

**Consolidated Fiscal Note**

**2021-2022 Legislative Session**

**SF1997 - 0 - State Building Energy Conservation Revolving Loan**

Chief Author: **Ann Johnson Stewart**  
 Committee: **State Government Finance and Policy and Elections**  
 Date Completed: **3/29/2021 12:50:32 PM**  
 Lead Agency: **Administration Dept**  
 Other Agencies:  
     Minn Management and Budget

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

<b>State Cost (Savings)</b>	Biennium			Biennium		
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
<b>Administration Dept</b>						
General Fund	-	284	143	149	154	
Building Construction-Bonded	-	3,072	8,298	3,241	(108)	
<b>Minn Management and Budget</b>						
General Fund	-	304	1,118	1,301	1,192	
<b>State Total</b>						
General Fund	-	588	1,261	1,450	1,346	
Building Construction-Bonded	-	3,072	8,298	3,241	(108)	
<b>Total</b>	-	<b>3,660</b>	<b>9,559</b>	<b>4,691</b>	<b>1,238</b>	
<b>Biennial Total</b>			<b>13,219</b>		<b>5,929</b>	

<b>Full Time Equivalent Positions (FTE)</b>	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
<b>Administration Dept</b>					
General Fund	-	.79	.85	.91	.97
Building Construction-Bonded	-	-	-	-	-
<b>Minn Management and Budget</b>					
General Fund	-	-	-	-	-
<b>Total</b>	-	<b>.79</b>	<b>.85</b>	<b>.91</b>	<b>.97</b>

**Lead LBO Analyst's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

**LBO Signature:** Joe Harney      **Date:** 3/29/2021 12:50:32 PM  
**Phone:** 651-284-6438      **Email:** joe.harney@lbo.leg.mn

**State Cost (Savings) Calculation Details**

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

\*Transfers In/Out and Absorbed Costs are only displayed when reported.

<b>State Cost (Savings) = 1-2</b>		<b>Biennium</b>			<b>Biennium</b>	
<b>Dollars in Thousands</b>		<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>
<b>Administration Dept</b>						
General Fund	-	284	143	149	154	
Building Construction-Bonded	-	3,072	8,298	3,241	(108)	
<b>Minn Management and Budget</b>						
General Fund	-	304	1,118	1,301	1,192	
	<b>Total</b>	<b>-</b>	<b>3,660</b>	<b>9,559</b>	<b>4,691</b>	<b>1,238</b>
	<b>Biennial Total</b>		<b>13,219</b>		<b>5,929</b>	
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
<b>Administration Dept</b>						
General Fund	-	284	143	149	154	
Building Construction-Bonded	-	3,200	8,600	4,200	1,200	
<b>Minn Management and Budget</b>						
<b>General Fund</b>						
Expenditures	-	-	-	-	-	-
Transfers Out	-	304	1,118	1,301	1,192	
	<b>Total</b>	<b>-</b>	<b>3,788</b>	<b>9,861</b>	<b>5,650</b>	<b>2,546</b>
	<b>Biennial Total</b>		<b>13,649</b>		<b>8,196</b>	
<b>2 - Revenues, Transfers In*</b>						
<b>Administration Dept</b>						
General Fund	-	-	-	-	-	-
Building Construction-Bonded	-	128	302	959	1,308	
<b>Minn Management and Budget</b>						
<b>General Fund</b>						
	<b>Total</b>	<b>-</b>	<b>128</b>	<b>302</b>	<b>959</b>	<b>1,308</b>
	<b>Biennial Total</b>		<b>430</b>		<b>2,267</b>	

**Fiscal Note**

**2021-2022 Legislative Session**

**SF1997 - 0 - State Building Energy Conservation Revolving Loan**

Chief Author: **Ann Johnson Stewart**  
 Committee: **State Government Finance and Policy and Elections**  
 Date Completed: **3/29/2021 12:50:32 PM**  
 Agency: **Administration Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings) Dollars in Thousands	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
<b>General Fund</b>	-	284	143	149	154
<b>Building Construction-Bonded</b>	-	3,072	8,298	3,241	(108)
<b>Total</b>	-	<b>3,356</b>	<b>8,441</b>	<b>3,390</b>	<b>46</b>
<b>Biennial Total</b>			<b>11,797</b>		<b>3,436</b>

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	.79	.85	.91	.97
Building Construction-Bonded	-	-	-	-	-
<b>Total</b>	-	<b>.79</b>	<b>.85</b>	<b>.91</b>	<b>.97</b>

**LBO Analyst's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

**LBO Signature:** Joe Harney      **Date:** 3/29/2021 12:43:42 PM  
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**State Cost (Savings) Calculation Details**

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

\*Transfers In/Out and Absorbed Costs are only displayed when reported.

<b>State Cost (Savings) = 1-2</b>		<b>Biennium</b>			<b>Biennium</b>	
<b>Dollars in Thousands</b>		<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>
General Fund	-	284	143	149	154	
Building Construction-Bonded	-	3,072	8,298	3,241	(108)	
<b>Total</b>	<b>-</b>	<b>3,356</b>	<b>8,441</b>	<b>3,390</b>	<b>46</b>	
	<b>Biennial Total</b>		<b>11,797</b>		<b>3,436</b>	
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
General Fund	-	284	143	149	154	
Building Construction-Bonded	-	3,200	8,600	4,200	1,200	
<b>Total</b>	<b>-</b>	<b>3,484</b>	<b>8,743</b>	<b>4,349</b>	<b>1,354</b>	
	<b>Biennial Total</b>		<b>12,227</b>		<b>5,703</b>	
<b>2 - Revenues, Transfers In*</b>						
General Fund	-	-	-	-	-	
Building Construction-Bonded	-	128	302	959	1,308	
<b>Total</b>	<b>-</b>	<b>128</b>	<b>302</b>	<b>959</b>	<b>1,308</b>	
	<b>Biennial Total</b>		<b>430</b>		<b>2,267</b>	

**Bill Description**

The proposed bill establishes a revolving loan fund for solar energy systems that are incorporated into state buildings or are permanent fixtures; have a useful life of more than ten years; and are designed to result in demand-side net reduction in energy use by the state building's electrical, heating, ventilating, air-conditioning, or hot water systems, which extends the life or enhances the value of the state building.

The bill authorizes the Commissioner of Management and Budget to sell and issue bonds in an amount up to \$16 million and appropriates the bond proceeds to the Commissioner of Administration to manage and administer the revolving loan fund through an office established to manage environmental sustainability measures for state property.

The loan applications must include the following information:

- Total estimated project cost;
- Loan amount sought;
- Description of the energy conservation improvements;
- Detailed project budget including all sources and uses of money;
- Calculations sufficient to demonstrate the expected energy and monetary savings that will result from construction and installation of the energy conservation improvements;
- Information demonstrating the extended life or increased value of the state building will result from construction and installation of the energy conservation improvements;
- Information demonstrating the agency's ability to repay the loan; and
- Any additional information requested by the commissioner of Administration.

A loan term must not exceed 15 years. Repayments must begin no later than one year after the project is completed. A loan interest rate must be at one-half the rate the state pays for various purpose bonds sold immediately preceding the issuance of the loan to the state agency. There may be loan conditions limiting the aggregate total amount of loans to an agency and the percentage of the total project costs.

**Assumptions**

These funds would be used to help state agencies reduce energy use and greenhouse gas (GHG) emissions and advance the use of renewable energy as outlined in Executive Orders (EO) 19-27 and 19-25. EO 19-27 directs Admin’s Office of Enterprise Sustainability (OES) to help 23 cabinet-level state agencies and the Metropolitan Council to reduce GHG emissions, waste, energy and fuel consumption, water usage, and the procurement of goods and services in governmental agencies. EO 19-25 states that “an agency that prepares a pre-design for a major renovation of a building must perform an assessment of the cost-effectiveness of installing renewable energy generation equipment in conjunction with the building renovation. The assessment must comply with the requirements of Minnesota Statutes 2018, section 16B.32, subdivision 1(a).”

It is assumed that all cabinet-level state agencies that own buildings will be eligible to apply to the Department of Administration’s Office of Enterprise Sustainability (OES) for funds. Agencies would either utilize the existing design/build solar master contract or bid individual solar projects. Some agencies have experience managing solar energy installations, but others will need to utilize Admin’s Real Estate and Construction Services.

It is assumed state agencies are not eligible to take advantage of the current 26% Federal Tax Credit or able to utilize other tools like accelerated depreciation to improve the rate of return of the solar investment. It may be challenging for state agencies to identify solar projects that will meet the 15-year payback term identified in the bill.

Loan amounts would range from \$50,000 - \$3,000,000. The OES anticipates generating between 4-6 loans per year. Agencies will enter into an interagency loan agreement with the Department of Administration. Loan agreement terms will be variable depending on the nature and complexity of each project.

The entire \$16 million in general obligation bond proceeds would be appropriated for loans. However, the Department of Administration will incur costs to administer the loan program for which a general fund appropriation will be needed. Those costs cannot be absorbed. It is assumed that an additional .75 FTE will be needed in addition to accounting support. Salary, fringe and other costs are detailed below.

**Expenditure and/or Revenue Formula**

A .5 FTE Planner Senior State or comparable position and .25 FTE Construction Project Coordinator will be required to work with state agencies to identify solar energy projects, analyze proposals, review and recommend loan applications, assist with preparing bid documents, manage construction projects, and report on the revolving loan program.

Additional program support will be provided by the OES Director and Sustainability Planner. We anticipate this support and the associated costs will be minimal and absorbed.

Additional staff will be required to administer loan agreements, process loan payments, invoice agencies for periodic loan repayments, manage and report loan receivables, and provide budget support and maintenance.

In addition, Admin anticipates IT software would be acquired or developed to manage the loan portfolio. Estimated \$150,000 (one-time purchase) and \$20,000 per year ongoing for subscription, license, and management.

Anticipated costs to manage and administer the loan program are itemized in the table below. Salary/fringe estimates include FICA, retirement, and insurance costs.

Cost Categories	FY22	FY23	FY24	FY25
Planner Senior State (10L) (identify potential solar projects; review and analyze feasibility; review & recommend loan applications; assist with bid documents; report on loan activities)	\$55 0.5 FTE	\$56 0.5 FTE	\$56 0.5 FTE	\$56 0.5 FTE
Construction Project Coordinator (22L) (design and manage solar bids, and manage construction projects)	39 0.25 FTE	40 0.25 FTE	40 0.25 FTE	40 0.25 FTE
Accounting Officer (administer loan agreements, report loan receivables, and provide budget support/ maintenance)	2 0.02 FTE	5 0.05 FTE	8 0.08 FTE	11 0.11 FTE
Account Clerk Senior (process loan payments, invoice agencies and track receipts)	2 0.02 FTE	4 0.05 FTE	7 0.08 FTE	9 0.11 FTE
Software	150	20	20	20
Rent	8	8	8	8

IT (phone, computer support, etc.)	12	8	8	8
Supplies	1	1	1	1
Training/Other Operating	1	1	1	1
Office furniture	14			
TOTAL	284	143	149	154

This fiscal note attempts to estimate loan disbursements, repayment, interest and investment earnings activity from FY22-25. Estimated disbursements are shown in the table as expenditures. Estimated repayments, interest and investment earnings are shown as revenue. The actual amounts and timing of disbursements, repayments, interest and investment earnings will be dependent on the number, timing, nature, and complexity of projects to be supported by this funding. Implementing the loan program will involve hiring staff, drafting loan agreements, determining project selection criteria, and identifying qualifying projects.

**Long-Term Fiscal Considerations**

State agency energy costs will be reduced by the projects funded by this program.

**Local Fiscal Impact**

None

**References/Sources**

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 (651) 201-2603

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**Fiscal Note**

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State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

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	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024
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<b>Total</b>	<b>-</b>	<b>304</b>	<b>1,118</b>	<b>1,301</b>	<b>1,192</b>
<b>Biennial Total</b>			<b>1,422</b>		<b>2,493</b>

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**LBO Analyst's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

**LBO Signature:** Joe Harney      **Date:** 3/29/2021 12:43:48 PM  
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<b>Total</b>	<b>-</b>	<b>304</b>	<b>1,118</b>	<b>1,301</b>	<b>1,192</b>	
<b>Biennial Total</b>			<b>1,422</b>		<b>2,493</b>	
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
General Fund						
Expenditures	-	-	-	-	-	
Transfers Out	-	304	1,118	1,301	1,192	
<b>Total</b>	<b>-</b>	<b>304</b>	<b>1,118</b>	<b>1,301</b>	<b>1,192</b>	
<b>Biennial Total</b>			<b>1,422</b>		<b>2,493</b>	
<b>2 - Revenues, Transfers In*</b>						
General Fund						
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Biennial Total</b>			<b>-</b>		<b>-</b>	

**Bill Description**

The legislation would provide \$16 million of state general obligation various purpose bond authorization to establish a revolving loan program for state agencies to finance the predesign, design, acquisition, construction, or installation of solar energy systems in state buildings that result in a demand-side net energy reduction in the building's energy use.

The Department of Administration would be responsible for administering the revolving loan program and soliciting projects that meet the stated criteria. Loans would need to be repaid within 15 years, and Administration could use repayments of principal and interest to make additional loans.

The debt service on the bonds is to be paid from the state's general fund.

**Assumptions**

To be constitutionally eligible for expenditure of general obligation bond proceeds, the solar energy systems must be incorporated into the building or constitute a permanent fixture, must have a useful life of at least 10 years, and must extend the life or improve the value of the state building. It is assumed that the state will only sell general obligation bonds to finance projects that satisfy these constitutional eligibility requirements.

It is assumed that state general obligation various purpose bonds will be sold to finance the capital investment projects using the following structure:

- The bonds are sold with level principal payments
- The bonds are to mature over 20 years.
- Bonds will be sold in the amount each year that matches the cash needs of the project. The cash flow estimated for the bond proceeds fund bonded project is 20 percent the first year, 54 percent the second year, and 26 percent the third year.
- Current forecast assumptions for the sale of tax-exempt bonds uses interest rates 2.4% to 2.8%.
- As allowed by Minnesota Statute § 16A.641, the premiums received on the bond issues are deposited to the bond proceeds fund and are used to reduce the size of the sale of bonds.

The revenues shown in the fiscal note are the amounts from the proceeds of each of the bond issues. The costs shown in the fiscal note are the amounts that would be required to be transferred from the general fund to the debt service fund annually.



The legislation does not include any cost of issuance language or appropriation that is needed to fund the actual sale of the bonds.

Under constitutional principles applicable to state general obligation bonds, MMB assumes that not all projects to install solar energy systems will meet the constitutional threshold for funding. Agency applications will need to be vetted on a case-by-case basis, requiring additional staff time for both Administration and MMB and additional legal expenses in order for the state's bond counsel to review legal compliance. MMB would use existing bond sale expense appropriations for the cost of this additional legal advice, but the number of hours needed for legal review is unknown at this time so we cannot state whether these existing appropriations would be sufficient.

Bond-funded revolving loan funds are not a common financing tool and require additional due diligence above and beyond MMB's typical bond compliance activities. MMB assumes that we will need to structure and sell a separate series of bonds for the \$16 million in projects under this program. Under federal tax law, there are strict time limitations on the expenditure of bond proceeds for revolving loans. If those timelines are not met, then the state will be required to retire a portion of the debt early, thus reducing the total funds available to the program.

There are additional federal tax law requirements that loan repayments will need to be loaned back out within a short timeframe or be subject to strict investment limits while additional projects are solicited. This will require additional staff time at both MMB and Administration to review the ongoing funded status of projects and available proceeds for the life of the bonds (20 years). If a pipeline of projects is not maintained during the life of the bonds, this might also translate into lost investment earnings for the state.

Before selling bonds for this type of revolving loan program, MMB would need Administration to identify specific projects to match bond proceeds to needs. If Administration's process does not line up with MMB's typical timeline for selling general obligation bonds, then MMB would incur additional work to sell bonds at a different time. There would be less efficiency in paying costs associated with a separate bond sale.

#### **Expenditure and/or Revenue Formula**

The amounts listed in the Transfer Out category represents the annual cost to the general fund for the transfers required to the debt service fund for the payment of debt service on state bonds

#### **Long-Term Fiscal Considerations**

The total debt service, including principal and interest, on the \$16 million for projects over the 20 year life of the bonds is estimated at \$19,360,000.

#### **Local Fiscal Impact**

#### **References/Sources**

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