



CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

CRITERIA, PRIORITIES, AND GUIDELINES

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

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

Date Effective: February 23, 2016

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(IBank)**

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Date Adopted: February 23, 2016

I. ELIGIBILITY CRITERIA

A. Introduction

The California Infrastructure and Economic Development Bank (“IBank”) 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 IBank developed its Infrastructure State Revolving Fund (“ISRF Program”). ISRF Program financing is available in amounts from \$50,000 to \$25,000,000, with terms of up to 30 years. The interest rate for each financing¹ is set at the time the financing is approved. Applications are accepted on a continuous basis.

To leverage the assets within the ISRF Program, the IBank, from time-to-time, issues Infrastructure State Revolving Fund Revenue Bonds (“ISRF Program Bonds”) secured by ISRF Program financings (“ISRF Financing” or “Financing”) and other assets under the ISRF Program.

¹ “Financing” is used generically in this document to refer to various forms of limited obligation financings.

B. Authority

The eligibility criteria and other program requirements for the Infrastructure State Revolving Fund Program (“ISRF Program”) set forth in these “Amended and Restated Criteria, Priorities, and Guidelines for the Selection of Projects for Financing Under 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 “IBank Act”) as of the date of the adoption of the Criteria.

Subsequent to the date of the adoption of the Criteria, whenever provisions of the IBank Act are changed such that specific provisions of the Criteria are inconsistent with the applicable provisions of the IBank Act, the requirements of the IBank Act shall govern.

The IBank Board periodically reviews, modifies, and adopts the Criteria as policy and authorizes the Executive Director to maintain, disclose, and circulate the guidelines and procedures detailed in Exhibit A for the benefit of potential applicants, borrowers, and the general public.

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 IBank for financial assistance in connection with a project in a manner prescribed by IBank. 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 company, corporation, association, state or municipal governmental entity, partnership, firm, or other entity or group of entities, provided that for a borrower, other than a state or municipal governmental entity, such borrower is organized as a public benefit tax exempt 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 IBank 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 public benefit tax exempt not for profit entity and is engaged in business or operations within the state and provided further, that, for the purpose of implementing an Economic Expansion Project, such entity applies for financing from the IBank in conjunction with a Sponsor.

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 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 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 libraries, child care facilities, including, but not limited to, day care facilities and employment training facilities. Also including facilities for laboratories, administration centers, student service buildings, athletic complexes and public parking facilities.
5. Environmental Mitigation Measures including required construction or modification of public infrastructure, and purchase and installation of pollution control and noise abatement equipment.
6. Parks and Recreational Facilities including local parks, recreational property and equipment, parkways and property.
7. Port Facilities including airports, landports, waterports, railports, docks, harbors, ports of entry, piers, ships, small boat harbors and marinas, and any other facilities, additions, or improvements in connection therewith, that transport goods or persons.
8. Power and Communications including facilities for the transmission or distribution of electrical energy, natural gas, and telephone and telecommunications services as well energy conservation measures. Also including facilities for the generation or storage of electrical energy as well as for energy conservation measures.
9. Public Transit including air and rail transport, airports, guideways, vehicles, rights-of-way, passenger stations, maintenance and storage yards, and related structures, including, 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 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 or transporting, remaining sludge, as well as all equipment used in the maintenance and operation of the foregoing. Also including facilities for the recycling of or facilitating the alternative use of remaining sludge and for maintenance and operation of such facilities.
11. Solid Waste Collection and Disposal including vehicles, vehicle-compatible waste receptacles, 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. Also including equipment in connection with the foregoing.

12. Water Treatment and Distribution including 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 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 Planning and Research. "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.
17. Goods movement-related infrastructure including port facilities, roads, rail, and other facilities and projects that move goods, energy and information.

ECONOMIC EXPANSION PROJECTS:

18. Industrial, Utility and Commercial: including, but not limited to, facilities that are used for industrial, utility or commercial goods movement purposes and any parts or combination thereof and all facilities or infrastructure necessary or desirable in connection therewith.
19. 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 IBank.
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 to complete construction within 2 years after the IBank's financing approval. In this context, "complete a project" the portion of the project financed by the IBank 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 financing being considered, necessary for the construction of the project.

2. Source of Financing Repayment

Eligible sources of financing 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 financing 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 IBank.
- c. General Fund Lease. ISRF Financings secured by leases of Borrower assets.
- d. Land Secured. ISRF Financings 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 IBank at its discretion.

3. Project Funds

The IBank will require all project funding sources, other than the IBank's financing, to be identified at the time of application and committed prior to financing approval by the IBank. The IBank may also require additional reviews and evaluations of project feasibility and potential risks.

4. Prevailing Wages and Contractor Pre-Qualification.

Projects financed with IBank 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.

All borrowers that receive IBank financing above \$2 million, and that are also the entity awarding the construction contract, must pre-qualify contractors bidding on the IBank financed project using the model pre-qualification questionnaire approved by the Department of Industrial Relations (“DIR”) pursuant to AB 574 (Chapter 972 of the Statutes of 1999). The model questionnaire can be obtained from DIR’s website at: <http://www.dir.ca.gov/prequal.htm>

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 IBank. 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.

III. APPLICATION PROCESS

A. Financing Application

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

The board approved form of ISRF Program Financing Application, found on the IBank’s website, requires detailed information and documentation about the applicant and the project in order to enable the IBank to determine if the application complies with the IBank’s Criteria including its creditworthiness and underwriting criteria.

Prospective applicants are encouraged to contact IBank staff to schedule a pre-application meeting to discuss the Criteria and the Program.

B. Final Financing Approval

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

C. Application/Financing Process Assistance

IBank staff is available to and does provide applicants with assistance in the process of completing the Financing Application.

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

For Infrastructure Projects, prior to submitting the financing request to the IBank Board of Directors for approval, the governing body or bodies of the applicant shall determine, by resolution, certified to the IBank, 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, (iii) whether the project is consistent with, and in furtherance of The State Environmental Goals and Policy Report, and (iv) if applicable, whether the project is consistent with SB 375 (Steinberg – 2008) or SB 732 (Steinberg–2008).

E. Capital and Infrastructure Project Planning Report.

If the applicant is a state agency, board, commission, or department, the IBank 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

If the immediate financing needs of projects to be selected for IBank financing exceed the lending capacity of the ISRF Program, the IBank will give priority to Infrastructure Projects over Economic Expansion Projects. Further, at such times, as between Infrastructure Projects, the IBank 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 financing request for approval to the IBank Board of Directors, pursuant to Government Code Section 63041(a), the governing body or bodies of the Sponsor shall find, by resolution, certified to the IBank, 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 IBank 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. FINANCING TERMS AND LIMITATIONS

A. Financing Amount

ISRF Financings will be available in amounts ranging from \$50,000 to \$25 million per applicant. Larger ISRF Financings may be approved by IBank subject to lending capacity and other factors including collateral and credit quality/review.

B. Interest Rate

The interest rate on ISRF Financings will be based on a combination of the Interest Rate Benchmark and Interest Rate Adjustments.

The Interest Rate Benchmark will be based on the Thompson's Municipal Market Data Index. The Interest Rate Benchmark determination is detailed in a separate document titled "ISRF Program Interest Rate Setting Methodology" and is available on the IBank's website.

Generally, Interest Rate Adjustments will cause the interest rate on ISRF Financings to be below the Interest Rate Benchmark. Interest Rate Adjustments will be based on the following factors dependent upon the repayment source:

1. Applicant Structure/Organization
2. Local Fiscal Capacity—As measured by median household income, debt per user/ household, and applicable taxes/charges/fees as a % of median household income.
3. Security/Repayment Pledge—As measured by credit rating/review and lien position of the ISRF Financing as senior, parity, or subordinated.

4. The term of the ISRF Financing
5. Other Terms and Conditions of the ISRF Financing—Includes frequency of repayment, repayment provisions, and, as applicable, reserves and coverage.
6. IBank Staff Review and Analysis—In accordance with the guidelines and procedures detailed within Exhibit A.
7. Interest rate setting methodology, including the Interest Rate Benchmark determination, is detailed in a separate document titled “ISRF Program Interest Rate Setting Methodology” and is available on the IBank’s website.

C. Amortization

The ISRF Financing term will not exceed the lesser of the project's useful life or 30 years. However, borrowers may choose shorter maturities. Repayment of the ISRF Financing will be targeted to begin within one year of ISRF Financing origination. As required, interest payments can be made from capitalized interest included in the ISRF Financing amount or other sources identified by the borrower as documented in the ISRF Financing agreement. ISRF Financings will generally be amortized on a level repayment basis, but other amortization structures may be required or approved by IBank as appropriate in a given case.

D. Prepayment

The IBank 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 ISRF Financings in whole or in part with the prior written consent of the IBank 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 IBank.

E. ISRF Financing and Amendment Fees

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

F. Funding Limits

Not more than fifteen percent (15%) of the financings approved by the IBank 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 Guidelines and Procedures

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

INFRASTRUCTURE STATE REVOLVING FUND PROGRAM

CREDIT UNDERWRITING

Guidelines and Procedures

Introduction

The ISRF Program’s credit underwriting guidelines and procedures outlined below represents the general requirements for the listed repayment sources. To adequately address the unique credit features of a particular ISRF Financing, and to provide sufficient security for the ISRF Program, additional covenants, credit enhancement, or security may be required by the IBank. 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. IBank staff will discuss the need for such covenants with the applicant during the underwriting process and such covenants will become part of any ISRF Financing agreement entered into between the borrower and the IBank.

Alternate sources of ISRF Financing repayment or financing structures may be considered by the IBank on a project-by-project basis.

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

General Quantitative Analysis

I. ISRF Financings 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 flow available for debt service and the debt service coverage ratio.
7. If the amount of cash flow 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 ISRF Financings 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. In addition to financial viability, IBank will review the legal and structural feasibility of borrowers formed through a joint powers agreement or inter-governmental agreement (collectively, “JPA”)

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 including, as applicable, governing body or voter authorization.

IV. For All Borrowers

A. Completeness of Application

1. Ensure that ISRF Financing application is complete, including attachments and exhibits.
2. Ascertain that governing body of borrower has approved ISRF Financing 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 five 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 ISRF Financing
2. Determine management's readiness and ability to assume responsibility for the timely repayment of the ISRF Financing.
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 IBank 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 IBank 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 IBank.
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. ISRF Financing Eligibility Determination and Staff Recommendation to the IBank Board

A. The IBank staff will provide its analysis, including its credit analysis, and make a recommendation to the IBank Board for ISRF Financing consideration, including:

1. ISRF Financing amount
2. Interest Rate Adjustments
3. ISRF Financing terms and conditions

B. If IBank staff does not recommend approving an ISRF Financing, staff will provide its reasoning to the applicant.

- C. The IBank Board has the authority to waive or amend credit standards as necessary to accommodate complex or unusual transactions.

UNDERWRITING GUIDELINES FOR SPECIFIC TYPES OF BORROWERS

ENTERPRISE FUND SECURED FINANCINGS

General Credit Review

IBank will review the historical operations of the enterprise including, but not limited to, revenue collection, expenses, transfers-in and transfers-out, debt issuance and debt service ability, and capital spending. Future revenues, expenses, transfers-in and transfers-out, debt issuance and debt service ability, and the system's capital plan may also be reviewed.

Analysis will include review of historical rate increases, compliance with Proposition 218, and comparison of rates to similar systems in the region. Documents for debt outstanding at the time of application to IBank will also be reviewed.

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. IBank may consider connection fees, and transfers-in and transfers-out, in the calculation of net revenues on a case by case basis.

Adopted rate increases or system expansion may be used to adjust revenues. Such revenue adjustments must be supported by a report prepared by a qualified, independent consultant, such as a rate consultant or other consultant acceptable to IBank. For IBank to consider a consultant's report, the report must include, at a minimum, the consultant's calculations and a clear and concise narrative supporting the calculations. IBank will thoroughly review the consultant's report to ensure the narrative and calculations support each other. IBank may discount the consultant's calculations if deemed warranted at IBank's sole and absolute discretion before considering any adjustments in the debt service coverage calculations.

System expansions shall 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 IBank.

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

The system's top ten ratepayers must not provide more than 50% of the system's total annual operating revenues.

No single ratepayer may provide more than 15% of the system's total annual operating 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. However, where another entity holds such power (for example, a city council), a binding agreement by such entity may be acceptable to IBank.

Sewer systems must have a mandatory hook-up ordinance in effect at the time of IBank financing approval.

Debt Service Requirements

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

Financing Covenants

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

Standard covenants appropriate for the particular borrower and similar enterprise fund secured debt will be included in the financing agreement.

GENERAL FUND LEASE SECURED DEBT

(Financings secured by leases of borrower assets)

General Credit Review

IBank will review the source and diversity of the revenue streams supporting the general fund and the level of historical receipt of such streams. Additionally, IBank will review the historical availability of fund balances, taxpayer concentration, outstanding capital lease and debt service obligations, and any other significant liabilities.

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.

Structuring Requirements

The project budget for each lease financing must include a construction contingency in an amount deemed reasonable to cover the amount of cost over-runs.

Non-asset transfer project budgets must include capitalized interest sized to fully cover debt service payable during the estimated construction period plus six months.

Asset transfer projects require the applicant to pledge one or more unencumbered real property(ies) owned by the applicant that are acceptable to IBank as the subject(s) (leased asset(s)) of the financing agreement. The fair market value of the leased asset(s) must be supported by a complete appraisal report prepared by an independent MAI appraiser or by another valuation method acceptable to IBank. The **fair market value** must be equal to or greater than the amount of the IBank financing and the **annual fair market rental value** must be equal to or greater than the maximum annual debt service payments due under the financing agreement throughout the term of the financing.

**Debt Service
Requirements**

Total debt service obligations, inclusive of IBank's financing, of the general fund must not exceed 15% of total general fund revenue.

Fund must demonstrate the ability to service the proposed financing.

**Lease
Covenants**

Leased asset(s) must not be the subject of any litigation or material controversy.

Construction contracts must be fixed-price. Contractor must obtain payment and performance bonds, builder's risk insurance, and liability and worker's compensation insurance.

CLTA or ALTA Title Insurance is also required.

Rental Interruption Insurance is required for a period of at least six months beyond the period required to rebuild the leased facility.

Payment Covenant: The applicant must covenant to budget and appropriate funds sufficient to make annual financing payments.

Standard covenants appropriate for the particular applicant and for similar general fund financings will be included in the financing agreement.

LAND SECURED DEBT

(Financings repaid with property taxes or property-related assessments)

General Credit Review

IBank will review the stability and history of the district's and the county's property tax collections, the diversity of the district's tax payers, and over-lapping debt.

Value and Liens

Value for each assessed parcel can be either assessed value supported by the county's tax assessor's roll or appraised value supported by an appraisal report prepared by an independent MAI appraiser.

"Lien" includes all assessment liens and special taxes on the assessed parcels.

District Requirements

The district-wide value-to-lien ratio must be at least 3:1.

The individual value-to-lien ratio of no more than 20% of the assessed parcels may be less than 3:1.

The top ten taxpayers' aggregate assessment or special tax obligation may not exceed 50% of total assessment or special taxes.

No single taxpayer's obligation may exceed 15% of the total assessment or special taxes.

Property tax delinquencies and defaults within the district must not be materially above the countywide average.

Debt Service Requirement

Mello-Roos financings must have a special tax formula that produces maximum special tax revenues at least equal to 105% of projected debt service on the proposed financing.

Financing Covenants

Standard Covenants appropriate for the particular applicant and similar land secured financings will be included in the Financing agreement.

ALL OTHER FINANCINGS TO GOVERNMENTAL BORROWERS

(Financings repaid from other sources or secured by other collateral)

**General
Credit Review**

IBank will review historical operations of the entity on the basis of standards appropriate for the type of entity, the service, or amenity provided. The review will include, but is not limited to, revenue collection, expenses, transfers-in and transfers-out, debt issuance and repayment ability, and capital spending. Future revenues, expenses, transfers-in and transfers-out, debt issuance and repayment ability, and the entity's capital plan may also be reviewed.

**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.

**Financing
Covenants**

Standard covenants appropriate for the particular applicant and similar financings will be included in the financing agreement.

FINANCINGS TO NON-PROFIT BORROWERS

General Credit Review

In addition to underwriting guidelines applicable to the repayment source/revenues, IBank will rely upon structured and private finance criteria, as well as other applicable procedures, to review and analyze: (1) the legal structure of non-profit applicants; (2) the governing body and authority of non-profit applicants; (3) material “obligated persons” affiliated with projects and non-profit applicants; (4) relationships between non-profit applicants and “obligated persons;” (5) the technical, managerial, and financial capability of non-profit applicants to fulfill obligations to “Sponsors” (governments affiliated with the project) to construct/acquire and complete the project; (6) the technical, managerial, and financial capability of non-profit applicants to fulfill obligations to “Sponsors” to operate, manage, and maintain projects after construction; (7) management contracts between “Sponsors” and non-profit applicants; (8) validity and enforceability of pledged repayment sources/revenues; (9) existing and proposed obligations of non-profit applicants; (10) the essentiality, feasibility, sustainability, marketability, and appraised value of property, structures, or other fixed assets financed by or securing the Financing; (11) the validity, enforceability, and accessibility for IBank to control the operations or sale of property, structures, or other fixed assets financed by or securing the financings.

Value

The appraised value of the property, structures, and other fixed assets financed by or securing the financing must exceed 100% of projected debt service by a margin appropriate to similar structured/private financings.

The appraisal must be prepared by an independent MAI appraiser.

Debt Service Requirements

The applicant’s revenues must exceed 100% of projected debt service by a margin appropriate to similarly structured private financings.

Financing Covenants

Standard covenants appropriate for non-profit applicants and similar financings will be included in the financing agreement.
