

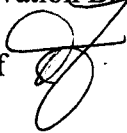
STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Tim Feehan, P.E., Chief Finance Section 

DATE: May 11, 2010

SUBJECT: **Agenda Item 15 – May 18-19, 2010 Board Meeting**
Finance Section
Future Project Loan Review and Board Approval

Bill Ritter, Jr.
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Introduction (This is for information and discussion only)

Due to the economic downturn over the past few years, the State of Colorado has been forced to address historic budget deficits. Thus, the Joint Budget Committee (JBC) examined existing cash funded programs and recommended cash transfers from these funds to balance the State's budget. In 2009, the Legislature authorized the transfer of \$10M from the Construction Fund and \$97M from the Severance Tax Perpetual Base Account Fund to the General Fund, for a total of \$107M to address the State's budget crisis. During the 2010 session, the Legislature approved the transfer of \$13M from the Severance Tax Perpetual Base Account Fund to the General Fund. To date, the Colorado Water Conservation Board's (CWCB) Loan Program has contributed \$120M to the General to Fund to address the State's budget crisis.

Discussion

In order to provide sufficient resources for future water project throughout the State of Colorado, staff requested input from the Board at the March 2010 Board Workshop on the procedures for bringing loans to the Board. The Board addressed the following issue at the workshop:

- Whether the Finance Section should bring as many loans to the Board for review as possible although the cash available may be less than the loan funds requested. Under this concept, the Board would review proposed loans and either pre-qualify loans for the project or merely approve projects as suitable. The Board would only release loan funds after an internal review of the project timing, the loan amount, the revenue stream, the urgency, and the overall benefit to the State. Staff would create an approved Project List that the Board would monitor to ensure an equitable and efficient distribution of funds. The project list would demonstrate the

State's need for the loan program and would emphasize the importance of a reliable funding source for water projects throughout the state.

The Board Members present at the workshop expressed the following concerns:

- Whether the Board would be giving potential borrowers a false sense of funding commitment by pre-qualifying loans or approving projects without being able to guarantee loan funds.
- How would staff prioritize projects to be funded when available funds do not meet the needs identified on the project list?
- Whether agriculture needs would be given higher priority than municipal or vice versa.

Upon completion of the Workshop, the Board instructed staff to further evaluate the concept on how the CWCB Loan Program might restructure its internal policy on administering and presenting loans to the Board, and to present those ideas or suggestions at the May 2010 Board Meeting.

Current Review of Future Loans

Kirk Russell, the Marketing Manager for the CWCB Loan Program, currently prepares for every Board Meeting a Loan Forecast and Prospect Report (Forecast Report) that lists potential borrowers for various water projects throughout the state. The intent of the Forecast Report is to identify funding needs and to evaluate if there are sufficient loan funds to cover those needs. The Forecast Report is used only as a planning tool since potential borrowers are not committed to using CWCB loan funds and project schedules are constantly changing.

During the legislative session, staff has used the Forecast Report as a tool to indicate to the General Assembly that there are identified funding needs that should be considered beyond what has been approved by the Board. However, the General Assembly does not look at the Forecast Report as a funding commitment by the State.

Staff Recommendation

After careful consideration of the Board's comments regarding staff's initial proposal on future loan submittals, staff has developed some suggestions to address the Board's comments. In an effort to better accommodate the long-term needs of our borrowers, staff is recommending the following:

- Staff will present a "Pre-qualification List" or, at a minimum, as a list of suitable projects for loans. Staff could bring to the Board for pre-qualification appropriate Borrowers that are interested in obtaining funding, but are not at full feasibility study level. The pre-qualification would not commit CWCB to provide loan funds, but would give the Board the ability to prescreen a wide variety of projects, prior to the individual projects being presented to the Board for final project and loan approval.
- At each Board meeting, staff would continue to present specific projects to the Board for Borrowers who are requesting loan funds and would also present projects that are requesting pre-qualification only. Those projects that have been pre-qualified by the Board would go on a

list, monitored and updated by staff bi-monthly, and presented to the Board again when the applicant is ready for final loan approval. Potential borrowers with immediate need could apply for full project loan approval at any time and would not be required to be pre-qualified.

The benefits to the Board from this approach include the following:

- Board members would have basin-specific summaries of pre-qualified projects that would be updated and monitored on a bi-monthly basis.
- Having a list of pre-qualified projects of different types, needs, and funding levels would give staff and the Board a solid planning tool to implement Policy No. 12 (Prioritization of Project Fund Applications) if loan requests became greater than available funding.
- Having a pre-qualification list would provide CWCB with defensible water needs list that could prove valuable to show the General Assembly the important water needs of the State during downturns in the economy.