



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Kirk Russell, P.E., Chief
Finance Section

DATE: July 20-21, 2016, Board Meeting

AGENDA ITEM: 12a. Financial Matters - Construction Fund and Severance Tax Perpetual
Base Fund - Loan Policy Changes

Introduction/Description

During the May 2016 Board Meeting the staff provided some ideas to the Board for consideration regarding changes to Financial Policy #7 - Interest Rate Determination. The ideas were well received. Staff will continue to look for ways to be responsive to the water provider's needs around the state.

The success of the CWCB Loan Program is greatly attributed to the flexibility in its lending policies. The CWCB's Financial Policies are found on the CWCB website at www.cwcb.state.co.us/legal/pages/Policies.aspx.

The following are being considered for change:

- a. Reducing the 10-year term interest rate by the difference between the 40-year and the 10-year Municipal 'A' rated bond market rate
- b. Allow financing terms of up to 40 years on certain loan types (excluding hydroelectric, water meters, and other project types with short life expectancies)

Staff Recommendation

Staff recommends the Board approve the changes presented and as shown on the attached Financial Policy #7 - Lending Rate Determination.



POLICY NUMBER: 7

SUBJECT: **CONSTRUCTION FUND AND SEVERANCE TAX PERPETUAL
BASE FUND - 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, Nov 20, 2014

POLICY: The Colorado Water Conservation Board (CWCB) staff shall automatically set lending rates for Agricultural and Municipal project sponsors every two months and staff will recommend rates for Commercial and Hydropower annually at the Finance Committee as set forth in this Policy. These rates will be used for loans authorized from the Construction Fund and Severance Tax Perpetual Base Fund. Lending rates will be established 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 preceding six month period, and will be used to set Agricultural and Municipal lending interest rates.
2. **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 0.05%.
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 0.05%. 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 0.05%. The Middle Income Rate will apply where the median household income in the project sponsor’s service area is between 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 0.05%. 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. **Commercial Rate** - The CWCB Finance Committee shall recommend a Commercial lending rate to the Board for approval annually. As a guide, the Board shall use a rate between 110 percent of the Baseline Rate and the maximum allowed by Statute.
5. **Hydroelectric Rate** - The State recognizes the importance of clean, renewable energy, where feasible, to assist in meeting its long term energy needs. To help promote this, a Hydroelectric Interest Rate will be recommended by the CWCB Finance Committee for Board approval annually. The interest rate will be applied only to the hydroelectric component of the project and will be a fixed interest rate for up to a 30-year term. any length of loan term.
6. Specific projects that involve matters of statewide concern, such as interstate compacts, the Board may establish a lending rate lower than the adopted rate for the particular type of borrower.
7. Project sponsors 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 proportion of 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 increases or decreases the weighted average by more than 0.5%.
8. **Rate Adjustments Reduction for Shorter or Longer Term Loans** - The 30-year lending rates established by this Policy may be reduced, with the exception of the Hydroelectric Rate, by one-quarter of one percent for all loans with maturities of 20 years or less. For loans 10-years and less the 10-year 'A' rated Municipal Bond rate will be factored into the reduction. one half of one percent for all loans with maturities of 10 years or less. The established lending rate for a 30-year term loan shall be increased by 0.25% for a 40-year loan.
9. **Restricted Reservoir Rate Reduction** - 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 Reduction shall be 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. The Board may deny a project sponsor the rate reduction based on the final determination of the borrower's ownership breakdown.

PURPOSE: To establish a lending rate structure for the Construction Fund and Severance Tax Perpetual Base Fund loans.

APPLICABILITY: This policy and procedure shall apply to all applications for loans from the Construction Fund and Severance Tax Perpetual Base Fund.

PROCEDURE: **Agricultural** and **Municipal** lending categories: On the Loan Application due date (first day of the month of February, April, June, August, October, December), the CWCB staff will compile an average weekly yield for the 30-year "A" rated municipal bond for the preceding six months. The lending rate will be published on the CWCB's website and provided in the CWCB Director's Report. The interest rates calculated based on this procedure will be utilized for loans approved at the subsequent Board Meeting.

Commercial and **Hydropower** lending categories: The CWCB Finance Committee will review and propose a rate for CWCB Board approval in November each year for use in the following year.

Restricted Reservoir Rate Reduction: - The CWCB Finance Committee will review and propose a rate reduction for CWCB Board approval in November each year for use in the following year. The Board may also place additional limitations on the use of this reduction at any time.

* 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."