

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

THE INFRASTRUCTURE STATE REVOLVING FUND (ISRF) PROGRAM

STAFF REPORT

Issue:

IBank was established in 1994 pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (the “IBank Act” or the “Act”, Government Code Sections 63000-63002). IBank’s mission is to finance public infrastructure and private development projects that promote economic growth, protect and sustain the environment, support clean energy and efficiency, revitalize communities and enhance the quality of life for the people in the State of California (the “State”). The Infrastructure State Revolving Fund (“ISRF”) Program is one of the primary financing mechanisms employed by IBank to carry out its mission.

This Staff Report outlines proposed amendments and revisions to the ISRF Criteria. The ISRF Program is governed by the Criteria, Priorities, and Guidelines for the Selection of Projects for Financing under the ISRF Program (the “ISRF Criteria” or the “Criteria”), a document which is based on the provisions of the IBank Act. The ISRF Criteria requires periodic updates to reflect relevant updates to the Act, as well as to respond to market changes, refine and clarify existing language, and reflect strategic initiatives. The last update to the Criteria, on February 23, 2016, was prompted by changes to the Statute (Assembly Bill 1533, Chapter 383, September 30, 2015) which led to a routine revision to the range of projects eligible for ISRF financing.

In the more than six and a half years since the last ISRF Criteria update, all of the factors cited above that might prompt revisions have been gradually accumulating. As we continue to emerge from the pandemic, and as the IBank management team has stabilized, managers involved with the ISRF Program have finally been able to prioritize the now pressing need to revise the Criteria to reflect updates to the Act, changing market imperatives, and provide greater clarity in certain passages of the document.

The California Lending for Energy and Environmental Needs (“CLEEN”) Center was approved by the IBank Board of Directors (“IBank Board”) on August 25, 2015, to provide direct public financing to help meet the State’s environmental goals, and to offer interest rate subsidies and other benefits to eligible projects. While the CLEEN Center has operated as a companion to the ISRF Program, up to now it has maintained its own criteria document. During the revision process, IBank Staff also determined that it would be more effective to consolidate relevant CLEEN Center criteria into the ISRF Criteria. This will result in the discontinuation of the CLEEN Center as a stand-alone program. However, as described below, projects that clearly serve to advance state environmental policy goals would still be eligible for CLEEN Center designation, thereby gaining access to beneficial rates and financing terms.

Any material amendments and revisions to the ISRF Criteria must be approved by the IBank Board. A clean version of the proposed new Criteria document appears in **Attachment A** and a redline in **Attachment B**. Staff believes all proposed changes either conform to or do not conflict with existing Statute or the IBank Act. Subject to the discussion below, IBank staff recommends the IBank Board approve Resolution No. 22-18, adopting the Amended and Restated ISRF Criteria as of today's date.

Discussion:

Since the last ISRF Criteria update in 2016, IBank Staff have accumulated over time potential updates related to Statute and IBank Act revisions, changes in response to direct market feedback as well as broader changes in the municipal finance arena, and the need to provide greater clarity to certain sections of the Criteria. The following discussion does not attempt to catalogue every proposed revision, particularly those which are more routine or non-substantive, all of which can be viewed in the attached redline. Below however are the material items that are worthy of the Board's attention.

Summary of material ISRF Criteria amendments:

- **Increased the maximum loan amount to \$65M (and minimum to \$1M)**
Staff proposes increasing the maximum ISRF Financing amount from \$25 million to \$65 million, and the minimum amount from \$50,000 to \$1 million. This is largely due to market feedback we have received in the form of financing requests and inquiries. In recent years we have received an increasing number of inquiries that exceed the current limit. The Board will recall in October it approved on an exception basis a \$35 million financing request from Sacramento County. We also recently received an inquiry for nearly \$50 million, and previously received another \$35 million inquiry for an airport project. At the same time, we have not received inquiries nearly as small as the current minimum. By making this adjustment we believe the ISRF program will be more responsive to the needs of municipal borrowers. In conjunction with this proposed increase, Staff felt it would also be prudent to introduce (for the first time) borrower exposure limits, as discussed further below. The Criteria will continue to allow for the possibility of providing larger financings, subject to lending capacity and other factors, and ultimately subject to IBank Board approval.
- **Simplifying and clarifying borrower eligibility language to better conform with the IBank Act.** The current language in Section I(C) of the Criteria, regarding applicant eligibility, lacks clarity in many respects. First, there is a division between eligibility criteria for Infrastructure Project and Economic Expansion Project applicants, the rationale for which is unclear. Second, the Criteria appears to allow for a public sector entity to sponsor an ISRF application from a range of entities, including "(a) person, company, corporation, association..." (etc.), yet, confusingly, requires that the sponsored entity also be

organized as a "public benefit tax exempt not for profit entity". Finally, the Criteria is procedurally vague in terms of what sponsorship entails.

Staff is proposing several revisions to this section to improve clarity. The first change (which flows throughout the document), is to replace the Infrastructure Project and Economic Expansion Project terms with, respectively, Public Development Facilities ("PDF") and Economic Development Facilities ("EDF"), reflecting the definitions in the IBank Act from which the ISRF project types were derived. Another change is to collapse applicant eligibility into a single set of criteria for all project types. The proposed new language also clearly defines both a Sponsor and a Participating Party, also consistent with Act definitions, and makes clear that, within the context of the ISRF program, a Participating Party requires sponsorship. This section also now makes an explicit reference to sponsorship requirements, which are already described later in the Criteria (in Section III(H)). The language also clarifies that a Sponsor is not required to have an ownership stake in a Project carried out by a Participating Party (consistent with the Act), or guarantee an ISRF Financing to a Participating Party.

Staff believes the clearer, more rational description of applicant eligibility will facilitate communication between ISRF Staff, prospective applicants, and other stakeholders, by providing a more complete picture of which entities may apply for ISRF Financings and under which conditions.

- **Addition of housing-related infrastructure as an eligible project type, while also confirming the prohibition against using ISRF Funds directly for housing (all to reflect updates in the Act).** The current definition of Public Development Facilities in Section 63010 the IBank Act includes "housing-related infrastructure" as a project type, reflecting clarifying changes to the Act set forth by Chapter 289, Statutes of 2017 (AB 56). The Criteria is now updated to reflect this new project type. At the same time, proposed language has been added to the Criteria to confirm the prohibition against the use of ISRF funds to finance any housing component of a project, as clarified by Chapter 356, Statutes of 2021 (AB 1297).
- **Condensing two Economic Expansion categories to a single category, reflecting the Economic Development Facility definition in the Act.** In addition to renaming the Infrastructure Project and Economic Expansion Project categories to reflect the respective definitions for PDFs and EDFs in the Act, Staff proposes condensing the two existing Economic Expansion categories into a single one for Economic Development Facilities. The two Economic Expansion categories were evidently derived from the single EDF definition in the Act, for reasons that are unclear. Staff determined that EDF project types should be presented as set forth in the Act, and not be divided into two categories.
- **Insertion of language to describe eligible CLEEN projects and subsidies, to replace stand-alone CLEEN program criteria.** IBank introduced the California Lending for Energy and Environmental Needs (CLEEN)

Center in 2015, to provide subsidized financing to state and local government entities for carbon/pollution reduction projects that help the State achieve its greenhouse gas reduction goals. However, since the program's inception only three loans, totaling approximately \$7 million, have received a CLEEN designation, and none since 2017. At the same time, an increasing number of ISRF Financings have 'green' components. Considering these factors, Staff has proposed to insert language into the ISRF Criteria that allow for an applicant to receive a CLEEN designation for its project. Drawing from the list of eligible PDF and EDF projects, the applicant must indicate which State environmental policy goals would be advanced by the proposed Project. IBank Staff would then make a determination whether the project is eligible for a CLEEN designation, in consultation with the appropriate State agency as needed. As with the current program, a CLEEN designation would make a Project eligible to receive certain financial subsidies, such as an interest rate reduction. By inserting these conditions into the ISRF Criteria, Staff intends to discontinue the stand-alone CLEEN program. At the same time, we believe this proposed change will allow for more efficient program administration, and to facilitate the process for determining when an ISRF Financing advances important State environmental goals.

In addition, Staff has deleted references throughout the Criteria to 'dead letter' environmental legislation that either no longer exists or never existed (such as the 'State Environmental Goals and Policy Report') and replaced it with more open-ended statements that prompt the applicant to cite any applicable and specific State environmental policy goals that the subject project will help meet.

- **Changed the time limit for construction phases as two years from loan closing (instead of from loan approval).** The Criteria currently calls for the applicant to demonstrate the ability to complete project construction within two years of ISRF Financing approval. For some borrowers the length of time between the approval and closing of ISRF Financing can be somewhat hard to predict, and in some cases can take several months. To count the closing period toward the construction timeline can either place undue pressure on the project schedule, or prompt IBank Staff to request from the Board a Criteria exception that is essentially technical in nature. Shifting the two-year construction window to start from loan closing provides a more accurate reflection of the municipal project development cycle.
- **Allowance for the borrower to use their own construction contractor pre-qualification form (subject to IBank staff approval).** IBank Staff have found that this has been one of the more common waiver requests. Borrowers frequently prefer to use their own contractor pre-qualification form, and in many cases may have already initiated the contractor selection process with their own forms prior to encountering the requirement to use IBank's form. Staff usually finds that the borrower's form does not differ materially from the IBank form. In recognition of this, Staff proposes to waive the requirement to use our form, subject to confirmation by IBank Staff that the borrower's form is generally consistent with ours.

- **Defined a borrower concentration limit of 15% by revenue source, and 20% globally.** As noted above, in conjunction with the increase in loan size, Staff felt it would be prudent to introduce borrower concentration limits. (None existed previously for the ISRF program.) To determine appropriate limits, we took a cue from the definition of a ‘Significant Borrower’ in the Continuing Disclosure Agreement for the bonds IBank issues in order to capitalize the ISRF program. A Significant Borrower means:

“...a Borrower under one or more Pledged Loans that has an aggregate unpaid principal amount equal to or greater than twenty percent (20%) of the aggregate unpaid principal amount of all Pledged Loans; provided however, that Pledged Loans of a Borrower that are by their terms payable from different sources of revenue of such Borrower shall not be aggregated for purposes of determining if the 20% threshold for being a “Significant Borrower” has been met.”

Taking this into account, we decided to propose a borrower concentration limit of 15% of the outstanding ISRF portfolio based on the borrower’s repayment source, in order to provide a cushion comfortably below the 20% Significant Borrower limit. In addition, we have proposed a ‘global’ limit of 20%, taking into account all loans to a given jurisdiction, regardless of repayment source (e.g. a General Fund financing, and a wastewater enterprise loan). Based on the current outstanding ISRF portfolio of approximately \$451 million, 15% would be a little more than \$67 million. (We took this metric into account when considering the proposed maximum loan size.) Not only are there currently no Significant Borrowers in the portfolio, the largest exposure (to the City of Escondido) amounts to a little less than 9%. As with individual ISRF financings, we are also proposing the ability to go above the proposed concentration limit, subject to lending capacity, compliance with bonds documents, and other factors (all subject to IBank Board approval).

- **Added a description of the Preliminary Review Process and the Credit Risk Committee.** In recent years, IBank has developed an internal process for vetting prospective ISRF applicants, in which Loan Origination Unit staff prepares a brief, preliminary credit analysis, and presents their findings to the ‘Credit Risk Committee,’ comprised of the Executive Director, Chief Deputy Executive Director, Chief Credit Officer, and General Counsel. After a robust discussion with presenting staff, the CRC makes a determination whether to invite the prospect to submit an ISRF financing application. The proposed new language is intended to formalize and recognize this process.
- **Recasting of servicing fee (to be included in ‘all-in’ interest rate quotes)** For many years the Criteria has allowed for IBank to charge a 0.30% loan servicing fee in addition to the interest rate on ISRF Financings. We have consistently received negative feedback on the servicing fee from prospective applicants and other stakeholders, who have chafed against the optic of an additional fee (without any apparent additional service). Staff’s understanding is that the fee was created for accounting convenience, as a carve-out that could be excluded from ‘arbitrage

yield' calculations. According to applicable federal tax law, the yield on loans made from tax-exempt bond proceeds cannot be more than 1.5% above the corresponding bond yield. However, in calculating the loan yield, the bond issuer's administrative costs related to the bonds can be excluded from the calculation. The 0.30% servicing fee has served as a proxy for these excluded costs. In consultation with IBank general counsel as well as outside tax counsel, it appears that carrying out a detailed analysis to justify the administrative costs to be excluded from an arbitrage yield calculation carries more weight from a tax law standpoint than a proxy fee. Between the factors of market perception and tax law, Staff is proposing to bundle in the servicing fee when discussing 'all-in' interest rates with prospective applicants, while maintaining the servicing fee as a separate charge in the loan documents. At the same time, IBank will complete an analysis of bond administration costs, with the justified costs 'backed out' for 'arb yield' calculations. This analysis could eventually lead to an adjustment in the servicing fee.

- **Elimination of 15% funding limit for certain project types using 'state funds'.** Staff is proposing eliminating the condition that annual financings that use 'state funds' for certain project types (Educational Facilities, Environmental Mitigation Measures, and Parks and Recreation Facilities) be limited to 15% of total financings approved in a given year. Staff's interpretation is that this limit was placed on state funds provided to IBank in 1994, when the IBank Act was enacted, and that the restriction contemplated regular appropriation of state funds for the ISRF program. However, IBank has not received state funds designated for ISRF since the 1999 Budget Act, and the original state funds, along with funds from multiple bond issuances, have been commingled and lent out with compounding returns that are continuously recycled. Therefore, the 15% restriction on the original state funds appropriated for the ISRF Fund no longer applies.
- **Re-organization of underwriting guidelines for better flow.** Exhibit A of the Criteria lists a range of underwriting guidelines based on repayment source, loan structure, borrower type, etc. Staff is proposing some changes to the way this section is structured in order to have a more intuitive 'flow'. In particular, we propose moving the underwriting criteria that applies to 'All Borrowers', currently in Section IV of the Criteria, to appear in Section I, before specific criteria on financings secured by a revenue pledge, General Fund financings, and so on. As part of this adjustment we have also attempted to consolidate criteria that should apply to all borrowers, but may have previously been spread out across several sections. We believe this change will make the underwriting section of the Criteria easier to read and more accessible to underwriters and prospective applicants.
- **Replacement in underwriting guidelines of references to 'revenues' with 'net revenues' where appropriate.** In several sections of the underwriting guidelines it says, "The applicant's revenues must exceed 100% of projected debt service by a margin that is appropriate for the applicant's overall credit strength". In Staff's opinion the term 'net revenues', i.e. the revenues remaining after operating expenses have been paid, would be the more appropriate

term in these statements. Staff speculates that the current language may have been adapted from a typical revenue bond structure, in which the pledged revenues flow directly to a trust on a gross basis, and are used to cover debt service before paying for other expenses. ISRF Financings are not structured in this manner. While for General Fund lease financings we require the borrower to include the annual lease payment in their current-year budget, Financings are underwritten under the assumption that the borrower will pay for operating expenses from gross revenues, before using net revenues for debt service. Revising this term where appropriate in the Criteria provides a more accurate picture of this more conservative analytical approach.

As noted, a full redline of all proposed changes, including minor ones, appears in **Attachment B**. Taken together, Staff feels the proposed changes will bring the ISRF Criteria current, make it more accessible to both external and internal stakeholders, and facilitate more effective management of the ISRF Program.

RECOMMENDATION

Staff recommends approval of Resolution 22-18 directing Staff to change the Criteria, Priorities, and Guidelines for the Selection of Projects for Financing under the Infrastructure State Revolving Fund (ISRF) Program.

November 16, 2022

Attachments

Attachment A

ISRF Criteria, Priorities, and Guidelines for the Selection of Projects for Financing under the ISRF Program (ISRF Criteria), dated November 16, 2022

Attachment B

ISRF Criteria: Redline of proposed amendments compared to Criteria document dated February 23, 2016.



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: November 16, 2022

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

Date Adopted: November 16, 2022

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, IBank developed its Infrastructure State Revolving Fund (“ISRF Program”). ISRF Program financing is available in amounts from \$1,000,000 to \$65,000,000, with terms of up to 30 years. The interest rate for each financing is set at the time the financing is approved. Applications are accepted on a continuous basis.

To leverage the assets within the ISRF Program, 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.

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 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 amended and restated as of the date of the adoption.

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 All Projects:

For projects that fall under the section titled “Projects” below, whether “Public Development Facilities” or “Economic Development Facilities”, the applicant may be any subdivision of a state or local government, including departments, agencies, commissions, cities, counties, nonprofit 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 IBank for financial assistance in connection with a project in a manner prescribed by IBank. Such applicant is considered a “Sponsor” for purposes of these Criteria.

In addition, when applied for in conjunction with a Sponsor for the purpose of implementing a Project, an eligible applicant may be any person, company, corporation, association, state or municipal governmental entity, partnership, firm, or other entity or group of entities, whether organized for profit or not for profit, engaged in business or operations within the state. Such applicant is considered a “Participating Party” for purposes of these Criteria.

Whether the Sponsor is the applicant, or supporting the application of a Participating Party, prior to submission of an application the Sponsor shall issue a resolution in accordance with section III(G) below. A Sponsor supporting an application from a Participating Party is not required to have an ownership interest in the subject Project. A Sponsor is also not required to guarantee an ISRF Financing made to a Participating Party.

D. Projects

“Project” generally means costs associated with 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:

PUBLIC DEVELOPMENT FACILITIES

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.
18. Housing-related Infrastructure including city streets; drainage, water supply, and flood control; environmental mitigation measures; power and communications; public transit improvement that directly supports transit-oriented housing; sewage collection and treatment; and water treatment and distribution.

ECONOMIC DEVELOPMENT FACILITIES:

19. Economic Development Facilities including industrial, recreational, research, commercial, utility goods movement, or service enterprise facilities, community, educational, cultural, or social welfare facilities and any parts or combination thereof, and all facilities or infrastructure necessary or desirable in connection therewith.

No funds from the ISRF Program may be used to finance any housing component of a Project.

California Lending for Energy and Environmental Needs (CLEEN) Project Designation:

All the project types listed above that utilize technologies or processes that advance state environmental policy goals can be designated a CLEEN Project by IBank. Applicants for such designation must indicate the environmental policy goal being advanced by their proposed project. IBank will determine whether the technology or process used by the Applicant sufficiently advances the applicable state environmental policy goals to receive the CLEEN designation. IBank may consult with the respective state agency best positioned to make this determination when necessary. Based on these and other policy considerations, IBank may offer financial incentives to the Applicant for this project, as described in Section IV(G) below.

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 Timing.

Applicant must demonstrate project readiness and feasibility to complete construction within 2 years after the close of IBank's financing. In this context, "completion of the portion of the project financed by IBank means that it meets construction contract specifications for completeness and/or ability to operate.

B. Feasibility

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 necessary permits or approvals, if appropriate for the type of financing being considered, 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 repay ISRF Financings 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 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 IBank at its discretion, including sales tax and other special taxes.

3. Project Funds.

IBank will require all project funding sources, other than IBank's financing, to be identified at the time of application and either be committed or have the likelihood of commitment firmly established prior to financing approval by IBank. IBank may also require additional reviews and evaluations (including by qualified third parties) 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>

Borrowers may use an internally required contractor pre-qualification questionnaire if it substantially meets the intent of the model questionnaire as determined by IBank staff.

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 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 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 IBank’s website, requires detailed information and documentation about the applicant and the project in order to enable IBank to determine if the application complies with IBank’s Criteria, including its creditworthiness and underwriting criteria.

Prospective applicants are encouraged to contact IBank staff to schedule an initial meeting to discuss the Criteria and the Program, and IBank staff will determine whether to move forward with a Preliminary Review of the prospective applicant and the Project as described below.

B. Preliminary Review

If a prospective applicant and Project appear eligible for financing under the Criteria, IBank Staff will perform a more detailed financial analysis of the Project, financing needs, and the applicant's ability to repay a loan, and prepare a preliminary credit analysis (a "Preliminary Review"). Staff will present the Preliminary Review to IBank's Credit Risk Committee, consisting of its Executive Director, its Chief Deputy Executive Director, its Chief Credit Officer, and its General Counsel (the "Credit Risk Committee"), who perform an analysis of the Preliminary Review. The Credit Risk Committee makes the final determination whether to invite the prospective applicant to submit a Financing Application.

C. 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.

D. Application/Financing Process Assistance

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

E. Capital and Infrastructure Project Planning Report.

If the applicant is a state agency, board, commission, or department, 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 with active Financing Applications to be selected for IBank financing exceed the lending capacity of the ISRF Program, IBank will give priority to Public Development Facilities over Economic Development Facilities Projects. Further, at such times, as between Infrastructure Projects, IBank will give priority to Public Development Facilities 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. Sponsor 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 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 IBank pursuant to Government Code Section 63040.
5. The governing body or bodies of the Sponsor shall determine that the governing body has considered (i) the impact of the project on California's natural resources and the need to preserve such resources; (ii) whether the project is economically or socially desirable; and (iii) whether the project advances any specific state environmental policy objectives.

If the applicant is a Participating Party, it will also be required to issue an authorizing resolution appropriate for taking on the ISRF Financing, in form and substance acceptable to IBank.

IV. FINANCING TERMS AND LIMITATIONS

A. Financing Amount

ISRF Financings will be available in amounts ranging from \$1,000,000 to \$65,000,000 per applicant. Larger ISRF Financings may be approved by IBank subject to lending capacity and other factors including collateral and credit quality/review.

B. Borrower Concentration

The aggregate outstanding and unpaid principal amount of ISRF Financings ("Outstanding ISRF Financings") to a single borrower that are payable from the same source of revenue may not exceed fifteen percent (15%) of the aggregate unpaid principal amount of all ISRF Financings ("Outstanding ISRF Portfolio"). Outstanding ISRF Financings to a single borrower may not exceed twenty percent (20%) of the

Outstanding ISRF Portfolio, regardless of repayment source. Higher ISRF Financing concentrations may be approved by IBank subject to lending capacity, legal requirements, and other factors including collateral and credit quality.

C. 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 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, depending 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. Alignment of the Project with state environmental goals.
5. The term of the ISRF Financing
6. Other Terms and Conditions of the ISRF Financing—Includes frequency of repayment, repayment provisions, and, as applicable, reserves and coverage.
7. IBank Staff Review and Analysis—In accordance with the guidelines and procedures detailed within Exhibit A.

'All-in' interest rate quotes will be inclusive of the annual servicing fee described in Section IV(F) below.

D. 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.

E. Prepayment

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 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 IBank. Depending on the structure of the underlying Program Bonds, prepayment may not be permitted during the initial period of the ISRF Financing. For long-term financings the prepayment prohibition typically applies to the first ten years.

F. ISRF Financing and Amendment Fees

For ISRF Financings with a principal amount equal to or greater than \$1,000,000, a one-time origination fee of the greater of twenty-five thousand dollars (\$25,000.00) or 1.00% of the original ISRF Financing amount will be paid as a condition of closing. 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 resulting from an amendment request from the borrower.

G. CLEEN Designation Incentives

If IBank determines that a Project merits a CLEEN designation based on the information provided by the Applicant, IBank may provide financial incentives to the requested ISRF Financing. Incentives may include an interest rate reduction, fee waiver, or any other monetary benefit. The incentive shall not be a detriment to the ISRF Program's overall financial position.

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 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 demonstrating limited debt coverage capacity, 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 IBank.

Alternate sources of ISRF Financing repayment 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 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. For All Borrowers

A. Completeness of Application

1. Ensure that ISRF Financing application is complete, including all required attachments and exhibits.
2. Ascertain whether governing body of borrower has approved ISRF Financing application (required prior to IBank Board approval).
3. Confirm that:
 - a. Applicant is an eligible borrower.
 - b. Project is an eligible project, including, for energy or environmental projects, alignment with specific state policy objectives.
 - c. Proposed source of repayment is eligible to be used to repay requested financing.
 - d. Proposed repayment source is adequate to cover projected debt service or financing lease payment.
 - e. Determine the impact of the financing on fund balances, operating budget, and projected cash flow.
 - f. Other factors as determined by IBank staff,

B. Evaluation of Capital Planning and Financial Condition

1. Inquire of borrower whether or not borrower has other unmet capital needs.
2. Review at minimum the previous three years' audited financial statements (and more years as determined by staff).
3. Evaluate borrower's financial projections as appropriate.
4. 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 existing property tax rates and General Obligation bonding capacity, as applicable, for public entity borrowers.
- c. Review existing indebtedness, secured and unsecured.
- d. If applicable, review any official statements or prospectus used in conjunction with any recent issuance of bonds.
- e. If applicable, conduct discussions with the borrower's financial advisor/ underwriter to assist in the evaluation of borrower financial condition.
- f. Review reports of credit rating agencies where applicable.
- g. Other factors as determined by IBank staff.

C. Evaluate Economic/Demographic Trends

- 1. Examine current values and trends related to:
 - a. Population growth.
 - b. Assessed Value.
 - c. Median income.
 - d. Unemployment rates.
- 2. Other factors as determined by IBank staff.

D. Legal Review to Evaluate Applicable Legal Authority:

- 1. State law.
- 2. Federal tax law.
- 3. Any other applicable laws.

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.
4. In-person meetings and site visits are subject to any applicable federal, state or local public health ordinances.

II. 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 project to which the financing proceeds will be applied is eligible to be secured by the proposed revenue source.
3. Evaluate the historical receipt of revenues from the proposed revenue source.
4. Measure revenue from pledged source against total operating budget.
5. Determine the effect on the operating budget from use of the specific revenue for financing purposes.
6. Evaluate the historical expenses and transfers paid from the proposed revenue source.
7. Determine amount and pledge status of any outstanding debt or other proposed debt secured or to be secured by the proposed revenue source.
8. Calculate the amount of cash flow available for debt service and the debt service coverage ratio.
9. 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, or other resources that could be brought to bear to mitigate credit risk.

B. As applicable, confirm that the financing meets the requirements for Enterprise Fund-Secured Financings, as discussed further below.

C. Other factors as determined by IBank staff.

III. For ISRF Financings with a General Fund financing structure

A. Evaluate General Fund revenues:

1. Determine the sources of and the likely recurrence of General Fund revenues.
2. Verify that the project to which the financing proceeds will be applied is consistent with General Fund activities, and, for financing leases, the borrower is willing and able to include lease payments in future annual budgets.
3. Evaluate the historical receipt of General Fund revenues.
4. Evaluate the historical expenses and transfers paid from the General Fund.
5. Determine amount and status of any outstanding financing leases or other proposed financing leases to be paid from the General Fund, and (if applicable) the amount and pledge status of any outstanding debt or other proposed debt secured or to be secured by the General Fund.
6. Calculate the amount of cash flow available to cover financing lease payments, and (if applicable) for debt service and the Debt Service Coverage Ratio.
7. Determine if the financed project will result in increases in annual operating revenues and costs.
8. If the amount of cash flow available for financing lease payments and (if applicable) debt service is insufficient to demonstrate repayment ability for the requested ISRF Program financing, determine if the borrower has reserves or other resources that could be brought to bear to mitigate credit risk.

B. As applicable, confirm that structure meets IBank's General Fund Leased-Secured Debt requirements, as discussed further below.

C. Other factors as determined by IBank staff.

IV. 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 Joint Powers Agreements:

1. IBank legal counsel to review agreements for consistency.
 2. Determine that the remaining term of the JPA exceeds the term of the requested financing.
 3. Confirm that agreements allow the JPA borrower to enter into financing obligations.
 4. Verify that the JPA includes sufficient barriers against members leaving the JPA without providing adequate compensation to the JPA, for at least the term of the requested financing.
- B. Evaluation of public support including, as applicable, authorization from relevant governing body or approval from voters.
- C. Other factors as determined by IBank Staff.

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 of revenue is, or sources are, pledged that provide sufficient additional security to IBank.
 2. The borrower has outstanding subordinate lien debt rated with an investment grade credit rating.
 3. The borrower has outstanding senior lien debt that has been rated no lower than the third highest (single-A) credit rating category.

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

- A. Following a successful Preliminary Review, 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, or if the inquiry does not proceed beyond Preliminary Review, 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. Analysis will also review approved or anticipated rate increases, supported by rate studies.

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 revenue from such expansion were excluded, revenue from existing system rates and charges would need to be increased by no more than twenty percent in order 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 to establish and enact such rates and charges 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 net 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 (or, if separate, the governing body with authority to establish and enact rates and charges) 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 facility which secures the ISRF Financing 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 by IBank Staff to cover the amount of cost over-runs.

Asset transfer projects require the applicant to pledge one or more unencumbered real property(ies) owned and operated by the applicant that are acceptable to IBank as the subject 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 rent** must be equal to or greater than the maximum annual debt service and/or financing lease payments due under the IBank financing agreement and any other applicable financing agreements throughout the term of the financing.

Non-asset transfer If the applicant is unable to pledge a suitable property during the construction period, project budgets must include capitalized interest sized to fully cover debt service payable during the estimated construction period plus six months.

**Debt Service
and Financing
Lease
Requirements**

Total General Fund debt service and financing lease obligations, inclusive of IBank’s financing, must not exceed 15% of total General Fund revenue.

General Fund must demonstrate the ability to service the proposed financing.

**Lease
Agreement
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.

A **Preliminary Title Report** will be required on the leased asset.

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 payments on the financing lease.

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 such that net revenues are 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 net 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 be greater than or equal to the amount of the IBank financing.

The appraisal must be prepared by an independent MAI appraiser.

Debt Service Requirements

The applicant’s net 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.



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**

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Date Effective: ~~February 23, 2016~~ November 16, 2022

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

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

Date Adopted: ~~February 23, 2016~~ November 16, 2022

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 \$~~501,000,000~~ to \$~~2565,000,000~~, with terms of up to 30 years. The interest rate for each financing* 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.

*“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 amended and restated 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.

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C. Applicants

Applicants must meet one of the following definitions:

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For Infrastructure ~~All~~ Projects:

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For projects that fall ~~in categories 1 through 16~~, under the section titled “Projects” below ~~– (“Infrastructure Projects”)–~~, whether “Public Development Facilities” or “Economic Development Facilities”, the borrower applicant may be any subdivision of a state or local ~~or state~~ government, including departments, agencies, commissions, cities, counties, ~~non-profit~~ nonprofit 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 applicant is considered a “Sponsor” for purposes of these Criteria.

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~~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. In addition, when applied for in conjunction with a Sponsor for the purpose of implementing a Project, an eligible applicant 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 whether organized as a public benefit tax exempt for profit or 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. Such applicant is considered a “Participating Party” for financing from the IBank in conjunction with a Sponsor purposes of these Criteria.~~

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Whether the Sponsor is the applicant, or supporting the application of a Participating Party, prior to submission of an application the Sponsor shall issue a resolution in accordance with section III(G) below. A Sponsor supporting an application from a Participating Party is not required to have an ownership interest in the subject Project. A Sponsor is also not required to guarantee an ISRF Financing made to a Participating Party.

D. Projects

“Project” generally means costs associated with 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

PUBLIC DEVELOPMENT FACILITIES

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 movementMovement-related infrastructureInfrastructure 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.~~

~~18. Educational, Cultural and Social: Housing-related Infrastructure including city streets; drainage, water supply, and flood control; environmental mitigation measures; power and communications; public transit improvement that directly supports transit-oriented housing; sewage collection and treatment; and water treatment and distribution.~~

ECONOMIC DEVELOPMENT FACILITIES:

~~19. Economic Development Facilities including, but not limited to, facilities that are used for cultural, industrial, recreational, research, community, or educational purposes as well as commercial, utility goods movement, or service enterprise facilities and, community, educational, cultural, or social welfare facilities and any parts or combination thereof, and all facilities or infrastructure necessary or desirable in connection therewith.~~

No funds from the ISRF Program may be used to finance any housing component of a Project.

California Lending for Energy and Environmental Needs (CLEEN) Project Designation:

All the project types listed above that utilize technologies or processes that advance state environmental policy goals can be designated a CLEEN Project by IBank. Applicants for such designation must indicate the environmental policy goal being advanced by their proposed project. IBank will determine whether the technology or infrastructure process used by the Applicant sufficiently advances the applicable state environmental policy goals to receive the CLEEN designation. IBank may consult with the respective state agency best positioned to make this determination when necessary or desirable. Based on these and other policy considerations, IBank may offer financial incentives to the Applicant for this project, as described in connection therewith. Section IV(G) below.

~~19.~~

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.

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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 ~~Timing. Feasibility~~

Applicant must demonstrate project readiness and feasibility to complete construction within 2 years after the ~~close of~~ IBank's financing ~~approval~~. In this context, "~~complete a project~~" completion of the portion of the project financed by ~~the~~ IBank ~~must meet~~ means that it meets construction contract specifications for completeness and ~~+/~~ or ability to operate. ~~In addition, project must meet "feasibility" requirements set forth below:~~

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Feasibility

B.

In addition, project must meet feasibility requirements set forth below:

1. Permits

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

2. Source of Financing Repayment

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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~~ repay ISRF Financings 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~~ General Obligation).
- f. Other sources of repayment and/or alternative financing structures may be considered by ~~the~~ IBank at its discretion, including sales tax and other special taxes.

3. Project Funds

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~~The~~ IBank will require all project funding sources, other than ~~the~~ IBank's financing, to be identified at the time of application and either be committed or have the likelihood of commitment firmly established prior to financing approval by ~~the~~ IBank. ~~The~~ IBank may also require additional reviews and evaluations (including by qualified third parties) of project feasibility and potential risks.

4. Prevailing Wages and Contractor Pre-Qualification.

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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>

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Borrowers may use an internally required contractor pre-qualification questionnaire if it substantially meets the intent of the model questionnaire as determined by IBank staff.

5. Business Relocation

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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~~ initial meeting to discuss the Criteria and the Program, and IBank staff will determine whether to move forward with a Preliminary Review of the prospective applicant and the Project as described below.

B. Preliminary Review

If a prospective applicant and Project appear eligible for financing under the Criteria, IBank Staff will perform a more detailed financial analysis of the Project, financing needs, and the applicant's ability to repay a loan, and prepare a preliminary credit analysis (a "Preliminary Review"). Staff will present the Preliminary Review to IBank's Credit Risk Committee, consisting of its Executive Director, its Chief Deputy Executive Director, its Chief Credit Officer, and its General Counsel (the "Credit Risk Committee"), who perform an analysis of the Preliminary Review. The Credit Risk Committee makes the final determination whether to invite the prospective applicant to submit a Financing Application.

B.C. 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.D. Application/Financing Process Assistance

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

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~~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 with active Financing Applications to be selected for IBank financing exceed the lending capacity of the ISRF Program, ~~the~~ IBank will give priority to Infrastructure ProjectsPublic Development Facilities over Economic ~~Expansion~~Development Facilities Projects. Further, at such times, as between Infrastructure Projects, ~~the~~ IBank will give priority to InfrastructurePublic Development Facilities 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. ApplicantSponsor 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~~ The governing body or bodies of the applicant Sponsor shall determine that the governing body has considered (i) the impact of the project on California's ~~land~~natural resources and the need to preserve such resources; (ii) whether the project is economically or socially desirable; and (iii) whether the project advances any specific state environmental policy objectives.
- ~~5. If the applicant is consistent with a Participating Party, it will also be required to issue an authorizing resolution appropriate for taking on the ISRF Financing, in form and in furtherance of The State Environmental Goals and Policy Reports~~substance acceptable to IBank.

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IV. FINANCING TERMS AND LIMITATIONS

A. Financing Amount

ISRF Financings will be available in amounts ranging from ~~\$501,000,000~~ to ~~\$25 million~~ 65,000,000 per applicant. Larger ISRF Financings may be approved by IBank subject to lending capacity and other factors including collateral and credit quality/review.

B. Borrower Concentration

The aggregate outstanding and unpaid principal amount of ISRF Financings (“Outstanding ISRF Financings”) to a single borrower that are payable from the same source of revenue may not exceed fifteen percent (15%) of the aggregate unpaid principal amount of all ISRF Financings (“Outstanding ISRF Portfolio”). Outstanding ISRF Financings to a single borrower may not exceed twenty percent (20%) of the Outstanding ISRF Portfolio, regardless of repayment source. Higher ISRF Financing concentrations may be approved by IBank subject to lending capacity, legal requirements, and other factors including collateral and credit quality.

B.C. 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, depending~~ 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. Alignment of the Project with state environmental goals.

~~4.5.~~ The term of the ISRF Financing

~~5.6.~~ Other Terms and Conditions of the ISRF Financing—Includes frequency of repayment, repayment provisions, and, as applicable, reserves and coverage.

~~6.7.~~ 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.

‘All-in’ interest rate quotes will be inclusive of the annual servicing fee described in Section IV(F) below.

C.D. 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.E. 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~~ IBank. Depending on the structure of the underlying Program Bonds, prepayment may not be permitted during the initial period of the ISRF Financing. For long-term financings the prepayment prohibition typically applies to the first ten years.

E.F. ISRF Financing and Amendment Fees

For ISRF Financings with a principal amount equal to or greater than \$~~250~~1,000,000, a one-time origination fee of the greater of ~~ten~~twenty-five thousand dollars (\$~~10~~25,000.00) 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: resulting from an amendment request from the borrower.

~~F. Funding Limits~~

~~G. 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.~~CLEEN Designation Incentives

If IBank determines that a Project merits a CLEEN designation based on the information provided by the Applicant, IBank may provide financial incentives to the requested ISRF Financing. Incentives may include an interest rate reduction, fee waiver, or any other monetary benefit. The incentive shall not be a detriment to the ISRF Program's overall financial position.

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 demonstrating~~ limited ~~historical debt~~ coverage capacity, 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. For All Borrowers

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A. Completeness of Application

1. Ensure that ISRF Financing application is complete, including all required attachments and exhibits.
2. Ascertain whether governing body of borrower has approved ISRF Financing application (required prior to IBank Board approval).
3. Confirm that:
 - a. Applicant is an eligible borrower.
 - b. Project is an eligible project, including, for energy or environmental projects, alignment with specific state policy objectives.
 - c. Proposed source of repayment is eligible to be used to repay requested financing.
 - d. Proposed repayment source is adequate to cover projected debt service or financing lease payment.
 - e. Determine the impact of the financing on fund balances, operating budget, and projected cash flow.
 - f. Other factors as determined by IBank staff.

B. Evaluation of Capital Planning and Financial Condition

1. Inquire of borrower whether or not borrower has other unmet capital needs.
2. Review at minimum the previous three years' audited financial statements (and more years as determined by staff).
3. Evaluate borrower's financial projections as appropriate.
4. 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 existing property tax rates and General Obligation bonding capacity, as applicable, for public entity borrowers.
- c. Review existing indebtedness, secured and unsecured.
- d. If applicable, review any official statements or prospectus used in conjunction with any recent issuance of bonds.
- e. If applicable, conduct discussions with the borrower's financial advisor/ underwriter to assist in the evaluation of borrower financial condition.
- f. Review reports of credit rating agencies where applicable.
- g. Other factors as determined by IBank staff.

C. Evaluate Economic/Demographic Trends

- 1. Examine current values and trends related to:
 - a. Population growth.
 - b. Assessed Value.
 - c. Median income.
 - d. Unemployment rates.
- 2. Other factors as determined by IBank staff.

D. Legal Review to Evaluate Applicable Legal Authority:

- 1. State law.
- 2. Federal tax law.
- 3. Any other applicable laws.

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.

4. In-person meetings and site visits are subject to any applicable federal, state or local public health ordinances.

I.II. 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 project to which~~ the financing ~~can~~proceeds will be applied is eligible to be secured by the proposed revenue source.

3. Evaluate the historical receipt of revenues from the proposed revenue source.

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

5. Determine the effect on the operating budget from use of the specific revenue for financing purposes.

~~4.6.~~ Evaluate the historical expenses and transfers paid from the proposed revenue source.

~~5.7.~~ Determine amount and pledge status of any outstanding debt or other proposed debt secured or to be secured by the proposed revenue source.

~~6.8.~~ Calculate the amount of cash flow available for debt service and the debt service coverage ratio.

~~7.9.~~ 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, or other resources that could be brought to bear to mitigate credit risk.

B. ~~Determine impact of~~As applicable, confirm that the financing ~~can~~meets the ~~operating and other funds~~ requirements for Enterprise Fund-Secured Financings, as discussed further below.

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

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~~2. Determine the effect on the operating budget from use of the specific revenue for financing purposes.~~

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~~3. Determine impact of borrowing on fund balances and projected cash flow.~~

C. Other factors as determined by IBank staff.

H.III. For ISRF Financings with a ~~general fund~~ **General Fund** financing structure

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A. Evaluate ~~general fund~~ **General Fund** revenues:

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1. Determine the sources of and the likely recurrence of ~~the general fund~~ **General Fund** revenues.

2. Verify that the ~~purpose of project to which~~ the financing ~~proceeds will be applied~~ is consistent with ~~a general obligation pledge~~ **General Fund** activities, and, for financing leases, the borrower is willing and able to ~~include lease payments in future annual budgets.~~

~~3. Impact~~ Evaluate the historical receipt of General Fund revenues.

~~4. Evaluate the historical expenses and transfers paid from the General Fund.~~

~~5. Determine amount and status of any outstanding financing on operating and leases or other funds; proposed financing leases to be paid from the General Fund, and (if applicable) the amount and pledge status of any outstanding debt or other proposed debt secured or to be secured by the General Fund.~~

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~~6. Calculate the amount of cash flow available to cover financing lease payments, and (if applicable) for debt service and the Debt Service Coverage Ratio.~~

~~7. Determine if the financed project will result in an increase in annual operating revenues and costs to the borrower.~~

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~~2. Determine impact of the financing on general fund balances and projected cash flow.~~

~~8. If the amount of cash flow available for financing lease payments and (if applicable) debt service is insufficient to demonstrate repayment ability~~

for the requested ISRF Program financing , determine if the borrower has reserves or other resources that could be brought to bear to mitigate credit risk.

B. As applicable, confirm that structure meets IBank’s General Fund Leased-Secured Debt requirements, as discussed further below.

C. Other factors as determined by IBank staff.

III.IV. **In addition to financial viability, IBank will review the legal and structural feasibility of borrowers formed through a ~~joint powers agreement~~Joint Powers Agreement or ~~inter~~Inter-governmental ~~agreement~~Agreement (collectively, “JPA”)**

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A. Legal Review of Joint Powers Agreements:

1. Review IBank legal counsel to review agreements for consistency.
2. Determine that the life remaining term of the JPA ~~and consistency with exceeds the term of the~~ requested financing ~~term~~.
3. Confirm that agreements allow the JPA borrower to enter into financing obligations.
4. Verify that the JPA includes sufficient barriers against members leaving the JPA without providing adequate compensation to the JPA, for at least the term of the requested financing.

~~B.~~ Evaluation of public support including, as applicable, ~~governing body or voter~~ authorization:

IV.I For All Borrowers

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~~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.~~
- ~~3.1. Confirm that:~~
 - ~~a. Applicant is an eligible borrower.~~

~~b. Project is an eligible project.~~

~~e. Proposed source of repayment is appropriate for request financing.~~

~~d.B. Repayment ability from the proposed source relevant governing body or approval from voters.~~

~~e. Determine the impact of the financing on fund balances and operations.~~

~~B.A. 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.A. Evaluate Economic/Demographic Trends~~

~~1. Examine population trends~~

~~2. Examine assessed value trends~~

~~D. Legal Review to Evaluate Applicable Legal Authority~~

~~1. State law~~

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~~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~~

~~a.1. Determine management's readiness and ability to assume responsibility for the timely repayment of the ISRF Financing.~~

~~b.1. Visit project site to determine viability of the project and to identify other potential obstacles or restrictions.~~

C. Other factors as determined by IBank Staff.

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 of revenue is, 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 credit rating.
3. The borrower has outstanding senior lien debt that has been rated no lower than the third highest (single-A) credit rating category.

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

A. ~~The~~ Following a successful Preliminary Review, 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, or if the inquiry does not proceed beyond Preliminary Review, 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.

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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. Analysis will also review approved or anticipated rate increases, supported by rate studies.

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.

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**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.

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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 revenue from such expansion does not occur, were excluded, revenue from existing system rates and charges for existing ratepayers would not need to be increased by no more than twenty percent cumulatively in order 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 to establish and enact such rates and charges may be acceptable to IBank.

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

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Debt Service Requirements

The applicant's net 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 (or, if separate, the governing body with authority to establish and enact rates and charges) 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~~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 which secures the ISRF Financing 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 by IBank Staff to cover the amount of cost over-runs.

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~~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 and operated 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 and/or financing lease payments due under the IBank financing agreement and any other applicable financing agreements throughout the term of the financing.

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~~**Non-asset transfer** If the applicant is unable to pledge a suitable property during the construction period, project budgets must include capitalized interest sized to fully cover debt service payable during the estimated construction period plus six months.~~

Debt Service and Financing Lease Requirements

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

General Fund must demonstrate the ability to service the proposed financing.

**Lease
Agreement
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.

A Preliminary Title Report will be required on the leased asset.

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 **payments on the financing paymentslease.**

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 such that net revenues are 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.

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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 net 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~~be greater than or equal to the amount of the IBank financing.

The appraisal must be prepared by an independent MAI appraiser.

Debt Service Requirements

The applicant’s net 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.

