SB08-184

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL
REVISED FISCAL IMPACT

(replaces fiscal note dated March 5, 2008)

Drafting Number:	LLS 08-0563	**Date:**	April 23, 2008
Prime Sponsor(s):	Sen. Romer Rep. Levy	**Bill Status:** **Fiscal Analyst:**	House Transportation & Energy Marc Carey (303-866-4102)

TITLE: CONCERNING THE CREATION OF THE COLORADO CLEAN ENERGY FINANCE PROGRAM.

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: Upon signature of the Governor, or upon becoming law without his signature.		
Appropriation Summary for FY 2008-2009: See State Appropriations section.		
Local Government Impact: None.		

Summary of Legislation

This reengrossed 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 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 is authorized to 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;
- recruit, train and certify contractors; and
- measure, verify and report on energy and cost savings and emissions reductions resulting from program loans.

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 amended 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 no moneys for loan buy downs have been appropriated, this fiscal note assumes that loans will be made only at an un-subsidized rate. Accordingly, this note assumes a rate of return at least as high as the 4.5% that would have been achieved from other investments, and there will be no 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.

Table 1. Personal Services Expenditures Under SB 08-184		
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. As no funding source has been identified to cover any costs incurred under the bill, this fiscal note assumes that General Fund will be needed.

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 no funding source has been identified to cover these costs, this fiscal note assumes that only 1 tier of borrowers will exist, and loans will be made at a rate established by the state treasurer.

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 additional funds will be required in the next 3 fiscal years. This fiscal note assumes that General Fund will be needed to cover these costs.

Local Government Impact

The amended 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.

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State Appropriations

For FY 2008-09, this bill appropriates $981,761 and 1.0 FTE from the Clean Energy Fund to the Governor's Office of for allocation to the Governor's Energy Office.

Departments Contacted

Governor's Office Treasury