



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Kirk Russell, P.E. Finance Section Chief
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DATE: November 16-17, 2016 Board Meeting

AGENDA ITEM: 7d. Financial Matters - Construction Fund and Severance Tax Perpetual Base Fund - Change to Financial Policy #11

Introduction

The Colorado Water Plan identified approximately \$20 billion in funding needs related to water supply infrastructure projects over the next 35 years. In an effort to be responsive to water providers' needs and help move water projects forward, staff is asking the Board to consider amending Financial Policy 11. See attached Financial Policy 11 for recommended changes.

Current Policy

Financial Policy 11 currently limits lending to 90% of the total project cost. The policy only allows 100% financing for projects partially funded by Natural Resources Conservation Service.

Background

Historically it was considered important to require borrowers to have an equity stake in projects. The Board has previously approved a variance to this Policy, most notably in response to the September 2013 flooding in the South Platte Basin where emergency loans were approved for up to 100% of the total project cost.

Borrowers, especially municipal borrowers, have other funding options that allow 100% financing. These include the bond market, U.S. Department of Agriculture Rural Development loans, Drinking Water Revolving Fund loans, and the Colorado Water Resources and Power Development Authority's water revenue bond program.

Over recent years with the growing popularity of loan/grant funding, borrowers began using Water Supply Reserve Fund (WSRF) grants as the matching funds for CWCB loans, therefore having no upfront cash vested in projects. To date, all of the loans made with such funding packages have been successful and all loans are in good standing.

Given the limited amount of grant funds currently available, and the CWCB's desire to help implement the Colorado Water Plan, the present seems like a fitting time to change Financial Policy 11.

Staff recommendation

Staff recommends changing Financial Policy 11 by increasing the allowable lending limit to up to 100% of project costs for agricultural and municipal borrowers. Private, unincorporated borrowers (i.e., individuals or closely held corporations) and commercial borrowers will remain at the 90% limit. If funds are limited, the Board will maintain the right to reduce the percentage of loan to project costs.



POLICY NUMBER: 11

SUBJECT: **ALLOWABLE LOAN AMOUNTS BASED UPON A PERCENTAGE OF THE TOTAL PROJECT COST**

EFFECTIVE DATE: November 24, 1997

REVISED DATE: May 24, 2005 , November 16, 2016

POLICY: ~~For agricultural and municipal borrowers, the The~~ Colorado Water Conservation Board (CWCB) may lend up to 100 ~~90~~ percent of the total costs for the planning, engineering design, and construction of projects. ~~This includes mutual ditch or reservoir companies that have commercial shareholders when those are the minority shares. For those projects partially funded by the Natural Resources Conservation Service (NRCS) programs, the CWCB may authorize a loan of up to 100 percent of the total cost of the planning, engineering design and project construction, with assurance of repayment of a portion of the initial loan amount with NRCS funding. The final balance of the loan shall not exceed 90% of the total project cost.~~

~~For a private entity, commercial borrowers, or an entity deemed by the Board to be at such a risk that the Board's Policy requires collateral at a value of 110 percent of the borrowed amount as presented in Financial Policy #5 (Collateral), the CWCB may lend up to 90 percent of the total costs for the planning, engineering design, and construction of projects.~~

PURPOSE: This policy allows the Board to make available to those project sponsors with the greatest need for financial assistance, loans that require less funding from other sources relative to the overall project cost.

APPLICABILITY: This policy applies to the consideration of all requests for funding from the CWCB Construction Fund and Severance Tax Trust Fund Perpetual Base Fund.

PROCEDURE: Not Applicable