

MEMO



To: Idaho Water Resource Board Finance Committee
From: Brian Patton
Subject: Water Project Loan Interest Rates
Date: March 4, 2014

This memo presents information on the IWRB Loan Interest Rate and options for modifications to the rate.

BACKGROUND

The IWRB regularly provides loans for the construction, rehabilitation, improvement, or expansion of water storage and delivery systems. Most loans have been made from the Revolving Development Account and a few have been from the Water Management Account. The IWRB has full discretion over loan terms, except that Idaho Code 42-1756(4) states that the repayment period shall not exceed 60 years, and that Idaho Code 42-1756(5) states that the IWRB shall have a lien on the project constructed with the loan funds.

Over the years most loans have been provided for projects associated with agricultural irrigation, however the past 15 years the IWRB has provided a substantial amount of loan funds for municipal/community water projects.

LOAN INTEREST RATES

In response to declining numbers of loan applications, staff collected the following information on loan interest rates:

State Water Agency (equivalent to IWRB)		
State	Current rate	
	Agriculture	Municipal
CA	2.37%	
WA	1.28	2.55%
NV	2.81	
CO	1.75	2.75
MT	4.25	4.25
AZ	3.40	
UT	2.00	4.00
WY	2.50	
TX	1.07	1.34
ID	5.50%	6.00%
Average excluding ID:	2.38%	2.98%

Other Idaho Agency Loans

Soil & Water Conservation Commission`	2.5% for 7 year; 3.0% for 8-12 yr; 3.5% for 13-15 yr	On-farm conservation improvements
DEQ	1.0% - 2.25%	Municipal/community water and sewer projects

Other comparison rates:

Prime Rate	3.25%	Rate at which banks loan to their most-favored borrowers. Published by Wall Street Journal as consensus of 30 largest banks.
Freddie Mac mortgage yields (2/27/14)	30-yr fixed: 4.37% 15-yr fixed: 3.39%	Secondary mortgage market
Fannie Mae mortgage yields (3/4/14)	30-yr: 3.877%	Secondary mortgage market
AAA-rated municipal bond yields (3/4/14)	30-yr: 3.80% 20-yr: 3.45% 10-yr: 2.20%	Tax-exempt debt issued by a state or municipality to finance capital expenditures.
A-rated municipal bond yields (3/4/14)	30-yr: 4.80% 20-yr: 4.60% 10-yr: 3.55%	Tax-exempt debt issued by a state or municipality to finance capital expenditures.

CONCLUSION

The IWRB loan rates are very high in comparison to equivalent programs in other western states and likely contributing to reducing loan application numbers.

RECOMMENDATION

In order to ensure that available loan funds get circulated for eligible projects, the interest rates should be lowered. Staff suggests rates in the 3.0% range, to be reviewed by the Finance Committee at least annually.