

STATE OF COLORADO

Colorado Water Conservation Board

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TO: Colorado Water Conservation Board Members

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

DATE: May 11, 2009

SUBJECT: **Agenda Item #15 - May 19-20, 2009 Board Meeting
Water Supply Planning and Finance Section – Financial Matters
New Loan Lending Rate Structure for FY 2010**

Introduction

This memorandum provides a summary of interest rates for the last six months and the staff recommendation for a lending rate structure for CWCB lending programs for the next twelve months. The process for determining the interest rates is in accordance with the Board's Financial Policy #7 – Annual Construction Fund and Severance Tax Trust Fund Perpetual Base Account Lending Rate Determination.

Recommendation

Staff recommends that the Board adopt the schedule of 30-year lending rates based on “an adjusted” Board approved Financial Policy #7, as shown in Table 1 for all loans recommended to the General Assembly or approved by the Board from July 1, 2009 through June 30, 2010.

Discussion

Attached is a graph of weekly yields for the 30-year “A” rated municipal bond for the period November 3, 2008 to April 27, 2009.¹ As the graph indicates, the average yield for the municipal bond was 6.29 percent for the past six-month period. Also attached is a graph showing the 30-yr. bond rate trends since FY02 and the large increase in rates last year.

As discussed at the March Board meeting, interest rates were anticipated to rise in FY10, which they obviously have. The Board was divided in March as to increase interest rates by

¹ Standard & 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.”

following the current policy, or leave rates where they are in order to stimulate more loan activity. In Table 1 I have shown the current FY09 interest rates, the FY10 rates as they would be calculated based on current policy, and my recommended rates that basically split the difference. I rounded the High Income rates up and the Agricultural rates down in order to provide the most attractive rates to the borrowers needing them the most.

By splitting the difference in rates, it allows us to stay within range of future rates if they continue to trend up and to be where we should be if they trend back down.

**Table 1
Proposed Lending Rates for FY 2010**

Type of Loan	FY09 Interest Rate	Calculated FY10 Rate	Recommended Rate
Commercial/Industrial	5.50%	7.00%	6.25%
Municipal High Income	4.50%	5.75%	5.25%
Municipal Middle Income	4.00%	5.00%	4.50%
Municipal Low Income	3.50%	4.50%	4.00%
Agricultural	2.50%	3.25%	2.75%

The following Table 2 summarizes the annual lending rates adopted by the Board since 2003.

**Table 2
30-Year Lending Rates, 2003 – 2009**

Type of Loan	2003	2004	2005	2006	2007	2008	2009
Commercial/Industrial	6.00%	5.50%	5.25%	5.25%	5.25%	4.75%	5.50%
Municipal High	4.75%	4.50%	4.25%	4.25%	4.25%	4.00%	4.50%
Municipal Middle	4.25%	4.00%	4.00%	3.75%	3.75%	3.50%	4.00%
Municipal Low	3.75%	3.50%	3.50%	3.25%	3.25%	3.00%	3.50%
Agricultural	2.75%	2.50%	2.50%	2.50%	2.50%	2.25%	2.50%

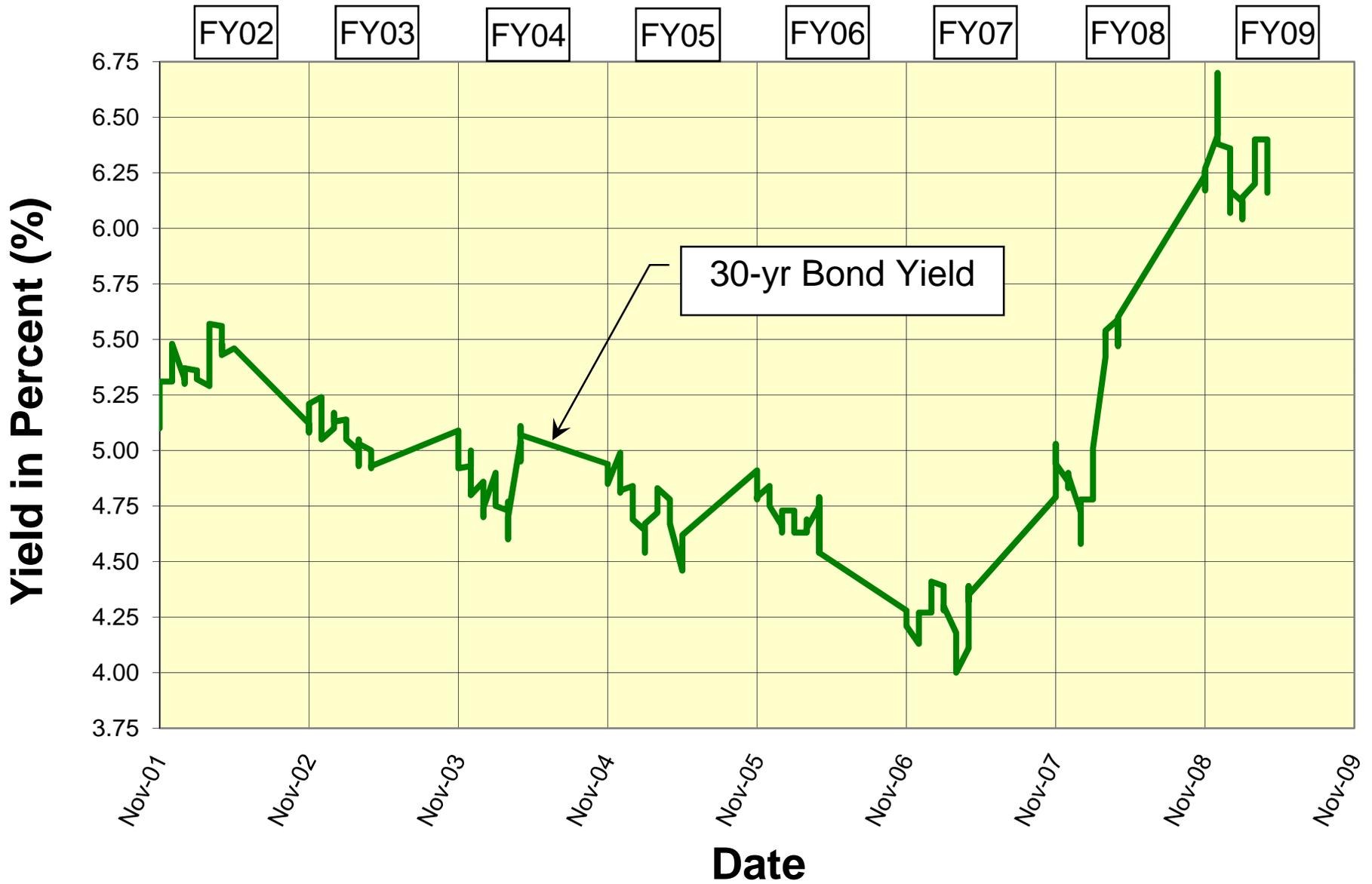
Recommendation

Staff recommends that the Board adopt the schedule of 30-year lending rates based on the Board approved Financial Policy #7, as shown in Table 1 for all loans recommended to the General Assembly or approved by the Board from July 1, 2009 through June 30, 2010.

Attachments

30-Year Municipal "A" Rated Bond Yield

November 2001 - May 2009



30-Year Municipal "A" Rated Bond Yield

November 2008 through April 2009

