

**RESOLUTION NO. 13-17**

**RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK APPROVING THE ADOPTION OF AMENDED AND RESTATED CRITERIA, PRIORITIES AND GUIDELINES FOR THE SELECTION OF PROJECTS TO BE FINANCED UNDER ITS INFRASTRUCTURE STATE REVOLVING FUND PROGRAM**

**WHEREAS**, the California Infrastructure and Economic Development Bank (the “I-Bank”) is established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 et seq.) (the “I-Bank Act”), for the purpose of providing financial assistance to eligible projects in the State of California (the “State”) through a variety of financing mechanisms, which include, among other things, direct loans;

**WHEREAS**, pursuant to the I-Bank Act, the I-Bank established the Infrastructure State Revolving Fund Program (“ISRF Program”) and in connection therewith, established its Criteria, Priorities and Guidelines for the selection of projects to receive financial assistance under the ISRF Program (the “Criteria”);

**WHEREAS**, the I-Bank Act permits the I-Bank to amend the Criteria and to give notice to the Legislature of the State (the “Legislature”) and the Governor of the State (the “Governor”) of such amendment;

**WHEREAS**, an amended and restated version of the Criteria (the “Amended and Restated Criteria”) has been presented to the Board of Directors of the I-Bank (the “Board”) for its consideration;

**WHEREAS**, previously, the Board authorized staff to commence the process of refinancing and restructuring bonds (“ISRF Program Bonds”) previously issued to fund the ISRF Program (the “Refunding Effort”);

**WHEREAS**, in connection with the Refunding Effort, and if adopted by the Board, I-Bank staff expect to present the Amended and Restated Criteria as part of presentations and discussions with the credit rating agencies that rate the ISRF Program Bonds (the “Rating Agencies”); and

**WHEREAS**, the Board desires to maintain or improve the rating on the ISRF Program Bonds and the Board has determined that a favorable view of the Amended and Restated Criteria by the Rating Agencies would serve to further the Board’s desire with respect to the rating on the ISRF Program Bonds.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the California Infrastructure and Economic Development Bank, as follows:

**Section 1.** The Board hereby finds that the above recitals are true and correct.

**Section 2.** The Board hereby adopts the Amended and Restated Criteria, attached hereto as Attachment A, and directs the Executive Director and her assignees to provide appropriate notice to the Legislature and the Governor of such adoption.

**Section 3.** The Board has determined that the Amended and Restated Criteria play a key role in the rating on the ISRF Program Bonds, and, as such, hereby (i) authorizes the Executive Director and her assignees to modify the Amended and Restated Criteria adopted pursuant to this resolution to the extent that such modification is necessary to preserve the rating on the ISRF Program Bonds and; (ii) directs the Executive Director to report back to the Board as to any modifications made pursuant to this section.

**Section 4.** This resolution shall take effect immediately upon its adoption.

**PASSED, APPROVED, AND ADOPTED** at a meeting of the California Infrastructure and Economic Development Bank on October 29, 2013, by the following vote:

AYES:

NOES :

ABSENT:

ABSTAIN:

By \_\_\_\_\_  
Teveia R. Barnes, Executive Director

Attest:

By \_\_\_\_\_  
Ruben Rojas,  
Secretary of the Board of Directors

## **ATTACHMENT A**

Amended and Restated Criteria, Priorities, and Guidelines  
for the Selection of Projects for Financing  
under the Infrastructure State Revolving Fund Program



**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT  
BANK**

**AMENDED AND RESTATED**

**CRITERIA, PRIORITIES, AND GUIDELINES**

**FOR THE SELECTION OF PROJECTS FOR FINANCING  
UNDER**

**THE INFRASTRUCTURE STATE REVOLVING FUND (ISRF)  
PROGRAM**

Date Adopted: October 29, 2013

## Contents

I. ELIGIBILITY CRITERIA .....	5
A. Introduction .....	5
B. Authority .....	5
C. Applicants.....	6
D. Projects .....	6
E. Costs .....	9
II. THE FINANCING APPLICATION .....	10
A. Readiness and Feasibility.....	10
1. Permits.....	10
2. Source of Loan Repayment.....	10
3. Project Feasibility .....	11
4. Prevailing Wages .....	11
5. Business Relocation .....	11
6. Refinancing of Existing Debt.....	11
III. APPLICATION PROCESS.....	11
A. Loan Application .....	11
B. Final Loan Approval.....	12
C. Application/Loan Process Assistance.....	12
D. The State Environmental Goals and Policy Report and Coordination with Growth Management Strategies.....	12
E. Capital and Infrastructure Project Planning Report. ....	13
F. Prioritizing Projects .....	13
G. Applicant Resolution.....	13
IV. LOAN TERMS AND LIMITATIONS.....	14
A. Loan Amount.....	14
B. Interest Rate .....	14
C. Amortization.....	14
D. Prepayment .....	15
E. Loan and Amendment Fees .....	15

F. Funding Limits ..... 15  
**Exhibit A—Credit Underwriting Criteria** ..... 16  
**Exhibit B—I-Bank Contact Information**.....30

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK  
(I-Bank)**

**CRITERIA, PRIORITIES, AND GUIDELINES FOR THE SELECTION OF  
PROJECTS FOR FINANCING UNDER  
THE INFRASTRUCTURE STATE REVOLVING FUND (ISRF) PROGRAM**

Date Adopted: October 29, 2013

**I. ELIGIBILITY CRITERIA**

**A. Introduction**

The California Infrastructure and Economic Development Bank (“I-Bank”) was created to serve a variety of public purposes including providing an accessible low-cost financing option to eligible borrowers for a wide range of infrastructure projects. To meet this important public purpose, the I-Bank developed its Infrastructure State Revolving Fund (“ISRF Program”). ISRF Program funding is available in amounts from \$50,000 to \$25,000,000, with terms of up to 30 years. The interest rate for each loan<sup>1</sup> is fixed at the time the loan is approved. Applications are accepted on a continuous basis.

To maintain its ability to fund the ISRF Program, the I-Bank, from time-to-time, issues Infrastructure State Revolving Fund Revenue Bonds (“ISRF Program Bonds”) secured by principal and interest payments received from the loans originated under the ISRF Program (“ISRF Loans”).

**B. Authority**

The eligibility criteria and other program requirements for the Infrastructure State Revolving Fund Program (“ISRF Program”) set forth in these “Criteria, Priorities, and Guidelines for Application to the Infrastructure State Revolving Fund Program” (the “Criteria”) are based on the provisions of Chapters 1-2 of Division 1 of Title 6.7 of the Government Code of the State of California, commencing with Section 63000 (the “I-Bank Act”) as of the date of the adoption of the Criteria.

---

<sup>1</sup> “Loan” is used generically in this document to refer to various forms of limited obligation financings.

Whenever, subsequent to the date of the adoption of the Criteria, provisions of the I-Bank Act are changed such that specific provisions of the Criteria are inconsistent with the applicable provisions of the I-Bank Act, the requirements of the I-Bank Act shall govern.

### **C. Applicants**

Applicants must meet one of the following definitions:

#### For Infrastructure Projects:

For projects that fall in categories 1 through 16, under the section titled “Projects” below (“Infrastructure Projects”), the borrower may be any subdivision of a local or state government, including departments, agencies, commissions, cities, counties, non-profit corporations formed on behalf of an applicant, special districts, assessment districts, and joint powers authorities within the state or any combination of these subdivisions that makes application to the I-Bank for financial assistance in connection with a project in a manner prescribed by the I-Bank. Such borrower is considered a “Sponsor” for purposes of these Criteria.

In addition, for those projects in categories 1 through 16 below, an eligible borrower may be any person, company, corporation, association, state or municipal governmental entity, partnership, firm, or other entity or group of entities, provided that such borrower is organized as a not for profit entity and is, engaged in business or operations within the state; and provided further, that, for the purpose of implementing a project, in categories 1 through 16, such entity applies for financing from the I-Bank in conjunction with a Sponsor.

#### For Economic Expansion Projects:

For projects that fall in categories 17 and 18, under the section titled “Projects” below (“Economic Expansion Projects”) that facilitate any of the environmental, economic, and social goals enumerated in The Governor’s Environmental Goals and Policy Report, as more particularly identified in Section III D of the Criteria, the borrower may be any person, company, corporation, association, state or municipal governmental entity, partnership, firm, or other entity or group of entities, provided that such borrower is organized as a not for profit entity and is engaged in business or operations within the state.

### **D. Projects**

“Project” generally means designing, acquiring, planning, permitting, entitling, constructing, improving, extending, restoring, financing, and generally developing facilities within the state and would include real and personal property, structures, conveyances, equipment, thoroughfares, buildings and supporting components thereof, excluding any housing, directly related to providing any of the following:

#### INFRASTRUCTURE PROJECTS

1. City Streets including but not limited to any street, avenue, boulevard, road, parkway, drive, or other way that is one of the following: An existing municipal roadway; or the project is shown upon a plat approved pursuant to

- law and includes the land between the street lines, whether improved or unimproved, and may comprise pavement, bridges, shoulders, gutters, curbs, guardrails, sidewalks, parking areas, benches, fountains, plantings, lighting systems, and other areas within the street lines, as well as equipment and facilities used in the cleaning, grading, clearance, maintenance, and upkeep thereof.
2. County Highways including but not limited to any county highway as defined in Section 25 of the Streets and Highways Code, that includes the land between the highway lines, whether improved or unimproved, and may comprise pavement, bridges, shoulders, gutters, curbs, guardrails, sidewalks, parking areas, benches, fountains, plantings, lighting systems, and other areas within the street lines, as well as equipment and facilities used in the cleaning, grading, clearance, maintenance, and upkeep thereof.
  3. Drainage, Water Supply, and Flood Control including but not limited to ditches, canals, levees, pumps, dams, conduits, pipes, storm sewers, and dikes necessary to keep or direct water away from people, equipment, buildings, and other protected areas as may be established by lawful authority, as well as the acquisition, improvement, maintenance, and management of flood plain areas and all equipment used in the maintenance and operation of the foregoing.
  4. Educational Facilities including but not limited to libraries and laboratories, administration centers, student service buildings, athletic complexes, public parking facilities, child care facilities, including, but not limited to, day care facilities and employment training facilities.
  5. Environmental Mitigation Measures including but not limited to required construction or modification of public infrastructure, and purchase and installation of pollution control and noise abatement equipment.
  6. Parks and Recreational Facilities including but not limited to local parks, recreational property and equipment, parkways and property.
  7. Port Facilities including but not limited to docks, harbors, ports of entry, piers, ships, small boat harbors and marinas, and any other facilities, additions, or improvements in connection therewith.
  8. Power and Communications including but not limited to facilities for the generation, transmission, distribution or storage of electrical energy, natural gas, and telephone and telecommunications services as well energy conservation measures.

9. Public Transit including but not limited to air and rail transport of goods, airports, guideways, vehicles, rights-of-way, passenger stations, maintenance and storage yards, and related structures, including, but not limited to public parking facilities, equipment used to provide or enhance transportation by bus, rail, ferry, or other conveyance, either publicly or privately owned, that provides to the public general or special service on a regular and continuing basis.
10. Sewage Collection and Treatment including but not limited to pipes, pumps, and conduits that collect wastewater from residential, manufacturing, and commercial establishments, the equipment, structures, and facilities used in treating wastewater to reduce or eliminate impurities or contaminants, and the facilities used in disposing of recycling of, or facilitating the alternative uses of, or transporting, remaining sludge, as well as all equipment used in the maintenance and operation of the foregoing.
11. Solid Waste Collection and Disposal including but not limited to vehicles, vehicle-compatible waste receptacles, equipment, transfer stations, recycling centers, sanitary landfills, and waste conversion facilities necessary to remove solid waste, except that which is hazardous as defined by law, from its point of origin.
12. Water Treatment and Distribution including but not limited to facilities in which water is purified and otherwise treated to meet residential, manufacturing, or commercial purposes and the conduits, pipes, and pumps that transport it to places of use.
13. Defense Conversion including but not limited to, facilities necessary for successfully converting military bases consistent with an adopted base reuse plan.
14. Public Safety Facilities including but not limited to, police stations, fire stations, court buildings, jails, juvenile halls, and juvenile detention facilities.
15. State Highways including but not limited to any state highway as described in Chapter 2 (commencing with Section 230) of Division 1 of the Streets and Highways Code, and the related components necessary for safe operation of the highway.
16. Military Infrastructure including but not limited to facilities on or near a military installation that enhance the military operations and mission of one or more military installations in this state. To be eligible for funding, the project shall be endorsed by the Office of Military and Aerospace Support

established pursuant to Section 13998.2 of the Government Code. "Military installation" means any facility under the jurisdiction of the Department of Defense, as defined in paragraph (1) of subsection (e) of Section 2687 of Title 10 of the United States Code.

ECONOMIC EXPANSION PROJECTS:

17. Industrial, Utility and Commercial: including, but not limited to, facilities that are used for industrial, utility or commercial purposes and any parts or combination thereof and all facilities or infrastructure necessary or desirable in connection therewith.
18. Educational, Cultural and Social: including, but not limited to, facilities that are used for cultural, recreational, research, community, or educational purposes as well as service enterprise facilities and social welfare facilities and any parts or combination thereof and all facilities or infrastructure necessary or desirable in connection therewith.

**E. Costs**

Eligible costs for financing include:

1. All or any part of the cost of construction, renovation, and acquisition of all lands, structures, real or personal property.
2. Rights, rights of way, franchises, licenses, easements, and interests acquired or used for a project.
3. The cost of demolishing or removing any buildings or structures on land so acquired, including the cost of acquiring any lands to which the buildings or structures may be moved.
4. The cost of all machinery, equipment and financing charges.
5. Interest prior to, during, and for a period after, completion of construction, renovation, or acquisition, as determined by the I-Bank.
6. Provisions for working capital.
7. Reserves for principal and interest and for extensions, enlargements, additions, replacement, renovations, and improvements.
8. The cost of architectural, engineering, financial and legal services, plans, specifications, estimates, administrative expenses.

9. Other expenses necessary or incidental to determining the feasibility of any project or incidental to the construction, acquisition, or financing of any project.

## **II. THE FINANCING APPLICATION**

### **A. Readiness and Feasibility**

Applicant must demonstrate project readiness and feasibility which, for construction projects financed by the I-Bank from the proceeds of tax-exempt ISRF Program Bonds, means a demonstrated ability to complete construction within 2 years after the I-Bank's loan approval. In this context, "complete a project" the portion of the project financed by the I-Bank must meet construction contract specifications for completeness and / or ability to operate. In addition, project must meet "feasibility" requirements set forth below:

1. Permits

Applicant must provide evidence that it has applied for and/or received all permits or approvals, if appropriate for the type of loan being considered, necessary for the construction of the project.

2. Source of Loan Repayment

Eligible sources of loan repayment include, without limitation, the following:

- a. Water or Sewer Enterprise/Special Fund. Projects that will be part of a revenue-producing water or sewer enterprise system may be financed with a loan that is payable with revenues from the water or sewer enterprise/special fund.
- b. Other Enterprise/Special Fund. Other revenue producing enterprise systems such as ports, airports, solid waste systems, bridges, and parking facilities may be eligible if the proposed project and repayment stream are acceptable to the I-Bank.
- c. General Fund Lease. Loans secured by leases of Borrower assets.
- d. Land Secured. Loans repaid with property taxes or property-related assessments.
- e. Voter-approved General Fund debt or other voter-approved debt secured by full faith and credit (general obligation).

- f. Other sources of repayment and/or alternative financing structures may be considered by the I Bank at its discretion.
3. Project Feasibility

The I-Bank will require all project funding sources, other than the I-Bank's loan, to be identified at the time of application and committed prior to loan approval by the I-Bank. The I-Bank may also require additional reviews and evaluations of project feasibility and potential risks.
4. Prevailing Wages

The portion of the project financed with I-Bank funds will be required to comply with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the Labor Code, including the payment of prevailing wages.
5. Business Relocation

ISRF financing shall not be used to facilitate the relocation of a private sector business from one political jurisdiction of the State to another without substantial justification deemed acceptable by the I-Bank. Examples of justifications include, without limitation, (i) completion of the project is necessary to prevent relocation of substantial business operations outside the State; or (2) the needs of the private sector business cannot be accomplished within the current location.
6. Refinancing of Existing Debt

The I-Bank will consider making loans under the ISRF Program to refinance existing debt in instances where the savings from such refinancing would be applied to the development of new projects within the meaning of Infrastructure Projects or Economic Expansion Projects as defined herein.

### **III. APPLICATION PROCESS**

#### **A. Loan Application**

Applications will be accepted on a continuous basis. However, during any period where application deadlines have been imposed by the I-Bank, applicants must submit complete Loan Applications by an announced application deadline date in order for such applications to be considered.

The ISRF Program loan application, found on the I-Bank's website, requires detailed information and documentation about the applicant and the project in order to

enable the I-Bank to determine if the application complies with the I-Bank's Criteria including its creditworthiness and underwriting criteria.

Prospective applicants are encouraged to contact I-Bank staff (Exhibit C) to schedule a pre-application meeting to discuss the Criteria and the Program.

## **B. Final Loan Approval**

The Board of Directors of the California Infrastructure and Economic Development Bank ("I-Bank Board of Directors") is authorized to make loan and other decisions at any of its meetings in accordance with and pursuant to the I-Bank Act and as otherwise provided by law.

## **C. Application/Loan Process Assistance**

I-Bank staff is available to and does provide applicants with assistance in the process of completing the loan application.

## **D. The State Environmental Goals and Policy Report and Coordination with Growth Management Strategies**

For Infrastructure Projects, prior to submitting the loan for approval to the I-Bank Board of Directors, the governing body or bodies of the applicant shall determine, by resolution, certified to the I-Bank, that in approving the project, the governing body considered (i) the impact of the project on California's land resources and the need to preserve such resources; (ii) whether the project is economically or socially desirable and (iii) whether the project is consistent with, and in furtherance of The State Environmental Goals and Policy Report (the "State EPGR"). The project will be deemed consistent with and in furtherance of the State EGPG if it facilitates any part of one or more of the following environmental, economic or social goals:

1. Easy mobility within communities and connectedness across the State.
2. Clean air, clean water, and access to healthy foods, and open space for recreation.
3. Value natural resource systems, landscapes, and species diversity.
4. Intact natural systems and prime agricultural land provide resilience for the natural and built environment.
5. Prosperity and growth of the rural regions of the State.
6. Compact, infill and redevelopment is a priority for new development, coupled with a goal to preserve natural and working lands.
7. Thriving and growing urban areas that attract residents with employment opportunities, strong schools, or cultural or social opportunities.

8. Pollution prevention that is a guiding principal in development of consumer products and commercial and industrial practices.
9. Businesses and households powered by clean, efficient renewable energy sources.
10. Energy efficiency as the energy source of first priority for meeting new energy demand, followed by clean, renewable energy.
11. Distributed energy generation systems contributing to energy system resilience and energy independence.
12. A strong and vibrant economy that provides opportunities for the community, attracts investment to the state, and is fueled by a skilled workforce and the State's education system
13. Other environmental, economic, and social goals that may be added from time to time in The State Environmental Goals and Policy Report, or its successor.

#### **E. Capital and Infrastructure Project Planning Report.**

If the applicant is a state agency, board, commission, or department, the I-Bank shall consider, as appropriate, the manner in which the project reflects the goals of the Capital and Infrastructure Project Planning Report, prepared by the Director of Finance, in its selection of projects.

#### **F. Prioritizing Projects**

In the event that, at any given point in time, the immediate financing needs of projects to be selected for I-Bank financing exceed the amount of funds available for loans under the ISRF Program, the I-Bank will give priority to Infrastructure Projects over Economic Expansion Projects. Further, at such times, as between Infrastructure Projects, the I-Bank will give priority to Infrastructure Projects located in, or adjacent to or directly affecting, areas with high unemployment rates, low median family income, declining or slow growth in labor force employment, or high poverty rates.

#### **G. Applicant Resolution**

Prior to submitting the loan for approval to the I-Bank Board of Directors, pursuant to Government Code Section 63041(a), the governing body or bodies of the applicant shall find, by resolution, certified to the I-Bank, each of the following:

1. The project facilitates effective and efficient use of existing and future public resources so as to promote economic development and conservation of natural

resources. The project develops and enhances public infrastructure in a manner that will attract, create, and sustain long-term employment opportunities.

2. The project is consistent with the general plan of both the city and county, or only the county for projects in unincorporated areas in which the project is located.
3. The proposed financing is appropriate for the specific project.
4. The project is consistent with the criteria, priorities, and guidelines for the selection of projects adopted by the I-Bank pursuant to Government Code Section 63040.
5. In accordance with section III (D) above, the governing body of the applicant considered (i) the impact of the project on California's land resources and the need to preserve such resources; (ii) whether the project is economically or socially desirable; and (iii) whether the project is consistent with, and in furtherance of The State Environmental Goals and Policy Report.

#### **IV. LOAN TERMS AND LIMITATIONS**

##### **A. Loan Amount**

Loans will be available in amounts ranging from \$50,000 to \$25 million per applicant. Larger loans may be approved by I-Bank if supported by strong collateral, strong creditworthy borrowers, or other factors.

##### **B. Interest Rate**

The loans funded under the ISRF Program will be made at a fixed interest rate based on the Thompson's Municipal Market Data Index for an "A" rated tax-exempt security with a weighted average life similar to the I-Bank loan. The interest rate may be increased, as appropriate, for loans that are subject to the Alternative Minimum Tax.

##### **C. Amortization**

The loan term will not exceed the lesser of the project's useful life or 30 years. However, borrowers may choose shorter maturities. Repayment of the loan will be targeted to begin within one year of loan origination, unless any pledged revenue stream, such as revenue from a project being constructed, is not expected to be available until a time that is longer than one year from loan origination. Loans will generally be amortized on a level repayment basis with semi-annual interest payments and annual principal payments, but other amortization structures may be available provided that the I-Bank deems such structures to be appropriate in a given

case. Depending on circumstances, construction period interest may be an eligible financing cost.

#### **D. Prepayment**

The I-Bank has issued and expects to continue to issue ISRF Program Bonds to fund portions of the ISRF Program. Borrowers may be permitted to prepay their loans in whole or in part with the prior written consent of the I-Bank and such prepayments may be subject to prepayment premiums and other restrictions in accordance with requirements of the Program Bonds or as otherwise required by the I-Bank.

#### **E. Loan and Amendment Fees**

For loans with a principal amount equal to or greater than \$250,000, a one-time loan origination fee of the greater of ten thousand dollars (\$10,000.00) or 1.00% of the original loan amount will be paid as a condition of loan closing. For loans with a principal amount less than \$250,000, the one-time loan origination fee may be reduced or waived, at the I-Bank's discretion. The origination fee may be financed as part of the loan. A servicing fee of 0.30% of the outstanding loan balance will be payable annually, in arrears. An amendment fee will be charged as appropriate for each amendment to the loan documents.

#### **F. Funding Limits**

Not more than fifteen percent (15%) of the financings approved by the I-Bank in a given fiscal year, that utilize State funds, may be expended upon Educational Facilities, Environmental Mitigation Measures, and Parks and Recreational Facilities.

## **Exhibit A—Credit Underwriting Criteria**

### **CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK INFRASTRUCTURE STATE REVOLVING FUND PROGRAM CREDIT UNDERWRITING CRITERIA**

#### **Introduction**

The ISRF Program's credit underwriting criteria outlined below represents the general requirements for the listed repayment sources. To adequately address the unique credit features of a particular loan, and to provide sufficient security for the ISRF Program, additional covenants, credit enhancement, or security may be required by the I-Bank. Additional security may include: (1) a covenant for a debt service reserve fund at the borrower level, (2) a provision for additional security during the construction or start-up phase of a project, or (3) stricter financial covenants for borrowers with limited historical coverage or dependence on a concentrated source of revenues. I-Bank staff will discuss the need for such covenants with the applicant during the underwriting process and such covenants will become part of any loan agreement entered into between the borrower and the I-Bank.

Alternate sources of loan repayment or financing structures may be considered by the I-Bank on a project-by-project basis.

No uncured bond/loan/debt defaults may exist at the time the I-Bank loan is approved or funded. Additionally, prior cured defaults may be grounds to not approve a request, depending on circumstances.

## **General Quantitative Analysis**

### **I. Loans secured solely or primarily by a revenue pledge**

#### **A. Evaluate Repayment Ability:**

1. Determine the amount of revenue available for pledging from the revenue source.
2. Verify that the purpose of the financing can be secured by the proposed revenue source.
3. Evaluate the historical receipt of revenues from the proposed revenue source.
4. Evaluate the historical expenses and transfers paid from the proposed revenue source.
5. Determine amount and pledge status of any outstanding debt or other proposed debt secured or to be secured by the proposed revenue source.
6. Calculate the amount of cash available for debt service and the debt service coverage ratio.
7. If the amount of cash available for debt service is insufficient to demonstrate repayment ability for the requested ISRF Program financing plus existing and other proposed debt, determine if the borrower has cash available in an amount sufficient to establish a rate stabilization fund and/or debt service reserve fund.

#### **B. Determine impact of the financing on the operating and other funds:**

1. Measure revenue from pledged source against total operating budget.

2. Determine the effect on the operating budget from use of the specific revenue for financing purposes.
3. Determine impact of borrowing on fund balances and projected cash flow.

## **II. For loans with a general fund financing structure**

### A. Evaluate general fund revenues:

1. Determine the sources of and the likely recurrence of the general fund revenues.
2. Verify that the purpose of the financing is consistent with a general obligation pledge.

### B. Impact of financing on operating and other funds:

1. Determine if the financed project will result in an increase in annual operating costs to the borrower.
2. Determine impact of the financing on general fund balances and projected cash flow.

## **III. Borrowers formed through a joint powers agreement or inter-governmental agreement (collectively, “JPA”) will be evaluated for legal and structural feasibility, then for financial viability**

### A. Legal Review of Agreements:

1. Review agreements for consistency.
2. Determine the life of the JPA and consistency with requested financing term.

3. Confirm that agreements allow JPA to enter into financing.

B. Evaluation of public support:

1. Confirm vote approving the agreement.

**IV. For All Borrowers**

A. Completeness of Application

1. Ensure that loan application is complete, including attachments and exhibits.
2. Ascertain that governing body of borrower has approved loan application.
3. Confirm that:
  - a. applicant is an eligible borrower.
  - b. project is an eligible project.
  - c. proposed source of repayment is appropriate for request financing.
  - d. repayment ability from the proposed source.
  - e. determine the impact of the financing on fund balances and operations.

B. Evaluation of Capital Planning and Financial Condition

1. Inquire of borrower whether or not borrower has other unmet capital needs.
2. Review at least the previous three years' audited financial statements.

3. Conduct financial analysis of borrower's general credit

- a.** Perform analysis of financial statements using criteria appropriate for analysis of municipal credits or private credits, as the case may be.
- b.** Review any official statements or prospectus used in conjunction with the issuance of bonds.
- c.** Conduct discussions with the borrower's financial advisor/underwriter to assist in the evaluation of financial conditions.
- d.** Review reports of bond rating agencies where applicable.
- e.** Review existing property tax rates and general obligation bonding capacity, as applicable for public entity borrowers.
- f.** Existing indebtedness, secured and unsecured
- g.** Cash flow projections, as appropriate

C. Evaluate Economic/Demographic Trends

- 1. Examine population trends
- 2. Examine assessed value trends

D. Legal Review to Evaluate Applicable Legal Authority

- 1. State law
- 2. Federal tax law

E. Meet with Management and Conduct Site Visit of Project

1. Determine management's understanding of all obligations, terms and conditions of the loan
2. Determine management's readiness and ability to assume responsibility for the timely repayment of the loan
3. Visit project site to determine viability of the project and to identify other potential obstacles or restrictions.

## **V. Priority of Liens**

A. Where applicable for the type of financing sought, the I-Bank will, in general, insist on a senior lien position from borrowers on parity (pari passu) with other senior lien debt, if any, secured by the same source of funds. The I-Bank may consider exceptions to this policy if one or more of the following conditions are met:

1. An additional source, or sources, of revenue are pledged that provide sufficient additional security to the I-Bank.
2. The borrower has outstanding subordinate lien debt rated with an investment grade rating.
3. The borrower has outstanding senior lien debt that has been rated no lower than the third highest rating category.

## **VI. Loan Eligibility Determination and Staff Recommendation to the I-Bank Board**

A. The I-Bank staff will make a recommendation to the I-Bank Board for loan consideration, including:

1. Loan amount
2. Loan terms and conditions

- B. If I-Bank staff does not recommend approving a loan, staff will provide its reasoning in writing to the applicant.
- C. The I-Bank Board has the authority to waive or amend credit standards as necessary to accommodate complex or unusual transactions.

**UNDERWRITING CRITERIA FOR SPECIFIC TYPES OF BORROWERS  
WATER/SEWER ENTERPRISE FUND SECURED DEBT**

---

**General  
Credit  
Review**

The I-Bank will review the historical revenue collection performance of the enterprise as well as projections of future revenues, expenditures, and capital spending projected in the system's capital plan.

Analysis will include review of past rate increases and comparison of rates to similar systems in the region.

Water systems shall provide information as to the current and future expectations of the stability of their water supply.

---

**Net  
Revenues  
and  
Adjustments**

Net revenues, for the purposes of determining debt service coverage and setting rates and charges, shall be calculated to include recurring system revenues and excluding extraordinary items. The I-Bank may consider connection fees in the calculation of net revenues (revenues net of operating and maintenance expenses) on a case by case basis.

If revenues are adjusted for adopted rate increases or system expansion, such revenue adjustments must be supported by a report prepared by a qualified consultant, such as a rate consultant or by other method acceptable to the I-Bank. Depending upon the assumptions used by the consultant, revenue adjustments may be discounted further by the I-Bank before calculating the debt service coverage.

System expansions may only be included in the calculation of net revenues for purposes of determining the debt service coverage ratio to the extent that if such expansion does not occur, system rates and charges for existing ratepayers would not need to be increased by more than twenty percent cumulatively to maintain the debt service coverage required by the I-Bank.

Rate stabilization fund balances currently maintained by the system may be included in the coverage calculation for purposes of setting current year rates and charges and determining coverage.

The system also may establish a rate stabilization fund to meet the required debt service coverage. In such case, the applicant/borrower must provide a copy of a resolution directing the establishment for such fund and evidence that the fund has been established.

---

---

**System Requirement**

- Revenues derived from the system's top ten ratepayers must not exceed 50% of the system's total annual operating revenues.
- Revenues derived from any single ratepayer must not exceed 15% of system revenues.
- The system's governing board must be empowered to establish and enact rates and charges to ensure sufficient revenue for expenses and debt payments, without the approval of any other governing body; provided, however, that where another entity holds such power (for example, a city council), a binding agreement by such entity that serves as a rate covenant may be acceptable to the I-Bank.
- For sewer systems, a mandatory hook-up ordinance must be in effect at the time of the I-Bank loan approval.

---

**Loan Covenants**

Rates and Charges Covenant: The system governing board must covenant to maintain required debt service coverage.

Other Loan Covenants: Other standard covenants appropriate for the particular borrower and similar water/sewer enterprise fund secured debt will be included in the loan agreement.

---

**GENERAL FUND LEASE SECURED DEBT  
(Loans secured by leases of borrower assets)**

**General  
Credit  
Review**

---

The applicant shall provide a written statement that the project undertaken and the lease of the subject facility are not the subject of any litigation or material controversy.

The review will include the source and diversity of the revenue stream that supports the general fund, historical availability of fund balances, taxpayer concentration, and outstanding capital lease and debt service obligations.

---

**Lease  
Requirement**

- If the asset to be constructed with loan proceeds is the subject of the lease, (1) fixed-price construction contracts, payment and performance bonds, construction contingency funds, builder's risk insurance, and liability and worker's compensation insurance will be required; and (2) a capitalized interest fund sized to fully cover debt service payable during the estimated construction period plus six months will be required.
  
- If the lease is for an asset other than the project being financed, the leased facility must be acceptable to the I-Bank, the fair market value of the leased asset must be supported by independent reliable appraisal or valuation of the asset or by other valuation method acceptable to the I-Bank and must be equal to or greater than the principal and interest on the I-Bank loan. Likewise, the appraisal or valuation must demonstrate that annual fair market rental value is equal to or greater than the maximum annual debt service payments on the loan in all years of the term of the loan.

**Debt Service  
Limitation**

---

The total debt service obligations (inclusive of the I-Bank's loan) of the general fund must not exceed 15% of general fund revenue.

---

**Lease  
Covenants**

---

**Payment Covenant:** The applicant shall covenant to budget and appropriate funds sufficient to make annual lease payments.

**Rental Interruption Insurance:** Rental interruption insurance is required for a period of at least six months beyond the period required to rebuild the leased facility. CLTA or ALTA Title Insurance is also required.

**Other Lease Covenants:** Other standard covenants appropriate for the particular applicant and for similar general fund lease financings will be included in the lease agreement.

---

**LAND SECURED DEBT**

**(Loans repaid with property taxes or property-related assessments)**

---

**General  
Credit Review**

The district must demonstrate stable property tax collections over a sustained period of time of at least five (5) years, or in the event that the district is newly created or merged or does not have five (5) years of history under the district, then the five (5) years of collection history requirement can be satisfied with the history of a predecessor entity or entities as applicable.

---

**District  
Requirement**

- District-wide value-to-lien ratio must be at least 3:1.
- No more than 20% of the parcels within the district may have an individual value-to-lien ratio of less than 3:1.
- Value can be either assessed value or appraised value supported by an appraisal report by an MAI certified appraiser.
- Lien includes all assessment liens and special taxes on the properties.
- Property tax delinquencies and defaults within the district must not be materially above the countywide average.
- The aggregate assessment or special tax obligation of the top ten taxpayers in the district may not exceed 50% of total assessment or special taxes.
- No single taxpayer's obligation in the District may exceed 15% of the total assessment or special taxes.

---

**Debt Service  
Requirement**

Mello-Roos debt must have a special tax formula that produces maximum special tax revenues at least equal to 105% of

---

---

projected debt service.

---

**Loan  
Covenants**

Other Loan Covenants: Other standard covenants appropriate for the particular applicant and similar land secured financings will be included in the loan agreement.

---

**ALL OTHER LOANS**

**(Loans repaid from other sources or secured by other collateral)**

---

**General  
Credit Review**

The applicant's creditworthiness shall be evaluated on the basis of standards appropriate for the type of entity, the industry sector, if applicable, and its revenue sources. The review will take into account existing indebtedness and repayment ability as reflected in the applicant's cash flows.

---

**Debt Service  
Requirement**

The applicant's revenues must exceed 100% of projected debt service by a margin that is appropriate for the applicant's overall credit strength.

---

**Loan  
Covenants**

Other Loan Covenants: Other standard covenants appropriate for the particular applicant and similar financings will be included in the loan agreement.

---

## **Exhibit B—I-Bank Contact Information**

Ruben Rojas, Deputy Executive Director

[Ruben.Rojas@ibank.ca.gov](mailto:Ruben.Rojas@ibank.ca.gov)

(916) 327-2029

Marilyn Munoz, General Counsel

[Marilyn.Munoz@ibank.ca.gov](mailto:Marilyn.Munoz@ibank.ca.gov)

(916) 322-1299

Infrastructure State Revolving Fund Program

California Infrastructure and Economic Development Bank

Mailing Address

P.O. Box 2830

Sacramento, CA 95812-2830

Street Address

980 9th Street, Suite 900

Sacramento, California 95814

(916) 319-7782(fax)