

**State Water Resources Control Board**  
**Division of Financial Assistance**  
**State Revolving Fund**

Credit/Financial Guidelines

Definitions:

- (A) "Additional Debt Test (ADT)" means a test performed by the Recipient to ensure that they can meet the debt service requirements of issuing additional debt.
- (B) "Debt Service" means the amount of revenue required to make payments on the principal and interest on outstanding debt.
- (C) "Debt Service Coverage" is an indicator of an applicants' ability to pay its debt obligation(s).  
Formula:  $\text{Net Revenues} \div \text{annual debt service}$ .
- (D) "Maximum Annual Debt Service" means the maximum amount of Debt Service due on System Obligations in a Fiscal Year during the period commencing with the Fiscal Year for which such calculation is made and within the next five years in which Debt Service for any System Obligation will become due.
- (E) "Net Revenues" means, for each Fiscal Year, all gross income and revenue of the Recipient from the ownership or operation of the System, determined in accordance with GAAP, including all rates, fees, and charges (including connection fees and charges) as received by the Recipient for the services of the System, and all other income and revenue howsoever derived by the Recipient from the ownership or operation of the System or arising from the System, including all income from the deposit or investment of any money in the Enterprise Fund, less the operations and maintenance costs such a fiscal year.
- (F) "Pledged Revenues" means System revenues used to secure debt obligations.

**A. Credit Review – Application Qualifying Criteria**

- 1. Application Requirements are set forth in the Policy.
- 2. Pledged Revenues and Rate Covenant
  - a. Net Revenues of the System
    - i. Net Revenues are generally accepted for pledge/security
    - ii. Net Revenues are generally accepted for rate covenant

- iii. Net Revenue projections may be adjusted to reflect any approved/adopted rate or fee increase.
  - iv. Rate Stabilization Fund balance or transfers are not calculated as System Revenues for initial funding qualification.
  - v. Certain Operations and Maintenance Costs may be excluded if such amounts are paid or to be paid from some other source as set forth in a long-term agreement and such funding/revenue source is identified. Any associated revenue(s) would also be excluded from the calculation of net revenues.
- b. Non-System Revenues
- i. Sales taxes, special assessments, or designated surcharges are potentially acceptable pledged revenue sources, but must be adopted in advance of final financing approval in order to satisfy pledge requirements.
3. Debt Service
- a. As of any date, with respect to outstanding System Obligations and, in the case of the additional debt tests, any System Obligations that are proposed to be outstanding, the aggregate amount of principal and interest scheduled to become due (either at maturity or by mandatory redemption), calculated with the following assumptions:
    - i. Principal payments (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) are made in accordance with any amortization schedule published for such principal, including any minimum sinking fund payments;
    - ii. Interest on a variable rate System Obligation that is not subject to a swap agreement and that is issued or will be issued as a tax-exempt obligation under federal law, is the average of the SIFMA Municipal Swap Index, or its successor index, during the 24 months preceding the date of such calculation;
    - iii. Interest on a variable rate System Obligation that is not subject to a swap agreement and that is issued or will be issued as a taxable obligation under federal law, is the average of LIBOR, or its successor index, during the 24 months preceding the date of such calculation;
    - iv. Interest on a variable rate System Obligation that is subject to a swap agreement is the fixed swap rate or cap strike rate, as appropriate, if the

variable rate has been swapped to a fixed rate or capped pursuant to an interest rate cap agreement or similar agreement;

- v. Interest on a fixed rate System Obligation that is subject to a swap agreement such that all or a portion of the interest has been swapped to a variable rate shall be treated as variable rate debt under subsections (b) or (c) of this definition of Debt Service;
- vi. Payments of principal and interest on a System Obligation are excluded from the calculation of Debt Service to the extent such payments are to be paid from amounts then currently on deposit with a trustee or other fiduciary and restricted for the defeasance of such System Obligations;
- vii. If 25% or more of the principal of a System Obligation matures on any given date, then principal and interest on that System Obligation may be projected to amortize over 30 years, and interest may be calculated according to subsections (b)-(d) of this definition of Debt Service, as appropriate.

## **B. Rate Covenants and Other Terms Dependent on Ratings**

1. If an applicant's outstanding material bond debt is rated Aa or higher:
  - a. The Division may apply certain terms to the CWSRF financing, including definitions and rate covenants used by the applicant's master trust indenture or similar debt document, as well as options for establishing and maintaining an unrestricted loan reserve fund.
  - b. The bond rating must be from at least two major rating agencies and issued within the 36 months of the CWSRF Financial Application Package submittal.
2. If an applicant's outstanding material debt is a recent bond issuance rated below Aa or is an unrated private placement:
  - a. The Division may apply certain terms to the CWSRF financing, including definitions and rate covenants used by the applicant's master trust indenture or similar debt document, if (a) those requirements exceed the rate covenants set forth in this Policy or (b) the applicant's recent financial history and its forecasted projections support a finding of minimal risk to the CWSRF.
  - b. The bond rating must be from at least two major rating agencies and issued within the 36 months of the CWSRF Financial Application Package submittal.

3. If an applicant has no outstanding material debt, the Division will apply the requirements set forth in the Policy.
4. The Division will evaluate draft documents, submitted by non-public agencies, in support of filing a UCC lien with the Secretary of State as loan security.

**C. Other Considerations**

The Division will consider multiple factors in determining an applicant's credit capacity and the terms of financing. Factors may include, but are not limited to the following:

- a. Market history
- b. Social economic trends
- c. Historical debt service coverage
- d. Financial and management stability
- e. Prior CWSRF or DWSRF financings
- f. Second homes

**D. Additional Debt**

1. Additional Debt Test
  - a. The Division will require that a Recipient's Net Revenues, during the most recent fiscal year or any 12-consecutive month period within the most recent 18 consecutive months, satisfy the rate covenant of the outstanding SRF debt obligation or meet a minimum threshold of 1.2 times total projected debt service, including the proposed additional parity debt.
    - i. A rate stabilization fund established within the enterprise fund of the Recipient or held on the Recipient's behalf may be included in the ADT calculation.
    - ii. Projected Net Revenues used to secure additional debt must be based on adopted rates, charges, and/or assessments.
    - iii. The Division may consider accepting a Recipients' alternative Additional Debt Test methodology.
2. Assessments
  - a. Assessments may not be used to secure additional obligations except upon consent of the Deputy Director of the Division.