
Detailed Fiscal Analysis

The bill establishes a small government revolving loan program to assist fire departments purchase equipment and construct or renovate buildings. "Small governments" are defined as follows:

- any municipality with a population of not more than 7,500;
- any township with a population of not more than 5,000; or
- any township located in a county with a population of not more than 100,000.

The revolving loan program will operate by awarding zero percent loans to townships and municipalities for a maximum maturity of twenty years. As the loans are repaid, the program will redistribute those funds as new loans to other municipalities and townships. The State Fire Marshal will operate the program and adopt rules for administering the program.

To supply the initial funds to the revolving loan program, \$5 million from the General Revenue Fund will be credited in fiscal year 1998 to two new line items (800-404, 800-406), both in the Department of Commerce. The \$5 million will be equally split. One line item (800-404) will receive \$2.5 million to provide loans for equipment purchases. The other (800-406) will receive an additional \$2.5 million to provide loans for construction and renovation projects.

State Effects

The most obvious and quantifiable state fiscal effect is the transfer of \$5 million from the GRF. The decrease of funds in the GRF may result in reduced fiscal year 1999 capital funds or fewer funds available for the income tax reduction fund. In addition, the State Fire Marshal (Fund 546) will likely incur at least marginal additional costs, primarily for administering the revolving loan program.

Local Effects

Any municipality or township that receives a loan to buy equipment or renovate/construct buildings will benefit, primarily due to not having to pay interest. With any zero or significantly below-market interest rate loan, however, the borrower may want to extend repayment beyond a normal, fiscally-attainable period. This practice would allow the borrower to invest the principal in other interest-bearing accounts or to fund other projects or activities. Under this bill, the State Fire Marshal must adopt rules regarding the disbursement of these loans. To maintain a vibrant revolving loan program, the Fire Marshal will likely attempt to limit borrowers' engaging in this practice.

□ *LBO staff: Rick Graycarek, Budget/Policy Analyst*

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