PROGRAM DESCRIPTION AND PARTICIPATION REQUIREMENTS

GENERAL PARAMETERS FOR INTERCAP LOANS

- The INTERCAP program only loans funds to eligible government units defined under 17-5-1604, Montana Code Annotated (MCA).
- The INTERCAP program is a variable rate loan program.
- Interest rates are adjusted on February 16th of each year.
- 100% financing is available with no up-front cost, equity, or matching funds required.
- Interest and principal payments are due semi-annually on February 15th and August 15th.
- Current interest rate through February 15, 2017 is 1.55%.
- Loan requests in excess of $1,000,000 must receive Loan Committee approval.
- Loan requests in excess of $5,000,000 must receive Board approval.
- Use of loan funds has significant flexibility, e.g. new and used equipment and vehicles, real property improvements, cash flow, preliminary engineering costs, grant writing.
- Prepayments are allowed without any prepayment penalty.
- Maximum loan limit is established by eligible government unit's legal debt limit.
- Maximum term of the loan is 15 years* or useful life of the project, whichever is less.

* Eligible governments must adhere to State law when financing capital projects and cannot finance projects for a longer term than allowed. 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.

1. SPECIFIC REQUIREMENTS FOR ALL INTERCAP LOANS

(a) Applications may be submitted electronically but a hard copy of the signature page is required.
(b) Upon loan approval, a Term Sheet will be forwarded to the borrower for review.
(c) Borrower has one year from date of the Term Sheet to access funds or may be required to reapply for the loan.
(d) Three weeks prior to needing funds, borrower must notify the Board of the desire to draw down funds.
(e) Prior to receiving funds the borrower must complete two sets of loan documents that include:
    a. A resolution from the local governing body approving the loan;
    b. A form signed by local counsel stating the loan is legal and binding on the local government.
(f) The local government is required to annually appropriate funds for the repayment of the loan.
(g) Invoices or certificates of completed work must be submitted before INTERCAP funds are disbursed.
(h) The Interest Adjustment Date is February 16th of each year.
(i) Borrower will receive notice of the new interest rate around March 15th via an adjusted amortization schedule.
(j) Any state or federal permits required must be obtained prior to closing the loan.
(k) If the project is dependent on other funding sources, those funding sources must be committed prior to funding for the INTERCAP loan.
(l) Eligible governments must adhere to State law when financing capital projects and cannot finance projects for a longer term than allowed. 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. In addition, loan terms cannot exceed the useful life of the project being financed.

(m) INTERCAP may not be used to finance Tax Increment Financing (TIF) bonds or loans.

(n) Loans previously approved by the Board may be increased by staff approval in an amount up to 10% of the original loan approved amount.

(o) Private Activity Loans – Federal tax law deem loans to governmental entities as private activity when there is private business use of the governmental facility financed or the structure and/or security for the loan and limits the usage of INTERCAP Bonds for this purpose to five percent (5%). The aggregate amount of private activity loans, by this policy, is limited to four percent (4%) of the INTERCAP Bond series allocated to fund the loans.

2. SHORT TERM LOANS SPECIFIC CRITERIA (Sec. 6 of the Application)

(a) 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.

(b) Examples of eligible temporary project funding include interim financing in anticipation of federal grants; interim funding for Treasure State Endowment projects, and interim bridge financing.

(c) Counties, cities, towns and school districts are statutorily authorized to borrow for cash flow deficits, other types of local governments may be able to borrow through their respective county.

(d) All INTERCAP loans made to cover temporary cash flow problems must be repaid within the statutory time limit.

(e) Normal local government debt limitations do not apply to Short Term INTERCAP loans per 7-6-1115, MCA.

3. GENERAL FUND DEBT LOANS SPECIFIC CRITERIA (Sec. 7A of the Application)

(a) Under certain circumstances, many local governments have statutory authority to incur debt without a vote of the electors.

(b) Because these obligations are generally payable from the general fund, loan obligations are subject to any statutory mill levy limitations, including Title 15, Chapter 10, Part 4, MCA, as amended (the Property Tax Limitation Act).

(c) Loan terms are limited to 15 years, useful life of the project, or borrower term limit per State statute, whichever is less.

(d) Statutory authority for general fund loans are;

a. Counties; 7-5-2306 and 7-7-2402, MCA;
b. Cities and Towns;7-7-4101, 7-7-4201 & 7-5-4306 or 7-7-4101 & 7-7-4104, MCA;
c. School Districts; 20-9-471, MCA.

4. ENTERPRISE DEBT LOANS SPECIFIC CRITERIA (Sec. 7B of the Application)

(a) Local governments may finance improvements to utility systems through the INTERCAP loan program using the revenues of the system to repay the loan.

(b) The Board will require a pledge of the revenues and require that adequate fees or charges are maintained.

(c) In most cases the obligation is not secured by the full faith and credit of the issuer and the obligation does not require voter approval. However an election may be required for county water and sewer districts.

(d) The Board must receive documentation of rates currently in effect and any proposed adjustments.

(e) Rates and charges must be set to generate net revenues to cover debt service by a factor of 1.25.

(f) If revenue pledge for repayment is on parity with other outstanding debt, the Board will require bond counsel that is a registered professional licensed to practice in his or her area(s) of competence and expertise in the State of Montana to prepare the parity revenue bond documents and provide the opinion at the Borrower's expense.

(g) The Board will require a reserve account (one year debt service or 10% of the loan, whichever is less).

(h) Enterprise debt loans have a maximum term of 15 years or useful life of the project, whichever is less.

(i) Preliminary Engineering Report (PER) Loans-specific criteria.

a. 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 and be obtained prior to the Board's commitment.
b. The maximum term is six (6) years. Board staff will determine at the time of 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. If necessary, rates and fees will be increased to provide adequate repayment of debt.
c. 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.
d. PER loans are not available to Special or Rural Improvement Districts.

(j) Grant Writing Loans – specific criteria. The maximum term is six (6) years. Board staff will determine at the time of 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. If necessary, rates and fees will be increased to provide adequate repayment of debt.

5. SPECIFIC CRITERIA FOR GENERAL OBLIGATION LOANS (Sec. 7C of Application)

(a) Because general obligation debt requires backing by the full faith and credit of the issuer and obligates the issuer to levy a tax sufficient to repay the obligation, general obligation debt loans require an election.
(b) If voted, the levy to repay the debt is outside the limitations of the Property Tax Limitation Act.
(c) Bond counsel that is a registered professional licensed to practice in his or her area(s) of competence and expertise in the State of Montana is required to certify that all legal requirements for the loan have been met at the Borrower's expense.
(d) Eligible local governments are:
   a. Counties; 7-7-2201, MCA
   b. Cities; 7-7-4201, MCA
   c. School Districts; 20-9-4, MCA
   d. School District building reserve; 20-9-502, MCA (Section 7D of Application)
   e. Rural Fire Districts; 7-33-2109, MCA
   f. County Water and Sewer Districts; 7-13-2331, MCA

*Statute allows a maximum 5-year term loan when pledging building reserve levy as repayment

(e) The maximum amount of the loan is limited to the local government's legal debt limit, if any.
(f) Loan terms are limited to 15 years, or useful life of the project, whichever is less.

6. RURAL FIRE DISTRICT AND FIRE SERVICE AREA LOANS (Sec. 7E of Application)

(a) Rural Fire Districts and Fire Service Areas have statutory authority to incur indebtedness without an election.
(b) Rural Fire District loan obligations are payable from the district's general fund and are subject to any statutory mill levy limitations, including the Property Tax Limitation Act.
(c) Fire Service Area loan obligations are payable from assessments on structures within the area.
(d) Statutory references are:
   a. Rural Fire District; 7-33-2109, MCA
   b. Fire Service Area; 7-33-2404, MCA
(e) Maximum loan limit is subject to indebtedness capacity.
(f) Loan terms are limited to 15 years, useful life of the project, or borrower term limit per State statute, whichever is less.

7. SPECIAL OR RURAL IMPROVEMENT DISTRICT LOANS (Sec. 7F of Application)

(a) Special Improvement District (SID) and Rural Improvement District (RID) loans are payable from special assessments levied against the real property in the district.
(b) SIDs and RIDs are not full faith and credit obligations of the city or county.
(c) All statutory requirements for establishing the SID/RID must be met prior to the loan.

(d) City or county funds must secure the SID/RID with a pledge to levy for and maintain their revolving fund to the maximum amount permitted by law.
(e) All local government SID/RIDs and the balance in the revolving fund are subject to review as part of the loan process.
(f) Maximum loan limit is $500,000.
(g) Subject to 7-12-2171(b), MCA, loans in excess of $250,000 require underwriter opinions that the bonds are not marketable through competitive bond sale. (Two opinions are sufficient)
(h) Maximum loan term is 15 years or useful life of the project, whichever is less.
(i) Preliminary engineering loans will not be made to SIDs or RIDs.

8. STREET MAINTENANCE LOANS (Sec. 7G of Application)

(a) Street maintenance loans are payable from assessment revenue levied against the real property in the district in accordance with 7-7-44 & 7-12-44, MCA.
(b) The Board will require a pledge of the assessment revenues and that adequate annual assessments are maintained.
(c) The obligation does not require voter approval. However, the appropriate steps to create the street maintenance district and set the annual assessments must comply with 7-12-44, MCA.
(d) The Board must receive documentation of the street assessments currently in effect, any proposed adjustments, and evidence of the process followed in (c) above.
(e) Assessment revenue must be set to generate net revenues to cover debt service by a factor of 1.25.
(f) If revenue pledge for repayment is on parity with other outstanding debt, the Board will require bond counsel that is a registered professional licensed to practice in his or her area(s) of competence and expertise in the State of Montana to prepare the parity revenue bond documents and provide the opinion at the Borrower's expense.
(g) The Board will require a reserve account (one year debt service or 10% of the loan, whichever is less).
(h) Street maintenance loans have a maximum term of 15 years or useful life of the project, whichever is less.

INTERCAP
Loan Program

WE APPRECIATE YOUR INTEREST AND BUSINESS!
PLEASE FEEL FREE TO CALL
LOUISE WELSH OR JULIE FLYNN
AT 406-444-0001 FOR ASSISTANCE