

## **IDAHO BOND BANK AUTHORITY LOAN MANAGEMENT POLICIES**

**Adopted on February 16, 2011 and Amended on June 17, 2019**

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 IBBA to provide future financing to qualified entities.

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. 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 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;
- vii) includes a \$500 nonrefundable loan application fee.

## B. 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:

### General Obligation Bonds

- 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 ongoing material sources of revenue in the general fund for the past three years, or most recently available if three year history unavailable;
- iv) Most recent year's collection of state-interceptable revenues;
- v) Proportion of external revenues (such as state and federal grants) to total revenues;
- vi) General fund balance for the past three years.

### Sales Tax Bonds

- i) Sales tax collection history;
- ii) Most recent year's collection of state-interceptable revenues;
- iii) Proportion of external revenues (such as state and federal grants) to total revenues;
- iv) Review of total property tax collections (including delinquencies) compared to the levy for the past three years;
- v) General fund balance for the past three years;
- vi) Historical debt service coverage of outstanding sales tax secured bonds;
- vii) Expected MADS coverage based on prior year's revenues.

### Utility Revenue Bonds

- i) Applicable user fees or enterprise revenues for the past three years;
- ii) Affordability of utility rates;
- iii) Historical delinquency rate of utility bill payments;
- iv) Most recent year's collection of state-interceptable revenues;
- v) Enterprise fund balance for the past three years;
- vi) General fund balance for the past three years (if the system is a fund of a City or County);
- vii) Proportion of external revenues (such as state and federal grants) to total revenues;
- viii) Review of total property tax collections (including delinquencies) compared to the levy for the past three years;
- ix) Historical net debt service coverage of outstanding utility revenue bonds.

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**

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, provided:
  - i) The requesting entity has demonstrated net 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 after the loan has been issued, borrower must bring a plan before IBBA within 30 days outlining how it will return to > 1.50 times coverage. IBBA, can at its discretion, decide whether borrower needs to fund a DSRF or not. If a borrower has two consecutive years of < 1.50 times coverage, a DSRF must be funded.
- 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**

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 IBBA 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	As determined by the ABT
ii) Net System Revenues	125% of MADS (1.25x)
iii) General Obligations	Not Applicable

2. The IBBA may consider estimated or projected revenues to determine minimum coverage requirements if a borrower cannot meet the requirements of Section 3 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) Sales 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.

## **SECTION 4. PORTFOLIO DIVERSITY POLICY**

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

- A. No single borrower may constitute more than 20% of the outstanding principal on IBBA 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%.
- B. The IBBA will not issue loans to Local Improvement Districts

### **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**

The loans made by the IBBA achieve an interest rate that is among the best available in the marketplace. To protect the IBBA 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 Obligations for savings:
  - 1. An obligation may be refinanced for savings utilizing an IBBA loan if:
    - i) The maximum term of the “refinancing” loan does not exceed the useful life remaining on the asset(s) originally financed; and
    - ii) 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
    - iii) Estimated present value savings of the refunding must be greater than or equal to negative arbitrage (at the time a complete application is submitted).
- B. Refinancing Obligations for structural reasons:
  - 1. An 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.

## **SECTION 6. LOAN SURVEILLANCE POLICY**

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 its Bond Bank loan, including meeting project spending requirements.

### **Annual Reporting to the IBBA Board:**

On or about June 1<sup>st</sup> 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 above.

**IDAHO BOND BANK AUTHORITY  
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Appendix A**

**SECTION 1. DEBT CAPACITY POLICY:**

The IBBA Board adopted a debt capacity policy at the June 28<sup>th</sup>, 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.