

COMMITTEE MEETING



IDAHO WATER RESOURCE BOARD FINANCIAL PROGRAM

MEETING NO. 1-11
November 2, 2011



IDAHO WATER RESOURCE BOARD

NOTICE AND AGENDA

C.L. "Butch" Otter
Governor

FINANCIAL PROGRAM COMMITTEE MEETING NO. 1-11

Terry T. Uhling
Chairman
Boise
District 2

**Idaho Water Center, 6th Floor
Conference Rooms 602C & D
322 E. Front St., Boise, Idaho**

**November 2, 2011
1:30 p.m. to 3:00 p.m.**

Roger W. Chase
Vice-Chairman
Pocatello
District 4

1. Introductions
2. Background
3. Interest Rate Review and Rate Structure
4. Pristine Springs Reserve/Repair Funds Discussion
5. Next Steps and Next Meeting

Bob Graham
Secretary
Bonners Ferry
District 1

**Charles "Chuck"
Cuddy**
Orofino
At Large

Committee Members:

Bob Graham, Chairman, Peter Van Der Meulen, Chuck Cuddy, Roger Chase,
Vince Alberdi

Leonard Beck
Burley
District 3

Vince Alberdi
Kimberly
At Large

Jeff Raybould
St. Anthony
At Large

Peter Van Der Meulen
Hailey
At Large

AMERICANS WITH DISABILITIES

The meeting will be held in facilities that meet the accessibility requirements of the Americans with Disabilities Act. If you require special accommodations to attend, participate in, or understand the meeting, please make advance arrangements by contacting Diana Ball, Administrative Assistant, by email diana.ball@idwr.idaho.gov or by phone at (208) 287-4800.

MEMO



To: Idaho Water Resource Board Finance Committee
From: Brian Patton
Subject: Use of Hydropower and Rental Revenue from Pristine Springs facility
Date: October 28, 2011

This memo provides background on revenue generated from the Pristine Springs facility and describes some potential uses of the revenue now that the repair/replacement fund is fully funded.

BACKGROUND

The Idaho Water Resource Board (IWRB) currently receives about \$350,000 per year from rent and power sales at Pristine Springs. This is not to be confused with the \$1.2 million annual loan payment from the ground water districts. The \$350,000 comes from rental payments from the tenant of \$25,000/month (or \$300,000/year) and about \$50,000/year from hydropower income. The hydropower income is split between the IWRB and the tenant in order to cover the tenant's operation and maintenance of the two small hydropower plants.

Since the IWRB acquired the facility in 2008 this income has been used to build repair/replacement fund, located within the Revolving Development Account. The target was to build a \$1 million repair/replacement fund. This fund is now at almost \$1.1 million.

OTHER POTENTIAL USES OF REVENUE

Since the repair/replacement fund is fully funded, the rental and hydropower income might be directed to other uses. These could include:

- Deposit the revenue into the loan fund within the Revolving Development Account. This would allow more funds to be loaned out for water projects across the state. This is what is currently done with the IWRB's hydropower income from Dworshak.
- Dedicate the revenue to ESPA projects, consistent with the ESPA CAMP. This may make sense because Pristine Springs was acquired to help resolve ESPA conflicts and the facility uses spring flows from the ESPA. The IWRB needs to determine if it intends to help pay for ESPA managed recharge long term, and if so, what funds would be used. This revenue could be that source of funds.
- Use revenue for seed money for actions resulting from the Rathdrum Prairie CAMP or the Treasure Valley CAMP. These efforts will need a source of cost-share funds to help undertake actions recommended through these processes.
- Split the revenue, in some proportion, for a combination of the above listed uses.

Any use of this revenue should be conditioned so that the first priority is to re-fill the Repair/Replacement Fund if it is drawn down for repairs at the facility.

MEMO



To: Idaho Water Resource Board Finance Committee
From: Brian Patton
Subject: Background on IWRB Financial Activities
Date: November 1, 2011

The Idaho Water Resource Board (IWRB) has a number of financial tools available to help with carrying out the IWRB's duties and authorities.

Revenue Bonds – The IWRB may issue revenue bonds, to be repaid solely from revenues of the IWRB, for the purpose of constructing or acquiring water projects. This authority is granted in the Idaho Constitution. The IWRB may use the proceeds for its own projects (Dworshak Hydropower, Bell Rapids) or may loan the bond proceeds to another entity for their projects (Bear River Bond Pool, United Water, Ground Water Districts). There is about \$77 million currently outstanding in IWRB bonds. Because this tool accesses the financial markets, it has been challenging to make this authority useful for the vast majority of needs addressed by the IWRB.

Revolving Development Account – This is the first and largest of the IWRB's accounts, created in 1969. The IWRB may make loans for water projects, or use the funds for its own projects. This account has a number of revenue sources: 1) occasional legislative appropriations, 2) loan principal and interest repayments, 3) interest earned on idle funds in the state treasury, 4) power sales revenues from the IWRB's Dworshak and Pristine Springs hydro power plants, 5) rental pool surcharge revenues from the various rental pools, 6) project funds provided by others, 7) rental income at Pristine Springs, 8) lease of the IWRB's Palisades storage through the WD01 Rental Pool. A number of "sub-accounts" have been created within the Revolving Development Account for certain purposes:

Dworshak Hydropower Sub-Account – created to handle the cash flows associated with the IWRB's Dworshak Hydropower plant. Revenues in excess of debt service, O&M, and repair/replacement are deposited into the main Revolving Development Account.

Upper Salmon/CBWTP Sub Account – created to handle cash flows associated with receiving funds from BPA and other sources, and expending them for flow enhancement projects in the Upper Salmon Basin.

Bell Rapids Sub-Account – created to handle cash flows associated with purchasing the Bell Rapids water rights and leasing them to the Bureau of Reclamation per the Nez Perce Agreement.

Pristine Springs Sub-Account – created to handle the cash flows associated with purchasing the Pristine Springs facility and subsequent sale of parts of the water assets to the North Snake and Magic Valley Ground Water Districts and to the City of Twin Falls.

Eastern Snake Plain Sub-Account – created to handle the cash flows associated with carrying out a number of legislatively – directed projects on the Eastern Snake Plain including CREP, managed recharge, and water acquisitions.

Water Management Account – This account was established in 1978 to give the IWRB the authority to grant funds. The IWRB currently has a policy of not granting funds. This account does not earn interest for the IWRB. Sources of funds include occasional legislative appropriations. The IWRB may direct other sources of income (hydropower, rental pool) to this account at its discretion.

Secondary Aquifer Fund – This account was created in 2010 to support the CAMP effort on the ESPA, and potentially for other areas. The IWRB may expend funds for a wide variety of aquifer management activities and projects, including personnel costs. This account has been funded by the transfer of the Pristine Springs loan payments from the Ground Water Districts, as well as other contributions for specific activities (recharge and prep costs for the GWD bond issuance). Interest earned in this account is retained by this account.

Idaho Water Resource Board Finance Committee

**Interest Rate Structure Review
November 2, 2011**



Overview

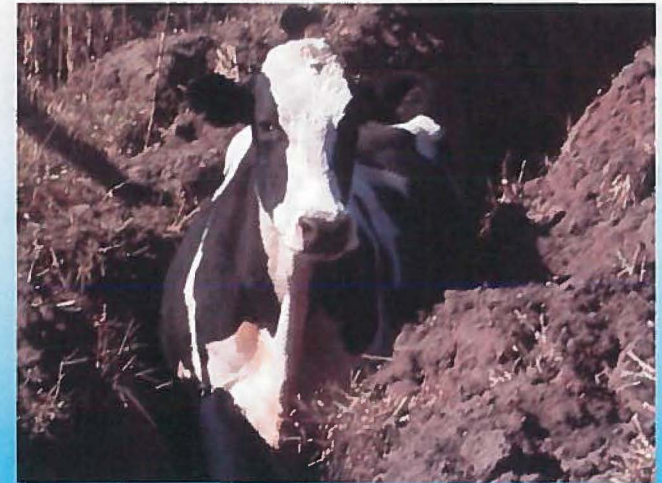
- Over the last few years department staff have received numerous comments stating that the Board's interest rates are too high when compared to other institutions or when doing partnership loans on projects with counterpart agencies in neighboring states.
- Current interest rate for Drinking Water Loans is 6.0%.
- Current interest rate for Agricultural Loans is 5.5%.
- Prior to 2002, the rate structure was set at 5.5% for all loan types.



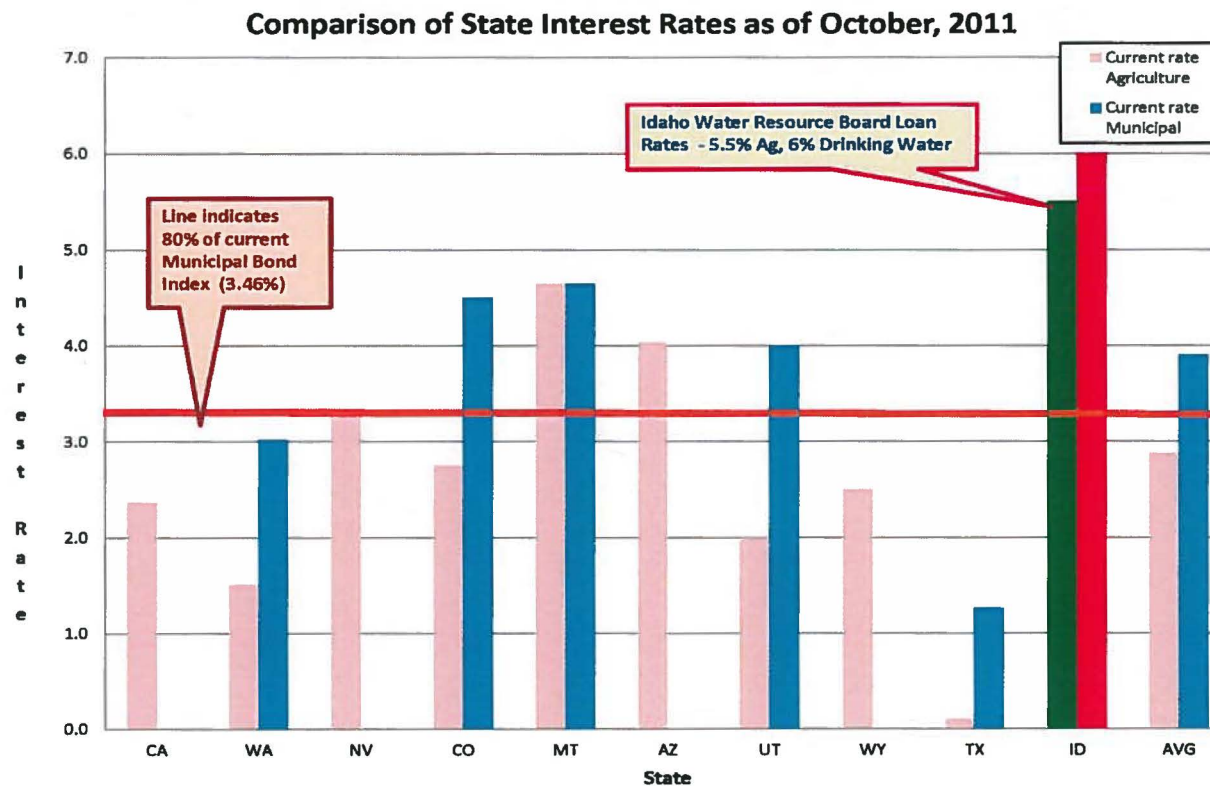
Comparison to Counterpart Agencies in Other Western States

- All of our neighboring states have lower interest rates than the Board's.
- Other states base their interest rates on a Variety of methods. For Example: Colorado's interest rates are based on 50% to 110% of the Municipal Bond index rate, Montana takes all of the loans and purchases a bond on the open market and passes on the interest rate. California charges 50% of the most recent Bond sale. Utah charges interest rates from 0% to 4% with no clear method of determining what interest rate they will use.
- Most states charge a loan processing fee.

The next page will show a comparison of all of the surrounding states interest rates compared to Idaho. We have also included a base line rate for comparison at 80% of the Municipal Bond Index

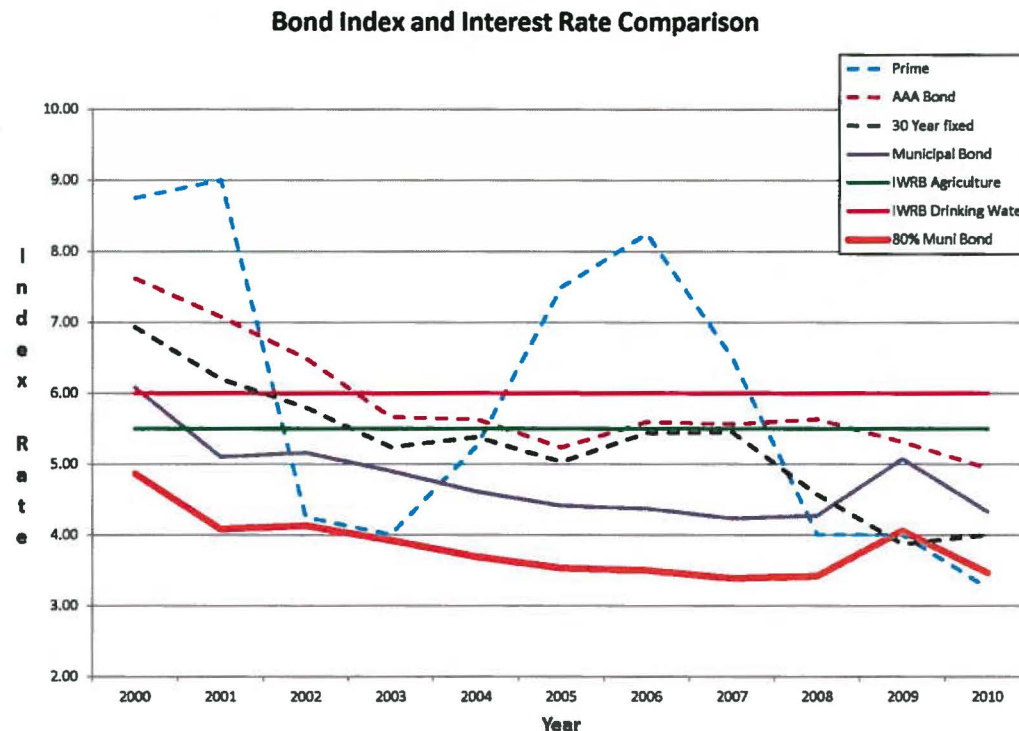


How Does Idaho Compare to Other States



States not showing Municipal rates fund those programs through other means.

How Does Board's Rates Compare to Other Index Rates.



Explanation of rates:

With the exception of the Prime rate all other rates shown are bond rates. The Prime Interest Rate is the interest rate that lending institutions pay the Federal Government for the money they borrow.

Municipal Bond Index - is the interest rate that cities, counties, and states pay for infrastructure improvement projects. The published indices are from the rates that larger populated cities, counties and states with proven track records for repayment are charged.

AAA Bond Index - are the highest rated bonds and are associated with institutions that have high credit quality with little risk of default.

30-Year Fixed Index - is the rate that the housing industry charges for mortgages.

Conclusion

- There are various options available to the Committee:
 - Leave the rates as they currently are.
 - Base rates on some type of index rate like the 30 year fixed mortgage rate or a Bond Rate or some percentage there of, similar to Colorado.
 - Require a loan origination fee.
 - Offer lower rates to lower income entities.
 - Offer only one interest rate for Ag and Drinking Water.
 - Decide how often and when the rate should be changed.
- If the Sub-Committee should decide that a rate change is needed, caution should be taken to avoid a variable rates that continually change. Half of the Bear River Area bond applicants pulled out of the bonding process due to the uncertainty of the interest rate. Borrowers consisting of canal companies and irrigation districts need a known and consistent interest rate to promote the needed loans to their boards and membership.



DO YOU HAVE ANY QUESTIONS

AND

**WHAT CAN STAFF DO TO HELP
YOU?**