

STATE OF COLORADO

Colorado Water Conservation Board

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

John W. Hickenlooper
Governor

FROM: Kirk Russell, PE, Chief
Finance & Administration Section

Mike King
DNR Executive Director

DATE: May 9, 2014

James Eklund
CWCB Director

SUBJECT: **Agenda Item 28b - May 21-22, 2014 Board Meeting**
Financial Matters of the Construction Fund and Sev. Tax Perpetual Base Fund
FY 2014/15 Loan Interest Rates

Introduction

The CWCB utilizes two revolving loan funds to invest in Colorado's 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 agenda item will provide the background for discussion and approval of the Water Project Loan Program's Lending Rates for rates effective July 1, 2014.

Staff Recommendation

Staff recommends that the Board adopt the following schedule of 30-year lending rates effective for loans approved by the Board after July 1, 2014.

Borrower Type	Rates
Agricultural	2.0%
Municipal Low Income	2.75%
Municipal Middle Income	3.25%
Municipal High Income	3.50%
Commercial/Industrial	6.0%
Hydropower	2.0%
Restricted Reservoir Reduction	0.5%

Discussion

The process used for determining the recommended interest rates is found in the attached ***Financial Policy #7 – Annual Construction Fund and Severance Tax Perpetual Base Fund Lending Rate Determination***.

Staff recommends the Board review Financial Policy #7 and in particular the frequency that the Board adjusts interest rates at its September 2014 Finance Committee Meeting. If necessary, subsequent adjustments to interest rates will be formally considered at the November 2014 Board Meeting for loans considered after January 1, 2015.

Standard Lending Rates:

Attached is a graph of weekly yields for the 30-year ‘A’ rated municipal bond from for the period November 4, 2013 to April 28, 2014.⁽¹⁾ As the graph indicates, the average yield for the municipal bond was 4.52% 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.
Standard Lending Rates by Category

Borrower Type	FY 13/14	FY 14/15	
	Current Rates	Calculated Rates	Recommended Rates
Base Rate	3.29%	4.52%	
Agricultural (50%)	1.75%	2.25%	2.00%*
Municipal Low Income (70%)	2.25%	3.25%	2.75%*
Municipal Middle Income (80%)	2.75%	3.50%	3.25%*
Municipal High Income (90%)	3.00%	4.00%	3.50%*
Commercial/Industrial (110%)	6.00%	5.00%	6.00%**

* Staff recommends a rate increase of ½ of the required increase, per Policy, to soften the impact of the significant upswing in rates. Staff also recommends the Board revisit the rates in November 2014 to determine any additional adjustment if necessary due to market changes.

** Staff is recommending maintaining a higher commercial rate of 6.00%.. The commercial rate is primarily used in the blending rates.

⁽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.”

Table 2.
Ten Year History of 30-Year Lending Rates

	Fiscal Year Rates (%)										
Type	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	10yr Avg
Baseline	4.74	4.71	4.25	5.08	6.29	5.81	5.86	3.75	3.29	4.52	4.86
Ag	2.5	2.5	2.25	2.5	2.75	2.75	2.75	1.75	1.75	2.00	2.4
Low	3.25	3.25	3.0	3.5	4.0	4.0	4.0	2.50	2.25	2.75	3.3
Mid	3.75	3.75	3.5	4.0	4.5	4.5	4.5	3.00	2.75	3.25	3.8
High	4.25	4.25	4.0	4.5	5.25	5.25	5.25	3.25	3.00	3.50	4.3
Comm	5.25	5.25	4.75	5.5	6.25	6.25	6.50	6.00	6.00	6.00	5.7

Special Interest Rate Categories

In 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 is recommending that the two rate interest categories as described below be continued for FY14/15.

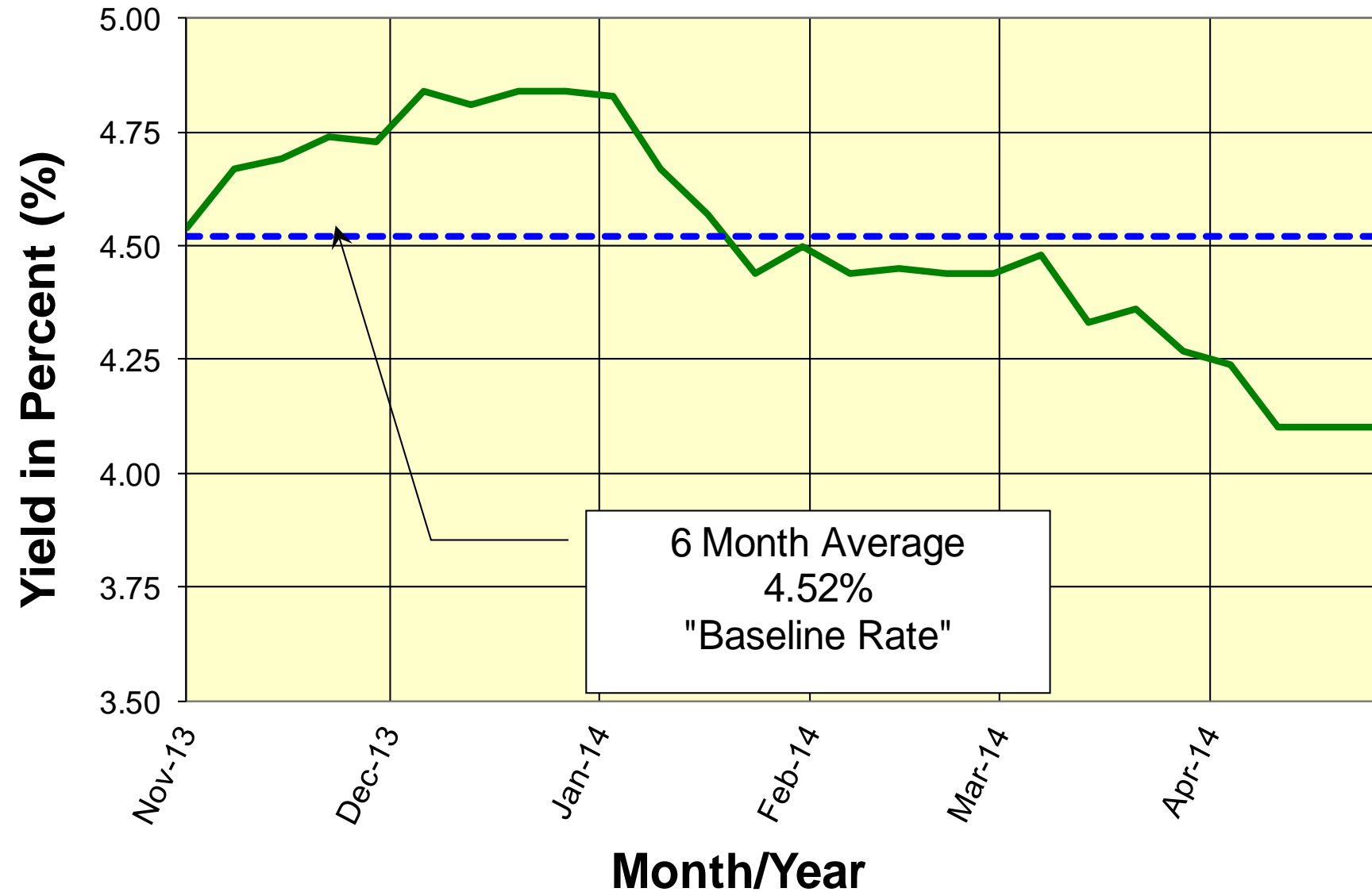
Hydroelectric Rate: The Hydroelectric Interest Rate shall remain a fixed rate of 2.0% for a 30 year term. No defined annual limit on the amount of funding available for hydroelectric projects shall be set. Amount of funding for a hydroelectric project shall be evaluated on a case-by-case basis and be based on funds available, fund projections, and loan forecast needs.

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 to utilize CWRDPA funds first and/or request a letter of support from CWRPDPA for any hydroelectric loan requests brought to the Board for approval.

Restricted Reservoir Rate: The Restricted Reservoir Interest Rate reduction shall be applied to projects that address storage restrictions imposed by the Dam Safety Branch of the State Engineer's Office. The Restricted Reservoir Rate is a reduction to the interest rate as determined by the category type of the borrower. The reduction of 0.5% shall remain in place 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 2013 through April 2014



30-Year Municipal "A" Rated Bond Yield

10 year Average of "CWCB Baseline Rate"



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: Nov. 24, 1997, Jan. 27, 1999, Nov. 20, 2001, May 20, 2002, July 13, 2011
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 determined by the Board annually. The 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 categories approved by the Board. This rate reduction shall be in addition to the reduction for shorter terms as described under Section 5. 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.

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."