

STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

1313 Sherman Street, Room 721
Denver, Colorado 80203
Phone: (303) 866-3441
Fax: (303) 866-4474
www.cwcb.state.co.us



TO: Colorado Water Conservation Board Members

FROM: Mike Serlet, P.E., Chief
Water Supply Planning and Finance Section

DATE: March 6, 2009

SUBJECT: **Agenda Item #16a,b & c – March 17-18, 2009, Board Meeting
Water Supply Planning and Finance Section – General Financial Matters –
Review of Financial Policies**

Bill Ritter, Jr.
Governor

Harris D. Sherman
DNR Executive Director

Jennifer Gimbel
CWCB Director

Dan McAuliffe
Deputy CWCB Director

General Discussion

The Water Supply Planning and Finance Section will briefly present for Board discussion three Water Project Financial Policies. This presentation will serve as the second chapter of the Board's ongoing review and orientation as to the financial policies that direct the administration of the Water Project Loan Program. Those policies to be discussed are: #7 – Loan Lending Rate Determinations, #10 – Loan Payment Deferment Requests, and #12 – Prioritization of Project Fund Applications (all attached).

This item is an informational item only. There will be no decision items for the Board regarding financial policies at this meeting.

POLICY NUMBER: 7

SUBJECT: **ANNUAL CONSTRUCTION FUND AND SEVERANCE TAX
TRUST FUND PERPETUAL BASE ACCOUNT LENDING RATE
DETERMINATION**

EFFECTIVE DATE: January 25, 1995

REVISED DATES: November 24, 1997
January 27, 1999
November 20, 2001
May 20, 2002

POLICY: The Colorado Water Conservation Board (CWCB) shall annually establish lending rates for loans to be made from the Construction Fund and Severance Tax Trust Fund Perpetual Base Account. Thirty-year lending rates will be established for agricultural, commercial, and municipal categories of loans using the procedure outlined below:

1. A Baseline Rate will be established equal to the average yield of the 30-year “A” rated* municipal bond for the six months preceding the May Board meeting of each year, and will be used to set all of the other lending category interest rates.
2. The Commercial Rate will be calculated as 110 percent of the Baseline Rate, rounded to the nearest one-quarter of one percent.
3. Municipal Rates will be based on the project sponsor’s service area median household income, as established by the Colorado Department of Local Affairs, and will be structured as follows:
 - a. The Municipal High Income Rate will be calculated as 90 percent of the Baseline Rate rounded to the nearest one-quarter of one percent. The High Income Rate will apply where the median household income in the project sponsor’s service area is greater than 110 percent of the state-wide median household income
 - b. The Municipal Middle Income Rate will be calculated as 80 percent of the Baseline Rate rounded to the nearest one-quarter of one percent. The Middle Income Rate will apply where the median household income in the project sponsor’s service area is equal to 80 percent to 110 percent of the statewide median household income.
 - c. The Municipal Low Income Rate will be calculated as 70 percent of the Baseline Rate rounded to the nearest one-quarter of one percent. The Low Income Rate will apply where the median household income in the project sponsor’s service area is less than 80 percent of the statewide median household income.

4. Colorado's farms and ranches are irreplaceable resources providing food, fiber, open space, wildlife habitat, stable economies in rural areas and many other benefits. To help sustain the vitality of these economies, the Agricultural Rate will be calculated as 50 percent of the Baseline Rate rounded to the nearest one-quarter of one percent.
5. The 30-year lending rate may be reduced for each lending category by one-quarter of one percent for all loans with maturities of 20 years or less but more than 10 years and by one-half of one percent for all loans with maturities of 10 years or less.
6. For specific projects that involve matters of statewide concern, such as interstate compacts, the Board may establish a lending rate somewhat lower than the adopted rate for the particular class of borrower.
7. For project borrowers that fall into more than one lending category, i.e. an agricultural irrigation company with municipal shareholders, a weighted average lending rate will be established based on the percent ownership of each lending category within the borrower's organization. The lending rate will be revised at any time during the life of the loan when an ownership change would increase or decrease the weighted average by more than 0.5%

PURPOSE: To establish an annual lending rate structure for Construction Fund and Severance Tax Trust Fund Perpetual Base Account loans.

APPLICABILITY: This policy and procedure apply to all applications for loans from the CWCB Construction Fund and Severance Tax Trust Fund Perpetual Base Account.

PROCEDURE: The CWCB staff will compile the closing weekly yields for the 30-year "A" rated municipal bond for the six months preceding the May Board meeting of each year and estimate the bond's average annual yield. A lending rate structure will then be developed as outlined above and will be presented to the CWCB at the May Board meeting of each year. The interest rates calculated based on this procedure will be effective for Construction Fund and Severance Tax Trust Fund Perpetual Base Account loan applications for the upcoming Fiscal Year and will be effective July 1 through the following June 30.

* Standard and Poor's definition of an "A" bond rating is: "A debt rated 'A' has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories."

Approved by the CWCB
May 20, 2002 Board Meeting
Agenda Item #9

POLICY NUMBER: 10

SUBJECT: **LOAN PAYMENT DEFERMENT REQUESTS FROM THE
CONSTRUCTION FUND AND SEVERANCE TAX TRUST
FUND PERPETUAL BASE ACCOUNT**

EFFECTIVE DATE: November 24, 1997

POLICY: Under the statutory authority of Section 37-60-120 (3) CRS, the Colorado Water Conservation Board (CWCB) may, at its discretion, consider a request for deferment of payment on an existing loan from either the CWCB Construction Fund or the Severance Tax Trust Fund Perpetual Base Account. Any request for deferment of payment on an existing loan will require either: (1) the borrower to pay interest for the period in which the loan payment is deferred or (2) calculation of a new loan amortization schedule that provides for adding to the principal of the loan the interest that accrues during the period in which the loan payment is deferred.

PURPOSE: This policy allows the Board to maintain the financial integrity of the Construction Fund and the Severance Tax Trust Fund Perpetual Base Account while providing project sponsors an opportunity to recover from periods of financial difficulties, drought, flood, or other hardship beyond their control.

APPLICABILITY: This policy and procedure apply to all loans from the CWCB Construction Fund and Severance Tax Trust Fund Perpetual Base Account.

PROCEDURE: Upon request for deferral of an annual loan payment, staff will prepare a memorandum for presentation at the next regularly scheduled Board meeting. The memo will include the reason(s) for the deferral request, the original loan and project information, loan re-payment history, and a staff recommendation including, if applicable, a revised loan repayment schedule.

Approved by the CWCB
November 24, 1997 Board Meeting
Agenda Item #15a

POLICY NUMBER: 12

SUBJECT: **PRIORITIZATION OF PROJECT FUND APPLICATIONS FROM THE CONSTRUCTION FUND AND THE SEVERANCE TAX TRUST FUND PERPETUAL BASE ACCOUNT**

EFFECTIVE DATE: November 24, 1997

POLICY: The Colorado Water Conservation Board (CWCB) will give preference for funding from the Construction Fund and Severance Tax Trust Fund Perpetual Base Account to those projects that are most cost effective, demonstrate the greatest need for assistance in financing, and that best relate to the Board's Long Range Plan. This policy is in addition to the project priority order established in Sec. 37-60-121(1)(b)(I) and (II), CRS. That statute gives the first priority of funds to projects that increase the beneficial consumptive use of Colorado's undeveloped compact entitled waters and the remainder of the funds to projects for the repair and rehabilitation of existing water storage and delivery systems, controlled maintenance of the satellite monitoring system authorized pursuant to section 37-80-102(10) and for investment in water management activities and studies as provided in Section 37-60-119(3)

PURPOSE: To establish a method to prioritize funding requests from the Construction Fund and Severance Tax Trust Fund Perpetual Base Account in the event that the demand exceeds the available funds from either source in any given year.

APPLICABILITY: This policy and procedure apply to all requests for funding from the CWCB Construction Fund and Severance Tax Trust Fund Perpetual Base Account.

PROCEDURE: In the event that total requests for funding from the CWCB Construction Fund or the Severance Tax Trust Fund Perpetual Base Account exceed the funds available from either source in any given year, the requests for funding will be prioritized as described here. The CWCB staff will prepare, for the Board's consideration, a summary of the technical and financial characteristics associated with each project funding application. The project characteristics will include the type of funding sought, type of project, the cost effectiveness of each project, the estimated total annual yield for water supply, the damages avoided for floodplain projects and the type of project sponsor as shown in the following list in order of priority:

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Project Prioritization

1. Type of funding
 - a. loan
 - b. non-reimbursable investment
2. Type of project (structural or non structural)
 - a. development of compact entitlement
 - b. dam rehabilitation
 - c. infrastructure construction or rehabilitation
 - d. satellite monitoring system
 - e. water management activities and studies (including feasibility studies)
 - f. floodplain management
3. Estimated annual yield in acre-feet for water supply projects or damages avoided for floodplain projects
4. Cost effectiveness of the project*
5. Project sponsor
 - a. agricultural and municipal low income
 - b. municipal middle income
 - c. municipal high income
 - d. commercial/industrial

*For water supply projects cost effectiveness will be measured in terms of cost per acre-foot of water developed or supplied. For floodplain management projects, cost effectiveness will be based on the damages avoided as a result of the project.

Policy Statement Approved by the CWCB
November 24, 1997 Board Meeting
Agenda Item #15a

Procedure Statement Approved by the CWCB
September 25, 2000 Board Meeting
Agenda Item #13c