



**CRITERIA, PRIORITIES, AND GUIDELINES FOR THE
SELECTION OF PROJECTS**

FOR IBANK FINANCING UNDER THE

**CALIFORNIA LENDING FOR ENERGY AND
ENVIRONMENTAL NEEDS CENTER**

(“CLEEN CENTER”)

Approved August 25, 2015

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**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
(IBank)**

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I. Introduction

In 2006, the California Legislature passed the California Global Warming Solutions Act (California Assembly Bill 32, (AB32)) affirming California’s support for climate change mitigation. AB32 established California’s (State’s) goals to reduce the State’s greenhouse gas emissions to 1990 levels by 2020. On April 29, 2015, Governor Edmund G. Brown Jr. issued Executive Order B-30-15 to establish a new interim California greenhouse gas emission reduction target to reduce greenhouse gas emissions to 40 percent below 1990 levels by 2030 to ensure the State meets its target of reducing greenhouse gas emissions to 80% below 1990 levels by 2050 (GHG Reduction Goals). IBank is uniquely suited to help the State meet the GHG Reduction Goals by offering practical and sustainable solutions via leveraged, risk adjusted, financial assistance for public clean energy projects and for private commercial and industrial building retrofits throughout California.

II. IBank Background

In 1994, the California Infrastructure and Economic Development Bank (IBank) was established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (IBank Act) with the mission to finance public infrastructure and private development that promote economic growth, protect and sustain the environment, support clean energy and efficiency, revitalize communities, and enhance the quality of life for the citizens of California. The IBank Act gave IBank broad statutory authority to issue bonds and incur other indebtedness, make financings, and to provide guarantees and other credit enhancements for a wide variety of projects and borrowers to achieve its mission.

Since fiscal year 1995-1996, IBank has exercised its broad statutory authority to approve (1) direct financings to local governments and public benefit tax-exempt not-for-profit entities for infrastructure projects; (2) revenue bond financings for manufacturing businesses, nonprofit entities, and public entities; and (3) other financing transactions important to the State.

Since its inception, IBank has gained experience in infrastructure financing and investment; has developed relationships with private investors; and has collaborated with the State Treasurer's Office (STO), State energy agencies, environmental advocates, and other stakeholders. IBank understands the tight operating budgets and constitutional and regulatory limits of financings that public and non-profit entities face. IBank is staffed and has established procedures to evaluate projects and borrowers. In sum, IBank is well positioned to provide financial assistance to help the State meet its GHG Reduction Goals.

III. Authority

On September 23, 2014, the IBank Board of Directors (Board) unanimously approved its Resolution No.14-14, authorizing the establishment of a new Clean Energy Finance Center (Center) at IBank and the creation of the Statewide Energy Efficiency Program (SWEEP) to be operated under the Center. In 2015, the Center was renamed the California Lending for Energy and Environmental Needs Center (CLEEN Center).

The IBank Act provides that projects that receive financial assistance from IBank must comply with criteria, priorities and guidelines, including IBank's underwriting criteria, adopted by the Board in accordance with certain statutory requirements. The establishment of the CLEEN Center represents a first step by the Board to provide for financial assistance for CLEEN Center projects. Adoption of these criteria, priorities and guidelines, including IBank's underwriting criteria in this document, as may be amended by the Board from time to time (CLEEN Criteria), provides authority for IBank to offer financing assistance to eligible projects under the CLEEN Center.

IV. Goals

Through the CLEEN Center programs (CLEEN Center Programs), IBank will encourage and support the protection of the environment and the State's vast natural resources and will help the State achieve its GHG Reduction Goals by offering financing to various state and local governmental subdivisions and certain non-profit entities for projects that help the State meet the GHG Reduction Goals of carbon/pollution reduction, or result in other environmental benefits within the State. Financing provided by IBank through the CLEEN Center is expected to help enhance the quality of life the citizens of the State enjoy by promoting and stimulating economic growth, creating clean energy jobs, protecting and caring for the environment, and revitalizing communities.

A. Key Strategies

Key strategies of the CLEEN Center are:

1. Target projects such as generation, distribution, transmission and storage of electrical energy, energy conservations measures, environmental mitigation measures, and water treatment and distribution;
2. Provide affordable financings to municipalities, universities, schools, and hospitals (MUSH), for projects that reduce energy and water usage (conservation), provide clean energy additions, and achieve energy savings; and
3. Offer established and innovative financing structures that control risks and maximize attainment of the State's GHG Reduction Goals.
4. Consider the best-practice protocols of the Investor Confidence Project (ICP), a project of the Environmental Defense Fund (EDF), as amended from time-to-time. ICP has been embraced by the clean energy industry, because it provides a framework for technical analysis. Specifically, IBank will consider clean energy strategies and best practices from ICP, EDF, and others that are designed to:
 - a. Develop on-the-ground partnerships to build the smart grid, ensuring investments that benefit the economy and environment,
 - b. Apply sound science to ensure natural gas provides real and sustained carbon benefits without harming the environment or health of communities,
 - c. Develop regulatory reforms and business models that make energy efficiency profitable and market-driven,
 - d. Create a model for bioenergy production that is economically viable and protects human health and wildlife, and
 - e. Ensure appropriate regulations to guarantee the integrity of emissions reductions from carbon capture and storage.

B. CLEEN Center Projects and Opportunities Generally

Projects financed under a CLEEN Center Program will be required to use commercially proven technologies and to provide written documentation demonstrating the project's positive impact on energy generation, conservation, or other environmental goals.

Applicants must demonstrate reasonable ability to repay the proposed financing obligation and all other outstanding debt as well as the ability to maintain on-going operations.

Each Applicant must authorize its local electric and gas utilities to provide at least 12 months (or longer period as may be required by IBank) of past and ongoing usage and billing records to IBank.

Direct financing of all CLEEN Projects will be subject to the Credit Underwriting Guidelines and Procedures, Exhibit A hereto, and any additional CLEEN Criteria developed specifically for SWEEP or other CLEEN Programs.

In no instance will IBank be a lender of last resort under any program under the CLEEN Center.

V. CLEEN Center Program Requirements

A. Financing Provided and Lien Position

The CLEEN Center is expected to provide direct financing to MUSH borrowers for eligible CLEEN Projects (defined in C). IBank generally will seek a senior lien position on all financings provided by a CLEEN Center Program. A subordinate lien position will be considered on a case-by-case basis. Subject to the availability of funds, IBank will consider various transaction sizes and participation levels under the CLEEN Center Programs.

B. Review by Independent Engineer

IBank will generally require an independent engineer's report from an engineering firm approved by IBank. The independent engineer's report for each CLEEN Project will include, at a minimum:

1. Production (or Conservation) Estimates
2. Design/Equipment Review
3. Engineering, Procurement & Construction Contract Review
4. Permitting Status Review
5. Operations & Maintenance Contract/Plan Review

The independent engineer may be required to confirm achievement of construction milestones, including final completion.

C. Technologies

Projects eligible under the CLEEN Center will be required to use commercially proven technologies that are expected to result in carbon reduction benefits as contemplated under the GHG Reduction Goals or other environmental benefits.

Pursuant to the IBank Act, financial assistance may be provided for designing, acquiring, planning, permitting, entitling, constructing, improving, extending, restoring, financing, and generally developing an eligible facility. An eligible facility (Eligible Facility) means real and personal property, structures, buildings, equipment and supporting components thereof that are used to provide industrial, recreational, research, commercial, utility or service enterprise facilities, community, educational, cultural or social welfare facilities and any parts or combinations thereof and all facilities or infrastructure necessary or desirable in connection therewith but not housing facilities. Thus, projects (1) having the foregoing characteristics and (2) employing any of the following technologies¹, to the extent the proposed technology is or becomes commercially proven, are eligible projects under the CLEEN Center (CLEEN Projects).

1. Energy Efficiency

Statewide Energy Efficiency Program (SWEET) (collectively, SWEET Projects)

- a. Advanced metering systems to support conversion of master-metered buildings to sub-metering
- b. Data center, information technology, communications energy efficiency
- c. Energy management and/or control systems, including continuous commissioning
- d. Demand response programs
- e. Water conservation, wastewater management, pipeline, mining/extraction, and similar end-use processes, facilities, buildings, and infrastructure
- f. Lighting and control systems
- g. Heating, ventilation and air conditioning systems (HVAC)
- h. Building envelope improvements
- i. Occupant plug load management systems
- j. Other electrical load reduction
- k. Thermal and electric energy storage

2. Renewable Energy Sector

- a. Solar photovoltaic
- b. Distribution technologies
- c. Solar thermal
- d. Geothermal

¹Based on New York Green Bank – Illustrative Guidelines for Eligible Investments

- e. Thermal storage systems
- f. Onshore and offshore wind

3. Energy Storage

- a. Fuel cells (continuous duty)–natural gas fuel or hydrogen
- b. Advanced Hydrological Pump Storage
- c. Other storage technologies

4. Water Sector

- a. Small Hydroelectric/Hydropower
- b. Waste heat recovery systems
- c. New low-impact run-of-facility

5. Alternative Technologies

- a. Biomass
- b. Biomass direct combustion
- c. Combined heat and power (CHP)
- d. Co-fire with existing fossil fuel (only biomass feedstock portion is eligible)
- e. Biothermal energy
- f. Biomass conversion technologies
- g. Biogas
- h. Landfill gas (methane)
- i. Sewage gas (methane)
- j. Manure digestion
- k. Anaerobic digestion
- l. Liquid biofuels
- m. Other alternative technologies that are both commercially-proven and expected to contribute to the State's GHG Reduction Goals

6. Alternative Fuels

- a. Biodiesel
- b. Methanol
- c. Bio-oil
- d. Biomass feedstock

7. Transportation

- a. Refueling stations for alternative fuel vehicles
- b. Electric Vehicles
- c. Hybrid electric vehicles
- d. Alternative fuel vehicles

IBank may consider project technologies not listed above if the potential to increase energy efficiency or renewable energy and/or a potential to decrease greenhouse gas and/or result in other environmental benefits while maintaining low technology risk within the State is adequately demonstrated.

VI. Applicants

Eligible applicants under the CLEEN Center Program include any subdivision of a local or state government, including departments, agencies, commissions, cities, counties, non-profit corporations formed on behalf of an applicant, enhanced infrastructure financing districts, special districts, assessment districts, joint powers authorities within the state, or any combination of these subdivisions; as well as schools and hospitals that apply to IBank for financial assistance in connection with a CLEEN Project. Applicants under a CLEEN Center Program may apply on a standalone basis or as the lead applicant as part of a proposal team. Applicants are required to identify all parties of the project team, including capital providers, lead providers, developers, energy service companies, owner operators, and similar participants.

VII. Project Costs

CLEEN Project costs eligible 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 IBank.
6. Provisions for working capital under certain circumstances.

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. Operations, maintenance, and monitoring costs.
10. Energy audits performed by licensed professionals acceptable to IBank to establish a base-line of performance.
11. Other expenses necessary or incidental to determining the feasibility of any project or incidental to the construction, acquisition, or financing of any project.

VIII. The Financing Application

A. Readiness and Feasibility

Applicants must demonstrate project-readiness and feasibility to complete construction within 2 years after IBank's financing approval. In this context, "complete construction" means that the portion of the CLEEN Project financed by IBank meets construction contract specifications for completeness and/or ability to operate. In addition, the CLEEN Project must meet "feasibility" requirements set forth below.

B. Available Resources to Complete the Project

Applicants must demonstrate that the requested financing combined with amounts available from other sources, will be sufficient to complete the CLEEN Project.

C. 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 CLEEN Project.

D. Source of Financing Repayment (for Direct Financings)

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

1. Water or Sewer Enterprise/Special Fund. CLEEN 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.
2. 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 IBank.

3. General Fund Lease. Financings secured by leases of Borrower assets.
4. Land Secured. Financings repaid with property taxes or property-related assessments.
5. Voter-approved General Fund Debt or other voter-approved debt secured by full faith and credit (general obligation).
6. Other sources of repayment and/or alternative financing structures may be considered by IBank at its discretion.

E. Project Funds

IBank will require all CLEEN Project funding sources, in addition to IBank's financing, to be identified at the time of application and committed prior to submission of the proposed financing to the Board for its consideration.

F. Prevailing Wages and Contractor Pre-Qualification

CLEEN 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 IBank financed CLEEN Projects 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/requal.htm>.

G. Business Relocation

The CLEEN Center 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 IBank. Examples of justifications include, without limitation, (i) completion of the CLEEN 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.

IX. Application Process

A. Financing Application

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

The CLEEN Center Program financing application on IBank's website requires detailed information and documentation about the applicant and the CLEEN Project to enable IBank to determine if the application complies with the CLEEN Criteria. IBank may also require additional reviews and evaluations of CLEEN Project feasibility and other potential risks.

B. Pre-application Meeting

Prospective applicants are encouraged to contact IBank Staff to schedule a pre-application meeting to discuss the CLEEN Criteria and the CLEEN Center Programs. Contact information can be found on IBank's website.

C. Application Process Assistance

IBank Staff is available to provide applicants with assistance in the process of completing the financing application.

D. Prioritizing Projects

If the cumulative financing needs of CLEEN Projects to be considered for IBank financing exceed the then current availability of funds for the applicable CLEEN Center Program, IBank will give priority to SWEEP Projects over other CLEEN Projects. Further, at such times, as between SWEEP Projects, IBank will give priority to energy efficiency projects located in, 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.

E. Applicant Resolution

Prior to submitting the proposed financing to the Board for its consideration, the governing body or bodies of a public-entity applicant or of the public-entity Sponsor or an applicant shall find, by resolution, certified to IBank, each of the following:

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

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

2. The CLEEN 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 CLEEN Project is located.
3. The proposed financing is appropriate for the specific CLEEN Project.
4. The CLEEN Project is consistent with the CLEEN Criteria.
5. The governing body of the public entity applicant, or its public entity Sponsor, as the case may consider (i) the impact of the CLEEN Project on California's land resources and the need to preserve such resources; (ii) whether the CLEEN Project is economically or socially desirable; (iii) whether the CLEEN Project is consistent with, and in furtherance of The State Environmental Goals and Policy Report (Environmental Goals Report), to the extent a current Environmental Goals Report is available and (iv) whether the CLEEN Project is in furtherance of the GHG Reduction Goals.

F. Financing Approval

The Board is authorized to make financing and other decisions on any CLEEN Projects at any of its meetings in accordance with and pursuant to the IBank Act and as otherwise provided by law.

X. Financing Terms, Fees, and Limitations

A. Amount

CLEEN Projects may receive financings in amounts ranging from \$500,000 to \$30 million. Larger financing amounts may be approved by the Board subject to availability of funding for the applicable CLEEN Center Program and other factors including collateral and credit quality/review.

B. Term

The financing term will not exceed the lesser of the CLEEN Project's useful life or 30 years. However, applicants may choose shorter maturities. Repayment of a direct financing will be targeted to begin within one year of financing origination. As required, interest payments can be made from capitalized interest included in the financing amount or other sources identified by the applicant as documented in the applicable financing agreements. Direct 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.

C. Interest Rate Setting Methodology

The CLEEN Center provides for an interest rate setting methodology for CLEEN Center Programs that is designed to achieve a number of goals:

1. Mitigate the risks of lending to lower creditworthy MUSH borrowers by including risk-based factors in the interest rate setting methodology.
2. Increase the attractiveness of the CLEEN Center Programs to higher-rated credits, thereby improving the over-all financing portfolio risk profile.
3. Allow subsidies or adjustments in the interest rates to be provided to all borrowers, yet simultaneously allow IBank to achieve its mission with respect to furthering the GHG Reduction Goals and the goals in any current Environmental Goals Report.
4. Ensure long term viability of CLEEN Center Programs by setting interest rates in a manner that covers IBank's cost of funding financings, easily adjusts to changing market and economic conditions and satisfies tax compliance requirements.
5. Achieve goals (a) through (d) in a manner that is based on publicly available pricing data and is transparent to the borrowers and applicants.

The interest rate on financings under the CLEEN Center Programs 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 (MMD) and use published letter category ratings for the pledged revenue stream to determine the base (market price) spread from the MMD AAA GO Scale applicable to the borrower. Unrated and/or below investment grade borrowers will be assigned a spread equal to 105% of the Baa/BBB Spread (by maturity) within each category based on the quality of the security pledge. Interest Rate Adjustments will cause the interest rate on financings to generally be below the Interest Rate Benchmark.

IBank's interest rate setting methodology is a three step process.

Step 1. Determine the quality of the security pledge to select the appropriate proxy municipal market data (MMD) scale to use.

Step 2. Use published letter category ratings for the pledged revenue stream to determine the base (market price) spread from the MMD AAA GO Scale applicable to the MUSH borrower. Unrated and/or below investment grade borrowers will be assigned a spread equal to 105% of the Baa/BBB Spread (by maturity) within each category determined in Step 1.

Step 3. Apply one or more Interest Rate Adjustments to the spread determined in Steps 1 and 2 subject to certain limits:

- a. The Interest Rate Adjustment generally applicable to all borrowers is equal to 25% of the applicable spread.
- b. Additional Interest Rate Adjustments may be determined appropriate by the Board and IBank Management (weighted).
- c. Total Interest Rate Adjustment applicable to any Financing would be limited to the equivalent of a 2 letter category credit upgrade and 1 security pledge upgrade.
- d. Upper limits on interest rates would be governed by tax law limitations on the portfolio yield.

Interest Rate Adjustments will be based on the following factors dependent upon the repayment source:

1. Applicant Business Structure/Organization
2. Security/Repayment Pledge, as measured by credit rating/review and lien position of the financing as senior, parity, or subordinated.
3. Term of Financing.
4. Other Terms and Conditions of the Financing, including frequency of repayment, repayment provisions, and, as applicable, reserves and coverage.
5. IBank Staff Review and Analysis.

D. Fees

1. Origination Fee
 - i. A one-time origination fee equal to 1.0% of the financing amount will be charged for all CLEEN Center Program financings.
 - ii. The minimum origination fee is \$10,000.
 - iii. The origination fee must be included in the total project budget.
 - iv. The origination fee may be included in the financing amount or paid by the applicant.
 - v. Payment of the origination fee will be a condition of closing.
2. Servicing Fee
 - i. A servicing fee will be charged annually when the principal payment is due.

- ii. The servicing fee will be 0.30% of the outstanding financing balance.
3. Amendment fees will be charged as appropriate for each amendment to the financing documents.

E. Disbursement of Proceeds

For direct financings, IBank will fund the entire financing on the closing date into an account for the borrower's benefit (Borrower's Account). Interest will accrue from the closing date until the financing is repaid in full. Eligible costs evidenced by approved invoices will be reimbursed to the borrower from funds in the Borrower's Account.

F. Prepayment

IBank expects to issue bonds to continue operations of the CLEEN Center Programs. Borrowers generally will not be permitted to prepay their financings, except under certain limited circumstances; such prepayments may be subject to prepayment premiums and other restrictions in accordance with requirements of the bonds or as otherwise required by IBank.

XI. Statewide Energy Efficiency Program (SWEEP)

The Statewide Energy Efficiency Program (SWEEP) is a CLEEN Center Program for small, medium and large-scale energy efficiency upgrades and projects (EE Projects) for California's Municipalities, Universities, Schools and Hospitals (MUSH) borrowers. The SWEEP Projects include comprehensive efficiency improvements to new and existing facilities that save energy.

XII. LED Street Lighting Program (LED Program)

The LED Street Lighting Program (LED Program) is a CLEEN Center Program for the installation of LED street lights for MUSH Borrowers as another energy efficiency strategy for the State. LED street light projects are deemed SWEEP Projects for purposes of the CLEEN Criteria.

IBank encourages and may require LED Program borrowers to create:

1. A policy of savings reinvestment and creates a savings fund where the annual savings from the LED project are deposited into an account as security for the LED financing (Energy Savings Account).
2. An Energy Savings Account used to pay off debt incurred for LED project and to fund other energy savings initiatives the MUSH may have.

3. Covenants to leave the operations budget line item for street lights unchanged during the term of the SWEEP LED financing so as to ensure savings capture.
4. An operations and maintenance plan with a credit worthy party/parties.

IBank will require investment-grade, commercially proven technology and may require that equipment selected comply with street light technology guidelines adopted by the California Lighting Technology Center at UC Davis, the Illuminating Engineering Society (IES) and/or various California utilities. IBank will require commercially reasonable equipment and labor warranties on all lighting projects and will require that installers demonstrate the ability to fulfill warranty obligations.

Exhibit A

Credit Underwriting Guidelines and Procedures

Introduction

The CLEEN Center's credit underwriting guidelines and procedures outlined below represent the general requirements for all CLEEN Center Programs. To adequately address the unique credit features of a particular financing, and to provide sufficient security for the CLEEN Center Programs, additional covenants, credit enhancement, or security may be required by IBank. Additional security may include without limitation: (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 CLEEN 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 financing agreements entered into between the borrower and IBank.

Alternate sources of repayment for direct financings or financing structures may be considered by IBank on a project-by-project basis.

No uncured bond/loan/debt defaults may exist at the time the IBank financing is approved or funded. Additionally, prior cured defaults may be grounds to not approve a request in IBank's sole and absolute discretion depending on circumstances.

General Quantitative Analysis for Direct Financings

I. 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 CLEEN Center 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 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 the Financing Application is complete, including attachments and exhibits.
2. Ascertain that governing body of borrower has approved 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 requested financing.
 - d. Repayment ability is from the proposed source.

- e. The impact of the financing on fund balances and operations is acceptable to IBank.

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 financing

2. Determine management's readiness and ability to assume responsibility for the timely repayment of the 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, 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. 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 IBank.
 2. The borrower has outstanding investment grade-rated subordinate debt.
 3. The borrower has outstanding senior debt rated no lower than the third highest rating category.
 4. Other considerations regarding outstanding senior lien debt, the proposed project and financing that mitigate to IBank's satisfaction the risks to IBank of a subordinate position.

VI. Financing Eligibility Determination and Staff Recommendation to the IBank Board

- A. IBank staff will provide its analysis, including its credit analysis, and make a recommendation to the IBank Board for financing consideration, including:
 1. Financing amount
 2. Interest Rate Adjustments
 3. Financing terms and conditions
- B. If IBank staff does not recommend approving a 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 Requirement

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.
