

Renewable Resource Grant and Loan Program

Project Evaluations and Funding Recommendations
For the 2021 Biennium

and

2019 Biennium Status Report

Prepared by the

Montana
Department of Natural Resources
and Conservation

Conservation and Resource Development Division
Resource Development Bureau

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*** Shortened Version ***

The full version of the report is accessible here:

<http://dnrc.mt.gov/divisions/cardd/docs/resource-development/budget/2021-biennium-budget-books/rrg-2021-biennium-budget-book.pdf>

A copy of the full report is also available on the LGIC website, located here: <https://leg.mt.gov/committees/interim/2019lgic/>

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CHAPTER I

The Renewable Resource Grant and Loan Program

This report provides general information about the Renewable Resource Grant and Loan (RRGL) program administered by the Montana Department of Natural Resources and Conservation (DNRC). RRGL project grants recommended to the 2019 Legislature for funding are described in Chapter II.

Background

The Renewable Resource Grant and Loan program is the product of two earlier resource management programs: the Renewable Resource Development program established in 1975 and the Water Development program established in 1981. In 1993, the two natural resource grant programs were combined to form the RRGL program. At that time, the DNRC Resource Development Bureau assumed responsibility for administering the RRGL program as stipulated under Title 85, part 6, MCA. Combining the two programs streamlined program administration but did not change applicant and project eligibility criteria.

RRGL grants are funded by revenue generated from resource extraction taxes. Portions of the following sources of revenue are deposited in the natural resource projects state special revenue account (SSRA): the resource indemnity groundwater assessment tax, the oil and gas production tax, and interest earnings from the resource indemnity trust fund. Funds from the natural resource projects SSRA are shared by DNRC's two natural resource grant programs: the Reclamation and Development Grants program and RRGL program.

Purpose

The purpose of the RRGL program is to further the state's policies, set forth in Section 85-1-101, MCA, regarding the conservation, development, and beneficial use of renewable resources and to invest in renewable resource projects that will preserve for the citizens of Montana the economic and other benefits of the state's natural heritage.

Project and Applicant Eligibility

Grants and loans are available for projects that conserve, manage, develop, or preserve the state's water, land, vegetation, fish, wildlife, recreation, and other renewable resources. The majority of projects funded under this program are water resource projects followed by forestry, soil conservation, renewable energy, and solid waste projects. Project funding is available for construction, research, design, demonstration, and planning.

The legislature established that *this long-term renewable resource grant and loan program provide financial and administrative assistance to private for-profit, private, nonprofit, local government, state government, and Tribal government entities for renewable resource grant and loan projects.* (85-1-601 MCA). For the purposes of RRGL grants, eligible applicants include public entities (cities, towns, counties, irrigation districts, conservation districts, school districts, Tribal governments, and the Montana state government) and private entities (individuals, associations, corporations, and other for profit or nonprofit organizations.) Grant programs described in this report provide grants to public and/or private entities. See specific grant and loan program descriptions for applicant eligibility requirements.

Renewable Resource Grants and Loans

Project Grants are available to government entities up to \$125,000. These projects are the primary purpose of and use most of the appropriated funds for the RRGL program. Grants must be individually approved by the Montana Legislature. Chapter II provides more information about the program and about grants active during the 2019 biennium.

Public Loans are backed by the coal severance tax and are available to public entities. These loans and their interest rates must be individually approved by the Montana Legislature. Chapter III provides more information about the program and about loans active during the 2019 biennium.

Private Grants and Loans are available to nongovernment entities only. These projects must benefit or develop a renewable resource and provide a public benefit. Chapter IV describes private grants and loans active during the 2019 biennium.

Irrigation Development Grants assist producers and irrigation system managers with projects that would increase crop value or expand irrigated acreage in Montana. Chapter V provides more information about the program and irrigation development grant projects active during the 2019 biennium.

Emergency Grants and Loans are available to governmental entities to resolve water-related emergencies that, if delayed until the next regular legislative session, would result in substantial damages. Chapter VI of this report provides more information about the program and describes emergency assistance provided during the 2019 biennium.

Planning Grants provide funding to governmental entities for activities that lead to a well-prepared RRGL project grant application or assist a community with infrastructure planning or project prioritization. Chapter VII provides more information about the program and planning grants active during the 2019 biennium.

Watershed Management Grants support the development and implementation of locally led watershed resource management activities. Chapter VIII provides more information about the grant program and watershed management projects active during the 2019 biennium.

Septic Loan Grants were available to Montana counties willing to set up a revolving loan program to subsidize conversions from septic to a central wastewater treatment facility. Chapter IX describes grants active during the 2019 biennium.

Funding Limitations

The law does not impose specific limitations on the amount of grant funding that the Legislature may provide for renewable resource projects proposed by governmental entities. Grant recommendations presented by DNRC to the Legislature Joint Subcommittee for Long-Range Planning are for limited amounts up to \$125,000. DNRC put these grant limits in place to obtain optimal public benefit from the investment of public funds. However, the Legislature has the authority to appropriate grants and loans in amounts the Legislature deems appropriate.

Funding Authority

The public and private renewable resource loan programs are funded through the issuance of general obligation and coal severance tax bonds. The 2017 Legislature did not grant authority to fund loans backed by coal severance taxes.

In 2017, the Legislature appropriated the following from the natural resource projects state special revenue account: \$3,231,640 for renewable resource project grants, \$800,000 for planning grants, \$300,000 for irrigation development grants, \$50,000 for emergency grants, and \$300,000 for watershed management grants.

Program Implementation

DNRC's role in the management of the RRGL program is specified in Part 6 of Title 85. By statute (85-1-605, MCA), DNRC only makes project-funding recommendations. The Legislature appropriates funding for project grants and authorizes loans to governmental entities that it finds consistent with the policies and purposes of the program. In presenting recommendations to the Legislature, DNRC provides information about each project for legislative consideration. All public grant requests are ranked by DNRC to demonstrate the potential value of a given project compared to all other grant requests. Grant requests that do not meet minimum technical and financial standards are not recommended by DNRC for funding. DNRC manages the grants and loans according to conditions set out in the DNRC report to the Legislature (this report) and in legislation appropriating funds for RRGL projects.

DNRC provides the staffing necessary to administer the RRGL program. DNRC publicizes the statutes and rules that govern these loans and sets application deadlines. Private entities also comply with additional eligibility criteria, as set forth in 85-1-609 and 610, MCA.

Rule-Making Authority

DNRC may propose and adopt rules to clarify statutory requirements however DNRC cannot expand or limit the mission of the RRGL program beyond legislative intent. DNRC does not have the authority to narrow the range of eligible grants based on DNRC priorities. Title 85, MCA, directs DNRC to adopt rules that prescribe the application fee and content for grant and loan applications. DNRC also determines the ranking criteria used to evaluate and prioritize public grant applications and the process for awarding grants and loans to private entities according to statute. DNRC authority provides for the servicing of loans and determination of the terms and conditions for making grants and loans.

Program Goals

DNRC seeks to meet program purpose through the following practices:

- Effectively administer grants and loans to ensure that funds are used for allowable costs and that projects are executed in accordance with conditions set by the Legislature and in compliance with Title 85, MCA, and other applicable laws, without undue burden to the recipient.
- Conduct project oversight to ensure state tax monies are used for the purposes outlined in this report and in legislative bills appropriating funds for RRGL projects.
- Inform the public and private sectors that grant and loan funding for water and other renewable resource projects is available, that certain applicant eligibility criteria for obtaining funds exist, and that projects that meet the purposes of Title 85, MCA, qualify for funding.
- Coordinate with other state and federal agencies to support projects that rely on multiple funding sources, facilitate a uniform application process for infrastructure projects, and award funds without duplication.
- Solicit public comment and suggestions for improvements to the program.
- Evaluate grant projects on the basis of technical merit and the resource benefits established in statute.
- Offer loans at the most affordable rates available through the sale of bonds.
- Adequately secure loans to protect the investment of public funds.
- Advise the Legislature concerning DNRC efforts to effectively administer the program according to statute and legislative intent.

CHAPTER II Renewable Resource Grants to Public Entities

Application Administration and Project Review Procedures

The Department of Natural Resources and Conservation (DNRC) Resource Development Bureau accepts applications for public grants and loans submitted or postmarked by May 15 of each even-numbered year. Applications are submitted through Webgrants, the Montana Grant and Loan website: <https://fundingmt.org>. This website provides grant program information and on-line application services for seven Montana state agencies.

Project Solicitation

DNRC solicits project applications from all eligible applicants for all eligible project types. DNRC maintains an extensive mailing list to promote the program and to solicit applications from eligible applicants. Mailing lists include Montana county governments, cities and towns, the university system, state agencies, environmental organizations, water users associations, irrigation districts, water and sewer districts, Tribal governments, and conservation districts. In addition, DNRC staff conduct workshops and present at conferences to advertise funding opportunities to local governments and other eligible entities. Application guidelines are available in hard copy and online on the DNRC website.

DNRC received 76 applications in May 2018 requesting a total of \$9,464,863. In the previous 2016 application cycle, 95 applicants were received, requesting \$11,555,800 in grant funding.

The RRGL application requests the following information for each project:

- A proposal abstract summarizing the project and its merits;
- A technical narrative describing the project's purpose, history, and prior efforts; specific goals and objectives, as well as a discussion of project alternatives; and documentation supporting the technical narrative;
- A financial narrative and budget forms describing the project's funding structure;
- Affordability data used to evaluate the local financial commitment for infrastructure projects, including a description of the applicant's ability to pay, such as potential to generate revenue through fees or taxes;
- A project management plan;
- A discussion of public and natural resource benefits achieved by the proposed project; and
- An environmental checklist identifying adverse environmental impacts that may occur as a result of the project.

Those projects that most closely meet statutory priorities rank the highest. Projects that meet program purpose to a lesser extent and appear to be less feasible than others tend to rank the lowest.

Application Review

All applications received by the deadline were evaluated for completeness. The DNRC notified applicants concerning missing documentation, application fees, or other basic requirements and provided time for applicants to submit additional material. The DNRC then distributed the applications to a team of reviewers for evaluation. These primary reviewers included DNRC staff, engineers, and consultants procured by DNRC. Projects were assigned based on the reviewer's area of expertise.

Applications also underwent one or more secondary reviews. Secondary reviewers provided information on regulatory requirements, existing natural resource management plans, and specialized technical issues. Secondary reviewers included staff from DNRC, other government agencies, specialized nonprofits, and contracted specialists.

Figure 1 shows the flow of the grant application review and ranking process. The technical review team evaluated each application to ensure that the proposal was technically and financially feasible. During project review, the reviewers were directed to request additional detailed technical and financial information from applicants to clarify applications. With the results of their own evaluations and comments from

secondary reviewers, primary reviewers assessed and documented the merits of each proposal based on standard review criteria outlined in review guidance.

During application review, DNRC also sought views of interested and affected parties. Local, state, and federal agencies, environmental groups, private organizations, and universities are solicited for input during the technical review of applications. DNRC developed guidelines specifically for application review to ensure a consistent basis for reviewing applications.

Table 1 2018 Grant Applications by Order of Ranking Recommendation

(shaded applications were 2017 Projects that lost funding and submitted for reconsideration)

Ranked Order	Project Sponsor/Project Name	Recommended Grant Funding	Cumulative Recommended	Recommended RRG Loan Funding
1	Seeley Lake – Missoula County Sewer District Wastewater Improvements, Phase 2	\$125,000	\$125,000	
2	Granite County Flint Creek Dam Rehabilitation	\$125,000	\$250,000	
3	Whitefish, City of Wastewater Treatment System Improvements	\$125,000	\$375,000	
4	Missoula, City of Rattlesnake Creek Dam Removal	\$125,000	\$500,000	
5	Montana Department of Natural Resources and Conservation Water Resources Division Douglas Canal Rehabilitation	\$125,000	\$625,000	
6	Flathead Conservation District Trumbull Creek Restoration and Aquifer Protection	\$125,000	\$750,000	
7	Canyon Creek Irrigation District Canyon Lake Dam Rehabilitation	\$125,000	\$875,000	\$154,218
8	Harlowton, City of Roundhouse Wetland Restoration	\$125,000	\$1,000,000	
9	Thompson Falls, City of Wastewater System Improvements, Phase 1	\$125,000	\$1,125,000	
10	Montana Department of Natural Resources and Conservation Water Resources Division Broadwater Missouri Canal System Master Plan	\$125,000	\$1,250,000	
11	Winnett, Town of Wastewater System Retrofit	\$125,000	\$1,375,000	
12	Bitter Root Irrigation District Como Dam Water Resource Enhancement	\$125,000	\$1,500,000	
13	Harlowton, City of Wastewater Improvements	\$125,000	\$1,625,000	
14	Milk River Joint Board of Control St. Mary Canal Drop 2 Replacement	\$125,000	\$1,750,000	
15	Whitehall, Town of Water Treatment Plant Improvements	\$125,000	\$1,875,000	
16	Lewis and Clark Conservation District Willow Creek Feeder Canal Rehabilitation	\$125,000	\$2,000,000	
17	Fort Belknap Indian Community Three Mile Creek Pump Station Rehabilitation	\$125,000	\$2,125,000	
18	Malta Irrig. Dist. (Reconsideration) Exeter Siphon Replacement	\$125,000	\$2,250,000	

Ranked Order	Project Sponsor/Project Name	Recommended Grant Funding	Cumulative Recommended	Recommended RRG Loan Funding
19	Roundup, City of Water System Improvements	\$125,000	\$2,375,000	
20	Glasgow Irrigation District V-63 Lateral Conversion	\$125,000	\$2,500,000	
21	Broadwater Conservation District Big Springs Ditch Water Conservation, Phase 2 (Reconsideration)	\$125,000	\$2,625,000	
22	Pondera County Conservation District Swift Dam Rehabilitation	\$125,000	\$2,750,000	
23	Simms County Sewer District Wastewater System Improvements, Phase 2	\$125,000	\$2,875,000	
24	Malta Irrigation District Costin Lateral Pipeline Conversion	\$125,000	\$3,000,000	
25	Power-Teton County Water and Sewer District Water System Improvements, Phase 1	\$125,000	\$3,125,000	
26	Scobey, City of Water System Improvements, Phase 2	\$125,000	\$3,250,000	
27	Bigfork County Water and Sewer District Wastewater System Improvements	\$125,000	\$3,375,000	
28	Buffalo Rapids Irrigation Project District 2 Lateral 1.6 Pipeline Conversion	\$125,000	\$3,500,000	
29	Sidney Water Users Irrigation District 3 (Reconsideration) Main Canal Pipeline Conversion, Phase 1	\$125,000	\$3,625,000	
30	Hill County Beaver Creek Dam Spillway Improvements	\$125,000	\$3,750,000	
31	Sidney Water Users Irrigation District 3 Main Canal Pipeline Conversion, Phase 2	\$125,000	\$3,875,000	
32	Flathead Conservation District Krause Creek Restoration	\$125,000	\$4,000,000	
33	Alfalfa Valley Irrigation District East Flynn Canal Rehabilitation	\$125,000	\$4,125,000	
34	Lower Musselshell Conservation District Delphia Melstone WUA Irrigation Efficiency and Pump Station Rehabilitation	\$117,050	\$4,242,050	
35	Buffalo Rapids Irrigation Project District 2 (Reconsideration) Shirley Main Canal Rehabilitation	\$125,000	\$4,367,050	
36	Columbia Falls, City of Water System Improvements	\$125,000	\$4,492,050	

Ranked Order	Project Sponsor/Project Name	Recommended Grant Funding	Cumulative Recommended	Recommended RRG Loan Funding
37	Buffalo Rapids Irrigation Project District 1 Lateral 1.7 Pipeline Conversion	\$125,000	\$4,617,050	
38	Hardin, City of Wastewater Treatment Plant Improvements	\$125,000	\$4,742,050	
39	Dillon, City of Water Transmission and Distribution Main Replacement	\$125,000	\$4,867,050	
40	Helena Valley Irrigation District Lateral 14.8 Headgate Rehabilitation	\$125,000	\$4,992,050	
41	Polson, City of Wastewater System Improvement, Phase 2	\$125,000	\$5,117,050	
42	Carbon County Conservation District Golden Ditch Company Clarks Fork Diversion Rehabilitation	\$125,000	\$5,242,050	
43	Savage Irrigation District Infrastructure Rehabilitation	\$125,000	\$5,367,050	
44	Petroleum County Conservation District Horse Creek Coulee Water Storage, Phase 1	\$125,000	\$5,492,050	
45	Wibaux, Town of Wastewater Treatment System Improvements	\$125,000	\$5,617,050	
46	Alberton, Town of Water System Improvements	\$125,000	\$5,742,050	
47	Geraldine, Town of Wastewater System Improvements	\$125,000	\$5,867,050	
48	Missoula, City of Caras Park Outfall Stormwater Treatment Retrofit, Phase 2	\$125,000	\$5,992,050	
49	Black Eagle-Cascade County Water and Sewer District 2019 Water and Sewer System Improvements	\$125,000	\$6,117,050	
50	East Helena, City of Water System Improvements	\$125,000	\$6,242,050	
51	Plentywood, City of Wastewater Collection Improvement, Phase 2	\$125,000	\$6,367,050	
52	Missoula County Lewis & Clark Subdivision Wastewater Improvements, Phase 2	\$125,000	\$6,492,050	
53	Wilsall Water District Water System Improvements	\$125,000	\$6,617,050	
54	Lower Yellowstone Irrigation Project Crane Wasteway and Pump Station Rehabilitation	\$125,000	\$6,742,050	

Ranked Order	Project Sponsor/Project Name	Recommended Grant Funding	Cumulative Recommended	Recommended RRG Loan Funding
55	Missoula Conservation District Grass Valley French Ditch Clark Fork Diversion Rehabilitation	\$125,000	\$6,867,050	
56	Montana Bureau of Mines and Geology Reducing Mobilization of Oil-Brine Salt to Streams	\$125,000	\$6,992,050	
57	Winifred, Town of Water System Improvements	\$125,000	\$7,117,050	
58	Hysham, Town of Wastewater System Improvements, Phase 1	\$125,000	\$7,242,050	
59	Vaughn Cascade County Water and Sewer District Water Improvements	\$125,000	\$7,367,050	
60	Stillwater Conservation District Yanzick/Brey-Riddle Ditches Irrigation System Improvements, Phase 2	\$125,000	\$7,492,050	
61	Lockwood Water and Sewer District Drinking Water System Improvements	\$125,000	\$7,617,050	
62	Circle, Town of Water System Improvements	\$125,000	\$7,742,050	
63	Yellowstone County Disaster and Emergency Services BBWA Main Canal Rehabilitation, Phase 1	\$125,000	\$7,867,050	
64	Hysham Irrigation District Re-Lift Canal Improvement	\$125,000	\$7,992,050	
65	Clyde Park, Town of Water System Improvements	\$125,000	\$8,117,050	
66	Libby, City of Water System Improvements	\$125,000	\$8,242,050	
67	Chinook, City of Water System Improvements	\$125,000	\$8,367,050	
68	Cut Bank, City of Water System Improvements	\$125,000	\$8,492,050	
69	North Havre County Water District Water System Improvements	\$125,000	\$8,617,050	
70	Plains, Town of Wastewater System Improvements	\$125,000	\$8,742,050	
71	Montana Bureau of Mines and Geology Measuring Groundwater Recharge in Flood to Pivot Irrigation Conversions	\$125,000	\$8,867,050	
72	Cascade, Town of Water System Improvements	\$125,000	\$8,992,050	
73	Fallon County Baker Lake Restoration	\$100,000	\$9,092,050	
74	Pondera County Conservation District Kingsbury Turnout Automation	\$125,000	\$9,217,050	

	Tin Cup County Water and Sewer District			
75	Water Conservation	\$125,000	\$9,342,050	
76	Clancy Water and Sewer District			
	Water System Improvements	\$125,000	\$9,467,050	

Figure 2 Requested Funding by Project Type

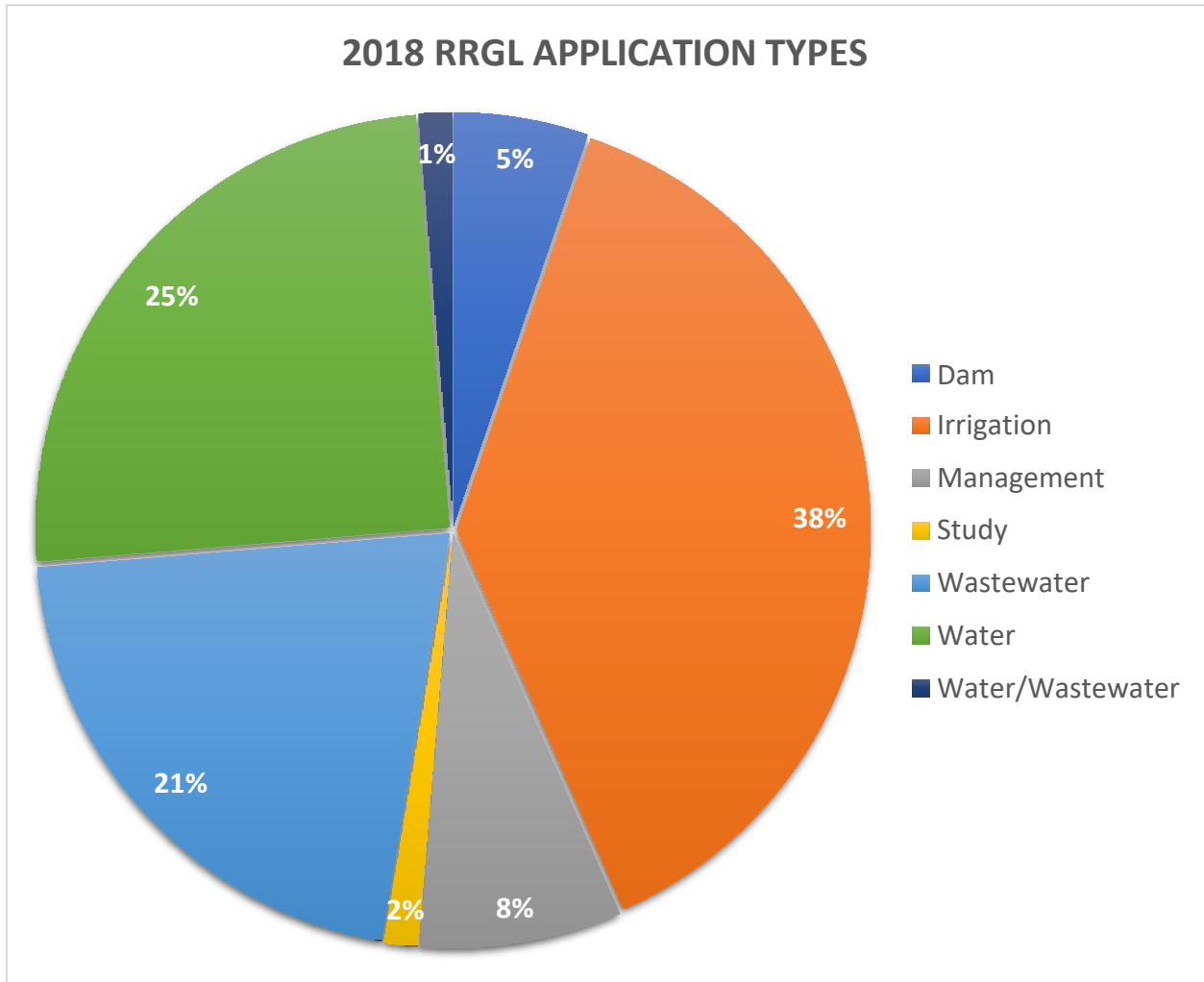
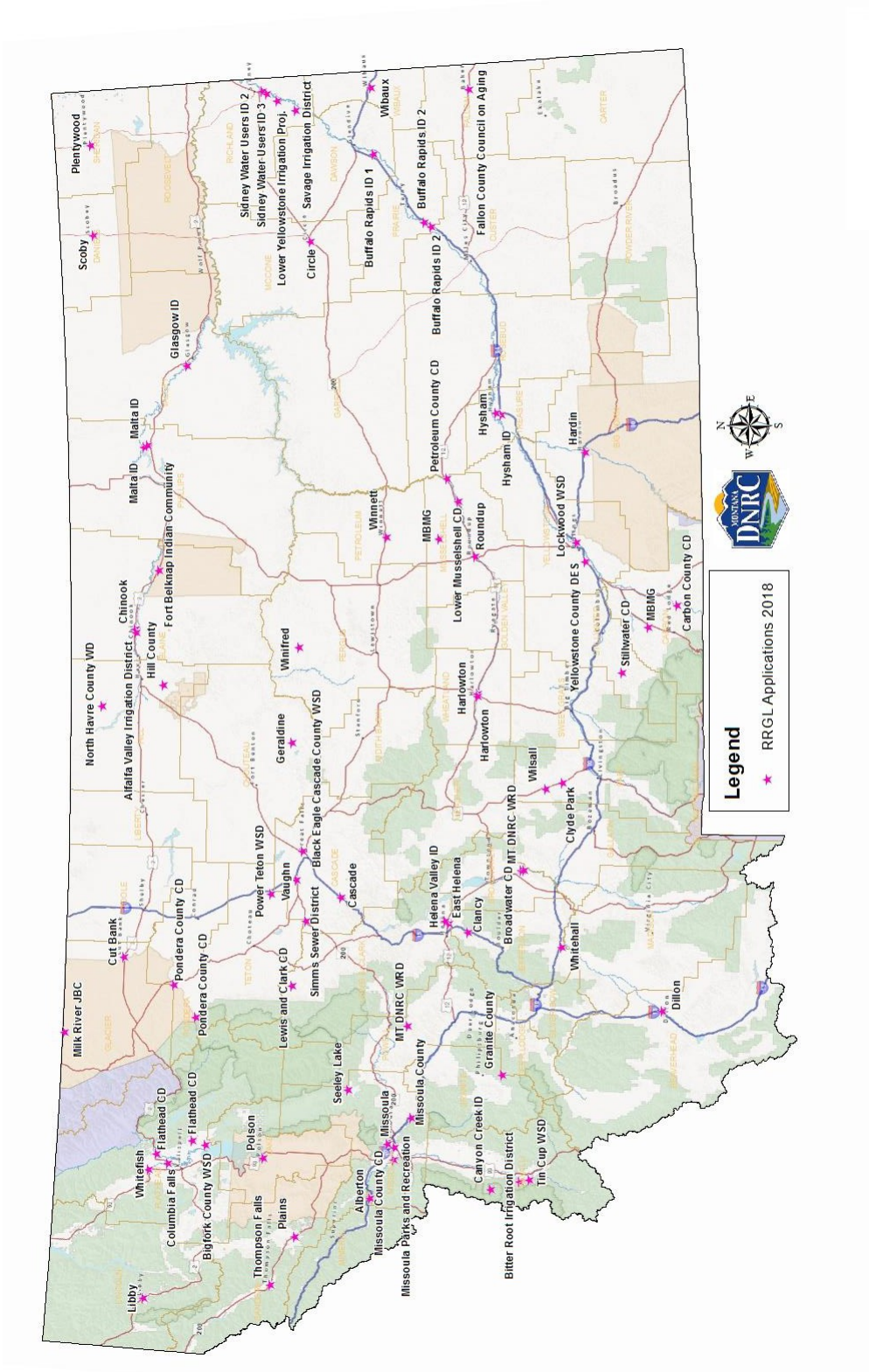


Figure 3 2018 RRGL Applications – Location Map



CHAPTER III

Coal Severance Tax Loans to Public Entities

Applications for public loans are accepted by the Department of Natural Resource and Conservation's (DNRC) Resource Development Bureau until May 15 of each even-numbered year at the same time other applications are due from public applicants under this program. These loans are provided with proceeds from the sale of Coal Severance Tax (CST)-secured bonds and can be offered at a subsidized interest rate. The subsidy is paid with coal tax revenues.

Project Solicitation

Applications for public loans are solicited through the same process DNRC uses to solicit public grant applications described in Chapter II. The availability of low-interest loan funds is widely advertised through direct mailings, press releases in association with commercial newspapers, and contacts made during promotional workshops conducted jointly by DNRC, Montana Department of Commerce, and Montana Department of Environmental Quality (DEQ) at the local level. The same application form is used for both grant and loan applications.

Application Review

All public loan applications received by the deadline are evaluated for completeness. Those missing documentation, application fees, or other basic requirements are notified and allowed time to submit additional material. After applications are reviewed for completeness and any additional information needed has been obtained from the sponsor, completed applications are given to the team of key reviewers for review and evaluation. Loan applications are reviewed to determine financial, environmental, and technical feasibility as well as renewable resource and citizen benefits.

Funding Recommendations

All feasible public loan applications eligible for funding receive a favorable funding recommendation if the applicant demonstrates the ability to repay the loan. DNRC's recommendation includes the amount of financing needed to meet project and financing expenses and the interest rate suggested. There is no maximum allowable funding level. Public loans are limited to the amount an applicant has the ability to repay under standard repayment terms and by DNRC's bonding capacity. Loans can be reauthorized from prior sessions.

Availability of Loan Funds

In 1981, the Legislature adopted Senate Bill 409 to provide up to \$250 million in Montana CST bonds. CST bonds are issued for financing projects and activities in the state specifically authorized by the Legislature. Statutes dictate that loans made from CST bond proceeds are to be administered by DNRC, and that DNRC is to review each project to determine its technical and financial feasibility and RRGL eligibility.

Although the legislation was adopted in 1981, CST loans were not issued for the first few years because the constitutionality of the state's bonding authority under this program was initially challenged. In February 1984, the Montana Supreme Court ruled in the state's favor in *Grossman v. State of Montana*, and the first Montana CST bond was sold to finance loans during that same year.

In September 1985 the board of examiners adopted a general resolution pursuant to which all subsequent CST bonds have been issued. A copy of this resolution may be obtained from DNRC. The general resolution requires that the bonds issued be secured on a parity basis. This means that all subsequent CST bond issues have the same rights on proceeds flowing into the trust fund to pay bondholders. However, to assure bondholders there will always be enough CST revenue to meet debt service payments, the general resolution restricts the cumulative amount of bonds that can be issued. This restriction is more constraining than the \$250 million statutory limit. The general resolution does not allow any additional CST bonds to be issued if annual debt payments exceed 50 percent of the CST revenue allocated to the trust, plus 50% of the loan repayments received from local government borrowers.

Loan Repayment

CST revenue is used to pay the difference between payments received from local government borrowers and the state CST bond payments. Thus, CST bonds are paid with revenue from payments from local government borrowers along with CST proceeds.

To implement these repayment provisions, the statute established a fund structure within the permanent coal tax trust fund. Fifty percent of CST proceeds flowing to the permanent trust fund are first deposited in the CST bond fund. A portion of the proceeds deposited in the bond fund is transferred to the debt service account to pay for the interest rate subsidies. An amount equal to a year's debt service payment on all CST bonds is held in reserve in the bond fund.

The interest earnings are transferred to the CST income fund. These interest earnings are then transferred to the general fund.

Current Loans

The 2017 Legislature did not pass legislation authorizing use of CST bonds for projects listed in House Bill 8. As a result, no RRGL public loans will be granted during the 2019 Biennium. DNRC currently has 44 CST Loans currently outstanding as of June 30, 2018 (Table 2). The total amount outstanding is \$22,726,648.

**Table 2 Coal Severance Tax RRGL Public Loan Balances as of
June 30, 2018**

Applicant	Balance Due		Applicant	Balance Due
Beaverhead County–Red Rock Water and Sewer District	\$ 385,241		East Clark Street Water and Sewer District	\$ 231,651
Belt, Town of	\$ 151,700		Fairfield, Town of	\$ 23,934
Bitter Root Irrigation District	\$1,726,374		Four Corners County Water and Sewer District	\$2,769,479
Brady County Water and Sewer District	\$ 109,591		Froid, Town of	\$ 149,988
Bridger, Town of	\$ 70,563		Hysham, Town of	\$ 504,124
Bridger Pines Water and Sewer District	\$ 973,836		Lewistown, Town of	\$ 45,636
Buffalo Rapids Irrigation	\$ 325,187		Libby, City of	\$ 203,246
Daly Ditches Irrigation District	\$ 56,360		Libby, City of	\$ 659,079
Daly Ditches Irrigation District	\$ 185,943		Lockwood Water and Sewer District	\$ 735,317
DNRC-Ackley Lake Dam Rehabilitation	\$ 107,979		Lockwood Water and Sewer District	\$ 283,272
DNRC-Bair Dam	\$ 226,954		Malta Irrigation District	\$ 662,680
DNRC-Cottonwood Creek Water Users	\$ 716,137		Manhattan, Town of	\$ 898,329
DNRC-Deadman's Basin (Supply Canal)	\$ 447,586		Mill Creek Irrigation District	\$ 327,439
DNRC-Deadman's Basin (Canal)	\$ 24,877		Mill Creek Water and Sewer District	\$ 15,401
DNRC-Deadman's Basin (Outlet)	\$ 262,390		Ronan, Town of	\$ 610,566
DNRC-East Fork Siphon	\$ 154,582		St. Ignatius, Town of	\$ 110,297
DNRC-North Fork of the Smith River	\$ 192,175		Sunburst, Town of	\$ 26,513
DNRC-Nevada Creek Dam	\$ 144,777		Sunburst, Town of	\$ 174,546
DNRC-Ruby Dam Rehabilitation	\$1,563,121		Ten Mile Creek Estates Pleasant Valley	\$ 212,450
DNRC-Ruby River Water Users Association	\$1,402,003		Thompson Falls, City of	\$ 169,419
DNRC-Ruby River Water Users Association	\$2,194,767		Troy, City of	\$1,682,367
DNRC-Upper Musselshell Water Users Association	\$ 50,255		Yellowstone Boys and Girls Ranch Water and Sewer District	\$ 758,517
			Total	\$22,726,648

Interest Rates

During the financial review of each loan application, DNRC prepares a funding recommendation that includes a recommended interest rate. Recommendations are developed to be consistent with past direction provided by the Long-Range Planning Subcommittee of the Legislature.

DNRC's recommended interest rate on CST loans is determined by the expected bond market at the time CST bonds are sold. Therefore, the rate of interest on most loans from the program vary in accordance with the rate on the state CST bonds. The basic rate of interest for each public loan financed from the proceeds of a single bond issue is the same. Subsidies vary, depending on legislative authorization.

CHAPTER IV

Renewable Resource Grants and Loans to Private Entities

Applications for water-related projects from any individual, association, for-profit corporation, or not-for-profit corporation, may be considered for funding. Only water-related projects may be funded. Projects must have quantifiable benefits that will exceed costs. Projects must also provide public benefits in addition to any private benefits.

Grant Project Solicitation

To solicit applications from private entities that provide significant public benefits, the Montana Department of Natural Resources and Conservation (DNRC) Conservation and Resource Development Division (CARDD) advertises to private water user associations, small agricultural projects that need help, and individuals mandated to upgrade their wastewater systems. The agricultural projects have included inspection on private high-hazard dams used to store irrigation water and water-measuring devices on chronically dewatered streams. In addition to the projects solicited by the above-mentioned organizations, DNRC also accepts applications at any time for any nonpublic water project.

Grant Application Review

All applications are evaluated and ranked by the staff of the Resource Development Bureau (RDB) according to the extent each application presents a project that benefits or uses water resources. Criteria for evaluating private grants are similar to the criteria outlined in Chapter II for public grants. As with public grants, private grants are also evaluated to determine the potential adverse environmental impacts.

Grant Funding Recommendations

According to the Montana Constitution, the Legislature may not appropriate funds to private individuals. However, state entities have the authority to distribute public funds to private individuals. RDB staff reviews and screens grant requests to determine whether the proposed projects are technically and financially feasible and will make recommendations based on criteria outlined in statute. DNRC will not recommend feasibility studies, research, and/or public information projects for funding. By law, grant funding for any project may not exceed 50% of the total estimated cost of the project.

Grant Project Management

RDB staff notifies applicants of their funding status after approval. DNRC does not reimburse any project cost incurred before a formal funding agreement is executed.

Grant Project Monitoring

The project grant contract agreement between DNRC and the project sponsor includes monitoring procedures to ensure that the project meets program intent. The equivalent of one full-time staff administers active private grants and private loans. Budget and staffing constraints preclude site involvement by RDB staff at all projects.

Project sponsors must pay all project costs before submitting a request for reimbursement. All costs must be supported by invoices, receipts, or both.

Private Grant Projects Active FYs 2017 and 2018

DNRC approved 44 private grants, totaling \$99,636, during FY 2017 and FY 2018 (Table 3). This is 23 more grants than were approved in FY 2015 and 2016.

Table 3 Private Grant Applications Approved FYs 2017 and 2018

Location of Project			Location of Project		
City	County	Amount	City	County	Amount
Stevensville	Ravalli	\$5,000	Bozeman	Gallatin	\$2,350
Alberton	Missoula	\$4,052	Bozeman	Gallatin	\$5,000
Anaconda	Deer Lodge	\$978	Bozeman	Gallatin	\$4,850
Anaconda	Deer Lodge	\$874	Clarkston	Gallatin	\$1,736
Anaconda	Deer Lodge	\$1,000	Dayton	Lake	\$4,975
Anaconda	Deer Lodge	\$1,363	East Helena	Lewis and Clark	\$1,313
Anaconda	Deer Lodge	\$684	East Helena	Lewis and Clark	\$3,988
Anaconda	Deer Lodge	\$923	East Helena	Lewis and Clark	\$5,000
Anaconda	Deer Lodge	\$682	East Helena	Lewis and Clark	\$2,434
Anaconda	Deer Lodge	\$1,300	East Helena	Lewis and Clark	\$1,788
Anaconda	Deer Lodge	\$1,500	East Helena	Lewis and Clark	\$2,063
Anaconda	Deer Lodge	\$975	East Helena	Lewis and Clark	\$1,403
Anaconda	Deer Lodge	\$1,238	East Helena	Lewis and Clark	\$5,000
Anaconda	Deer Lodge	\$475	Great Falls	Cascade	\$1,288
Anaconda	Deer Lodge	\$1,045	Great Falls	Cascade	\$2703
Anaconda	Deer Lodge	\$950	Helena	Lewis and Clark	\$5,000
Anaconda	Deer Lodge	\$886	Helena	Lewis and Clark	\$2,250
Anaconda	Deer Lodge	\$878	Helena	Lewis and Clark	\$2,590
Anaconda	Deer Lodge	\$875	Helena	Lewis and Clark	\$3,374
Anaconda	Deer Lodge	\$1,250	Helena	Lewis and Clark	\$5,000
Anaconda	Deer Lodge	\$850	Helena	Lewis and Clark	\$4,318
Anaconda	Deer Lodge	\$872	Three Forks	Gallatin	\$3,127
Bozeman	Gallatin	\$4,438		Total	\$104,638

Private Loan Application and Project Review Procedures

Loan funding became available in 1981 when the Legislature earmarked \$350,000 under the former Renewable Resource Development program to finance loans to private individuals. At the same time, DNRC was given the authority to issue general obligation bonds to finance private loans. Loans to private individuals must promote and advance the beneficial use of water and allow Montana citizens to fully use state waters. Most private loans go to center pivot conversion projects.

Loan Project Solicitation

DNRC solicits applications for loan funds through staff presentations at various industry functions, press releases, public meetings, and word of mouth. Irrigation equipment dealers, Natural Resources Conservation Service (NRCS) offices, and conservation districts also promote the program.

Loan Application Review

Loan applications may be submitted at any time. DNRC staff reviews the application for completeness and requests additional information when needed. Technical aspects of the project are usually completed by NRCS or a private engineer. Financial review includes an evaluation of the applicant's financial strengths, weaknesses, and risk-taking capacity. The review also includes an evaluation of the security offered and a determination of the relative security position. All of these factors are considered in the recommendation to the loan committee.

Loan Funding Recommendations

Projects must be technically and economically feasible and must pay for themselves over the life of the installation through water savings, increased crop production, or other measurable benefits. Applications that meet feasibility and eligibility criteria are funded if the applicant demonstrates the ability to repay the loan.

The maximum loan amount allowable for private individuals under the Renewable Resource Loan program is \$400,000. The 1997 Legislature amended the statute to allow DNRC to accept applications and loan funds to water user associations. These loans are limited to \$3 million rather than the \$400,000 for private individuals. Loans are for a term not longer than either 30 years or the estimated useful life of the equipment purchased, or materials installed. For new irrigation equipment, the allowable term is 15 years; for used irrigation equipment, the term usually is 10 years or shorter.

Availability of Loan Funds

DNRC has the authority to issue up to \$30 million in general obligation Renewable Resource bonds to finance private loans. Changes made by the 1995 Legislature allow DNRC to have up to \$30 million of general obligation Renewable Resource bonds outstanding. To finance loans, DNRC sells bonds on the open market. Since the program's inception, bonds totaling about \$49 million have been issued to finance private loans. Presently, \$12.2 million in bonds is outstanding.

Interest Rates

The rate of interest on the state's general obligation bond determines the interest rate for private loans. The basic rate for private loans has varied from 3.30% to 9.50% since the inception of the program in the 1980s.

Tax law affects the interest rate. Before 1986, state bonds sold to finance DNRC projects were tax-exempt. The tax law of 1986 prohibited the use of tax-free bonds to finance private ventures. Although bond sales to finance private projects are now subject to federal tax, they remain exempt from Montana State tax.

In addition to interest costs, borrowers also pay a share of bond issuance costs proportionate to the percentage of the bond used to finance their loans. Closing costs include a \$150 nonrefundable application fee and title insurance. Higher interest rates and issuance cost charges have made private loans less attractive than those offered when the program first started. Although less attractive, private loans remain competitive with conventional financing because the rate on taxable bonds may be slightly lower than interest rates obtainable from conventional financing. DNRC loans also provide financing at a fixed interest rate for a period longer than that available to borrowers through their local financial institutions.

Longer terms and competitive fixed interest rates, in most cases, continue to make these loans attractive to borrowers interested in long-term financing for major equipment or system purchases.

Loan Project Management

Borrowers must acquire all property rights necessary for the project, including rights-of-way and interest in land needed for the construction, operation, and maintenance of the project. Title insurance, a title opinion, or other documents showing the ownership of the land, mortgages, encumbrances, or other liens must be provided to DNRC.

Loans must be secured with real property valued higher than the loan amount requested. According to statute, security equal to at least 125% of the loan value is required. Loans may be secured with a first or second real estate mortgage, an assignment of accounts receivable, certificates of deposit, or similar securities, or other security as accepted by DNRC. To adequately secure the state's interest, DNRC requires a security equal in value to at least 150% of the loan. For example, a loan application for \$100,000 would require real estate security of \$150,000. DNRC will accept a second mortgage on property if the state's interest can be adequately secured. DNRC may require an appraisal of real property used for securing a loan. Cost of the appraisal must be paid by the applicant.

After an application is approved for financing, interim financing may be secured by the applicant, with interest costs included in the DNRC loan financing. The Renewable Resource Loan program does not refinance existing loans; only new ventures are eligible.

Loans to private entities are disbursed by warrants drawn by the state auditor or wire transfers authorized by the state treasurer. Before disbursement can occur, all loan documents must be properly signed, security documents must be filed with the county clerk and recorder, the final title insurance policy must be in force, and an invoice must be submitted by the borrower to document the use of funds.

Loan Project Monitoring

Project construction is monitored by NRCS if the project includes a federal cost-share, and by the borrower who has a vested interest in the successful completion of the project. DNRC staff monitors project construction through field visits, when possible.

Borrowers must maintain proper and adequate records of accounts that show the complete and correct entries of all receipts, disbursements, and other transactions related to the project. If applicable, borrowers must document the monthly gross revenue derived from project operations. Any segregation and application of the gross revenue resolution also must be shown in such reasonable detail, as may be determined by the borrower in accordance with generally accepted accounting practices and principles.

Private Loan Projects Previously Funded

As of July 1, 2018, 541 private loans had been approved under the Renewable Resource Loan program. DNRC approved 19 private loans in FY 2017 and FY 2018 (Figure 7). Loans have been used to finance new and refurbished irrigation systems and irrigation wells.

Table 4 Private Loan Applications to Individuals Approved FYs 2017 and 2018

City	County	Loan Amount
Ronan	Lake	\$ 40,000
Ronan	Lake	\$ 8,016
Fairfield	Teton	\$ 397,982
Brockton	Richland	\$ 127,000
Simms	Cascade	\$ 15,000
Choteau	Teton	\$ 201,135
Townsend	Broadwater	\$ 75,000
Two Dot	Wheatland	\$ 156,000
Havre	Blaine	\$ 85,885
Helena	Cascade	\$ 125,000
Winnett	Garfield	\$ 133,785
Sidney	Richland	\$ 400,000
Baker	Fallon	\$ 180,000
Choteau	Teton	\$ 142,225
Toston	Broadwater	\$ 168,000
Chinook	Blaine	\$ 50,000
Deer Lodge	Deer Lodge	\$ 225,000
Hamilton	Ravalli	\$ 95,000
Winston	Broadwater	\$ 90,000
	TOTAL	\$2,715,028

CHAPTER IX

Septic Loan Grants

The Septic Loan Grant program was established by the 2015 Legislature to help counties in Montana to finance a low-interest loan program for septic system upgrades. The 64th Legislature authorized \$100,000 in grants for the 2017 biennium. DNRC offered grants up to \$50,000 to counties that wish to start a revolving loan fund for the purpose of protecting surface and groundwater resources. Counties would determine eligibility, the loan interest rate, and other repayment requirements, but must match the grant in an amount equal to or greater than the grant amount to establish the program. As of October 1, 2018, no county has applied for a grant from this program, and the program has been terminated.