

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM 5**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

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 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Number of Grants Funded	90	100	10	11.1%
	<u>Appropriated</u>	<u>Proposed</u>		
Grants Cost	\$8,967,632	6,072,614	(\$2,895,018)	-32.3%
Other Grants	3,485,686	1,400,000	(2,085,686)	-59.8%
Bonded Grants Cost	0	6,311,134	6,311,134	-
Tribal Compact Funding	17,000,000	0	(17,000,000)	-100.0%
Loan Program	24,711,793	26,602,374	1,890,581	7.7%
Total Costs	\$54,165,111	\$40,386,122	(\$13,778,989)	-25.4%
State Special	\$29,453,318 *	\$7,472,614	(\$21,980,704)	-74.6%
CST Bond Proceeds	24,711,793	26,602,374	1,890,581	7.7%
GO Bond Proceeds	0	6,311,134	6,311,134	-
Total Funds	\$54,165,111	\$40,386,122	(\$13,778,989)	-25.4%
* Includes \$20.5 million transferred from the general fund				

Program Discussion

As seen in the figure above, the executive proposes a total of \$40.4 million of appropriations for the RRGL programs in the 2017 biennium. Of the proposed appropriations, \$13.8 million is for various grant projects and \$26.6 million is for the loan program. The RRGL grant proposals are included in HB 5, Sec. 8, and the loan proposals are included in Sec. 13 through 19. The 2017 biennium budget proposal is \$13.8 million, or 25.4%, less than the RRGL budget in the 2015 biennium, but it is useful to remember that in the prior biennium the legislature provided transfers of \$20.5 million from the general fund to the RRGL program in the 2015 biennium for the state's share of tribal compact funding and projects in the 2015 biennium.

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A complete list of the requested RRGL projects; including the total project cost and the recommended grant amount may be seen in Figure A3 in the Section F appendix. The details behind the grants requested for the 2017 biennium RRGL, along with a status of grants awarded in the 2015 biennium, are presented in Vol. 6 of the Governor's Executive Budget.

Grant Program

DNRC received a total of 105 grant applications from local governments, from which 100 are recommended for grants at a cost of \$12.4 million. The RRGL grants programs are presented in HB 5, Sec. 8. Along with the appropriation of \$6.1 million for the local government grants, the executive RRGL grants proposal will also include appropriations for \$100,000 to fund the emergency grant program, and \$700,000 for project planning grants. The executive recommendation also includes grants for other natural resource projects which include:

- \$200,000 for irrigation development grants
- \$300,000 for watershed grants, projects that will lead to the restoration of the form and natural function of a watershed that may include projects for restoration planning, nutrient loading studies, infrastructure assessment, stormwater control, development of bank storage areas, and the like
- \$100,000 for septic loan grants, grants to counties to create a small revolving loan fund to provide low interest loans to individuals needing to make repairs on wastewater treatment systems. The effort is directed to the elimination of contamination to bodies of water in the state

The executive proposal also includes an appropriation of \$6.3 million for RRGL grants, found in Sec. 28, that would be funded with the proceeds from the Build Montana Bond Program. For more information on the Build Montana Act, see F-4 of this report.

Loan Program

The second element of the RRGL program is the loan program. The loan program, proposed in HB 5, Sec. 13 through 19, 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 state's bond rate. The interest payments on some of the bonds may be subsidized with earnings from the coal severance tax bond fund. Because money from the coal severance tax bond fund is pledged for debt service payments on the bonds, the applicable sections of HB 5 will require a three-fourths vote of the members of each house, as directed by the Montana Constitution.

The project loans included in the RRGL loan program are seen in the figure on the following page. Loans would include the reauthorization of two loans originally authorized by the 2015 Legislature. The proposal also includes loans for the Deadmans Basin project, a state owned project where the water users' association will be responsible for the payment of the debt. Four project loans amounting to \$2.7 million would be used in combination with grant proceeds for renewable resource projects, and DNRC requests \$5.0 million of bond proceeds to refinance higher interest debt for water and sewer facilities. The total request for bond authority and appropriation is \$26.6 million and includes an additional amount of \$2.4 million to establish a reserve for the bonds.

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Renewable Resource Loans 2017 Biennium			
Loans-Sponsor/Project	County	Proposal	Cumulative Total
<u>Loans with interest rates of 3.0% or State bond rate, whichever is lower-20 years</u>			
DNRC-Conservation and Resource Development Division (CARDD)			
Refinance Existing Debt or Rehabilitation of Water and Sewer Facilities	Statewide	\$5,000,000	\$5,000,000
<u>Loans with interest rates of 4.0% or State bond rate, whichever is lower-30 years¹</u>			
Dry Praire Retional Water System			
Local Share	Roosevelt	6,000,000	11,000,000
North Central Regional Water System			
Local Share	Hill	10,000,000	21,000,000
<u>Loans with interest rates of 4.0% or State bond rate, whichever is lower-20 years</u>			
Deadmans Basin Project, State Owned Project			
Irrigation Infrastructure	Wheatland	500,000	21,500,000
Bitter Root Irrigation District			
Siphon 1 - Phase 3 Improvements Project	Ravalli	1,773,976	23,273,976
Highwood			
Wastewater System Improvments	Choteau	60,000	23,333,976
Yellowstone Boys and Girls Ranch			
Wastewater System Improvments	Yellowstone	800,000	24,133,976
Dillon			
Water System Improvments	Beaverhead	<u>50,000</u>	24,183,976
Total Loan Authorizations:		\$24,183,976	
Loan Reserve:		<u>2,418,398</u>	
Total Bond Request		<u>\$26,602,374</u>	
¹ Loans to be reauthorized			
NOTE: Projects are grouped by differences in loan circumstances and interest rates.			

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-31. The RRGL loan program is financed with coal severance tax bond issues. The Board of Examiners will be authorized to issue coal severance tax bonds in the amount of \$26.6 million, which would be appropriated to the DNRC for financing the projects identified in the bill.