

**COLORADO WATER RESOURCES &
POWER DEVELOPMENT AUTHORITY**

BOARD PROGRAM WORK SESSION (BPWS) AGENDA

**June 3, 2021
BPWS at 3:00 pm**

Via Zoom meeting
(click this link to join the meeting)

<https://zoom.us/j/96893760853?pwd=QnljWkxnWUo3REhHN0N0Y2dCZ1BsZz09>

Meeting ID: 968 9376 0853
Passcode: 548003
OR Call in number: 1-669-900-6833 US

Board Members: Chris Treese (Chair), Webb Jones, Roy Heald, Bob Wolff, George Corkle, Mike Fabbre, Steve Vandiver, Patti Wells, and Eric Wilkinson

Authority Staff: Keith McLaughlin, Jim Griffiths, Sabrina Speed, Justin Noll, Wesley Williams and Ian Loffert

Others present: Michael Beck (WQCD), Mark Henderson (WQCD), Desi Santerre (DOLA)

AGENDA

1. Interim Loan Program Change Recommendations – discussion and possible action (Wes/Jim)
2. Disadvantaged Community Loan Program – Upfront Principal Forgiveness Change Recommendations – discussion and possible action (Ian/Desi/Mark)
3. Administrative Fee Update – discussion only (Keith/Jim)
4. Strategic Planning Part 3 – discussion only (Keith)
5. Future BPWS Topics – discussion only (Keith)



COLORADO WATER RESOURCES & POWER DEVELOPMENT AUTHORITY

Logan Tower Bldg - Suite 620, 1580 Logan Street, Denver, Colorado 80203-1942
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MEMORANDUM

June 3, 2021

TO: Board of Directors and Karl Ohlsen

FROM: Jim Griffiths, Finance Director
Wes Williams, Assistant Finance Director

RE: Interim Loan Program Policy – Staff Recommended Changes

On April 22, 2021, Authority Staff presented a historic look at the Interim Loan Program and policy. Staff focused on three parts of the current policy that could be considered outdated. The Board provided feedback and directed staff to propose changes to these parts of the policy. Staff recommends the following changes:

Current Policy	Staff Recommended Change
18-month approval and a 24-month loan term.	6-month approval (this approval comes with a one-time, up to 6 month Executive Director extension) and a one year loan term (this approval comes with a one-time, up to 6 month Executive Director extension).
No fee or interest charged on the undrawn portion of Interim Loans.	A 1% interest rate on the undrawn portion of the loan. All interest rates approved by the Board on an annual basis.
Limited funds (and multiple programs dependent on those funds).	A max interim loan amount of \$3-\$5 million dependent on number of interim loan applicants and available funds.

Staff also considered an upfront loan fee, increasing the penalty interest rate if a borrower did not execute long-term financing and decreasing the maximum loan term if converted. After staff's review, an upfront loan fee may decrease the ability for a borrower to execute an interim loan, which could reduce their ability to have access to funds needed to bridge the gap to an executed loan. Staff also believes that the rate of Prime plus 1% is a good penalty rate because it takes into consideration the current market rate, with an increase of 1% being high enough to discourage borrowers from wanting the interim loan to convert to long-term financing. The other item staff considered that would discourage a borrower from attempting to convert our interim loan to long-term financing is imposing a shorter maximum loan term of 5 or 10 years. A five-year term, compared to a 20-year term, would significantly increase the annual and overall debt service payment amount, further deterring borrowers from wanting to convert our interim loan to long-term financing. Staff decided against recommending this change due to no history of interim loans converting to long-term financing due to the favorable rates and loan terms the SRF provides.

Staff recommends that the Board approve staff's recommended changes to the Interim Loan Program policy. The Board will consider this request on June 4, 2021.



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MEMORANDUM

April 22, 2021

TO: Board of Directors and Karl Ohlsen

FROM: Jim Griffiths, Finance Director
Wes Williams, Assistant Finance Director

RE: Authority Interim Loan Program Review

In the mid-1990's, the Authority began issuing short-term loans to bridge the time gap between the project's immediate funding need (for design, engineering and early construction expenses) and the next Water Pollution Control Revolving Fund (WPCRF), Drinking Water Revolving Fund (DWRP), Small Water Resources Program (SWRP) or Water Revenue Bond Program (WRBP) bond issuance. Short-term bridge loans made in this 'intervening time' were called interim loans.

In addition to issuing interim loans ahead of a bond issuance, interim loans were provided to facilitate the United States Department of Agriculture (USDA) loan program's cashflow restrictive requirement of only allowing a single project draw from the U.S. Treasury near project completion. A USDA loan commitment letter is required for all interim loan requests, and a USDA project manager reviews draw requests from the interim loan and conducts construction inspections. Near the end of the project a single draw from the U.S. Treasury is made to pay off the interim loan.

The Authority's Interim Loan Program requirements include (but are not limited to) the following:

- Must have a viable and eligible project.
- Must obtain long-term financing to pay off the interim loan. To demonstrate this, interim loan borrowers generally need loan approval through the DWRP, WPCRF, WRBP (and previously the SWRP) or have a USDA financing commitment.
- Must have the ability to repay the eventual long-term financing as evidenced by an Authority credit analysis and Board approval.

The general parameters of the Interim Loan Program include (but are not limited to) the following:

- Limited to available Authority resources (Approximately \$12 million current capacity. Capacity will vary as there are other allowable uses of these funds).
- Interest rate is established by the Authority Board each year.
- Loan terms are not-to-exceed 24-months unless an exception (or extension) is approved by the Authority Board.
- Interim loans that are not paid off by the end of the loan term revert to an amortizing loan at a higher interest rate as provided for in the loan agreement.

Historic Interim Loan approvals include the following:

<u>Interim Loan Borrower</u>	<u>Year</u>	<u>Long-Term Financing</u>
Town of Lochbuie	1996	SWRP
City of Broomfield	1996	WPCRF
Morgan County	1998	SWRP
City of Fountain	2002	WRBP
City of Rifle	2002	SWRP

City of Louisville	2003	WRBP
Plum Creek Water Authority	2004	WRBP
Cortez Sanitation District	2005	WPCRF
Project 7 Water Authority	2008	DWRF
La Plata West Water Authority	2008	USDA
Denver Southeast Suburban Water & Sanitation District	2015	DWRF
Grand Mesa Metro District	2017	WPCRF
Town of Bennett	2018	WPCRF
Town of Antonito	2018	USDA
Round Mountain WSD	2020	USDA

Currently, Project 7 Water Authority is interested in using our Interim Loan Program ahead of their 2022 DWRF loan request. Project 7 Water Authority is a seven-member cooperative water provider in the Uncompahgre River Valley. The seven member entities include: City of Montrose, City of Delta, Town of Olathe, Tri-County Water Conservancy District, Chipeta Water District, Menoken Water District, and the Uncompahgre Valley Water Users Association.



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June 3, 2021

TO: Board of Directors and Karl Ohlsen

FROM: Jim Griffiths, Finance Director
Wes Williams, Assistant Finance Director
Ian Loffert, Senior Financial Analyst

RE: Disadvantaged Community Loan Program
Upfront Principal Forgiveness Change Recommendations
Drinking Water Revolving Fund ("DWRP") and
Water Pollution Control Revolving Fund ("WPCRF")

In 2020, the Authority Board approved a change to the Disadvantaged Communities ("DAC") loan program qualifying criteria to create a better distribution between DAC category 1 (1.5%) and category 2 (0.5%) loans. Before this redistribution, most borrowers qualified as DAC category 2s, with very few borrowers qualifying as DAC category 1s.

The upfront principal forgiveness ("upfront PF") policy was approved in 2019, allowing borrowers to receive loan principal forgiveness at loan application time, rather than after loan execution. This change allowed borrowers to have a clearer financing package (prior to upfront PF, we used an end of year look-back PF distribution process). The clearer financing package helped district and municipal boards establish proper user rates to support the new debt more efficiently.

The upfront PF process was approved only for the most disadvantaged, or DAC category 2s, to help them with project costs and decrease the debt burden for the project. However, the changes to the qualifying criteria resulted in significantly fewer DAC category 2 borrowers. Less DAC Category 2s has resulted in an accumulation of Ad Sub funds (particularly on the DWRP side). Ad Sub funds are provided as part of the annual capitalization grant and include a three-year spend down requirement.

As a result of the accumulating Ad Sub funds in the DWRP, Staff has reviewed the current policy and is recommending the following changes:

Current Policy	Staff Recommended Change
The current cap on upfront PF is \$400,000 per project for a DAC category 2 borrower only.	New cap of \$1 million per project for DAC category 2 borrowers. (Does not require an IUP change)
DAC category 2 entities are the only entities eligible for upfront PF.	Allow DAC category 1 borrowers to receive a reduced upfront PF amount with the initial cap being \$400,000. (Requires IUP change)

Staff recommends that the Board approve the recommended changes to the upfront PF outlined in the table above. The Board will consider this request on June 4, 2021.



MEMORANDUM

TO: All SRF Staff

FROM: DAC Subcommittee

DATE: May 18, 2021

RE: Additional Subsidy ("Ad Sub") - Balances, Drinking Water Revolving Fund ("DWRF")

A memorandum was shared at the March 4, 2021 Board Program Work Session detailing the large DWRF Ad Sub balances and potential actions the Disadvantaged Communities ("DAC") Subcommittee has discussed to reduce said balance. This memorandum further describes these options and includes staff recommendations. Included at the end is a discussion regarding how prioritizing certain water quality needs in the principal forgiveness determination may be addressed in the annual update to the Intended Use Plan (IUP) for 2022.

January 2020-April 2021 Up-Front Principal Forgiveness Summary

In 2020, seven DWRF applicants qualified as DAC, of which five were Category 2 and eligible for principal forgiveness ("PF"). The amount of PF awarded ranged between \$143,880 and \$400,000, the current cap for PF. The average PF awarded was \$328,776, and three of the five awards were for \$400,000. Four of the communities were eligible for 60% PF and one was eligible for 80% PF.

2020 DAC DWRF Loans:

ENTITY	LOAN REQUEST (PRE-PF)	PF AWARDED	ELIGIBLE PF %	TOTAL POINTS CALCULATED	WATER QUALITY POINTS	AFFORDABILITY POINTS
Parkville Water District*	\$2,000,000	\$0	0%	70	0	70
South Fork, Town of	\$3,000,000	\$400,000	60%	140	10	130
Orchard City, Town of*	\$1,800,000	\$0	0%	80	0	80
Arabian Acres MD	\$1,500,000	\$400,000	80%	205	70	135
Hot Sulphur Springs, Town of	\$500,000	\$300,000	60%	145	0	145
Penrose Water District	\$239,800	\$143,880	60%	165	20	145
Simla, Town of	\$1,032,300	\$400,000	60%	165	20	145



AVERAGE						
All**	\$1,438,871	\$234,840	46%	139	17	12
Category 2 Only	\$1,254,420	\$328,776	64%	164	24	140

*Category 1 loans and priority points included for the purpose of this analysis.

**Category 1 loans included in this analysis to help illustrate loans that may be impacted by some of the proposed changes.

On January 1, 2021, the criteria to qualify as a Category 2 DAC became more stringent, thereby making it more challenging for DWRf applicants to qualify for PF. As of April 2021, four DAC DWRf applications have been approved, and none qualified for PF. All four of these applicants would have been Category 2 DACs under 2020 criteria.

2021 DAC DWRf Loans:

ENTITY	LOAN REQUEST (PRE-PF)	PF AWARDED	ELIGIBLE PF %	TOTAL POINTS CALCULATED	WATER QUALITY POINTS	AFFORDABILITY POINTS
East Alamosa Water & Sanitation District*	\$1,379,742	\$0	0%	150	20	150
Hayden, Town of*	\$872,400	\$0	0%	125	10	115
Mancos, Town of*	\$1,500,000	\$0	0%	145	20	130
Salida, Town of*	\$4,184,000	\$0	0%	90	20	70
AVERAGE	\$2,354,581	\$0	0%	128	18	116

*Category 1 loans and priority points included for the purpose of this analysis.

Analysis & Recommendations

Given the new, more stringent, Category 2 DAC benchmarks, the eligibility for Ad Sub funds being distributed through PF has declined. It is apparent that some changes should be considered to ensure the program distributes the required amounts of Ad Sub. Both options below are recommended for immediate adoption in order to distribute Ad Sub funds in a timely manner as is required by the EPA capitalization grant requirements.

Using 2020 and 2021 to-date DWRf DAC loans as examples, if the first two options are adopted as recommended, \$3,823,260 (a \$2,179,380 increase) would have been awarded in 2020 and \$1,548,960 (a \$1,548,960 increase) would have been awarded in 2021. If both options had been in place at the time of approval of these example loans, the current outstanding 2019 DWRf Ad Sub balance would be reduced from \$2,116,720 to \$0 and the current outstanding 2020 DWRf Ad Sub balance would move from \$4,351,000 to \$1,095,500.



1. Increase or eliminate the PF cap. (Does not require an IUP change)

Recommendation:

Given the relatively rare occurrences of Category 2 DACs, the fact that these communities are the most disadvantaged communities applying for SRF funding, and reduced state grant availability as a result of declining severance taxes, the subcommittee recommends a new cap of \$1,000,000 for Category 2 DACs.

Analysis:

Removing or increasing the PF cap impacts three of the five DWRP Category 2 loans from 2020. If the \$400,000 cap had been removed, the PF awarded for the following five 2020 DWRP applicants would have been \$4,063,260. With a \$1,000,000 cap the PF awarded would have been \$3,063,260.

ENTITY	LOAN REQUEST (PRE-PF)	ELIGIBLE PF %, AWARDED PF	PF IF NO CAP	PF WITH \$1M CAP
Town of South Fork	\$3,000,000	60%, \$400,000	\$1,800,000	\$1,000,000
Arabian Acres Metropolitan District	\$1,500,000	80%, \$400,000	\$1,200,000	\$1,000,000
Town of Simla	\$1,032,300	60%, \$400,000	\$619,380	\$619,380
Town of Hot Sulphur Springs	\$500,000	60%, \$300,000	\$300,000	\$300,000
Penrose Water District	\$239,800	60%, \$143,880	\$143,880	\$143,880
Total PF:		\$1,463,880	\$4,063,260	\$3,063,260

Pros <ul style="list-style-type: none"> Provides more substantial assistance to Colorado's most disadvantaged communities. Helps to fill the funding gap created by reduced severance tax revenues (DOLA EIAF grants). Does not require an IUP change. A new cap or elimination of PF cap can occur immediately upon board approval. Because the PF cap is set by the Board, adjustments to the cap can be made incrementally and as needed. 	Cons <ul style="list-style-type: none"> No applicants have qualified as Category 2 DACs so far in 2021. While this option will commit larger amounts of PF to eligible projects, it will not reduce DWRP Ad Sub balances quickly if enacted alone. Increasing the PF cap may result in awarding large amounts of PF to single projects instead of spreading PF funding across numerous projects. However, this concern seems less likely given there have not been any Category 2 DACs in 2021. Reduces admin fees collected by reducing the loan principal.
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2. Allow Category 1 DACs to receive PF at a lower level. (Requires IUP change)

Recommendation:

If the cap is raised for Category 2 DACs to \$1,000,000, the cap for Category 1 DACs should be substantially lower. Due to the significantly larger number of Category 1 DACs, the subcommittee recommends a \$400,000 cap on PF for Category 1 DACs in order to ensure sufficient funds are available to award PF of up to \$1,000,000 for Category 2 DACs.

Analysis:

The following table illustrates the amount of PF Category 1 DACs could qualify for if this change is made. Overall, Category 1 DACs scored lower priority points than the Category 2 DACs, but they are also more likely to have PF capped at \$400,000 than to receive an award based on their eligible percentage level. If Category 1 DAC DWRf applicants are eligible for up to \$400,000 in PF, then an additional \$2,308,960 would have been awarded in 2020 and 2021 to date: \$760,000 in 2020 and \$1,548,960 in 2021.

2020-2021 Category 1 DAC DWRf Loans:

ENTITY	LOAN REQUEST (PRE-PF)	ELIGIBLE PF WITH OPTION 2 & \$400K CAP	ELIGIBLE PF % WITH OPTION 2	TOTAL POINTS CALCULATED	WATER QUALITY POINTS	AFFORDABILITY POINTS
Parkville Water District	\$2,000,000	\$400,000	20%	70	0	70
Orchard City, Town of	\$1,800,000	\$360,000	20%	80	0	80
East Alamosa Water & Sanitation District	\$1,379,742	\$400,000	60%	150	20	150
Hayden, Town of	\$872,400	\$348,960	40%	125	10	115
Mancos, Town of	\$1,500,000	\$400,000	60%	145	20	130
Salida, Town of	\$4,184,000	\$400,000	20%	90	20	70
AVERAGE	\$1,956,024	\$348,827	37%	110	12	103
Total PF:		\$2,308,960				

Pros

- Provides more Ad Sub to more DACs. Gives most subsidy to Category 2 DACs, with Category 1 DACs still receiving some assistance.
- Expanding access to PF is the quickest way to reduce the Ad Sub balances.
- Helps to offset the higher interest rate of being a

Cons

- Requires IUP change, so this option is not a mechanism to reduce Ad Sub balances in 2021. However, once the IUP is changed to allow Category 1 DACs to access PF, the balances are expected to be spent quickly.
- While PF funds are currently plentiful, this change



<ul style="list-style-type: none"> Category 1 DAC. Like Option 1, Option 2 helps to offset the reduced funding in the DOLA EIAF grant program. 	<p>could mean that PF runs out by the end of the calendar year, leaving some Category 2 DACs without PF. This could also cause projects to delay applications and submit at the beginning of the calendar year to ensure PF availability.</p> <ul style="list-style-type: none"> Reduces admin fees collected by reducing the loan principal.
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IUP updates to prioritize water quality needs in the PF award determination

The weighting of points related to water quality in Attachment II of the IUP could increase the amount of PF awarded. This section is included for discussion purposes as it is related more to the water quality policy and priorities as described in the IUP. It would involve changes to how projects with certain water quality needs are addressed in the IUP and target PF to help meet those needs. Proposed changes would need to be reviewed and further refined by the drinking water program prior to presenting updates to the Water Quality Control Commission in October 2021 for the 2022 IUP.

The affordability points typically outweigh water quality points by a significant amount in the determination of PF. For example, priority points scored for DAC loans in 2020 and 2021 resulted in an average affordability score of 120 versus 18 awarded for water quality points. This is not necessarily a problem as directing additional subsidy funds to disadvantaged communities is the intent of the program; however, there is opportunity to award additional PF to DACs addressing water quality issues by providing additional points. Also, the goal would be to direct PF to prioritize certain water quality objectives or address critical water quality needs in the state. The possible IUP changes currently being evaluated to address this and target PF to address water quality needs are as follows:

- Currently the water quality scoring used in the PF award determination does not include awarding points for projects that address general enforcement and compliance issues. Points could be added to the PF award determination for projects that fit these categories resulting in an overall higher score and potentially more PF.
- In order to direct PF to address the most serious water quality issues as described in the IUP; additional PF could be awarded to projects that address public health issues such as waterborne disease outbreaks, nitrate violations, radionuclides violations, etc. For example, if a project includes addressing one of the above-mentioned issues, the project could be eligible to automatically receive a certain percentage of PF as long as it meets the disadvantaged community criteria.



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MEMORANDUM

March 4, 2021

TO: Board of Directors and Karl Ohlsen

FROM: Jim Griffiths, Finance Director

RE: Additional Subsidy ("Ad Sub") – Balances
Drinking Water Revolving Fund ("DWRF")

The U.S. EPA provides Colorado with annual funds (called "cap grant") to capitalize the DWRF. A portion of the DWRF cap grant is required to be provided to Disadvantaged Communities ("DACs") as grant/principal forgiveness. This portion is called Ad Sub.

Colorado provides Ad Sub in the form of design and engineering grants (up to \$300,000 per project) and up-front loan principal forgiveness (up to \$400,000 per loan). Design and engineering grants are provided to both Category 1 and 2 DACs. Up-front loan principal forgiveness is currently provided only to Category 2 DACs.

The Department of Local Affairs, the Water Quality Control Division and the Authority met to discuss the large DWRF Ad Sub balances and U.S. EPA required three-year spend down. Reasons for the large balances include:

- Limiting the loan principal forgiveness to \$400,000 per loan.
- Carrying balances forward rather than applying all remaining balances back to executed loans.
- Limiting the up-front loan principal forgiveness to Category 2 DACs only.
- Larger cap grants beginning in 2018 along with a larger percentage required for Ad Sub*

The U.S. EPA mandates a three-year spend down for Ad Sub funds. In an effort to increase the spend down pace the following actions were discussed (and the financial impact is being evaluated):

- Monitor the first half of 2021. Determine if an increase to the \$400,000 cap is needed. If needed, seek Authority Board approval.
- Monitor the first half of 2021. Determine if Category 1 DACs should receive up-front loan principal forgiveness as well. This change requires Authority Board approval plus a change to the 2022 Intended Use Plan.
- Change our DWRF Priority Scoring Model to target specific water quality contaminants/issues (would require a change to the 2022 Intended Use Plan).
 - Example: radionuclides – give significant extra points for this contaminant. At a certain point threshold DAC projects could receive significant additional loan principal forgiveness.

The SRF Committee will continue to look for ways to improve this process and to ensure that we meet the U.S. EPA's required spend down of Ad Sub. This is an update for discussion purposes.

*Beginning in 2018 and continuing to the present, Colorado's DWRF Cap Grant increased from approximately \$14.5 million to approximately \$22 million. The minimum Ad Sub amount remained at 20%. For 2020, \$21,755,000 x 20% = \$4,351,000 minimum Ad Sub to be used for DWRF DAC grants/principal forgiveness.

State Revolving Fund (“SRF”) Principal Forgiveness (“PF”) Recent Changes

- 2019 - Upfront principal forgiveness (“upfront PF”) policy approved, allowing borrowers to receive loan PF at loan application time, rather than after loan execution. This change allowed borrowers to have a clearer financing package (prior to upfront PF, we used an end of year look-back PF distribution process). Only eligible for DAC Category 2s.
- 2020 - Qualifying DAC Category 2 criteria shifted to 80th percentile for S4b and S5b to create a better distribution between DAC Category 1 (1.5%) and Category 2 (0.5%) borrowers. Before this redistribution, most DACs were qualified as DAC Category 2s, with very few borrowers qualifying as DAC Category 1s.

U.S. EPA Capitalization Grant - Minimum Ad Sub Requirements

- DWRF - Ranges between 20-26% of Federal portion of awarded cap grant amount. Must be provided as upfront PF or D&E PF loans.
- WPCRF - Historically has been 10% of Federal portion of awarded cap grant amount. Must be provided as upfront PF or D&E PF loans.
- 3-year spend down requirement for both cap grants

Current Ad Sub Balances as of 5/15/2021

DWRF Ad Sub

Total Grant Award:	2019 grant \$21,741,000	2020 grant \$21,755,000	Est. 2021 grant \$21,735,000
Percentage allocated for Ad Sub (minimum):	26%	20%	20%
Dollar amount allocated for additional subsidy:	\$ 5,652,660	\$ 4,351,000	\$ 4,347,000
Total amount allocated to date:	\$ 3,535,940	\$ 0	\$ 0
Amount remaining to provide:	\$2,116,720	\$4,351,000	\$4,347,000

WPCRF Ad Sub

Total Grant Award:	2019 grant \$12,710,000	2020 grant \$12,712,000	Est. 2021 grant \$12,710,000
Percentage allocated for Ad Sub (minimum):	10%	10%	10%
Dollar amount allocated for additional subsidy:	\$ 1,271,000	\$ 1,271,200	\$ 1,271,000
Total amount allocated to date:	\$ 1,271,000	\$ 757,468	\$ 0
Amount remaining to provide:	\$ 0	\$ 513,732	\$1,271,000

2020 DWRF DAC Loans

ENTITY	LOAN REQUEST (PRE-PF)	PF AWARDED	ELIGIBLE PF %	TOTAL POINTS CALCULATED	WATER QUALITY POINTS	AFFORDABILITY POINTS
Parkville Water District*	\$2,000,000	\$0	0%	70	0	70
South Fork, Town of	\$3,000,000	\$400,000	60%	140	10	130
Orchard City, Town of*	\$1,800,000	\$0	0%	80	0	80
Arabian Acres MD	\$1,500,000	\$400,000	80%	205	70	135
Hot Sulphur Springs, Town of	\$500,000	\$300,000	60%	145	0	145
Penrose Water District	\$239,800	\$143,880	60%	165	20	145
Simla, Town of	\$1,032,300	\$400,000	60%	165	20	145
AVERAGE All**	\$1,438,871	\$234,840	46%	139	17	12
Category 2 Only	\$1,254,420	\$328,776	64%	164	24	140



2021 DWRF DAC Loans

ENTITY	LOAN REQUEST (PRE-PF)	PF AWARDED	ELIGIBLE PF %	TOTAL POINTS CALCULATED	WATER QUALITY POINTS	AFFORDABILITY POINTS
East Alamosa Water & Sanitation District*	\$1,379,742	\$0	0%	150	20	150
Hayden, Town of*	\$872,400	\$0	0%	125	10	115
Mancos, Town of*	\$1,500,000	\$0	0%	145	20	130
Salida, Town of*	\$4,184,000	\$0	0%	90	20	70
AVERAGE	\$2,354,581	\$0	0%	128	18	116

* indicates Category 1 DAC status

Option 1: Increase or eliminate the PF cap (Cat 2 DACs)

Recommendation: Increase the PF cap for Category 2 DACs from \$400,000 to \$1,000,000.

Pros

- Provides substantial assistance to the most disadvantaged communities
- Helps to fill the funding gap related to declining severance tax revenues
- Does not require an IUP change (Authority Board approval needed).
- Adjustments to the cap can be made incrementally and as needed.

Cons

- No applicants have qualified as Category 2 DACs so far in 2021. Will not reduce Ad Sub balances enough if enacted alone.
- May result in awarding large amounts of PF to single projects instead of spreading PF funding across numerous projects.
- Reduces admin fees collected by reducing the loan principal.

Option 1: Increase or eliminate the PF cap (Cat 2 DACs)

Recommendation: Increase the PF cap for Category 2 DACs from \$400,000 to \$1,000,000.

Potential additional PF awards (based on 2020 loans)

2020 Actual PF (with \$400,000 cap)	2020 PF with \$1,000,000 Cap
\$1,463,880	\$3,063,260

\$1,599,380 increase in PF

Option 2: Allow Cat 1 DACs to receive PF at lower level

Recommendation: Allow Category 1 DACs to receive up to \$400,000 in PF.

Pros

- Provides more Ad Sub to more DACs.
- Expanding access is the quickest way to reduce the Ad Sub balances.
- Helps to offset the higher interest rate of being a Category 1 DAC.
- Helps to fill the funding gap related to declining severance tax revenues

Cons

- Requires IUP change (so this could not start until 2022).
- May cause PF to run out between cap grants and may cause front loading of applications at beginning of calendar year
- Reduces admin fees collected by reducing the loan principal.

Option 2: Allow Cat 1 DACs to receive PF at lower level

Recommendation: Allow Category 1 DACs to receive up to \$400,000 in PF.

Potential additional PF awards (based on 2020-2021 loans)

2020-2021 Actual PF	2020-2021 PF with \$400,000 Cap
\$0	\$2,308,960

\$2,308,960 increase in PF

IUP updates to prioritize water quality needs in PF award determination

- IUP updated annually in October for the following year IUP.
- Changes and updates reviewed and approved by Water Quality Control Commission (WQCC).
- Points used for the PF determination are a combination of affordability points, and water quality & public health points.
- Affordability points significantly outweigh water quality & public health points.
- Opportunity during IUP update to review how additional points related to water quality & public health may be included in the PF determination.
- Potential changes reviewed by drinking water program and further refined prior to WQCC review and approval.

IUP updates to prioritize water quality needs in PF award determination (continued)

- Possible IUP changes currently being evaluated:
 - Adding points into the PF determination that address general enforcement and compliance issues at drinking water systems.
 - Water Quality Control Division places priority on the most serious water quality needs such as waterborne disease outbreaks, nitrates, and radionuclides; however projects that address these issues may still score lower in the PF determination because of low affordability points.
 - In order to better direct PF towards these serious water quality needs, projects that address those needs could be automatically eligible for a certain percentage of PF as long as DAC criteria is met (maximum PF limited by the PF cap).



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MEMORANDUM

June 3, 2021

TO: Board of Directors and Karl Ohlsen

FROM: Jim Griffiths, Finance Director

RE: Administrative Fee ("Admin Fee") Update
Water Pollution Control Revolving Fund ("WPCRF") and
Drinking Water Revolving Fund ("DWRF")

The U.S. EPA allows states to collect and use a portion of loan interest to operate the WPCRF and DWRF. This portion of loan interest, called "administrative fee", is limited to a maximum of 0.8%* (WPCRF) and 1.25%* (DWRF) of loan principal per the Authority Board of Directors. The Admin Fee is further limited by the interest rate charged to the borrower – no Admin Fee can be collected from a 0% loan and the maximum fee for either program cannot be collected from 0.5% or 1.5%** interest rate loans.

The two largest uses of Admin Fees are for overhead expenses and state match. The overhead expenses are for operation of the programs (staff salaries, office lease, services, supplies, and travel for Department of Local Affairs ("DOLA"), Water Quality Control Division ("WQCD") & Authority.). The U.S. EPA federal capitalization grants require states to contribute 20% of the grant amount as the state's contribution (called "state match"). The Authority provides the state match and is reimbursed from Admin Fees over time.

Actions taken over the last two years to maximize Admin Fee collection include:

- Increased the 0% Disadvantaged Communities ("DAC") interest rate to 0.5%. Allows for Admin Fee collection on even our Category 2 DAC loans (as illustrated in the table on the following page).
- Implemented a more equitable split between DAC Category 1 (1.5%) and 2 (0.5%) borrowers. Previously, most DACs were Category 2, which means less collectable Admin over the life of the loan.
- Gained the ability to pursue and issue greater than \$3 million, negotiated interest rate, direct loans (especially during the current low-rate environment) when an Admin Fee advantage exists.
- Changed the leveraged loan interest rate to a range from 70% to 80% (previously was only 70%) of the interest rate we receive on the sale of our bonds. A lower subsidy (reduced from strictly 30% to between 30% and 20%) allows more 'room' in the interest component to collect more Admin Fee on the program's largest loans.
- Worked with U.S. EPA and gained the ability to retain excess interest from higher interest loans and apply it as Admin Fee to lower interest loans where the maximum amount cannot be attained/collected.

This update covers the following topics:

- Trends in sources and uses of DWRF and WPCRF Admin Fee.
- Recent EPA approval for Colorado to use loan interest and interest earnings from 're-loan' accounts (recycled loan dollars) to reimburse the Authority for the State Match loan.
- Thoughts on next steps.

*Total allowable administrative fee for a given loan is calculated as follows:

DWRF (0.0125 x loan principal x loan term in years).

WPCRF (0.008 x loan principal x loan term in years).

**Maximum allowable amount of administrative fees on a 1.5% interest rate loan can only be collected on a WPCRF (0.8% max admin) 30-year loan.

Annual Capitalization Grants, State Match, and Additional Subsidy for DWRF and WPCRF:

	2016	2017	2018	2019	2020
DWRF Federal Portion of Cap Grant	14,468,000	14,344,000	21,946,000	21,741,000	21,755,000
State Match (20% of Federal Portion)*	2,893,600	2,868,800	4,389,200	4,348,200	4,351,000
Additional Subsidy - minimum requirement	2,893,600	2,868,800	4,389,200	5,652,660	4,351,000
Set-asides - amount taken**	4,485,080	4,446,640	6,803,260	6,739,710	6,744,050
*This 20% State Match is funded from Authority funds and is a 0% loan to the DWRF program					
**31% is taken. 4% of the 31% is an administration setaside.					

	2016	2017	2018	2019	2020
WPCRF Federal Portion of Cap Grant	10,687,000	10,605,000	12,839,000	12,710,000	12,712,000
State Match (20% of Federal Portion)*	2,137,400	2,121,000	2,567,800	2,542,000	2,542,400
Additional Subsidy - minimum requirement	1,068,700	1,060,500	1,283,900	1,271,000	1,271,200
*This 20% State Match is funded from Authority funds and is a 0% loan to the WPCRF program					

Reloan Investment Interest Earnings - DWRF and WPCRF:

	2016	2017	2018	2019	2020	5-year total
Annual Interest Earnings on DWRF Reloan Balances	\$359,178	\$609,307	\$1,365,761	\$1,999,342	\$774,320	\$5,107,908

	2016	2017	2018	2019	2020	5-year total
Annual Interest Earnings on WPCRF Reloan Balances	\$631,318	\$1,189,355	\$1,899,649	\$2,227,553	\$869,576	\$6,817,451

Approximate Admin Fee Gained on Category 2 DAC Loans Issued in 2020 (Cat 2 interest rate increased from 0% to 0.5%)

DWRF 2020 DAC Cat 2 Loans:	Loan principal that gets repaid (excludes PF)	term	interest rate	Admin Fee to be Collected Over Life of Loan
Arabian Acres MD (DL#3)	\$1,100,000	30	0.500%	\$84,731
South Fork, Town of (DL#2)	\$2,600,000	30	0.500%	\$200,273
Penrose WD (DL#3)	\$239,800	30	0.500%	\$18,471
Deer Trail, Town of (DL#3)	\$250,000	30	0.500%	\$19,257
Hot Sulphur Springs, Town of (DL#3)	\$200,000	30	0.500%	\$15,406
	\$4,389,800			\$338,138
WPCRF 2020 DAC Cat 2 Loans:				
Olney Springs, Town of (DL#3)	\$286,092	30	0.500%	\$27,290
Idaho Springs, City of (DL#4)	\$3,000,000	30	0.500%	\$231,085
La Veta, Town of (DL#5)	\$1,900,000	30	0.500%	\$146,354
Hugo, Town of (DL#2)	\$1,500,000	30	0.500%	\$115,542
	\$6,686,092			\$520,271

Note: In 2019, the first year of the 0.5%, DWRF gained \$560,000 and WPCRF gained \$881,000 (the "gain" is spread over the repayment period).

Historical Look at Sources & Uses of Admin Fee for the DWRF and WPCRF Programs:

Drinking Water Revolving Fund (DWRF)							
	2016	2017	2018	2019	2020		
Sources							
Admin Fee generated from loans:	\$ 4,078,970	\$4,005,572	\$4,137,595	\$ 4,152,439	\$4,220,895		
Cap Grant admin:	880,796	443,021	422,905	1,099,527	1,225,988		
All other Admin Fee sources:	281,698	303,183	339,525	378,433	256,260		
Total sources of Admin Fee:	\$ 5,241,464	\$4,751,776	\$4,900,025	\$ 5,630,399	\$5,703,143		
Uses:							
DOLA, WQCD & Authority Expenses:	(1,910,083)	(2,395,328)	(2,033,226)	(3,513,051)	(3,327,784)		
Re-pay State Match Loan:	(9,812,869)	(3,000,000)	(3,000,000)	(4,000,000)	(2,000,000)		
Planning & Design Grants:	(48,829)	(53,254)	(40,866)	(74,187)	(41,029)		
Total Uses of Admin Fee:	(11,771,781)	(5,448,582)	(5,074,092)	(7,587,238)	(5,368,813)		
Net sources and used	\$ (6,530,317)	\$ (696,806)	\$ (174,067)	\$ (1,956,839)	\$ 334,330	Authority state match loan (0%) balance as of 12/31/2020	
Previous year-end Admin Fee balance	13,945,158	7,414,841	6,718,035	6,543,968	4,587,849		
Admin Fee Balance at year end	\$ 7,414,841	\$6,718,035	\$6,543,968	\$ 4,587,129	\$4,922,179		\$8,591,958

Note: The increase in "Cap Grant admin" from 2018 to 2019 is due to more draws on the admin setaside due to increased expenses.

Water Pollution Control Revolving Fund (WPCRF)							
	2016	2017	2018	2019	2020		
Sources							
Admin Fee generated from loans:	\$ 5,510,788	\$ 5,634,320	\$ 5,673,263	\$ 5,817,330	\$ 6,012,948		
Cap Grant admin:	302,845	205,708	303,088	790,514	1,054,587		
All other Admin Fee sources:	174,125	231,630	375,897	467,559	111,180		
Total sources of Admin Fee:	\$ 5,987,758	\$ 6,071,658	\$ 6,352,248	\$ 7,075,403	\$ 7,178,715		
Uses:							
DOLA, WQCD & Authority Expenses:	(3,035,125)	(3,757,433)	(3,074,460)	(6,073,020)	(4,347,097)		
Re-pay State Match Loan:	(8,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(2,768,106)		
Planning & Design Grants:	(250,011)	(241,943)	(235,423)	(283,520)	(213,304)		
Total uses of Admin Fee:	(11,285,136)	(6,999,376)	(6,309,883)	(9,356,540)	(7,328,507)		
Net sources and used	\$ (5,297,378)	\$ (927,718)	\$ 42,365	\$ (2,281,137)	\$ (149,792)	Authority state match loan (0%) balance as of 12/31/2020	
Previous year-end Admin Fee balance	20,116,541	14,819,163	13,891,445	13,933,810	11,652,673		
Admin Fee Balance at year end	\$14,819,163	\$13,891,445	\$13,933,810	\$11,652,673	\$11,502,881		\$0

Note: The increase in "Cap Grant admin" from 2018 to 2019 is due to more draws on the admin setaside due to increased expenses.

DWRF - Administrative Fee



DWRF	Calendar Year				
	2016	2017	2018	2019***	2020
Total sources*	\$ 5,241,464	\$ 4,751,776	\$ 4,900,025	\$ 5,630,399	\$ 5,703,143
Total uses**	\$ (11,771,781)	\$ (5,448,582)	\$ (5,074,092)	\$ (7,586,518)	\$ (5,368,813)
Balance at end of year	\$ 7,414,841	\$ 6,718,035	\$ 6,543,968	\$ 4,587,849	\$ 4,922,179
Owed to Authority as of 12/31/2020					\$ 8,591,958

*Total Sources (inflows) primarily include admin fees from loan payments, cap grant admin set asides and interest earnings.

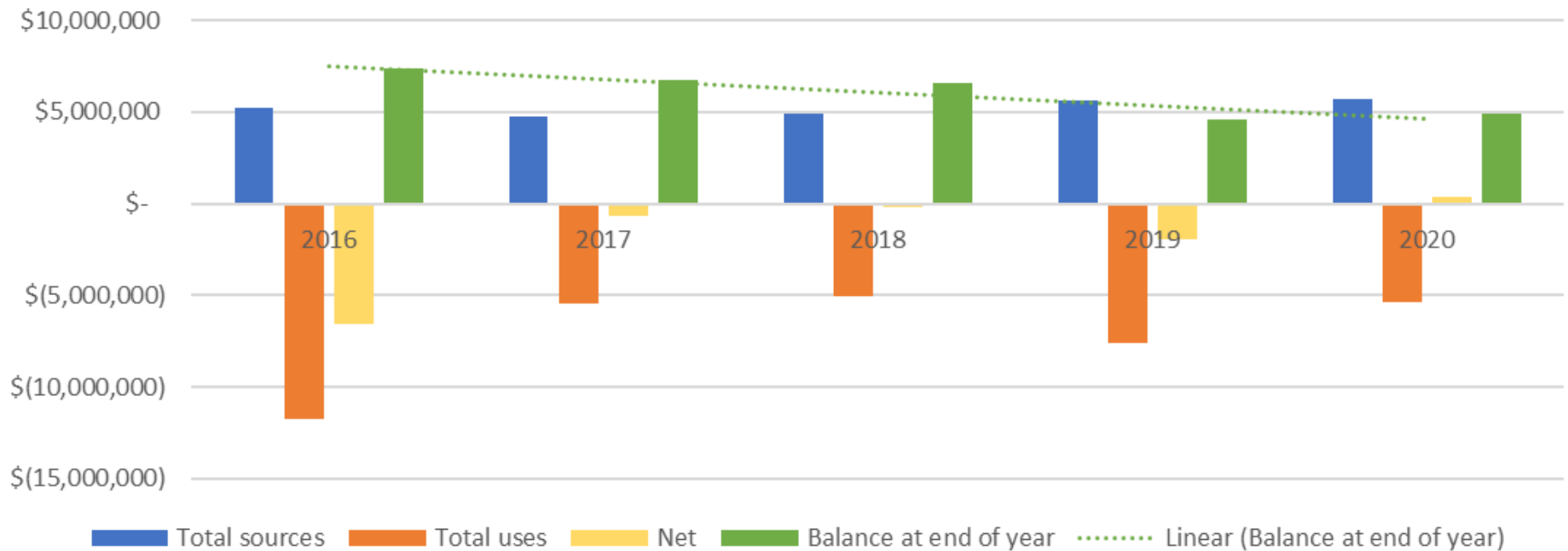
**Total uses (outflows) primarily include State Match repayment to Authority, and expenses paid for DOLA, WQCD and Authority staff/overhead, planning grants, arbitrage calculations and trustee fees.
Negative numbers = money flowing out.

***WQCD billing timing inflates the 2019 total uses number.

DWRF - Administrative Fee



DWRF Administrative Fee - Five Year Snapshot



Notes: Total Sources primarily include admin fees from loan payments, cap grant admin set asides and interest earnings.

Total Uses primarily include State Match repayment to Authority, and expenses paid for DOLA, WQCD and Authority staff/overhead, planning grants, arbitrage calculations and trustee fees.

The Authority reimbursed a total of \$8 million in state match in 2016 (compared to \$3 million in 2015, 2017 and 2018). WQCD billing timing inflates the 2019 total uses number.

WPCRF - Administrative Fee



WPCRF	Calendar Year				
	2016*	2017	2018	2019**	2020
Total sources*	\$ 5,987,758	\$ 6,071,658	\$ 6,352,248	\$ 7,075,403	\$ 7,178,715
Total uses***	\$ (11,285,136)	\$ (6,999,376)	\$ (6,309,883)	\$ (9,356,540)	\$ (7,328,507)
Balance at end of year	\$ 14,819,163	\$ 13,891,445	\$ 13,933,810	\$ 11,652,673	\$ 11,502,881
Owed to Authority as of 12/31/2020					\$ 0.00

*The Authority reimbursed a total of \$8 million in state match in 2016 (compared to \$3 million in all other years).

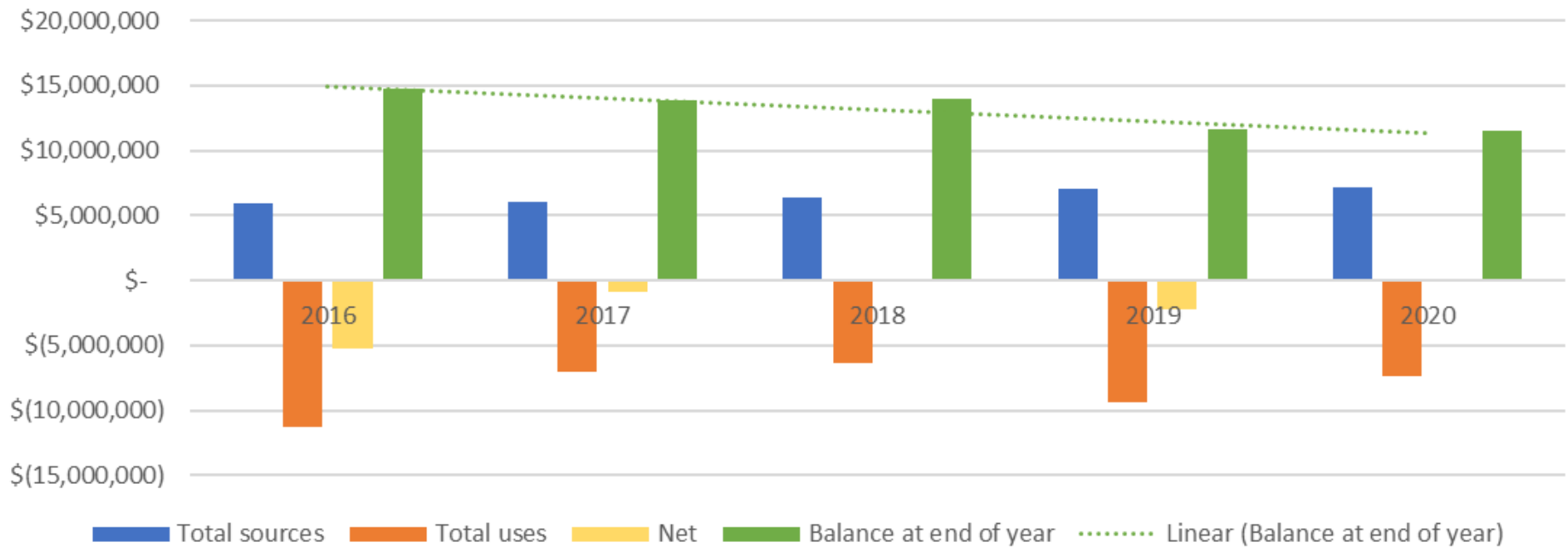
**WQCD billing timing inflates the 2019 total uses number.

***Negative numbers mean money flowing out.

WPCRF - Administrative Fee



WPCRF Administrative Fee-Five Year Snapshot



The Authority reimbursed a total of \$8 million in state match in 2016 (compared to \$3 million in all other years).

WQCD billing timing inflates the 2019 total uses number.

10-Yr Projection comparison



DWRP	New Projection										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total sources	\$ 5,703,143	\$ 5,776,714	\$ 5,851,233	\$ 5,926,714	\$ 6,003,169	\$ 6,080,610	\$ 6,159,049	\$ 6,238,501	\$ 6,318,978	\$ 6,400,493	\$ 6,483,059
Total uses	\$ (5,368,813)	\$ (5,583,566)	\$ (5,806,908)	\$ (6,039,184)	\$ (6,280,752)	\$ (6,531,982)	\$ (6,793,261)	\$ (7,064,992)	\$ (7,347,591)	\$ (7,641,495)	\$ (7,947,155)
Net	\$ 334,330	\$ 193,148	\$ 44,325	\$ (112,470)	\$ (277,583)	\$ (451,372)	\$ (634,212)	\$ (826,490)	\$ (1,028,613)	\$ (1,241,002)	\$ (1,464,096)
Balance at end of year	\$ 4,922,179	\$ 5,115,327	\$ 5,159,652	\$ 5,047,182	\$ 4,769,598	\$ 4,318,226	\$ 3,684,014	\$ 2,857,524	\$ 1,828,910	\$ 587,908	\$ (876,188)

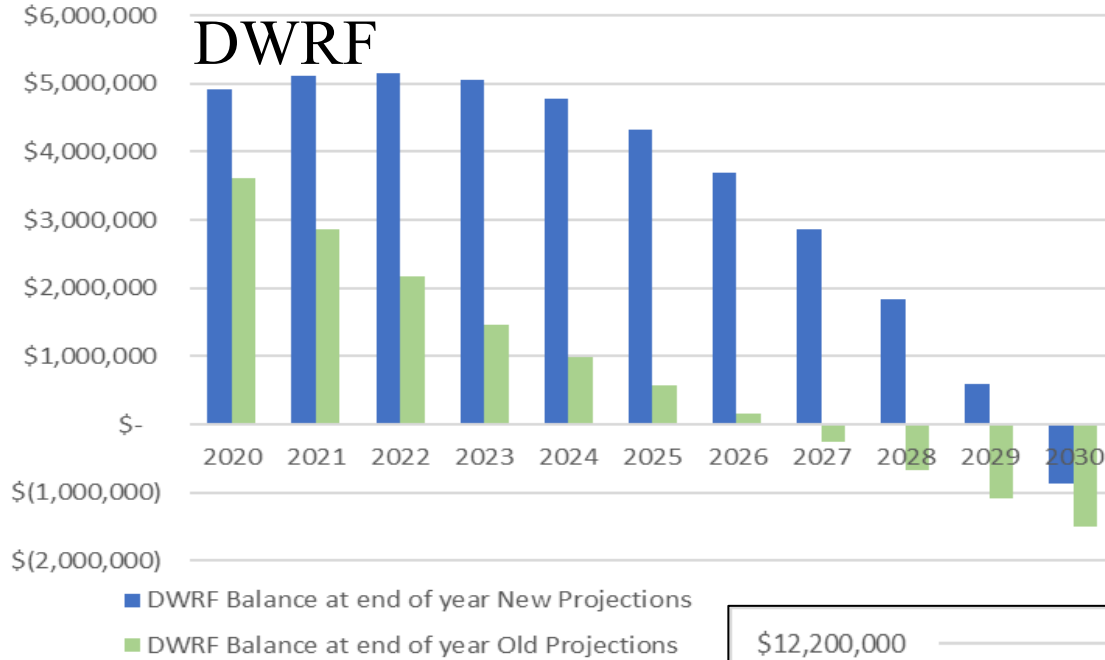
DWRP	Old Projection										
	Calendar Year										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Sources:	5,730,616	6,016,621	6,165,301	6,220,000	6,522,000	6,590,000	6,590,000	6,590,000	6,590,000	6,590,000	6,590,000
Total Uses:	-6,703,000	-6,776,000	-6,850,000	-6,927,000	-7,005,000	-7,005,000	-7,005,000	-7,005,000	-7,005,000	-7,005,000	-7,005,000
Net:	-972,384	-759,379	-684,699	-707,000	-483,000	-415,000	-415,000	-415,000	-415,000	-415,000	-415,000
Balance at year-end:	3,615,465	2,856,086	2,171,387	1,464,387	981,387	566,387	151,387	-263,613	-678,613	-1,093,613	-1,508,613

WPCRF	New Projection										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total sources	\$ 7,178,715	\$ 7,283,524	\$ 7,389,864	\$ 7,497,756	\$ 7,607,223	\$ 7,718,288	\$ 7,830,975	\$ 7,945,308	\$ 8,061,309	\$ 8,179,004	\$ 8,298,418
Total uses	\$ (7,328,507)	\$ (7,401,792)	\$ (7,475,810)	\$ (7,550,568)	\$ (7,626,074)	\$ (7,702,335)	\$ (7,779,358)	\$ (7,857,151)	\$ (7,935,723)	\$ (8,015,080)	\$ (8,095,231)
Net	\$ (149,792)	\$ (118,268)	\$ (85,946)	\$ (52,812)	\$ (18,851)	\$ 15,954	\$ 51,618	\$ 88,156	\$ 125,586	\$ 163,924	\$ 203,187
Balance at end of year	\$ 11,502,881	\$ 11,384,613	\$ 11,298,667	\$ 11,245,854	\$ 11,227,004	\$ 11,242,958	\$ 11,294,575	\$ 11,382,731	\$ 11,508,317	\$ 11,672,242	\$ 11,875,428

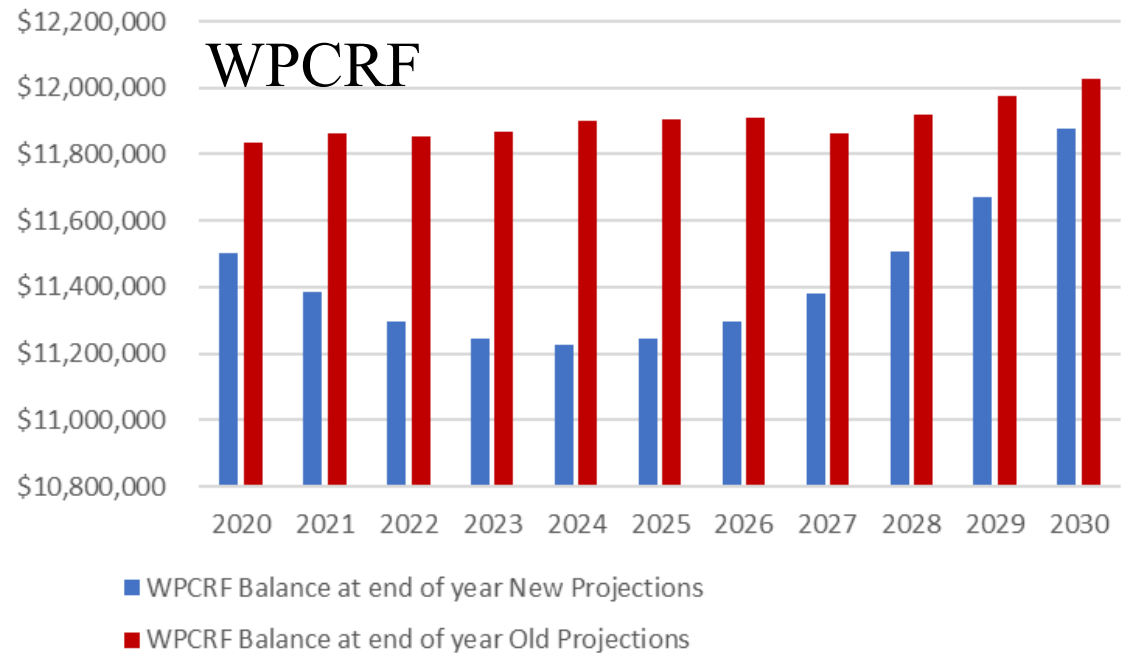
WPCRF	Old Projection										
	Calendar Year										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Sources:	7,268,368	7,242,457	7,333,746	7,487,752	7,641,419	7,650,000	7,750,000	7,800,000	8,000,000	8,100,000	8,200,000
Total Uses:	-7,087,000	-7,213,000	-7,342,000	-7,474,000	-7,612,000	-7,645,000	-7,745,000	-7,845,000	-7,945,000	-8,045,000	-8,145,000
Net:	181,368	29,457	-8,254	13,752	29,419	5,000	5,000	-45,000	55,000	55,000	55,000
Balance at year-end:	11,834,041	11,863,498	11,855,244	11,868,997	11,898,416	11,903,416	11,908,416	11,863,416	11,918,416	11,973,416	12,028,416



DWRF



WPCRF





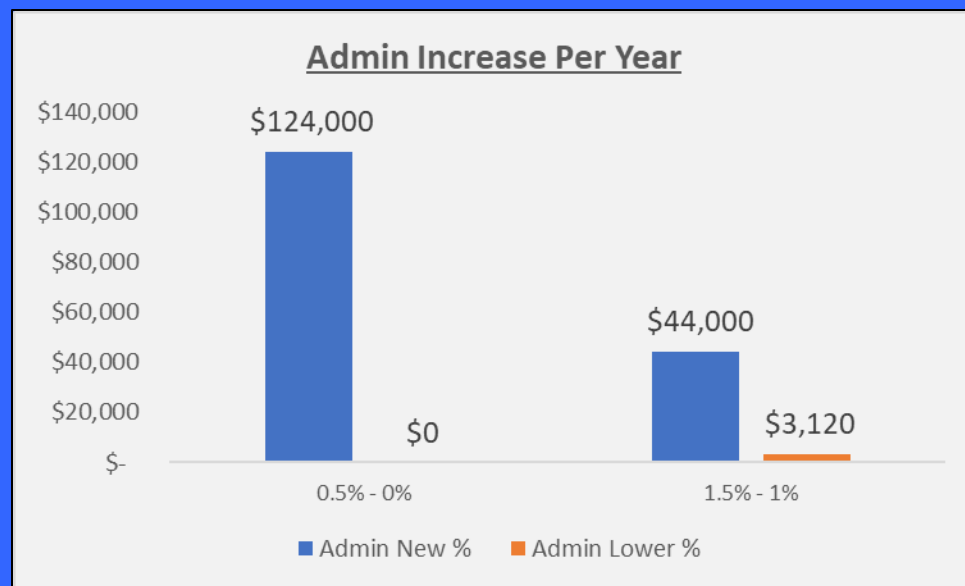
# of Borrowers	Average Loan Amount	Total Loan Amount
29	\$ 1,700,000	\$ 47,000,000

The Amount of increased admin fee collected from the increase in DAC 1 and 2 interest rates.

Interest Rates	Total Admin New %	Total Admin Lower %	Total Admin Increase	Per Year Increase
0.5% - 0%	\$ 3,100,000	\$ 0.0	\$3,100,000	\$124,000
1.5% - 1%	\$ 1,100,000	\$ 78,000	\$1,022,000	\$ 40,880
Total	\$ 4,200,000	\$ 78,000	\$4,122,000	\$164,880

Increasing the DAC 1 and 2 interest rates has increased the collected admin from 2019-2021 in the amount of \$4 million over the life of the 29 loans executed and \$165,000

32 year.



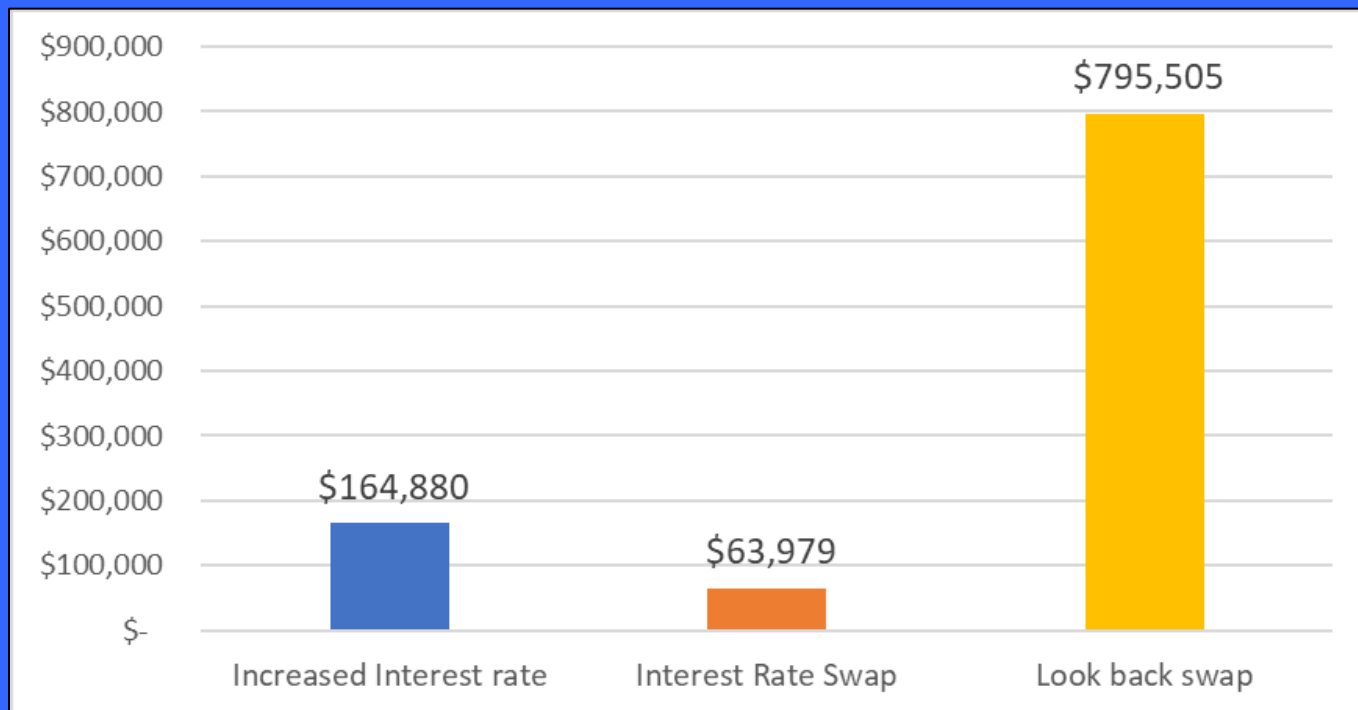


- Amount of admin fee swap (reallocated loan interest) collected for the period 03/08/2021 (implementation date) through 05/28/2021 - \$21,033.58
- Amount of admin fee swap (reallocated loan interest) estimated to be collected for the period 05/28/2021 through 12/31/2021 - \$42,945.33
- From Sep 2016 – Aug 2020, \$795,505.00 in DWRF direct loan net interest has been deallocated to the Reloan account and is possibly available to be re-allocated as DWRF admin fee. These funds have not been transferred to the admin fee account yet.

Total increase in Admin from Board Decisions in 2021



- Total increase in 2021 = \$1,024,364
 - \$164,880 a year in increased interest rates (reoccurring)
 - \$63,979 from loan interest swap in 2021 (reoccurring)
 - \$795,505 from 2016-2020 loan interest swap (one-time)



³⁵Other Admin Approvals that have not been used yet



- Large Direct loans with higher interest rates allowing for full collection of admin fee on larger loans.
- Increase the leveraged loan subsidy to 80% of market rate. This will increase admin on the larger dollar amount loans.
- Use Reloan account investment interest to pay Authority State match loan.

Future Ideas

- Higher interest rate on 30-year loans. Add a quarter point of interest to all 30-year loan rates. So, if 20-year rates = 0.5, 1.5 and 2.25, then 30-year could be 0.75, 1.75 and 2.50.