MONTANA
BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 70.100

EFFECTIVE DATE: September 23, 2022

TITLE: INTERCAP Loan Program

SUPERSEDES: November 30, 2021

BOARD ADOPTION: November 30, 2021

REVIEWED: July 20, 2022

I. INTERCAP Loan Program

A. Requirements for all INTERCAP Loans

1. For purposes of INTERCAP loans under this policy, the definitions in Section 17-5-1604, MCA, apply.
2. The INTERCAP Loan Program may not be used to finance Tax Increment Financing (TIF) or Targeted Economic Development (TEDD) bonds or loans.
3. Applications may be completed online at https://investmentmt.com/INTERCAP/. A hard copy application is available upon request.
4. Upon loan approval, a Term Sheet explaining the conditions of the loan will be forwarded to the Borrower for review.
5. Borrower has one (1) year from date of receipt of the Term Sheet to access the funds. A Borrower who fails to access the funds within the year may be required to reapply for the loan.
6. Three (3) weeks prior to accessing the funds, the Borrower must notify Board staff of their intention to access the funds.
7. Prior to receiving funds, the Borrower must complete, execute, and return to Board staff the original loan documents, including:
   a) A resolution from the local governing body approving the loan.
   b) A form signed by the local government unit counsel stating the local government unit has the authority to participate in the loan program, that the project qualifies for the loan program, and that the loan is legal and binding on the local government.
8. Execution of original documents may be a manual signature or electronic signature.
9. The local government is required to annually appropriate funds for the repayment of the loan.
10. Invoices or certificates of completed work must be submitted before INTERCAP funds are disbursed.
11. The Interest Adjustment Date is effective February 16 of each year.
12. A new interest rate will be posted on the Board's website and adjusted amortization schedules mailed out in March.
13. Any state or federal permits required must be obtained prior to closing the loan.
14. If the project is dependent on other funding sources, those funding sources must be committed prior to funding the INTERCAP loan.

15. Eligible government units must adhere to Montana law when financing capital projects.
    a) Board staff will consider the maximum loan term authorized in statute, as well as the repayment ability of the eligible Borrower, when reviewing loan requests.
    b) Loan terms may not exceed fifteen (15) years or the useful life of the project being financed, whichever is less.
16. The maximum amount of the loan is limited to the Borrower's legal debt limit.
17. Loans previously approved by the Board may be increased by the Executive Director in an amount up to ten percent (10%) of the original approved loan amount.

B. Short-Term Loans Criteria

1. Short-term INTERCAP loans may be made to cover two types of needs:
    a) Money to provide financing on an interim basis for projects funded from other sources.
    b) Operating money to cover a temporary cash flow deficit.

   Examples of eligible temporary project funding include, but are not limited to, interim financing in anticipation of state or federal grants and/or long-term loans. Specific written evidence of the commitment for funding of the grant or long-term loan is required prior to releasing funds.
2. Counties, cities, towns, and school districts are statutorily authorized to borrow for cash flow deficits to be repaid within the statutory time limit. Other types of local governments may borrow through their respective county.

C. Enterprise Debt Loans Criteria

1. Enterprise funds are used to report the functions presented as business-type activities in government-wide financial statements. Enterprise project financing pledges revenues of the Borrower to repay the loan for associated costs.
2. The Board must receive documentation of revenue rates currently in effect and any proposed adjustments.
3. Enterprise debt requires the Borrower to:
    a) Pledge the revenues of the system.
    b) Set and maintain rates and charges that will generate net revenues to cover debt service by a factor of one and a quarter (1.25).
    c) Maintain a reserve account of one (1) year debt service or ten percent (10%) of the loan, whichever is less.
4. In most cases the obligation is not required to be secured by the full faith and credit of the issuer and the obligation does not require voter approval.
5. If the revenue pledged for repayment is on parity, or in equal position, with other outstanding debt, the Board will require Montana-licensed bond counsel to prepare the parity revenue bond documents and provide the opinion at the Borrower's expense.

D. Preliminary Engineering Report (PER) Loans Criteria

1. Local governments may finance the costs to prepare the PER planning document required by many state and federal funding agencies for utility improvement loans.
2. The engineer must be a registered professional licensed to practice in his or her area(s) of competence and expertise in the State of Montana prior to the Board's commitment.
3. The maximum PER loan term is six (6) years.
   a) At the time of loan application review, Board staff will determine if the loan will be repayable interest-only for up to three (3) years with an optional three (3) year amortization of principal and interest thereafter or amortized principal and interest over the six (6) year term.
   b) Rates and fees will be annually reviewed and increased as necessary to provide adequate repayment of debt.
4. A written approval from a state or federal engineer stating the PER scope of work generally conforms to the requirements outlined in the Uniform Preliminary Engineering Report for Montana Public Facility Projects.
5. Special or Rural Improvement Districts are not eligible for PER loans.

E. Grant Writing Loans Criteria

1. Local governments may finance the costs to prepare grant applications.
2. The maximum loan term is six (6) years.
3. Board staff will determine at the time of loan application review if the loan will be repayable interest-only for up to three (3) years with an optional three (3) year amortization of principal and interest thereafter or amortized principal and interest over the six (6) year term.
4. Rates and fees will be annually reviewed and increased as necessary to provide adequate repayment of debt.

F. General Obligation Loans Criteria

1. Voter-approved general obligation debt has the backing by the full faith and credit of the issuer and obligates the issuer to levy a tax sufficient to repay the obligation. The Board will require copies of the election process leading up to and the results of the election for review.
2. Bond counsel is required to certify that all legal requirements for the loan have been met. The cost of bond counsel opinion is to be paid by the Borrower.

G. Special or Rural Improvement District (SID/RID) Loans Criteria

1. SID/RID loans are payable from special assessments levied against real property in the district to finance improvements to projects such as streets, roads, curbing, etc. The loans are not full faith and credit obligations of the city or county.
2. All statutory requirements for establishing the SID/RID must be met prior to the loan and available for review as part of the loan process.
3. City or county funds must secure the SID/RID with a pledge to levy for and maintain the revolving fund to the maximum amount permitted by law.
4. All local government SID/RIDs and the balance in the revolving fund are subject to review as part of the loan process.
5. Preliminary engineering loans will not be made to SIDs/RIDs.

H. Street Maintenance District Loans Criteria

1. Street Maintenance Districts are loans payable from special assessments levied against real property in the district to finance improvements to projects such as streets, roads, curbing, etc.

Street Maintenance District loans do not require voter approval and are not secured by the local government's revolving fund.

2. The appropriate steps to create the Street Maintenance District and set the annual assessments must comply with Section 7-12-44, MCA, and be available for review as part of the loan process.
3. Assessment revenue will be pledged to the repayment of the loan and must be set to generate net revenues to cover the debt service by a factor of one and a quarter (1.25).
4. If revenue pledge for repayment is on parity with other outstanding debt, the Board will require Montana-licensed bond counsel to prepare the parity revenue bond documents and provide the opinion at the Borrower's expense.
5. The Board will require a reserve account that is equal to one (1) year debt service or ten percent (10%) of the loan, whichever is less.

Authority: Montana Constitution, Art. VIII, Section 13
Section 2-15-1808, MCA
Title 17, chapter 5, part 16, MCA
Section 17-6-201, MCA
ARM 8.97.715 through 8.97.724

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