

POLICY NUMBER: 4

SUBJECT: **CONSTRUCTION FUND AND SEVERANCE TAX TRUST FUND PERPETUAL BASE ACCOUNT BORROWER CREDITWORTHINESS AND FINANCIAL NEED DETERMINATIONS**

EFFECTIVE DATE: October 1, 1999

POLICY: The Colorado Water Conservation Board (CWCB) may make water project loans available to all Project Sponsors (up to the limit of funds available for lending in any one year) who can establish that the project is feasible and that they have the ability to repay the loan. For all loans from the CWCB Construction Fund and Severance Tax Trust Fund Perpetual Base Account, the Board will require analyses of the project sponsor's creditworthiness and financial need.

PURPOSE: To establish a systematic method for evaluating the creditworthiness and financial need of potential loan recipients.

APPLICABILITY: This policy applies to the consideration of all loan applications from the CWCB Construction Fund and Severance Tax Trust Fund Perpetual Base Account.

PROCEDURE: As an integral part of the feasibility investigation for each proposed project, the project sponsor will submit the following to the CWCB staff:

The project sponsor's most recent schedule of rates or assessments,

Copies of the project sponsor's three most recent audit reports or financial statements,

A summary of the results of applications to all other lenders to which the project sponsor has applied for funding of the proposed project,

The cost of the water developed by the project in terms of cost per acre-foot or per 1,000 gallons,

A detailed projection of all revenues and all expenditures by year over the period of debt retirement with the CWCB, and

Where appropriate a current credit report or other documentation from financial institutions that the project sponsor has done business with.

CWCB staff will review these submittals to determine the following:

The project sponsor’s assets, liabilities, net equity and net income,

The extent to which revenues will be available to offset all anticipated expenditures over the period of debt retirement,

Total long-term debt of the entity at the present time and over the period of debt retirement,

Number of water users or shareholders to participate in debt repayment, and

The financial ratios in the following table (the rating system is suggested only as a guideline for the analyses).

Ratio	Weak	Average	Strong
Operating Ratio (1)	<100 %	100-120 %	>120%
Debt Service Coverage Ratio (2)	<100%	100-125%	>125%
Debt per Tap (3)	>\$5,000	\$2,500-\$5,000	<\$2,500
Cash Reserves to Current Expense	<50%	50-100%	>100%
Annual Cost per Acre-Foot (Agric.)	>\$20	\$10-\$20	<\$10
Monthly Resid. Water Bill (Munic.)	>\$60	\$30	

(1) Operating revenue/operating expense

(2) (Total eligible revenues – operating expenses)/total debt service

(3) Total long-term debt/number of taps

The analysis of creditworthiness will be based on all of the available preceding indicators as interpreted by the CWCB staff. Should the analysis indicate that a potential borrower might not be creditworthy, staff will prepare a set of recommendations for measures that could improve the borrower’s ability to repay the loan. The project sponsor must adopt share assessments and/or

water rates necessary to establish creditworthiness prior to entering into a loan contract with the CWCB.

The analysis of financial need will be based on all of the preceding data as well as median household income for municipalities. It is assumed that communities with a lower median household income as well as agricultural borrowers will have a greater need for financial assistance. Agricultural and low-income municipal project sponsors are eligible for the lowest lending rates and for a higher priority in the list of projects recommended to the legislature each year by the Board.

Approved by the CWCB
September 27, 1999 Board Meeting
Agenda Item # 7