

### Program Description

The Board of Investments (board) manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Statute grants the board sole authority to invest state funds. The board also invests local government funds at their discretion. The board currently manages an investment portfolio with a market value of approximately \$12.0 billion. The board manages the portfolio under the "prudent expert principle."

To provide for diversification and reduced risk, the board manages several investment pools in which funds of similar types are invested. The board manages seven investment pools, which operate like mutual funds.

- Retirement Funds Bond Pool
- Trust Funds Bond Pool
- Short Term Investment Pool
- Montana Domestic Stock Pool
- Montana International Equity Pool
- Montana Private Equity Pool
- Montana Real Estate Pool

Annual audited financial statements are prepared for each investment pool. Investments not managed in pools are included in an "all other funds" financial statement. The board also issues tax-exempt bonds and lends the proceeds to eligible government agencies for a variety of purposes.

Section 17-6-305, MCA, authorizes the board to invest 25% of the Permanent Coal Tax Trust Fund to assist Montana's economic development. This "In-State Investment Program" makes business loans from the trust fund in participation with financial institutions. The board lends trust fund monies to local governments to fund infrastructure that will serve job-creating businesses locating in the government's jurisdiction. The board also lends low-interest monies funded from the trust fund to value-added type businesses creating jobs. Throughout FY 2010, the board purchased Montana residential mortgages with pension funds as part of the In-State Investment Program.

The board sells tax-exempt bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to 15 years and short-term loans to finance cash flow deficits or bridge financing are also available.

### *Program Narrative*

#### Expenses

Overall the program costs increase over 27% between FY 2012 and the 2015 biennium. The figure below shows the increases in costs and related funding. The funding shows both the proprietary funds and the statutorily appropriated industrial revenue bonds and related debt service payments.

Department of Commerce Board of Investments					
	FY 2012	FY 2014	% Change	FY 2015	% Change
FTE	32.00	32.00	0.00	32.00	0.00
Personal Services	\$2,661,343	\$3,059,481	14.96%	\$3,060,044	14.98%
Operating Costs	2,063,528	2,342,587	13.52%	2,305,946	11.75%
Debt Service	<u>742,110</u>	<u>1,343,162</u>	80.99%	<u>1,592,800</u>	<u>114.63%</u>
Total Costs	<u>\$5,466,981</u>	<u>\$6,745,230</u>	23.38%	<u>\$6,958,790</u>	27.29%
Funding					
Industrial Revenue Bonds	1,046,529	1,829,132	74.78%	2,059,258	96.77%
Investment Division	<u>4,420,452</u>	<u>4,916,098</u>	<u>11.21%</u>	<u>4,899,532</u>	<u>10.84%</u>
Total Funding	<u>\$5,466,981</u>	<u>\$6,745,230</u>	23.38%	<u>\$6,958,790</u>	27.29%

Significant increased costs for personal services include:

- o Refunding of 4.00 FTE that were vacant all of FY 2012; 3.00 FTE have been vacant since at least FY 2010 with 1.00 FTE vacant since FY 2007
- o Additional funding for 5.00 FTE that were vacant a portion of the year
- o Broadband pay increases granted in FY 2012 but annualized in the 2015 biennium

Increases associated with operating costs include:

- o Consulting and professional services
- o Legal fees and court costs
- o Data network services
- o Rent
- o Indirect administrative costs

Revenues

Nearly all bond program revenues are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the bond program between draws. Remaining revenues are received monthly from the board’s contract with the Montana Facility Finance Authority.

Nearly all investment program revenues are generated from charges to each account that the board invests. The revenue objective of the investment program is to fairly assess the costs of operations while maintaining a reasonable and prudent 60 day working capital reserve.

*Proprietary Rates*

For the 2015 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes. The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2 and setting the fee at that level. This process has been utilized since the passage of HB 576 in 1995 and this methodology is continued in the 2015 biennium.

Department of Commerce Board of Investments Proprietary Rates				
	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
BOI Administrative Fee Rate	\$4,831,041	\$4,831,041	\$5,109,144	\$5,234,796
Allocation Methodology: The revenue objective of the Board of Investments is to assess the costs of operations to each portfolio the Board invests while attempting to maintain a reasonable and prudent 60 day working capital reserve.				

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.