

# MONTANA COMMUNITY GRANT AND LOANS PROPOSAL

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## Program Description

The executive budget includes a proposal that would provide funding for the “Montana Community Grants and Loans Projects” (MCGL). The proposal would be administered by the Department of Commerce (DOC) and the grants component of the proposal would be administered similar to the Treasure State Endowment Program (TSEP). The program is proposed in HB 14, Sections 3 through 10, with a focus on local infrastructure project grants and loans.

## Grants

With the grant requirements provided in HB 14, the MCGL program is intended to provide quickly implemented grant funding for local governments. The definition of local governments is expanded from the TSEP program to include other entities such as conservation districts and school districts. Local governments that have applied to TSEP, but were not included in the 2019 biennium funding, would be given some level of preference over other applicants, since the local government would have already applied and been ranked through the TSEP program. The legislation provides that the local governments meet the same rules and conditions as those found in the TSEP Project Administration Manual, but those rules would be changed to apply to the ranking needed on a variety of project types.

Additional provisions included in HB 14 include:

- Any local or tribal government may apply to DOC for grants
- Local governments must provide a one-to-one match on the first \$750,000 of grant funding requested
- For requests over \$750,000, the relative participation ratio is applied to amounts exceeding \$750,000 (see formula below)
- The grant recipient must complete all of the required project start-up conditions by September 30, 2018
- The grant recipient must complete all grant conditions by September 30, 2018 or the grant will be terminated
- Projects submitted for approval to TSEP in the 2019 biennium, but not receiving TSEP funding, may apply for grants not to exceed the funding recommendation of TSEP
- All local governments must submit grant requests and materials to DOC by March 15, 2017
- Maximum funding allowed per project (grants or loans) is \$2.5 million
- Maximum grant funding allowed within the boundaries of any single county, including funding awarded by the 65<sup>th</sup> legislature, is \$5.0 million

### LFD COMMENT

HB 14 would require that local governments submit grant requests by March 15, 2017. While the idea is to get this grant funding to the local governments as quickly as possible, the 65<sup>th</sup> Legislature may not be finished with this legislation by this date. To apply for a grant under this program could be a costly endeavor for the local governments, and applicants could be required to apply for a grant without the certainty that the legislation will be successful. The Sec. F subcommittee may consider changing the deadline for submission of grant materials until after the 65<sup>th</sup> Legislature is scheduled to be finished.

As mentioned in the bulleted list above, for grant requests of more than \$750,000, the match to the funding requests of more than \$750,000 would be subject to a relative participation ratio. The relative participation ratios, as provided in Section 5 of HB 14, may be summarized as follows:

$$\text{LG RPR} = (\text{LG income to mill ratio}) / (\text{median income to mill ratio for all of the same MT LGs})$$

- 1) Where LG is a local government including counties, cities, consolidated city/counties, tribal governments, and
- 2) RPR is the relative participation ratio.

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As directed in HB 14, if the resulting relative participation ratio results in the following:

- Less than 0 - there is no match required
- Between 1.0 and 1.5 - the match rate is 12.5%
- Greater than 1.5 - the match rate is 25%

For local governments that are not counties, the county of the local government must also provide matching funds at a rate as given in the formula.

Section 4 of HB 14 contains the following language as related to the 2019 biennium TSEP proposal:

*Section 4 (2) – “For a project that was submitted for approval to the 65th legislature for funding from the treasure state endowment program but did not receive legislative approval for funding from the program, the amount of a grant for the project under [this act] may not exceed the amount of funding recommended for the project as described in the treasure state endowment program 2019 biennium report to the 65th legislature.”*

This language indicates that those TSEP projects that are heard by the Section F subcommittee but are not funded in Section 23 of HB 14 will be considered for funding under the MCGL proposal. The TSEP program in the 2019 biennium includes infrastructure and bridge grants of a total \$31.9 million. The appropriations included in Section 23 would provide appropriations of \$16.7 million, and the total of unfunded TSEP grant authorizations would be \$15.2 million. If all the unfunded applicants request a grant from the MCGL proposal, they would use 32.3% of the \$47 million grant and loan appropriation in Section 10 of HB 14.

## LFD ISSUE

### Grants for What Purpose

The Montana Community Grants and Loans proposal lacks specificity as to what types of projects qualify for grants. While there is substantial text in the legislation tying grants to TSEP conditions and rules, the legislation does not expand on the other types of projects that could be included. If the intent is to provide grants for purposes other than TSEP infrastructure type projects, the Section F Subcommittee may want to consider including a project type list in HB 14.

## LFD ISSUE

### Delegation of Authority

The Legislature would be delegating authority to the DOC (or the executive) under the MCGL provisions. Unlike TSEP, the Legislature would have no role in determining to whom the funds would be going. This program would allow the DOC to use its judgment in determining to whom grants would be provided with no legislative approval, other than for those unfunded TSEP projects heard in the work of the Section F subcommittee. With uncertainties about precisely how much of the \$47 million appropriation will be used for either grants or loans or to whom the grants and loans will be awarded, the Section F Subcommittee may consider adding language to HB 14 requiring that DOC provide reports to the Legislative Finance Interim Committee on the use of the \$47 million appropriation.

## LFD COMMENT

The Montana Community Grants and Loans proposal would make use of TSEP administrative rules for ranking projects. According to the Department of Commerce, the TSEP rules will be adapted to allow ranking of non-TSEP type projects. DOC has stated that they will bring the revised rules for the acceptance of the Sec. F subcommittee.

The MCGL proposal singles out one grant. The proposal includes a specific grant appropriation of \$3.0 million for Montana's participation in the Integrated Testing Center (ITC) in Wyoming. The ITC is an integrated test center to study the capture, sequestration, and management of carbon emissions from a Wyoming coal fired power plant in Gillette. More information on the ITC may be found at:

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<http://www.wyomingitc.org/>. Staff will request that the executive provide more information about the role of the state's participation in this venture at Section F subcommittee hearings.

## LFD COMMENT

The 65<sup>th</sup> Legislature will be faced with making a decision on the appropriation for the \$3.0 million grant to the state of Wyoming to study clean coal technologies. Generally, grants heard in the Section F Subcommittee flow to Montana local governments for infrastructure type projects. While providing a grant is possibly the only way for the state to send tax dollars to another state, the nature of this request is unusual. The Section F Subcommittee may consider requesting further information on why this course was chosen by the executive before deciding on this request.

## Loans

The MCGL proposal would also provide funding for loans as provided in Section 8 of HB 14. Loans would be available to assist local governments in providing the matching funds required for the MCGL grants. The provisions of the loans, as included in the legislation include:

- Loans must not exceed the amount of matching funds required for the project
- The loan disbursements are subject to the local government meeting the TSEP “start-up conditions” as stated in Section 6

## LFD COMMENT

In the loan authorization section of HB 14, Section 29, the proposal lacks detail that would provide a comprehensive understanding of the proposal. The legislation does not include information on the interest rates that local governments would be charged to borrow their matching funds from DOC. Additionally, the legislation does not include the number of years of the loans. The Section F Subcommittee may want to consider amending HB 14, adding interest rate and loan duration information to the legislation, to improve the understanding of the terms of the loans and to understand whether the loan program will be competitive with currently existing programs such as the state revolving loan program or the HB 8 Renewable Resource Program (coal severance tax loans) loan program.

## LFD COMMENT

The proposal for the Montana Community loans includes language that directs the dollars collected through the repayment of loans to be placed in a debt service account for the payments of the related debt service. Therefore, while the associated debt service will be an obligation of the general fund, it will ultimately be paid through the loan repayments.