

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 10.700

EFFECTIVE DATE: November 30, 2021

TITLE: Credit Enhancement

SUPERSEDES: Governance Manual
February 2021

BOARD ADOPTION: November 30, 2021

REVIEWED:

I. Credit Enhancement

A. Recitals

1. History, Authorization of Unified Investment Program, and the Board
 - a) Article VIII, Section 13 of the Montana Constitution directs the legislature to provide for a unified investment program for public funds, public retirement system, and state compensation insurance fund assets.
 - b) The Legislature, pursuant to Section 17-6-2 MCA, (Unified Investment Program Act), has created and directed the Board to administer the unified investment program mandated by the Montana Constitution.
 - c) The Board has the primary authority to invest state funds and to determine the types of investments to be made, subject to the restrictions of the Montana Constitution and the Unified Investment Program Act.
2. History, Authorization of Montana Economic Development Board (MEDB), and Municipal Finance Consolidation Act (MFCA) Bonds
 - a) The 1983 Legislature created the MEDB, to, among other things:
 - (1) Issue notes and bonds to finance loans to purchase bonds and notes of Montana governmental units.
 - (2) To establish or replenish reserves securing the payments of its bonds and notes.
 - (3) To finance all expenditures incident to, necessary, or convenient to carry out the provisions of the MFCA in Section 17-5-16, MCA.
 - b) As set forth in Section 17-5-1602(2)(b), MCA, of the MFCA, the State's goal was to, among other things:
 - (1) Foster the provisions of efficient capital markets.
 - (2) Reduce costs of borrowing.
 - (3) Provide additional security for the payment of bonds and notes held by investors.
 - c) In conjunction with issuing its MFCA Bonds in 1985, the MEDB adopted a resolution establishing a MFCA Reserve Fund (Reserve Fund) to secure bonds or obligations issued under the MFCA.

- d) Pursuant to a resolution, the MEDB and the Board entered into a Security Agreement whereby the Board agreed to make an interest-bearing loan to the MEDB to restore any deficiency in the Reserve Fund and also agreed, for a fee, to purchase MFCA Bonds tendered for purchase and not remarketed.
- e) Each series of MFCA Bonds credit enhanced by the Board is approved by resolution by the Board. The Board has never been called upon to make any loans or to purchase any of these Bonds.

3. Authorization for the Board to Issue MFCA Bonds

- a) Pursuant to Chapter 581, Laws of 1987, the Board assumed the role of the MEDB with respect to the issuance of the MFCA Bonds and other bond programs authorized by the State.
- b) The Board issued its first series of Intermediate Term Capital Program (INTERCAP) MFCA Bonds in 1987 (Series 1987 INTERCAP Bonds).
 - (1) The Series 1987 INTERCAP Bonds and all series of INTERCAP Bonds subsequently issued by the Board have also been secured by the Reserve Fund.
 - (2) In the resolution authorizing and approving the issuance of the Series 1987 INTERCAP Bonds, the Board:
 - (a) Approved the Indenture of Trust pursuant to which the Series 1987 INTERCAP Bonds were to be issued and secured (1987 Trust Indenture).
 - (b) Agreed to make an interest-bearing loan to the Reserve Fund and agreed, for a fee, to purchase any Series 1987 INTERCAP Bonds tendered for repurchase that were not remarketed.
 - (3) In 1991, the INTERCAP program was expanded, requiring a new Trust Indenture (1991 Trust Indenture) securing the INTERCAP Bonds authorized by Board resolution.
 - (a) Each subsequent series of INTERCAP Bonds issued by the Board, and related documents, have been authorized by resolution and are supplemental to the 1991 Trust Indenture.
 - (4) The Board has never been called on to make a loan to the Reserve Fund or to purchase tendered MFCA INTERCAP Bonds.

4. History, Authorizations, MFFA Bonds

- a) Pursuant to Chapter 703, Laws of 1987, now codified in Sections 90-7-1, 2, and 3, MCA, as amended (MFFA Act), the Montana Health Facility Finance Authority, now the MFFA, is authorized to issue revenue bonds to finance nonprofit hospitals, prelease centers, and other nonprofit health-care providers or entities.
- b) The MFFA has created a capital reserve account to provide additional security (Capital Reserve Account) for the Bonds it issues under the MFFA Act (MFFA Bonds).
 - (1) Pursuant to the MFFA Act, the Board is authorized to loan money to the MFFA for deposit in its capital reserve account and to purchase its bonds and notes.
 - (2) Pursuant to resolutions of the Board relating to each series of MFFA Bonds for which credit enhancement is provided, the Board is authorized to enter into an agreement with the MFFA whereby the Board agrees to make an interest-bearing loan to the Capital Reserve Account to restore any deficiency (MFFA Capital Reserve Account Agreement).
 - (3) For each series of MFFA Bonds credit enhanced by the Board, the Board has by resolution approved entering into additional Capital Reserve Account Agreements.

- (4) The Board has never been called upon to make a loan to the Capital Reserve Account. To date, the Board has not entered into any agreements to purchase tendered MFFA Bonds.

5. Previous Credit Enhancement Policies

- a) The Board adopted a Credit Enhancement Policy on February 17, 2006.

B. Findings and Determinations of the Board

1. The Board desires to continue to enhance the marketability of bonds and notes issued under both the MFCA and the MFFA Act, and to assist the Board and the MFFA in obtaining the lowest possible interest rates on loans to eligible governmental units and non-profit corporations providing needed and essential services and facilities to the public.
2. The Board adopts this Policy to codify and clarify the circumstances under which the Board has and will continue to:
 - a) Provide credit enhancement.
 - b) Authorize its Executive Director to honor and fulfill the Board's obligations under the bond documents and Capital Reserve Account Agreement.
 - c) Make this Policy a part of the Board Governance Policy.
3. The MEDB resolution establishing the Reserve Fund to secure bonds or obligations issued by the Board, is incorporated in Section A.

C. Decision to Provide Credit Enhancement, Source of Credit Enhancement

1. The decision to provide credit enhancement as authorized by the MFFA Act and the MFCA shall be made by the Board pursuant to a duly authorized resolution of the Board related to each series of Bonds to be issued.
2. The Board shall provide credit enhancement when it is prudent to do so and, in the Board's judgment, would result in a lower interest rate to the borrowers under the MFCA and MFFA than could be otherwise obtained.
3. The funds in the Unified Investment Program from which the Board's Credit Enhancement obligations could be satisfied include but are not limited to:
 - a) The Permanent Fund sub-fund of the Coal Tax Trust.
 - b) The Short-Term Investment Pool.
 - c) The Treasurer's Fund.

D. Duties of the Executive Director

1. Loans
 - a) When required under the terms of the bond documents, the Executive Director of the Board is authorized to loan funds to the Reserve Fund and to the Capital Reserve Account.
2. Purchase of Bonds
 - a) When required under the terms of the bond documents, the Executive Director is authorized to purchase Bonds.
3. Use of Funds
 - a) The Executive Director is authorized to determine which legally available funds to use for the above purposes.
4. Notification of Board
 - a) If the Executive Director makes a loan to the Reserve Fund, Capital Reserve Account, or purchases bonds pursuant to the bond documents, he/she shall:

- (1) Notify Board members via e-mail within three (3) business days of such action.
- (2) Provide a full report to the Board at its next regularly scheduled meeting, specifying:
 - (a) The reasons for such action.
 - (b) The dollar amount.
 - (c) The terms and the funding source for the loan or bond purchase.

E. Effective Date, No Repeals

1. This Policy shall become effective upon passage by the Board and execution and certification by the Chairman of the Board.
2. This Policy shall supersede in every respect and replace in its entirety the Credit Enhancement Policy adopted by the Board on February 17, 2006.
3. This Policy is not intended and shall not be construed to modify any commitment, obligations, or agreements the Board has made pursuant to any duly authorized resolution or agreement relating to Bonds issued under the MFCA or the MFFA Act.
4. The requirements established by this Policy become an integral part of the Board's Governance Manual.