

# 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, Chief  
Finance Section

DATE: May 4, 2012

SUBJECT: **Agenda Item 24b - May 15/16, 2012 Board Meeting**  
**Finance Section – Financial Matters**  
**Loan Lending Rates for FY12/13**

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John W. Hickenlooper  
Governor

Mike King  
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 of paramount importance to the state of Colorado and the borrowers that need access to funds for the repair of aging raw water supply infrastructure and the development of new supplies to meet water supply needs. The interest revenue from these loans allows the CWCB to remain a self-supporting agency. This memo is provided as background for discussion and approval of the Water Project Loan Program's Lending Rates for FY12/13. The process used for determining the recommended interest rates is found in the attached Financial Policy #7 – *Annual Construction Fund and Severance Tax Trust Fund Perpetual Base Account Lending Rate Determination*.

Additionally, in July 2011 the Board expanded the CWCB Loan Program's market rates to include an incentive to rehabilitate reservoirs restricted by the Dam Safety Branch of the State Engineers Office and established an interest rate for hydroelectric projects. Staff will request the Board to consider continuing these rates for FY12/13.

### Staff Recommendation

Staff recommends that the Board adopt the schedule of 30-year lending rates, as shown in Table 1 and rates for the Special Interest Rate Categories of a Hydroelectric Rate of 2.0% and a Restricted Reservoir Rate reduction of 0.5% for Agricultural, Low Income Municipalities, and companies that include one or both of these borrower categories as a majority of its ownership. These rates shall apply to all loans recommended to the General Assembly or approved by the Board from July 1, 2012 through June 30, 2013.

Staff also recommends approval of the proposed revisions to Policy #7 as attached.

## Discussion

### Standard Lending Rates:

Attached is a graph of weekly yields for the 30-year 'A' rated municipal bond from for the period November 7, 2011 to April 30, 2012.\*\*\* As the graph indicates, the average yield for the municipal bond was 3.748% for the past six-month period (Baseline Rate). (See attached graphs)

The CWCB Loan Program interest rates as shown in Table 1 are calculated as a percent of the Baseline Rate and rounded to the nearest 0.25% per Financial Policy #7.

**Table 1.**  
**Recommended Standard Lending Rates by Category for FY 2011/2012**

|                               | <b>FY 11/12</b>       |                         | <b>FY 12/13</b>         |
|-------------------------------|-----------------------|-------------------------|-------------------------|
| <b>Type of Loan</b>           | <b>Approved Rates</b> | <b>Calculated Rates</b> | <b>Recommended Rate</b> |
| Commercial/Industrial (110%)  | 6.50%                 | 4.00%                   | <b>6.00%*</b>           |
| Municipal High Income (90%)   | 5.00%*                | 3.25%                   | <b>3.25%</b>            |
| Municipal Middle Income (80%) | 4.50%*                | 3.00%                   | <b>3.00%</b>            |
| Municipal Low Income (70%)    | 4.00%                 | 2.50%                   | <b>2.50%</b>            |
| Agricultural (50%)            | 2.75%*                | 1.75%                   | <b>1.75%</b>            |

\* In FY11/12, staff requested that the Board approve discounted rates for several borrower categories. In FY12/13 staff is recommending inflating the commercial rate to 6.00% to avoid an influx of pure commercial borrowers.

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\*\*\* 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."

**Table 2.**  
**History of 30-Year Lending Rates for FY 03/04 – FY 12/13**

| Type         | Fiscal Year Rates (%) |       |       |       |       |       |       |       |       |       |             |
|--------------|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------|
|              | 03/04                 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 10yr<br>AVG |
| Baseline     | 5.08                  | 4.85  | 4.74  | 4.71  | 4.25  | 5.08  | 6.29  | 5.81  | 5.86  | 3.75  | 5.0         |
| Comm./Ind.   | 5.5                   | 5.25  | 5.25  | 5.25  | 4.75  | 5.5   | 6.25  | 6.25  | 6.50  | 6.00  | 5.7         |
| Muni-High    | 4.5                   | 4.25  | 4.25  | 4.25  | 4.0   | 4.5   | 5.25  | 5.25  | 5.25  | 3.25  | 4.5         |
| Muni-Mid     | 4.0                   | 4.0   | 3.75  | 3.75  | 3.5   | 4.0   | 4.5   | 4.5   | 4.5   | 3.00  | 4.0         |
| Muni-Low     | 3.5                   | 3.5   | 3.25  | 3.25  | 3.0   | 3.5   | 4.0   | 4.0   | 4.0   | 2.50  | 3.5         |
| Agricultural | 2.5                   | 2.5   | 2.5   | 2.5   | 2.25  | 2.5   | 2.75  | 2.75  | 2.75  | 1.75  | 2.5         |

### Special Interest Rate Categories

Staff is recommending that the two interest categories that were created in July 2011 continue to be provided to borrowers for FY 12/13 with the modifications described below.

**Hydroelectric Rate:** The Hydroelectric Interest Rate category was approved last year to be a fixed rate of 2.0%. No defined annual limit on the amount of funding available for hydroelectric projects shall be set. It is staff's opinion that the amount of funding for a hydroelectric project should be evaluated on a case-by-case basis and be based on funds available, fund projections, and loan forecast needs.

**Staff recommends utilizing a 2.0% interest rate for Hydroelectric Projects again in FY 12/13.**

The Colorado Water Resource Development and Power Authority (CWRDPA) currently has a hydro-loan component in its program. CWRDPA offers a 2% interest rate for hydroelectric projects with a maximum of \$2M per project and \$10M in loan funds available per year. Staff will continue to require hydroelectric project borrowers utilize CWRDPA funds first and/or request a letter of support from CWRDPA for any hydroelectric loan requests brought to the Board for approval.

**Restricted Reservoir Rate:** The Restricted Reservoir Interest Rate was approved last year for projects that address storage restrictions imposed by the Dam Safety Branch of the State Engineer's Office. The Restricted Reservoir Rate is actually a reduction to the interest rate as determined by the category type of the borrower. The reduction last year was 1.0% for all Agricultural, Municipal Low Income and blended rate borrowers.

**Staff is recommending a Restricted Reservoir Rate reduction of 0.5% for FY12/13 for all Agricultural, Low Income Municipalities and private companies that include one or both of these borrower categories as a majority of its ownership.**

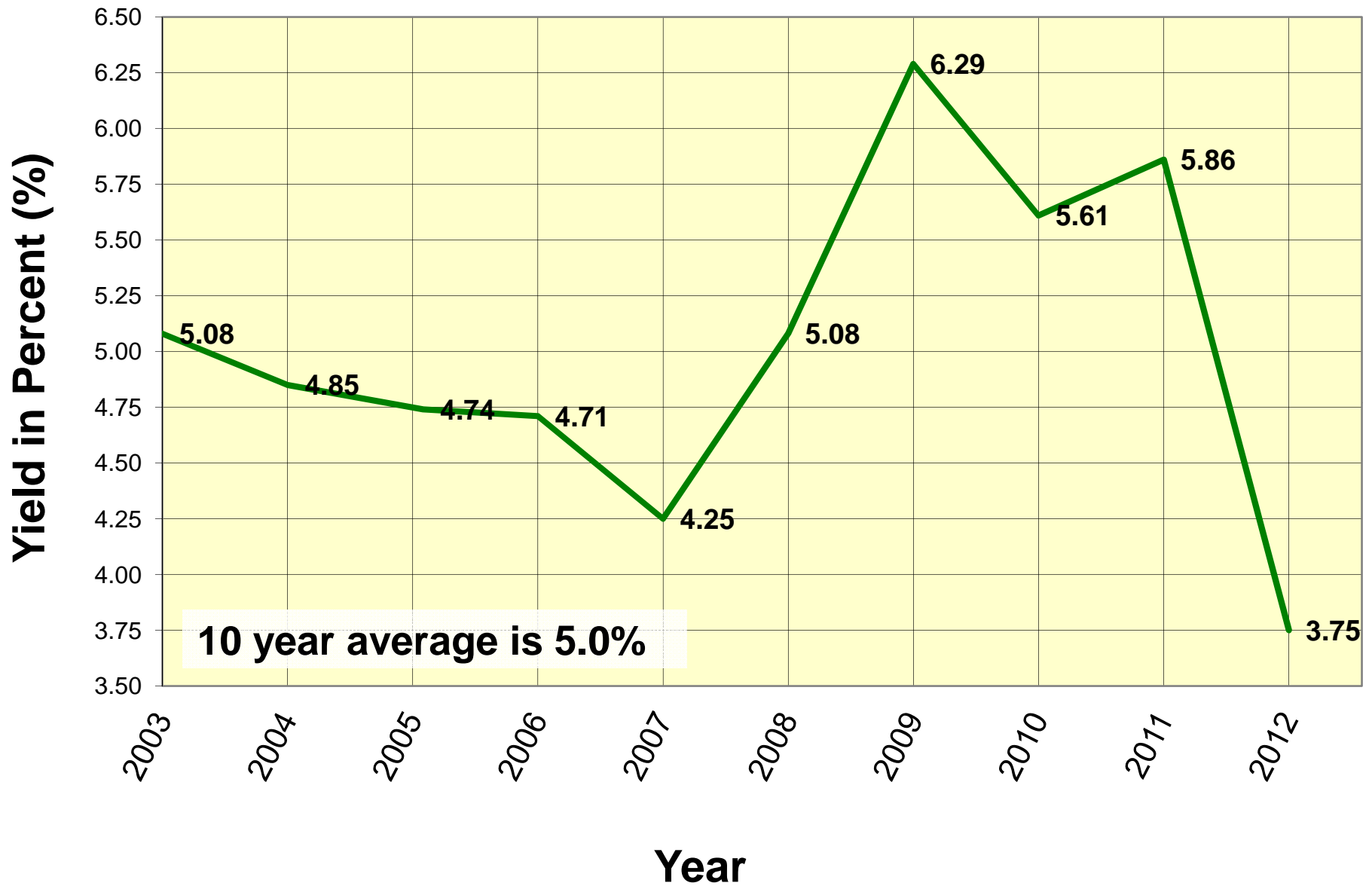
# 30-Year Municipal "A" Rated Bond Yield

November 2011 through April 2012



# 30-Year Municipal "A" Rated Bond Yield

6 Month Average "Baseline Rate"



REVISIONS PROPOSED AT THE CWCB BOARD MEETING  
MAY 16, 2012  
AGENDA ITEM 24b

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  
July 13, 2011  
PROPOSED AT CWCB MEETING ON MAY 16, 2012

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, municipal, hydroelectric, and restricted reservoir 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. Agricultural Rate 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 rates established annually by the Board may be reduced for each lending category, with the exception of the Hydroelectric Rate, 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%.
- 8. Hydroelectric Rate The State recognizes the importance of providing clean, renewable energy, where feasible, to assist in meeting its long term energy needs. To help promote this a Hydroelectric Interest Rate will be ~~2%~~ DETERMINED BY THE BOARD ANNUALLY. The ~~2%~~ interest rate will be applied only to the hydroelectric component of the project and will be the fixed interest rate for any length of loan term.
- 9. Restricted Reservoir Rate The CWCB is committed to addressing the State's long-term water needs and to assist in offering water providers

with affordable financing to remove reservoir restrictions imposed by the DAM SAFETY BRANCH OF THE State Engineer's Office. The Restricted Reservoir Rate shall be A RATE REDUCTION APPLIED TO THE BORROWER'S INTEREST RATE AS DETERMINED BY THE BORROWER'S LENDING CATEGORY (OR BLEND). THE AMOUNT OF THE REDUCTION SHALL BE DETERMINED BY THE BOARD ANNUALLY. THE REDUCTION SHALL ALSO BE LIMITED TO ONLY THOSE LENDING CATAGORIES APPROVED BY THE BOARD. THIS RATE REDUCTION SHALL BE IN ADDITION TO THE REDUCTION FOR SHORTER TERMS AS DESCRIBED ~~calculated rate by taking 1 percent reduction from the annually approved agricultural rate or the calculated blended rate as described under Section 7. An additional interest reduction will be granted under Section 5. 100% municipal or commercial borrowers will not qualify for the restricted reservoir interest rate.~~ The Board reserves the right to deny any blended rate borrower the restricted reservoir rate based on the final determination of the borrower's ownership breakdown. ~~or to allow a 100% low income municipal rate borrower to apply for the restricted reservoir interest rate, subject to the review and approval of the Board.~~

- 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."