Montana Facility Finance Authority

Michelle Barstad
Executive Director

Adam Gill
Associate Director

Linda Wendling
Senior Financial Specialist
What is the MFFA?

• Founded in 1983 to provide access to the tax-exempt market for health care facilities

• Attached to the Montana Department of Commerce

• MFFA is a conduit issuer that finances projects for:
  • Nonprofit hospitals & other health care facilities
  • Nonprofit prerelease facilities
  • Small for-profit manufacturers
MFFA Portfolio

$2.64 B Structured

$931 M Outstanding Consists of:

- $927 M Bonds/Notes
- $2.64 M Loans from Perm Coal Trust
- $1.17 M Authority loans

Glendive Medical Center
Tax-Exempt Private Activity Bonds
What are Tax Exempt Private Activity Bonds?

• Bonds issued by a unit of government that serves as a conduit to finance nonprofits and certain types of for-profit enterprises

• The tax exemption on the bond interest may be passed onto the borrower in the form of a lower interest rate

• Bonds are then either:
  • Sold to the public through an underwriter
  • Directly placed with a bank
Industrial Development Bonds
IDBs: What Are They?

• Tax-exempt bonds issued to finance the capital needs of small manufacturers
• Savings from the tax exemption on the bond may be passed to borrower in the form of a lower interest rate.
• May be leveraged with state and local programs (and select federal programs)
IDB’s: Eligibility

- Companies that assemble, fabricate, manufacture or process a product for resale
- The processing must alter the physical condition of the material processed:
  - What works: microbreweries, lumber mills, pulse crop processing
  - What doesn’t work: Warehousing or packaging without on-site processing
IDBs: Use of Funds

• Acquisition of land, new machinery, equipment & furnishings
  • Maximum of 25% of IDB can finance land costs
  • Used equipment must either be financed conventionally or refurbished at greater than 100% the cost of new equipment

• New construction, renovation or expansion of facilities
  • 15% minimum renovation requirement when existing buildings acquired with IDB
IDBs: Financing and Capital Expenditure Limits

• Maximum IDB Amount (at one facility): $10M
• Maximum Project Spending Limit: $20M per project over 6 years (“CapEx Limit”)
  • Period of 3 years before and after bond issuance date
  • Spending within jurisdiction of the Issuer
• Outstanding IDB cap of $40M for borrower nationwide
Leveraging IDBs

• Bond Financing is intended to provide “senior” financing

• Projects financed with IDBs are often prohibited from using other Federal financing
  • Tax-exempt bond financed projects generally cannot receive federal government credit guarantees or financing such as SBA, EDA or USDA (exceptions for Agricultural programs)
  • Above programs may be able to work on separate parts of a project i.e. SBA financing for a land and building with an IDB for machinery and equipment
IDBs: Fees

• The MFFA is committed to holding down fees for borrowers
• Up to 2% of IDB can pay Issuance Fees
• Sample Bond Issuance Costs (based on size)
  • Bond Counsel: $15,000 to $25,000 (varies by Bond amt.)
  • Bank Counsel: $12,000 to $20,000
  • Borrower Counsel: $10,000 to $20,000
  • Issuer: 0.25% to 0.30% of the bond issuance
• Overall costs are comparable to SBA & USDA
IDB Process
“Official Intent” Resolution

• “Inducement Resolution” for cost reimbursement via “60 Day Look-Back Provision”
  • Passed by the Issuer (MFFA)
  • Enables Borrower to acquire land, undertake equipment orders, or begin construction in advance of bond closing
  • Ability to reimburse costs with Bonds will ultimately depend on Borrower’s ability to obtain a financing commitment
  • Does not commit any party to the transaction, just declares intent
Negotiate Financing

• Borrower works with the Bank, like a commercial loan
• The Bank provides credit approval and negotiates interest rate (IDB is typically a senior loan)
• Bond Counsel reviews the project for eligibility, drafts documents, and delivers an eligibility opinion to the Bank/Investor
Issue the Bonds

• MFFA Board passes a Bond Resolution
  • Authorizes issuance of the IDB pursuant to the Bond and Loan Documents
  • After Bank/Underwriter credit approval
  • Requires MFFA conduct a public hearing
  • This is the final Board action by Issuer

• Bond Closing can usually follow 1-2 weeks after approval of the Bond Resolution
Questions?

Michelle Barstad
Executive Director
406-444-0259
mbarstad@mt.gov

Adam Gill
Associate Director
406-444-5435
adamgill@mt.gov