

# RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

## Program Description

The Renewable Resource Grant and Loan (RRGL) program was created by the 1993 Legislature. This program combines the former Renewable Resource Development Program, established in 1975, and the Water Development Program, established in 1981. As outlined under Title 85, Chapter 1, part 6, MCA, the purpose of the RRGL is to fund projects that “enhance Montana’s renewable resources through projects that measurably conserve, develop, manage, or preserve resources.”

The Department of Natural Resources and Conservation (DNRC) administers the RRGL program, which involves a biennial application process. DNRC and a technical review team initially evaluate each application for economic and technical feasibility, as well as to ensure that proposed projects are located in Montana. Qualifying applications are then examined according to six criteria:

- Financial feasibility
- Adverse environmental impact
- Technical merit
- Public benefit
- Renewable Resource Benefit

EXHIBIT 8  
 DATE Jan. 14, 2013  
 HB 6

## Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Renewable Resource Grant and Loan Program				
Budget Item	Budget 2013 Biennium	Budget 2015 Biennium	Biennium Change	Biennium % Change
Number of Grants Funded	64	68	4	6.3%
	<u>Appropriated</u>	<u>Proposed</u>		
Grants Cost	\$6,260,000	\$6,761,983	\$501,983	8.0%
Other Grants	1,430,000	1,962,000	532,000	37.2%
Loan Program	13,724,457	7,435,056	(6,289,401)	-45.8%
<b>Total Costs</b>	<b>\$21,414,457</b>	<b>\$16,159,039</b>	<b>(\$5,255,418)</b>	<b>-24.5%</b>
State Special	\$7,690,000	\$8,723,983	\$1,033,983	13.4%
Bond Proceeds	13,724,457	7,435,056	(6,289,401)	-45.8%
<b>Total Funds</b>	<b>\$21,414,457</b>	<b>\$16,159,039</b>	<b>(\$5,255,418)</b>	<b>-24.5%</b>

## Program Discussion

As seen in the figure above, the executive proposes a total of \$16.2 million of appropriations for the RRGL programs in the 2015 biennium. Of the proposed appropriations, \$8.7 million is for various grant projects and \$7.4 million is for the loan program (only a reauthorization of previous authorized loans). The RRGL grant proposals are included in HB 6 and the loan proposals in HB 8. The 2015 biennium budget is \$5.3 million, or 24.5%, less than the RRGL budget in the 2013 biennium, and the change is primarily related to the reduced loan appropriations included in HB 8.

## Grant Program

DNRC received a total of 96 grant applications from local governments, from which 68 are recommended for grants at a cost of \$6,761,983. The RRGL grants program are presented in HB 6. Along with the appropriation for the local government grants, the executive RRGL grants proposal will also include appropriations for \$100,000 to fund the emergency grant program and \$1,062,000 for project planning grants. The executive recommendation also includes grants for other natural resource projects with include: \$300,000 for irrigation development grants, \$100,000 for private grants, \$200,000 for capacity building grants, and \$200,000 for a state water plan and inventory.

# RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

A complete listing of the RRGL local government conservation grants may be seen in Figure F.3 in the Section F appendix.

Note: Local governments often apply for both RRGL and Treasure State Endowment Program (TSEP) grants to provide funding for the same infrastructure projects. The RRGL grant table found in the appendix includes an indicator, "X", next to those local governments who also applied for a TSEP grant.

## Loan Program

The second element of the RRGL program is the loan program. The loan program, proposed in HB 8, will authorize the issuance of coal severance tax bonds to finance RRGL project loans. Proceeds from the issuance of bonds are used to fund the loans and the repayment of the loans fund the debt service. Loans have differing interest rates based on the borrower's financial capacity for loan repayment. The interest payments on some of the bonds are subsidized with earnings from the coal severance tax bond fund. Because these are general obligation bonds, they constitute state debt that requires a two-thirds vote of the members of each house. Moreover, because money from the coal severance tax bond fund is pledged for debt service payments on the bonds, the RRGL loan/bond bill will also require a three-fourths vote of the members of each house, as directed by the Montana Constitution.

The RRGL bond bill will include the reauthorization of three loans originally authorized by the 2013 Legislature. The total request for bond authority and appropriation is \$7.4 million and includes loan re-authorizations of \$6.4 million and an additional amount of \$1.0 million to establish a reserve for the bonds. The projects considered for loans are shown in the figure below.

Renewable Resource Loans 2015 Biennium		
Loans-Sponsor/Project	Loan Recommendation	Cumulative Total
<b>Section 1</b>		
Subsection (2) Projects (3.0% or State bond rate, whichever is lower-20 years) DNRC-Conservation and Resource Development Division (CARDD)		
Refinance Existing Debt or Rehabilitation of Water and Sewer Facilities	\$3,000,000	\$3,000,000
<b>Section 2<sup>1</sup></b>		
Subsection (2) Projects (4.5% or State bond rate, whichever is lower-15 years) DNRC-Water Resource Division (WRD)		
Ruby Dam Rehabilitation Project-Phase 2	2,000,000	5,000,000
Subsection (3) Projects (4.5% or State bond rate, whichever is lower-30 years) Sunset Irrigation District		
Gravity Flow Irrigation Pipelines	<u>1,465,266</u>	6,465,266
Total Loan Authorizations:	\$6,465,266	
Loan Reserve:	<u>969,790</u>	
Total Bond Request	<u>\$7,435,056</u>	
<small><sup>1</sup> Section 2 are loans to be reauthorized</small>		
<small>NOTE: Projects are grouped by differences in loan circumstances and interest rates.</small>		

Note: HB 8, as introduced will include amounts for the loan reserve and the total bond authority which are inaccurate. The amounts reflected in the figure above are the corrected amounts.

## Funding

The funding for the RRGL is provided through the "natural resource projects" state special revenue fund. To view the full natural resource projects fund balance analysis see page F-21. The RRGL loan program is financed with coal severance tax bond issues. The Board of Examiners will be authorized to issue coal severance tax

# RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

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bonds in the amount of \$7.4 million, which would be appropriated to the DNRC for financing the projects identified in the bill.

**LFD  
ISSUE**

Corrections Required

At some point in the process, the agency request related to the HB 8 loans was changed. The changes, which were made to the total amount of loans, were not carried through to the required amount of the loan reserve or to the total of authority provided in the bill draft. Additionally, when the changes were made, language that specified the use of the bond proceeds was inadvertently omitted. This is language that the agency believes is critical to have included in the legislation. Consequently, correcting amendments will be required in HB 8.

# RECLAMATION AND DEVELOPMENT GRANT PROGRAM

- Interest income of the resource indemnity trust (RIT) fund as provided in and subject to the conditions of 15-38-202, MCA (\$3.5 million each fiscal year for the purpose of making grants)
- Resource indemnity and ground water assessment tax (RIGWA) under provisions of 15-38-106, MCA (50% of the remaining proceeds, after appropriations for CIRCLA debt service, and \$366,000 to the groundwater assessment account, for the purpose of making grants)
- Oil and gas production tax as provided in 15-36-331, MCA (2.16% of oil and natural gas production taxes remaining after the distributions pursuant to subsections (2) and (3))
- Excess coal severance tax proceeds allocated by 85-1-603, MCA to the renewable resource loan debt service fund (above debt service requirements as provided in and subject to the conditions of 85-1-619, MCA)

As shown in the fund balance table below, the natural resource project account is estimated to have a beginning fund balance of \$1.5 million in the 2015 biennium. This beginning fund balance is primarily the result of greater than anticipated revenues from the oil and natural gas tax. Revenues for the biennium, as provided in the Legislative Fiscal Division (LFD) estimates, are expected to be \$13.6 million.

Appropriations from the natural resource projects account are authorized in Title 15, Chapter 38, MCA, which states, "Appropriations may be made from the natural resources projects state special revenue account for grants and loans for designated projects and the activities authorized in 85-1-602 and 90-2-1102", the RRGL and RDGP programs. In the 2015 biennium, the executive budget recommends total appropriations of \$8.7 million for the RRGL program and other grants proposed for HB 6 and \$6.2 million for the RDGP program from the natural resource projects account. The ending fund balance at the end of the 2015 biennium is projected to be \$110,185.

Natural Resource Project Account (02577)							
2015 Biennium							
Estimated Beginning Fund Balance (7/1/2013)			\$1,525,195				
Revenue Projections <sup>1</sup>		<table border="0" style="width: 100%;"> <tr> <td style="width: 20%;"></td> <td style="width: 20%; text-align: center;">FY 2014</td> <td style="width: 20%; text-align: center;">FY 2015</td> <td style="width: 40%; text-align: center;">Biennium Total</td> </tr> </table>		FY 2014	FY 2015	Biennium Total	
	FY 2014	FY 2015	Biennium Total				
RIT Interest Earnings	\$3,398,646	\$3,500,000	\$6,898,646				
Resource Indemnity & Groundwater Tax	937,922	977,922	1,915,844				
Oil and Natural Gas Tax	2,373,085	2,334,043	4,707,128				
Administrative Fees	31,000	0	<u>31,000</u>				
2015 Biennium Revenues			13,552,618				
HB 6 Appropriations <sup>2</sup>							
Emergency Grants			(100,000)				
Project Planning Grants			(1,062,000)				
Irrigation Development Grants			(300,000)				
Private Grants			(100,000)				
Capacity Building Grants			(200,000)				
State Water Plan			(200,000)				
Proposed RRGL Project Grants			<u>(6,761,983)</u>				
Total RRGL Appropriations			(8,723,983)				
HB 7 Appropriations <sup>3</sup>							
Project Planning			(1,000,000)				
Aquatic Invasive Species Control			(525,000)				
Oil and Gas Development Groundwater Sampling			(300,000)				
Proposed RDGP Project Grants			<u>(4,418,645)</u>				
Total RDGP Appropriations			<u>(6,243,645)</u>				
Estimated Ending Fund Balance (6/30/2015)			<u>\$110,185</u>				
<sup>1</sup> LFD Estimates							
<sup>2</sup> Executive proposal (HB 6)							
<sup>3</sup> Executive proposal (HB 7)							