

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**LOAN POLICIES AND PROCEDURES**

**MUNICIPAL ROAD AND BRIDGE REVOLVING FUND**

Loan Policies and Procedures established to govern the lending activities of the Municipal Road and Bridge Revolving Fund.

December, 2013

**AUTHORITY:** Policies and Procedures adopted in accordance with Chapter 24-18 of the General Laws of Rhode Island.

## RHODE ISLAND CLEAN WATER FINANCE AGENCY

### LOAN POLICIES AND PROCEDURES

- 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 Municipal Road and Bridge Revolving Fund in accordance with Chapter 24-18 of the General Laws of Rhode Island.
- 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 24-18 of the General Laws of Rhode Island.
- III. FINANCIAL ASSISTANCE: The objective of these policies and procedures is to establish the terms of providing financial assistance to local governmental units to make capital improvements to road, bridges and appurtenances thereto, in the form of loans with below market interest rates or interest rate subsidies which reduce the cost of financing eligible projects by at least 33%. Financially distressed local governmental units may receive financial assistance greater than 33% as long as these loans do not have an 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.
- IV. LOAN APPLICATION: Requests for financing should be submitted in writing by the Chief Executive Officer of the local governmental unit to the Executive Director of the Agency. The written request must include:
  - 1) A description of the project to be financed with the projected construction and completion schedule. In the case of a refinancing, a description of the completed project and the terms and source of previous financing.
  - 2) A description of the dedicated source of loan repayment, i.e., general revenues of cities and towns. The source of repayment will determine whether the loan is structured as a general obligation bond and/or a revenue bond.
  - 3) A description of the overall operations of the local governmental unit with an emphasis on (a) legal structure; (b) management; (c) sources of revenues; (d) operating expenses; (e) operating surpluses or deficits; (f) actual results versus budget; and (g) sources of financial liquidity.
  - 4) Legal authority or authorities to construct, finance and operate the project.
  - 5) The past five years Audited Financial Statements in Accordance with Generally Accepted Government Accounting Standards.

- 6) Financial and demographic information in accordance with Attachment A.
- 7) For revenue bonds, financial projections over the life of the financing showing sources of revenues, operating expenses, capital replacement reserves, user fee impact analysis, and cash available for debt service.

V. LOAN APPROVAL PROCESS: Loan applications will only be considered for those projects appearing on the project priority list established annually by the Rhode Island Department of Transportation ("RIDOT"). The Agency will conduct a financial capability analysis for each loan application which will take into consideration:

- 1) sources of revenue and financial liquidity
- 2) historical and projected financial operating results
- 3) present and future debt service requirements
- 4) impact of dedicated user fees and/or general revenues
- 5) cost of the project and completion schedule
- 6) long term capital replacement planning
- 7) socioeconomic conditions and trends
- 8) management qualifications and experience
- 9) effects of legal structure and any regulator control
- 10) the useful life of the project as determined by RIDOT

If this analysis indicates that the applicant has the capacity to repay the loan, the Board of Directors of the Agency will vote to approve the application identifying the Name of Borrower, Project Description, Project Cost, Term of the Loan and any other Conditions of the Loan. Based on the Board of Directors' approval, a Commitment Letter will be issued to the Applicant for their 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, and source of repayment, security, and loan covenants.

VI. TERMS AND CONDITIONS:

- 1) Interest - To administer loans in accordance with Chapter 24-18, the Agency has caused there to be created a fund known as the Municipal Road and Bridge Revolving Fund (the "MRBRF"). Proceeds of any funds provided by the State of Rhode Island under this Chapter, or any other funds provided to the Agency for the purposes set forth in Chapter 24-18, shall be deposited into the MRBRF. The Agency will make loans for approved, eligible projects at a rate of interest that is reduced from the Borrower's market rate. The amount of subsidy assistance (the "Subsidized Interest Rate") shall be determined annually by the Agency Board of Directors. Interest is to be calculated on the basis of a 360 day year and twelve 30 day months on the outstanding loan balance, paid semi-annually on March 1st and September 1<sup>st</sup>, and may be capitalized during construction. Borrowers will be contractually liable for the Market Rate on the Loan but will be billed only for the

Subsidized Interest Rate. In the event of a default by the Borrower or other Borrowers in the MRBRF program, the Agency may bill the Borrower for the Market. Rate.

- 2) Loan Fees - The Agency will charge an Origination Fee of 1.0% of the face amount of the loan at closing with a minimum of \$1,000. All out of pocket closing costs, i.e. Borrowers cost of issuance, Agency cost of issuance, Agency underwriting cost, and other closing costs, will be paid by the borrower. The Agency will also charge an annual Service Fee of .50% of the outstanding principal payable semi-annually at each interest payment date. A late payment fee will be charged for every 15 days that a payment is late of 5.0% of the amount of the payment.
- 3) Amortization - Amortization will begin within one year after completion of construction and one year after closing for a refinancing. 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.
- 4) Final Maturity - Loans funded from the Municipal Road and Bridge Fund may mature up to the duration of the useful life determination of the project by RIDOT. The final maturity of a loan will be a factor in determining the level of financial assistance to a borrower.
- 5) 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.
- 6) Security - Loans will have a pledge of (a) general revenues and/or other dedicated revenues of the Borrower; and (b) may be secured by any other assets and upon such other terms and conditions as the Agency deems appropriate to protect the interests of the other participants in the loan programs of the Agency; bondholders; other creditors of the Agency; or the finances of the Agency.
- 7) Construction Progress Payments - Progress payments for each construction project will be made through the MRBRF. Loan proceeds will be transferred monthly from the MRBRF 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 the Project appears on the RIDOT Project Priority List, b) the vendor is identified in the contract; and c) there is sufficient availability in the MRBRF to make the payment. Upon approval by the Agency and RIDOT, 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 RIDOT. At its discretion, RIDOT will perform periodic project inspections to a) monitor construction progress; b) verify eligibility of construction cost under the program; and c) insure construction is in conformity with Plans and Specifications.

RIDOT will provide a copy of any inspection reports to the Agency. Any adverse conditions, as determined by RIDOT, will be reported to the Agency who will suspend further payments until the adverse conditions have been rectified. RIDOT 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. These are:

- 1) A copy of its Annual Audited Financial Statements in accordance with Generally Accepted Government Accounting Standards, 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 dedicated revenues and/or general revenues securing the Borrower Bond and operating expenses in excess of budget, annually within 180 days of the end of fiscal year if the Borrower Bond is not a general obligation Bond. If the Borrower Bond is a general obligation bond, paid from ad valorem taxes, unless included as a part of the annual budget, an analysis of municipal operating revenues and expenses and a comparison for the respective period, annually within 180 days of the end of the fiscal year.
- 3) A copy of the annual budget of the Borrower, within fifteen days of its adoption.
- 4) An annual schedule of current and projected short term and long term debt service.
- 5) An annual schedule of Capital Replacement Reserves.
- 6) Copies of reports submitted to RIDOT, the U.S. Department of Transportation, and any other regulatory agency relating to the projects financed.
- 7) During the construction period, an accounting of the monthly disbursements relating to the project.
- 8) Other information or reports that the Agency deems appropriate.

VIII. LOAN AGREEMENTS: There will be a loan agreement for each approved loan outlining the terms and conditions of the loan. The Loan will be evidenced by a general obligation pledge, pledge of other dedicated 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 laws and regulations. Recipients of loans from the

MRBRF must also comply with all requirements of and regulations issued thereunder in addition to any other applicable 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 the EPA and State regulations and annual review process.
  - 2) Conduct its loan underwriting, documentation and collection activities to meet the standards of bond Rating Agencies and Bond Insurers.
  - 3) Limit the loans to "high risk" borrowers to a level which is covered by adequate Debt Service Reserves, Credit Insurance or other forms of Credit Enhancements.
  - 4) Utilize an automated loan management system to (a) insure timely billing and receipt of loan payments; (b) generate aging of late and/or delinquent payments; (c) issue late payment notifications and collect late payment fees; (d) monitor default notifications and actions; and (e) initiate collection procedures which are appropriate.

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William Sequino, Jr., Executive Director

Public Notice Date: November 22, 2013

Public Hearing Date: December 9, 2013

Filed With Secretary of State: December 23, 2013

Effective Date: January 12, 2014

ATTACHMENT A

SELECTED FINANCIAL INFORMATION

to be

PROVIDED BY THE BORROWER