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The Impacts and Costs Associated With the Payback Period for a TSEP Loan

There are both positive and negative impacts associated with the length of the term selected for paying back a loan that will be required by the Treasure State Endowment Program (TSEP) to fund all of the projects awarded a grant by the 2007 Legislature that meet the required start-up conditions by June 30, 2009.

<u>The positive impacts of paying off the loan quickly</u>:

- No long-term impact on the amount of TSEP funds available for funding projects in future legislatures. Once the loan is paid off, the program would return to funding as many projects as it could, based on the interest earnings available, without any reduction for the cost of the loan repayment.

- Less interest would be paid on the loan. The lower the amount of interest paid on the loan would result in the ability to fund more projects over the long-term.

<u>The negative impacts as a result of fewer projects being able to be funded</u>:

- Many projects would be further delayed, which would almost certainly increase the cost of the project due to general inflation, and potentially, the even higher inflation on specific construction materials (concrete, steel, plastic pipe) and fuel needed to operate equipment and deliver materials.

- Preliminary engineering reports would need to be revised in order to apply to the TSEP again (to update cost figures and make any other revisions if the report was deficient), which would add to the overall cost of the project for the communities.

- The lost opportunity to leverage TSEP dollars against other federal and state funding sources, such as the State Revolving Loan Fund (SRF), Community Development Block Grant Program (CDBG), and the USDA Rural Development programs (RD), as well as State and Tribal Assistance Grants (STAG) and the U.S. Army Corps of Engineers Section 595 Water Resource Development Act grants (WRDA). Most projects depend upon TSEP grants along with other grants and low interest loans to complete a funding package. In the case of STAG and WRDA grants, TSEP grants often provide the critical hard match that is required by these programs.

- The lost investment in Montana's economy through the impact of construction of infrastructure and the inability of some communities to encourage additional local economic development or growth until the project is finally funded.

- One result could be a long-term backlog of projects waiting to obtain a TSEP grant in order to make projects financially feasible. The unfunded TSEP applications from 2009 may be added to the next batch of new TSEP applications received in 2010, substantially increasing the total number of projects seeking grants during the 2011 Legislature. This backlog of unfunded projects could potentially carry forward into future TSEP funding cycles.

- There is an expectation among applicants and engineers that TSEP will do business as usual, or nearly so. An early pay-off would be extremely frustrating to the applicants that applied to TSEP in good faith in the expectation that a normal percentage of projects would be funded.

- Unsuccessful TSEP applicants would be faced with two choices: either to defer or downsize projects (which means putting them off into the future when they are likely to be much more costly to construct), or to borrow more now to make up the difference in decreased TSEP grant funds. The cost of borrowing additional funds would fall on local ratepayers, increasing overall community debt, and increasing monthly costs for the individual households served by the facility.

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