

# STATE OF COLORADO

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## Colorado Water Conservation Board

### Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Kirk Russell, PE  
Tim Feehan, PE, Chief  
Finance Section

DATE: May 11, 2010

SUBJECT: **Agenda Item 10b - May 18-19, 2010 Board Meeting**  
**Finance Section – Financial Matters**  
**Lending Rates for FY 2010/2011**

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Bill Ritter, Jr.  
Governor

James B. Martin  
DNR Executive Director

Jennifer L. Gimbel  
CWCB Director

### Introduction

The CWCB utilizes two revolving funds to reinvest in Colorado's aging water supply infrastructure. These funds are not only of paramount importance to the borrowers that qualify for raw water project loans but the interest revenue from these loans also allows CWCB to remain a self-supporting agency. The information in this memo is provided as background for discussion and approval of Water Project Loan Program's Lending Rates for fiscal year 2010/2011. The process used for determining the recommended interest rates is found in Financial Policy #7 – *Annual Construction Fund and Severance Tax Trust Fund Perpetual Base Account Lending Rate Determination*.

### Staff Recommendation

Staff recommends that the Board adopt the schedule of 30-year lending rates, as shown in Table 1, based on the Board approved Financial Policy #7 for all loans recommended to the General Assembly or approved by the Board from July 1, 2010 through June 30, 2011.

### Supporting Information

Attached is a graph of weekly yields for the 30-year 'A' rated municipal bond for the period

<sup>1</sup> 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."

November 2, 2009 to April 26, 2010.<sup>1</sup> As the graph indicates, the average yield for the municipal bond was 5.61% for the past six-month period (Baseline Rate).

Last year, the Board approved interest rates that were artificially discounted to help stimulate water project spending. The discount was needed due to the unprecedented spike in the last year's Baseline Rate. This allowed the Loan Program's interest rates to go up but not shadow the extreme Bond Market spike. The decision worked out well as you can see by the minor decrease in only one loan type for FY 2010/2011 as shown in Table 1.

The CWCB Loan Program interest rates are calculated as a percent of the Baseline Rate and rounded to the nearest 0.25% per Financial Policy #7.

**Table 1.**  
**Recommended Lending Rates for FY 2010/2011**

Type of Loan	FY 2010/2011 Interest Rates
Baseline Rate	5.61%
Commercial/Industrial (110%)	6.25%
Municipal High Income (90%)	<b>5.0%</b>
Municipal Middle Income (80%)	4.5%
Municipal Low Income (70%)	4.0%
Agricultural (50%)	2.75%



Table 2 shows the annual lending rates adopted by the Board since 2002.

**Table 2.**  
**History of 30-Year Lending Rates for FY 2002 – FY 2010**  
**(%)**

Type	2002	2003	2004	2005	2006	2007	2008	2009	2010
Baseline	5.39	5.40	5.08	4.85	4.74	4.71	4.25	5.08	6.29
Comm./Ind.	5.75	6.0	5.5	5.25	5.25	5.25	4.75	5.5	6.25
Muni-High	4.75	4.75	4.5	4.25	4.25	4.25	4.0	4.5	5.25
Muni-Mid	4.25	4.25	4.0	4.0	3.75	3.75	3.5	4.0	4.5
Muni-Low	3.75	3.75	3.5	3.5	3.25	3.25	3.0	3.5	4.0
Agricultural	2.75	2.75	2.5	2.5	2.5	2.5	2.25	2.5	2.75

Attachment

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