Part Two – State of Rhode Island Quasi-Public Agencies

The second part of the debt affordability study will focus on the long-term liabilities of the quasi-public agencies in the State. These liabilities do not include any debt that is included as tax-supported debt of the State. There is a wide variety of issuers in this category and different bonding programs for certain of these issuers, as listed below and described in more detail in Exhibit A. Exhibit A provides a list of quasi-public agencies with debt outstanding and the bonding programs under each with a description of the security and the additional bonds test. None of the debt issued by the quasi-public agencies is a direct obligation of the State, and the State does not provide any backstop or guarantee for the repayment of the debt, except for certain debt issued by the Rhode Island Commerce Corporation and the Rhode Island Housing and Mortgage Finance Corporation. However, these quasi-public agencies perform essential functions for the State, and thus, the State maintains a strong interest in the viability and sustainability of the quasi-public agencies' finances. .

Overview of Quasi-Public Agencies

The quasi-public agencies in this part of the debt affordability study fall into two general categories: (i) those that issue debt secured by their own revenues and (ii) those that act as a conduit and the debt is secured by the revenues of the underlying borrower(s) through loan or financing agreements. In addition, the conduit borrowers may have bonding programs that pool a group of underlying borrowers into a single debt issue. The table below summarizes the quasi-public agencies in these two categories.

Direct Borrower	Type/Purpose of Bonds
Narragansett Bay Commission	Wastewater System Revenue Bonds
Rhode Island Turnpike and Bridge Authority	Toll Revenue Bonds
Tobacco Settlement Financing Corporation	Tobacco Master Settlement Agreement Bonds
Rhode Island Resource Recovery Corporation	Resource Recovery System Revenue Bonds
Conduit Borrower	**Type/Purpose of Bonds**
Rhode Island Commerce Corporation	GARVEEs, Airport Revenue Bonds, Economic Development, Moral Obligation Bonds
Rhode Island Health and Education Building Corporation	Public School, Higher Education, Other Education, Health Care Revenue Bonds (Includes Pooled Bonds)
Rhode Island Housing and Mortgage Finance Corporation	Single-Family and Multi-Family Housing Revenue Bonds
Rhode Island Infrastructure Bank	Water Pollution Control, Safe Drinking Water, Water, Sewer Revenue Bonds, Energy Efficiency Loans (Includes Pooled Bonds)
Rhode Island Student Loan Authority	Student Loan Revenue Bonds

In addition to the quasi-public agencies above, the State also has other quasi-public agencies that do not have any bonds currently outstanding, including the Rhode Island Public Transit Authority and the Rhode Island Water Resources Board Corporation.

Further, as covered in Part One of this debt affordability study, the Rhode Island Convention Center Authority bonds and the Rhode Island Turnpike and Bridge Authority's Motor Fuel Tax Revenue Bonds are included in the tax-supported debt of the State. The Rhode Island Commerce Corporation also has debt that is treated as the tax-supported debt of the State, including the Transportation Motor Fuel Tax Bonds, URI Power Plant, Job Creation Guaranty, I-195 Land Sale, Historic Structures Tax Credit and various Performance Based Agreements.

Considerations in Application of Debt Affordability Guidelines by the PFMB

All the quasi-public agencies issue debt pursuant to master trust indentures that lay out the legal structure and covenants relating to the repayment of debt and generally incorporate provisions for the issuance of additional debt. Since the debt issued by the quasi-public agencies is all revenue or conduit bonds, the focus of debt affordability will be on debt service coverage ratios. In applying debt affordability guidelines to the quasi-public agencies, these legal provisions will need to be factored in and may even serve as the affordability measure itself. To the extent a quasi-public agency is responsible for its share of unfunded pension and OPEB liabilities, total liability coverage ratios can also be considered although rating agencies do not include pension and OPEB liabilities in their rating criteria for revenue bonds. Since this study focuses on debt affordability, other financial metrics, such as days' cash equivalents on hand and level of operating reserves, which reflect operating performance, will not be included.

There are different considerations in the application of debt affordability guidelines to the two categories of quasi-public agencies in Rhode Island.

Direct Borrowers

Under this category, the State has the Narragansett Bay Commission, the Rhode Island Turnpike and Bridge Authority, the Tobacco Settlement Financing Corporation and the Rhode Island Resource Recovery Corporation. With the direct borrowers, the debt is secured by the entity's own revenues and the State does not provide any backstop or guarantee for the repayment of the debt. Debt is issued pursuant to a master trust indenture. For the Tobacco Settlement Financing Corporation, under its master indenture only refunding bonds can be issued; no new debt can be issued. The Rhode Island Resource Recovery Corporation issued its Resource Recovery System Revenue Bonds, Leachate Pretreatment Facility Project, Series 2013 through private placement and additional information is needed to understand the covenants contained in the trust indenture. Therefore, this discussion will focus on the Narragansett Bay Commission and the Rhode Island Turnpike and Bridge Authority.

For each of these agencies, the master trust indentures provide for rate covenants and additional bonds tests (ABT), as summarized below, and ratings have been assigned factoring in the required rate covenant and ABT. Rate covenants require that the issuer certify that in a given year pledged revenues are able to cover debt service by a certain amount, and the additional bonds test prohibits the issuance of additional debt if pledged revenues do not cover the debt service on the existing and the contemplated future debt issue by a certain amount.

	Additional Bonds Test	Rate Covenant
Narragansett Bay Commission	Requires estimated net revenues for the three years following the issuance of bonds to be at least 1.25x the debt service requirement for revenue bonds and 1.35x the debt service requirement for RIIB loans	1.25x the debt service for revenue bonds and 1.35x the debt service on the RIIB debt
Rhode Island Turnpike and Bridge Authority	After retirement of 2003A Bonds, Net Revenues plus Dedicated Payments in most recent fiscal year or projected for each of the next 5 fiscal years must be at least 1.20x Maximum Annual Debt Service	1.20x the debt service, including dedicated payments

Since these are revenue bonds, the calculation involving debt service coverage by pledged revenues is most meaningful, and using historical revenues rather than projected revenues is viewed by rating analysts as stronger. Having a stronger policy for the rate covenant or ABT would unlikely lead to a rating change since the degree of leveraging is ultimately driven by the legal constraint provided in the master indenture, but the PFMB can provide guidance in the adoption of a policy that has a more stringent rate covenant and ABT. In developing a potentially stronger rate covenant and ABT, the PFMB will need to review with the respective quasi-public agencies how a higher rate covenant and ABT can impact debt capacity and will need to ensure it does not limit the flexibility to finance necessary capital improvements.

Along with debt affordability policy, the PFMB can provide guidance on debt management best practices similar to those reviewed in Part One of the debt affordability study. These would include method of sale, debt structuring practices, refunding policy, debt issuance practices and disclosure and post issuance debt management.

Conduit Issuers

The debt that is issued by the quasi-public agencies as conduit issuers is secured by the revenues of the underlying borrower. In these issues the key to affordability is the credit of the underlying borrower. There are two categories of underlying borrowers: (i) single entity and (ii) multiple entities under a pooled bond program.

With the single-entity underlying borrower, the PFMB will need to consider the appropriateness of establishing debt affordability targets for each underlying entity. Under the Rhode Island Health and Education Building Corporation, based on its FY2015 annual report, there are 50 different single-entities as underlying borrowers; the Rhode Island Commerce Corporation has seven single-entity underlying borrowers; and the Rhode Island Industrial Facilities Corporation has six single-entity underlying borrowers. These individual entities are still being assessed, but based on an initial review, the underlying entity can be categorized into different groups:

(i) State agency (e.g. Rhode Island Department of Transportation, Rhode Island Airport Corporation);
(ii) Political subdivision of the State (e.g. City of Pawtucket, City of Providence);
(iii) Non-profit entity (e.g. Lifespan Obligated Group, Brown University, Providence College); or
(iv) Private for-profit entity (e.g. CAPCO Steel, Bullard Abrasives).

<u>Non-Profit and Private Entities</u>. For the non-profit and private entities that secure the debt with its own revenue sources and those revenues are not in any way connected to the State, an agency of the State or a municipality, the PFMB should consider excluding these underlying borrowers and their debt from the debt affordability study unless the debt has a moral obligation of the State. The State is not a party to the legal agreements or the operations of these entities and, therefore, PFMB guidelines or debt affordability measures would not have enforceability.

<u>State Agency</u>. For those bond issues with another state agency as the underlying borrower and a specified revenue stream used to secure the debt, the debt affordability considerations are similar to those described above for the quasi-public agencies that are direct borrowers. The PFMB can consider recommending a higher targeted rate covenant and additional bonds test. However, the PFMB should first review with the respective agencies how a stronger rate covenant and additional bonds test can impact debt capacity and ensure it does not limit the flexibility to finance necessary capital improvements.

	Additional Bonds Test	Rate Covenant
Rhode Island Department of Transportation Grant Anticipation Revenue Bonds (GARVEEs)	Federal Transportation Funds must be 3.00 maximum bond payments in any federal fiscal year	Not applicable
Rhode Island Airport Corporation	Airport Revenues Bonds: RIAC's net revenues (include rentals, fees, and other charges) and certain Passenger Facility Charge revenues must be 1.25x debt service Special Facility Revenue Bonds: Revenues generated by the operation of the Intermodal Facility, including Customer Facility Charges, Rental Car Companies fees and Parking Revenues must be 1.25x debt service	1.25x rate covenant (including pledged passenger facility charges)

Political Subdivision. For those bond issues with municipalities as the underlying borrower, the general obligation of the municipality secures the debt and debt affordability measures for these municipalities will be developed in Part Three of this debt affordability, as discussed below under Pooled Bonds.

Pooled Bond Programs. The Rhode Island Health and Education Building Corporation (RIHEBC), the Rhode Island Infrastructure Bank (RIIB), the Rhode Island Housing and Mortgage Finance Corporation (RI Housing) and the Rhode Island Student Loan Authority (RISLA) are conduit issuers that issue pooled bonds for various purposes. Given the uniqueness of each of these quasi-public agencies, there are some different considerations for determining appropriate debt affordability measures.

Rhode Island Health and Education Building Corporation. There are four different pooled bond programs under RIHEBC: (i) Public Schools Revenue Bond Financing Program; (ii) Higher Education Facility Revenue Bonds; (iii) Board of Governors for Higher Education Revenue Bonds; and (iv) Catholic School Pool Program. With the Public Schools Revenue Bond Financing Program, the underlying borrowers are municipalities in the State, and these participating municipalities are ultimately responsible for the payment of the debt service, pledging the general obligation of the municipality. These municipalities reflect their portion of the debt as part of their tax-supported debt. Therefore, this debt would be captured in Part Three of the debt affordability study at the municipality level. Debt affordability measures implemented in Part Three should have a favorable effect on this pooled program. However, the PFMB may want to provide some guidance on debt affordability and debt management best practices at the program level since the state-aid intercept adds to the security of these bonds. Since this is a pooled program, the rating on the bond issue will reflect a weighted average credit quality of the participants. RIHEBC should continue to target a higher weighted average credit quality, which results in a lower borrowing cost for all participants. The PFMB can require minimum rating criteria for participants and also require the municipality to submit a debt affordability analysis, including the proposed debt issuance, to ensure compliance with the debt affordability measures recommended in Part Three. Further, the PFMB can provide guidelines on the structure of the debt in line with the best practices in debt management. (See example with Virginia Public School Authority Policy for Pooled Bonds.)

For the Higher Education Facility Revenue Bonds and Board of Governors for Higher Education Revenue Bonds, with the higher education institutions pledging their Educational and General Revenues, which may include state appropriations, the PFMB can potentially look at defining debt service coverage ratios with the Educational and General Revenues, although most currently do not have a rate covenant. Standard & Poor's requested revenue and debt service information from participating higher education institutions for the Virginia College Building Authority's Pooled Loan program to calculate debt service coverage for each institution. The PFMB can also provide oversight and guidelines on the debt issuance. (See example with Virginia College Building Authority Policy for Pooled Bonds.)

Rhode Island Infrastructure Bank. The Rhode Island Infrastructure Bank Water Pollution Control Revenue Bonds and Safe Drinking Water bond programs have some level of State support with the LIST Reserve that is capitalized in part by State grants. Providing guidance on debt affordability may be appropriate and as a matter of policy, can take the form of a stronger additional bonds test than the legally required 1.00x/1.15x, as described below. Fitch reports that the Rhode Island Infrastructure Bank requires all prospective borrowers to maintain a minimum of 1.25x debt service coverage on loans. The PFMB can consider this as a debt affordability measure. In addition, Fitch and Standard & Poor's calculate what Fitch calls the program's asset strength ratio (PASR). The PASR includes the sum of the total scheduled pledged loan repayments, account interest earnings and reserves divided by total scheduled bond debt service. Fitch's 2015 'AAA' rating category median is 1.9x, and calculates 1.5x for the Water Pollution Control bonds and 1.6x for the Safe Drinking Water and Clean Water bonds, both of which Fitch considers sound.

Rhode Island Housing

There are several pooled loan programs under the Rhode Island Housing and Mortgage Finance Corporation for single-family and multi-family housing. Two of the programs, Multi-family Housing Bonds and the Rental Housing Bonds have the moral obligation of the State, in which the State agrees to make up any shortfalls in the Capital Reserve Fund. It may be prudent to restrict the issuance of additional debt under these two programs to minimize the use of the State's moral obligation. The proceeds of the Homeownership Opportunity Bonds are applied to origination of the new mortgage loans, and generally more than 50% of the portfolio is insured by private mortgage insurers. The proceeds of the Multi-Family Development Bonds are used to finance construction and permanent loans to rental housing developments with a majority of the permanent loans enhanced with FHA Risk-Sharing insurance. The Home Funding Bonds and the Multi-Family Funding Bonds have been issued in connection with the New Issue Bond Program established jointly by Fannie Mae and Freddie Mac, the Federal Housing Finance Agency and the US Department of the Treasury. The loan portfolio is comprised of GNMA securities and whole loans that are all government insured, primarily with FHA Insurance. The Multi-Family Mortgage Revenue Bonds carry Freddie Mac credit enhancement.

A majority of the loans in these programs are insured by private mortgage insurers or government insurers, and all these programs have a high level of overcollateralization. The cash flows generated by these programs are more than sufficient to cover debt service and rating agencies have performed stress tests to measure the likelihood of default. The key ratio that is assessed is the program asset-to-debt ratio (PADR) with 1.00 required for investment grade ratings. Moody's rates most of the State's housing bonds at the Aa2 level and based on its criteria, requires 1.02 level to be maintained. If the PFMB is considering applying any debt affordability measures to the RI Housing, then PFMB may wish to provide for guidelines on minimum a PADR level and cash flow sufficiency reporting.

Rhode Island Student Loan Authority

There are two distinct pooled loan programs administered by the Rhode Island Student Loan Authority ("RISLA"): (i) a FFELP Loan Program, and (ii) a state-based Supplemental Loan Program. These financings are undertaken to finance origination of student loans, and provide liquidity for lenders. The loans are used as collateral for repayment of the debt and the rating agencies and markets require over-collateralization of the debt instruments with the loans. The loan repayments by students, parents, the guarantor, the insurer or the re-insurer pay debt service on the bonds or notes. Since July of 2010, FFELP Loans no longer were being originated, and therefore, since no new bonds, except refunding bonds can be issued, the PFMB guidance debt affordability for RISLA debt will focus on the Supplemental Loan Program.

RISLA maintains certain credit standards for each loan that it originates and should continue to do so. In addition, each financing program must withstand rating agency stress tests involving non-origination, late payments, defaults and recoveries in order to obtain and maintain ratings. The rating agency review is the best method to determine the creditworthiness of the programs. It is difficult to apply simple parity tests to determine the viability of the programs. There have been occasions in other states, whereby the mismatch between the cash flow on the debt instrument and the cash flow on the loans, caused student loan agencies to ask for intervention by the general government. Much has been written about an impending student loan debt crisis and the PFMB may wish to provide guidelines on minimum parity ratios and cash flow sufficiency reporting.

Issuer/Debt Program	Ratings (M/S/F)	Security	Additional Bonds Test	Outstanding as of 6/30/2015
Narragansett Bay Commission				
Wastewater System Revenue Bonds *(Also issues debt through the Rhode Island Infrastructure Bank)*	--/AA-/--	Revenues derived from operation of the wastewater system	Requires estimated net revenues for the three years following the issuance of bonds to be at least 1.25x the debt service requirement for revenue bonds and 1.35x the debt service requirement for RIIB loans Rate Covenant: 1.25x the debt service	$239,050,000 (2016)
Rhode Island Turnpike and Bridge Authority				
Toll Revenue Bonds	--/A-/A	Net revenues derived from the operation of the System (currently tolls from Newport Bridge)	After retirement of 2003A Bonds, Net Revenues plus Dedicated Payments (gifts, grants or other payments to the Authority from US government, State or any public or private entity) in most recent fiscal year or projected for each of the next 5 fiscal years must be at least 1.20x Maximum Annual Debt Service	$56,160,000 (2016)
Tobacco Settlement Financing Corporation				
Tobacco Settlement Asset-Backed Bonds		Pledged Tobacco Settlement Revenues	Additional bonds may be issued only for the purpose of refunding outstanding bonds	$604,785,000 (2016)
Rhode Island Resource Recovery Corporation				
Resource Recovery System Revenue Bonds		Net revenues of the Corporation		$29,142,861 (2016)
Rhode Island Commerce Corporation				
Rhode Island Department of Transportation Grant Anticipation Revenue Bonds (GARVEEs)	A3/AA-/--	Federal reimbursements for eligible projects	Additional bonds test – Federal Transportation Funds must be 3.00 maximum bond payments in any federal fiscal year	$230,280,000 (2016)
Rhode Island Airport Corporation Airport Revenue Special Facility Revenue Bonds Subordinate TIFIA Loan	 Baa1/BBB+/BBB+ Baa1/BBB+/--	Airport Revenues: Pledge of RIAC's net revenues (include rentals, fees, and other charges) and certain Passenger Facility Charge revenues Special Facility: Revenues generated by the operation of the Intermodal Facility, including Customer Facility Charges, Rental Car Companies fees, Parking Revenues	Rate covenant: 1.25x rate covenant (including pledged passenger facility charges). Additional bonds test - 1.25x	Airport Revenue: $265,973,591 (2016) Special Facility + TIFIA: $90,123,400 (2016)
YMCA of Pawtucket	S: AA-/A-1+	Secured by Borrower's pledge and grant, assignment effected by the Agreement, all other monies and securities held from time to time by the Trustee and letter of credit.	Additional bonds may be issued that are equally and ratably secured with the Bonds and secured with a letter of credit.	$10,751,474
RI Philharmonic Orchestra	S: AA-/A-1+	Secured by assignment effected by the Agreement, all other monies and securities held from time to time by the Trustee, pledge of Borrower's Gross Receipts and letter of credit.	Additional bonds may be issued that are equally and ratably secured with the Bonds and secured with a letter of credit.	$5,445,000

Issuer/Debt Program	Ratings (M/S/F)	Security	Additional Bonds Test	Outstanding as of 6/30/2015
Rhode Island Health and Education Building Corporation -Education				
Public Schools Revenue Bond Financing Program	Various. Range of A1 to Aa3	Loan repayments reflecting general obligation pledge of the participating borrowers. Failure to pay would result in intercept of the State Housing Aid and Basic Education Aid of a borrower	Additional bonds may be issued and separately secured by applicable revenues. Intercept of State Housing Aid and Basic Education Aid is available	$479,517,000
Higher Education Facility Revenue Bonds	Various: A+ Range of A1 to Aa3	Rent payments, Educational and General Revenues of specific university/state colleges	Additional bonds test: 1.0x MADs	$43,410,000
Board of Governors for Higher Education	Aa3/--/--	Rent payments, Educational and General Revenues, including tuition and state appropriations, except Auxiliary Enterprise Revenues	Additional bonds test: 1.0x MADs	$195,220,000
Brown University	Aa1/AA+/--	General obligation of Brown University	No additional bonds test	$619,235,000
Bryant University	A2/A/--	General obligation of Bryant University	If rated below investment grade, additional bonds must be secured by a letter or credit.	$73,475,000
Catholic School Pool Program	S: A-/A-2	Each Borrower has a general obligation for their share	No additional bonds test	$24,110,000
CVS-Highlander Charter School	S: AA-/A-1+	General obligation pledge of Borrower's Gross Receipts and letter of credit.	Additional bonds must have a letter of credit and ratings confirmation.	$3,620,000
Johnson & Wales University	A2/A-/---	Secured by pledge of tuition fees similar to other Johnson & Wales debt	Additional bonds permitted	$11,395,000
Meeting Street School	M: A2/VMIG-1	Secured by pledge of School's Gross Receipts and letter of credit.	Additional bonds must have a letter of credit and ratings confirmation.	$8,020,000
Moses Brown School	S: A+/A-1	Secured by the loan, all moneys and securities held by the Trustee, mortgage and letter of credit.	Unless Institution maintains an Investment Grade Rating, any additional bonds shall be secured by a letter of credit.	$6,615,000
New England Institute of Technology	--/A-/A+	General obligation of New England Institute of Technology and a mortgage .	Additional bonds permitted with DSRF	$48,835,000
Providence College	A2/A/--	General obligation secured by a pledge of certain Tuition Fees up to 1.1x MADs	Additional bonds test: 1.1x MADs	$122,065,000
Providence Public Buildings Authority	Baa2 Insured: A1/A1	Secured by payments under the financing agreements and an intercept of the State Housing Aid and Basic Education Aid and a mortgage.	No additional bond test	$246,885,000
Rhode Island School of Design	A1/--/A+	Pledge of Unrestricted College Revenues.	Additional bonds must have a letter of credit and ratings confirmation.	$75,170,000
Roger Williams University	S: AA+/A-1+	Pledge of Tuition Fees and Rentals up to 1.1x MADs	Additional bonds must have a letter of credit and ratings confirmation.	$116,081,305
Salve Regina University	--/BB/--	Secured by Tuition Fees and Mortgage	Additional bonds may be issued pursuant to a supplemental loan and trust agreement	$53,086,469
St. George's School	M: Aa3/VMIG-1	Secured by assignment effected by the Agreement and all other monies and securities held from time to time by the Trustee.	Additional bonds may be issued that are equally and ratably secured with the Bonds.	$44,685,017

Issuer/Debt Program	Ratings (M/S/F)	Security	Additional Bonds Test	Outstanding as of 6/30/2015
The Groden Center	--/AA-/--	Secured by revenues of the Institution.	Additional bonds may be issued that are equally and ratably secured with the Bonds with rating confirmation.	$3,210,000
Rhode Island Health and Education Building Corporation – Health Care				
Care New England Health System	--/BB/BBB-	General obligation of the Borrower. Secured by Gross Receipts of the Obligated Group.	Additional bonds test at 1.10x of historical debt service	$156,297,249
Child and Family Services of Newport County	S: AA-/A-1+	Secured by Borrower's pledge and grant, assignment effected by the Agreement, all other monies and securities held from time to time by the Trustee and letter of credit.	Additional bonds may be issued that are equally and ratably secured with the Bonds and secured with a letter of credit.	$9,532,042
Home & Hospice Care of RI	S: AA-/A-1+	General obligation secured by pledge of Borrower's Gross Receipts and letter of credit.	Additional bonds permitted with a letter of credit and ratings confirmation.	$9,064,500
Lifespan Obligated Group	--/BBB+/BBB+	Gross receipts from the hospitals, including contributions, donations, pledges and revenues derived from the operation of all the facilities of the members of the obligated group. Also secured by mortgages on portions of certain hospital campuses.	Additional indebtedness with 1.25x coverage with additional tests.	$341,484,683
Newport Hospital	S: AA+/A-1+	Secured by Borrower's Gross Receipts, letter of credit and Guaranty.	Additional bonds permitted with a letter of credit and ratings confirmation.	$20,390,000
NRI Community Services, Inc.	S:AA-/A-1+	Secured by assignment effected by the Agreement, all other monies and securities held from time to time by the Trustee and letter of credit.	Additional bonds may be issued that are equally and ratably secured with the Bonds and secured with a letter of credit.	$2,790,000
Seven Hills Rhode Island Inc.	Baa3/BBB/--	Unlimited obligation of the Hospital and pledge of Gross Receipts and a mortgage.	Additional bonds test with 1.30x coverage historical and 1.40x coverage projected.	$4,959,666
South County Hospital	Baa3/BBB/--	Unlimited obligation of the Hospital and pledge of Gross Receipts and a mortgage.	Additional bonds test with 1.30x coverage historical and 1.40x coverage projected.	$45,465,000
St. Antoine Residence	M: Aa2/VMIG-1	Secured by Revenues of Borrower and letter of credit	Additional bonds may be issued so long as loan agreement is in effect, no event of default shall exist and written consent of the letter of credit bank.	$11,485,000
Steere House	--/--/BBB-	Secured by pledge of Gross Receipts of Institution, monies in the Debt Service Fund, monies in the Debt Service Reserve Fund and Mortgage.	Additional bonds may be issued that are equally and ratably secured with the Bonds and pursuant to a supplemental loan and trust agreement.	$4,958,000
Tockwotton Home	--/--/--	Secured by mortgages on current facility of Borrower and on project facility of the Borrower and security interest in the unrestricted Borrower revenues.	Additional bonds require majority holder consent above $1 million.	$40,600,000

Issuer/Debt Program	Ratings (M/S/F)	Security	Additional Bonds Test	Outstanding as of 6/30/2015
Rhode Island Infrastructure Bank				
Water Pollution Control Revenue Bonds	--/AAA/AAA	Pledged loan payments from underlying borrowers and Local Interest Subsidy Trust (LIST) fund reserves	Additional senior bonds can be issued if projected loan revenues and LIST earnings are at least 1x maximum annual debt service (MADS) on existing and proposed senior bonds. When incorporating planned LIST de-allocations and direct loan principal, these revenues need to represent at least 1.15x MADS on senior bonds. To issue subordinate bonds, all available revenues must represent at least 1x pro forma MADS.	$486,640,000 (2016)
Safe Drinking Water/Clean Water	--/AAA/AAA	Pledged loan payments from underlying borrowers and Local Interest Subsidy Trust (LIST) fund reserves	Additional senior bonds can be issued if projected loan revenues and LIST earnings are at least 1x MADS on existing and proposed senior bonds. When incorporating planned LIST de-allocations and direct loan principal, these revenues need to represent at least 1.15x MADS on senior bonds. To issue subordinate bonds, all available revenues must represent at least 1x pro forma MADS.	$163,835,000 (2016)
Water Utility Revenue Bonds City of Pawtucket	A3/A/--	Pawtucket Water Supply Board's (PWSB) net revenue pledge secures the bonds	Revenue Sufficiency Certificate, stating that revenues are sufficient to pay debt service.	$24,265,000 (2016)
Rhode Island Housing and Mortgage Finance Corporation				
Homeownership Opportunity Bonds	Aa2/AA+/--	Secured by bond proceeds, mortgage revenues and non-mortgage receipts, accounts under the resolution and all program obligations financed by the resolution	Certificate stating revenues are sufficient to provide for the payment of bonds	$611,704,448 (2016)
Home Funding Bonds and Notes	Aa2/--/--	Secured by all proceeds of bonds deposited to the Loan Account and revenues derived from program obligations	Certificate stating revenues are sufficient to provide for the payment of bonds	$130,262,468 (2016)
Multi-Family Housing Bonds	Aa2/--/--	Includes moral obligation to fill-up capital reserve fund	Certificate stating revenues are sufficient to provide for the payment of bonds	$630,000 (2016)
Rental Housing Bonds	S: A/A-1+	Mortgage loans financed from bond proceeds and Revenues, including Pledged Receipts or payments required by any Mortgage Loan. Includes moral obligation to fill-up capital reserve fund	Certificate stating revenues are sufficient to provide for the payment of bonds	$65,039,132 (2016)
Multi-Family Funding Bonds	Aaa/--/--	Mortgage loans and revenues	Certificate stating revenues are sufficient to provide for the payment of bonds	$88,760,000 (2016)
Multi-Family Development Bonds	Aa2/--/--	Mortgage loans and revenues	Certificate stating revenues are sufficient to provide for the payment of bonds	$214,758,428 (2016)
Multi-Family Mortgage Rev Bonds	S: AAA/A-1+	Freddie Mac credit enhancement. Mortgage loans and revenues	Certificate stating revenues are sufficient to provide for the payment of bonds	$100,691,010 (2016)

Issuer/Debt Program	Ratings (M/S/F)	Security	Additional Bonds Test	Outstanding as of 6/30/2015
Rhode Island Student Loan Authority				
Student Loan Program Revenue Bonds	--/AA(sf)/AAsf	Secured by non-federal loans, various accounts established under the indenture, payments of principal and interest on Non-Federal Loans financed pursuant to the Indenture and investment earnings.	Requires rating affirmations from rating agencies rating the bonds.	$239,755,000 (as of February 29, 2016)
FFELP Loan Program Revenue Bonds	--/AA+(sf)/AAAsf	Secured by FFELP Loans, all amounts held under the indenture, and the rights to the servicing agreements and guarantee agreements related to the loans.	The FFELP Loan program is not available. Any additional bonds would likely be only for refinancing outstanding bonds.	$286,233,000 as of February 29, 2016
Rhode Island Commerce Corporation – Additional Information Needed				
Redwood Library and Athenaeum (1)				$1,595,063
Providence Art Club (1)				$2,508,698
Ocean Community YMCA (1)				$3,721,423
Greater Providence YMCA (1)				$7,702,963
Quonset Development Corporation (1)				$5,262,476
Rhode Island Health and Education Building Corporation – Additional Information Needed				
Immaculate Conception School				$5,443,750
International Institute of RI Inc.				$1,795,,000
La Salle Academy				$4,047,584
Mercymount Country Day School				$3,545,334
Paul Cuffee School				$2,450,000
Portsmouth Abbey School				$7,301,250
Rocky Hill School				$2,929,494
St. Andrew's School				$16,185,000
The Compass School				$1,580,000
The Learning Community Charter School				$3,490,000
The Pennfield School				$4,428,591
The Wheeler School				$7,619,692
Times Academy, Inc	Aa2/--/--			9,957,6005
Blackstone Valley Community Health Care, Inc.				$5,999,941
J. Arthur Trudeau Memorial Center				$2,310,000
Ocean State Assisted Living Series				$10,015,000
Rhode Island Blood Center				$8,360,267
Scandinavian Home Series				$4,052,656
St. Elizabeth Manor				$7,986,390
Tamarisk, Inc.				$9,215,000
The Kent Center, Inc.				$4,478,285
The Providence Center, Inc.				$2,624,766
The Providence Community Health				$10,831,592

Issuer/Debt Program	Ratings (M/S/F)	Security	Additional Bonds Test	Outstanding as of 6/30/2015
Centers, Inc.				
Thundermist Health Center				$3,135,708
Rhode Island Industrial Facilities Corporation – Additional Information Needed				
New England Expedition (Eagle Square Commons) (1)				$3,305,000
Neurotech Pharmaceuticals, Inc. (1)				$1,496,931
CAPCO Steel (1)				$3,920,146
Ashaway Pines (1)				$2,079,412
Exxon Mobile (1)				$15,400,000
Hall Real Estate LLC Projects (1)	S: AA-/A-1+			$1,570,000
CP Assoc. (Cranston Police HQ) (1)				$8,216,008
Bullard Abbrasives				$2,848,212
Calise & Sons				$2,400,000
CAPCO Steel				$928,035
SCOJEN Limited Partnership (2)				$70,000
NFA Corp (2)				$5,000,000
AKL-PJ (2)				$745,000
Eric Goetz Custom Sailboat (2)	S: AA-/A-1+			$4,050,000

(1) Listed in http://commerceri.com/financial-statements/. More information needed.
(2) Listed on Bloomberg/EMMA. More information needed.

Examples of Policies for Pooled Programs

VPSA--General Pooled Bond Policy of the Authority

Legal Authority

This Policy is established pursuant to **§22.1-171 A(5)** of the Code of Virginia.

Purpose

This Policy establishes procedures of the Virginia Public School Authority (the "Authority") for the issuance of "Pooled Bonds" of the Authority to purchase general obligation school bonds or notes ("Local School Bonds") issued by counties, cities and towns of the Commonwealth of Virginia ("Local Issuers").

This Policy is issued in the interest of making available to all counties, cities and towns of the Commonwealth attractive credit terms and financing arrangements for financing capital projects for primary and secondary public schools and that such terms and arrangements are in the best interests of the Commonwealth as a whole.

This Policy is intended to supplement other policies, regulations, and directives issued by agencies and officers of the Commonwealth having administrative responsibilities for financing capital projects for primary and secondary public schools.

Applicability

This Policy shall apply to all Local Issuers proposing to sell and issue, to the Authority, Local School Bonds for the purpose of financing capital projects for primary and secondary public schools.

Findings

The Virginia Constitution directs the General Assembly to "provide for a system of free public elementary and secondary schools for all children of school age throughout the Commonwealth, and [to] seek to ensure that an educational program of high quality is established and continually maintained." **(Virginia Constitution, Article VIII, Section 1).**

The Authority was established pursuant to **§ 22.1-162 et seq. of the Code of Virginia (the "Enabling Act")** to help address the needs of counties, cities and towns of the Commonwealth with respect to the financing of public school capital projects and to take appropriate steps to meet public school capital project needs of Local Issuers.

General Provisions

Pooled Bonds are repaid from the payments of principal and interest on Local Issuers' Local School Bonds purchased by the Authority with the proceeds of its Pooled Bonds and the proceeds from any sale of the Local School Bonds.

The Authority currently issues bonds for its Pooled Bond program under the 1997 Resolution. If any local issuer fails to make timely payment of debt service on its Local School Bonds and the application of the State Aid Intercept provisions mandated in **§ 15.2-2659 of the Code of Virginia** does not remedy the deficiency, then the 1997 Resolution bonds will be payable from sum sufficient appropriations first from available funds in the Literary Fund and then from the Commonwealth's General Fund.

The Authority will strive to fund all capital school financing requests made of it through use of the Pooled Bond Program or other financing structure available to it under the applicable law. In the past, demand has been met through two Pooled Bond sales, one in the spring and one in the fall of each year. Amortization periods of up to 30 years may be considered as provided in the Enabling Act. The Authority will not guarantee that it will continue to be able to issue two Pooled Bond issues each year.

The Authority may issue, from time to time, intermediate-term Pooled Bonds under its 1997 Resolution to assist Local Issuers in financing certain capital projects for public schools with a short useful life. The minimum amount of any such application shall be $100,000. The intermediate-term Pooled Bonds shall be amortized over a period not to exceed the useful life of the project being financed.

Procedures for Authority Pooled Issues

Requests for Inclusion in Sale

1. Localities interested in participating in a Pooled Bond issue may request inclusion in the next available sale by submitting the Pooled Bond Sale Application. The Authority will mail an electronic announcement to each Local School Superintendent, using the list provided by the Department of Education, with instructions for completing an application packet in advance of each Pooled Bond sale.
2. The School Boards of Local Issuers requesting inclusion in the sale are required to pass resolutions authorizing application to the Virginia Public School Authority.
3. Local Issuers requesting inclusion in the Pooled Bond financings are required to use certain standard bond documents prepared by the Authority and execute a Bond Sale Agreement.
4. Local Issuers are permitted the opportunity to reduce the borrowing amount or to drop out of the sale completely at any time prior to the due date of the Bond Sale Agreement.
5. Counties, cities and towns contemplating a Stand Alone financing for public school capital projects may apply to the Authority directly or as though participating in a pooled financing.

Investment Requirements

6. The Authority shall require all Local Issuers taking part in the Pooled Bond Program to invest their bond proceeds in the Virginia State Non-Arbitrage Program or other investment vehicle designated by the Authority.
7. The Authority's funds shall be invested by its Treasurer pursuant to **§ 22.1-169 of the Code of Virginia** in accordance with the terms of the applicable Pooled Bond resolution. It is the objective of the Authority to preserve the principal of all funds invested while maintaining sufficient liquidity to enable it to meet all operational and debt service requirements and providing reasonable returns consistent with these constraints.

Terms

8. Local School Bonds purchased by the Authority must constitute valid and binding general obligations of the respective Local Issuer for the payment of which its full faith and credit are irrevocably pledged, and all taxable property within the boundaries of the Local Issuer must be subject to the levy of an ad valorem tax, without limitation on rate or amount, for the payment of the Local School Bonds and the interest thereon.

9. Each Local Issuer must represent, on or before the date of sale of the Authority's Pooled Bonds, that its governing body will have duly adopted the resolution, in the form provided to the Local Issuer and to the Local Issuer's bond counsel, prior to the sale date. The Local Issuer will also deliver to the Authority its Local School Bonds in the form specified in the standard bond documents. Any changes made by the Local Issuer or its bond counsel to the form of the standard bond documents and/or the Local School Bonds must be approved, prior to its adoption, by the Authority.
10. For so long as the Authority is the registered owner of a Local Issuer's Local School Bonds:
    a. the paying agent and registrar shall be a qualified bank or trust company; and
    b. all payments of principal and interest shall be made in immediately available funds to the Authority on or before 11:00 A.M. on the applicable debt service payment date or redemption date; or, if the scheduled date is not a business day for banks in Virginia or for the Commonwealth, then on or before 11:00 A.M. on the succeeding business day. Overdue payments shall bear interest at the Local School Bond rates.
11. Each Local Issuer participating in the Authority's financings will covenant not to sell, without the Authority's consent, any general obligation bonds that are part of the same common plan of financing as its Local School Bonds, during a 15-day period before and after the sale of the Authority's bonds.
12. The Local School Bonds will bear interest from their closing date and will mature annually in amounts specified by the Authority. Local School Bonds purchased under the 1997 Resolution will mature on July 15. The Local School Bonds will bear interest payable semiannually, at rates not to exceed 10 basis points (0.10%) above the actual rates on the Authority's bonds with corresponding maturities.
13. Local School Bonds purchased under the Authority's 1997 Resolution shall not be subject to redemption prior to their maturity without the prior written consent of the Authority or other registered owner of the Bonds.
14. The Authority will review the forms of the legal opinions from the local bond counsel representing Local Issuers participating in the Pooled Bond sale to determine that they are satisfactory to the Authority as to:
    a. the validity of, and exclusion from gross income for federal and Virginia income tax purposes of the interest on, the Local School Bonds, if applicable;
    b. the conformity of the terms and provisions of the Local School Bonds to the requirements of the Bond Sale Agreement; and,
    c. the due authorization, execution and delivery of the Bond Sale Agreement, Continuing Disclosure Agreement and the Proceeds Agreement.
15. Each Local Issuer will be required by the terms of its Bond Sale Agreement to authorize, execute and deliver to the Authority a Continuing Disclosure Agreement in the form appended to the Bond Sale Agreement. By the terms of its Continuing Disclosure Agreement, any Local Issuer that becomes and remains a material obligated person ("MOP") will be required to make certain filings prescribed by the Securities and Exchange Commission Rule 15c2-12. (See **Continuing Disclosure** section below)
16. In evaluating any refunding of Pooled Bonds, the Authority will consider the amount of savings to be distributed to Local Issuers or the Literary Fund as well as the resulting cash flows to the Authority.

Fees and Penalties

17. The Authority will assess a charge not to exceed 10 basis point (0.10%) charge to each coupon in structuring the debt service schedule of participating Local Issuers to cover the Authority's administrative costs over the life of the issue and cost of issuance expenses including bond counsel fees, financial advisor fees, underwriting costs, printing costs, rating agency fees and other costs directly related to bringing the Authority's bonds to market.
18. While the Authority reserves the right to increase or decrease the amount charged in future Pooled Bond sales, any change will not affect existing Local School Bonds held by the Authority.
19. Should a Local Issuer decide to reduce its borrowing amount or to drop out of the Pooled Bond sale after the due date of the Bond Sale Agreement, it may be charged for all additional costs incurred by the Authority as a result of the actions taken by the Local Issuer.
20. A Local Issuer failing to close on its bonds after acceptance of its application by the Authority and execution of a Bond Sale Agreement must pay all allocable costs incurred by the Authority and other professionals including those identified above.

Limitations

21. The principal amount of Local School Bonds and the description of the project(s) in the resolutions adopted by the Local Issuer's governing body and school board shall be consistent.
22. If a Local Issuer has had substantially the same project(s) considered at a referendum, the Authority will take into account the referendum results but is not bound by the results and may approve or reject the application for the project(s). Any project(s) that is the subject of a failed referendum which has not been reversed by a subsequent successful referendum, may be eligible for consideration only if *both* the Local Issuer's governing body and school board have approved resolutions stating that the project(s) is essential, *and* that **one** of the following has occurred:
    a. the resolutions have been **unanimously** approved by both the Local Issuer's governing body and school board, *or*
    b. at least two years have passed since the referendum, *or*
    c. the Virginia Department of Education has determined that an emergency exists for the project(s).
23. The Authority may approve or reject applications for Pooled Bond issues, taking into consideration the merits of the Local Issuers' project(s) and the recommendations of the Virginia Department of Education.

Exceptions

The Authority may, in its sole discretion, exempt from the procedures in this Policy, any specific local bond issue requests, or portions thereof, that it deems to be in the best interests of the Commonwealth and the Authority.

Continuing Disclosure

The Authority is required to establish objective criteria for determining whether Local Issuers are deemed to be "material obligated persons" ("MOP's") within the meaning of SEC Rule 15c2-12 regarding the Local Issuer's Local School Bonds held by the Authority under a particular Pooled Bond resolution. If a Local Issuer is deemed to be a MOP, the Local Issuer will be required to file certain financial and operating information with information repositories. For Local School Bonds held under the 1997 Resolution, a Local Issuer will be deemed a MOP, at the time of determination, if it has Local School Bonds held in the 1997 Purchase Fund outstanding in an aggregate principal amount that exceeds 10% of the principal amount of Authority bonds outstanding under the 1997 Resolution. **(See item 15, Procedures for Authority Pooled Issues)**.

Amendments to Policy

The Authority may from time to time issue amendments to this Policy.

Effective Date

The requirements and procedures established by this Policy are effective immediately upon adoption by the Authority.

Adopted March 26, 2009

Virginia Department of the Treasury • 101 North 14th Street • Richmond, VA 23219 • (804) 225-2142
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Comments about this website, please email the Web Administrator

VIRGINIA COLLEGE BUILDING AUTHORITY
Guidelines in Connection with

POOLED BOND FINANCINGS FOR THE BENEFIT OF PUBLIC INSTITUTIONS OF HIGHER EDUCATION

I. Background

The 1996 Session of the Virginia General Assembly authorized the creation of a pooled bond financing mechanism for capital projects authorized for financing under Section 9(d) of the Constitution of Virginia. As a result of this legislation, the Virginia College Building Authority (the "Authority") developed the Public Higher Education Financing Program (the "Pooled Bond Program") to assist public institutions of higher education to finance or refinance Section 9(d) capital projects at the lowest possible cost. The Pooled Bond Program allows public institutions of higher education to finance Section 9(d) capital projects through the program rather than financing such projects individually. Under the Pooled Bond Program, the Authority uses the proceeds of its sales of bonds ("Pooled Bonds") to purchase debt obligations of the participating public institutions ("Notes"). The proceeds of these individual Notes are used to finance or refinance capital projects at such public institutions.

II. Purpose of Guidelines

The purpose of this document is to articulate the Authority guidelines in connection with the issuance of Pooled Bonds for the benefit of public institutions of higher education within the Commonwealth of Virginia. This document's scope is limited to the Authority's Public Higher Education Financing Program pursuant to the Virginia College Building Authority Act of 1966, Chapter 3.2 of Title 23 of the *Code of Virginia of 1950*, as amended. These guidelines are also intended to aid the institutions in structuring financing arrangements in a manner consistent with the best interests of the institution and the Authority. These are guidelines only and consideration of a structure outside of these guidelines may be warranted under certain circumstances.

III. Applicability

These guidelines apply to all public institutions of higher education of the Commonwealth which meet the statutory requirements of § 23-14 of the *Code of Virginia of 1950*, as amended, and wish to participate in the Pooled Bond Program. For institutions choosing to issue bonds on their own, Treasury Board guidelines will apply and are available on the Treasury website at http://www.trs.virginia.gov/debt/tboard.asp.

IV. Authority's Public Higher Education Financing Program

The Authority was created by and derives its powers from the Virginia College Building Authority Act, Chapter 3.2 of Title 23 of the *Code of Virginia of 1950*, as amended, pursuant to which it is authorized to assist in financing the construction of capital improvement projects at public institutions of higher education within the Commonwealth by purchasing bonds or other debt obligations of such educational institutions.

The Authority is authorized to finance a broad range of projects as defined in § 23-15.

As the issuer of the Pooled Bonds, the Authority reviews and approves applications for the Pooled Bond Program, coordinates the financing process and approves the legal documentation, culminating in the issuance of the Pooled Bonds by the Authority on behalf of the institutions.

The pooled structure provides three distinct benefits to the institution: (i) it allows the costs of issuance to be shared among all participating institutions, (ii) it provides access to the capital markets often at lower interest rates than an institution could achieve accessing the capital markets on its own, and (iii) it relieves the institution from the staff work and effort associated with an individual bond issue.

VCBA Pooled Bond ratings are expected to be at least AA+, Aa1, and AA by Fitch Ratings, Moody's and S&P, respectively.

V. Security

1. **Loan Agreement and Note** – Each participating institution will enter into a separate Loan Agreement with the Authority, under which it borrows a portion of the proceeds of the sale of the Pooled Bonds from the Authority, promises to repay its loan from the institution's revenues and evidences such repayment obligation by a Note issued by the institution to the Authority. Debt service on the Pooled Bonds will be funded with payments received by the Authority under each Loan Agreement.

2. **General Revenue Pledge** – Each participating institution is required to give a general revenue pledge for the payments due under the Note pursuant to its Loan Agreement with the Authority. Pledged General Revenues include all revenues of the institution not required by law or binding contract to be devoted to some other purpose on a basis that is senior in priority to payments under the Note.

3. **Intercept Mechanism** – Section 23-30.29:3 of the *Code of Virginia of 1950*, as amended, provides for an intercept mechanism in the event that an institution has defaulted in payments under the Note in accordance with the Loan Agreement. Immediately upon the Governor's knowledge that an institution is in default, the State Comptroller is required to make an intercept payment to the Authority for the amount due. **Any appropriation, whether of the Commonwealth's general fund revenues or special fund revenues, available to the institution may be intercepted.** In addition, if an institution defaults, the State Comptroller is directed to charge against appropriations available to such institutions all future payments under the Note as to ensure no future default will occur on the related Pooled Bonds.

VI. General Assembly Approval

All projects to be financed by the Pooled Bond Program must have been specifically included in a bill (which may include the Budget Bill) passed by a majority of both houses of the General Assembly authorizing such project as eligible for bond financing.

VII. Board of Visitors Approval

All capital projects to be financed with Pooled Bond proceeds must be approved by the institution's Board of Visitors as projects to be financed through the Pooled Bond Program. The Authority's bond counsel will provide a form of this Board of Visitors resolution for the institution and prepare the related Loan Agreement and Note. The Board of Visitors resolution is requested to be adopted prior to approval of the related Pooled Bonds by the Authority and must be obtained before such Pooled Bonds are priced for a project to be included in the financing.

VIII. VCBA and Treasury Board Approval

The Virginia College Building Authority Board (the "VCBA Board") approves financings under the Pooled Bond Program. The VCBA Board's meetings are scheduled when needed. The Authority's staff, as well as its financial advisor and bond counsel, will make the presentation to the VCBA Board. The VCBA Board may choose to give its final approval upon the pricing of the Pooled Bonds, or the VCBA Board may choose to delegate final approval regarding pricing, terms, structure or other matters to the State Treasurer.

In addition to VCBA Board approval, the Treasury Board is required to approve the terms and structure of the Pooled Bonds. Treasury Board approval will be considered at one of its regular monthly meetings after the financing has been approved by the VCBA Board.

VCBA Board and Treasury Board approvals are obtained before any offering document or preliminary official statement for the related Pooled Bonds is electronically posted or printed, which occurs before such Pooled Bonds are priced.

IX. Application and Loan Structure

Each participating institution must complete an application package that gives the Authority the information needed to structure the Pooled Bond issue. Under the Pooled Bond Program, each participating institution has the flexibility to specify certain terms of its Loan Agreement with the Authority. The institution will make payments on its Note in the same amounts as will be required for debt service payments on the portion of Pooled Bonds used by the Authority to purchase the Note.

Authority staff will distribute Pooled Bond Program information to all eligible public institutions approximately four weeks prior to the date the applications are due.

POOLED BOND FINANCINGS FOR THE BENEFIT OF PUBLIC INSTITUTIONS OF HIGHER EDUCATION

Applications and instructions will be available on the Treasury website at http://www.trs.virgini.gov/debt/vcba.asp, which will allow applicants to complete the application in its electronic format and return them to the Department of the Treasury via e-mail. Paper copies of the application will also be available and may be obtained by contacting the Department of the Treasury at (804) 786-3669 (phone), (804) 225-3187 (fax) or P.O. Box 1879, Richmond, VA 23219.

If the institution's Board of Visitors resolution has not yet been adopted when the application is submitted, a draft will suffice for application purposes. Any revisions between the draft and the final resolution should be provided to the Authority prior to the VCBA Board meeting. As noted above **the institution's Board of Visitors is requested to have adopted the resolution prior to approval by the VCBA Board of the related Pooled Bond issue and must be obtained before the related Pooled Bonds are priced.**

The Authority's review of the terms and structure of the transaction will include many of the following components. While the suggested terms or parameters are meant only to provide general guidance to the institution, the institution should be prepared to explain and/or justify major deviations from these guidelines.

1. **Amortization** -- The Pooled Bond Program provides flexibility to allow institutions to specify certain individual financing terms, such as the preferred amortization schedule for the bonds issued to finance its respective project(s), subject to the following conditions.
   - The term of the obligations must not exceed the useful life of the facility or project being financed.
   - It is preferable that the maximum term of the obligations not exceed 20 years and the weighted average life of the bonds should be as close to 10 years as possible (on a 20 year issue).
   - The institution should begin repaying principal on its bonds within 18 months of their issuance unless debt repayment is solely dependent on revenues derived from the project being financed.
   - Debt service will be computed based on level annual payments of principal and interest or level payments of principal.

2. **Draw Schedules and Bond Issue Sizing**
   - The Authority will use the project draw (spending) schedule provided on the institution's application as the basis for sizing the Pooled Bond issue.
   - Each institution must provide the anticipated draw (spending) schedule for each of its projects on a monthly basis.
   - It is the Authority's intention to provide financing from any bond issue for anticipated project draws for approximately 12 to 18 months.
   - If the project will take longer to complete, the institution may request the Authority to issue additional bonds the next year to cover the remaining draws.

- The institution should elect to **Net Fund** its project costs whenever possible. Gross Funding may result in more funds being borrowed than are needed for the projects to be financed.

3. **Capitalized Interest**
   - Capitalized interest generally is used only for revenue-producing projects and should be limited to six months beyond the completion date of the project.
   - Deferral of principal, if desired, may or may not coincide with the capitalized interest period.

4. **Interim Financing**
   - Interim financing (e.g., Treasury loans or bond anticipation notes (BANs)) may be used to finance the initiation of a project, with long-term take-out financing through the Pooled Bond program. **Treasury loans are approved by and issued through the Department of Planning & Budget.**
   - If interim financing is used, the proceeds of the Pooled Bonds will be used to immediately repay the short-term obligations with the exception of interest accrued between bond sizing and the bond closing date. Due to timing constraints on the Treasury loan payoff calculation, the institution, in most cases, will be responsible for paying, from other institutional funds, any interest that was not included at the time of the Pooled Bond sizing. **All calculations of interest due on Treasury loans are performed by the Department of Accounts.**

X. Compliance with Federal Tax Laws

Institutions must:

- Comply with Internal Revenue Service regulations concerning reimbursement for expenses occurring prior to issuance of the Pooled Bonds. If costs related to the project being financed are incurred before bonds are sold and the institution wishes to have these costs reimbursed with bond proceeds, the institution must have its Board of Visitors approve an intent to reimburse resolution prior to spending any funds on the facility. The Authority's bond counsel can assist with the required reimbursement resolution.
- Consider how bond proceeds will be invested and monitored to facilitate compliance with applicable federal arbitrage rules and arbitrage rebate requirements. **(See "SNAP" below.)**
- Consider the long-term use of the project being financed. A change in facility use, the existence of certain private management or research contracts or other private use arrangements, or the use of the facility by the federal government, during the life of the Pooled Bonds could adversely affect the tax-exempt status. These issues should be identified in the application process so that the Authority's bond counsel can review them.

XI. Loan Payments

Payments are due from the institutions 15 days prior to the Authority's debt service payments are due on the Pooled Bonds. Accordingly, payments from the institutions are due on August 15 and February 15 as debt service on the Authority's bonds is paid on March 1 (interest) and September 1 (principal and interest) of each year. Each institution's payment to the Authority consists of its share of principal, interest and administrative costs of the Pooled Bond Program.

XII. State Non-Arbitrage Pool (SNAP)

- Under federal tax arbitrage rebate rules, each institution is required to make an election at the time of the related Pooled Bond issuance regarding whether the institution prefers to pay rebate or a penalty if the institution does not spend its Pooled Bond proceeds within the requisite time period.
- Each institution is also responsible for tracking compliance with its individual spend-down requirements and establishing and funding rebate accounts, if necessary.
- To assist participating institutions with these requirements, the Authority will invest Pooled Bond proceeds in the SNAP program. See the SNAP website for more information (www.vasnap.com).
- SNAP will track the institution's spending of funds and provide periodic statements that show whether the institution is complying with the minimum IRS spend-down levels; however, it is the responsibility of the institution to reconcile these statements with the Trustee's statements and the institution's own internal records.
- SNAP also will perform an arbitrage rebate calculation for the Pooled Bonds and provide reports for each institution at the time periods required by the IRS. A rebate calculation is required a minimum of every fifth year that the bonds are outstanding. **It is the responsibility of the institution to monitor and make provisions for payment of any arbitrage rebate liability or penalty.** The cost of rebate calculations for a specific Pooled Bond issue will be shared by each institution participating in such issue and will be billed to the institution by the Trustee for the Pooled Bonds, currently The Bank of New York.

XIII. Disclosure

Under Securities and Exchange Commission, Rule 15c2-12 (the "Rule"), issuers of tax-exempt bonds must make a continuing disclosure undertaking and file an annual report ("Annual Report") with certain Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) for the benefit of the bondholders and to assist the participating underwriters in complying with the Rule. This Annual Report must be filed each year by your institution as long as the bonds are outstanding. This Annual Report is due to the NRMSIRs by May 1 of each year. The Commonwealth and its authorities and institutions will make this filing through the electronic clearinghouse, DisclosureUSA.

Institutions should register with DisclosureUSA through its website, www.disclosureusa.org.

The Loan Agreement outlines the filing requirements under the continuing disclosure undertaking, including the specific content of the Annual Report. **In the Loan Agreement, the institution acknowledges that it is undertaking primary responsibility for any continuing disclosure, reports, notices or disclosures that are required.** The institution's Annual Report is to be filed not later than 10 months after the end of each fiscal year as noted above. The audited annual financial statements of the institution are to be filed as soon as publicly available. Reports of any of 13 events identified in the Loan Agreement (referred to as Listed Events) must be filed as soon as it occurs.

In the event the institution fails to file its Annual Report by the due date or fails to file its Audited Annual Financial Statement when available, it is required to send an appropriate notice to the Municipal Securities Rulemaking Board in the Format of an exhibit to the Loan Agreement. Finally, the institution is required to provide the Authority a copy of its Annual Report filing not less than 10 days prior to the due date.

XIV. Bond Counsel

The Office of the Attorney General has appointed the law firm of Troutman Sanders LLP to serve as Bond Counsel for the Pooled Bond Program. Bond Counsel is responsible for drafting the basic legal documents, for the administration of the closing of the transaction and, most importantly, for opining as to the tax-exempt nature of interest payments on the Pooled Bonds. Bond Counsel must be satisfied that each institution remains a tax-exempt entity under the tax code and that no project is to be used for a non-exempt purpose. Final executed documents are compiled by Bond Counsel and distributed to each institution following the closing.

XV. Financial Advisor

The financial advisor to the Authority assists the Authority in the structuring and pricing of the Pooled Bonds. Although the Authority's financial advisor can provide limited assistance to individual institutions regarding the terms and structure of their individual note issues, institutions requiring additional assistance in the structuring of their note obligations in conjunction with the Pooled Bond issuance should retain independent financial advisory services.

XVI. Trustee

The trustee for the Pooled Bond Program currently is The Bank of New York (the "Trustee"). The Trustee provides ongoing administrative, requisition-processing and record-keeping services to the Authority and the various institutions participating in the Pooled Bond Program.

For each bond issuance, the Authority will pay, from the costs of issuance account for the bonds, the Trustee's one-time initial acceptance fee and the Trustee's annual fee for the first year the bonds are outstanding. **Thereafter, ongoing Trustee administrative fees and transaction costs will be charged on a per institution basis and each participating institution will be responsible for its applicable share of Trustee fees and costs**. The Trustee will bill participating institutions annually. Annual Trustee fees are currently $500 per institution per applicable series of Pooled Bonds plus transaction costs.

Transaction costs include a Wiring Fee, currently of $25.00 per wire, and a Requisition Processing Fee, currently $10.00 per requisition or batch of requisitions, as the case may be. Billing periods vary depending on the date of closing for each series of Pooled Bonds.

The institutions communicate directly with the Trustee in requesting reimbursements or payments for project expenses. The Authority and its staff are not generally involved with the request. The Trustee will send monthly statements to the institution showing investment interest and expenditures which the institution should reconcile to its records and SNAP records.

XVII. Definitions

The following terms used in connection with the issuance of the Pooled Bonds, have the following respective meanings[1].

Bond Counsel - An attorney (or firm of attorneys) retained by the issuer to give a legal opinion that the issuer is authorized to issue proposed securities, the issuer has met all legal requirements necessary for issuance, and interest on the proposed securities will be exempt from federal income taxation and, where applicable, from state and local taxation. Typically, bond counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.
Call Provisions - The terms of the bond contract, sometimes referred to as "call or prepayment provisions," giving the issuer the right to redeem or call (an "optional redemption"), or requiring the issuer to redeem or call (a "mandatory redemption"), all (an "in-whole redemption") or a portion (a "partial redemption") of an outstanding issue of bonds prior to its stated date of maturity. Bonds may be redeemed at a specified price, usually at par or accreted value in the case of original issue discount bonds (a "par call") or above par or accreted value (a "premium call"), plus any accrued interest to the redemption date. Issuers may be limited to redeeming bonds on interest payment dates (an "any-interest-date redemption") or may be permitted to redeem bonds on any date (an "any time or continuous call").

[1] Where possible, these definitions are taken from the Glossary of Municipal Bond Terms published by the Municipal Securities Rulemaking Board or from the Pooled Bond Program documents, as applicable.

Capitalized Interest – A portion of the proceeds of an issue set aside to pay interest on the securities for a specified period of time. Interest is commonly capitalized for no longer than the construction period of a project or until a short period after completion.
Financial Advisor – A consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings.
General Revenues – Without limitation, the Institution's total gross university sponsored overhead, unrestricted endowment income, tuition and fees, indirect cost recoveries, auxiliary enterprise revenues, general and nongeneral fund appropriations and other revenues not required by law or restricted by a gift instrument to be used for another purpose.
Gross Funding – A method of sizing the bond issue in which the principal amount of bonds issued is a sufficient source of funds for project costs using anticipated spending schedules.
Net Funding – A method of sizing the bond issue in which projected earnings on the bond proceeds are taken into account as a source of funds, for project costs, using anticipated spending schedules and an assumed rate of investment earnings. This method results in a smaller overall issue size.
Terms and Structure – As it relates to § 2.2-2416 of the *Code of Virginia*, "terms and structure" is deemed to include the following: type of debt instrument/obligation, security, size, method and timing of sale, interest rate structure, principal amortization method, call provisions, number and level of credit ratings, investment of proceeds, credit enhancements, synthetic features (e.g., caps, floors, forwards, swaps), disclosure, refunding parameters, the method of selection of the financing team and selling group.
True Interest Cost ("TIC") – Also known as "Canadian Interest Cost." A method of computing the issuer's cost defined as that rate, compounded semi-annually, that is necessary to discount the amounts payable (on the respective principal and interest payment dates) to the purchase price received for the new securities, excluding accrued interest.
Trustee – A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.
Underwriter – A firm that purchases a new issue of municipal securities for resale. The underwriter may acquire the securities either by negotiation with the issuer or by award on the basis of competitive bidding.