



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0227	Title:	Create carbon sequestration loan program
Primary Sponsor:	Erickson, Ron	Status:	As Introduced

- | | | |
|---|---|---|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input checked="" type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$100,000	\$75,000	\$35,000	\$35,000
State Special Revenue	\$0	\$275,000	\$275,000	\$275,000
Revenue:				
General Fund	(\$1,000,000)	(\$1,000,000)	(\$1,000,000)	\$0
State Special Revenue	\$1,030,000	\$1,073,955	\$1,143,078	\$197,201
Net Impact-General Fund Balance	(\$1,100,000)	(\$1,075,000)	(\$1,035,000)	(\$35,000)

Description of Fiscal Impact:

HB 227 creates a state special revenue carbon sequestration revolving loan account; allocates \$1 million from coal severance tax permanent fund interest annually for a period of three years; and authorizes an annual statutory appropriation of \$1 million to the Department of Natural Resources and Conservation (DNRC) for operation and management of a carbon sequestration revolving loan program.

FISCAL ANALYSIS

Assumptions:

Department of Natural Resources and Conservation (DNRC)

- Section 1(4) establishes a carbon sequestration revolving loan account to be administered by DNRC for providing loans for terrestrial carbon sequestration loans and shall offer loans of not more than \$50,000 each to be repaid within 10 years.
- Section 2(3) restricts the administration costs to 10% of the total loans or \$25,000 a year, whichever is higher. No loans would be issued until FY 2009 as rules would need to be written and adopted in FY

2008. The department assumes \$250,000 in loans would be approved each year FY 2009 through FY 2012, and therefore \$25,000 is available each of those years for administration.

3. Section 4(8)(iv) requires \$1 million would be deposited into the carbon sequestration revolving loan account from coal severance tax permanent fund interest annually for a period of three years. Interest earnings would be retained within the account, and loan principal and interest repayments would also be deposited into the account.
4. \$1 million would be statutorily appropriated annually for loans, administration, and legal services for debt collection if necessary.
5. Current DNRC staff could manage the loan portfolio; however, contracted services would be necessary for scientific, legal, and marketing services for this new program. FY 2008 and FY 2009 contracted services are estimated at \$50,000 for scientific assistance, \$30,000 for legal, and \$20,000 for marketing. FY 2010 and FY 2011 contracted services are estimated at \$50,000 for scientific assistance and \$10,000 for legal work. No expertise exists in this area within the DNRC. General fund would be utilized to fund these costs over and above that available from the revolving loan fund for administration.
6. A 3% interest rate is assumed on the loans. Accrued interest from the fund is estimated at \$30,000 in FY 2008, and \$60,000 in FY 2009, \$100,000 in FY 2010, and \$125,000 in FY 2012.
7. Loan principal and interest repayments are estimated to be \$13,955 in FY 2009, \$43,078 in FY 2010, and \$72,201 in FY 2011.

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Operating Expenses	\$100,000	\$100,000	\$60,000	\$60,000
Loans	\$0	\$250,000	\$250,000	\$250,000
TOTAL Expenditures	<u>\$100,000</u>	<u>\$350,000</u>	<u>\$310,000</u>	<u>\$310,000</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$100,000	\$75,000	\$35,000	\$35,000
State Special Revenue (02)	\$0	\$275,000	\$275,000	\$275,000
TOTAL Funding of Exp.	<u>\$100,000</u>	<u>\$350,000</u>	<u>\$310,000</u>	<u>\$310,000</u>
<u>Revenues:</u>				
General Fund (01)	(\$1,000,000)	(\$1,000,000)	(\$1,000,000)	\$0
State Special Revenue (02)	\$1,030,000	\$1,073,955	\$1,143,078	\$197,201
TOTAL Revenues	<u>\$30,000</u>	<u>\$73,955</u>	<u>\$143,078</u>	<u>\$197,201</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$1,100,000)	(\$1,075,000)	(\$1,035,000)	(\$35,000)
State Special Revenue (02)	\$1,030,000	\$798,955	\$868,078	(\$77,799)

Long-Range Impacts:

1. Loans would be issued for a period of ten years and the revolving loan program would be self-sustaining.

Technical Notes:

1. The bill needs to specify which agency will make the general fund transfer.
2. The accounting definition of revolving loan is a loan which renews upon maturity. Need clarification of definition of revolving loan account.
3. The bill needs to specify which fund type the loan account is to be.
4. 10% of the total loans or \$25,000 a year, whichever is higher is available for administration. No loans would be issued until FY 2009 as rules would need to be written and adopted therefore no funding is available in FY 2008 for administration. The program would have start-up cost for rule making, as well as legal and scientific assistance.
5. Terrestrial Carbon Sequestration is not currently defined in the bill.
6. The bill is vague on adequate criteria to allow the DNRC to establish “reasonable outcome measures”. There are few if any existing financial parameters or experience to guide this process. As a result a 5% loan loss ration may not be attainable.
7. Program administration needs are somewhat unknown as carbon sequestration involves developing science, developing markets and new program development.
8. Compliance with review of statutory appropriations as required by 17-1-508(2), MCA.
 - a. The fund will require an appropriation;
 - b. The loan program will be new. DNRC has no track record on the loan repayments so it is hard to say if that will be a reliable source of income for the program. The start-up money is from a continuing, reliable, and estimable sources;
 - c. The demand for loans and the repayment stream is hard to predict;
 - d. The authority does not exist elsewhere;
 - e. An alternative appropriation method is not available practical, or effective;
 - f. State general fund appropriation is being request because the anticipate state special revenue will not be sufficient to pay for the program to be set up;
 - g. The money is dedicated for a specific use;
 - h. The legislature wishes the activity to be funded on a continual bases; and
 - i. This will be a revolving loan fund, there is no sunset date.

Sponsor’s Initials

Date

Budget Director’s Initials

Date