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Revised Fiscal Note

(replaces fiscal note dated January 28, 2022)

Drafting Number:	LLS 22-0401	Date:	February 7, 2022
Prime Sponsors:	Rep. Pelton; Snyder Sen. Hisey; Winter	Bill Status:	House Appropriations
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Bill Topic: MICROGRIDS FOR COMMUNITY RESILIENCE GRANT PROGRAM

Summary of Fiscal Impact:

<input type="checkbox"/> State Revenue	<input type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input checked="" type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

The bill creates the Microgrids for Community Resilience Grant Program in the Department of Local Affairs to provide grants for cooperative electric associations and municipally owned utilities to purchase microgrid resources for eligible rural communities located within their service territories. Beginning in FY 2022-23, it increases state expenditures and local government revenue and expenditures until the program repeals on September 1, 2026.

Appropriation Summary: For FY 2022-23, the bill includes an appropriation of \$5 million to the Department of Local Affairs. In addition, the bill requires an appropriation of \$20,713 to the Colorado Energy Office.

Fiscal Note Status: This revised fiscal note reflects the introduced bill, as amended by the House Energy and Environment Committee.

**Table 1
State Fiscal Impacts Under HB 22-1013**

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue		-	-
Expenditures¹	General Fund	\$5,020,713	\$5,027,618
	Centrally Appropriated	\$48,819	\$57,899
	Total	\$5,069,532	\$5,085,517
	Total FTE	1.8 FTE	2.3 FTE
Transfers		-	-
Other Budget Impacts	General Fund Reserve	\$753,107	\$754,143

¹ The fiscal note assumes that \$5 million will be provided each fiscal year to make grants under the bill. Exact funding for the grant program may be set at the discretion of the General Assembly.

Summary of Legislation

The bill creates the Microgrids for Community Resilience Grant Program to be administered by the Division of Local Governments (DLG) in the Department of Local Affairs (DOLA), in collaboration with the Colorado Resiliency Office in DOLA. Cooperative electric associations and municipally owned utilities may apply to the DLG for a grant to purchase microgrid resources in eligible rural communities within the utility's service territory that are at significant risk of severe weather or natural disaster events and where community anchor institutions, as defined in the bill, are located. The bill appropriates \$5 million to DOLA in FY 2022-23 to implement the grant program, and allows these funds to be used through FY 2025-26.

Microgrids are defined as groups of interconnected electric loads and distributed energy resources with clearly defined electrical boundaries that can be connected to or disconnected from the electric grid. The microgrid functions as a single, controllable entity with respect to the electric grid.

DOLA, the DLG, and the Resiliency Office are authorized to use a portion of the grant money for the direct and indirect costs associated with administering the grant program. The DLG is required to collaborate with the Resiliency Office to develop a grant application process by January 1, 2023, and post information about the process on the department's website. The DLG, in collaboration with the Resiliency Office, must consider the eligible rural community's degree of exposure to, and nature of interests that are at risk from, severe weather or natural disaster events, and the availability of alternative resources and financial resources to mitigate the risks. The DLG is also required to prioritize microgrids with a higher reliance on nonfossil-fuel-based generation.

Beginning December 1, 2023, the DLG must submit an annual report summarizing the grants awarded. The annual report must be published on DOLA's website and provided to relevant legislative committees. The grant program is repealed on September 1, 2026.

Background and Assumptions

The average capacity of an installed microgrid is typically under 10 megawatts and, according to one study, costs between \$2 million and \$4 million per megawatt.¹ While the exact amount of funding for the grant program may be set annually by the General Assembly, the fiscal note assumes, based on the included appropriation, that \$5 million per year will be provided for this purpose. This amount would support the development of approximately 3 megawatts of microgrid capacity annually, assuming that grant recipients cover about half of the costs on a per megawatt basis. The actual number of projects supported, the amount of grant awards, and financial terms would be established by DOLA.

The Infrastructure Investment and Jobs Act, enacted in November 2021, included \$3 billion in federal funds to the Smart Grid Investment Matching Grant Program, which remains available to fund eligible projects through September 30, 2026.² This federal funding may impact the demand for state-level funding for microgrid investments.

¹ National Renewable Energy Laboratory. 2018. Phase 1 Microgrid Cost Study: Data Collection and Analysis of Microgrid Costs in the United States. Available at: <https://www.nrel.gov/docs/fy19osti/67821.pdf>.

² Information about the Smart Grid Investment Grant Program can be found online at: https://www.smartgrid.gov/recovery_act/overview/smart_grid_investment_grant_program.html.

State Expenditures

The bill increases state expenditures in multiple state agencies by \$5,069,532 in FY 2022-23 and \$5,085,517 in FY 2023-24 and ongoing until the program is repealed, paid from the General Fund. The exact amount of funding for grants in FY 2023-24 and beyond may be set by the General Assembly and may differ from this estimate. Program costs are shown in Table 2 and detailed below.

**Table 2
Expenditures Under HB 22-1013**

	FY 2022-23	FY 2023-24
Department of Local Affairs		
Personal Services	\$107,506	\$129,008
Operating Expenses	\$2,160	\$2,700
Capital Outlay Costs	\$12,400	-
Grant Funding ¹	\$4,877,934	\$4,868,292
Centrally Appropriated Costs ²	\$44,956	\$52,415
FTE – Personal Services	1.6 FTE	2.0 FTE
DOLA Subtotal	\$5,044,956	\$5,052,415
Colorado Energy Office		
Personal Services	\$20,713	\$27,618
Operating Expenses	-	-
Capital Outlay Costs	-	-
Centrally Appropriated Costs ²	\$3,863	\$5,484
FTE – Personal Services	0.2 FTE	0.3 FTE
CEO Subtotal	\$24,576	\$33,102
Total	\$5,069,532	\$5,085,517
Total FTE	1.8 FTE	2.3 FTE

¹ Grant funding in future fiscal years is at the discretion of the General Assembly and may differ from this estimate.

² Centrally appropriated costs are not included in the bill's appropriation.

Department of Local Affairs. The Department of Local Affairs requires 2.0 FTE to develop the grant application process, implement the grant program, conduct outreach, and prepare legislative reporting. Staff will be responsible for creating and managing the program, overseeing the grant application process, managing award recipients, and developing contracts. First-year costs assume a September 1 start date and are prorated for the General Fund pay date shift. Standard operating and capital outlay costs are included. These administrative costs would increase if more than \$15 million per year is provided for grants in future years.

- *Grant funding.* As outlined in the Background and Assumptions section above, the fiscal note assumes that funding will be annually appropriated to DOLA for the grant program. However, the exact amount of funding in future years may be set by the General Assembly and DOLA would manage the number and amount of awards to fit within available appropriations. The appropriate level of funding may also decrease over time as eligible projects are completed. It is assumed that future year funding will be addressed through the annual budget process once more is known about program participation and long-term plans for microgrid projects.

Colorado Energy Office. The Colorado Energy Office (CEO) will require 0.3 FTE to provide technical assistance to the DOLA in designing the program, reviewing grant applications for technical requirements and feasibility, recommending and prioritizing applications based on need and suitability, and other technical assistance as needed. Costs are prorated in the first year for the September start date and General Fund paydate shift.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are shown in Table 2.

Other Budget Impacts

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve beginning in FY 2022-23. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by \$753,107 in FY 2022-23 and \$754,143 in FY 2023-24, which will decrease the amount of General Fund available for other purposes. The exact impact of the bill on the General Fund reserve will depend on the amount of grant funding provided.

Local Government

Beginning in FY 2022-23, municipalities that apply for and are awarded grant funding will receive additional revenue and have additional workload and expenditures to implement the microgrid projects.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2022-23, the bill includes a \$5 million General Fund appropriation to the Department of Local Affairs, and 1.6 FTE, and requires a \$20,713 General Fund appropriation to the Colorado Energy Office, and 0.2 FTE.

State and Local Government

Local Affairs
Law

Municipalities
Colorado Energy Office

Information Technology