Clean Water and Drinking Water State Revolving Funds

DEBT MANAGEMENT POLICY

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Prepared by:

The Division of Financial Assistance

State Water Resources Control Board

State of California

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I. Background

The State Water Resources Control Board (State Water Board) was created in 1967 by merging the state's water rights and water quality authority, and in 2014 the state's drinking water program responsibilities were transferred to the State Water Board to further integrate oversight of California's water issues. The mission of the State Water Board is to preserve, enhance, and restore the quality of California's water resources and drinking water for the protection of the environment, public health, and all beneficial uses, and to ensure proper water resource allocation and efficient use, for the benefit of present and future generations. The State Water Board works together with its nine Regional Water Quality Control Boards (Regional Water Boards) and its 24 Drinking Water District Offices (District Offices) to protect California's water. The State Water Board's role includes administering several financial assistance programs through its Division of Financial Assistance (DFA), including, but not limited to, the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF). DFA can use the CWSRF to finance a broad variety of water quality protection and improvement projects, and it can use the DWSRF to provide financing supporting public water systems.

II. Objective

The primary purpose of the Clean Water and Drinking Water State Revolving Funds (SRF) Debt Management Policy (Debt Policy) is to provide guidelines for the issuance and management of the State Water Board's CWSRF and DWSRF debt. Additionally, the Debt Policy describes the on-going monitoring and reporting associated with SRF debt obligations. This framework is intended to allow the State Water Board and its staff to make informed and sound debt management decisions; achieve favorable borrowing costs with prudent levels of risk; maintain a sensible debt position; and preserve the credit quality of its bonds.

The elements of the Debt Policy are not goals or a list of rules to be applied to the State Water Board's debt issuance; rather, these policies are tools to assist with successful long term SRF debt management and to ensure that adequate financial, staffing, and professional service resources are available to support the State Water Board's SRF programs. This Debt Policy will guide the State Water Board staff in the following:

- Evaluating the role of debt in the funding capacity of the SRF programs and its influence on meeting the goals and priorities of the programs;
- Evaluating debt issuance options;
- Promoting sound financial management of the SRFs' portfolios and assets, and protecting and enhancing their credit ratings;
- Providing accurate and timely information, as needed, to the State Water Board and stakeholders on conditions in the public debt markets and their potential effects on the SRF programs;
- Providing accurate and timely information to the investor community on matters related to the State Water Board's capital program and financial status;
- Ensuring the legal and prudent use of bonds through an effective system of financial security and internal controls.

The Debt Policy will be applied in conjunction and consistent with the CWSRF and DWSRF Policies and the Intended Use Plans (IUPs), but does not supersede these Policies or IUPs.

III. Authorities

A. State Water Board

The State Water Board is authorized pursuant to Chapter 6.5 of Division 7 (commencing with Section 13475) of the Water Code to use moneys in the CWSRF for purposes permitted by the federal Clean Water Act. (33 U.S.C., § 1251 *et seq*.)

In addition, the State Water Board is authorized under the Safe Drinking Water State Revolving Fund Law of 1997 (commencing at Section 116760 of Division 104 of the Health and Safety Code) to use monies in the DWSRF for the purposes permitted in the federal Safe Drinking Water Act. (42 U.S.C., § 300j *et seq.)*

Both statutory frameworks authorize the State Water Board to use SRF assets to secure revenue or general obligation bonds that will be deposited into the respective SRFs to fund additional clean or drinking water projects.

B. California Infrastructure Bank (IBank)

IBank serves as a conduit issuer for the State Water Board's SRF revenue bonds. IBank is an entity within the Governor's Office of Business and Economic Development, organized and existing pursuant to Division 1 of Title 6.7 of the California Government

Code (commencing at Section 63000). IBank is authorized to issue bonds, to lend the bond proceeds to the State Water Board, to secure the bonds by a pledge of assets, and to enter into a master payment and pledge agreement, pursuant to a current indenture and master trust indenture.

C. State Treasurer

The State Treasurer is required by section 5702 of the Government Code to be the agent for sale on all State bond issues. The duties include, among other things, establishing the timing of the sale, selecting underwriters for negotiated sales, and executing the bond purchase agreement on behalf of State agencies. To fulfill these duties, the Public Finance Division within the State Treasurer's Office (STO) reviews bond sale documentation, evaluates the bond financing structure, reviews and approves underwriter fees, participates in pricing discussions, and provides technical resources as needed. State Water Board staff should coordinate with the State Treasurer's Office regarding these duties as they relate to the CWSRF and DWSRF bonds.

As set forth in the Master Trust Indenture, the State Treasurer is designated as the trustee and paying agent for the SRF Bonds. As trustee, the State Treasurer is responsible for ensuring that debt service payments are paid timely to bondholders. The State Treasurer also serves as custodian and administrator of trust accounts established under the Indenture.

Pursuant to the continuing disclosure undertakings for each bond issue, the State Treasurer is designated as dissemination agent. As dissemination agent, the State Treasurer helps the State Water Board comply with its continuing disclosure obligations. This includes providing timely notice to bondholders of certain notice events and providing annual financial information.

IV. Staff Roles – State Water Board

A. Executive Director

The ultimate responsibility for the bonds' management rests with the State Water Board's Executive Director. The Executive Director directs the State Water Board's staff and oversees the engagement and selection of finance professionals, such as bond counsel, financial advisor, and other technical advisors to assist the State Water Board in fulfilling this responsibility.

The State Water Board staff assigned to carry out the responsibilities associated with the bonds is primarily DFA staff, but also includes staff in the Office of Chief Counsel and the Division of Administrative Services. Duties are carried out cooperatively and include, but are not limited to, the following:

1. Determine, in consultation with the Financial Advisor, Bond Counsel, and IBank, the most appropriate structure, terms, conditions and method to sell bonds and make recommendations to the State Water Board about the same.
2. Appoint or engage the services of a Financial Advisor, Bond Counsel, and other service providers necessary to successfully complete a bond sale and manage the bonds after their sale.
3. Provide for and participate in the preparation and review of all legal, offering, and disclosure documents.
4. Oversee the issuance of bonds by the IBank approved by the State Water Board at an advantageous cost consistent with prudent levels of risk.
5. Execute and deliver agreements or documents necessary or desirable in connection with issuing bonds.
6. In consultation with IBank and Bond Counsel, ensure compliance with any applicable IRS, Securities Exchange Commission (SEC), and Municipal Securities Rulemaking Board (MSRB) rules and regulations.
7. In consultation with IBank and Bond Counsel, ensure compliance with covenants and disclosures required by the bonds' legal documents.
8. Provide for the timely payment of principal and interest on SRF bonds.
9. Monitor refunding opportunities and make appropriate recommendations to the State Water Board.
10. Distribute to investors and other appropriate parties information regarding the financial condition and affairs of the SRF programs as required by law, regulation, and general practice, including Rule 15c2-12.
11. Distribute pertinent information to credit rating agencies, bond insurers, investment providers, and to the extent necessary, investors and other market participants prior to and subsequent to the issuance of bonds.
12. Ensure that bond records are maintained.
13. Ensure that prudent fiscal and administrative practices are applied and promoted with respect to the SRF programs and their bonds, including those practices/tasks included in Appendix B to this Debt Policy, entitled "Pre- & Post-Issuance Activities Related to Revenue Bonds."

V. Staff Resources– State Water Board

The State Water Board shall maintain adequate staffing of appropriate classification and obtain external professional services necessary to perform and fulfill all tasks and responsibilities associated with this Debt Policy, including those tasks in Appendix B to this Debt Policy, entitled "Pre & Post-Issuance Activities Related to Revenue Bonds."

The State Water Board shall also support related continuing education and training opportunities for staff. State Water Board staffing capacity and resources necessary to engage and service debt financing must be considered when deciding the frequency, amount and structure of new leveraging transactions.

VI. Selection and Role of Consultants

The Executive Director in cooperation with IBank and STO shall procure the services of or otherwise ensure the involvement of the professionals required to issue, refund, or manage bonds and advise the State Water Board on bond-related matters. Consultants to be utilized in carrying out this Debt Policy include but are not limited to the following.

A. Bond Counsel

In its role as conduit issuer of bonds, IBank selects Bond Counsel for the bond issuance in consultation with the State Water Board. Bond Counsel is the attorney or firm of attorneys that gives the legal opinion delivered with the bonds confirming that the bonds are valid and binding obligations of the issuer and, customarily, that interest on the bonds is exempt from federal and state income taxes. Bond Counsel also prepares resolutions and related bond documents, under which the bonds will be issued and secured. In addition, the State Water Board hires Bond Counsel to perform ongoing services related to the financial assistance programs that are funded in whole or part with revenue bond proceeds. It is understood that much of the legal work that goes into many bond issues and post-issuance surveillance is dominated by tax issues, and the Bond Counsel firm is expected to have specialized tax attorneys. It is expected that the Bond Counsel firm will be nationally recognized.

B. Disclosure Counsel

The Disclosure Counsel is the attorney or firm of attorneys that assists the State Water Board in satisfying the continuing disclosure requirements of Rule 15c2-12 promulgated by the SEC, and effective as to obligations sold on and after July 3, 1995. Additionally, Disclosure Counsel will render a written opinion to the effect that the SRF offering document does not contain any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Disclosure Counsel firm may be the same as the Bond Counsel firm.

C. Financial Advisor

The Financial Advisor assists as the Independent Registered Municipal Advisor (IRMA) to the State Water Board and shall be available to review proposals from underwriters, as requested by the State Water Board. As the IRMA, the Financial Advisor provides recommendations including the type and structure of financing, call, security and credit enhancement features, term of maturity, time and manner of sale, reasonableness of interest costs and other terms and conditions. The Financial Advisor will also consult with the State Water Board staff in analyzing opportunities to refund outstanding debt obligations of the State Water Board as well as assist in the coordination and communication with rating agencies, investors and credit enhancers, if applicable. Finally, the Financial Advisor coordinates efforts with Bond Counsel and the underwriting team charged with the sale of SRF revenue bonds to ensure the agreed upon interest rates are fair and reasonable considering the current market conditions and realizes the goals and objectives of the State Water Board.

D. Underwriters/ Investment Banks/ Lending Institutions

The Underwriter(s)/Investment Bank(s)/Lending Institution(s) assist with each negotiated revenue bond issuance. The primary responsibilities of the underwriters include:

- Providing access to capital through the municipal bond markets or from their balance sheet for funding State Water Board SRF programs;
- Providing structuring advice to maximize effectiveness of State Water Board debt issuance;
- Assisting with a marketing plan, investor outreach and education regarding State Water Board's programs;
- Adhering to the Underwriting Policies and Procedures established by the STO; and
- Complying with applicable laws and regulations
- Providing appropriate certification to document "Issue Price"

Underwriters select their own counsel to review documents, negotiate certain matters, conduct due diligence related to the bond issuance, and advise the underwriter concerning registration requirements of federal and state securities laws.

E. Arbitrage Rebate Consultant

The tax code generally prohibits the State Water Board from issuing tax-exempt bonds if the State Water Board reasonably expects to use the proceeds of such bonds, directly or indirectly, to acquire securities or obligations – including making new SRF loans - with a yield materially higher than the yield on such bonds, or to replace funds used to make SRF loans at higher interest rates (or otherwise acquire such higher yielding securities or obligations). If the State Water Board exceeds the arbitrage yield restriction, it must rebate the difference to the IRS. The Arbitrage Rebate Consultant is retained by the State Water Board to perform all required arbitrage calculations, including a calculation of arbitrage liability at least once every five years after issuance, through the final maturity or redemption of a SRF bond issue. The Arbitrage Rebate Consultant will also provide advice and strategies, in consultation with the Financial Advisor and the Bond Counsel, to reduce the net arbitrage rebate liability.

VII. Credit Ratings and Investor Relations

The State Water Board will maintain ratings from [at least two] nationally recognized rating agency firms. Currently, the State Water Board maintains ratings from Moody's, Standard & Poor's, and Fitch.

The Executive Director and appropriate State Water Board staff are responsible for maintaining good working relationships with the credit rating agencies. State Water Board staff shall maintain full disclosure and open lines of communication with the credit rating agencies at all times. In addition, the State Water Board will coordinate with the IBank and be prepared to provide updates to investors, bond insurers, and rating agencies as needed on developments in the SRF programs and at the State Water Board.

The Executive Director and appropriate State Water Board staff are also responsible, to the extent feasible, with fostering good relations with bond investors and the general public. State Water Board staff will coordinate with the IBank, the Underwriters and the Financial Advisor to provide current and potential investors with program information when marketing new bond issues. The State Water Board will also provide updates to investors on new program developments as necessary.

Communication with the credit rating agencies, investors, and the public shall include, but not be limited to:

1. Disclosure of the financial conditions of the SRF programs, including timely dissemination of their annual financial reports.

2. As appropriate, presentations to the credit rating agencies, updating them on any aspects of the programs necessary to obtaining a rating.
3. Distribution of any documents relevant to the sale of bonds.
4. Timely dissemination of information required by the credit rating agencies for their surveillance activities.
5. Timely disclosure to the appropriate parties of any information that may affect the bonds' credit ratings, regulatory compliance, or bond commitments.
6. To the extent practicable, disclosure of information that may be important to potential investors and the general public.

State Water Board staff shall evaluate at regular intervals in consultation with the IBank and the Financial Advisor the outstanding debt and loan portfolios in an effort to ensure that the State Water Board maintains the strongest credit ratings possible. The State Water Board's goal is to achieve and maintain "AAA" ratings for both of the SRF programs.

VIII. Types of Sale

The IBank, State Treasurer, and Financial Advisor, in consultation with the State Water Board will evaluate and recommend whether a negotiated or a competitive method of sale and/or whether a public offering or a private placement is most suitable for a proposed transaction. Timing, size, program borrower needs, diversity of investment banks to efficiently and effectively sell bonds in institutional and retail markets, program structure and demands, debt service and projected interest rates are to be considered as part of this recommendation. The State Water Board will also consider the cost/benefit for accessing other additional capital, such as the federal Water Infrastructure Finance and Innovation Act (WIFIA) program or short-term financing through the IBank for the purposes of SRF state match, as opportunities arise.

IX. Structure of Bond Issues

A. Term of Bonds

The initial consideration in structuring the term of the program bond issue should be that the term is no longer than the lesser of the useful life of the asset(s) being financed or 30 years. Additionally, the term will be structured in consideration of the term of the composite pledged loan portfolio.

B. Redemption Provisions

Optional redemption provisions should be included to permit the State Water Board to redeem bonds as soon after initial issuance as possible, preferably at 10 years or less, callable at par, but considering the call option value, the impact on interest rates, and consistency with goals and objectives the State Water Board. The State Water Board should also consider the call dates of the pledged loans to mitigate the risk of misaligned cash-flows.

In May of 2006, Congress enacted the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA). TIPRA requires that, for all “pooled financing bonds,” the issuer must reasonably expect that (i) at least 30% of the net proceeds of the bonds will be used to fund loans within one year of issuance and (ii) 95% of the net bond proceeds will be used to fund loans within three years of issuance. If either origination requirement is not met, then an issuer must redeem, within 90 days of the end of such period, the amount of bonds representing the difference between what was actually loaned and the applicable origination requirement. All pooled financing bonds issued after May 17, 2006, are subject to compliance with these origination requirements. These TIPRA requirements may necessitate the inclusion of mandatory special redemption provisions in bonds issued by the State Water Board, depending on the expected disbursement schedule of proceeds. To date, the State Water Board has avoided inclusion of mandatory special redemption provisions in its bond issues as a result of its prompt expenditure of net bond proceeds, primarily, through reimbursement of prior loan disbursements.

C. Rates

Debt shall be issued at fair and reasonable rates considering the market conditions at the time of issuance. DFA will seek the review and rely upon the recommendation by the STO and the Financial Advisor on the fairness of the interest rates that are bid or negotiated. The underwriter will provide certification as to the Issue Price as defined by the MSRB. It is the State Water Board’s intention to issue at the lowest possible cost in consideration of the State Water Board’s goals and intentions.

X. Refunding Opportunities

Refunding of outstanding SRF debt should be considered if it provides financial or resource benefits to the SRF programs that will allow them to finance additional projects. Any refunding transactions intended for debt service reduction should be structured to maximize net present value savings and achieve level debt service when appropriate. Timing, market conditions, the composition of the pledged pool of loans, overall program risk as well as resource impacts will be the primary considerations when deciding whether to refund outstanding debt. DFA will consider refunding outstanding debt when the net present value savings is positive, as discussed below. DFA’s evaluation of refunding opportunities will include consultation with Bond Counsel, the IBank, and the Financial Advisor.

In evaluating refunding opportunities, DFA will consider the value of the call option to be exercised, including the amount of time to the call date and the amount of time from the call date to maturity. Both the net present value savings and absolute savings will be considered. DFA will also evaluate the costs of issuance related to the present value savings and the current interest rate environment relative to historical trends.

Additionally, DFA staff will analyze the impact of refunding on optimizing the portfolios and achieving the State Water Board's SRF goals. It is the stated goal of the State Water Board to achieve at least a net present value savings, true savings over cost of issuance, of at least 3% for any refunding. However, DFA shall seek no less than a 2% net present value savings, unless such refunding achieves other benefits, such as eliminating restrictive covenants. Refunding transactions might also be considered to achieve other intended goals of the State Water Board including, but not limited to, (1) resolve issues concerning a change of tax status, or (2) a legal restructure. The State Water Board will aim to transact such issues at minimal to no cost for the program.

XI. Escrow Structuring

The State Water Board shall structure escrows to ensure compliance with federal income tax law, applicable regulations and with respect to the permitted investments allowed by state law and the legal documents. Escrows may be invested in permissible securities or cash with a goal to maximize net return with minimal risk. Credit quality and safety of the securities shall be considered

XII. Prepayments

Prepayments from borrowers may be permitted subject to the consent of the Deputy Director of DFA. Such consent is required to ensure prepayments do not jeopardize the State Water Board's ability to satisfy the cash-flows of its existing debt obligations, the ability to issue new debt, ongoing compliance with tax regulations, or retention of its refunding options. Analysis shall include, but not necessarily be limited to, the need or ability to issue additional debt, debt service coverage, source of prepayments, ability to utilize prepayments expeditiously to originate new loans, or pay existing debt service, potential program refunding opportunities, program considerations of potential effects on pledge pools, as well as management of the restricted asset funds and compliance with applicable arbitrage yield restrictions.

XIII. Economies of Scale

Debt financings will be coordinated to the extent practicable so that multiple project needs can be accommodated in a single borrowing, thereby increasing the efficiency of the debt issuance. Given that many issuance costs do not vary significantly with the size of a borrowing, a large bond issue increases the efficiency of the financing by spreading fixed costs over a greater number of projects.

XIV. Reporting Requirements

The State Water Board shall provide all required financial and other information on each SRF program. This information shall be prepared and reported by program staff in accordance with timelines and requirements of the Master Trust Indenture, any continuing disclosure agreement, and any other related obligations or requirements, including the CWSRF and DWSRF operating agreements, IUPs, and applicable federal and state requirements.

XV. Disclosure

In consultation with Bond Counsel and Disclosure Counsel, staff will regularly review debt activities to ensure that initial and on-going disclosure requirements established under Rule 15c2-12 are maintained as required including the filing of any material event notices and the State Water Board's continuing disclosure undertakings set forth in the Continuing Disclosure Agreement under the Master Trust Indenture and series indentures or supplemental indentures.

XVI. Regulatory and Tax Compliance

The State Water Board, in cooperation with IBank, will comply with all IRS, MSRB, and SEC rules and regulations applicable to the issuance of its bonds.

The staff, under the direction of the DFA Deputy Director, Office of Chief Counsel, and the Executive Director, will implement the written policy in Appendix A to ensure that the SRF programs comply with requirements of federal tax law necessary to preserve the tax-exempt status of interest on tax-exempt obligations issued by State Water Board. This post-issuance tax compliance policy will be reviewed and updated from time to time by DFA and DAS management and the Office of Chief Counsel to maintain its adequacy and effectiveness.

The State Water Board will comply with the requirements of federal regulations and the Master Trust Indenture and series indentures or supplemental indentures, including but not limited to record keeping, filings, expenditure tracking of bond proceeds and arbitrage. Possible non-compliance by borrowers, DFA, or DAS will be reviewed with the Office of Chief Counsel and Bond Counsel for analysis and corrective action, if applicable. Possible corrective actions may include the IRS Tax-Exempt Bonds Voluntary Closing Agreement Program, remedial action, and any other action recommended by the Office of Chief Counsel or by Bond Counsel.

XVII. Permissible Types of Debt for Financing Projects

The following constitute permissible types of debt instruments under this Debt Policy. Other types of debt instruments may be considered by the State Water Board as the need arises.

A. Fixed Rate Debt

Fixed rate debt shall be issued as tax exempt or taxable bonds with a final maturity no longer than 30 years and shall have a call option in consideration of the discussion in Section VII(B) of this Debt Policy. Current interest bonds and term bonds may be used for both new money and refunding transactions, and may be structured to meet investor demand at the time of pricing. Capital appreciation and zero coupon bonds, which typically result in higher interest costs, may be used in limited circumstances after an analysis is performed to determine whether the needs or objectives of a particular financing program can be met only through their use. Funds from one SRF program to secure the other SRF program against default through cross-collateralization may also be employed.

B. Short Term Borrowing Program (including Commercial Paper or Draw-Down Note Program)

Short term borrowing programs may be issued to support eligible CWSRF/DWSRF lending and/or high reimbursement demand on a periodic basis to balance cash-flows as well as to satisfy SRF state match requirements. Short-term borrowing may also be considered when using funds from one SRF program to help cure a default in the other SRF program through a short-term cross-fund investment.

XVIII. Entering the Market

Cash flow needs, resource availability, and refunding opportunities are the primary factors determining when the State Water Board issues debt. After an analysis of borrower demand and cash flow are completed, and it is determined that cash flow is projected to be insufficient to meet existing and upcoming commitments, staff will seek State Water Board approval and develop a plan to enter the market and issue bonds. Timing is critical and staff must monitor economic indicators, in coordination with the IBank and Financial Advisor, to determine the appropriate time to enter the market. The State Water Board will also consider advice from the Financial Advisor as to market conditions and optimal timing.

XIX. Financing Strategy

The State Water Board's financing strategy must integrate and balance the funding capacity of the SRF programs, the staff resources available and necessary to manage the SRF programs, and the demand for SRF funding in a way that protects the long-term finances of the program while achieving the best water quality outcomes possible. Based on the programs' funding capacities, staff resources, and the State Water Board's guidance, DFA shall establish annual funding targets in consultation with the Financial Advisor that will ensure the perpetuity of the SRF programs while balancing the near-term and long-term funding capacities of the programs and the near-term and long-term water related objectives of the State Water Board. The funding targets shall be used as the basis for planning and analysis performed annually as part of the Intended Use Plans. An annual funding target will also help manage demand from applicants, especially in circumstances where funding requests exceed the funding capacities of the SRF programs.

A. Funding Capacity

The funding capacities of the programs are based on financial modeling done in cooperation with the Financial Advisor that considers the original capital contributions (Corpus Funds)[1] and earnings[2] as well as the leveraging capacity of the SRFs through the sale of revenue bonds or other debt instruments. When evaluating the funding capacities of the SRF programs, variables should be selected based on historical experience, and assumptions and future estimates should tend to be conservative. A funding capacity analysis should be performed regularly – at least once per year – for each program in coordination with the development of the Intended Use Plans. The funding capacity analysis shall consider a range of inputs to evaluate possible outcomes to ensure the perpetuity of the SRFs and evaluate the tradeoffs between near-term and long-term SRF funding capacity.

1. Leveraging Capacity

The leveraging capacities of the SRF programs through the sale of revenue bonds or other debt instruments shall be considered in the overall funding capacity of the SRF programs. The SRF programs' leveraging capacity analyses shall be performed regularly –at least once per year – for each program in coordination with the development of the Intended Use Plans.

[1] "Corpus Funds" means the sum total of federal and State contributions to the respective DWSRF or CWSRF, namely federal capitalization grants from USEPA and associated State Match from such sources as general obligation bond proceeds, local match, etc.

[2] The earnings of the DWSRF and CWSRF constitute interest paid on loans by funding recipients plus investment interest of the funds.

Leveraging capacity modeling should ensure that the Corpus Funds are protected and that retained earnings are sufficient to meet the perpetuity requirement of the programs.

a. Debt Limitations

For the purposes of modeling and analyzing the SRF programs' leveraging capacity, the maximum level of indebtedness of the SRF programs shall be affected by the following objectives:

i. The available pledged revenue streams and rate covenants or additional bond tests contained in the bond documents, including minimum coverage ratios.
ii. The State Water Board's goal of achieving and maintaining "AAA" ratings for both the DWSRF and CWSRF programs.
iii. The SRF programs' funding capacity and limited to such extent necessary to ensure ongoing funding capacity at consistent or increasing levels to ensure loan funding sustainability.
iv. Maintaining retained earnings at levels to offset lost capital, should this event occur, and to provide the State Water Board with a cushion of retained earning that support higher than average short-term leveraging, should it desire to pursue an initiative with an SRF program.
v. The State Water Board's ability to timely disburse bond funds in accordance with any TIPRA requirements or marketing efforts to demonstrate the expeditious use of bond proceeds. The size and frequency of bond transactions shall also be governed by the State Water Board's ability to maximize the timely disbursement of proceeds while minimizing the number of loans receiving debt proceeds.
vi. The State Water Board's ability to pledge a pool of diverse loans with sufficient credit

quality, size and regional diversity to achieve its goal of maintaining “AAA” ratings for SRF programs. It is the State Water Board’s goal to structure the pledge pool so that no borrower constitutes more than 20 percent (20%) of a DWSRF or CWSRF pledged pool to mitigate concentration risk, while simultaneously achieving a pool of diverse borrowers with sufficient credit quality that can be adequately monitored by State Water Board staff and their resources.

2. Cash-Flow Forecasting

Cash-flow forecasting considers shorter-term cash needs associated with the fluctuations and variability inherent in simultaneously financing multiple, independent projects. It should be used to estimate the impacts of events over a shorter time frame, typically three to five years, and should correlate short-term cash needs with the financing and leveraging capacities of the programs. Cash-flow forecasts should consider the following factors:

a. Current cash balances and future cash inflows that are made available to finance SRF planning and construction projects, and other eligible uses, including:
   i. Federal capitalization grants and their budgeted use for repayable financing, additional subsidy (i.e. principal forgiveness), CWSRF administration allowances and DWSRF set-aside funds
   ii. Additional capitalization for purposes of SRF State Match, such as general obligation bond proceeds, local match, or other short-term financings
   iii. Principal repayments and interest earnings on outstanding financings
   iv. Additional capitalization from the planned sale of SRF revenue bonds
   v. Investment Earnings net of expected arbitrage payments

b. Current commitments and future commitments, and their associated outflows, including:
    i. Current and future project encumbrances
    ii. Current and projected debt service on revenue bonds or other debt instruments
    iii. Current & projected reserves for revenue bonds or other debt instruments
c. Current and projected fees and their effects on SRF cash inflows, including:
    i. The CWSRF Small Community Grant (SCG) fee-in-lieu of interest
    ii. The DWSRF Small Community Emergency Grant (SCEG) fee-in-lieu of interest
    iii. The DWSRF and CWSRF administration fees-in-lieu of interest

B. Resource and Staffing Capacity

The SRF programs' resources and staffing are critical factors in determining how many new funding commitments are possible on an annual basis as well as the size, type and frequency of bond market transactions to support, in part, those funding commitments. It is vital that the State Water Board employ its resources and staff to first meet its existing funding commitments and debt obligations, as well as accurately and efficiently accomplish its existing programmatic priorities when considering future commitments or accepting additional programmatic workload. These programmatic priorities include the tasks listed in Appendix B to this Debt Policy as well as obligations and requirements included in the CWSRF and DWSRF Policies, Operating Agreements, IUPs and other associated federal and state requirements. DFA shall ensure that existing programmatic workload priorities and funding commitments are met by applying sound work-flow management practices supporting the mission of the programs, and ensure that new commitments do not jeopardize DFA's ability to meet these existing programmatic priorities and funding commitments.

Conversely, it is the goal of the State Water Board to maximize its staffing capacity and resources to enable the objectives of this Debt Policy and the overall water quality goals of the State Water Board.

C. Demand Management

The infrastructure and water quality needs in California far exceed what the CWSRF and DWSRF can finance with the available staff and funds. Demand management is an on-going process that attempts to balance the State Water Board's objective of having a consistent pipeline of projects that support its highest priorities and prudent financial management with the applicants' desire for cost-conscious and timely financing of their projects. There are several keys to effective demand management.

1. A robust application prioritization or scoring system should (a) help staff identify and focus on those applications that best support the State Water Board's priorities and (b) help applicants evaluate their projects' competitiveness and guide them toward submitting applications that best align with the State Water Board's priorities. The application scoring systems are established by the State Water Board in the SRF Policies, and will be used to evaluate, in conjunction with a target funding level, project applications as part of the annual Intended Use Plans.

2. Demand management also needs to support the composition of the SRFs' portfolios. Access to the capital markets at a reasonable cost is important for any long-term financing strategy, and the credit quality of the portfolio is affected by the mix of applicants that request and receive financing. DACs often experience some of the most severe water quality problems, while large, financially stable communities provide a sound foundation for leveraging the SRF programs to increase water quality financing in California. Both types of communities play significant roles in the success of the SRF programs. Portfolio diversification should consider the credit quality of the borrowers that may be used in the pledge pool as well as credit concentration. Geographic distribution of borrowers should also be considered to avoid geographic risk.

3. Demand management also requires effective communication with applicants so that they understand the current status of their applications and the status of the program overall. The SRFs' Marketing Strategy and IUPs play key roles in effectively communicating with stakeholders, and ensuring that staff, particularly Project Managers who are often the face of the programs, are up-to-date is an important avenue of communication with applicants.

XX. Board Reservation of Authority

The State Water Board reserves the right to use its discretion as necessary and appropriate as circumstances warrant to exempt, waive, make exceptions or request additional provisions to this Debt Policy not otherwise required by law, and reserves the right to change this Debt Policy from time to time.

The Deputy Director of DFA may, in consultation with the Office of Chief Counsel, update and amend the Debt Policy's Appendices and create new Appendices as necessary for administrative or procedural changes not in conflict with this Policy, unless doing so would require additional approval by U.S. EPA, the Executive Director, or the Trustee.

XXI. Acronyms

DWSRF	Safe Drinking Water State Revolving Fund
CWSRF	Clean Water State Revolving Fund
DAC	Disadvantaged Community
DAS	Division of Administrative Services
DFA	Division of Financial Assistance
IRMA	Independent Registered Municipal Advisor
IRS	Internal Revenue Service
IUP	Intended Use Plan
MSRB	Municipal Securities Rulemaking Board
SEC	Securities Exchange Commission
SRF	DWSRF or CWSRF or collectively, the DWSRF and CWSRF
STO	State Treasurer's Office
TIPRA	Tax Increase Prevention and Reconciliation Act of 2005
U.S. EPA	United States Environmental Protection Agency

Appendix A

STATE WATER RESOURCES CONTROL BOARD

POST-ISSUANCE TAX COMPLIANCE POLICY FOR TAX-EXEMPT BOND ISSUES

October 2017

I. PURPOSE

The purpose of this policy is to ensure that the State Water Resources Control Board (State Water Board) complies with applicable requirements of federal tax law necessary to preserve the tax-exempt status of interest on tax-exempt obligations issued by or on behalf of the State Water Board. This policy is designed to set forth compliance procedures so that the State Water Board utilizes the proceeds of all issues of bonds or other obligations (collectively, the Bonds) in accordance with applicable federal tax requirements and complies with all other applicable federal requirements with respect to Bond issues.

To comply with applicable federal tax requirements, the State Water Board must confirm that the requirements are met at the time Bonds are issued and throughout the term thereof. Generally, compliance should include retention of records sufficient to establish compliance with applicable federal tax requirements, including records related to periods before the Bonds are issued (*e.g.,* in the case of reimbursement of prior expenditures) until three (3) years (or, if longer, such other time period provided in the tax certificate related to an issue of Bonds) after the final maturity or redemption date of any issue of Bonds (including any refinancing thereof).

The State Water Board reserves the right to use its discretion as necessary and appropriate to make exceptions or request additional provisions as circumstances warrant. The State Water Board also reserves the right to change this Policy from time to time.

II. PROCEDURES

Responsible Official

The Division of Financial Assistance (DFA) shall be responsible for overseeing compliance with the provisions of this Policy, and will identify the employee(s) who will be responsible for each of the procedures listed below.

Upon employee transitions, the DFA will advise the new personnel and their supervisors of their responsibilities under these procedures and will ensure that they understand these procedures. If employee positions are restructured or eliminated, the DFA will reassign or seek to reassign responsibilities as necessary.

Issuance of Bonds

Bond Counsel. The State Water Board will retain a nationally recognized bond counsel firm (Bond Counsel) to deliver a legal opinion upon issuance of Bonds. State Water Board staff will consult with Bond Counsel and other legal counsel and advisors, as needed, following issuance of Bonds to ensure that applicable post-issuance requirements in fact are met, so that interest on all Bond issues will be excluded from gross income for federal income tax purposes so long as any Bonds remain outstanding. This shall include, without limitation, consultation in connection with any potential changes in the use of Bond-financed or refinanced Projects (as defined herein). The DFA will coordinate with the Division of Administrative Services (DAS) and the Office of Chief Counsel (OCC) to maintain a contract with Bond Counsel.

Documentation of Tax Requirements. The federal tax requirements relating to each issue of Bonds will be set forth in the Tax Certificate executed in connection with each issue, which will be included in the closing transcript for each issue. The certifications, representations, expectations, covenants and factual statements set forth in the Tax Certificate relate primarily to the restriction on use of Bond-financed facilities by persons or entities other than local government recipients, changes in use of assets financed or refinanced with Bond proceeds, restrictions applicable to the investment of Bond proceeds and other moneys relating to the Bonds, arbitrage rebate requirements, and economic life of the Bond-financed assets. In addition, the federal tax requirements relating to each loan made with the Bond proceeds is set forth in the financing agreement executed by each local government recipient in connection with each loan.[1]

Information Reporting. The DFA will coordinate with the DAS and the OCC to confirm that the IRS Form 8038-G is timely filed with respect to all Bond issues, including any required schedules and attachments. The Form 8038-G filed with the IRS, together with an acknowledgement copy (if available) or IRS Notice CP152, will be included as part of the closing transcript for each Bond issue, or kept in the records related to the appropriate issue of Bonds.

Application of Bond Proceeds

Timely Expenditure of Bond Proceeds. The State Water Board will ensure the timely expenditure of Bond proceeds. At the time of issuance of any Bonds (or any portion thereof) issued to fund original expenditures, as to each loan of Bond proceeds to local government recipients, the State Water Board must reasonably expect that there will be a substantial binding obligation to spend at least 5% of the loaned Bond proceeds on capital project costs, that the Bond-financed project (the “Project”) and the expenditure of Bond proceeds to costs will proceed with due diligence, and that at least 85% of the loaned Bond proceeds (excluding Bond proceeds held in a reasonably required reserve fund) will be spent by the local government recipients on capital project costs within three (3) years of the issue date of the Bonds.[2] Satisfaction of these requirements allows project-related Bond proceeds to be invested at an unrestricted yield by the State Water Board for six (6) months from the issue date of the Bonds and by the local government recipients for the balance of the three (3) year period from the issue date of the Bonds. Bonds issued to refinance outstanding obligations are subject to separate expenditure requirements, which shall be outlined in the Tax Certificate relating to such Bonds. The DFA will coordinate with the DAS to monitor the appropriate capital project accounts (and, to the extent applicable, working capital expenditures and/or refunding escrow accounts) and ensure that Bond proceeds are spent within the time period(s) required under federal tax law.

Loan Origination Expectations. The State Water Board must reasonably expect the following on the date of issue of the Bonds: (i) that at least 30% of the net proceeds of the Bonds will have been used directly or indirectly to make or finance loans to local government recipients by the end of the one-year period beginning on the date of issuance of the Bonds (the “one-year/30% test”), and (ii) that at least 95% of the net proceeds of the Bonds will be lent to local government recipients by the end of the third year after the date of issuance (the “three-year/95% test”).

Redemption Requirement. To the extent that less than the applicable percentage of the proceeds of any Bond issue that is required to comply with the one-year/30% test or the three-year/95% test, above, is used by the close of the one-year or three-year period, respectively, beginning on the date of issuance of such Bond issue, the State Water Board shall redeem the

[1] The term "loan” is used generally herein and includes Installment Sale Agreements and other forms of repayable financing.
[2] These requirements do not apply to refinancings.

appropriate amount of outstanding Bonds within 90 days after the end of the applicable period. The DFA will coordinate with the DAS and the OCC to monitor and implement the foregoing.

Capital Expenditures. In general, proceeds (including earnings on original sale proceeds) of Bonds issued to fund original expenditures, other than proceeds deposited in a reasonably required reserve fund or used to pay costs of issuance, should be spent by the local government recipients on capital expenditures. For this purpose, capital expenditures generally mean costs to acquire, construct, or improve property (land, buildings and equipment), or to adapt the property to a new or different use. The property financed or refinanced must have a useful life longer than one (1) year. Capital expenditures include design and planning costs related to the Project, and include architectural, engineering, surveying, soil testing, environmental, other similar costs incurred in the process of acquiring, constructing, improving or adapting the property. Capital expenditures do not include operating expenses of the Project or incidental or routine repair or maintenance of the Project, even if the repair or maintenance will have a useful life longer than one (1) year.

Use of Bond-Financed Assets

Ownership and Use of Project. For the life of the Bond issue (including any refinancing thereof), the Project must be owned and operated by a state or local governmental entity. At all times while the Bond issue is outstanding, no more than 10% (or $15,000,000, if less) of the Bond proceeds or the Project may be used, directly or indirectly, in a trade or business carried on by a person other than a state or local governmental unit (“Private Use”). Generally, Private Use consists of any contract or other arrangement, including leases, management contracts, operating agreements, guarantee contracts, take or pay contracts, output contracts or research contracts, which provides for use by a person who is not a state or local government on a basis different than the general public. The Project may be used by any person or entity, including any person or entity carrying on any trade or business, if such use constitutes “general public use.” General Public Use is any arrangement providing for use that is available to the general public at either no charge or on the basis of rates that are generally applicable and uniformly applied. The DFA will coordinate with the OCC to monitor at least annually the foregoing throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in the Tax Certificate relating to the Bonds.

Management or Operating Agreements. Any management, operating or service contracts whereby a non-governmental entity (including the federal government) is using the Project must fit within the above-mentioned 10% allowable Private Use limit or the contracts must meet the IRS safe harbor for management contracts. Any such management, operating or service contracts, including any replacements of or changes to such contracts, must be reviewed by Bond Counsel. State Water Board staff will contact Bond Counsel if there may be a lease, sale, disposition, or other change in use of assets financed or refinanced with Bond proceeds. The DFA will coordinate with the OCC to monitor and consult at least annually regarding the foregoing throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in the Tax Certificate relating to the Bonds.

Useful Life Limitation. The weighted average maturity of the Bond issue cannot exceed 120% of the weighted average economic life of the assets financed or refinanced with Bond proceeds. In other words the weighted average economic life of the Project must be at least 80% of the weighted average maturity of the Bond issue (including any refinancing thereof). The DFA will, at least annually, monitor the foregoing throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in the Tax Certificate relating to the Bonds.

Investment Restrictions; Arbitrage Yield Calculation; Rebate

The State Water Board will retain an arbitrage/rebate consultant to ensure that applicable arbitrage/rebate requirements are met, as discussed below. The DAS will coordinate with the DFA and the OCC to maintain a contract with such a consultant.

Investment Restrictions. Investment restrictions relating to Bond proceeds and other moneys relating to the Bonds are set forth in the Tax Certificate. The DAS will monitor at least annually the investment of Bond proceeds to ensure compliance with yield restriction rules.

Arbitrage Yield Calculation. Investment earnings on Bond proceeds will be tracked and monitored to comply with applicable yield restrictions and/or rebate requirements. The State Water Board is responsible for calculating (or causing the calculation of) rebate liability for each Bond issue, and for making any required rebate payments. Any funds of the State Water Board set aside or otherwise pledged or earmarked to pay debt service on Bonds must be analyzed to assure compliance with the tax law rules on arbitrage, invested sinking funds, and pledged funds (including gifts or donations linked to the Bond-financed assets). The DAS will oversee this activity.

Rebate. The State Water Board will retain an arbitrage rebate consultant to perform rebate calculations that may be required to be made from time to time with respect to any Bond issue. The State Water Board is responsible for providing the arbitrage rebate consultant with requested documents and information on a prompt basis, reviewing applicable rebate reports and other calculations and generally interacting with the arbitrage rebate consultant to ensure the timely preparation of rebate reports and payment of any rebate. The DAS will oversee this activity.

The reports and calculations provided by the arbitrage rebate consultant will ensure compliance with rebate requirements, which require the State Water Board to make rebate payments, if any, no later than the fifth (5^{th}) anniversary date and each fifth (5^{th}) anniversary date thereafter through the final maturity or redemption date of a Bond issue. A final rebate payment must be made within sixty (60) days of the final maturity or redemption date of a Bond issue. The DAS will oversee this activity.

The DAS will confer and consult with the arbitrage rebate consultant to determine whether any rebate spending exception may be met. The DAS and the OCC will review the Tax Certificate and/or consult with the arbitrage rebate consultant or Bond Counsel for more details regarding the rebate spending exceptions.

Copies of all arbitrage rebate reports, related return filings with the IRS (i.e., IRS Form 8038-T), copies of cancelled checks with respect to any rebate payments, and information statements must be retained as described below. The DAS will follow the procedures set forth in the Tax Certificate entered into with respect to any Bond issues that relate to compliance with the rebate requirements.

Record Retention

Allocation of Bond Proceeds to Expenditures. The State Water Board shall allocate (spend) Bond proceeds to loans made to local government recipients, and shall trace and keep track of the use of Bond proceeds and assets financed or refinanced therewith. The DAS will ensure compliance with this requirement. Copies of all relevant documents and records sufficient to support that the tax requirements relating to a Bond issue have been satisfied will be maintained by the DFA for the term of a Bond issue plus three (3) years (or, if longer, such other time period provided in the tax certificate related to an issue of Bonds), including any refinancing thereof, including the following documents and records:

- Bond closing transcript;
- All records of investments, arbitrage reports, returns filed with the IRS and underlying documents;
- Construction contracts, purchase orders, invoices and payment records;
- Documents relating to costs reimbursed with Bond proceeds;
- All contracts and arrangements involving Private Use of the Bond-financed property;
- All reports relating to the allocation of Bond proceeds and Private Use of Bond-financed property; and
- Itemization of property financed with Bond proceeds.

III. EDUCATION AND TRAINING

The DFA, the DAS, the OCC shall periodically obtain education and training on federal tax requirements for post-issuance compliance applicable to the Bonds. The State Water Board will enable relevant personnel to attend and participate in educational and training programs regarding compliance with federal tax requirements for the Bonds.

IV. CORRECTING NON-COMPLIANCE

If any non-compliance of applicable federal tax requirements is identified or otherwise brought to the State Water Board's attention, the DFA shall, in consultation with legal counsel and the appropriate tax compliance personnel of the State Water Board, cause the State Water Board and any other parties involved with the issuance of the Bonds or the use of the proceeds of the Bonds, as required, to take all steps necessary or advisable in order to timely correct or remediate such non-compliance.

POST-ISSUANCE COMPLIANCE

A) In General.

The DFA will conduct periodic reviews of compliance with these procedures to determine whether any violations have occurred so that such violations can be remedied through the "remedial action" regulations (Treas. Reg. Section 1.141-12) or the Voluntary Closing Agreement Program (VCAP) described in IRS Notice 2008-31 (or successor guidance). If any changes to the terms or provisions of a Bond issue are contemplated, State Water Board staff will consult Bond Counsel.

B) Private Use.

The DFA will maintain records identifying the proceeds of a Bond issue (including earnings thereon or the repayment of loans made therewith) used to make loans to local government recipients, including the uses and the users (including terms of use and type of use) thereof. Such records may be kept in any combination of paper or electronic form. In the event the use of Bond proceeds or assets financed or refinanced with Bond proceeds is different from the covenants, representations or factual statements in the Tax Certificate (or the tax certifications and representations made by any local government recipient), the DFA will promptly contact the OCC, which will promptly contact and consult with Bond Counsel to ensure that there is no adverse effect on the tax-exempt status of the Bond issue and, where appropriate, will remedy any violations through the "remedial action" regulations (Treas. Reg. § 1.141-12), the Voluntary Closing Agreement Program (VCAP) described in IRS Notice 2008-31 (or successor guidance), or as otherwise prescribed by Bond Counsel.

PRE- & POST-ISSUANCE ACTIVITIES RELATED TO REVENUE BONDS

Pre-Issuance & Issuance

Activity	Division(s)	Estimated Frequency or Timing
Assist State Treasurer's Office with Underwriter selection	DFA	At outset, 4 to 6 months prior to Closing
Receive G-17 Disclosure letters	DFA, OCC	4 to 6 months prior to Closing
Attend IBank/Underwriter/STO kick-off meeting	DFA, OCC	4 to 6 months prior to Closing
Conduct and participate in coordination calls between Board staff, IBank, STO, Bond Counsel, Disclosure Counsel, and Underwriters leading up to bond sale	DFA, DAS, OCC	Weekly
Review, edit, and provide input on draft bond documents	DFA, DAS, OCC	Daily/weekly, beginning 4 to 6 months prior to Closing
Ensure that Financial Advisor has up-to-date data for financial analyses	DFA, DAS	Weekly
Analyze and provide information on bond sizing, forecasted disbursement of bond proceeds, and composition of pledge pool	DFA	As necessary, beginning 3 to 4 months prior to Pricing
Address disclosure and diligence issues	DFA, OCC, DAS	As necessary, beginning 3 to 4 months prior to Pricing
Prepare and submit substantially final documents to State Water Board for approval	DFA, OCC	10 to 12 weeks prior to Pricing
Review IBank Board meeting materials and provide input and comments	DFA, OCC, DAS	10 to 12 weeks prior to Pricing
Brief State Water Board members on bond sale	DFA, OCC	6 to 8 weeks prior to Pricing
Provide comments and input on Rating Presentation	DFA, OCC	6 to 8 weeks prior to Pricing
Attend State Water Board Meeting for approval of substantially final documents	DFA, OCC	6 to 8 weeks prior to Pricing
Attend IBank Board Meeting for approval of substantially final bond documents	DFA, OCC	6 to 8 weeks prior to Pricing
Hold calls with the Rating Agencies	DFA, OCC	4 to 6 weeks prior to Pricing
Assist Underwriters with drafting the Investor Roadshow	DFA, OCC	4 to 6 weeks prior to Pricing
Record Investor Roadshow	DFA	3 weeks prior to Pricing
Review Marketing Plan	DFA	2 to 3 weeks prior to Pricing
Research and prepare for Due Diligence Call	DFA, OCC, DAS	2 to 3 weeks prior to Pricing
Attend Due Diligence Call	DFA, OCC, DAS	2 weeks prior to Pricing

Obtain signatures and authorize release of Preliminary OS	DFA, OCC	1 to 2 weeks prior to Pricing
Take Investor Calls and meetings	DFA	0 to 2 weeks prior to Pricing
Prepare justification and obtain approval for Out-of-State Travel	DFA	
Attend Pricing in New York	DFA	3 to 4 weeks prior to Closing
Obtain signatures and authorize releases of Pricing documents	DFA, OCC	At Pricing
Obtain and transmit Authorized Representative signatures to Bond Counsel	OCC	1 week prior to Closing
Attend Closing call	DFA, OCC	At Closing
Review and approve expenses	DFA, OCC	Within 2 months of Closing

Post-Issuance

Activity Type	Activity	Responsible Division(s)	Frequency
Notice, Audits, & Reports			
	Provide the Trustee and IBank a GAAP-compliant, audited Annual Disclosure Report.	DFA DAS	Annually – February 1
	Provide bond issuance documents to the Trustee: (1) an authorizing resolution adopted by the Board approving issuance, sale, and delivery of the Series and the execution and delivery by the Board of any Parity Reimbursement Obligation; (2) an original or certified copy of the Tax Certificate, Series Indenture, any Credit Facility, and any Parity Reimbursement Obligation; and (3) other required documents	DFA	As necessary - Issuance of an additional Bond Series
	With any release (or substitution) of pledged project obligations (PPOs), provide to Trustee, IBank, and each relevant Rating Agency a Board Officer Certificate which: (1) provides a revised Schedule I to the MPPA and (2) demonstrates forecasted satisfaction of that the Coverage Test.	DAS DFA	As necessary – on release of PPOs
	With any addition of PPOs, provide to Trustee, IBank, and each relevant Rating Agency a Board Officer Certificate which: (1) provides a revised Schedule I to the MPPA and (2) demonstrates forecasted satisfaction of that the Coverage Test.	DAS DFA	As necessary – on addition of PPOs
	On becoming aware of PPO default or delinquency, promptly notify the IBank and the Trustee	DAS DFA	As necessary – PPO default or delinquency
	Notify the Trustee so that the Trustee may establish and maintain a Rebate Fund when the Board determines that a rebate fund is necessary in accordance with a Tax Certificate.	DAS	As necessary - Rebate

	Provide notice of Notice Event within 10 days to the Trustee, the MSRB, and IBank.	DFA	As necessary - Occurrence of a Notice Event
	Provide the Trustee with notice of failure to provide the Trustee annual financials by Feb.1 in a timely manner.	DFA	As necessary – late financials
	Provide the Trustee and the Municipal Securities Rulemaking Board the late audited financials when becomes available.	DFA	As necessary – late financials
Funds Transfers & Accounts			
	Make bond payments.	DAS	Quarterly - March 15, June 15, September 15, and December 15 of each year
	Make rebate payments, if any, for each outstanding bond issue based on the calculations and reports provided by arbitrage/rebate consultant.	DAS	5 years post-issuance and every 5 years thereafter through final maturity or redemption
	Transfer amounts in the Prepayment Fund to the Restricted Assets Fund.	DFA DAS	Annually – at least once a year
	Immediately deposit and maintain principal and interest payments on PPOs in the Restricted Access Fund, subject to appropriate procedures of the State Controller.	DAS DFA	As necessary – receipt of p&i payments
	Immediately deposit prepayments into the Restricted Assets Fund.	DAS	As necessary - Prepayments in Prepayment Fund
	Immediately deposit any Prepayment on a PPO into the Prepayment Fund.	DAS	As necessary - receipt of a PPO prepayment
	Immediately transfer investment earnings into the Restricted Assets Fund to the Debt Service Fund.	DAS	As necessary – investment earnings in the Restricted Assets Fund
	Deposit Series proceeds into the Related Bond Proceeds Account.	DAS	As necessary – shortly after bond issuance
	Deposit Costs of Issuance into the Related Bond Proceeds Account.	DAS	As necessary – shortly after bond issuance
	Deposit investment earnings on amounts in the Bond Proceeds Account into the Debt Service Fund.	DAS	As necessary - Receipt of investment earnings on amounts in the Bond Proceeds Account
	Deposit investment earnings on amounts in the Prepayment Fund into the Debt Service Fund.	DAS	As necessary – Receipt of investment earnings on amounts in the Prepayment Fund.

	Keep at all times proper books of records and accounts, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions of or in relation to the business, properties and operations of the funding of Project Obligations acquired in whole or in part with the proceeds of the Bonds and Pledged Project Obligations.	DAS	Ongoing and regularly
	Establish, maintain, and hold in trust: (1) Costs of Issuance Fund; (2) Bond Proceeds Fund; (3) Restricted Assets Fund; (4) Debt Service Fund; (5) Debt Service Reserve Fund; and (6) Prepayment Fund.	DAS	Ongoing and regularly
	Apply amounts deposited into the Restricted Assets Fund to pay or reimburse the Board and the IBank for any Bond Expenses reasonably incurred in connection with an event of Default and thereafter shall be transferred to the funds and DAS accounts established hereunder to pay amounts due from the State Water Board in accordance with Section 6.09 of the MTI.	DAS	Ongoing and regularly
	Apply amounts deposited in a Bonds Proceeds Account to: (i) fund Bond Funded Project Obligations; (ii) to refund bonds and other obligations; (iii) to pay Debt Service on a series; (iv) to pay Bond Expenses; (v) to satisfy the Related Rebate Requirement (as provided in the Related Tax Certificate); and (vi) such other purpose as provided for a Series of Bonds, each as may be provided in the Related Series Indenture.	DAS	Ongoing and regularly
Borrower Surveillance & Enforcement			
	Monitor compliance with requirements and covenants related to ownership and use of the projects financed or refinanced with bond proceeds.	DFA OCC	Annually - at least once per year
	Monitor borrowers’ management, operating, or service contracts to ensure compliance with the 10% allowable Private Use limit or IRS safe harbor for any financed projects financed or refinanced with bond proceeds.	DFA OCC	Annually - at least once per year
	Monitor compliance with the useful life limitation, which provides that the weighted average maturity of the Bond issue cannot exceed 120% of the weighted average economic life of the assets financed or refinanced with bond proceeds.	DFA OCC	Annually - at least once per year

	Monitor compliance with investment/yield restrictions relating to Bond Proceeds.	DFA OCC	Annually - at least once per year
	Monitor each Recipient's performance under the Pledged Project Obligations and to exercise all rights and remedies under any statue, rule, or agreement to ensure the timely performance by the Recipient and the timely payment of all amounts due under the Pledged Project Obligations.	DFA	Ongoing and regularly
	Diligently enforce, and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants, and conditions of all Pledged Project Obligations.	DFA	Ongoing and regularly
Internal Controls			
	Cause the calculation of the rebate liability for the maturing or redeemed bond issue and make a final rebate payment.	DAS	Within 60 days of the final maturity or redemption date of a Bond issue
	Confirm that IRS Form 8038-G is timely filed, including required schedules and attachments.	DFA	At bond issuance
	Ensure that sufficient loans have been originated and funded such that the one year/30% test and the three year/95% test have been met.	DFA	At bond issuance
	If required one year/30% test and three year/95% test expenditure thresholds are not met, redeem the appropriate amount of outstanding Bonds within 90 days after the applicable period.	DFA	As necessary – If expenditure tests not met
	Contact and consult with Bond Counsel, if possible, prior to lease, sale or other disposition of bond-financed or refinanced assets.	DFA OCC	As necessary – if recipients lease project or change project ownership
	Upon identification of non-compliance with federal tax requirements, take all necessary and advisable steps to timely correct non-compliance or take a remedial action with respect to the Bonds, in consultation with Bond Counsel.	DFA OCC	As necessary – non-compliance with federal tax requirements
	Consult with Bond Counsel if changes to Bond issue are contemplated.	DFA OCC	As necessary – contemplated changes to Bond issue
	Not amend a Pledged Project Obligation in a manner which would materially adversely affect the payment of Obligations thereunder.	DFA OCC	Ongoing and regularly
	Coordinate with the IBank regarding post-bond issuance services to be provided as specified in Schedule II of the MPPA.	DFA	Ongoing and regularly
	Ensure the timely expenditure of bond proceeds.	DAS DFA	Ongoing and regularly

	Monitor appropriate capital project accounts (and, to the extent applicable, working capital expenditures and/or refunding escrow accounts) to ensure that bond proceeds are spent within the time periods required under federal law.	DAS DFA	Ongoing and regularly
	Retain an arbitrage/rebate consultant to ensure that applicable arbitrage/rebate requirements are met.	DFA	Ongoing and regularly
	Analyze compliance with tax rules on arbitrage, invested sinking funds, and pledged funds (including gifts or donations linked to the Bond-financed assets).	DAS OCC	Ongoing and regularly
	Calculate rebate liability for each outstanding Bond issue, and make any required rebate payments.	DAS OCC	Ongoing and regularly
	Provide the arbitrage rebate consultant with requested documents and information on a prompt basis, review applicable rebate reports and other calculations, and generally interact with the consultant to ensure the timely preparation of rebate reports and payments of any rebate.	DAS	Ongoing and regularly
	Consult with the arbitrage rebate consultant to determine whether any spending exception may be met with respect to bond proceeds.	DAS OCC	Ongoing and regularly
	Review the Tax Certificate and/or consult with the arbitrage rebate consultant or Bond Counsel for more details regarding the rebate spending exceptions.	DAS OCC	Ongoing and regularly
	Follow all procedures in the Tax Certificate related to compliance with rebate requirements for Bond issues.	DAS	Ongoing and regularly
	Retain copies of certain documents and records necessary to support compliance with tax requirements relating to the Bond issue for the term of the Bond issue plus three years (or longer if so required by the tax certificate related to the Bonds issue).	DAS DFA	Ongoing and regularly