, as such amounts are shown by the treasurer's statement provided for by 7-7-4264.

(3) The annual levies made for the purpose of paying off bonds that provide for no periodic interest payments but rather are sold at a discount from their face value, as provided in [sections 1 through 4], must be actuarially sufficient so that at the time for redemption there is an amount in the sinking fund sufficient to redeem the bonds."

NEW SECTION. Section 11. Codification instruction. [Sections 1 through 4] are intended to be codified as an integral part of Title 7, chapter 7, part 42, and the provisions of Title 7, chapter 7, part 42, apply to [sections 1 through 4].

NEW SECTION. Section 12. Effective date. [This act] is effective on passage and approval.

-End-