

MAINE STATE LEGISLATURE

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Finance Authority of Maine

Procedures Pursuant to 10 MRSA Sec. 363

For the Year Ended December 31, 2004

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES**

The Board of Directors of the
Finance Authority of Maine
Governor of the State of Maine
The Joint Standing Committee for
Business, Research and Economic Development

We have performed the procedures in Appendix A, which were agreed to by the Finance Authority of Maine, and the Joint Standing Committee for Business, Research and Economic Development (the Committee), solely to assist you with respect to the requirements of the State of Maine 10 MRSA Sec. 363, subsection 11. The Finance Authority of Maine is responsible for the preparation of the Analysis of Savings From and the Benefits of Tax Exempt Financing Schedules (the Schedules), as presented in Appendix B and Appendix C. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are summarized in Appendix A.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the Schedules. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Finance Authority of Maine, the Committee and the Governor of the State of Maine, and is not intended to be and should not be used by anyone other than those specified parties.

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
February 16, 2005

FINANCE AUTHORITY OF MAINE
PROCEDURES PURSUANT TO 10 MRSA Sec. 363

We obtained the Analysis of Savings From and the Benefits of Tax-Exempt Financing Schedules (Appendix B and Appendix C) prepared by the Finance Authority of Maine (the Authority) which details the bonds issued in 2004 and the use of such proceeds or the bonds issued in 2003 and the use of such tax-exempt debt in 2004 and performed the following:

1. Compared the amount of bonds issued and term of issuance for all issues, as stated in Appendix B and Appendix C, to documents supplied to the Authority by third-parties and found them to be in agreement. We compared the tax-exempt bond yield, as stated in Appendix B and Appendix C, to documents supplied to the Authority by third-parties and found them to be in agreement.
2. For all issues we compared the percentages of the cost of issuance including fees, insurance and professional services, as stated in Appendix B and Appendix C, to an analysis prepared by the Authority illustrating the various costs of the issues and found them to be in agreement. We did not compare the various costs to third-party documentation. We recalculated the percentages and found them to be in agreement with the percentages appearing on Appendix B and Appendix C.
3. Recalculated the total tax-exempt bond yield for all issues in Appendix B and Appendix C.
4. Compared the purpose and use of proceeds as stated in Appendix B and Appendix C to the information set forth in documents supplied to the Authority by third-parties and found them to be in agreement.
5. For all issues in Appendix B, we compared the comparative market interest rate available to borrowers, as stated in Appendix B to information provided by the Authority which indicates the conventional interest rates available to borrowers for loans of similar nature, for the respective time periods, and found them to be in agreement. We did not compare the market interest rates as provided by the Authority to third-party documentation.
6. For all issues in Appendix B, we recalculated the interest rate saved by utilizing the bond cap.
7. For the issue in Appendix C, we compared the comparative taxable debt yield to information provided to the Authority by a third-party and found it to be in agreement. We recalculated the excess of taxable debt yield over comparative tax-exempt bond yield.
8. For the issue in Appendix C, we compared the dollar amount of interest earnings forgone by offering student loan borrowers a reduced interest rate, to a monthly analysis prepared by the Authority illustrating the savings from the interest rate reduction and found them to be in agreement. We did not compare the savings to third-party documentation.
9. For the issue in Appendix C, we compared the dollar amount of student loan origination fees committed to be paid on behalf of borrowers, to a report provided by a third-party illustrating the amount that the Authority has committed to pay for origination fees and found it to be in agreement.
10. For the issue in Appendix C, we recalculated the total savings to borrowers.

APPENDIX B

**Finance Authority of Maine
Analysis of Savings From and the Benefits of Tax-Exempt Financing – Commercial
2004**

	<u>Municipal Issue Company A</u>	<u>Municipal Issue Company B</u>	<u>FAME Issue Company C</u>	<u>Municipal Issue Company D</u>	<u>FAME Issue Company E</u>	<u>Municipal Issue Company F</u>	<u>FAME Issue Company G</u>
Purpose and use of proceeds	Real Estate Acquisition and Building Construction and Improvements	Real Estate Acquisition and Building Construction and Purchase of Machinery and Equipment	Building Construction and Improvements	Renovation of Buildings and Purchase of Machinery and Equipment	Building Construction and Improvements	Real Estate Acquisition and Building Construction and Purchase of Machinery and Equipment	Building Construction and Expansion
Amount of bonds	\$2,000,000	\$5,000,000	\$6,000,000	\$6,525,000	\$13,500,000	\$22,260,000	\$2,000,000
Term (years) of issuance	20	20	20	20	11	20	15
Variable or fixed interest rate	Variable	Variable	Variable	Variable	Fixed for 5 years	Variable	Variable
Tax-exempt bond yield ⁽¹⁾	1.35%	1.25%	2.59%	1.37%	3.80%	1.56%	1.65%
Cost of issuance including fees, insurance and professional services	<u>1.55%</u>	<u>1.43%</u>	<u>0.06%</u>	<u>1.13%</u>	<u>0.20%</u>	<u>0.92%</u>	<u>1.55%</u>
Total tax-exempt bond yield	2.90%	2.68%	2.65%	2.50%	4.00%	2.48%	3.20%
Comparative market interest rate available to borrowers	<u>4.00%</u>	<u>4.00%</u>	<u>4.50%</u>	<u>4.50%</u>	<u>6.25%</u>	<u>5.00%</u>	<u>5.25%</u>
Interest rate saved by utilizing bond cap	<u>1.10%</u>	<u>1.32%</u>	<u>1.85%</u>	<u>2.00%</u>	<u>2.25%</u>	<u>2.52%</u>	<u>2.05%</u>

⁽¹⁾Based on initial interest rate for variable interest rate bonds.

**Finance Authority of Maine
Analysis of Savings From and the Benefits of Tax-Exempt Financing – Education
2004**

Issue:	Series 2003
Date:	December 11, 2003
Tax-Exempt Bonds – Variable Rate:	\$75,000,000
Term:	30 years

Purpose and Use of Proceeds – These bond proceeds are utilized to acquire student loans.

Source of Tax-Exempt Debt

	<u>Series 2003</u>
Tax-exempt bond yield (a)	1.38%
Cost of issuance and other bond costs	<u>0.03%</u>
Total tax-exempt bond yield	1.41%
Comparative taxable debt yield (b)	<u>1.56%</u>
Excess of taxable debt yield over comparative tax-exempt bond yield	<u>0.15%</u>

Use of Tax-Exempt Debt

Dollar amount of interest earnings forgone by offering student loan borrowers a reduced interest rate (c)	\$ 37,026
Dollar amount of student loan origination fees committed to be paid on behalf of borrowers (d)	<u>29,489</u>
Total savings to borrowers	<u>\$ 66,515</u>

- (a) Based upon the weighted average coupon rate incurred in 2004.
 (b) Based upon the average coupon rate for similar taxable bonds during 2004.
 (c) Amount of interest income forgone in 2004 as a result of lowering interest rates on Federally guaranteed student loans. FAME's first purchase of student loans originated by other lending institutions was in July 2004. Thus, this figure represents interest income forgone for July 2004 – December 2004.
 (d) Amount not yet expensed, but committed to be paid by FAME. These origination fees are payable for Program loans that were originated by participating lenders between June 2004 and December 2004, but have not yet been purchased by FAME.