GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0495	**Title:**	Continue state building energy conservation program
Primary Sponsor:	Sesso, Jon C	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☑ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
State Special Revenue	$3,463,115	$3,276,612	$876,210	$876,210
Revenue:				
State Special Revenue	$3,085,435	$3,209,786	$876,497	$947,181
Net Impact-General Fund Balance	$0	$0	$0	$0

Description of Fiscal Impact:

The fiscal impact of this bill will be neutral over time. INTERCAP loans will be used to improve the energy efficiency of state owned facilities. Efficiency improvements reduce the cost of energy for any given facility. The savings in energy costs are used to repay the loans. Loans of $6 million will be spent over the biennium and repaid over the following 15 years. An additional amount of $475,000 is being appropriated from funds remaining in a general obligation bond account. Those funds will also be repaid with energy savings.

FISCAL ANALYSIS

Assumptions:

Department of Commerce (DOC)

1. HB 495 authorizes the Board of Investments to loan up to $6 million to the Department of Environmental Quality to fund the State Building Energy Conservation Program. The loan would be made through the Board's INTERCAP Program and could be made prior to July 1, 2007.
2. For the purposes of this fiscal note, it is assumed HB 475 would be approved by a two-thirds vote of the members of each house of the Legislature.
3. The Board of Investments (BOI) operates under the "Prudent Expert" principal and before any loan could be made, the board would have to determine whether the loan contemplated in HB 475 would be prudent.

4. The INTERCAP Program, administered by the Board of Investments, sells tax-exempt bonds and loans the bond proceeds to eligible governments, including state and local agencies. The bonds are remarketed annually in March and the interest rates paid by INTERCAP borrowers are directly tied to the interest rates paid to bond holders. The current rate to borrowers is 4.75 percent, but the rate is anticipated to increase.
5. There would be no fiscal impact to the Department of Commerce.

Department of Environmental Quality (DEQ)

6. The state buildings energy conservation program has been in operation since 1989. HB 495 continues the program and provides $6 million for the program in the 2009 biennium.
7. It is estimated that $3 million will be spent in FY 2008 and the remaining $3 million will be spent in FY 2009.
8. The $6 million funding for the program will be from INTERCAP loans, which are considered state special revenue funds. An interest rate of 5.03% on these loans is assumed. This is the average interest rate on INTERCAP loans since 1987.
9. Loan payments will be made only on the amount of the loan that has actually been drawn down from the BOI. Loan funds are drawn when expenditures are made on the energy projects. Therefore, interest payments will be low in the first year but will increase through the third year when energy efficiency construction is complete and all funds have been spent and drawn down from BOI. Interest only payments will be made in FY 2008 and FY2009, the period of construction. Principal and interest payments on the loans will begin in FY 2010. Loan payments are estimated at $63,115 in FY 2008; $201,612 in FY 2009; and $876,210 in FY 2010 and FY 2011.
10. Revenue from energy savings will need to provide an amount that will cover the repayment of the INTERCAP loans and provide a reserve for interest rate increases.
11. The loans will be repaid with the energy costs savings from the efficiency improvements. These savings will begin one to two years after the projects have been started. Therefore, costs are incurred in FY 2008 and FY 2009, and savings will begin to accrue at an estimated $100,000 in FY 2009, increasing to $756,210 in FY 2010 and $876,210 in FY 2011.
12. Revenue from energy savings in FY 2009 is based on repayment of a few projects funded in 2008 and is estimated at $100,000.
13. Revenue from energy savings in FY 2010 will be based on repayment of $3 million in projects incurred in FY 2008, and a few projects completed in 2009 and is estimated at $756,210.
14. Revenue from energy savings in FY 2011 will be based on repayment of the full $6 million INTERCAP loan amount and is estimated at $876,210.
15. HB 495 appropriates an additional $475,000 for expenditure in the 2009 biennium in remaining funds from the general obligation bond. These funds were originally appropriated for program costs in previous biennia.
16. Program costs include project design, technical analysis, data collection and analysis, equipment, and construction. Costs for design, technical analysis, and data collection will not exceed $800,000 for the biennium. The $475,000 remaining in the special revenue account for energy conservation bonds (see assumption 15) will be used for these purposes first. Estimated expenditures from the carryover bond funds for technical analysis are $400,000 in FY 2008 and $75,000 in FY 2009. Up to $325,000 of the $6 million in INTERCAP loans will be used for project design, technical analysis, and data collection in FY 2009. The remaining $5,675,000 will be used for construction.
17. INTERCAP loans have a variable interest rate. The rate could increase or decrease each year. Eventually rate decreases may offset rate increases. However, it is necessary to plan for potential rate increases.
18. Funds remaining in the energy conservation program account, from the bond program will be swept to the energy conservation loan account. These funds will provide some of the reserve necessary to cover the risk of a rate increase and will be used for debt service on the loans.

19. The funds discussed in Assumption 18 are estimated at $85,435 for FY 2008, $109,786 for FY 2009, $120,287 for FY 2010 and $70,971 for FY 2011.
20. The reserve for rate increases will be 0.05% in FY 2009 estimated at $30,000, 0% in FY 2010, and 0.05% in 2011, estimated at $60,000.
21. Energy savings in future years will continue at the FY 2011 rate through FY 2021.
22. The program is designed so that projects, in aggregate, will pay for themselves. If there is not the ability for a project to pay for itself, it will not be financed. Assuming 10-year loans, projects must have an average pay back time of six-and-half to seven years. This payback time would be increased if 15-year loans were made allowing for lower annual debt service payments and increasing the amount of time that could be captured to repay loans. This payback time could also be increased when funds from utility demand side management programs are included in financing the projects. Utility funding is an unknown amount, so it is not calculated.

	FY 2008 Difference	**FY 2009 Difference**	**FY 2010 Difference**	**FY 2011 Difference**
Fiscal Impact:				
DEQ				
Expenditures:				
Operating Expenses	$3,463,115	$3,276,612	$876,210	$876,210
Funding of Expenditures:				
State Special Revenue (02)	$3,463,115	$3,276,612	$876,210	$876,210
Revenues:				
State Special Revenue (02)	$3,085,435	$3,209,786	$876,497	$947,181
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
State Special Revenue (02)	($377,680)	($66,826)	$287	$70,971

Long-Range Impacts:

1. Energy savings from projects will continue for many years. Comfort of building occupants and efficiency of operations will improve.

Sponsor's Initials *Date* *Budget Director's Initials* *Date*