Presentation on State Bonds to:

State of Montana

DORSEY™

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INTRODUCTION

Dan Semmens
Partner
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Dan Semmens is a partner in the Missoula, Montana office of Dorsey & Whitney LLP, where he has been an attorney in the Firm's Public Finance Group since 2001. His practice focuses on issuer representation and includes representation of the State of Montana in connection with various types of financings, including general obligation bonds, coal severance tax bonds, and state revolving fund bonds. He also represents cities, towns, school districts, water and sewer districts, and other special districts in an array of public and special purpose financings.

Mr. Semmens received his J.D. from the University of Notre Dame Law School, M.A. from the University of Durham and a B.A. from the College of Idaho.

P. Jonathan Heroux
Managing Director
Piper Jaffray & Co.

P. Jonathan Heroux joined Piper Jaffray in 1993 as an associate. Prior to that he was an analyst at Shearson Lehman Hutton in their New York Public Finance Department for two years. As a member of Piper Jaffray's Public Finance Operating Committee, Mr. Heroux oversees all of Piper Jaffray's public finance efforts in the mountain states. Mr. Heroux has served as the State of Montana's financial advisor since 1998.

Mr. Heroux received his B.S. Degree in Business Administration from St. Michael's College in Vermont and an M.B.A. in Corporate Finance and International Economics from the University of Rhode Island.

State Bonds

WHAT ARE BONDS?

- Bonds evidence a debt of the State or local government
- Generally, a "debt" is an obligation the repayment of which extends beyond the fiscal year
- Two primary purposes of municipal bonds
  - **New Money** - *bonds issued to finance a new project, buy land, buy equipment, etc.*
  - **Refunding** - *bonds issued to refinance existing, outstanding debt*

BOND ISSUANCE CONSIDERATIONS

- **Advantages**
  - Issuing bonds helps spread costs of large capital expenditures over multiple years, making it easier to budget for big projects with long economic lives
  - Allows the State to take advantage of its good credit and low interest rates to advance its infrastructure priorities
  - Helps avoid risk of "getting behind" and increased costs if do not finance on a regular schedule

- **Disadvantages**
  - Bonds are debt or obligation that needs to be repaid over future fiscal years, with interest, and there are transactional costs associated with issuing bonds.

MUNICIPAL FINANCE INSTRUMENTS

- **Fixed Rate**
  - Most common structure
  - Serial bonds that pay a stated fixed interest payment at regular intervals
  - Bonds mature at regular intervals, annually or semi-annually
  - Each separate maturity has a distinct stated interest rate
- **Variable Rate**
  - Generally structured as one maturity, 20 to 30 years
  - Interest is paid regularly, monthly or quarterly
  - Rate of interest paid is set periodically depending on reset mode
    - *Daily*
    - *Weekly*
    - *Auction*
- **Structured Finance**
  - Swaps
  - Forward Delivery agreements

WHAT CAN BOND PROCEEDS BE USED FOR?

- Capital expenditures and improvements– generally not operating expenses. Cannot cover budgetary deficits of the State.
  - Art. VIII, Sec. 8 of the Montana Constitution
- Public purposes
  - Art. VIII, Sec. 1 of the Montana Constitution
- Typical uses include financing State and local infrastructure through the State's long-range building program, water development/renewable resource program, revolving loan programs, energy conservation program, etc.

CONSTITUTIONAL REQUIREMENTS

- Article VIII, Section 1. Taxes shall be levied by general laws for public purposes.

- Article VIII, Section 8. No State debt shall be created unless authorized by a two-thirds vote of the members of each house of the legislature or a majority of the electors voting thereon. No State debt shall be created to cover deficits incurred because appropriations exceeded anticipated revenue.

- Article IX, Section 5. The legislature shall dedicate not less than one-fourth (1/4) of the coal severance tax to a trust fund, the interest and income from which may be appropriated. The principal of the trust shall forever remain inviolate unless appropriated by vote of three-fourths (3/4) of the members of each house of the legislature. After December 31, 1979, at least fifty percent (50%) of the severance tax shall be dedicated to the trust fund.

TYPES OF BONDS / SECURITY PLEDGE

- General Obligation Bonds
- Special or Limited Tax Obligation Bonds (e.g., Coal Severance Tax bonds)
- Revenue Bonds
- "Double-Barrel" Bonds
- Tax and Revenue Anticipation Notes
- Bond Anticipation Notes
- Refunding Bonds

GENERAL OBLIGATION BONDS ("GO BONDS")

- Secured by a pledge of the full faith and credit and taxing power of the State
  - Amounts sufficient to pay debt service on GO Bonds are budgeted in general fund budget
- Legislature authorizes specific amounts for specified projects or programs by 2/3 vote of members of each house
- Following legislative authorization, GO Bonds are approved by the Board of Examiners
- Can be issued for any purpose authorized by the legislature
  - Typical purposes include providing financing for:
    - Projects through the State's long-range building program, renewable resource program, and energy conservation program;
    - Water development projects;
    - Information technology;
    - Other projects without specific revenue source (e.g., State trust lands) or where lower interest rate will be achieved if issued as GO Bond instead of revenue bond (e.g., State Revolving Fund Program)

COAL SEVERANCE TAX BONDS ("CST BONDS")

- Special, limited tax obligation bonds– no pledge of State's full faith and credit or general taxing power
- Legislature authorizes specific amounts for specified projects or programs by ¾ vote of members of each house because CST fund is a trust fund under the State Constitution
- Following legislative approval, CST Bonds are approved by Board of Examiners
- Secured by coal tax trust receipts
  - Under Art. XI, Sec. 5 of the State Constitution, 50% of all coal severance tax revenue is dedicated to coal severance tax trust fund, and coal severance tax bond fund has the first claim on revenues flowing into the trust fund
  - Additional bonds test
- May be issued for any purpose authorized by legislature, though so far have only been issued to finance projects falling under the Renewable Resource Program. Things like DNRC dams, water and sewer projects, irrigation, etc.

REVENUE BONDS

- Payable from and secured by specific revenue stream other than taxes
- Typically include additional bonds test
- Various State agencies and boards issue revenue bonds secured by program revenues, which are primarily loan repayments from borrowers to whom loans have been made
- Examples include (none of which are "debt of the State"):
  - University System Facility Revenue Bonds
  - Mortgage Revenue Bonds
  - Montana Facility Finance Authority Revenue Bonds
  - Student Loan Revenue Bonds
  - Municipal Finance Consolidation Act Program Bonds—fund the INTERCAP Program

TERMS OF BONDS AND OPTIONAL REDEMPTION FEATURES

- GO Bonds can be issued for term not exceeding 30 years (17-5-803, MCA); typical term is 20 years
- CST Bonds can be issued for term not exceeding 40 years (17-5-710, MCA); typical term is 20 years
- If tax-exempt, term of new money bonds is limited by economic life of project financed with proceeds of the bonds
- Term of refunding bonds generally does not exceed term of bonds being refunded; if tax-exempt, cannot exceed useful life of improvements originally financed
- Typically, bonds will have optional redemption provisions, allowing State to prepay without penalty after a certain period of time (typically, half of the term of the bonds, but sometimes earlier)
- Sometimes refunding bonds will not be subject to optional redemption

LEGAL PROCESS (GO BONDS AND CST BONDS)

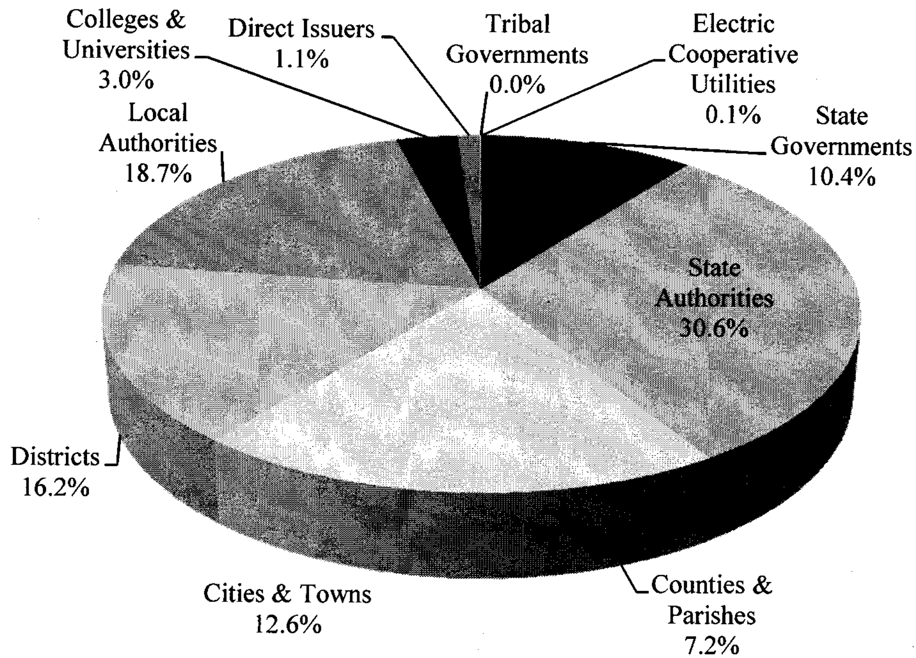
- Legislature authorizes issuance of bonds
- Board of Examiners ("BOE") adopts initial resolution preliminarily authorizing issuance of bonds
- Preparation of disclosure document– "Official Statement"
- Drafts of Official Statement provided to national rating agencies
- State uses Official Statement to market and sell bonds
- Pricing of bonds; BOE signs bond purchase agreement
- BOE adopts bond resolution authorizing issuance of bonds; closing documents signed and delivered
- Upon delivery of all closing documents, purchase price is wired and transaction is closed

Going to Market

TAX-EXEMPT BOND MARKET OVERVIEW

- **Over $1.5 Trillion in tax-exempt debt outstanding**
- **Average annual issuance exceeds $375 billion**
- **Over 60,000 issuers;**
  - State and Local Governments
  - Government Agencies
  - K-12, Higher Ed.
- **Diverse Projects**
  - Airports
  - Hospitals
  - Water Systems
  - Housing
  - Urban Renewal

Issuers of Municipal Bonds (by Par Amount) 2005-2014

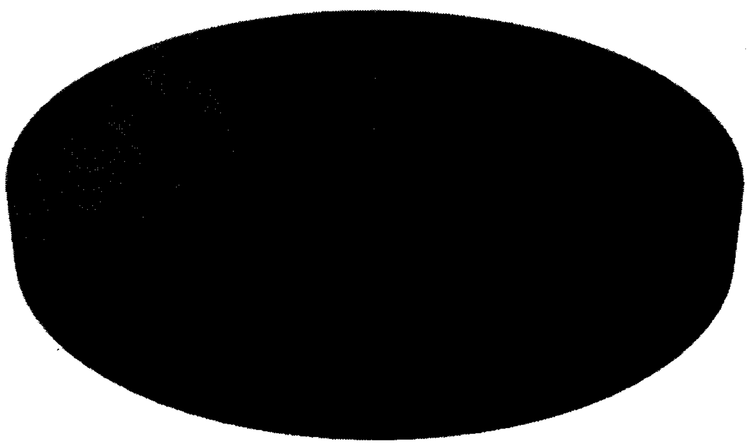


Source: Bond Buyer

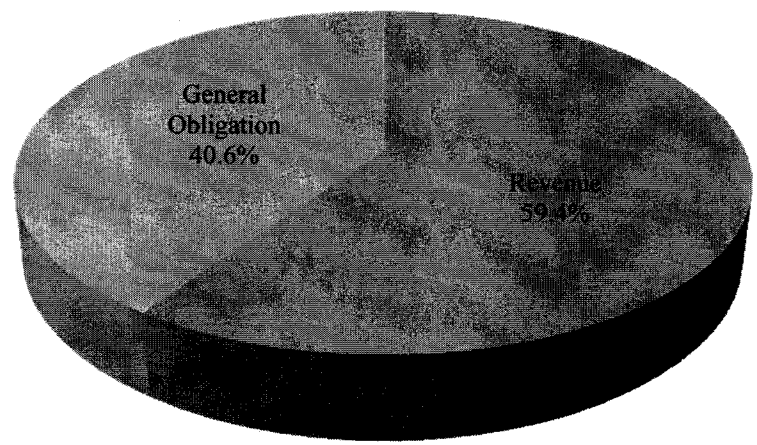
MUNICIPAL BOND ISSUANCE

Historically, a roughly 2:1 ratio exists between issuance of Revenue Bonds and General Obligation Bonds

Bond Issuance Type
(by Par Amount)
2005-2014

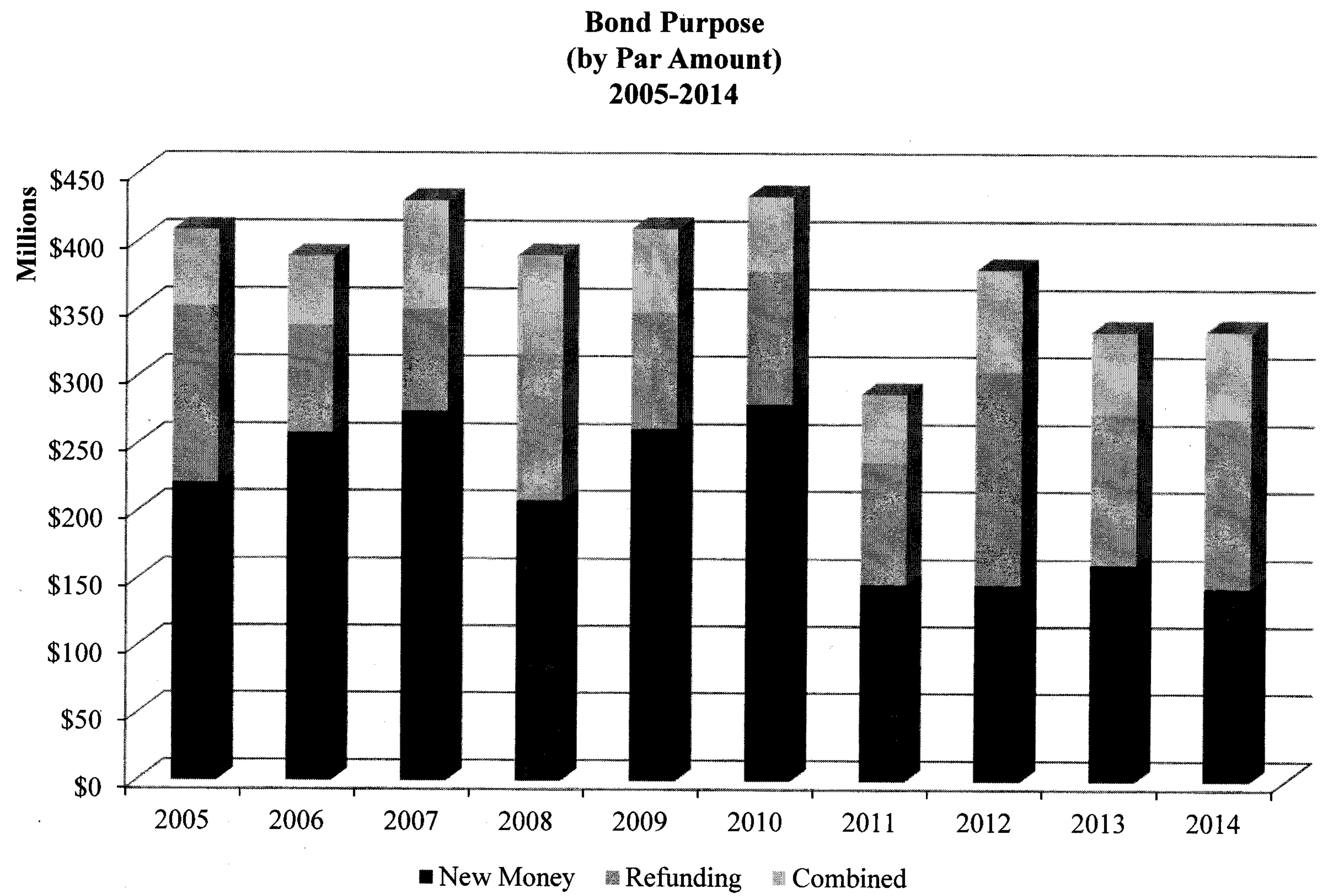


Bond Issuance Type
(by Par Amount)
2014



Source: Bond Buyer

PURPOSE OF NEW ISSUE



Source: Bond Buyer

FINANCING PARTICIPANTS

Financing Participants

Underwriter

Financial Advisor

Legal Counsel Participants

Issuer's Counsel

Bond Counsel

Disclosure Counsel

Underwriter's Counsel

Syndicate Participants

Senior/Sole Underwriter

Co-Senior Managers

Co-Managers

Selling Group

Administrative Participants

Paying Agent

Registrar

Trustee

Escrow Agent

Verification Agent

Other Participants

Bond Insurers

Letter of Credit Providers

Rating Agencies

INVESTORS IN MUNICIPAL BONDS

Obtaining lowest cost of capital is achieved by identifying active buyers creating competition between both institutional and retail investors.

- **Institutional Investors**
  - Predominant buyer of tax-exempt bonds
    - Mutual Funds
    - Insurance Companies
    - Trust Departments
  - Can influence structure if buying large blocks in absence of competition
  - Want yields as high as possible
  - Will buy in any maturity range
- **Retail Investors**
  - Will accept lower yields
  - Presence of retail investors can be bargaining tool with institutional investors
  - Generally buy and hold investors (don't sell into secondary market)
  - Tend to buy maturities of 15 years and less

FINANCING OVERVIEW

Due Diligence
- Review financial information/audits
- Analyze historic operating data
- Review construction/feasibility

Preliminary Underwriting
- Recommend bond structure
- Determine costs of issuance

Documentation
- Counsel to prepare necessary documents
- Help issuer schedule appropriate public meetings/hearings

Marketing
- Sales bulletin
- Conference Calls

Sell Bonds
- Set Interest Rates

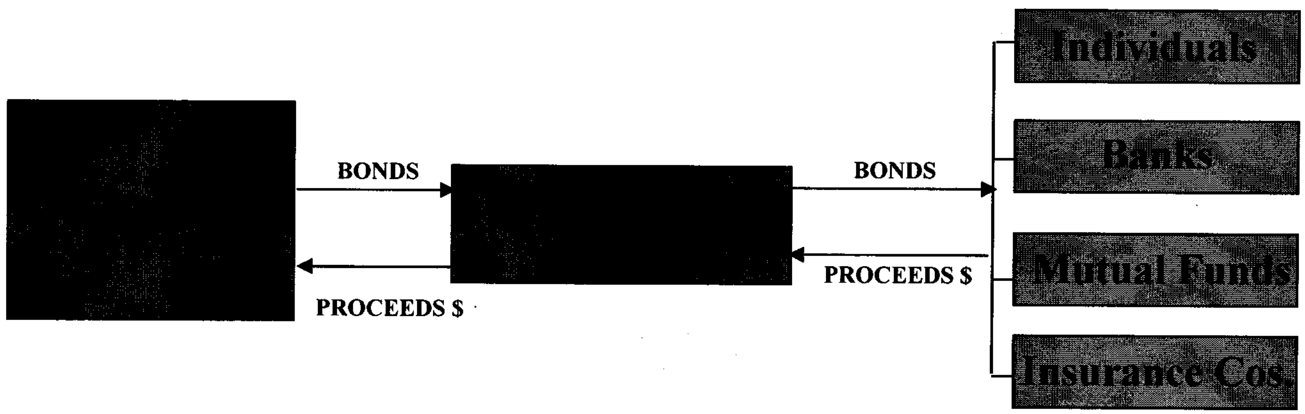
Monitor Sale
- Review Rates

Closing
- Transfer funds
- Release bonds
- Counsel releases tax opinion

UNDERWRITING PROCESS

The underwriting process is very interactive between the issuer, the underwriter, and potential buyers of the bonds;

- Interest rates are set based on current market conditions
- Potential buyers of the bonds are informed of rates to gauge their willingness to buy the bonds from the underwriter
- Underwriter agrees to buy all of the bonds from the issuer at a given level of interest rates
- Underwriter then agrees to sell the bonds to investors



ILLUSTRATIVE FINANCING TIMELINE

A typical financing takes approximately 8-10 weeks. The following timeline provides a hypothetical financing beginning on March 3rd and closing on May 6th.

MARCH 2015							APRIL 2015							MAY 2015						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
1	2	3	4	5	6	7				1	2	3	4						1	2
8	9	10	11	12	13	14	5	6	7	8	9	10	11	3	4	5	6	7	8	9
15	16	17	18	19	20	21	12	13	14	15	16	17	18	10	11	12	13	14	15	16
22	23	24	25	26	27	28	19	20	21	22	23	24	25	17	18	19	20	21	22	23
29	30	31					26	27	28	29	30			24	25	26	27	28	29	30
														31						

DATE	EVENT
3/3/15	Distribute Preliminary Offering Statement ("POS") to Working Group to Review
3/10/15	Board of Examiners Meeting to Consider Authorizing Resolution
3/12/15	Receive Appendix A Information for POS Back from State Agencies
3/16/15	Distribute Updated Appendix A to Working Group to Review
3/18/15	Conference Call to Discuss Financing Documents
3/20/15	Finish Drafting Appendix A
3/23/15	• Distribute Revised POS and Appendix A to Working Group • Send Financing Documents and Other Information to Rating Agencies • Send POS, including Appendix A to Legislative Auditor for Review
3/30/15	Due Diligence Call (time to be determined)
3/31/15	Receive Permission Letter from Legislative Auditor
4/6/15	Rating Agency visits
4/13/15	Receive Ratings
4/15/15	Print and Distribute POS
4/22/15	• Price Bonds • Board of Examiners Meet to Consider Final Resolution and Bond Documents
5/6/15	Closing

Ratings & Credit Characteristics

RATINGS PROCESS

- **There are three major credit rating agencies**
  - Standard & Poor's
  - Moody's Investors Service
  - Fitch IBCA
- **Essential that agencies have most current information**
  - Make presentations to agencies before new issues
  - Communicate regularly with agencies about major events, both positive and negative

RATINGS PROCESS CONT.

While each agency has specific ratings guidelines, the following factors are considered with all agencies:

- **General Obligation Bonds**
  - Economic Factors
  - Debt Factors
  - Financial Factors
  - Management Strategies/Administrative Factors

- **Lease Revenue/Certificate of Participation**
  - Linked to G.O. credit rating
  - Evaluation of Appropriation Risk

- **Revenue Bonds**
  - Revenue source
  - Flow of funds
  - Rate covenant
  - Additional bonds test

ECONOMIC FACTORS

- **Strength and Diversity of Tax Base**
- **Largest Taxpayers**
- **Growth Trends**
- **Employment Base**
- **Socio-economic Indicators**
  - Per Capita Income
  - Median Family Income
  - % Below Poverty Level
  - Full Value Per Capita
  - Unemployment Trends

Source: Moody's Investor Service

DEBT FACTORS

- **Debt Levels**
  - Direct Debt Burden
  - This includes ALL G.F. supported debt
  - Overlapping Debt Burden
- **Support for Issuance of Debt**
  - Debt Service Structure
  - Retirement Schedule
  - Offsetting or additional pledged revenues for debt service
- **Future Capital Needs**

Source: Moody's Investor Service

FINANCIAL PERFORMANCE

- **Income Statement**
  - Stability/Diversity of Revenue Sources
  - Controllability of Expenditures
  - Budgetary Flexibility
- **Balance Sheet**
  - Liquidity
  - Reserve Levels & Policies
- **Cash, GAAP, and Budgetary accounting**
- **Initiative Risk & Legislative Changes**

Source: Moody's Investor Service

MANAGEMENT FACTORS

- **Ability to Achieve Budgetary Targets**
  - Budget vs. Actual Financial Results
- **Ability to Recognize and Respond to Problems and Constraints**
- **Financial Operations Structurally Balanced**
- **Garnering Public Support**

Source: Moody's Investor Service

STATE RATINGS & RATING CATEGORIES

The State's senior GO debt currently carries the following ratings:

- Standard & Poor's — AA
- Moody's Investors Service — Aa1
- Fitch — AA+

Moody's Ratings	Long-Term	Quality
Investment Grade	**Aaa**	**Highest**
	Aa1/Aa2/Aa3	**High**
	A1/A2/A3	**Upper Medium**
	Baa1/Baa2/Baa3	**Medium**
Below Investment Grade	**Ba1/Ba2/Ba3** **B1/B2/B3**	**Speculative Elements**
	Caa1/Caa2/Caa3	**Danger of/in Default**

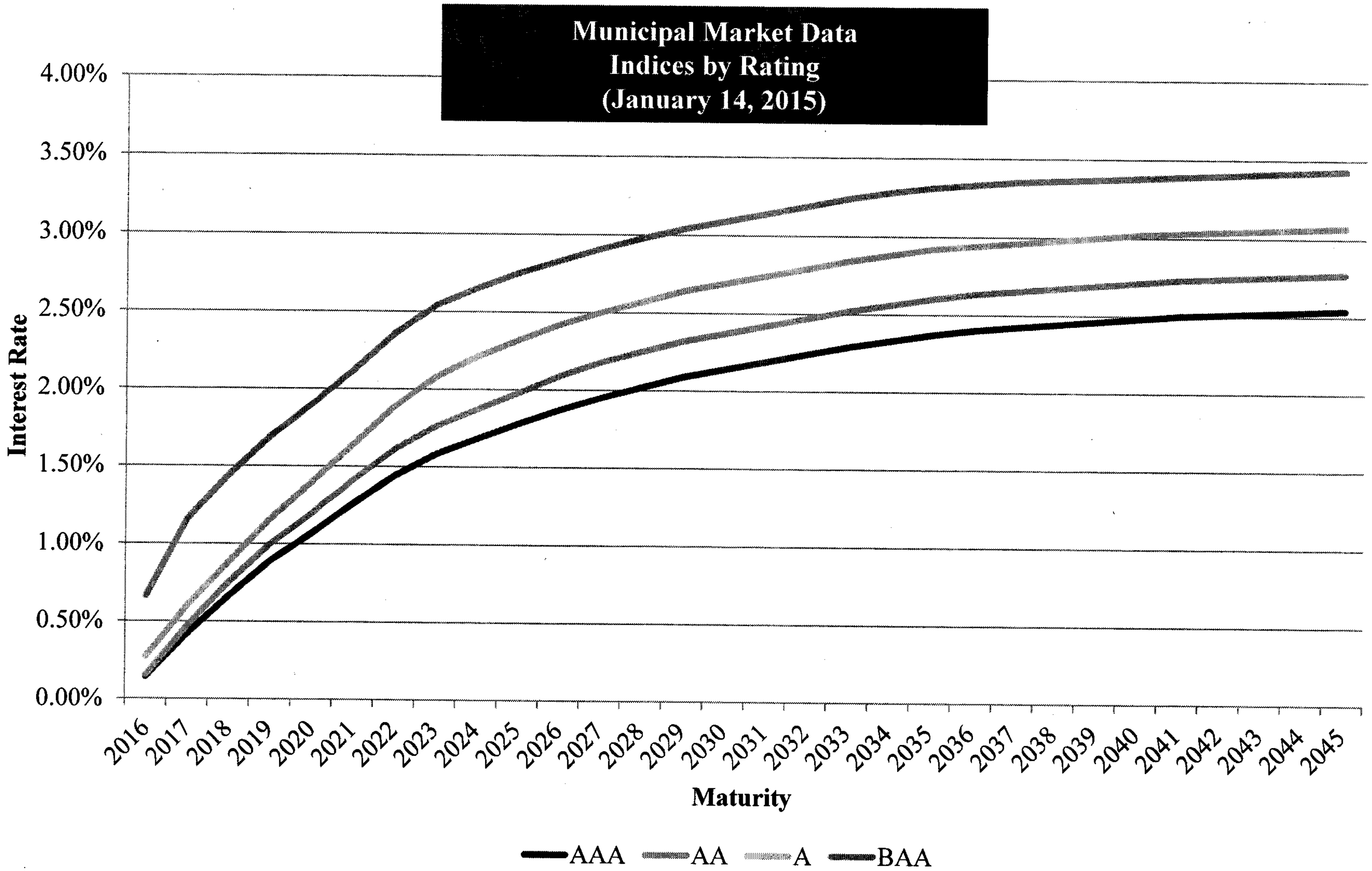
Source: Moody's Investor Service

SELECT MOODY'S RATING CRITERIA FOR STATES

Selected Financials and other Datapoints	States Montana (Aa1)	Max (AAA)	Median (Aa1)	Mean (Aa2)
Financial Data : Debt Statistics & Ratios				
Net Tax-Supported Debt Outstanding ($000)	280,666	94,486,000	4,135,598	10,359,213
Gross Tax-Supported Debt Outstanding ($000)	459,455	101,382,000	6,969,750	13,814,273
Net Tax-Supported Debt as % of Personal Income	0.7	10.6	2.6	3.24
Rank of Net Tax-Supported Debt as % of Personal Income	46	50	25.5	25.5
Net Tax-Supported Debt per Capita ($)	276	5,457	1,054	1,436
Rank of Net Tax-Supported Debt per Capita	46	50	26	26
Financial Data : Demographic Statistics				
Total Personal Income ($000)	39,793,920	1,817,010,270	169,282,710	276,401,464
Personal Income per Capita ($)	39,199	60,847	43,149	43,258
Personal Income Per Capita as a % of US	88	137	97	97.06
Financial Data : Demographic Statistics (Census Data)				
Population 2010 Census	989,415	37,253,956	4,339,367	6,115,090
Population Change 2000-2010 (%)	9.52	33.81	7.5	9.35
Per Capita Income (2000 Census)	17,151	28,766	20,506	20,521
Per Capita Income as % of U.S. (2000 Census)	79.5	133.3	95	95.06
Median Family Income (2000 Census)	40,487	65,521	48,680	48,600
Median Family Income as % of U.S. (2000 Census)	80.9	130.9	97.3	97.12
Financial Data : Financial Statistics and Ratios				
Total Operating Funds Revenues ($000)	2,011,138	99,379,153	10,174,432	16,028,250
Unreserved, Undesignated Operating Fund Balance ($000)	537,609	16,440,266	301,396	404,616

Source: Moody's Investor Service

CREDIT RATING AND INTEREST RATE IMPACT



Source: Municipal Market Data

DORSEY

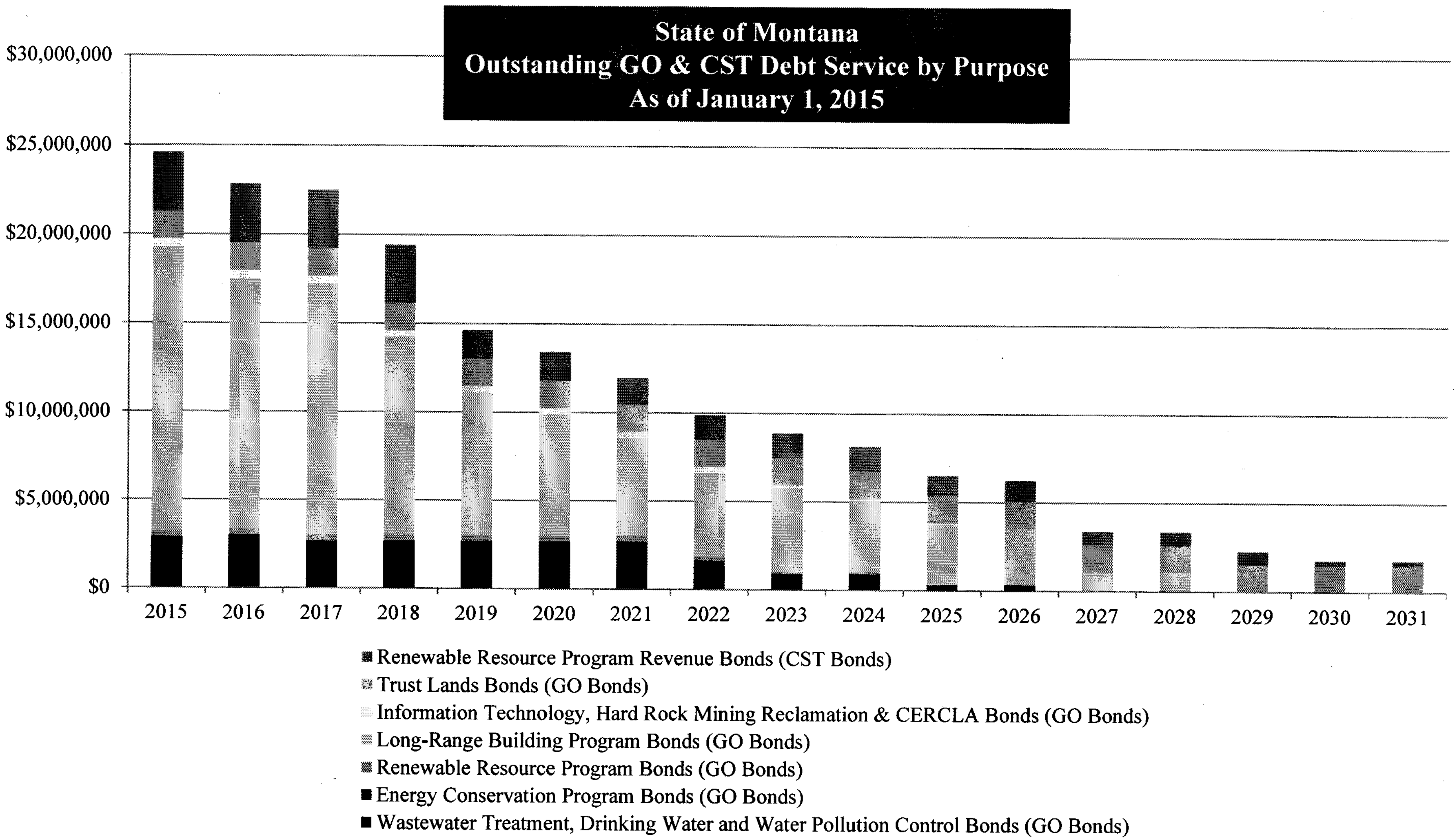
PiperJaffray

State GO & CST Debt

STATE GO & CST DEBT (As of January 1, 2015)

Purpose	Issue	Original Principal	Outstanding Principal
Wastewater Treatment, Drinking Water and Water Pollution Control Bonds (GO Bonds)			
Water Pollution Control	Series 2013E	$ 5,000,000	$ 4,655,000
Water Pollution Control	Series 2010C	6,450,000	4,450,000
Drinking Water	Series 2010B	5,400,000	3,630,000
Water Pollution Control	Series 2005G	2,110,000	640,000
Drinking Water	Series 2005F	3,875,000	1,865,000
	Subtotal	$ 22,835,000	$ 15,240,000
Energy Conservation Program Bonds (GO Bonds)			
Energy Conservation	Series 2006B	$ 3,750,000	$ 2,310,000
Energy Conservation	Series 2005C	2,500,000	570,000
	Subtotal	$ 6,250,000	$ 2,880,000
Renewable Resource Program Bonds (GO Bonds)			
Renewable Resource	Series 2013D	$ 1,035,000	$ 955,000
Renewable Resource	Series 2010H	1,000,000	640,000
Renewable Resource	Series 2006D	950,000	545,000
	Subtotal	$ 2,985,000	$ 2,140,000
Long-Range Building Program Bonds (GO Bonds)			
Long-Range Building Refunding	Series 2013C	$ 6,780,000	$ 6,780,000
Long-Range Building Refunding	Series 2011D	5,755,000	5,670,000
Long-Range Building	Series 2010G	550,000	400,000
Long-Range Building Refunding	Series 2010A	20,220,000	6,180,000
Long-Range Building	Series 2008D	3,100,000	2,320,000
Long-Range Building Refunding	Series 2007D	11,720,000	9,120,000
Long-Range Building Refunding	Series 2007A	16,740,000	11,155,000
Long-Range Building	Series 2006A	31,350,000	20,050,000
Long-Range Building Refunding	Series 2005H	10,055,000	6,900,000
Long-Range Building	Series 2005B	1,670,000	1,155,000
Long-Range Building Refunding	Series 2005A	14,945,000	7,750,000
Long-Range Building Refunding	Series 2003G	26,610,000	6,645,000
	Subtotal	$ 149,495,000	$ 84,125,000
Information Technology, Hard Rock Mining Reclamation & CERCLA Bonds (GO Bonds)			
CERCLA	Series 2006C	$ 1,000,000	$ 345,000
CERCLA	Series 2005D	2,000,000	1,375,000
State Hard Rock Mining Reclamation	Series 2002C	2,500,000	1,450,000
	Subtotal	$ 5,500,000	$ 3,170,000
Trust Lands Bonds (GO Bonds)			
Trust Lands Bonds	Series 2010F	$ 21,000,000	$ 18,720,000
	Subtotal	$ 21,000,000	$ 18,720,000
Renewable Resource Program Revenue Bonds (Coal Severance Tax Bonds)			
Dam Improvements	Series 2013B	$ 3,390,000	$ 3,200,000
Dam Improvements	Series 2013A	2,255,000	2,130,000
Dam Improvements	Series 2010C	6,720,000	5,380,000
Refunding	Series 2010B	1,730,000	1,450,000
Refunding	Series 2010A	10,180,000	4,645,000
Water Projects	Series 2003A	3,000,000	1,630,000
Dam Improvements	Series 2001B	1,750,000	625,000
	Subtotal	$ 30,810,000	$ 19,060,000
	TOTAL GO & CST Bonds	$ 237,090,000	$ 145,335,000

STATE GO & CST DEBT SERVICE



Appendix

Moody's Investor Service
Rating Rationale (June 27, 2014)
State of Montana
General Obligation Long-Range Building Refunding Bonds
Series 2014

Moody's
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to Montana's 2014 G.O. bonds; outlook stable

Global Credit Research - 27 Jun 2014

Approximately $128 million parity debt outstanding

MONTANA (STATE OF)
State Governments (including Puerto Rico and US Territories)
MT

Moody's Rating

ISSUE		RATING
General Obligation Long-Range Building Program Refunding Bonds, Series 2014		Aa1
Sale Amount	$29,375,000	
Expected Sale Date	07/15/14	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, June 27, 2014 --Moody's Investors Service has assigned a Aa1 rating to the State of Montana's $29.4 million General Obligation Long-Range Building Program Refunding Bonds, Series 2014. Proceeds of the Series 2014 bonds will be used to refund outstanding general obligation bonds, Series 2005B, 2006A and 2007D, for debt service savings. Following this refunding, the state will have approximately $128 million in general obligation bonds outstanding, all rated Aa1. The outlook on all of the state's ratings is stable.

SUMMARY RATINGS RATIONALE

The Aa1 rating reflects the state's trend of conservative fiscal management, low debt levels, and an economy that is growing and diversifying beyond its traditional concentrations in the natural resource and government sectors.

STRENGTHS:

- Record of good financial controls underscored by a history of implementing expenditure reductions when needed to address budget shortfalls, the maintenance of healthy fund balances, and adequate liquidity.

- Low state debt levels, moderate unfunded retiree health liabilities, and manageable pension liabilities.

CHALLENGES:

- Despite diversification, the state economy still has an above-average dependence on the natural resource and government sectors.

- Personal income levels remain low compared to national figures.

- Voter initiative activity introduces some fiscal uncertainty.

DETAILED CREDIT ANALYSIS

TREND OF CONSERVATIVE FISCAL MANAGEMENT

Montana's financial operations have historically been maintained in a conservative manner. While the state lacks certain institutionalized financial best practices such as the use of binding consensus revenue forecasting and formal multi-year financial planning of revenues and expenditures, it has established mid-course spending adjustments and contingency plans that enable management to take prompt corrective action to address budget shortfalls as it did during the recent recession.

The governor must cut agency spending in the event of a general fund budget deficit (defined as a projected ending balance that is less than 2% of the general fund appropriations for the second fiscal year of the biennium prior to October of the year preceding a legislative session) so that the projected ending general fund balance for the biennium will be at least 1% of biennial general fund appropriations. Protected from reductions are debt service, legislative and judicial branches, elected officials salaries and public schools. The state does not currently maintain a formal budget stabilization fund, relying instead on prudent budgeting to ensure year-end balances.

The legislature and executive branch have demonstrated a willingness to act promptly to correct mid-year imbalances. For Montana, this is particularly important as the economy, and consequently government revenue streams, remain dependent on potentially volatile natural resource prices.

STRONG REVENUE GROWTH COMBINED WITH CONSERVATIVE MANAGEMENT HAS RESULTED IN HEALTHY FUND BALANCES

Largely as a result of its conservative fiscal practices, the state maintained adequate fund balances throughout the recent economic downturn. In fiscal 2010, the lowest year, total General Fund balance (audited GAAP-basis) equaled $327.0 million or 21.0% of revenues. Available fund balance, which included unassigned fund balance plus amounts appropriated for fiscal 2011, equaled $310.6 million or 19.9% of revenues.

Strong revenue growth in the ensuing years, particularly for personal income taxes, enabled the state to build up its reserves. General Fund revenues, which exclude federal revenues, increased by 9.4%, 8.4% and 8.3% in fiscal years 2011, 2012 and 2013, respectively. At the end of fiscal 2013, total General Fund balance had grown to $564.0 million, or 28.2% of revenues, and available fund balance had grown to $537.6 million, or 26.9% of revenues.

The budget for the current fiscal 2014-2015 biennium was based on relatively conservative revenue growth estimates of just 6% for the two year period. The revenue estimates included a projected 1.0% decline in revenue in fiscal 2014 compared to 2013 as a result of one-time collections of personal and corporate income taxes in 2013 which were not expected to continue in 2014.

The budget continues to fund growth in health and human services, education and corrections. Additional highlights of the 2014-2015 budget include significant one time investments in capital infrastructure in the state and the establishment of a wildfire suppression reserve fund. The wildfire suppression reserve fund comes alongside a new funding mechanism that will provide funds on an ongoing basis, reducing future budgetary pressure for the state in this area.

The enacted budget included an ending biennium available fund budget balance of approximately $300 million, with the decline due to the one-time infrastructure investments and the transfer to the fire suppression fund. Officials currently project an ending balance for the biennium of approximately $347 million, based on legislative revenue estimates and budgeted appropriations. Actual ending balance is likely to be higher due to spending less than the full appropriated amount.

ECONOMY CONTINUES TO DIVERSIFY; UNEMPLOYMENT LEVELS BELOW NATIONAL AVERAGE

State non-farm payroll employment has seen an ongoing decline in its dependence on the government and natural resources sectors, although these areas still make up a larger percentage of total employment than the national average. Mining jobs in 2013 comprised about 2% of total non-farm payroll employment vs. 0.6% for the nation. Government jobs accounted for about 20% of total non-farm employment as compared to 16% for the nation.

While unemployment rates have historically been higher than the nation, in part reflecting high unemployment in the state's relatively large Native American population, Montana's unemployment rates in recent years have been lower than comparable national figures, in line with recent job gains. The annual rate for 2013, 5.4%, was considerably lower than the comparable national rate of 7.4%.

Montana's per capita income levels remain low relative to the nation, although personal income growth has been very good in recent years, exceeding national rates. The state's per capita income figure, which was 77% of the national figure in 2000, is estimated at 88% of the national figure in 2013.

LOW LEVEL OF TAX SUPPORTED DEBT

Source: Moody's Investor Service

Moody's 2014 State Debt Medians Report showed Montana's debt ratios remain well below state medians. Net tax-supported debt is 0.7% of personal income and net tax-supported debt per capita is $276, versus medians for all states of 2.6% and $1,054, respectively, for these ratios. This ranks Montana 46th among the 50 states for both debt as a percentage of personal income and debt per capita.

General obligation debt outstanding totals about $128 million. Total tax-supported debt, including coal severance tax bonds, is about $281 million. Also included in that figure is approximately $100 million in GARVEE bonds, which are backed solely by federal highway aid revenues. Montana had issued state revenue-backed transportation bonds in the past, but none are currently outstanding. Additional borrowing plans for calendar year 2014 are limited to approximately $5.6 million in general obligation bonds for water revolving funds. The state's conservative approach to debt management is expected to maintain low levels of debt in the future.

PENSION REFORMS ARE EXPECTED TO SIGNIFICANTLY REDUCE LIABILITY

The state's retirement systems are administered by the Montana Public Employee Retirement Administration and the Teachers' Retirement Division. The state's pension liabilities are above the averages for US states. Moody's adjusted net pension liability (ANPL) for the state for fiscal 2012 was $5.0 billion or 98.6% of governmental revenues, compared to a medians for all states of 63.9%. Its 3-year average ANPL was $4.0 billion or 78.4% of governmental revenues, compared to a median of 52.1%.

During the 2013 legislative session the state enacted significant reforms to reduce the unfunded pension liabilities in the state's multi-employer Public Employees' Retirement System and Teachers' Retirement System defined benefit plans. The key components of the reforms included increasing employer and employee contributions, increasing state contributions, reducing future benefits for new hires, and incorporating funding triggers to help manage contributions. It is noted, however, that some elements of the reforms are being litigated.

Montana's post-employment health benefits liability has been reported at a moderate $337 million (December 2011). The state offers coverage to retirees at the same rate as current state employees, although there is no direct state contribution on the retiree behalf.

Outlook

The outlook for Montana's general obligation bond rating is stable reflecting Moody's expectation that the stable financial trends will be maintained, supported by long-standing conservative fiscal management.

WHAT COULD MAKE THE RATING GO UP

- Sustained job growth with continued long-term economic diversification.

- Maintenance of strong financial position.

- Adoption of institutionalized financial best practices.

WHAT COULD MAKE THE RATING GO DOWN

- Deterioration in the state's financial and economic performance leading to severely strained finances.

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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