

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA



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M E M O R A N D U M

TO: Legislative Finance Committee

FROM: Ryan Evans, Assistant Budget Director, Office of Budget and Program Planning

DATE: August 30, 2023

SUBJECT: HB 251 Quarterly Report for FY 2023 Q4

HB 251, passed by the 2023 Legislature, requires OBPP to submit a quarterly report to the Legislative Finance Committee pursuant to 5-11-210, MCA, that identifies the amount and type of debt payoff or other expenditure from the Debt and Liability Free fund for the previous quarter.

Below is a report from SABHRS detailing expenditures - by account - from the Debt and Liability Free fund. Also included on the following pages is a management memorandum from Piper Sandler – Financial Advisor for the State of Montana – providing a detailed narrative description and a defeasance analysis of all activity completed and an overall status of the Debt Free 23 initiative, as of June 30, 2023.

FY 2023 Q4					
OBPP Program	Subclass	Fund	Account	APPROP Budget	Actuals Amt
04 OFC BUDGET & PROGRAM PLANNING				143,000,000.00	130,523,299.83
	095S3 DEBT & LIABILITY FREE			143,000,000.00	130,523,299.83
		02300 Debt and Liability Free		143,000,000.00	130,523,299.83
			62000 Operating Expenses	0.00	0.00
			62108 Legal Fees & Court Costs	0.00	19,000.00
			68000 Transfers-out	0.00	0.00
			68101 Transfer Of Appropriated Fund	0.00	130,500,299.83
			68109 Contract Grant Transfers	0.00	0.00
			69000 Debt Service	0.00	0.00
			69105 Bond Agent Fees	0.00	4,000.00
			ALL All Accounts Rollup	143,000,000.00	0.00
Grand Total				143,000,000.00	130,523,299.83

If you have questions, please contact Ryan Evans at (406) 444-3163, or RyanEvans@mt.gov.

Thank you.

Ryan Evans, *Assistant Director*
State of Montana – Office of Budget & Program Planning
State Capitol, Room 251A
Helena, MT 59620

July 13, 2023

Re: Debt Free '23 Status Update

Dear Mr. Evans,

Congratulations to you and the State on successfully executing Debt Free '23 ("DF23") to pay off 18 bond issues and loans. The State of Montana will no longer have general obligation debt outstanding!

The following provides background and summary of the process.

In late 2022, the State worked with Piper Sandler (Financial Advisor) and Dorsey & Whitney (Bond Counsel) to identify all bond issues or loans to be paid down (defeased) as part of this initiative. These 18 bond issues or loans were originally issued to cover of a variety of purposes, including long-range building, water pollution control, Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), trust lands, dam and water infrastructure as well as coal severance tax. To date, the State successfully paid down 16 obligations and the remaining two will be executed in accordance with timing required by the Department of Natural Resources ("DNRC"). Please refer to the attached document as a reference to this discussion.

To effectuate the most cost-effective plan, the State and its financing team strategized two techniques to pay down debt depending on the features of the bond issue or loan:


Cash-Funded Defeasances. Throughout May through June of 2023, the DNRC and the Department of Administration began defeasing their respective bond issues and loans with cash set aside for Debt Free '23. These obligations were called by the State and immediately paid down with DF23 cash due to their favorable refunding (call) features – *please refer to the "Immediate Call" section in the attachment*. To date:

- \$31,440,965.94 over nine obligations have been successfully defeased with DF23 cash.
- Approximately \$4,456,154 over two obligations remain outstanding and will be defeased with DF23 funds once the timing is appropriate for the DNRC.
- Approximately \$7,450,000 over three loans is scheduled to be issued by the DNRC, which will be subsequently defeased with DF23 funds after issuance.

Escrow-Funded Defeasances. The remaining outstanding bonds and loans could not be immediately called then paid down – *please refer to "Escrowed to Call" and "Escrowed to Maturity" sections in the attachment*. In order to execute a defeasance, the State and its financing team used DF23 funds to purchase US Treasuries that will, in turn, fund debt service payments on the remaining bonds and loans until they mature or can be called. These remaining bonds and loans are now considered "legally defeased". Overall, the defeasance of these seven obligations required \$99,059,333.88 of DF23 funds.

Current Status. To date, a total of \$130,500,299.82 of the \$150,000,000 set aside for this initiative has been utilized. The remaining bonds and loans, of which two are outstanding and three are unissued, are estimated to consume another \$11,996,154.00 of DF23 funds, leaving the State with approximately \$7,503,546.18 remaining. We look forward to working with the DNRC on the full defeasance of their debt portfolio to push Debt Free '23 towards completion.

Sincerely,



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Prepared for the State of Montana
Debt Free 23 - Defeasance Analysis

July 10, 2023



Payment Source	Series	Tax Status	Next Payment	Call Provision	Call Status	Outstanding Par	Debt Free Cash Required / Used
Immediate Call						Bucket Totals:	\$44,329,154
Non-General Fund	2004A	Taxable	12/1/2023	Anytime	Current	\$4,346,154	\$4,346,154.00
General Fund	2005D	Tax-Exempt	8/1/2023	August 1, 2015	Current	\$405,000	\$411,695.69
General Fund	2008D	Tax-Exempt	8/1/2023	August 1, 2018	Current	\$995,000	\$1,011,463.61
General Fund	2020E	Taxable	8/1/2023	Anytime	Current	\$2,101,000	\$2,112,345.40
Non-General Fund	2020J	Taxable	7/15/2023	July 15, 2022	Current	\$16,065,000	\$15,411,212.55
General Fund	2020K	Taxable	8/1/2023	Anytime	Current	\$441,000	\$443,205.00
Non-General Fund	2020L	Taxable	12/1/2023	Anytime	Current	\$7,470,000	\$7,500,000.00
Non-General Fund	2021A	Taxable	12/15/2023	Anytime	Current	\$700,000	\$715,590.99
Non-General Fund	2022A	Taxable	6/10/2024	Anytime	Current	\$2,200,000	\$2,227,355.39
Non-General Fund	2022B	Taxable	6/10/2024	Anytime	Current	\$1,600,000	\$1,608,097.31
Non-General Fund	2022C ⁽²⁾	Taxable	7/1/2023	Anytime	Current	\$556,000	\$200,000.00
Non-General Fund	TBD ⁽¹⁾	Taxable	TBD	Anytime	Current	\$3,400,000	\$3,400,000.00
Non-General Fund	TBD ⁽¹⁾	Taxable	TBD	Anytime	Current	\$2,450,000	\$2,450,000.00
Non-General Fund	TBD ⁽¹⁾	Taxable	TBD	Anytime	Current	\$1,600,000	\$1,600,000.00
Escrowed to Call						Bucket Totals:	\$31,645,000
General Fund	2014	Tax-Exempt	8/1/2023	August 1, 2024	Advance	\$10,980,000	\$11,373,536.00
General Fund	2020H	Tax-Exempt	8/1/2023	August 1, 2030	Advance	\$5,475,000	\$6,109,933.34
General Fund	2022D ⁽³⁾	Taxable	8/1/2023	Any Payment Date	Advance	\$15,190,000	\$15,448,230.00
Escrowed to Maturity						Bucket Totals:	\$59,370,000
General Fund	2013C	Tax-Exempt	8/1/2023	Noncallable	None	\$880,000	\$897,761.22
General Fund	2020C	Tax-Exempt	8/1/2023	Noncallable	None	\$21,230,000	\$23,820,964.80
General Fund	2020G	Tax-Exempt	8/1/2023	Noncallable	None	\$27,235,000	\$32,317,400.96
General Fund	2020I	Taxable	8/1/2023	Noncallable	None	\$10,025,000	\$9,091,507.56
Combined Totals:						\$135,344,154	\$142,496,453.82

Defeasance **Completed** / **Scheduled** / **TBD**

* Does not include costs of issuance

(1) Assumes Cash Required equals Outstanding Par

(2) Assumes anticipated DNRC prepayment from non-Debt Free 23 funds

(3) Escrowed with money market funds, not US Treasuries, due to short call date

PIPER | SANDLER