RESOLUTION NO. 19-20

RESOLUTION APPROVING
THE NEW JERSEY INFRASTRUCTURE BANK
SFY2020 WATER BANK FINANCIAL PLAN

WHEREAS, pursuant to N.J.S.A. 58:11B-21 and 21.1, the New Jersey Infrastructure Bank (the “I-Bank”) is required to submit to the Legislature on or before May 15, 2019, a financial plan designed to implement the financing of the projects on the Environmental Infrastructure Project Priority List or the Environmental Infrastructure Project Eligibility List “Water Bank May Report”; and

WHEREAS, the Water Bank May Report shall contain an enumeration of the bonds which the I-Bank intends to issue to finance environmental infrastructure projects, including the amounts, terms, and conditions for the loans; a list of loans to be made to participants, including the terms, conditions, and anticipated rate of interest per annum and repayment schedule for the loans; and a complete operating and financial statement covering the I-Bank’s proposed operations during the forthcoming fiscal year including amounts of income from all sources; the schedule of fees and charges collected from borrowers in connection with the I-Bank Water Bank loans; a summary of the status of each project for which loans have been made; and a description of the major impediments to the accomplishment of the planned projects.

NOW THEREFORE BE IT RESOLVED THAT the NJIB Board of Directors hereby approves the proposed State Fiscal Year (“SFY”) 2020 Water Bank May Report substantially in the form as the Plan included in the agenda for the April 11, 2019 NJIB Board meeting with such changes thereto, and as the Executive Director, in consultation with the Chairman or Vice Chairman, shall approve and authorize; and

BE IT FURTHER RESOLVED THAT the Executive Director, in consultation with the Chairman or Vice Chairman, is hereby authorized and directed to take such other actions as are necessary or desirable to publish, file and distribute the Water Bank May Report, including its printing and binding.

Adopted Date: April 11, 2019

Motion Made By: Mr. Mark Longo

Motion Seconded By: Ms. Kimberly Holmes

Ayes: 7

Nays: 0

Abstentions: 0
NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE FINANCING PROGRAM

STATE FISCAL YEAR 2020 FINANCIAL PLAN

Submitted to the State Legislature by:
The New Jersey Infrastructure Bank
The New Jersey Department of Environmental Protection

MAY 2019
New Jersey Infrastructure Bank

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Report to the Legislature
Pursuant to

P.L. 1985, Chapter 334
New Jersey Infrastructure
Trust Act

By

Catherine R. McCabe
Commissioner
New Jersey Department of Environmental Protection

Robert A. Briant, Jr.,
Vice-Chairman
New Jersey Infrastructure Bank
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INTRODUCTION

The New Jersey Infrastructure Bank (the “I-Bank” or “NJIB”) and the New Jersey Department of Environmental Protection (“DEP”) are pleased to present the State Fiscal Year (SFY) 2020 New Jersey Environmental Infrastructure Financing Program (“NJEIFP” or “Water Bank”) Financial Plan (the “Report”) to the New Jersey State Legislature in accordance with P.L. 1985, Chapter 334, as amended. Since being established in 1985, the NJIB, formerly known as the New Jersey Environmental Infrastructure Trust (“NJEIT”), has partnered with the DEP to jointly fund and manage the Water Bank to provide low-interest loans for environmental infrastructure projects. The NJEIT continues this work in partnership with the DEP as an organizational division of the I-Bank. This Report for the I-Bank’s 33rd financing program year sets forth the plan by which projects, having applied and qualified for Water Bank loans, will be financed in SFY2020.

Throughout its history, the NJEIFP has focused upon providing financing for the construction and improvement of clean water and drinking water facilities and systems that protect the State’s natural resources and public health. Since issuing its first loan in 1987, the NJEIFP has issued approximately 1,326 long-term project loans totaling over $7.13 billion for water quality and public health related environmental infrastructure projects. In the past thirty-two years, the NJEIFP has reduced total interest costs for municipalities, counties, authorities and public and private water utilities, on average, thirty-six percent (36%) of each borrower’s original loan balance, producing interest savings for taxpayers and ratepayers of $2.58 billion. For a historical perspective on Program Funding History, see Appendix J.

The financial benefits of the NJEIFP have spurred significant improvements to the State’s clean water and drinking water infrastructure and have served as a major catalyst for economic and job growth throughout the State. For an overview of the NJEIFP financing, see the Distribution of Financing Program Funds throughout SFY1987 – SFY2019, attached as Appendix B, and the Status Reports on Projects Funded in SFY1988 through SFY2019 attached as Appendix C.

This Report provides a detailed overview of the SFY2020 Water Bank Financing Program including: i) the Water Bank’s Multi-Year Construction (Short Term) Financing Program; ii) the Base Water Bank Financing Program; iii) Disaster Relief Emergency Financing Program (SAIL); and iv) SANDY Water Bank Financing Program. The SFY2020 Water Bank addresses the challenges created by the increased demand for the Program by using supplemental sources of revenue from private lines of credit and adjusting the distribution of State 0% interest rate funds available for long term financing. With these changes, the Water Bank Financing Program will continue to offer competitive loan rates for the construction and improvement of clean water and drinking water facilities and systems (Base NJEIFP) and at the same time ensure the long-term viability of the Water Bank Program.

THE NEW JERSEY INFRASTRUCTURE BANK

The I-Bank is an independent state financing authority, in but not of the Treasury, authorized to issue revenue bonds to make loans to finance the construction of eligible environmental infrastructure projects. Recognizing the inadequacy of funds available to State and local governments through revenue initiatives and State and federal aid programs for capital financing of wastewater treatment systems, the I-Bank was created by the New Jersey Infrastructure Trust Act, P.L.1985, c.334, N.J.S.A. 58:11B-1 et seq. (the “Enabling Act”) as a way to help meet the cost of upgrading the State’s wastewater treatment capacity to comply with State water quality standards. In 1987 the I-Bank, in partnership with the DEP, began to administer the state revolving fund (SRF) program after the Clean Water Act was amended, replacing the traditional federal grant
program with a revolving fund loan program. The I-Bank leverages the federal funds made available through the federal SRF program by making low cost loans to local government units.

After the federal Drinking Water State Revolving Fund program was created, providing additional SRF funds to states for safe drinking water programs, the Enabling Act was amended in 1997 to change the name of the New Jersey Wastewater Treatment Trust to the New Jersey Environmental Infrastructure Trust and increase its role to include the financing of drinking water projects. The I-Bank’s role in financing State infrastructure was expanded in January 2018 when the Enabling Act was further amended, granting it the authority to finance certain transportation infrastructure projects. The I-Bank now manages two separate financing programs: (i) the longstanding New Jersey Environmental Infrastructure Financing Program (“Water Bank” or “NJEIFP”), and (ii) the newly formed New Jersey Transportation Infrastructure Financing Program. This Report is specific to the Water Bank.

As federal SRF programs have expanded, the types of projects eligible for financing through the Program have also grown to include the water quality related aspects of landfills (for closure activities and new cell construction), land acquisition and conservation, remedial action activities and well sealing.

In addition to the federal SRF funds, the DEP and the I-Bank administer various loan funds capitalized by several State general obligation bond issues to address needed environmental infrastructure improvements.

- The Wastewater Treatment Bond Act of 1985, P. L. 1985, c. 329 (Wastewater Bond Act) authorized the State to issue $190 million in general obligation bonds, providing $150 million to capitalize the Fund portion of the NJEIFP and $40 million to capitalize the debt service reserve funds securing the NJIB’s revenue bonds. A portion of these funds were used to satisfy the 20% State match requirement for the CWSRF Program under the Capitalization Grant.
- In 1992, the voters approved $50 million for wastewater projects as part of the Green Acres, Clean Water, Farmland and Historic Preservation Bond Act of 1992 (Green Acres Bond Act) providing $5 million to the NJIB to leverage via capitalization of NJIB debt service reserve funds and $45 million to capitalize the Fund portion of the NJEIFP.
- In 1997, voters approved amendments to the Stormwater Management and Combined Sewer Overflow Abatement Bond Act of 1989 (CSO Bond Act), providing $5 million for the NJIB to leverage via capitalization of NJIB debt service reserve funds.
- Also, in 1997, the Water Supply Bond Act of 1981 (Water Supply Bond Act) was amended to provide up to $50 million to the NJIB to leverage via the capitalization of debt service reserve funds or project costs. These funds were used to satisfy the 20% State match requirement for the Drinking Water Program under the Capitalization Grant.
- The Dam, Lake, Stream, Flood Control, Water Resources and Wastewater Treatment Bond Act of 2003 was adopted, authorizing the State to issue bonds for $200 million. It appropriated $5 million to the NJIB for debt service reserve funds and $45 million to the DEP for financing water supply and wastewater treatment projects.

Through these actions, the State Legislature and the public have authorized substantial monies for the DEP and the I-Bank to provide low cost financing for environmental infrastructure projects in the State.
PROGRAM OBJECTIVE

As in the past, the goal of this year's NJEIFP is to provide subsidized financing to eligible applicants in order to spur the construction of environmental infrastructure projects. There are generally five prerequisites to an applicant's eligibility to receive a Base SFY2020 or Sandy NJEIFP loan for a particular project:

i. Availability of funds;
ii. Identification of the project on a project priority list that has been submitted to the Legislature;
iii. Project approval (issuance by the DEP of an “Authorization-to-Award” and project certification by the Commissioner);
iv. The applicant’s satisfaction of financial eligibility and loan closing requirements; and
v. Certification by the I-Bank’s Board of Directors for long-term financing.

THE CLEAN WATER PROGRAM

The Federal Water Quality Act of 1987 requires States to establish a Clean Water State Revolving Fund (“CWSRF”) program to qualify for federal capitalization grants. The CWSRF provides financial assistance for the construction of projects that protect, maintain and improve water quality.

Funding in the amount of approximately $400 million is available for Base SFY2020 CW project loans. Of this amount, approximately $200 million is available from State funds, including prior State bond acts, federal capitalization grants, repayments of prior funds loans, interest earnings, and approximately $200 million available through the issuance of NJIB Environmental Infrastructure Financing Program Bonds which currently carry a AAA/Aaa/AAA rating.

THE DRINKING WATER PROGRAM

The Federal Safe Drinking Water Act (SDWA) Amendments of 1996 authorized a Drinking Water State Revolving Fund (“DWSRF”) to assist publicly owned and privately-owned community drinking water systems and non-profit non-community drinking water systems to finance the costs of infrastructure needed to achieve or maintain compliance with SDWA requirements and to protect the public health in conformance with the objectives of the SDWA. The DWSRF is administered similarly to the State’s CWSRF.

Funding in the amount of approximately $120 million is available for Base SFY2020 DW project loans. Of this amount, approximately $60 million is available from State funds, including prior State bond acts, federal capitalization grants, repayments of prior funds loans, interest earnings, and approximately $60 million is available through the issuance of NJIB Environmental Infrastructure Financing Program Bonds which currently carry a AAA/Aaa/AAA rating.

PROJECT PRIORITY LIST / PROJECT ELIGIBILITY

Each year, the DEP develops a "Proposed Priority System, Intended Use Plan, and Project Priority List" as required by both federal and State law.

- The Priority System (PS) sets forth the ranking methodology for the projects that are eligible for financial assistance through the Water Bank.
The Intended Use Plan (IUP) provides information on funds available through the CW and DW components of the NJEIFP, including all federal funds allotted to the State under the Clean Water Act and the SDWA and available, respectively, to the CWSRF and the DWSRF. The proposed Federal Fiscal Year (FFY) 2019 Intended Use Plan sets forth the ranking methodologies utilized to rank both Sandy and Base SFY2020 Water Bank projects.

The Priority List identifies projects targeted for financial assistance from the CWSRF and the DWSRF and identifies the estimated total eligible building costs under the appropriate project category.

**UPDATED CLEAN WATER AND DRINKING WATER PROJECT LISTS**


Applicants may submit loan applications at any time of the year. Program staff commence review of the applications upon submittal by borrowers of environmental planning, engineering design and plans & specifications. Issuance of a program “Authorization to Award” the borrower’s construction contract is a condition precedent to disbursement of Water Bank funding, thereby ensuring that the Water Bank’s construction funds are committed only to those projects that are ready to proceed to construction.

The Clean Water and Drinking Water Project Priority Lists are modified four times throughout the year with regard to both structure and project pool due to the rolling application process. The SFY2020 Clean Water and Drinking Water Interim Financing Program Project Priority Lists were submitted to the Legislature on January 18, 2019 and will be modified during the SFY2020 fiscal year as permitted by the Enabling Act.

The projects listed in the amended SFY2020 CW and DW Project Priority lists are prospective recipients of financing in this year's Financing Program. Typically, not all the projects listed in the Project Priority Lists receive funding for numerous reasons such as voluntary withdrawal, failure to secure all permits and technical approvals, and failure to satisfy the Water Bank’s security and credit requirements. As a result, the project lists only serve to define the population of projects from which loans will be made. Similarly, the project costs set forth in these lists are based on each Applicant’s engineering estimates and are subject to adjustments during the application review process for project eligibility.

**ELIGIBILITY LIST**

Long-term financing of project loans issued by the I-Bank and the State through the DEP require prior legislative approval specifying the aggregate amount of funds to be expended. The project details of the annual legislation are found in the CW and DW Project Eligibility Lists, which are developed in accordance with the State priority ranking systems and submitted to the Legislature with this Report of each year. The Projects included on the Eligibility List must be identified on the Project Priority List and have received authorization to award as of a date, typically no later than one month prior to submission of the appropriation bills, indicating that construction completion is likely within the fiscal year and thus eligible.
for inclusion in an upcoming bond pool. The SFY2020 CW and DW Eligibility Lists are attached as Appendix A.

EXCESS CAPACITY

The I-Bank will finance up to 100% of the cost of excess or reserve capacity. However, in support of the Program’s historical Smart Growth and Green Project Initiatives, the DEP may issue a zero-interest loan for a portion of the reserve capacity depending upon the type and location of the project whereby the I-Bank will finance the balance.

BORROWER ELIGIBILITY

A municipal borrower for a CW or DW project must be a municipal corporation established under the laws of New Jersey. Local, regional and State authorities that seek funding for a CW or DW project must be constituted as public bodies corporate and politic, with corporate succession. Private drinking water systems that seek funding for a DW project must be corporations or other entities duly organized and existing under or authorized to transact business under the corporation or other applicable laws of New Jersey.

ASSET MANAGEMENT

Certain borrowers that which receive funding through the NJEIFP must have in place, or commit to develop, a Fiscal Sustainability (Asset Management) Plan (“FSP”) for each project component and provide the NJEIFP with both a technical (engineering) and financial certification outlining the long-term maintenance and replacement plan for the project’s components. The FSP will assist borrowers to fulfill the federal WRRDA requirement that all SRF loan recipients, which receive funds for the repair, replacement or expansion of a treatment works, develop and implement a Fiscal Sustainability Plan or certify that they have developed and implemented such a plan. An FSP requires a Borrower to:

1. Inventory critical assets that are part of the treatment works;
2. Evaluate the condition and performance of inventoried assets or asset groupings;
3. Certify that the recipient has evaluated and will be implementing water and energy conservation efforts as part of the plan; and
4. Present a plan for maintaining, repairing as necessary, and replacing the treatment works and funding such activities.

All borrowers are also required to develop an Asset Management Plan (“AMP”) which categorizes and prioritizes system assets and lays out a financial plan describing the methods, scheduling and financing of the strategic upkeep and replacement of such assets. The DEP and the I-Bank are working jointly to develop a State-wide AMP Program that is intended to ensure local communities proactively operate and maintain the technical components of their water systems in a cost-effective manner by assisting local systems in the development and implementation of effective AMPs. Included within the AMP Program will be a description of what is required of the systems as well as the corresponding implementation time table, the retainage by the DEP and/or I-Bank of any necessary professional services to assist the Water Bank in implementing and monitoring such an AMP, and the development of sample templates and standardized planning tools to assist water systems with the creation of the AMP.
PROGRAM STRUCTURE

I. SHORT TERM LOAN PROGRAM

Construction loans are available to finance the cost of (i) environmental planning and engineering design activities as well as the development of asset management plans and project-related soft costs (e.g. legal expenses) incurred in preparing a construction loan application, and (ii) project construction upon application approval. Construction Loans are issued to applicants which satisfy the NJEIFP's credit worthiness standards and who sponsor NJEIFP eligible clean water (“CW”) and drinking water (“DW”) projects. They are available prior to the commencement of any professional services associated with a project application enabling the applicant to cover reasonably related project costs.

The NJEIFP Construction Loan Program features low interest rates, low transaction costs and a streamlined online application process. Multi-year Construction Loans provide efficient funding during the duration of a project’s construction period by reducing the borrowers’ costs of issuance through low cost financing during construction and by avoiding multiple loan closings to secure separate funding for environmental planning and engineering design, construction, and excess construction cost overruns (Supplemental Loans). Short-term loans also provide greater flexibility in addressing project costs adjustments prior to long-term financing. Central to the short-term loan program is the identification of the total estimated project cost as well as the cost of each component for which funding is certified (and committed) for each loan component.

Long-term financing terms, including Principal Forgiveness, are established at the time a loan countenances disbursement of construction funds,\(^1\) and are contingent upon a project receiving long-term financing.

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1 For Construction Loans issued upon certification of engineering contracts, long-term financing terms are established upon certification of the construction contract. For Construction Loans issued at the time of certification of construction contracts,
These terms vary primarily with the nature of the project activities or populations served. The NJEIFP has reduced any uncertainty as to when a sponsor’s short-term loan will be refinanced with long-term financing by confirmation no later than four months prior to long-term financing, which provides sponsors with adequate time prepare for loan closing.

(i) Planning & Design Activities

Planning and design activities (P&D) are eligible to be financed under the Construction Loan Program to finance the cost of environmental planning documents and/or engineering plans and specifications for up to 100% of eligible costs. Planning & Design activities may be financed with construction loans only if such activities are likely to lead to the construction activities of an Environmental Infrastructure Project. P&D financing may be secured at the beginning of the application process to secure capital at the time such planning costs are incurred. SFY2020 P&D financing can be issued for terms of up to two (2) state fiscal years. (If combined with a Construction loan, the planning and design work may extend the total short-term loan term to up to five full fiscal years)

P&D loans specific to the development of Long-Term Control Pans for CSO communities can be issued for the term of the development and implementation of the Plan not to exceed ten (10) years at an interest rate equal to zero percent (0%). Principal repayments for these specific P&D loans commence after the third loan year consistent with the Local Bond Law (N.J.S.A. 40A:2-1 et seq.). Long-term financing for the resulting constructed project shall be in accordance with the CSO loan financing terms discussed below for a term not to exceed the project’s useful life or 45 years (pending approval from US EPA).

ii) Project Construction

Construction Loans are issued for the project’s construction period with a maximum term of up to three (3) full state fiscal years subsequent to construction certification. For projects which do not finance P&D activities in advance of construction certification within the program, the term of the Construction Loan is three (3) full fiscal years from the date of loan closing. Construction loans for the total estimated project cost are available throughout the application process.

FUNDING COMMITMENT FOR THE COSTS OF PLANNING & DESIGN IS AVAILABLE UPON:

- The applicant’s submissions of the following through the Water Bank’s H2LOans on-line system:
  - Project Description form;
  - An executed or draft engineering agreement; and
  - A short-term loan financial addendum form.

- The Water Bank’s issuance of:
  - DEP Certification that proposed project is eligible under either CW or DW SRF
  - Credit Worthiness Approval;
  - Engineering Contract Approval; and
  - Construction Loan closing

long-term financing terms are established upon Construction Loan closing. For applicants financing the cost of construction through non-NJEIFP sources/self-funding, long-term financing terms apply at the time of long-term loan closing.
In addition, for all Construction loans, the project must be identified on the Project Priority List submitted to the Legislature; funds must be available in the I-Bank’s Construction Loan Program account; and the project sponsor must execute the requisite Construction loan documentation with the NJIB.

Provisions Pertaining to Construction Loans.

For Clean Water program loans, short-term Construction Loans will be made on a readiness to proceed basis until the funds available for Construction Loan awards are exhausted. For Drinking Water program loans, short-term construction loans will be made based on priority ranked order in the spring of 2020 based on available funds.

Construction Loan financings are funded from the I-Bank using DEP funds to the extent available, and from Water Bank operating revenues or capital from one or more private lending institutions (Private Capital).

Construction draws for project expenses will be made pursuant to requisitions submitted by borrowers. All interest charges will accrue to the I-Bank and be assessed on outstanding requisitioned amounts at a blended rate which will be established to cover interest, fees and administrative expenses incurred from borrowing Private Capital or a market interest rate if the I-Bank’s funds are utilized.

The I-Bank Board sets the interest rates or calculation methodology on Construction Loans at the beginning of each calendar quarter during SFY2020 and may delegate the authority to the I-Bank’s Executive Director. Rates will be posted on the I-Bank website. It is anticipated that short-term loans issued in SFY2020 will be at an effective interest rate of between 0% and 50% of the cost of the I-Bank’s short-term market rate funds.

Interest charges incurred by participants under Construction loans are accrued and capitalized through the term of the loan. Construction loans are termed out at the earlier of construction completion or three fiscal years plus the term of the Planning & Design phase of the loan, with principal and interest repayments commencing after long-term loan closing.

FUNDING COMMITMENT FOR THE COSTS OF CONSTRUCTION ACTIVITIES IS AVAILABLE UPON THE SATISFACTION OF THE PLANNING AND DESIGN COMMITMENT MILESTONES AS WELL AS THE:

- Applicant’s submission of the following through the Water Bank’s H2Oans system:
  - Letter of Intent (Environmental Planning / Cultural Resources Documentation);
  - Loan Application;
  - Engineering design and specifications;
  - Applicable permits;
  - Socially and Economically Disadvantaged (SED) communities plan; and
  - Construction bids.
- The Water Bank’s issuance of:
  - Environmental Decision Document approving environmental planning;
  - Authorization to Advertise Construction Contract;
  - Authorization to Award (ATA) Construction Contract for at least one project component that is capable of independent operation and testing (operable segment); and
  - Contract Certification.
Furthermore, the Borrower is generally not obligated to repay principal or interest during the term of the Construction Loan. These totals are rolled into the Borrower’s long-term Financing Program loan. An exception to the above are Construction Loans for Combined Sewer Overflow Long-Term Control Plans recognized by the NJEIFP and certain conduit loans for redevelopment projects. These short-term CW loans are for terms of up to ten (10) years and funded 100% from DEP funds provided to the I-Bank at an interest rate of 0%. Principal repayments for these specific P&D loans commence after the third loan year consistent with the Local Bond Law (N.J.S.A. 40A:2-1 et seq.).

One-half of the DEP’s Loan Origination Fee, equal to 1% of the amount of the project component certified, will be incurred at the time of Short-term loan closing. The I-Bank will finance such cost as a component of the Short-term loan and such cost will be refinanced as a component of the Long-term loan. The remaining 1% DEP Loan Origination Fee will be incurred and paid as specified in the schedule provided at I-Bank Bond closing. Given the level of DEP and I-Bank resources required to review project applications, including but not limited to the review of applications, environmental planning, and engineering plans and specifications, the DEP Loan Origination Fee paid pursuant to a Short-term loan is non-refundable, regardless of whether a project commences construction.

The repayment of all principal is due upon maturity of the Construction Loan, which is typically refinanced through the NJEIFP long-term loan. Execution of a Construction Loan preserves a project component’s eligibility for long-term funding. Issuing Long-term financing upon completion of construction minimizes loan expenses for participating borrowers and ensures accuracy of project costs in sizing such projects for long-term funding. In the rare case that a Construction Loan borrower fails to meet the requirements of the long-term loan or chooses to self-finance the project upon maturity of the Construction Loan, all amounts are then due and payable.

II. SFY2020 DISASTER RELIEF EMERGENCY FINANCING PROGRAM (SAIL)

PROGRAM OVERVIEW

The Disaster Relief Emergency Loan Financing Program was enacted in August 2013, in recognition of the challenges local governments face in securing funding for Sandy recovery projects from multiple federal and State sources. The Statewide Assistance Infrastructure Loan (“SAIL”) Program, provides municipalities and certain private water purveyors, quick access to temporary, low-cost, short-term bridge loans in the aftermath of a declared disaster to repair damages incurred during declared disasters and to improve the resiliency of CW and DW systems in future disasters. Projects funded through SAIL must be identified in a project priority list submitted to the legislature prior to receipt of SAIL financing pursuant to N.J.S.A. 58:11B-9.5(c). The current SAIL Priority List was submitted to the legislature on January 18, 2019.

SAIL loans are available to local government units seeking short-term funding assistance to address immediate cash flow needs for their disaster-related water infrastructure projects whether it be for local match requirement and/or anticipation of reimbursement through federal grant programs such as Federal Emergency Management Act (FEMA) or Housing and Urban Development (HUD) Community Development Block Grants (CDBG). For Local Government Units seeking to rebuild their environmental infrastructure after disasters, New Jersey’s SAIL Program is designed to provide ready cash to alleviate the financial stress that may result from delays in the receipt of federal reimbursement. Importantly, SAIL participants also receive

2 For additional eligibility requirements see N.J.S.A. 58:11B-9.5.
assistance with compliance oversight as many local communities are neither equipped nor experienced in dealing with federal FEMA or HUD requirements.

**Partnership with NJ OEM and FEMA.** The I-Bank works closely with NJOEM and FEMA on behalf of borrowers to (i) help obtain reimbursement of eligible costs as quickly as possible while optimizing the amount recovered, and (ii) provide compliance oversight to mitigate the potential of FEMA funding rejection or future de-obligation. Given the necessity that project expenses meet FEMA or HUD requirements as a condition of reimbursement, and the need to have such applications approved expeditiously, the NJEIFP, through the I-Bank, has retained an outside engineering consulting firm to assist in the review of construction design and eligible costs, conduct site visits and review disbursement requests. SAIL program borrowers are responsible for payment of the review costs of the consulting engineer, incurred on a borrower’s behalf in an amount not to exceed two and a half percent (2.5%) of the total project cost. Such costs typically are less than the DEP’s administrative fee and are generally incorporated into the long-term financing program package.

SAIL Loans issued in SFY2020 will be at an effective interest rate of between zero percent (0%) and fifty percent (50%) of the I-Bank’s cost for short-term funds. SAIL loans may be issued for terms not to exceed three full fiscal years (potentially up to 47 months).

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**LOAN FUNDING SOURCES**

The sources of funds for SAIL loans are I-Bank’s NJEIT cash-on-hand and DEP SRF Fund loan repayments subject to appropriation. The DEP will transfer a maximum of $600 million to the I-Bank for the Water Bank’s Construction Loan and SAIL Loan Programs. In addition, the I-Bank may procure Private Capital to secure additional sums necessary for SAIL Program Loans.

The source of funds for the DEP loan component consists solely of prior loan repayments (i.e. federal capitalization grants previously issued as project loans and subsequently repaid). This funding restriction is designed to avoid any potential conflicts with FEMA’s regulations that restrict the utilization of other federal program capital grants and which would disqualify the borrower from receiving reimbursable FEMA funds. The source of funds for the I-Bank loan portion consists of the I-Bank’s environmental operating revenues or other sources of funds.

SAIL financing will continue to be available in SFY2020 for short-term financing for projects to repair or improve the resiliency of environmental infrastructure systems adversely impacted during Superstorm Sandy or any newly declared disaster. SFY2020 SAIL loan interest rates are structured identically to that of Construction Loans as discussed above.

SAIL project funding is available to local government units, public water utilities or private entities upon the determination and certification in writing by the DEP that the project:

- is necessary and appropriate to repair damages to a wastewater treatment system or water supply facility directly arising from seismic activity or weather conditions which occurred within the prior three fiscal years that gave rise to a declaration by the Governor of a state of emergency; or
- is necessary and appropriate to mitigate the risk of future damage to a wastewater treatment system or water supply facility from seismic activity or weather conditions comparable in scope and severity to seismic activity or weather conditions that gave rise to a declaration by the Governor of a state of emergency which occurred within three fiscal years of the project being identified on the Project Priority List; and
iii. is a wastewater treatment system or water supply facility located in a County included in the Governor’s state of emergency declaration; and  
iv. its applicant has satisfied the program eligibility requirements of the funding sources for which reimbursements are sought (e.g., FEMA and/or the NJEIFP); and  
v. its applicant has secured all SAIL application and financial approvals.

III. LONG-TERM FINANCING - SFY2020 BASE FINANCING PROGRAM

Long-Term loans are available for allowable project costs and consist of an interest-bearing loan component from the I-Bank, and a zero-percent interest loan component from the DEP or otherwise subject to principal forgiveness as referenced herein. In the Water Bank’s ongoing effort to provide the most attractive financing for project sponsors and also to maximize the number of projects the Program can finance, the Base SFY2020 NJEIFP will offer fifty percent (50%) market rate loans to eligible participants in combination with DEP’s agreement to finance fifty percent (50%) of each project with its zero percent (0%) interest cost funds. On a $1 million loan, this translates into interest savings over 30 years for an average A-rated borrower equal to approximately $257,000, or 25.7% of a borrower’s loan amount above what the borrowers would save had they financed the cost of the project independently. For privately-owned drinking water system borrowers, the Base SFY2020 NJEIFP will offer seventy five percent (75%) market rate loans to eligible participants in combination with DEP financing twenty five percent (25%) of each project with zero percent (0%) interest cost funds with a cap of $10 million per project. The remainder of the project balance will be funded at the I-Bank market rate.

Returning to the financing program’s historical format of a 50% DEP / 50% I-Bank funding ratio will result in slightly higher interest rates than the SFY2019 program. The SFY2020 Base NJEIFP Financing Program continues other significant components of the SFY2019 NJEIFP Financing Program including principal forgiveness opportunities for certain types of projects including Lead Line Replacement, CSO Abatement, Barnegat Bay Watershed, and Small Water System projects. The Program also continues attractive financing terms such as longer loan terms, disbursement of CW funds based on readiness, frequent opportunities for conversion to long term loans and conduit loans for redevelopment projects.

**Fund Loans** - The Base SFY2020 Financing Program Fund Loan (a.k.a. State loan component) will be issued at a zero-percent (0%) interest rate with the possible exception of DW projects in which the DEP may utilize CWSRF invested funds, as such funds will require an interest rate component. Participants will begin repaying the principal on their Base Fund Loans coincident with the initiation of debt service payments on the NJIB long-term Loans. Unless changed due to specific project circumstances, annual repayments of Fund Loan principal are designed to be level for the duration of the loans when combined with the NJIB bond principal and interest repayments and NJIB annual administration fee payments. Fund Loans are also structured to be co-terminus with I-Bank loans.

DEP funds are generally derived from five sources: 1) current and prior annual federal CWSRF and DWSRF grants (capitalization grants), 2) proceeds of various previously issued State Bonds, 3) State legislative Appropriations; 4) Repayments from outstanding Fund loans; and 5) interest earnings. Federal capitalization grants and other State funds are being utilized as the source of funding for those loan funds eligible for PFLs in the SFY2020 Financing Program. The DEP estimates that the State will receive approximately $65.5 million and $18.7 million in the next federal fiscal year in Clean Water State Revolving Fund (“CWSRF”) and Drinking Water State Revolving Fund (“DWSRF”) capitalization grants respectively.

**NJIB Loans** - The I-Bank generally provides long-term financing by issuing environmental infrastructure revenue bonds. Bond proceeds and Fund loan proceeds are disbursed to project sponsors to repay a
borrower’s short-term loan that covers the costs of eligible project expenses incurred for planning and construction activities. In those cases where construction activities are not yet complete at the time of long-term financing, some bond proceeds are held in project accounts by the Trustee to cover the costs of future eligible project expenses. Long-term funding from the I-Bank in the SFY2020 Financing Program for a large majority of projects will be fifty percent (50%) of each loan but may equal seventy five percent (75%) for certain loans depending upon the nature, type and location of the project.

The I-Bank's interest-bearing loans are typically financed from the sale of tax-exempt Revenue Bonds. Two bond sales to finance SFY2020 Base NJEIFP and Sandy NJEIFP Loans are scheduled to occur in November of 2019 and May of 2020. Loan closings will occur within weeks thereafter. Proceeds from these Bonds serve as the I-Bank’s funding source for the “market rate” loan component of each loan referenced herein. (Note that for some “direct” loans, cash-on-hand related to the I-Bank’s environmental operating revenues serve as a source of funds for the I-Bank.)

The NJEIFP utilizes five (5) criteria when determining whether a project is to be included in the next bond pool:

i. Inclusion of the project in the legislative appropriation.;
ii. Programmatic assessment of project readiness for conversion. Barring exigent circumstances, Projects must be deemed construction complete by the NJIB as of the date of communication to borrowers;
iii. Statutory deadline for short-term maturity (currently up to three full fiscal years plus up to 2 year for a project’s Planning & Design phase);
iv. External regulatory considerations (e.g., expiration of NJ-BPU approval); and
v. Programmatic need for Construction Financing Program funding dollars.

A minimum of $460 million in loans is available through the Base SFY2020 NJEIFP. This total amount will consist of approximately $230 million DEP Fund loans and $230 million I-Bank loans backed almost entirely by AAA issued, tax-exempt bonds (it is anticipated there will be a small number of NJIB Direct Loans, de-minimis in size, which will be financed with the I-Bank’s Water Bank cash-on-hand).

**Principal Forgiveness**

In addition to the Base SFY2020 CW and DW NJEIFP which finances Base project loans with an interest rate equal to fifty percent (50%) of the NJIB market rate, or seventy-five (75%) for privately-owned drinking water systems, Principal Forgiveness Loans (PFLs) are available for certain projects of between nineteen percent (19%) (i.e. Superstorm Sandy), to one hundred percent (100%) (i.e. asset management) of eligible project costs with the remaining portion of the loan typically bearing an effective interest rate of fifty percent (50%) of the I-Bank market rate, with the exception of the DW Lead Line Replacement Program (see below). The loan structures also vary based on project types.
SET-ASIDES AND RESERVES FOR THE BASE SFY2020 NJEIFP

a. **Combined Sewer Overflow (CSO) Green Infrastructure** - $12 million is dedicated to PFLs for Combined Sewer Overflow (CSO) Abatement projects with a focus on utilizing green practices (such as green roofs, rain gardens, porous pavement, and other activities that maintain and restore natural hydrology through infiltration, evapotranspiration, the harvesting of stormwater) offering 50/25/25 financing terms for the first $6 million of project costs subject to a $3 million PFL limit per borrower and 75% interest free financing mixed with I-Bank funding at market rate for project costs between $6 million and $10 million and costs in excess of $10 million will be financed through the base rate of 50% interest free financing and 50% I-Bank market rate.

b. **Combined Sewer Overflow (CSO) Grey Infrastructure** - $10 million is dedicated to PFLs for CSO Grey Infrastructure abatement projects that do not utilize green practices. These projects are eligible for 50% principal forgiveness for up to $2 million dollars in project costs to the extent funds are available. The balance is funded with 25% DEP interest free and 25% I-Bank market rate financing. Any project amounts between $2 million and $10 million are provided 75% interest free financing mixed with I-Bank funding at market rate. Costs in excess of $10 million will be financed through the base CWSRF rate of 50% interest free and 50% market rate.

c. **Barnegat Bay Watershed** - A maximum of $6 million in PFLs will be made available for stormwater and non-point source pollution management projects in the watershed. These PFLs are structured as follows: up to fifty percent (50%) of each loan is subject to principal forgiveness, twenty-five percent (25%) of the loan is at zero-interest and twenty-five percent (25%) of the loan is at market rate with a $2 million principal forgiveness cap per Borrower. Base program financing is offered for project amounts in excess of $4 million.

d. **Coastal Community Water Quality Restoration** - A maximum of $5 million is available for the principal forgiveness component of projects that eliminate, prevent, or reduce occurrences of shellfish bed and beach closings due to the presence of pathogens. These loans will be structured as fifty percent (50%) principal forgiveness up to project costs of $5 million with the remaining twenty-five percent (25%) funded interest free from the DEP and 25% funded at the I-Bank market rate. $2.5 million is committed to a potential project by the Cumberland County Improvement Authority to resolve failing septic and prevent shellfish bed closures in Downe Township, limited to Fortescue and Gandys Beach.
e. **Small System Loan Program (NANO)** - A set-aside is being established in an amount of $2 million of the DWSRF to offer principal forgiveness loans to small Drinking Water systems serving 10,000 or fewer residents. The NANO Program has been established in support of the significant improvements to public health served by projects to improve small systems while also recognizing the particular credit risk posed by small system borrowers. Each NANO Loan shall consist of a fifty percent (50%) DEP principal forgiveness loan, a twenty-five percent (25%) DEP zero-interest loan and a twenty-five percent (25%) NJIB loan with a per sponsor cap of $1 million. The I-Bank is authorized to expend a total of $1,000,000 in Water Bank funds for NANO Loans. Unique to the NANO Program is the establishment of a Loan Loss Reserve Fund (LLR Fund). NANO Program applicants that do not directly or indirectly pledge ad valorem taxing authority as security for such loans will pay an annual guarantee fee equal to 1% of the outstanding I-Bank loan (“LLR Fee”). The LLR Fee will be deposited into the LLR Fund. Certain origination and underwriting fees associated with the Base Financing Program are waived for NANO borrowers. Larger water systems which are willing to take ownership of small water systems, and make needed capital improvements, will also be eligible for the same enhanced loan terms as the otherwise eligible small water system. Project costs in excess of the $1 million cap per borrower will be funded in accordance with the Base Long-Term program: 50% I-Bank and 50% DEP interest free funds for publicly owned drinking water systems and 75% I-Bank combined with 25% DEP interest fee funds for privately-owned drinking water systems. The DEP waives its fee for NANO loans.

f. **The Small Water System Engineering Program** - A set-aside will be continued in the SFY2020 Financing Program for the Small Water System Engineering Program of $2 million to offer small systems that serve up to 500 persons and need assistance to come into compliance 100% principal forgiveness loans for assistance by the Community Engineering Corps. There is a $500,000 cap per project on these loans.

g. **Lead Service Line Replacement Program** - A set-aside of $30 million ($33.33 million in total loan amount) is established for public community and nonprofit non-community water systems for the replacement of lead pipes and lead components, including mains and service lines through the Lead Service Line Replacement Program. Water systems with a lead action level exceedance and serving communities with a median household income less than the median household income for the county in which they are located are eligible for financing with the following terms: Loans will be offered as 90% principal forgiveness and 10% DEP interest free funding. Project Applicants are capped at principal forgiveness of $1, $5 or $10 million per water system (PWSID) per year based on the size of the population served by the water system. To qualify for this program, the presence of lead pipes and components must be documented. Any remaining costs are offered the applicable base program rate. Partial line replacements are not allowed.
**SET-ASIDES AND RESERVES FOR THE BASE SFY2020 NJEIFP (cont’d)**

**h. Asset Management Programs for Small Systems** - NJEIFP will continue to provide 100% principal forgiveness of up to $100,000 per applicant to small Drinking Water and Clean Water systems (those that serve 10,000 or fewer people) to develop and implement asset management programs (AMP) subject to a program cap of $1,000,000. To qualify for principal forgiveness, the AMP must result in a capital infrastructure project funded by the Financing Program with an aggregate principal amount of not less than $250,000 within three (3) full fiscal years or within the time set forth in the terms of the Note. In addition, for drinking water systems, the AMP must result in a highly ranked drinking water project in order to utilize the 100% principal forgiveness. DEP reserves the right to use these funds to hire a contractor to provide technical services to small communities for asset management. For all other borrowers, certain costs associated with the development of an AMP are eligible for funding through the NJEIFP, in compliance with the federal requirements enacted under the Water Resources Reform and Development Act (WRRDA), to assist with developing and implementing a Fiscal Sustainability (Asset Management) Plan. The DEP waives its fee for Small System AMP loans.

Unless otherwise specified above, for all Base SFY2020 NJEIFP CW and DW loans, the I-Bank may finance the remaining allowable costs as necessary, increasing the effective interest rate of the project’s total loan. Financing above and beyond the amount set-aside for such projects will be considered if monies are available after the need for funding of higher ranked projects during the funding cycle has been satisfied. Conversely, if there are unexpended funds in the set-aside due to insufficient demand for the stated activities, the residual funds may be used to finance lower ranked projects on the Priority List subject to State and/or federal program constraints.

**Community Development Block Grants (CDBG) Loans** will be offered to qualifying projects in low to moderate income communities as a 100% DEP loan with principal forgiveness for the borrower of up to 25% of the total loan amount. For Sandy-related loans accepting US HUD Community Development Block Grant (“CDBG”) funds, DEP may waive all or a portion of its 2% Loan Origination fee to offset the cost of complying with HUD’s additional requirements.

**Direct Loans** For projects eligible to receive relatively small NJEIFP loans, the I-Bank utilizes its NJEIT cash-on-hand in lieu of bond proceeds as the source of funds for its market rate loan component. Known as “Direct Loans”, these loans are generally available for small projects or for entities that are either fiscally constrained or lack the administrative capability to participate in the I-Bank’s more complex bond transactions. Note: All projects receiving Direct Loans must have fully satisfied all program requirements including but not limited to submission of all application related documents compliant with submission deadlines and receipt of all project, credit worthiness and financial approvals. Direct Loans in the SFY2020 Financing Program are anticipated to be structured as fifty percent (50%) I-Bank market rate loans. Subject to the NJIB Board’s discretion, Direct Loans will otherwise be capped at $1.0 million per project.

**Supplemental Loans** Periodically, a project’s costs exceed the amount financed in its Long-Term or Direct Loan due to differing site conditions or when the low bid building cost exceeds the original loan amount.
Such costs may be eligible to receive financing through a Supplemental Loan (see N.J.A.C. 7:22-3.11). The loan requirements for a supplemental loan are identical to that of the Long-Term loan subject to the following exceptions: revised planning documents and design documents are not required provided the project scope of work has not increased. The loan structure and maturity for Supplemental Loans is generally identical to that of the borrower’s original project loan. Because most cost increases are expected to occur during construction during the term of the Construction Loan, it is expected that any cost increases will be handled by amending the short-term loan amount.

**Brownfield Redevelopment Loans** – For CW projects where a government unit serves as the applicant on behalf of, or in conjunction with, a private entity for the water quality component costs of a remediation or redevelopment project to statutorily qualify for NJEIFP loans and such government unit secures its repayment obligations pursuant to the provisions of the Redevelopment Area Bond Financing Law or the contractor administers or oversees project construction (“Conduit Borrower”), the loans will be structured as seventy five percent (75%) of the NJIB market rate loans. There is a per project limit of $25 million on the total amount of Fund monies from the DEP for conduit borrower/private entity projects in the SFY2020 Program. Project costs in excess of $25 million are eligible for 100% I-Bank market rate financing. Conduit Borrowers will not be eligible for supplemental fund loans from the DEP to cover unanticipated cost increases due to bid receipt, differing site conditions, change orders or other circumstances.

**Hybrid Loans** - A number of project sponsors have expressed an interest in securing short-term financing to meet cash flow needs in anticipation of reimbursement of federal funds (FEMA/HUD) as well as long-term financing for non-reimbursable costs (typically local share). The review and approval of such projects must contemplate satisfaction of multiple federal funding programs. For example, Hybrid Loan borrowers will receive a SAIL loan for both reimbursable and eligible non-reimbursable project costs and one or more long-term loans for project costs for which federal reimbursement has not been received. The structure of such loans will reflect the underlying short-term loan vehicle (Construction Loan or SAIL Loan) as well as the long-term loan vehicle (Base SFY2020 NJEIFP, Sandy NJEIFP, I-Bank-Only Loan or combination thereof).

**I-Bank-Only Long-Term Loans** - Notwithstanding efforts to ensure project costs to repair and improve the resiliency of Superstorm Sandy impacted systems are compliant with and reimbursed by FEMA/HUD, in the event reimbursement is not received and project components otherwise fail to qualify for CW or DW NJEIFP long-term loans, NJIB only Long-Term Loans are available for such costs. It is anticipated that I-Bank-Only Long-term loans will be utilized to make up for short-falls that may arise in structuring a borrower’s long-term loans to ensure financing for the entire project can be achieved. The I-Bank anticipates utilizing environmental infrastructure bond proceeds for such loans.

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3 However, if a government unit is the applicant for a water quality component related to, and necessary for, a remediation or redevelopment project and (1) the government unit, and not the redeveloper, is undertaking and overseeing the construction of such water quality component as the owner and operator thereof and (ii) the repayment obligations of such government unit are not secured pursuant to the provisions of the Redevelopment Area Bond Financing Law, the loans will be structured at the Base SFY2020 NJEIFP with none of the other programmatic limitations otherwise applicable to a redevelopment project.
IV. SFY2020 “SANDY” NJEIFP FINANCING PROGRAM REVIEW

PROGRAM OVERVIEW

The DEP will continue to issue loans that include PFLs utilizing the appropriations from Federal P.L. 113-2, the Disaster Relief Appropriations Act, 2013 (the “Disaster Relief Act”), for environmental infrastructure resiliency projects involving Clean Water systems affected by Superstorm Sandy. The large majority of these “Sandy NJEIFP” loans will consist of the same general funding terms offered in prior years:

i. Nineteen percent (19%) non-repayment funds (PFLs) from the DEP;
ii. Fifty Six percent (56%) zero interest rate loan from the DEP; and
iii. Twenty Five percent (25%) AAA market rate loan from the I-Bank.

The DEP will make available and award the balance of the Sandy CWSRF funds that was not committed in the SFY2019 or prior year Programs. If all remaining Sandy CWSRF funds are awarded in SFY2019, new submittals will be processed through the NJEIFP Base Loan Program consisting of the Base 50% DEP and 50% NJIB loan structure. Sandy Relief funds were made available in a one-time installment and offered while funds remain. If there are insufficient applications to utilize the funds allocated to the above Sandy reserves and/or set-asides, the unutilized funds may be reallocated to other reserves, set asides or other eligible Sandy CW NJEIFP projects as determined by the DEP subject to state or federal program constraints.

As an alternative to the above structure, the DEP is offering Sandy NJEIFP eligible projects, a 100% DEP Fund Loan (i.e. no I-Bank component loan) which includes Community Development Block Grant (CDBG) funds. This DEP only loan increases the amount of PFL offered to borrowers from 19% to 25% and increases the DEP zero-rate loan portion from 56% to 75%. The DEP will also waive its 2% administration fee on such loans. These additional financial benefits are being offered to encourage individual Sandy NJEIFP borrowers to accept such CDBG monies as a source of their loan funds in light of the added delays, constraints and compliance requirements associated with receipt of such CDBG funds.

i. Twenty-five percent (25%) non-repayment funds (PFLs) from the DEP; and
ii. Seventy-five percent (75%) zero interest rate loan from the DEP.

LOAN FUNDING SOURCES

The State received approximately $229 million from the special federal appropriations through the Disaster Relief Act for the State loan component of Sandy NJEIFP Loans. As with all SRF grants, the State is required to match twenty percent (20%) of this federal grant ($45.87 million) bringing the DEP’s funding total to $276.87 million (collectively the “Sandy SRF Funds”). Specific to this appropriation, the State may not disburse more than thirty percent (30%) of its federal grant funds, or roughly $68.8 million, for which repayment is forgiven (PFLs). The I-Bank is leveraging DEP’s Sandy SRF Funds (excepting any loans associated with CDBG funds as detailed above) by 1/3 to produce a 75% State-DEP / 25% NJIB financing program. In this structure, approximately 25% of the DEP loan component, or 19% of the combined DEP / I-Bank Loan is being offered by the DEP as PFLs. As a result, after a reduction for administrative expenses, the Sandy SRF Program had an initial total of $354.69 million in loan funds available to eligible Borrowers.

The source of funds for the I-Bank loan component are proceeds provided through the I-Bank’s environmental infrastructure long-term bond issuance.
1. **Financial Addendum** - Each borrower is required to complete a Financial Addendum form (“FAF”) by the FAF submission deadline to demonstrate a project sponsor’s commitment to proceed with project financing. Two FAFs must be submitted if both clean water and drinking water project loans are sought. This FAF submission is in addition to the NJEIFP loan application. While the actual requirements typically vary by type of applicant (municipal, authority or private water utility/system), applicant obligations generally include but are not limited to completion of a financial addendum form, passage of an authorizing resolution, reimbursement resolution and bond resolution.

2. **Local Finance Board/Board of Public Utilities Approval** – Pursuant to P.L. 15 c. 95, known as “The Division of Local Government Services Modernization and Local Mandate Relief Act of 2015”, NJEIFP loan applicants are not required to secure Local Finance Board (LFB) approval of the applicants’ debt instruments issued to the I-Bank pursuant to the NJIB enabling act (N.J.S.A. 58:11B-9(a)) or the Local Fiscal Utilities Control Law (N.J.S.A. 40A:5A-6). Rather, such debt is approved by the Director of DLGS based on information forwarded by the I-Bank in the NJEIFP loan application process. Moreover, P.L. 15 c. 95 relieves NJEIFP loan applicants of securing LFB approval of the waiver of the five percent (5%) down payment requirement provided the local bond ordinance exclusively funds a NJEIFP project. In addition, DLGS approval is not required for NJEIFP applicant’s Non-Conforming Maturity schedules. However, approvals of other matters continue to be required by the LFB or Board of Public Utilities, as applicable, as a statutory requirement of the Financing Program (other than private entities which are not subject to its jurisdiction).

3. **DEP Project Certification** – DEP Project certification is required for all projects (e.g. Base SFY2020 NJEIFP, Sandy NJEIFP, SAIL, and Construction program loans), which is issued by the Commissioner of the DEP or his designee. DEP project certification is granted upon a project’s receipt of all permits, compliance with environmental planning, design, and construction contract document requirements, and the Program’s issuance of an Authorization to Award (ATA) the construction contract.

4. **NJIB Project Certification** – Loan Certification is required for all projects seeking program financing. NJIB Loan certification is awarded upon DEP project certification and the applicant’s satisfaction of the Program’s credit worthiness requirements. The Executive Director of the I-Bank certifies projects seeking Short-term Loans less than or equal to $15 million and the NJIB Board of Directors certifies projects seeking Short-term loans greater than $15 million and all Long-Term Loans.

5. **Short-Term vs. Long-Term Funding Eligibility** – Conditions precedent to Short-Term Funding Eligibility consists of project certification from the DEP and the I-Bank and satisfaction of the Financing Program’s credit worthiness standards. Conditions precedent to Long-Term Funding Eligibility consists of project certification from the DEP and the I-Bank, satisfaction of the Financing Program’s credit worthiness standards, and completion of project construction. Sponsors whose projects do not receive a Construction loan from the NJIB prior to long-term funding (self-funded projects) must submit construction expenses on a form SLP101 to the DEP to allow Water Bank staff to monitor percentage of project completion. These sponsors must submit 100% of their project expenses to the DEP to receive long-term financing.

6. **Project Benefits Reporting Forms (PBR and CBR)** – The United Stated EPA requires, as part of receiving funds under the SRF program, submission of project information into the DWSRF
Project and Benefits Reporting System (PBR) and the Clean Water SRF Benefits Reporting System (CBR). The Department obtains this information through the applicants’ completion of the PBR and CBR forms prior to closing.

7. **Loan Closing** – Short-term loans: The I-Bank offers closings for Short-term Loans within as little as three (3) weeks of submission of a Short-term Financial Addendum Form. Long-term Loans: Typically, within two to three weeks of bond sale, the I-Bank will settle its bond sale and conduct simultaneous Long-term loan closings with the participating borrowers.

8. **WISE Calculator** - The Water Infrastructure Savings Enabling (WISE) Act Calculator requires all local government units seeking financing of $1,000,000 or more for an environmental infrastructure project not planning to finance through the Water Bank, to submit a Financing Cost Estimate (FCE), provided by the I-Bank to the Director of DLGS/LFB for approval. The I-Bank developed the WISE Calculator tool and it is available on the I-Bank’s website. It provides project sponsors and their consultants a quick and easy way to quantify the comparative savings offered by Water Bank financing. It is also used by prospective borrowers as a budgeting tool for estimating the annual debt service due for proposed projects. The FCE provides transparency to the public and assists local officials in their due diligence for selecting the most cost-effective project financing. **Minimum Loan Size** - The aggregate principal amount of any loan made by the NJIB and the DEP to any given qualifying project sponsor shall be no less than $100,000 excluding short term Planning and Design loans.

9. **Minimum Loan Size** - The aggregate principal amount of any loan made by the NJIB and the DEP to any given qualifying project sponsor shall be no less than $100,000 excluding short term Planning and Design loans.
**FEES**

**Fund Loan Origination Fee.** The DEP's Loan Origination Fee, calculated as 2% of project costs, offsets the cost of DEP’s project review and construction management services provided to the borrower. Sponsors may finance half the cost of this fee obligation through a Construction Loan from the I-Bank. These funds are transferred directly to the DEP upon receipt of the funds from the I-Bank. The remaining 1% fee balance is paid by the Borrower to DEP as a component of its first long-term loan repayments. For CDBG, Nano and Small System AMP loans, the DEP Loan Origination Fee is waived.

**NJIB Loan Origination Fee.** For SFY2020, an NJIB Loan origination fee of 0.01% may be applied to only the NJIB loan amount to fund the costs of issuance associated with the bond sale and any such fee shall be uniformly applied to all borrowers participating in the bond pool. This fee is generally financed as part of each borrower’s NJIB Loan and may not cover the entire costs of underwriting new bond issues, the remainder of which is subsidized by the NJIB. Other than in refunded issues, the NJIB pays any uncovered cost of financing from NJEIT cash-on-hand.

**The NJIB Annual Administrative Fee.** The I-Bank will charge long-term SFY2020 borrowers an administrative fee of up to 0.4% per annum on the original NJIB loan amount. This fee is uniformly applied annually to all borrowers receiving loans in the SFY2020 Program for the duration of each loan. Administrative fees collected from borrowers of all financing program years may be utilized to fund NJIB’s activities as enumerated in the SFY2020 operating budget (Appendix G) or provide loans, collateral or match funds for the program as appropriate or needed.

**Security Research Fee.** The NJIB may charge non-governmental participants for any expenses incurred by or on behalf of the I-Bank in connection with the evaluation of the acceptability of any collateral provided as security for the I-Bank and Fund loans, regardless of whether the loan is actually closed. The I-Bank will not incur such expense without the prior notification to the potential borrower.

**Late Fee.** To the extent any Borrower makes its Loan repayment after the due date thereof (February 1 and August 1), the Borrower will be charged a late fee equal to the greater of 12% annualized or the Prime Rate plus 0.50% of the outstanding amount due.

**Event of Default Fees and Expenses.** The Borrower is charged reasonable fees and other expenses incurred in the collection of repayments or any other sum due or the enforcement of the performance of any duties, covenants, obligations, or agreements of the Borrower under the loan agreements including attorney fees.

**Engineering Costs.** To the extent that consulting engineers are used for application review or construction management for a Borrower’s project, the I-Bank may charge the costs thereof to the Borrower.
The Water Bank enables participants to join together in a pooled financing to fund their environmental infrastructure projects at a lower cost than if they financed their projects independently. The main cost savings are achieved by combining the zero-interest Fund loan and the market-rate, AAA rated NJIB loan. Aggregating many project financings into one diversified bond pool offers multiple benefits to borrowers: 1) better access to the high quality debt market for smaller and lower-rated borrowers; and 2) lower financing and underwriting costs for all program participants. Participating in the NJEIFP has historically resulted in Borrower savings between twenty-five and forty percent of the cost of debt service relative to independent financing. In total, borrowers have saved in excess of $2.58 billion since the NJEIFP’s inception. The addition of aggressive loan terms, including up to fifty percent (50%) principal forgiveness in SFY2020, for CSO communities, Coastal Community Water Quality restoration, and Barnegat Bay Watershed projects through loans provide substantial additional savings.

In addition to low interest rates, I-Bank loans eliminate the need for borrowers to obtain bond insurance, manage arbitrage responsibilities, self-fund an initial five percent (5%) of the loan amount, and reduce many other ancillary borrowing costs. Moreover, throughout the life of the bonds, the I-Bank monitors market conditions to assess when interest rates meet the I-Bank’s savings threshold for refunding prior bonds and coordinates the sale of refunding issues. Net savings from prior bond refundings are passed on to borrowers, further lowering loan costs. Since its inception through February 2019, the I-Bank has returned in excess of $153 million in interest and principal cost savings to participating borrowers through the refinancing of its outstanding bonds.

The two loan agreements entered by borrowers, one with the I-Bank and one with the State, acting by and through the DEP, for the Fund, are drafted to reflect the differences between the security features for G.O. borrowers, revenue borrowers and private water system borrowers. However, the principal terms and conditions are conformed among the versions and permit a generic description of the terms and conditions. The discussion that follows represents the current expectations for the loan agreements under the NJEIFP and is based upon loan agreements with general obligation (“G.O.”) borrowers. Although other agreement forms may be mentioned, not all the differences among the various agreements are presented. Likewise, not every condition appearing in the various loan agreements is described. The I-Bank and the State reserve the right to include special items in individual loan agreements, conditions, and covenants unique to the circumstances of individual borrowers, when necessary even if not anticipated in this document. Additionally, Principal Forgiveness Loan agreements may contain additional representations and covenants that are not contained in the Base loan agreements.

The financing detail

Projects receive long-term funding upon completion of project construction, determined by the NJIB based on Project Sponsor requisitions. Borrowers must provide final requisitions two months in advance of an upcoming bond sale, or on the date established by the I-Bank, to participate in an upcoming bond sale. The I-Bank intends to issue one or more series of environmental infrastructure tax-exempt bonds for governmental borrowers participating in the SFY2020 NJEIFP. Depending upon the borrowers’ characteristics, the I-Bank may also issue a series of alternative minimum tax (AMT) environmental infrastructure bonds for private drinking water systems or other projects with a significant private use component, as well as a series of taxable bonds for private conduit borrowers in this year’s financing.
The NJIB environmental infrastructure bonds are expected to fund the project accounts established by the NJIB bond resolution, meaning that any unexpended project funds still available for a project at the time of bond issuance held in the account and any interest earnings are passed along to the borrower. The NJIB bonds are also expected to finance the underwriters’ discount, a loan surcharge of 0.1% of the issue size for other costs of issuance, and half of the DEP’s administrative fee. Final maturity of the I-Bank issued bonds will not exceed 30 years. However, for program participants financing CSO projects, pending EPA approval, a maturity term in excess of 30 years may be available beginning in SFY2020.

All Water Bank financing program participants must issue a bond, note or other obligation to the I-Bank and the State to secure their loan repayment obligation to the NJIB and the State respectively. Participants must agree to complete the project and perform under the specific terms and covenants of the loan agreements. Each of the loan agreements will cite the source of funds for the loan. In the case of private drinking water systems, collateral issued to secure the NJIB and Fund Loans (which may include revenue bond pledges, particularly in the case of larger private drinking water systems) must be approved by both the I-Bank and the State.

New Bond Series will be Special Obligations of the NJIB, secured primarily by:

i. The repayments of the Series Borrowers of the Series NJIB Loans (which repayments are, in turn, collateralized by the bond, note or other obligation of each series Borrower issued to the I-Bank to secure the Series Borrower’s obligation to make these repayments on time and in full);

ii. The repayments by the Series Borrowers for the companion Series State Fund Loans (which repayments are, in turn, collateralized by the bond of each Series Borrower issued to the State to secure the Series Borrower’s obligation to make these repayments on time and in full);

iii. Certain of the repayments by those Borrowers in the Coverage Providing Financing Programs that have received Coverage Providing State Fund Loans that are held by the Master Program Trustee in accordance with the terms of the Master Program Trust Agreement (MPTA);

iv. Money deposited in the Series Borrower Debt Service Reserve Funds, with respect to certain Authority Series borrowers only;

v. Moneys payable under the Series Borrower Service Agreements and the Series Government Borrower Guaranties; and


Neither the State nor any political subdivision thereof (other than the I-Bank, but solely to the extent of the applicable I-Bank environmental infrastructure estate) is obligated to pay the principal of or interest on the Series Bonds, and neither the full faith and credit nor the taxing power of the State or any political subdivision thereof (the NJIB has no taxing power) is pledged to the payment of the principal of or interest on the NJIB Series Bonds.

Each series of bonds funds a pool of loans. Participants will be assigned to a loan pool, the basis of which may include their individual credit characteristics, effect on the bond pool’s coverage, the terms and conditions of their own outstanding bond documents and the following considerations:

- **NJIB bond ratings** – Because of the cash flow structure of the Financing Program, most participants will be placed in a single uninsured pool for which the NJIB anticipates AAA/Aaa/AAA ratings from Fitch, Moody's and Standard & Poor's respectively.

- **The NJIB's need to minimize transaction costs** – Assigning participants to various pools can minimize the complexity and cost of the bond issue.
- **Participants' need for insurance or other credit enhancement** – Some participants may be required to insure or obtain other credit enhancement with respect to the bonds they pledge to the I-Bank. This may include participants who do not have an investment grade rating of their own, who cannot obtain deficiency agreements, who have certain restrictions in their existing bond documents, or who are required to issue junior lien debt. At times, the I-Bank may request a waiver by the State Treasurer of the State’s credit worthiness standards for a specific borrower.

- **Federal tax law considerations** – AMT bonds, taxable bonds and varying construction draw schedules among participants may make it beneficial to pool certain participants together to comply with federal tax law.

- **State law limitations** – Restrictions in certain State general obligation bond acts preclude the use of certain bond act moneys as security for private borrowers.

The NJIB Green Bonds. In the past twelve months, the I-Bank issued three series of new issue “Green” Environmental Infrastructure Bonds (listed below) to finance, two series of governmental borrowers (identified as “A Series”) and one series for AMT borrowers (Identified as “B Series”), to refinance, clean water and drinking water infrastructure projects. Green Bonds are dedicated to financing environmentally friendly projects and appeal to a new group of socially conscious investors. The NJIB green bonds finance or refinance the loan portion of SRF projects that positively impact the environment.

- In May 2018, the I-Bank issued $21.10 million of new issue environmental infrastructure Green bonds (2018A-1) priced with a true interest cost (TIC) of 3.14% and $15.69 million of new issue environmental infrastructure Green AMT Bonds (2018B-1); with a TIC of 3.63%
- In November 2018, the I-Bank issued $17.45 million of new issue environmental infrastructure Green bonds (2018A-2) priced with a TIC of 3.71%

Attached as Appendix H are the Green Bond Reports identifying projects funded in these bond series.

**AMT Bonds.** The Tax Reform Act of 1986 imposes restrictions on the types of projects that can be financed with tax-exempt bonds. For projects involving nonprofit use, private use, private payments, or private loans and not otherwise complying with Federal income tax requirements for tax exempt governmental bonds, the I-Bank may issue additional series of Alternative Minimum Tax (“AMT”) bonds or taxable bonds. The issuance of AMT bonds imposes additional conditions precedent to the issuance of I-Bank bonds, including, without limitation, the receipt of a volume cap allocation from the Treasurer, 2% costs of issuance limitation and hearings under the Tax and Equity Fiscal Responsibility Act of 1982 (“TEFRA”).

In past years, the I-Bank has funded a separate series of AMT bonds for projects and may do so again depending on the responses received from borrowers in their FAFs. If CW or DW AMT bonds are necessitated by the operational and financial structure of certain borrowers, the I-Bank will attempt to combine the AMT bonds into a single series of NJIB bonds, to the extent practicable and allowable under the Clean Water Act and the Safe Drinking Water Act and other applicable law in an effort to best manage program expenses.

Loans may be secured by letters of credit, mortgages on drinking water facilities, personal guaranties of system owners or operators, special reserves and/or other available security required by the I-Bank at its discretion to ensure repayment. A taxable series of bonds may also be issued, such as in situations where some projects have non-governmental relationships beyond allowable limits set by Federal income tax law. Any NJIB series of taxable or AMT bonds will have the same security features as any other series of NJIB bonds or, in the case of private drinking water systems, collateral acceptable to the I-Bank and the DEP.
ESCROW CLOSING

Program participants whose projects will be partially funded with I-Bank environmental infrastructure bond proceeds must have all the necessary certifications, ordinances, resolutions, authorizations, counsel opinions and necessary financial covenants in place and escrowed to be included in the NJIB’s bond sale. Participants are required to close and deliver in escrow their loan agreements as well as their bonds or collateral evidencing their repayment obligations, approximately two months prior to the I-Bank’s bond sale. The I-Bank pledges these documents as collateral in the issuance of its bonds to finance the I-Bank Loans. These documents are held in escrow until after bond sale and all conditions precedent to final closing have been met. At that time, the documents are released from escrow and final bond sale closing takes place concurrent with Borrower loan closing.

This process ensures, to the greatest extent possible, that the competitive bond sale and the closing go forward as planned.

COMPETITIVE SALE OF NJIB BONDS

After escrow closing, the NJIB will schedule its respective bond sales. The NJIB enabling legislation requires that the NJIB’s Long-term bonds be sold on a competitive basis. The NJIB publishes a summary of the Notice of Sale once in at least three New Jersey newspapers and once in a recognized bond publication. The bonds will be awarded based on the lowest true interest cost bid. The NJIB will require bidders to submit their bids electronically for the bond series it will issue in SFY2020. The NJIB, depending on market conditions at the time of the publication of the Notice of Sale, will permit underwriting syndicates to increase the amount of original issue discount which they may include in the bids.

Generally, bidders must specify a purchase price which equals or exceeds 98% of the initial aggregate purchase price of the bonds. Given current conditions, a premium bid, e.g., one in which the purchase price exceeds 100% of the initial price, is the likely outcome. Both the use of term bond(s) and a larger original issue discount may provide underwriting syndicates increased flexibility resulting in a lower true interest cost for the NJIB’s bonds and program participants.

Prior to the bond sale, the NJIB will establish the criteria for the investment of any bond proceeds, not disbursed to borrowers at closing as reimbursement for project costs, based upon market conditions in either a portfolio of securities, money market funds or a flexible repurchase agreement on which to be bid. The NJIB may also determine to accept investment bids on an electronic basis. It is anticipated that I-Bank bond sales will occur in November of 2019 and May of 2020 and will include projects essentially construction complete thereby minimizing any potential for non-disbursed bond proceeds. Detailed proposed schedules are set forth in the Appendices G1 and G2. A Preview of the SFY2021 Financing Program Schedule is attached as Appendix F.

DISCLOSURE

Program participants are expected to provide, through completion of their FAF and certification of the data’s accuracy, information necessary for disclosure in the NJIB’s Official Statements. As discussed below, full disclosure will be required for pool participants determined to be “obligated persons. Reduced disclosure will be required from the balance of the participants. It is not anticipated that the NJIB will have any participating borrowers in SFY2020 who meet this requirement.

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SECONDARY MARKET DISCLOSURE

Rule 15c2-12 of the Securities and Exchange Commission requires that certain issuers provide information on an ongoing basis for use in the secondary bond market. The I-Bank has developed a policy, consistent with Rule 15c2-12, to determine which borrowers will be required to provide ongoing secondary disclosure.

Those Borrowers (for any particular Financing Program) whose remaining Fund Loan repayments in all Coverage Providing Financing Programs, when aggregated with their remaining NJIB Loan repayments for any such particular Financing Program, if any, exceed ten percent (10%) of the sum of:

1. The aggregate of all remaining Fund Loan repayments from all Borrowers in all Coverage Providing Financing Programs, and
2. The aggregate of all remaining NJIB Loan repayments in any such particular Financing Program from all Borrowers shall be considered material "obligated persons" within the meaning and for the purposes of Rule 15c2-12.

Under certain commentary promulgated by the SEC pursuant to Rule 15c2-12, the Water Bank Financing Programs that provide coverage appear to be considered materially "obligated persons" under the Rule. Accordingly, the NJIB will make the appropriate secondary market disclosures on these Financing Programs in the 2020 Financing Program as it has in past programs commencing in 1995.

UNDERFUNDED OR OVERFUNDED ALLOWABLE COSTS

In those limited circumstances where long-term financing is issued prior to construction completion, if final bids are higher than the estimated costs, or if differing site conditions are encountered during construction, the participant is eligible to return to the Financing Program for supplemental short-term and long-term financing for the increased allowable costs, subject to certain IRS procedural requirements that must be followed. Similarly, if final bids for a participating project are lower than the original awards, or if final building costs are lower than the allowable costs based on the low bid building cost, a surplus of monies may exist. In the case of an NJIB Long-Term Loan, this money is expected to be used to make debt service payments on the participant’s NJIB Loan or be expended through a defeasance (i.e. used to purchase US Treasury securities and placed in escrow to pay down outstanding bonds). These NJIB monies may also be available to fund cost increases for change orders due to differing site conditions, certain other project costs or for allowable reserve capacity costs, subject to approval by the NJIB. In the case of a Fund Loan, this surplus will be de-obligated via an amended debt service schedule eliminating payments starting from the back end of the loan (i.e. year 30) and moving forward until the de-obligated amount is realized.

Because most projects are now funded through flexible short-term construction loans, and there are limited exceptions to the requirement that projects reach construction completion prior to advancing to long-term financing, it is not anticipated that projects will require supplemental loans because cost increases are being handled through amendment of the short-term loan amount. For the same reasons, it is not expected that there will be overfunded costs requiring a defeasance and deobligation.

UNALLOWABLE COSTS

Project financing for the unallowable portion of project costs must come from the program participant, who may bond for this cost or pay for it out of other funds. Municipal or county borrowers must either have cash available or bond ordinances and Local Finance Board approvals (if required) authorizing the borrowing of the necessary funds. Authorities and private drinking water systems must have cash-on-hand or the
equivalent thereof prior to any disbursement of their loans. The NJIB has imposed these requirements to provide assurance that projects will be financed and completed in their entirety.

PROJECT ACCOUNT DISBURSEMENTS

For any project not completed with expenses still outstanding, remaining construction drawdown schedules are developed prior to escrow closings by the DEP, based upon the participants' own submissions. The I-Bank then develops a composite drawdown schedule from all of the individual borrowers in any given pool to determine the best investment of bond proceeds.

LOAN REPAYMENTS

As the NJIB has not received EPA approval as of the date of this writing for extended term loans of 45 years, all of the NJIB bonds will mature within thirty years from the respective date of issuance thereof. Interest on each NJIB Loan will be payable at least semiannually and, after any initial optional deferment period for construction completion, principal will be retired at least annually. It is possible that nonprofit or private drinking water system borrowers for drinking water projects may be required to pay debt service on a monthly or quarterly basis. Payments are typically structured to provide level debt service payments after the construction period for the life of the loan. The aggregate of the individual participant’s debt service schedules relating to their NJIB loans cover the debt service of the NJIB bonds, plus the I-Bank’s annual administrative fee.

Participants make scheduled debt service payments on both of their I-Bank and Fund loans with a single payment to a loan servicer or trustee. To the extent that a project is not complete prior to long term conversion, payments are required to begin no later than 6 months after construction completion or shorter if the borrower chooses to begin amortization prior to the end of its construction period. Each debt service payment is determined as follows:

- Scheduled principal and interest due the NJIB, net of investment income on the reserve fund credited for the period and net of any other applicable credits;
- Scheduled principal due to the Clean Water or Drinking Water Fund or State Bond Fund; and
- Any administrative fees owed to the DEP and the NJIB.

Borrowers also have the option to capitalize interest during construction for up to three years. As the NJEIFP has transitioned and now offers long-term funding to only those projects which have completed construction, this option should be diminished. In the event there is an opportunity and a Borrower elects to capitalize interest on its long-term loan during construction, the interest earnings derived from bond proceeds in its capitalized interest account will be credited against the amount owed for capitalized interest. The borrower’s allocable share of earnings from any of its own monies provided to a Debt Service Reserve Fund, if any, will also be used in this manner during the capitalized interest period.

For participants who elect not to capitalize interest and for all other participants following the construction period, all such participants will receive their proportionate share of any reserve fund earnings through a credit against their NJIB Loan repayment obligations. The allocations of earnings from the reserve fund are pro-rated based on the total NJIB loan size.
INVESTMENT OF PROJECT LOAN ACCOUNT PROCEEDS

Construction draws for any remaining project expenses will be made pursuant to requisitions submitted by project participants. During the construction period, unutilized funds in each borrower’s project loan account, established under the NJIB bond resolution, will be invested to maximize the cash flow of those funds.

The I-Bank will continue to invest project loan account monies to the expected drawdown dates for any construction not completed under the short-term construction loan program prior to long-term funding. These investments will be invested in accordance with the permissible investments as defined within the Bond Resolution. If determined to be advantageous, the project account may be invested in State and Local Government Securities or other securities as allowed under the bond resolution. Securities will be procured through a competitive bid process.

Each year, the NJIB considers the feasibility of using flexible repurchase agreements, guaranteed income contracts or other forms of investment agreements to reinvest bond proceeds deposited into the project loan account. Subject to State and federal constraints, if any are found to be advantageous, the NJIB will seek authorization from the Director of the Division of Investment in the Department of the Treasury to use them.

FLOW OF REPAYMENTS

The Loan Servicer or Trustee receives the above noted repayments from the borrower and within each pool: (1) satisfies the requirements to pay the bondholders; (2) deposits and disburses the collected administrative fees; and (3) once all bond principal and interest payments have been made in full, transfers the Funds Loan repayments to the Master Program Trustee for deposit into the MPTA. The Master Program Trustee will hold these funds for a period of one semi-annual bond payment period plus one day to provide coverage for the next bond payment due on all outstanding NJIB environmental infrastructure bonds issued. (See below section entitled “Cross Coverage Between Series”) However, no borrower will be responsible for the repayments of any other borrower. Immediately following the second payment upon which the Fund Loan repayment funds were available to secure NJIB Series Environmental Infrastructure Bond payments, the Master Program Trustee will deposit the principal and any interest earnings while invested by the Master Program Trustee in a state DEP account which the DEP will then deposit into the respective State CWSRF, DWSRF and non-SRF accounts. Once deposited in these appropriate revolving fund account, these monies are available to make future loans for CW and DW project purposes, respectively.

CREDIT STRUCTURE AND RATING OF THE NJIB BONDS

Minimizing costs for the participants in the Financing Program requires that the NJIB bonds be backed by the strongest available credit structure. The credit structure for the NJIB’s bonds is created through provisions in the bond documents, loan agreements and related support agreements executed by the participants. The NJIB’s structure has produced AAA/Aaa/AAA bond ratings from all three rating agencies (Fitch, Moody's, and Standard & Poor's) for each series of NJIB bonds issued since this structure was introduced in 1995.

The credit structure of the NJIB’s Bonds allows the Fund loan repayments of one borrower to secure the NJIB loan repayments of all borrowers within the same pool of loans. In addition, Fund Loan repayments from all borrowers participating in outstanding Financing Programs are used to cross collateralize, on a subordinated basis, all or a portion of future NJIB Bond issues as allowable. Since 1995, this technique has been used to enhance NJIB Bond ratings with respect to particular pools or specific loans. In addition, the
NJIB established cross collateralization between the CW and DW Programs to extend the benefits available to CW borrowers and to DW borrowers. This “true pool” structure further secures the NJIB Environmental Infrastructure Bonds, improves the bond ratings, lowers the interest cost of the Bonds for participating borrowers, and eliminates the need for bond insurance.

The NJIB may issue tax-exempt, AMT or taxable bonds that will be uninsured to finance its share of the SFY2020 Financing Program. Security for the NJIB environmental infrastructure bonds relies on the following seven major credit features, as well as other protective covenants typically supporting revenue bonds:

i. The pledge of revenues from self-supporting projects;

ii. For a municipal borrower, the pledge of its full faith and credit of its taxing power to pay debt service on bonds sold to the NJIB. For an authority borrower; a deficiency agreement under which the municipalities being directly or indirectly served by the borrower make this pledge; for a private water system, collateral approved by the NJIB;

iii. Other forms of credit enhancement, if necessary;

iv. Subordination of Fund Loans to the NJIB Loans within the particular pool to increase coverage of debt service on the NJIB bonds;

v. Cross coverage from all outstanding environmental infrastructure bond pools, after the individual pool NJIB payments have been made, to provide additional coverage for outstanding NJIB environmental infrastructure bonds sold between 1998-2018 and into the future (if so designated by the NJIB) as allowable;

vi. Cross-collateralization between CW and DW Programs;

vii. The ability of the State to intercept State-aid payable to borrower municipalities or, in the case of authority borrowers, underlying municipalities; and

viii. A pledge of the debt reserve fund, if any, to pay debt service on the NJIB environmental infrastructure bonds in the event of default by a participant.

i. **Collateral for Private Drinking Water Systems**

All private water system projects must demonstrate that revenue is sufficient to cover operation, maintenance and debt service. For large private drinking water systems, the I-Bank will require a revenue bond to be issued to the I-Bank as part of the collateral for the loan. For very small private community and nonprofit non-community drinking water systems, collateral will be considered on a case by case basis for Small System, *de-minimis*, and other program loans. Some of the collateral that may be considered will include, but not be limited to, a bank letter of credit, a mortgage on the facilities and its property, increased reserve funds, etc. The intermediate private drinking water systems will require some combination of the above based on a case by case determination.

ii. **Credit Worthiness**

NJIB bonds are ultimately secured by a G.O. pledge from each municipal or county borrower to levy and collect taxes to pay debt service or a revenue bond pledge from the Utility or water service provider. Such G.O. pledge must typically carry an investment grade rating from one of the three nationally recognized rating agencies (Fitch Ratings, Moody’s Investors Service, and Standard & Poor’s Rating Services). For applicants that do not have an investment grade rating of at least BBB-, Baa3, or BBB- from Fitch Ratings, Moody’s Investors Service or Standard & Poor’s Ratings respectively, the I-Bank generally requires each applicant to seek and obtain an acceptable private ratings assessment from one of the above agencies. For small (*de-minimis*) borrowers, the I-Bank requires the applicant to meet certain liquidity, leverage and cash
flow metrics. Additional information regarding the I-Bank’s Credit Policy may be obtained on the I-Bank’s website at: https://www.njib.gov/policies-and-procedures/.

In the case of authorities with no taxing power, which must secure their bonds with project revenues and, which absent credit enhancement, do not have an investment grade rating, the NJIB may require the local unit bonds to be additionally secured by G.O. deficiency agreements with underlying municipalities, bond insurance or other form of credit enhancement. The use of deficiency agreements is a conventional tool for governmental utility revenue bond financings in New Jersey. It is anticipated that local unit bonds supported by such deficiency agreements will have the same credit quality as the G.O. bonds issued by the underlying municipalities.

iii. **Deficiency Agreement/Credit Enhancements**

For some of the smaller borrowers, additional security in the form of a borrower financed reserve fund in the amount of two-years of average debt service payments may be required. Drawdowns on the loan may also be restricted to the percentage of the fund-up of the special borrower financed reserve fund.

Unique to the Small System (NANO) Loan Program is the establishment of a Loan Loss Reserve Fund (LLR Fund). NANO Loan Program applicants that do not pledge *ad valorem* taxing authority, either directly or indirectly, as security for such loans will pay an annual guarantee fee equal to 1% of the outstanding NJIB loan (“LLR Fee”). The LLR Fee will be deposited into the LLR Fund to provide additional coverage to the borrower’s debt service payments.

iv. **Subordination of State Loans**

Within each bond series, repayments on each borrower's Fund Loan are subordinated to that borrower's NJIB Loan repayments. Thus, a borrower's Fund Loan repayments provide coverage on its corresponding NJIB Loan repayment obligations. In addition, all Fund Loan repayments may be applied to any NJIB environmental infrastructure bond debt service payment whenever any NJIB environmental infrastructure Loan repayment deficiency by any borrower occurs as allowable. All Fund Loan repayments for each period, once credited to such borrowers and once the NJIB bond debt service payment for the repayment period is satisfied, are paid to the Master Program Trustee.

v. **Cross Coverage Between Series**

In 1995 the I-Bank instituted the concept of Cross Coverage wherein, once NJIB debt service on individual bond issues is satisfied, the remaining funds are transferred to the MPT to cover potential debt service deficiencies for all outstanding NJIB Series Bonds so designated and as allowable. As Fund Loans are repaid, the money is held by the MPT for one semi-annual bond payment period (approximately 6 months) plus one day in the Master Program Trust Account (MPTA) to provide additional coverage as allowable for the next NJIB environmental infrastructure debt service payment due on all outstanding NJIB environmental infrastructure bonds and any future NJIB environmental infrastructure bonds so designated, prior to being paid to the State.

On the following bond payment date, if there is an event of default, Fund Loan repayments retained in the MPTA are available to provide funds to individual Bond Series Trustees to make full and timely payments to bond investors. Fund Loan repayments held for one semi-annual bond payment period that are not used to repay defaults are then transferred back to the State SRF repayment account and made available for originating new loans to participants in future financing cycles.

By continuing to use some or all of the Fund Loan repayments associated with the outstanding 1998 through 2018 NJIB Bond issues, as well as subsequent NJIB Environmental Infrastructure Bonds, to cross collateralize, on a subordinated basis, all or a portion of future NJIB Environmental Infrastructure Bond issues so
designate, this cross-coverage credit structure reduces the risk of default on the NJIB environmental infrastructure bonds by increasing the likelihood that sufficient funds will be available to pay debt service on those bonds.

As noted above, the credit quality of each issue of NJIB Environmental Infrastructure Bonds is enhanced by the fact that Fund Loan repayments from all borrowers, as allowable, within each pool are available to make debt service payments on the NJIB Environmental Infrastructure Bonds in the event of an NJIB Environmental Infrastructure Bond debt service payment deficiency by one or more borrowers in the pool. Since the NJIB began using this technique, it has never become necessary to use the Fund Loan repayments for this purpose. It is important to note that, notwithstanding such subordination, any borrower that has made its NJIB or Fund Loan payments has fully discharged its obligation to make such payment. To date, the I-Bank Bond Financing Program has never suffered a payment default. To the extent permitted by the rating agencies, this practice will be continued in SFY2020.

vi. **Cross Collateralization Between the Clean Water and Drinking Water Programs.**

Under the cross-collateralization option, repayments of CW and DW Fund Loans may be used to satisfy defaults as allowable in NJIB loan repayments from all deposits in the Master Program Trust Account for approximately six months and one day. Notwithstanding the foregoing, to the extent Fund loan repayments are received in connection with Fund loans originally funded by State general obligation bond proceeds, these Fund Loan repayments may not be available to secure NJIB Environmental Infrastructure Loans made to private drinking water systems. Even after allowing for this minor restriction on cross collateralization, the ability to use CW and DW Program funds to support each Financing Program will result in significant savings to the project sponsors under the DW Program. Since there is not a large pool of Fund Loan repayments available for this program, the DW Program NJIB bonds might certainly not receive the AAA programmatic rating without such cross collateralization between Programs. However, the State’s cross collateralization involves only a temporary use of funds from the CWSRF or the DWSRF. If a default in loan repayment did occur, the NJIB and the DEP would take steps to collect the defaulted loan repayments to reimburse the appropriate DW or CW Fund.

vii. **State-Aid Intercept**

I-Bank bonds are also secured by the intercept of State-aid payable to all municipal participants and the municipalities underlying those Authority participants that have executed deficiency agreements with such underlying municipalities. If a participant fails to make timely debt service payments to the I-Bank, the State-aid intercept mechanism authorized in the I-Bank's enabling statute may be triggered and State-aid may be diverted from the participant, or an underlying municipality of the participant, to the bond trustee to pay debt service to the bondholders.

The model for this approach is the State’s Municipal Qualified Bond Program, which has been used by the State's lower rated borrowers. Many of the revenues securing Qualified Bonds issued by participants in the Municipal Qualified Bond Program can be intercepted by the I-Bank as well. The State’s experience with the Municipal Qualified Bond Program indicates that the State aid intercept can raise the ratings on bonds issued by weaker borrowers to typically one step below the State’s rating. The NJIB may also require certain participating communities benefiting from projects and receiving small quantities of State aid to execute agreements which allow the NJIB to intercept their State aid in the event of non-payment.

The intercept under the NJIB Program is subordinate to the intercept securing bonds issued under the Municipal Qualified Bond Program. Should participants in the Financing Program have outstanding Municipal Qualified Bonds, financing documents will include covenants requiring that the coverage ratio of debt service by State aid be calculated by including those bonds as well as both Financing Program loans. This will mitigate the adverse effect of the senior claim on State aid of those Qualified Bonds.
The NJIB and/or the State may take other actions to cause the local government unit to repay, in a timely manner, any sums in default. To date the Financing Program has never needed to employ its State aid intercept powers.

viii. **Reserve Fund**

Certain NJIB bonds prior to 2007 were secured by a debt service reserve fund of approximately 10% of the issue size. The NJIB’s Debt Service Reserve Fund was generally funded from a portion of the required state match (20% of the federal grant), General obligation Bond proceeds and project loan repayments. Commencing in 2007, the NJIB utilized these funds for project loans while maintaining its natural AAA credit rating through the Master Program Trustee (MPT).

Because of the collateral structure described above, all outstanding NJIB bond series up to and including the Series 2018 bonds are rated, and the 2019 and May 2020 environmental infrastructure bonds are expected to be rated, AAA/AAA/Aaa by all three rating agencies as previously noted. Cross Coverage mitigates the potential for weaker credits to negatively impact the stronger credits in the uninsured pool.

To the extent a series of taxable or AMT bonds will be issued to accommodate a single borrower, the advantages found in the pooling structures will not apply. However, bond pricing advantages from cross coverage provided by the MPTA and the potential for AAA/Aaa/AAA ratings are still realized. A separate series of taxable or AMT bonds issued for several borrowers realizes the benefits of the pooled structure and the ratings are set accordingly.

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**JUNIOR LIEN BOND POLICY**

NJIB Loan Bonds are typically secured by revenues of the Authority Borrowers’ wastewater or water supply systems under the terms of the Authority Borrowers’ Bond Resolutions, but sometimes are additionally secured by service, deficiency or other agreements of (i) municipalities that possess and use their general obligation taxing power to secure their payment obligations under such service agreements (“Direct Service Agreements”) or (ii) Authority participants or customers, that in turn have service, deficiency or other agreements with municipalities that possess and use their general obligation taxing power to secure their payment obligations under such service agreements) “Indirect Service Agreements” and together with Direct Service Agreements, “General Obligation Service Agreements”).

Some Authority Borrowers are required to fund a debt service reserve fund under the terms of their Authority Borrower Bond Resolutions, but not under the terms of the Financing Program. In order to avoid the costs of funding such Authority Borrower debt service reserve funds, some Authority Borrowers have requested permission from the NJIB to issue subordinate NJIB Loan Bonds to the NJIB under the Financing Program. In response, and upon consultation with the State Treasurer, the Attorney General’s office and borrower bond counsel, the NJIB has adopted a Junior Lien Bond Policy, which provides:

1. The NJIB may accept junior lien NJIB Loan bonds of an Authority Borrower without forcing any such Authority Borrower to close off their senior lien bond resolution, indenture or other related document, so long as such junior lien NJIB Loan Bonds:
   a. Will be directly or indirectly secured by General Obligation Service Agreements;
   b. Carry an investment grade rating (which may be evidenced by a private credit assessment rating or otherwise) from one of the three rating agencies previously identified, if such bonds were not part of the Financing Program or would meet any of the “safe harbors” outlined in the letter of the State Treasurer dated October 29, 2001 or in the NJIB Credit Policy; and
c. The Junior Lien Authority Borrower Bond Resolution under which any such NJIB Loan Bonds are to be issued carries the same rate covenant applicable to such Borrower’s senior lien obligations.

2. Notwithstanding the foregoing, when determined to be in the best interest of the NJEIFP, the Executive Director may determine not to accept a Junior Lien bond which complies with paragraph (a), so long as he reports this action and the reasons therefore to the NJIB Board of Directors at the next scheduled Board meeting after such decision.

COVENANTS AFFECTING THE LOCAL UNIT

The loan agreements are legally valid and binding obligations between the NJIB/State and the borrower. The local unit bonds or approved collateral are legally valid and binding obligations of the municipal government, authority or private water system.

Consequently, each borrower must be able to make unequivocal representations concerning its status in the transaction. Ordinances and resolutions of the governing body must be in place, and proper public notice given to establish that the borrower has the legal right and authority to undertake the specific project, and own, efficiently operate and appropriately maintain an environmental infrastructure system. All applicable permits and approvals for construction must be obtained as a precondition for execution of the agreements and the local unit bonds. The borrower will need to certify that no undisclosed fact or event, and no pending litigation, will materially adversely affect the environmental infrastructure system, the ability to make timely loan repayments, or the prospects for completion of the project. A reasonable and accurate estimate of project costs compiled by a New Jersey licensed professional engineer will be required, and the borrower must obligate itself to assume capital costs in excess of the NJIB and Fund funding from its own resources.

Other covenants include:

• For a G.O. borrower, a pledge of full faith and credit to exercise the unlimited ad valorem taxing power of the local government to insure the timely repayment of principal and interest;
• The intercept of State aid payable to a general obligation borrower who fails to meet NJIB Loan repayment and/or administrative fee payment schedules; or
• For a Revenue borrower, an irrevocable pledge of (1) local or regional authority or private water system revenues and other receipts of the environmental infrastructure system, (2) moneys payable pursuant to service agreements or local unit bond credit enhancement, if any, and (3) State aid of municipalities, if any, which have executed deficiency agreements with the borrower to secure NJIB Loan repayments;
• The establishment of levies, fees or rates sufficient to meet operating and maintenance expenses (particularly with authority/privately owned drinking water system borrowers), to comply with all outstanding covenants relating to bonds or other evidence of indebtedness, and to pay other amounts due;
• A limitation on the borrower's discretion to issue Qualified Bonds unless the coverage afforded by State aid anticipated for the current fiscal year is equal to a reasonable coverage test, which test in the past has been; the annual debt service on all outstanding Qualified Bonds divided by the annual funds available for these payments pursuant to the Qualified Bond Act must not exceed 0.80;
• A limitation on the use of loan proceeds to only finance allowable costs of the project which are funded by the loan;
• A limitation on the borrower's discretion to sell, lease, abandon or otherwise dispose of the environmental infrastructure system without (i) an effective assignment of the borrower’s loan obligations, (ii) the prior written approval of each the NJIB and the State, and (iii) an opinion from the NJIB’s bond counsel that such sale, lease, etc. will not have an adverse impact on either the security for the NJIB’s bonds or the tax-exempt status of the NJIB’s bonds;

• A prohibition on actions that may jeopardize the tax status of the bonds issued by the NJIB and, where appropriate, the State;

• A provision to provide secondary market disclosure information in accordance with the provisions of SEC Rule 15c2-12 and the policy established by the NJIB, if required under the Rule; and

• The NJIB and the State may impose additional covenants on PFLs borrowers in order to ensure compliance provisions unique to the FFY2019 USEPA Capitalization Grants.

**TERMS OF DISBURSEMENT AND REPAYMENT**

The NJEIFP intends to offer each borrower on the CW and DW Project Priority Lists, the full amount authorized by the appropriation bills subject to a borrower’s satisfaction of financing program requirements and funding limitations, and subject to a reduction based on the DEP's review of allowable project costs. Interest begins accruing on the NJIB’s Long-Term Loan component when the NJIB Series Bond is closed and the NJIB Loan proceeds are used to repay the corresponding portion of each borrower’s Short-term loan with residual sums placed in the respective project loan accounts created under the NJIB bond resolution. The Fund Loan is based on the moneys available and the DEP’s review of allowable project costs. In addition, the borrower, if a municipality, must certify to the NJIB and the DEP that it has funds available, or if an authority or private water system, moneys on hand, for project costs that exceed the actual amounts of the loan commitments. This amount includes unallowable project costs.

Disbursement of NJIB Loan proceeds for any allowable project costs still outstanding during long term financing will be made by the Trustee, acting as agent for the NJIB, following receipt of authorization from the NJIB based on a borrower's certified requisitions. Fund Loan disbursements will be made by the State, also upon receipt of a borrower's certified requisitions.

Other terms include:

• A level annual repayment schedule for NJIB Loans with interest payable in semi-annual installments, and principal payable in annual installments, provided however, that private drinking water systems may be required to pay more frequently than semi-annually. Depending on the circumstances, such borrowers could be required to pay 1/12 of their annual principal and 1/6 of their semi-annual interest on a monthly basis;

• A level annual repayment schedule for Fund Loans at zero-interest, with principal payable in semi-annual installments or, with respect to certain authority participants, annual installments; provided, however, that private drinking water systems may be required to pay 1/12 of their annual principal on a monthly basis;

• Semi-annual payment of one-half of the NJIB annual administrative fee; provided, however, that private drinking water systems may be required to pay more frequently than semi-annually. Depending on the circumstances, such borrowers could be required to pay 1/12 of their NJIB annual administrative fee on a monthly basis;
• Payment of the remaining balance of the DEP Loan Origination Fee shall be paid with first debt service payments; provided, however, that private drinking water systems may be required to pay more frequently. Depending on the circumstances, such borrowers could be required to pay 1/12 of their annual administrative fee on a monthly basis;

• A late charge of 12% per annum, or the Prime Rate plus 0.50%, whichever is greater, of the loan payment amount due calculated from the due date and charged daily on a pro-rata basis;

• The application of each NJIB Loan repayment pursuant to the terms set forth each Bond Resolution (typically to interest first, then principal);

• A credit against the debt service obligations of each project for the allocable share of reserve fund income, if any;

• Debt service payments to amortize principal must begin within one year of the anticipated date of completion of construction;

• If not complete at time of long-term financing, the anticipated project construction completion date must be established within three full fiscal years of the long-term loan closing date.;

• Tax exempt borrowers may capitalize interest for a period up to three years of the anticipated date of completion of construction but no more than 6 months from the scheduled date of completion of construction; and

• Alternative Minimum Tax (AMT) borrowers may capitalize interest for a period up to three years of the anticipated date of completion of construction but no more than the payment date immediately preceding the anticipated date of completion of construction.

The long-term loan agreements may also provide borrowers with an option to prepay loan obligations without penalty. Prepayment of either the NJIB or Fund Loan requires a 90-day written notice to the NJIB and a written approval thereof. Fund Loan prepayments also require a 90-day written notice to the DEP and a written approval thereof. NJIB Loan prepayments, at a minimum, must take out accrued interest (if applicable), any premium, principal through the prospective payment date for which the prepayment is to be credited and any fees incurred by the Program to execute such prepayment. Advance repayments will be applied first to interest on the portion prepaid, then to principal. It should also be understood that the NJIB/Fund financing is based on a split between the NJIB and the State for the financing of a project's eligible cost. Therefore, the prepayment of any NJIB Loan must be accompanied by a corresponding pro-rata prepayment on the State Loan. The Borrower is responsible for paying all the costs of the NJIB and the State associated with any prepayments. In addition, whether or not prepayment is involved, any modification of the local government bonds securing the NJIB Loan and the Fund Loan requires prior approval of the NJIB and the DEP respectively.

DEFAULT

The loan agreements define an event of default ("EOD") as:

1. the failure by the borrower to make a loan repayment when such failure continues for a period of fifteen (15) calendar days;

2. the failure to make timely payment of an administrative fee on the NJIB or Fund Loan within 30 days after written notice is given;

3. the representation of false and misleading information that has a material effect on the integrity of the loan agreements or related documents;
4. the appropriate filing by or against a borrower of any petition of bankruptcy or insolvency;
5. the general failure of the borrower to pay its debts including any outstanding loan or bond debt service payments in full and on time; and
6. the failure to observe or perform any other duties, obligations or responsibilities required by the NJIB or State for participation in the Financing Program, within 30 days after written notice.

With respect to the EODs specified in (2) and (6), the Trustee may be authorized to provide relief for up to 120 days if the borrower can represent that the failure to pay, observe or perform is correctable within that time frame. In addition, default may be averted if a petition of bankruptcy or insolvency is dismissed without prospects for appeal.

In an event of payment default, the NJIB and/or State may accelerate the NJIB and State loans and in the event of any default, the NJIB and/or the State may elect to take whatever action of law or equity is necessary to recover the deficiencies manifested by the default, or direct the Trustee (in the case of NJIB Loans) to pursue these remedies.

Recovered funds may be applied in the following order. In instances where MPT funds have been utilized to meet the obligations below, recovered funds will be applied back to the MPT:

1. To pay the fees for attorneys and other expenses incurred by virtue of the proceedings;
2. For interest payable on the NJIB Loan obligation;
3. For principal payable on the NJIB Loan obligation;
4. For other amounts due and payable to the NJIB;
5. For interest, principal and other amounts due the NJIB as the obligations become due and payable in accordance with the terms of the loan agreement; and
6. For principal and other amounts due the State for the Fund Loan obligation and for other amounts due and payable to the State.

ASSIGNMENT OF OBLIGATIONS

Each participant will acknowledge that all rights, title and interest of the NJIB in the agreement and the local unit bond or other approved collateral are, except for certain reserved rights, assigned by the NJIB, at its discretion, to the Trustee. Further, each participant will consent to any transfer of the loans deemed necessary by the NJIB for any refunding or additional debt issuance in connection with the NJEIFP.

A participant will be restrained from assigning its debt service obligation on its own bond or any other obligations under the agreement unless certain conditions are met. Prior written approval of the NJIB and the Trustee must be secured for both the NJIB and Fund Loans. In addition, the DEP must provide prior written approval for assignment of Fund Loans. The assignee must have expressly represented in writing its full and faithful observance of the covenants assumed; and the assignee cannot be, at the time of the assignment or as a result of the assignment, in default on any obligations that would materially affect the loan agreement or the local unit bond. Finally, the NJIB must receive an opinion from bond counsel assuring that the terms of the assignment preserve the tax-exempt status of the NJIB bonds, and in addition, will not have an adverse impact on the security for the NJIB’s bonds.
MISCELLANEOUS PROVISIONS

The NJIB and the State reserve the right to make such modifications as may, in their discretion, be necessary, convenient, or desirable to the NJEIFP, provided such modifications are consistent with the purposes of the Financing Program and with the provisions of the enabling legislation and corresponding rules and regulations.
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APPENDIX

New Jersey Infrastructure Bank

2019 BOARD MEETING DATES

January 17, 2019
February 14, 2019
March 14, 2019
April 11, 2019
May 9, 2019
June 13, 2019
July 11, 2019
August 8, 2019
September 12, 2019
October 10, 2019
November 14, 2019
December 12, 2019
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