

Mr. Chairman, members of the committee, for the record my name is Pat McNamee. I work for the Department of Administration in the Director's Office of Finance and Budget. Cathy Duncan invited me to speak to you today because part of my job is to coordinate the issuance of general obligation bonds that are authorized by the Legislature.

Today's focus is on the Long-Range Building Program bonds. When the Legislature approves bonding authority for the Long-Range Building Program, the Architecture and Engineering Division determines when they will need the bond proceeds. Typically, there will be several bond issuances for each authorization, because not all of the proceeds will be spent at the same time. A&E determines when they will need the bond proceeds, and we work with the State's Bond Counsel and the State's Financial Advisor during the process of preparing for the bond issuance.

Credit rating agencies review the State's financial condition and deliver a rating which influences the interest rate on the bonds. Our most recent LRBP bond issue, Series 2011D received high grade ratings as follows: Moody's: Aa1, Standard & Poor's: AA, and Fitch Ratings: AA+. These favorable ratings helped Montana achieve low interest rates when the bonds were sold. The Series 2011D, which was issued in July 2011, had a True Interest Cost (TIC) of 2.45%.

Standard & Poor's stated in part of their June 2011 summary, "The 'AA' GO rating reflects our view of the state's:

- Very strong unreserved fund balance position...
- Very low tax-supported debt burden, with tax-supported debt at just \$185 per capita, or 0.5% of personal income..."

The final approval of the bond sale and results of the sale comes from the Board of Examiners. The Board of Examiners is comprised of the Governor, the Attorney General, and the Secretary of State, and the Director of the Department of Administration serves as the Executive Secretary. The Department of Administration staffs the board.

Bonds issued for the Long-Range Building Program are general obligation bonds, meaning that the full faith, credit and taxing power of the State are pledged to

the payment of the principal and interest on the bonds. When LRBP bonds are issued, the term (or amortization period) is 20 years or less.

As of today, the outstanding principal remaining on Long-Range Building Program bonds is ~~\$97,955,000~~ slightly under \$98 million. The original principal amount on these bonds was ~~\$155,570,000~~ over \$155 million. In other words, over \$57 million has been paid off.

Most of the current LRBP debt service is paid by the general fund, but some is paid from other sources. For example, the Montana Department of Transportation pays a portion of the debt service of the Long-Range Building Program, Series 2006A issue for Highway Equipment Buildings.

The amounts that the general fund will pay for Long-Range Building Program debt service will be approximately \$14.4 million in FY 2014 and \$12.6 million in FY 2015. These payments include principal and interest. By FY 2019, the general fund debt service payments for the Long-Range Building Program will drop to \$8.1 million.

So far I have told you about the Long-Range Building Program debt service. There is another bond issue outside of the Long-Range Building Program whose debt service is paid by the general fund. That bond issue is the Trust Lands Bonds Series 2010F. Annual debt service on that issue is running approximately \$1.55 million at this time.

Our financial advisor monitors our outstanding bonds for refunding opportunities and notifies the Budget Office if interest rates fall to a level where significant savings can be achieved.

In summary, Montana is looked upon favorably by the rating agencies, has less debt per capita than many other states, and has a history of paying down its debt fairly quickly.

That concludes my presentation. Thank you for your attention.