



Colorado Legislative Council Staff Fiscal Note
FINAL
FISCAL NOTE

Drafting Number: LLS 08-0563
Prime Sponsor(s): Sen. Romer
 Rep. Levy

Date: July 22, 2008
Bill Status: Signed into Law
Fiscal Analyst: Marc Carey (303-866-4102)

TITLE: CONCERNING THE CREATION OF CLEAN ENERGY FINANCE PROGRAMS, AND MAKING AN APPROPRIATION THEREFOR.

Fiscal Impact Summary	FY 2008-2009	FY 2009-2010
State Revenue	\$0	\$0
State Expenditures		
Cash Funds		
Clean Energy Fund	\$981,761	\$978,506
FTE Position Change	1.0 FTE	1.0 FTE
Effective Date: The bill was signed by the Governor and became law on May 27, 2008.		
Appropriation Summary for FY 2008-2009: See State Appropriations section.		
Local Government Impact: None.		

Summary of Legislation

This bill creates the Colorado Clean Energy Finance Program to provide below market-rate loans to homeowners to finance home improvements that will improve energy efficiency and increase the use of renewable energy. The bill also allows loans to non-profit corporations and county or municipal housing authorities for these types of projects. The bill requires the Governor's Energy Office (GEO) to oversee the program and select a program administrator to issue and process clean energy loans. Specifically, the administrator will generate the necessary capital for these loans by issuing securities payable from loan payments. The state treasurer may invest up to \$10 million of state moneys in such securities in each fiscal year from FY 2008-09 through FY 2010-11.

The bill also creates the Clean Energy Program Fund and the Loan Buy-Down (LBD) and Loan Loss Reserve (LLR) accounts within the fund, and specifies that the fund will consist of moneys appropriated by the General Assembly from the Clean Energy Fund and gifts, grants and donations. Moneys in the LBD account will be used to buy down the interest rate on clean energy loans issued to three tiers of income-qualified borrowers. Moneys in the LLR account will be used to periodically compensate the program administrator for losses from loans that have been written off. Moneys from the LBD account are periodically required to be transferred to the LLR account to ensure the account balance remains at 5% of the principal amount of outstanding loans. The program administrator is also required to:

- market the program, and recruit, train and certify contractors;
- measure and verify, in accordance with standards established by the office, energy and cost savings and emissions reductions resulting from program loans; and
- encourage homeowners to participate in utility demand side management programs.

Within 1 year of origination of the first loan, the program administrator is required to provide the GEO with information delineated in the bill. No later than January 30, 2010 and annually thereafter, the GEO is required to report to the House Transportation and Energy Committee and the Senate Agriculture, Natural Resources, and Energy Committee regarding the status of the program.

Finally, the bill creates the Rural Clean Energy Project Finance Program. The program allows an individual or group of property owners to apply to a board of county commissioners for assistance in financing a qualifying clean energy project. If the board approves the project, it may assist in its financing by issuing tax-exempt, private activity bonds of at least \$1 million per applicant. Such bonds must be repaid within 10 years with revenue, property or credit enhancement obtained by the applicant, and may be issued without voter approval. The rates charged for the delivery of electricity from such projects must be set to allow recovery of all costs.

State Expenditures

State Treasury. The bill authorizes the state treasurer to invest \$10 million annually over the next three fiscal years in securities issued by the selected program administrator. To invest in these securities, the treasurer requires a rate of return from clean energy loans equivalent to the rate that could have been achieved through other investments, assumed to be 4.5%. The actual rate will depend on the number of loans issued to borrowers within each of the three income-related tiers. The State Treasurer is required to determine third tier annual interest rate using a formula tied to a published rate index. The Treasurer will then set the interest rate for the second and first tiers by subtracting a selected number of basis points. The loan rates in the first and second tiers will be subsidized by the state through buy-down funds appropriated to the program fund by the General Assembly. Since the subsidized rates have not been set, this fiscal note does not calculate an opportunity cost to the state from the program.

Governor's Energy Office, Program Administration. The GEO will incur additional personal service costs for a General Professional III to oversee the program in the amount of \$56,361 and 1.0 FTE in FY 2008-09 and \$53,106 and 1.0 FTE in FY 2009-10. Table 1 details these costs.

Cost Components	FY 2008-09	FY 2009-10
Personal Services	\$51,256	\$51,256
FTE	1.0	1.0
Operating Expenses	\$1,350	\$1,350
Capital Outlay (one-time cost)	\$3,255	\$0
Travel Expenses	\$900	\$900
TOTAL	\$56,761	\$53,506

An additional \$425,000 in expenses have been identified for GEO's responsibilities related to program marketing, contractor training, and operation of the quality assurance, measurement and verification program.

Governor's Energy Office, Loan Buy-Down and Loan Loss Reserve. The bill requires the GEO to use moneys in the Clean Energy Program Fund to buy-down the interest rate for loans made to customers in 2 of the 3 income-related tiers. As the subsidized rates have not been set, this fiscal note does not project the cost associated with these buy-downs. Money in this fund is continuously appropriated to the GEO.

The bill also requires the GEO to maintain a balance in the LLR account of 5% of the principal amount of the outstanding loans as security against loans in default. Based on the assumption that \$10 million in loans will be originated annually, the GEO will need to fund this account at \$500,000 in each of the first 3 fiscal years. In addition, the GEO is required to maintain this balance through periodic transfers from the LBD account. The amount transferred depends on the level and timing of loan defaults. This fiscal note assumes that 1% of loans will default. However, because these loans will have a payback period of 7 to 10 years, default will not occur immediately, and no associated expenses will be incurred in the next 3 fiscal years.

Local Government Impact

The bill creates the Rural Clean Energy Finance Program, which authorizes a board of county commissioners to assist in the financing of an approved clean energy transmission projects by issuing at least \$1 million in private activity bonds per approved project. Such bonds must be repaid within 10 years with revenue, property or credit enhancement obtained by the applicant, and may be issued without voter approval. The rates charged for the delivery of electricity from such projects must be set to allow recovery of all costs. If local governments choose to issue such bonds, they would incur additional debt, and the associated financial obligations.

State Appropriations

For FY 2008-09, this bill authorizes 1.0 FTE to the Governor's Office of for allocation to the Governor's Energy Office. This 1.0 FTE is supported by moneys in the Clean Energy Program Fund, which are continuously appropriated to the Governor's Energy Office.

Departments Contacted

Governor's Office

Treasury