

RHODE ISLAND CLEAN WATER FINANCE AGENCY

LOAN POLICIES AND PROCEDURES II

*Loan Policies and Procedures established to govern the lending activities
of the Drinking Water State Revolving Fund.*

Revised December, 2003

AUTHORITY: Policies and Procedures adopted in accordance to Chapter 46-12.8 of the General Laws of Rhode Island and the Safe Drinking Water Act Amendments of 1996.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

LOAN POLICIES AND PROCEDURES II

- I. **PURPOSE:** The within Loan Policies and Procedures of the Rhode Island Clean Water Finance Agency (Agency) have been established to govern the lending activities of the Drinking Water State Revolving Fund (DWSRF) in accordance with Chapter 46-12.8 of the General Laws of Rhode Island, and the Safe Drinking Water Act Amendments of 1996.
- II. **DEFINITIONS:** The words and phrases used within these Loan Policies and Procedures have the same meaning as the words and phrases have in Chapter 46-12.8 of the General Laws of Rhode Island and the Safe Drinking Water Act Amendments of 1996.
- III. **FINANCIAL ASSISTANCE:** The objective of these Policies and Procedures is to provide financial assistance from the DWSRF to those borrowers certified as eligible participants by the Rhode Island Department of Health, Drinking Water Quality Division (DOH).

Application for debt refinancing, guarantee or purchase of insurance for local debt obligations or for other non-construction activities such as planning and design will be considered by the Agency based on the projects' rank on DOH's Project Priority List. DOH's rank will be based on the original purpose of the project for which the funding is being requested. Refinancing of privately organized water suppliers is not allowed under the DWSRF program.

In the event that the Agency receives more requests for loans than it has funds available in federal fiscal year, it will award loans first to those eligible applicants who rank highest in chronological order on the Project Priority List.

- IV. **LOAN APPLICATION:** Request for financing should be submitted in writing by the Chief Executive Officer of the water supplier to the Executive Director of the Agency. The written request must include:
 - 1) A description of the project(s) to be financed with the projected construction and completion schedule.
 - 2) A description of the dedicated source of loan repayment, i.e. general revenues from property taxes or water system revenues from user fees.
 - 3) Legal authority or authorities to construct, finance and operate the project, if applicable.
 - 4) The past five years Audited Financial Statements in accordance with Generally Accepted Government Accounting Standards or Generally Accepted Accounting Principals; or some other source of historical information that the Agency, as a lender, deems appropriate.
 - 5) A copy of the Infrastructure Replacement Plan component of the Water Supply Management Plan if applicable.
 - 6) An application that proposes to purchase an existing water system must be accompanied by a certification of the water system's integrity by a registered professional engineer. A certification as to the appraised value of the system must also be provided. The Agency reserves the right to review this certification and request further data for analysis.

V. LOAN APPROVAL PROCESS: Project approvals are subject to the issuance and terms of Certificate of Approval by the DOH. Prior to loan approval, the Agency will conduct a financial capability analysis based primarily on the soundness of the operating and coverage ratios of the water system.

The following basic criteria shall be applied by the Agency during the loan approval process:

- 1) availability of DWSRF funds;
- 2) completeness of application including required documents;
- 3) accuracy of information, and;
- 4) creditworthiness of applicant pursuant to these regulations.

For the determination of creditworthiness, the Agency will require the following information to make its financial capability assessment:

sources of revenue and financial liquidity;
historical and projected financial operating results;
present and future debt service requirements;
current assignment of water rates and other revenues generated from user fees;
ability to increase water rates and/or secure alternative revenue sources;
cost of the project and estimated completion schedule;
long term capital replacement planning for entire system;
socioeconomic conditions and trends;
board, management and ownership structure, qualifications and experience;
presence of regulator control;
a Consulting Engineer's Water Facility and Financial Feasibility Report, if applicable;
history of applicant/system;
any other information that the Agency or its Board of Directors may require.

Refer to Attachment A for more information regarding the financial capability analysis to be performed by this Agency prior to DWSRF loan approval.

Those publicly owned community water systems that have market experience will provide to the Agency the same information as asked for above, and their most recent Official Statement. The minimum requirement for satisfaction of the financial capacity threshold is a proforma coverage ratio of at least 125%. The Agency will also examine historical debt service coverage ratios.

The Agency will individually assess the ability of Privately Organized Community Water Suppliers to provide loan security and meet debt service requirements of a DWSRF loan. The Agency reserves the right to limit the amount of financings to Privately Organized Community Water Systems to 5% of the total loans outstanding in the DWSRF.

If the financial capability analysis indicates that the applicant has the capacity to meet its obligations over the loan term, the Board of Directors of the Agency will vote to approve the application identifying the Name of Borrower, Project Description(s), Project Cost(s), the final maturity of the Loan and any other Conditions of the Loan. The borrowers will have the opportunity to identify potential issues with initial loan terms at this point. Based on borrowers concession of initial loan terms and the Agency's Board of Directors' approval, a Commitment Letter will be issued to the Applicant for its acceptance. Once the Commitment Letter has been executed, the Agency will meet with the applicant to structure the Loan Agreement as to interest rate, amortization schedule, source of repayment, security/credit enhancements, and loan covenants.

VI. TERMS AND CONDITIONS:

- 1) Interest Rate - The interest rate for borrowers will be 25% off their market rate of borrowing. The Agency, in cooperation with its advisors, will determine the borrower's current market rate of borrowing. However, the interest rate for small publicly owned community water systems and small privately organized community water suppliers, those serving fewer than 10,000 persons, (a "Small Borrower") may be set by the Agency at 3.0% for Loans up to \$300,000.
- 2) Interest- Interest will be fixed over the life of the loan; will be calculated on the basis of a 360 day year (twelve thirty day months) on the outstanding loan balance; will be paid on a schedule to be determined by the Agency (monthly/semi-annually) and may be capitalized during construction.
- 3) Loan Fees- The Agency will charge an Origination Fee of 1.0% (one percent) of the face amount of the loan at closing with a minimum of \$1,000. All out of pocket closing costs will be paid by the borrower and may be capitalized as part of the loan as permitted by the Environmental Protection Agency (EPA). These costs included but are not limited to:

Borrower's Costs of Issuance including Borrower Counsel and Borrower Financial Advisor;
Agency Costs of Issuance including Agency Counsel, Agency Bond Counsel, and Agency Financial Advisor;
Agency Underwriting cost and bond insurance costs, and
other closing costs including document printing and binding.

The Agency will also charge an annual Service Fee of .5% (one half of one percent) of the outstanding principal payable semi-annually at each interest payment date. A late payment fee of 5.0% of the amount of the payment will be charged for every 15 days that a payment is late.

- 4) Amortization- Amortization will begin within one year after completion of construction. Principal payments will be made annually on September 1st and the schedule of payments will be structured to meet the debt service and financial assistance needs of the borrower.
- 5) Final Maturity- Loans may mature up to twenty years after the completion of a project. The final maturity of a loan will be a factor in determining the level of financial assistance to a borrower.
- 6) Prepayments- The loan may be prepaid by the borrower at any time but may be subject to a prepayment penalty based on the cost of reinvesting the prepayment, the cost of prepaying outstanding bonds of the Agency or any other negative financial impact to the Agency.
- 7) Security/Credit Enhancement- Loans will have a general pledge of (a) general revenues and/or water system user fee revenues; and (b) may be secured by any assets and/or credit enhancements which the Agency deems appropriate to protect the interest of the other participants in the loan programs of the Agency; bond holders; other creditors of the Agency; or the finances of the Agency.
- 8) Construction Progress Payments- Progress payments for each construction project will be made through a Construction Proceeds Fund (CPF). Loan proceeds will be transferred monthly from the CPF for each borrower based upon approved Requisition Forms submitted to the Agency, (Attachment B). Upon receipt of the Requisition Form, the Agency will verify a) that a Certificate of Approval has been issued by DOH; b) the vendor is identified in the contract; and c) there is sufficient availability in the CPF to make the payment. Payments will be made directly to the

vendor and/or the Borrower for reimbursements by the Agency, and a "paid" stamped copy of the Requisition Form will be sent to the Borrower and DOH.

The DOH will perform periodic project inspections to a) monitor construction progress; b) verify eligibility of construction costs under the program; and c) insure construction is in conformity with Plans and Specifications. The DOH will provide a copy of the inspection report to the Agency. Any adverse conditions will be reported to the Agency who will suspend further payments until the adverse conditions have been rectified. The DOH will perform a final project inspection before the final payment is made by the Agency.

VII. REPORTING REQUIREMENTS: Borrowers will be required to provide information to the Agency during the life of the loan. The Agency may ask for information from the Borrower during the term of indebtedness that is not listed here:

- 1) A copy of its Annual Audited Financial Statements in accordance with Generally Accepted Government Accounting Standards or Generally Accepted Accounting Principals, annually within 180 days of end of fiscal year.
- 2) An annual analysis of Operating Revenues and Expenses with an emphasis on the status of the water system user fee revenues and/or general revenues securing the loans and operating expenses in excess of budget, annually within 180 days of the end of fiscal year.
- 3) A copy of the annual budget of the Borrower, within fifteen days of its adoption.
- 4) Annual schedule of current and projected short term and long term debt service.
- 5) An annual schedule of Infrastructure Replacement Reserves, if applicable.
- 6) Copies of reports submitted to DOH, DEM, the EPA, the Rhode Island Public Utilities Commission and any other regulatory agency relating to the projects financed and the operation of the water supply facility.

VIII. LOAN AGREEMENTS: There will be a Loan Agreement for each application outlining the terms and conditions of the Loan. The Loan will be evidenced by a general obligation pledge, pledge of water system revenues, note(s) and/or bond(s) in "fully marketable form" or some other source of security deemed appropriate by the Agency.

IX. COMPLIANCE WITH STATE AND FEDERAL LAW: Recipients of loans must comply with all applicable state and federal laws and regulations.

X. MODIFICATIONS: Where deemed appropriate by the Agency, waiver or variation of any provisions herein may be made or additional requirements may be added.

XI. LOAN PORTFOLIO MANAGEMENT AND SERVICING: The Agency will manage and service its loan portfolio to insure there will be no substantial adverse effect on other participants in the loan programs of the Agency; bond holders; other creditors of the Agency; or the finances of the Agency. In this regard, the Agency will:

- 1) Maintain its books and records to comply with Federal and State laws and regulations.
- 2) Manage its credit reviews, loan approvals, loan documentation, and loan collection to meet standards established by the Agency Board of Directors, Rating Agencies and Bond Insurers.

- 3) Limit the loans to privately organized borrowers to a level which is covered by adequate Debt Service Reserves, Credit Insurance or other forms of Credit Enhancements. The Agency has determined this level to be 5% of the total loans outstanding.
- 4) Utilize an accounting system which is in compliance with Section VIII of the Agency's Accounting Policies and Procedures.
- 5) Prepare annual Credit Reviews for each borrower to insure compliance with the financial covenants of the Loan Agreement and to insure there are no adverse changes in a borrower's financial condition and/or capacity to repay a loan.

Anthony B. Simeone, Executive Director

Public Notice Date: December 18, 2003
Public Hearing Date: January 12, 2004
Filed With Secretary of State: February 26, 2004
Effective Date: March 17, 2004

ATTACHMENT A

SELECTED FINANCIAL INFORMATION

to be

PROVIDED BY THE BORROWER

RHODE ISLAND CLEAN WATER FINANCE AGENCY
Credit Review for the
North Tiverton Fire District – Revised August, 2003
(Based on unaudited financial statements)

I. INTRODUCTION

The North Tiverton Fire District, (the “District”), was incorporated in 1926 for the purposes of furnishing a public water supply to residents in the northern end of Tiverton, Rhode Island. The District provides service to approximately 2,600 users which are primarily residential customers. The District obtains its water supply from the City of Fall River and from Stafford Pond via the Stonebridge Fire District.

The District is governed by an Administrative Board that is elected at the District’s annual meeting in June. The Administrative Board is composed of a moderator, clerk, treasurer, tax collector and three tax assessors.

The District is embarking on a five stage capital improvement plan to upgrade its infrastructure that totals approximately \$3,027,759. During the course of these projects, the District is scheduled to receive a grant from the Rhode Island Water Resources Board (RIWRB) for \$673,502 along with a USDA grant for \$1,362,478. These capital improvements are scheduled to begin in the Spring of 2003 and end in the Summer of 2004.

The District recently merged with the Tiverton Water Authority at this time. This merger became effective in July, 2003 upon approval by the Rhode Island General Assembly. The District now manages the water operations for all customers within the former Tiverton Water Authority.

A. Litigation

The District has no outstanding litigation at this time according to the District Clerk.

B. Employee Retirement Plans

The District maintains an employee retirement plan under which employees may defer a portion of their annual compensation. The company matches contributions up to ½ of the first 5.5% of eligible compensation. Substantially all employees who have completed at least one year of service are eligible to participate in the plan.

The FY 2002 cost for this plan was \$6,194.

II. DEBT ANALYSIS

A. Outstanding Debt and Debt Service Schedule

Table I shows the existing indebtedness of the District which consists of a general obligation bond with the USDA, dated November 1993. The District has no long term bond rating.

**Table I
North Tiverton Fire District
Outstanding Debt**

	<u>4/30/02</u>	<u>4/30/01</u>	<u>4/30/00</u>	<u>4/30/99</u>	<u>4/30/98</u>
USDA Bond	\$285,000	\$325,000	\$365,000	\$400,000	\$435,000

B. Security for Borrowing/Financing Plan

Under its enabling legislation the District is authorized to issue bonds and notes that are backed by an *ad valorem* pledge on all taxable property within the District. Section 8(g) of the District's Act cites – *the district shall annually appropriate a sum sufficient to pay the principal and interest coming due within the year on bonds and notes issued hereunder to the extent that monies therefore are not otherwise provide. If such sum is not appropriated, it shall nevertheless be added to the annual tax levy. In order to provide such sum in each year and notwithstanding any provision of law to the contrary, all taxable property in the district shall be subject to ad valorem taxation by the district without limitation as to rate or amount.*

The District has received authorization to issue up to \$3,027,759 for these projects at a meeting on September 24, 2002. This authorization is based on a general obligation pledge. Since the District has been awarded construction grants for approximately \$2,038,980 from the RIWRB and the USDA, only \$1,000,000 would be permanently bonded for these projects. We would recommend that the RICWFA (the "Agency") issue the District a one year bond anticipation note for these projects. Once the grants are received from the RIWRB and the USDA the District would only bond the remaining portion of approximately \$1,000,000 which would minimize its long-term interest expense.

III. SOURCES OF REVENUE

A Cash Flow Analysis

Table IV shows the cash flow position for the District for the last four fiscal years.

**Table IV
North Tiverton Fire District
Cash Flow Analysis**

	<u>FY 02</u>	<u>FY 01</u>	<u>FY 00</u>	<u>FY 99</u>
Cash Flows From Operating Activities	\$141,613.35	\$139,088.25	\$179,362.15	\$141,898.24
Cash Flows From Investing Activities	(\$170,388.02)	(\$175,643.25)	(\$181,151.26)	(\$174,900.00)
Cash Flows From Financial Activities	(\$40,000.00)	(\$40,000.00)	(\$35,000.00)	(\$35,000.00)
Net Increase (Decrease) In Cash	(\$68,771.67)	(\$76,555.00)	(\$36,789.11)	(\$68,001.76)
Cash At Beginning Of Year	\$267,886.21	\$344,441.21	\$381,230.32	\$449,232.08
Cash At End Of Year	\$199,114.54	\$267,886.21	\$344,441.21	\$381,230.32

B. Current Rate Structure

The District is not subject to the regulatory authority of the Public Utilities Commission in regards to the setting of user rates.

Table V
North Tiverton Fire District
Current Rate Schedule

Listed below are the District tax rates and the water rates for the last seven years.

<u>Tax rates per thousand valuation</u>		<u>Water rates per 100 cubic feet</u>	
2003 (reval)	0.90	2003	3.40
2002	1.20	2002	3.25
2001	1.10	2001	3.13
2000	1.05	2000	2.50
1999	1.05	1999	2.50
1998	.85	1998	2.50
1997	.75	1997	2.50

IV. OPERATING PERFORMANCE - Income Statement Trends/Retained Earnings

As can be seen from Table VI below, the District has experienced positive net income results for the last four fiscal years. Net income totaled \$71,886 at April 30, 2002, which was down from \$98,000 in FY 2001.

Table VI
North Tiverton Fire District
Income Statement Trends

	<u>FY 02</u>	<u>FY 01</u>	<u>FY 00</u>	<u>FY 99</u>
Revenue	\$809,682.94	\$710,130.58	\$703,301.86	\$649,337.29
Cost of Goods Sold	<u>\$299,686.57</u>	<u>\$231,020.53</u>	<u>\$182,661.18</u>	<u>\$171,149.83</u>
Gross Margin on Sales	\$509,996.37	\$479,110.05	\$520,640.68	\$478,187.46
General & Administrative Expenses	<u>\$424,954.78</u>	<u>\$374,113.51</u>	<u>\$368,479.35</u>	<u>\$406,432.54</u>
Operating Income	\$ 85,041.54	\$104,996.54	\$152,161.33	\$ 71,754.92
Other Income/Expenses	<u>(\$13,154.74)</u>	<u>(\$ 6,987.99)</u>	<u>(\$ 8,410.36)</u>	<u>(\$ 7,224.14)</u>
Net Income	<u>\$ 71,886.85</u>	<u>\$ 98,008.55</u>	<u>\$143,750.97</u>	<u>\$ 64,530.78</u>
% Net Income/Operating Revenues	9%	14%	20%	10%
Retained Earnings	\$ 1,475,485	\$ 1,403,598	\$ 1,305,590	\$ 1,161,839

V. Other Information

The Town of Tiverton, Rhode Island is rated "A2" by Moody's Investors Service. The Town's population is 15,260 with a full value per capita of \$69,630. The Town's median family income is \$58,917 compared to \$52,781 for the State of RI. The median selling price of an existing home in Tiverton was \$287,500 compared to \$219,000 state wide in the first quarter of 2003.

ATTACHMENT B

SAMPLE CONSTRUCTION REQUISITION FORM

SAMPLE

Date: _____

Rhode Island Clean Water Finance Agency
235 Promenade Street, Suite 119
Providence, RI 02908

Attention: Anthony B. Simeone, Executive Director

Re: Borrower
Project
Requisition for Approved Project Costs

Ladies and Gentlemen:

Pursuant to Section 5 of the Loan Agreement dated as of _____, _____ between the Rhode Island Clean Water Finance Agency (the "Agency") and _____, Inc., (the "Borrower"), we hereby request disbursement in the amount of \$_____ for project costs. In connection with this requisition, we hereby represent and certify the following:

1. This is requisition number _____.
2. Payments aggregating \$_____ have been incurred by the Borrower for projects costs for the period from _____ to _____ as set forth in Exhibit A hereto. As set forth in Exhibit B hereto, are true copies of vendor, contractor or supplier invoices, or such other documentation, satisfactory to the Agency, identifying the payee, and purposes for which such expenditures were incurred.
3. The aggregate amounts of payments on account of project costs are within the project definition.
4. The Certificates of Approval from the Department of Health ("DOH"), together with all other applicable DOH approvals have been obtained on account of the project.
5. The amount requested hereby, together with all prior requisitions, does not exceed the amount of the loan.
6. In the case of a requisition for the reimbursement of project costs paid in the first instance by the Borrower, all of such costs are within all applicable guidelines for reimbursement financing, and none of such costs have been the subject of any prior requisition.
7. The representations and warranties contained in Section 2 of the Loan Agreement were true and correct as of the date of the Loan Agreement and were true and correct as of the date hereof, with the same effect as if made on this date.

8. In accordance with the Loan Agreement, the Borrower represents and warrants as follows:
- (I) it is in compliance in all material aspects with all laws, ordinances and rules and regulations affecting or relating to the Project;
 - (II) it has used all previously disbursed loan proceeds and will use all loan proceeds to be disbursed to pay a portion of the costs of the Project or to reimburse itself for costs of the Project which it has paid and which have not been the subject of any prior disbursement;
 - (III) it is not in default hereunder.

By: Duly Authorized Officer

SAMPLE

EXHIBIT A

DRINKING WATER STATE REVOLVING FUND ("DWSRF") PROGRAM PROJECT PAYMENT REQUISITION FORM

DATE: _____

APPLICANT: _____

PROJECT NAME/NUMBER: _____

PERIOD COVERED: _____

<u>TASK</u>	TOTAL REQUEST (BORROWER)	TOTAL APPROVED FOR PAYMENT (Agency)	COMMENTS
A. Administrative/ Legal Expenses			
B. Planning/Design A/E Fees			
C. Basic A/E Fees			
D. Other A/E Fees			
E. Project Inspections			
F. Construction Costs			
G. Miscellaneous			
H. Total Cost			
I. Amount Due this Request			
J. Percent Complete			
CERTIFICATION: I certify that to the best of my knowledge and belief the billed disbursement costs are in accordance with the terms of the project; that the reimbursement represents expenses for which requisitions have not previously been made in accordance with approved project costs.	For the Borrower:	Signature – Authorized Official:	Date:
		Typed Name & Title:	Telephone:
	A/E Representative Certifying Line H:	Signature – A/E Representative:	Date:
		Typed Name & Title:	Telephone:

EXHIBIT B

Attached hereto are true and complete copies of vendor, contractor or supplier invoices, or such other documentation satisfactory to the Agency, identifying the payee and purposes for which such expenditures were incurred.

EXHIBIT C

[Description of extent to which representations and covenants made in the Arbitrage and Use of Proceeds Certificate furnished by the Borrower are no longer true and correct.]

EXHIBIT D

[Description of extent to which representations and warranties of clauses (____) and (____) of Section _____ of the Loan Agreement are no longer true and correct as of the date of this requisition.]

EXHIBIT E

[Description of extent to which representations and covenants made in any certificate furnished in connection with the delivery of the Borrower Bonds is no longer true and correct as of the date of this requisition.]

