IDAHO BOND BANK AUTHORITY
LOAN MANAGEMENT POLICIES

A. PURPOSE

The purpose of these Loan Management Policies is to establish the framework by which the Idaho Bond Bank Authority (the "IBBA") can provide financing for public projects, without impairing the capacity of the Bond Bank to provide future financing to qualified entities. In the context of that mission, these Loan Management Policies set forth the criteria by which the IBBA may make loans to qualified entities.

B. GOALS

The goal of these Loan Management Policies is to provide guidance to IBBA staff and borrowers regarding acceptable project types, pricing and securitization of individual loans.

C. IMPLEMENTATION

These Loan Management Policies shall be implemented by the Idaho Bond Bank Authority Board and may, at times, be amended by the Board if the Board determines such amendment to the policies is necessary. The Board reserves the right to waive any condition of these polices as the Board deems fit.

SECTION 1. APPLICATION PROCEDURES POLICY

Section 1.1 Overview

The Applications Procedures Policy provides guidance to the IBBA and its Applicants on the information to be included in an application and determined to constitute a complete application.

Section 1.2 General Considerations

The IBBA staff, based on the type of Applicant, the public project being proposed and the specific revenue stream being pledged, shall evaluate applications utilizing the process set forth below. Such evaluation will include, to the extent applicable, an evaluation of project feasibility, administrative capacity, financial position, debt management and economic and demographic factors.

A. Application Forms

1. The Authority application can be used by prospective borrowers to apply for funds for any qualifying project.

B. Requirements for Complete Applications

1. Bond Bank borrowers shall submit applications provided by IBBA to apply for funding for specific public projects. IBBA staff shall deem an application complete if it:

i) is signed by the highest elected official or authorized officer of the entity;

ii) cites a specific loan amount being sought and a description of the proposed use or uses of the loan;

iii) identifies a specific, legally permissible source of funds for repayment of the proposed loan;

iv) lists all of the outstanding senior, parity or subordinate indebtedness secured by the proposed revenue stream, including bonds, lease purchase agreements and other loans, by name and principal amount (both the original principal amount and the currently outstanding amount) and the debt service schedule associated with each indebtedness and includes a statement of whether the applicant has ever defaulted or been delinquent on payments associated with the listed obligations;

v) contains a description of the project or projects to be financed or refinanced, including:

(a) description of the scope of work of the project;

(b) estimated cost of the project; and

(c) target date for the initiation of the project and the estimated completion date;

vi) includes the Applicant's audited financial reports for the most recent three years for which such reports are available or, where the Applicant is not required to prepare such reports, internally prepared financial statements;

vii) includes additional information requested by staff based upon the type of Applicant and public project; and

viii) includes a $500 nonrefundable loan application fee.

C. Evaluation of Application

1. Financial Position. Financial performance is a key factor in the evaluation of an Applicant. The evaluation process may differ by Applicant; credit evaluation factors will generally include some or all of the following:

(i) review of total property tax collections (including delinquencies) compared to the levy for the past three years;

(ii) current year property tax collections compared to the levy for that year;

(iii) other tax collection trends and performance for the past three years;

(iv) most recent year's collection of state-interceptable revenues;

(v) proportion of external revenues (such as state and federal grants) to total revenues; and

(vi) applicable user fees or enterprise revenues for the past three years.

2. Debt Management. The Applicant's debt management history and the credit-worthiness of any pledged funds will be examined. All debt obligations secured by the funds pledged to the financial assistance will be analyzed. To assess an Applicant's debt position, the following factors may be evaluated:

(i) gross direct and overlapping debt to full assessed value of property within the Applicant's boundaries;

(ii) all senior, parity and subordinate lien indebtedness to determine all applicable additional bonds tests and other covenants of the outstanding debt;

(iii) all internal reserve funds to determine whether the Applicant has sufficient resources to cover unexpected costs;

(iv) necessity and timing of rate increases to determine the predictability and availability of enterprise revenues to meet debt service requirements; and

(v) user fees that will be used to repay the loans will be analyzed to determine affordability of the project.

3. Economic and Demographic Factors. Each Applicant will be examined on the basis of underlying economic and demographic factors including growth in property valuation, growth in tax revenues, population trends, unemployment rate and median household income. Each of these factors is intended to provide an indication of economic vitality in general, rather than the Applicant's financial condition.

4. Ineligibility.

(i) A loan applicant that is currently not in compliance with either an Idaho Bond Bank Authority continuing disclosure agreement, as outlined in the loan agreement, or other continuing disclosure agreements entered into by the applicant is not eligible to obtain financing from the Idaho Bond Bank Authority.

(ii) A loan applicant that has any outstanding fees or penalty payments due to the Idaho Bond Bank Authority is not eligible to obtain financing from the Idaho Bond Bank Authority.

SECTION 2 STRUCTURING POLICY

Section 2.1 Overview

The IBBA recognizes Applicants have different borrowing needs and provides various structuring options to its borrowers. This Structuring Policy identifies parameters under which IBBA staff may structure its Bond Bank loans.

Section 2.2 General Considerations

In order to mitigate risk in the Bond Bank while maintaining a diverse pool of borrowers, the IBBA will take the following steps in structuring a transaction:

A. Generally, the IBBA will require that its loans be on no less than a parity lien with all other lenders. Under certain circumstances, the IBBA may agree to accept a security pledge that is subordinate to the payment of another debt:

   i) If the senior lien rating of the identified revenue pledge has an underlying rating of at least Aa3 (or its equivalent);

   ii) If the identified subordinate revenue pledge is an additional revenue pledge required solely to achieve minimum debt service coverage and is not projected to be needed to make debt service payments; or,

   iii) If the senior lien debt is held by IBBA and the loan meets all other lending requirements set forth in these policies.

B. For borrowers pledging net system revenues, the IBBA will require an entity to fund a debt service reserve at the time of loan closing. Alternatively, the IBBA may allow a borrower to build its debt service reserve fund over time with excess revenues if such borrower falls below predetermined coverage levels, provided:

   i) The requesting entity has demonstrated debt service coverage of at least 1.50 times on existing and proposed debt service based on the most recent audited financial results; and,

ii) It is determined that the use of excess revenue collections to build the debt service reserve fund will not impair the entity's ability to provide governmental services.

iii) If debt service coverage falls below 1.50 times at a point after a loan has been issued, the entity will be required to fund the debt service reserve as outlined in the loan agreement.

C. All loans will include the provision allowing the IBBA trustee to intercept state-shared revenues if the borrower receives such revenues from the State.

SECTION 3. DEBT SERVICE COVERAGE & ADDITIONAL BONDS TEST POLICY

Section 3.1 Overview

The Debt Service Coverage & Additional Bonds Test Policy establishes minimum levels of excess revenue coverage requirements for different revenues pledged to secure the loans or bonds held within by the Bond Bank and establishes tests under which borrowers are able to issue additional debt secured by revenues pledged to a Bond Bank loan.

Section 3.2 General Considerations

The goal of this Coverage and Additional Bonds Test Policy is to identify minimum coverage requirements for loans based on the underlying revenue pledge.

A. Coverage Policy

The IBBA will structure its Bond Bank loans to allow for some decline of the pledged revenue without affecting the entity's ability to pay debt service. Based upon certain factors such as appropriation risk, revenue stability, or essentiality of public project, the IBBA may require higher coverage requirements and additional bonds tests.

1. The IBBA will structure its loans so that at a minimum, historical revenues will exceed the maximum annual debt service (MADS) due during the life of the loan by the following percentages:

i)	Sales Tax	125% of MADS (1.25x)
ii)	Net System Revenues	125% of MADS (1.25x)
iii)	General Obligations	Not Applicable

In order to qualify under this test, a borrower must meet the coverage requirement based on its most recent audited financial statements (the "First Year Test") and in at least two of the three most recent years for which audited statements are available (the "Two Out of Three Year Test"). The Bond Bank may consider exceptions to the Two Out of Three Year Test in the case of a borrower that has implemented rate increases of at least 10% within the past three years. No exceptions to the First Year Test will be allowed.

2. The IBBA may consider estimated or projected revenues to determine minimum coverage requirements if a borrower cannot meet the requirements of Section 3.2 A (1) above. For example, an entity may have imposed a tax or utility rate increase that has not been reflected in financial statements. Under these circumstances, the IBBA will structure its loans so that at a minimum the projected revenues will exceed the maximum annual debt service (MADS) due during the life of the loan in the following percentages:

i)	Sale Tax	135% of MADS (1.35x)
ii)	Net System Revenues	150% of MADS (1.50x)

3. The IBBA may consider projected revenues [for rates that have been implemented] to determine minimum coverage requirements if a borrower is utilizing the services of an engineer, or a certified public accountant acceptable to the Bond Bank Executive Director that forecasts that pledged revenues will be at least 125% of the maximum annual debt service on all existing and proposed parity debt service, including the debt service to be paid to the IBBA. The Idaho Bond Bank Board reserves the right to disallow a certified public accountant approved by the Executive Director.

B. Additional Bonds Test

IBBA recognizes that public entities must utilize all legally available revenue streams to fund their governmental services and secure funding for their public projects.

1. The IBBA will allow entities to secure additional parity debt utilizing a security pledged to a Bond Bank loan, so long as the entity has collected in any 12 consecutive month period during the past 24 months, sufficient revenue to pay all Maximum Annual Debt Service (MADS) on the existing and proposed debt with the minimum following coverage levels:

i)	Sales Tax	125% of MADS (1.25x)
ii)	Net System Revenues	125% of MADS (1.25x)
iii)	G.O. Bonds	100% of Annual Debt Service (1.00x)

2. The Municipality may utilize a report of the Consulting Engineer that shows that the System Net Revenues for the remainder of the projected life of the Parity Debt will be at least equal to 125% of the Maximum Annual Debt Service. In determining whether Parity Debt may be issued, the Consulting Engineer shall consider any probable increase (but not decrease) in Operation and Maintenance Costs, and there may be added to such System Net Revenues

an allowance for net revenues from any improvements to the System to be made with the proceeds of such Parity Debt and also for net revenues from any improvements to the System which have been made from money from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 75% of the estimated additional average annual net revenues to be derived from each such improvement for the first 36 month period in which each such improvement is in operation.

SECTION 4. PORTFOLIO DIVERSITY POLICY

Section 4.1 Overview:

The Portfolio Diversity Policy provides guidance to protect the Bond Bank by maintaining a diverse pool within the program that limits the amount of concentration risk to which the IBBA may be exposed to by any one borrower or pledge type.

Section 4.2 General Considerations.

In order to protect the Bond Bank and maintain a diverse pool of borrowers, the IBBA will abide by the following internal limits:

A. During the subsequent fiscal year from the date that a loan is made, no single borrower may constitute more than 20% of the aggregate annual pledged revenues, regardless of the pledge of the borrower, unless the underlying borrower has a bond rating of at least "A2" (or its equivalent) from one of the three nationally recognized rating agencies, at which time it may not constitute more than 25%, or a bond rating of at least a "Aa3" (or its equivalent) from one of these rating agencies at which time it may not constitute more than 35%.

B. No single borrower may constitute more than 20% of the outstanding principal on Bond Bank bonds, unless the underlying borrower has a bond rating of at least an "A2" (or its equivalent) from one of the three nationally recognized bond rating agencies at which time it may not constitute more than 25%, or a bond rating of at least a "Aa3" (or its equivalent) from one of these rating agencies at which time it may not constitute more than 35%.

C. The IBBA will not issue loans to Local Improvement Districts

Section 4.3 Annual Compliance Testing

The IBBA shall prepare an analysis of the pledged revenues as part of the IBBA's annual audit to assure compliance with this Portfolio Diversity Policy.

SECTION 5. LOAN REFINANCING POLICY

Section 5.1 Overview:

The Loan Refinancing Policy provides guidance to IBBA staff and Bond Bank Applicants regarding the use of the Bond Bank to refinance existing loans, bonds or other debt obligations in a manner that is responsive to the needs of the borrowers while protecting the long-term financial health and capacity of the Bond Bank.

Section 5.2 General Considerations:

The loans made by the Bond Bank achieve an interest rate that is among the best available in the marketplace. To protect the Bond Bank while addressing the refinancing needs of Idaho's communities, the IBBA will follow these guidelines when providing the extension of a new loan to refinance an existing debt:

A. Refinancing Bond Bank Loans:

   1. An existing Bond Bank loan may not be refinanced utilizing a new Bond Bank loan solely to reduce the interest rate or improve upon the original terms of the Bond Bank loan unless done so in connection with a IBBA bond issue in which the prior Bond Bank bonds will be paid or defeased.

B. Refinancing Non-Bond Bank Obligations for savings:

   1. A non-Bond Bank obligation may be refinanced for savings utilizing an IBBA loan if:

      i) Bonds issued to refinance participant's current debt may not cause the total amount of refunding bonds in the IBBA portfolio to exceed 50% of the current outstanding par issued by the IBBA; and

      ii) The maximum term of the "refinancing" loan does not exceed the useful life remaining on the asset(s) originally financed; and

      iii) The minimum net present value savings on the refinanced obligation is estimated to be at least 5% of refunding par (at the time a complete application is submitted); and

      iv) Estimated present value savings of the refunding must be greater than or equal to negative arbitrage (at the time a complete application is submitted)

C. Refinancing Non-Bond Bank Obligations for structural reasons:

1. A non-Bond Bank obligation may be refinanced utilizing an IBBA loan for reasons other than to achieve savings if:

   i) The refinancing is done in conjunction with a comprehensive debt restructuring that will, in the opinion of IBBA staff and with the approval of the IBBA Board, address fundamental weaknesses in the applicants existing debt profile; and

   ii) Bonds issued to refinance participant's current debt may not cause the total amount of refunding bonds in the IBBA portfolio to exceed 50% of the current outstanding par issued by the IBBA.

SECTION 6. LOAN SURVEILLANCE POLICY

Section 6.1 Overview:

The Loan Surveillance Policy provides guidance to IBBA staff to conduct ongoing monitoring of Bond Bank borrowers.

Section 6.2 Loan Surveillance Process:

In order to maintain the Bond Bank's excellent credit position, IBBA staff will conduct annual surveillance of the municipalities that have borrowed from the Bond Bank. This surveillance will be timed to take place between April 1 and May 1 of each year, which should allow most borrowers time to complete their annual financial reports. Included in the annual surveillance will be:

A. An affirmation that the borrower has met the requirements under its continuing disclosure undertaking that it entered into at the time of the Bond Bank loan.

B. A breakdown of the State-shared revenues that the borrower received in the most recent fiscal year.

C. A description of the amount of pledged revenues received in the most recent fiscal year, including, when appropriate, the calculation of debt service coverage achieved in that year.

D. An affirmation that the borrower is in compliance with arbitrage rebate requirements associated with it Bond Bank loan, including meeting project spending requirements.

Section 6.3 Annual Reporting to the IBBA Board:

On or about June 1st of each year, IBBA staff will provide the IBBA Board with an annual report that summarizes the financing activity of the prior year, provides a profile of outstanding Bond Bank loans and bonds, and details the results of the annual borrower surveillance process described in 6.2 above.

IDAHO BOND BANK AUTHORITY
LOAN MANAGEMENT POLICIES
Appendix A

SECTION 1. DEBT CAPACITY POLICY:

The Idaho Bond Bank Board adopted a debt capacity policy at the June 28th, 2012 board meeting. The capacity is defined as follows:

> The combined MADS (maximum annual debt service) of bonds issued by the Idaho Bond Bank Authority and the School Bond Guarantee Program shall be no greater than Prior Fiscal Year audited state sales tax revenue divided by 5.