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Evan Barrett

Montana Tech of the University of Montana

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Politics or Prudent Money Management?

A Montana Public Radio Commentary by Evan Barrett

March 1, 2015

Here are some givens – just plain facts. Public infrastructure investments are for the long-term, they serve both now and future generations. Also, public infrastructure is public: Montana's citizens (and businesses) enjoy the benefits of having backbone infrastructure in place that is not the obligation of private companies. And because of those facts, public infrastructure is normally funded (totally or partially) through long-term bonding (borrowing) so that those folks who use infrastructure into the future help pay for the infrastructure they are using.

It's also a fact that borrowing, whether private or public, can be prudent or foolhardy, depending on the credit-standing of the borrower and the cost (interest rate and term) of the borrowing. Today, when the potential borrower is the state of Montana, the decision to borrow could not be more prudent. Because interest rates are at near historical lows and Montana has a great credit rating, borrowing now gives real bang for the public's buck.

More money management facts about Montana. Over the last 10 years, Montana's money management practices have built up and retained a strong reserve (rainy day fund) to protect its citizens against unanticipated events. Montana is near the top of national rankings as a tax-friendly state for business and in terms of individual (personal) tax fairness. Montana's bond (borrowing) rating was upgraded recently for the first time in 28 years and it is rated the most financially prudent state in the nation. As a result, today Montana can borrow infrastructure money for a long-term fixed rate of 2.75%. Just plain facts.

Almost unbelievably, the Montana Legislature is debating if it should be borrowing (bonding) for half of its recognized infrastructure investment, as proposed by Governor Bullock. The state is no different than the Montana family which chooses not to deplete its entire savings to buy a needed new car, but instead uses some of the savings for the down payment while keeping most of its savings and prudently borrowing the rest of the car price. The state is no different than an established, successful and profitable Montana small business which doesn't deplete its carefully built up reserves to buy a needed piece of equipment, but carefully puts a little bit of its cash down on the equipment and prudently borrows for the rest, so it can maintain its financial flexibility.

So, if you are the State of Montana and you have one-time and on-going infrastructure needs that require \$400 million in capital investment – things like water & sewer systems, bridges, schools and university buildings, it should make sense for you, as proposed by Governor Bullock, to spend about \$200 million cash on the infrastructure, and bond for (borrow) the remaining \$200 million at a very low interest with easily affordable annual payments. And you can do that while still maintaining your \$300 million rainy day fund.

I, for one, do not see what the legislative debate is about. Having spent a quarter century working with and advising businesses on succeeding financially and in other ways, I would never recommend them cutting reserves below responsible levels to be able to brag that they paid cash on the barrelhead for long-term business infrastructure investment. And no prudently managed Montana business would follow that bad advice were it to be given to them. Same for Montana families.

The path should be just as clear for the Montana Legislature, but prudent money management rules apparently do not apply in the political world of the 2015 Legislature. The Legislature should not be cutting back on needed infrastructure investment for the state's future. Nor should it deplete our cash and drive down our rainy day fund (reserves) by a cash spending spree. Montana should affordably borrow half the money for infrastructure, pay cash for the other half and make sure it maintains its reserves and current high standings on business taxes and individual tax fairness. Those actions would be in keeping with the state's ranking as the most financially prudent state in the nation.

This is Evan Barrett in Butte, thinking about spending smartly for our infrastructure needs.

Evan Barrett of Butte, has spent the last 45 years at the top level of Montana economic development, government, politics and education. He is currently the Director of Business & Community Outreach and an instructor at Highlands College of Montana Tech. These are his personal views.