

# Information on the Use of State of Montana Bonding Authority as Cost Share for Rehabilitation of the St. Mary Diversion and Conveyance Works

Prepared by MT DNRC, July 2011

## Bonding Authority

- The 2005 Montana Legislature authorized the sale of \$10 million in state bonds for state support of the St. Mary Project. Sale of bonds and appropriation of funds is contingent on receipt of federal cost share. (HB 540, Chapter 499, Laws of 2005)
- To satisfy the contingency:
  - the project must be defined; and
  - there must be a cost-share agreement with the federal government for the project that is defined.
- The cost-share agreement with the federal agreement need not cover a complete and comprehensive rehabilitation of the St. Mary Diversion and Conveyance Works, but it must cover the rehabilitation project that is defined.
- Work already ongoing can be credited to the federal share of the cost. For example, the project could be defined so that planning and design activities that are underway for the St. Mary Diversion Dam replacement can be credited to the federal share of the cost of the defined project.

## Policy

- Primary stakeholders in any rehabilitation project must participate in defining the project. These include:
  - The federal government, which owns the St. Mary Diversion and Conveyance Works. The Bureau of Reclamation operates and maintains the facilities.
  - The contract holders who depend on the water and pay for operations and maintenance and replacement.
  - The Blackfeet Tribe which has jurisdiction over the Blackfeet Reservation where the facilities are located.
- The State of Montana must be assured that state funds spent on rehabilitation of any St. Mary facilities are credited to the nonfederal share of an all-encompassing rehabilitation of the St. Mary Diversion and Conveyance Works.

## Prerequisites for Sale of Bonds

After the project has been defined and discussed with stakeholders conceptually, the following must be addressed prior to sale of bonds. It will take 3 to 4 months to issue the bonds once all the pieces are in place.

- Project Description (Details are likely to be found in a preliminary engineering report.)
  - Who, What, Where, Why, When, How
  - Users of the system
    - type (e.g., municipal, irrigated agriculture, etc.)
    - number
  - Charges paid by users for services
  - Information about who pays for operations and maintenance (O&M) and what amount

- Map of the project service area
  - Cost of the project
  - Roles and responsibilities
- Federal cost share agreement
- Determination of whether or not bonds may be tax-exempt under Internal Revenue Service Rules. Public benefit must be defined to make this determination. Interest rate is higher if bonds are not tax exempt.
- Schedule for use of funds
- Development of repayment schedule for bonds. The law authorizes general obligation bonds which are repaid with the State's general fund. The repayment schedule is not generic, it will be developed as the project and schedule for use of funds are better defined.
- Project details will be reviewed by bond counsel before bond sale.