# Effects of HB 166 on Bulk Fuel Loan Accounts

The current program is made up of two loan accounts, the Bulk Fuel Loan Account, and the Bulk Fuel Bridge Loan Account. The effects of this legislation would be primarily on the Bulk Fuel Loan Account.
There are three significant changes proposed by this bill:

1. Six new communities would be eligible for loans under either funding source.
2. The maximum loan for a community under the Bulk Fuel Loan Account would double from $750,000 to $1.5 million.
3. The maximum loan for cooperatives under the Bulk Fuel Loan Account would double from $1.8 to $3.6 million.

**BULK FUEL LOAN ACCOUNT**
Total funding in the *Bulk Fuel Loan* account is $15.4M. In FY 2012, $13.2M in loans were approved. The account had 44 borrowers.

Only three of the six newly eligible communities are likely to participate, since three of them have year round barge delivery available. However, multiple entities in a community could request loans. If maximum loans were requested in three of these communities, $4.5 million would be needed to fund these loans.

Historically, fuel and/or electrical cooperatives have not participated in the loan program. We feel this is because of the relatively small amount of the loans available, and the relatively high interest rate charged. Under the new program, after two years, the interest rate would drop to 2%. This rate, along with the higher maximum loan, may make it attractive to cooperatives such as AVEC. If only one cooperative borrowed the maximum amount of funding, $3.6 million would be needed.

The price of fuel continues to rise. If a 5% increase in existing loans were required due to fuel price increases, $660,000 would be needed to cover the existing loans.

All of these scenarios considered together:

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| • Existing loans (FY 2012 history) | $13,200,000 |
| • Increase in existing loans by 5% due to cost increases | $ 660,000 |
| • Three individual communities requesting a maximum loan | $4,500,000 |
| • One Electric Cooperative representing 3 communities | $3,600,000 |
| Total of Requests | $21,960,000 |
| Existing funding in Loan Account | $15,400,000 |
| Deficit in Bulk Fuel Loan Account | $ 6,560,000 |

To provide a buffer for fluctuations in the cost of oil or borrowers over the next several years, it is recommended there a 15% buffer be maintained over expected loans. This would raise the deficit of funds to approximately $9.85 million.

**BRIDGE LOAN ACCOUNT**
Of the changes that this bill makes, the only one that affects the Bulk Fuel Bridge Loan Account is the one affecting the size of community that can apply. Maximum loan amounts are not affected. Since the larger communities are likely to have borrowers with better credit, it is not anticipated that any of the entities added with a larger community would be referred to the Bridge Loan Account.

Currently the Bridge Loan account has $8.2 million in funding. In 2012, there was a maximum of $6.4 million in committed funds. Assuming a 5% increase in the cost of fuel, the maximum requests would rise to $6.7 million. Even with this increase in demand, the account would have a 18% which would likely be sufficient for several years.

**CONCLUSION**

If this legislation were to pass, an appropriation of approximately $10 million would be needed to the Bulk Fuel Loan fund to allow the program to meet the needs of existing borrowers, potential new borrowers, and account for the annual increase in fuel costs. No additional appropriation would be needed to the Bulk Fuel Bridge Loan Account due to this legislation.

Neither of these accounts are dedicated funds. If in the future, funding from these accounts were needed for higher priority purposes, the legislature could appropriate these funds for a different use.