

**Safeguarding Tomorrow Through Ongoing Risk Management  
(STORM)  
Revolving Loan Fund**

**Proposed Priority System, Intended Use Plan, and Project Proposal List  
for  
Federal Fiscal Year 2024 / State Fiscal Year 2025**

**New Jersey  
Community Hazard Assistance Mitigation Program  
(NJ CHAMP)  
Financing Program**



**New Jersey Office of Emergency Management**

**April 2024**

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## 1. INTRODUCTION

### 1.1. Status of the New Jersey Community Hazard Assistance Mitigation Program (NJ CHAMP) Safeguarding Tomorrow Revolving Loan Fund

The Intended Use Plan (“IUP” or “Report”) must be developed and undergo a public participation process prior to applying to the Federal Emergency Management Agency (“FEMA”) to qualify for Safeguarding Tomorrow Through Ongoing Risk Management (“STORM”) grant funds. The Office of Emergency Management in the Division of State Police in the Department of Law and Public Safety of the State of New Jersey (“NJOEM”) submits this IUP in support of its application for STORM funds for federal fiscal year (“FY”)2024/State Fiscal Year (“SFY”)2025 (July 1, 2024, to June 30, 2025) as part of the application by the State of New Jersey (the “State”) to FEMA’s FY2024 Notice of Funding Opportunity (“NOFO”) for STORM grant funds. The New Jersey Infrastructure Trust Act, N.J.S.A. § 58:11B-1 et seq. (the “Act”) established the Community Hazard Assistance Mitigation Program (“NJ CHAMP”) to fund hazard mitigation and resilience projects undertaken by the State, local government units, and nonprofit organizations in accordance with the provisions of the STORM Act. The Act authorizes the New Jersey Infrastructure Bank (“I-Bank”) to co-administer NJ CHAMP with NJOEM which will act as the State’s grantee recipient for STORM funds. STORM grant funds will be utilized to administer a revolving loan fund (“RLF”), to provide below market rate financing to communities for projects that address climate risks.

NJOEM is responsible for developing the prioritization system in consultation with the New Jersey Department of Environmental Protection (“NJDEP”) regarding the development of climate change priorities. The IUP’s proposed Priority Methodology and Project Proposal List (“PPL”) (**Appendices C.1 and C.2**, respectively) prioritize projects sponsored by local communities and utilities or any other entity eligible to receive funds pursuant to the STORM program (together “Local Government Units,” or “LGUs”). This year, NJ CHAMP program eligibility is limited to project sponsors that are seeking FEMA grant funds through the FEMA Hazard Mitigation Planning Process in New Jersey. STORM funds will supplement any other FEMA grant funds (e.g., Hazard Mitigation Assistance (“HMA”) grants, Hazard Mitigation Grant Program (“HMGP”)) these projects receive to finance their projects. To ensure equity among Program participants, the Program incorporates the Centers for Disease Control and Prevention (“CDC”) Social Vulnerability Index (“SVI”) CDC SVI into its prioritization metrics. This Report discusses the objectives of the SFY2025 NJ CHAMP program, the ranking prioritization methodology, and general financing and loan disbursement terms.

As the entity responsible for the financial administration of NJ CHAMP, the I-Bank anticipates there will be opportunities to co-fund projects by leveraging STORM funds with other State revolving loan fund programs administered by the I-Bank, including funds from the capitalization grants from the U.S. Environmental Protection Agency (“USEPA”) State Revolving Fund (“SRF”) Program that the I-Bank co-administers in partnership with NJDEP for clean water and drinking water infrastructure projects (“Water Bank”), and the funds of the State’s Transportation Bank, in partnership with the New Jersey Department of Transportation (“NJDOT”) for surface transportation projects (“Transportation Bank”). In the event that funds from more than one financing program would be used to finance a single project, the eligibility, technical requirements, and financial flow of funds would be distinct. The Act requires that the funds in each of the I-Bank’s separate programs must be segregated, specifically proscribing combining or commingling funds across programs, and prohibiting the use of a specific financing program’s funds for non-program costs or disbursements. Therefore, the financial administration of the NJ CHAMP fund will not be “combined” with the administration of any other revolving loan fund. Instead, NJ CHAMP will be administered “in parallel” with other revolving loan programs of the I-Bank. As with its current financing programs, in the event a project is co-funded with multiple sources of funds from separate financing programs, the I-Bank makes, and the borrower receives, a separate loan agreement from each financing

program that provides funds. Repayments for those loans are directed to separate accounts (a repayment account at a bond series trustee if the loan is included in a collateralized bond pool, or a separate custodial account for the specific financing program if the financing is through a direct (i.e., non-leveraged) loan. In this manner, all loan repayments, excluding repayments used to make principal and interest payments on program bond funds, but including interest earned on those funds, are maintained within a specific RLF program (in this case, NJ CHAMP).

Pursuant to the Act, NJOEM is charged with development of the project priority list for funding for each fiscal year. NJOEM bases the NJ CHAMP prioritization system on the State's Hazard Mitigation Plan ("HMP") which captures historic disaster experiences and reflects the natural and human-caused hazards New Jersey faces, based on science and research. The State HMP is reviewed, updated, and submitted to FEMA for approval at least once every five years. FEMA last approved the State HMP in FY2019. FEMA's approval for the upcoming State HMP is anticipated to be received no later than April 2024.

### **1.2. Updates for Federal Fiscal Year 2024 NJ CHAMP Safeguarding Tomorrow RLF**

The I-Bank and NJOEM formally established NJ CHAMP via statute in 2023. The NJOEM is the party responsible for developing the PPL and the I-Bank is responsible for developing and managing the financing structures. The NJ CHAMP fund has been established at the I-Bank's custodial bank and has been prefunded with match funds. The Program has identified eligible projects, has established an online application system, and has begun outreach to potential project sponsors to ensure the full allocation of existing funds. See Sections 1.1, 2.2.3, 2.2.4, 3.2, 4.1, 4.2 and 5.4 for additional details.

For FY2024, NJ CHAMP will continue to provide programmatic outreach to LGUs on the HMP to identify projects across the State eligible and interested in financing through the NJ CHAMP program. Since the submission of the IUP for the FY2023 capitalization grant, the State has appropriated to NJ CHAMP: i) \$500,000 to be utilized for operating and administrative costs, and ii) State match funds of \$646,297 for additional NJ CHAMP loan funds. In addition, federal STORM Act funds in the amount of \$6,462,963 has been awarded to the State. Pursuant to the requirements of the STORM Act, NJ CHAMP loan interest rates will continue to be set at one percent (1%).

NJOEM and the I-Bank are committed to the long-term success of NJ CHAMP. As such, the co-administration of NJ CHAMP continues to be staffed and resourced to provide the critical knowledge necessary to manage the operation and finances of the Program.

## **2. USES OF THE NJ CHAMP SAFEGUARDING TOMORROW RLF**

### **2.1. NJ CHAMP Objectives**

The objective of NJ CHAMP is to provide low-cost financing for local projects that support and are in conformance with the State's initiatives to reduce future losses from hazards.

The goals of the Program align with the goals of the State's HMP, specifically:

- (i) Protect life;
- (ii) Protect property;
- (iii) Increase public readiness and awareness;
- (iv) Develop and maintain an understanding of risks from hazards;
- (v) Provide an additional financing source to complement existing FEMA programs and alleviate the funding gap of those program for disadvantaged and socially vulnerable communities;
- (vi) Enhance state and local mitigation capabilities to reduce hazard vulnerabilities; and
- (vii) Support continuity of operations both pre-, during, and post-hazard events.

NJ CHAMP will provide loans and financial support as early as the design phase of a project in the form of short-term and long-term loans, or some combination thereof, for hazard mitigation projects that reduce the risk from natural hazards. The prioritization of projects, including those sponsored by communities most in need, in the early years of the NJ CHAMP Program will follow the prioritization methodology of the State HMP.

## **2.2. NJ CHAMP Goals**

### **2.2.1. Connection to Other Hazard Mitigation Plans & Goals**

New Jersey's intent is to utilize NJ CHAMP to supplement and complement state and federal hazard mitigation/risk reduction funding. Projects considered for funding will achieve goals consistent with the goals and actions identified in the State HMP. NJOEM will review proposed projects in relation to goals and objectives established in the relevant hazard mitigation plans. In the early years, pending the establishment of the funding level from FEMA, the NJ CHAMP PPL is composed of projects identified and publicly vetted through the FEMA Hazard Mitigation Planning Process in New Jersey. For copies of available NJ State HMPs, see: <https://nj.gov/njoem/mitigation/hazard-mitigation-plans.shtml>.

### **2.2.2. NJ CHAMP Mitigation and Resiliency Goals**

Resilience projects financed by NJ CHAMP will assist participating borrowers by reducing disaster recovery costs, reducing payments associated with FEMA's Public Assistance ("PA") Program, reducing insurance payments / premiums, and lessening the disruption to critical facilities caused by natural disasters, etc. Additional goals and objectives are identified in the State and local HMPs.

### **2.2.3. Entity's Safeguarding Tomorrow Revolving Loan Fund Short-Term Goals**

NJ CHAMP's short-term goals are to i) identify projects in the State utilizing FEMA grant funds that need additional funding, ii) efficiently disburse funds to those projects, and iii) ensure that low-income geographic areas and underserved communities are prioritized to receive NJ CHAMP funds.

NJ CHAMP will identify eligible resilience projects requiring additional financing beyond that which is received from FEMA's HMA grant programs and distribute funds in the early stages of a project. The I-Bank and NJOEM will coordinate to publicize NJ CHAMP to inform potential recipients of the Program's nature and benefits. In addition, the I-Bank and NJOEM are designing policies and procedures that ensure the sustainability and revolving nature of the STORM RLF funds in the State.

After loan closing, funds are disbursed to project sponsors, based on costs incurred, as evidenced by requisitions submitted for review and approval. In this manner, staff will closely monitor the integrity and compliance of funds drawn and ensure projects are completed in a timely manner avoiding waste, fraud, and abuse. The requisition process is designed based on the successful Water Bank and Transportation Bank requisition processes administered by the I-Bank, which includes oversight of federal compliance requirements during construction. In these existing programs, funds are disbursed on an expedited basis upon receipt of invoice based on a rapid requisition approval process relieving project sponsors from utilizing cash-on-hand or expensive working capital lines of credit to pay contractors and vendors.

NJOEM has identified projects on the PPL that qualify for STORM Act funds, and which align with the State's HMP. The prioritization methodology established for the State HMP was developed in compliance with federal requirements (FEMA, etc.) as well as through the collaborative process facilitated by the State Hazard Mitigation Team ("SHMT").

NJOEM and the I-Bank will leverage the identification and outreach initiatives in the existing programs at both the I-Bank and NJOEM, to coordinate with low-income geographic areas and underserved communities. The Program will cross reference these high priority communities on the PPL and make efforts to reach out directly to these communities to ensure their success in this Program.

#### **2.2.4. Entity's Safeguarding Tomorrow Revolving Loan Fund Long-Term Goals**

NJ CHAMP long-term goals are to establish a viable revolving loan fund that coordinates well with existing financing programs and establishes rigorous policies and procedures.

NJ CHAMP funds are statutorily committed to the Program and may not be commingled with other program funds or used for any other purpose except for NJ CHAMP. In addition, NJ CHAMP will maintain sustainability in perpetuity by offering its funds as low-rate loans, repayments of which will be repaid into the NJ CHAMP loan fund. As funds are repaid, the monies will be invested in short-term investments until such time that these monies are relent. All interest earnings will be made available for new NJ CHAMP loans. The Program will charge participating borrowers a small administrative fee to recoup its operating and administrative costs (to offset the use of STORM funds available for administrative costs). Finally, borrowers must satisfy the I-Bank Credit Policy (see **Appendix A.2**). The objective of the Credit Policy is to avoid credit-based losses and protect Program funds for future use.

Initially, NJ CHAMP will require an upfront investment. The State has committed \$500,000 to the I-Bank for start-up legal and operating expenses. As the program grows, more loans will produce more income to support the Program to self-sufficiency and produce a loan/expense ratio that allows for a perpetual program.

As it does in its other federal revolving fund program, the I-Bank will reconcile NJ CHAMP accounts with monthly bank statements and will utilize its asset-liability model to monitor the sources and uses of all funds in the Program. This ensures the accuracy of the Program's fund balance in real time to safeguard NJ CHAMP from overextension and human input errors.

The I-Bank's statute requires two annual reports that list a prioritization methodology linked to the State's HMP (which includes a public notice process), as well as a description of the terms under which the projects which qualify for funding will be financed. Terms include rates, fees, maximum maturities, etc. This statutory construct mirrors the requirements of the I-Bank's other infrastructure financing programs.

The I-Bank has a long history of successfully complying with State and federal requirements (over three decades of SRF activity, 10-plus years involvement with the Robert T. Stafford Disaster Relief and Emergency Management Act, and very recently, the USEPA's Water Infrastructure Finance and Innovation Act ("WIFIA") program). The I -Bank will manage any required single audit of the Program and build covenant obligations into the program loan documents to ensure recipients of funds establish and maintain compliance with federal requirements. The aforementioned requisition process will incorporate a review of compliance with any federal technical requirement.

NJOEM will utilize the existing planning process to identify potential projects and determine the most appropriate funding options for a project, including NJ CHAMP funds. In addition, the I-Bank's existing Water Bank and Transportation Bank programs) hold annual seminars and staff attend multiple conferences marketing these programs which will provide co-funding and co-marketing opportunities for the Program. Note that the Water Bank has a 10-year history of co-funding projects with FEMA funds, and along with Texas, was a catalyst and supporter of the [Memorandum of Agreement Between the U.S.](#)



[Department of Homeland Security/FEMA and the USEPA](#) (as updated in 2023) by and between these two federal agencies.

Through existing planning, as well as ongoing efforts being developed, NJOEM will identify and conduct outreach to underserved and socially vulnerable populations.

The I-Bank has developed and currently utilizes cashflow models for its existing financing programs and will do the same for NJ CHAMP. These cashflow models provide critical information regarding sources and uses of funds, forecasted available funds for project financing, program parameters, and/or coverage ratios in the event funds are leveraged to ensure the Program does not overextend/ double count its available loan funds.

Similar to the State’s co-funded Statewide Assistance Infrastructure Loan (“SAIL”) Disaster Program (utilizing FEMA PA/HMGP, and USEPA funds), NJ CHAMP will ensure that all federal requirements will be met during design and construction phases, and no funds will be disbursed for repayment of expenses that are not compliant with all federal and state laws and regulations. NJOEM and the I-Bank will work with engineers to confirm that a project’s technical requirements are met. Participants are not authorized to solicit bids without program certification of such compliance. The I-Bank also reviews all project expense line items and reimburses participants for only those expenses that have been prequalified and authorized.

### **2.3. NJ CHAMP Priorities**

#### **2.3.1. Increase Resilience and Reduce Risk**

The intent of NJ CHAMP is to supplement and complement existing FEMA funding opportunities at the State level. Resilience and risk reduction activities will be identified and selected through the HMP process.

##### **2.3.1.1. Hazard Mitigation**

Hazard mitigation planning in New Jersey is a priority. Building upon New Jersey’s success in meeting the federal requirements of other FEMA-funded programs, STORM Act funds will be targeted towards mitigation and risk reduction activities as identified within the State’s multi-jurisdictional/multi-hazard HMP. The I-Bank has a strong history of making loans to local communities for infrastructure projects, including hazard mitigation and resilience projects. Together the NJOEM and the I-Bank are well equipped and experienced to provide funding for the projects targeted through the STORM RLF program.

##### **2.3.1.2. Zoning and Land-Use Planning**

Zoning and land use planning are well established within New Jersey. STORM Act funding may be utilized for these activities to elevate the portfolio. We do not believe this is a major issue at this time, and we do not believe there will be high demand in the State for this form of activity.

##### **2.3.1.3. Building Code Adoption and Enforcement**

Building code adoption and enforcement continues to be well-funded in New Jersey through other sources. For example, FEMA authorized a \$2 million set aside to each state during the FY2023 Building Resilient Infrastructure and Communities (“BRIC”) Building Code Activities. Ten municipalities applied for a portion of this funding. Building code adoption and enforcement projects are not currently a priority for NJ CHAMP, nor is NJ CHAMP an appropriate funding source for this activity in New Jersey relative to the prioritized projects on the PPL. We do not believe this is a major unfunded issue at this time.

#### **2.3.1.4. Cost Share**

Federal grants, including FEMA's STORM RLF and HMA grants, typically require a local cost share (i.e., for 90/10 cost share programs, there is a need to help the recipients meet the 10% match). To assist Program participants with their HMA match requirement, NJ CHAMP may provide STORM RLF funds as the match component to each participant's HMA grant.

#### **2.3.2. Partnerships**

NJ CHAMP does not anticipate having the resources to fund partnership projects in its early years, given the limited amount of funds anticipated to be available to states through the new STORM RLF program, and the complexities involving two or more communities.

#### **2.3.3. Regional Impacts**

Hazard mitigation activities in New Jersey have undertaken a regional approach to risk reduction in the past. NJOEM has encouraged regional hazard mitigation efforts in the past and will continue to do so with STORM Act funding through the Program's proposed ranking methodology.

#### **2.3.4. Major Economic Sectors and National Infrastructure**

NJOEM and the I-Bank each have a long history of implementing new programs that support and finance pre- and post-disaster resilience projects. Each has a proven track record of managing and funding resilience projects from application and design through to completion and long-term financing (e.g., BRIC, SHMT, SAIL, SRF).

Resilience projects are, by their nature, efficient drivers of economic activity, both in the construction industry as well as the business environments they support. Given New Jersey's geographic location on the east coast corridor, and its importance as a commerce and transportation link with national ports and airports, NJ CHAMP's hazard mitigation / resilience projects will have an economic impact at the State and national level. The State's Hazard Mitigation Plan dictates and prioritizes those projects and sectors / communities which the State deems are most at risk and of greatest importance (i.e., cost of life and property). For copies of available NJ State HMPs, see: <https://nj.gov/njoem/mitigation/hazard-mitigation-plans.shtml>.

### **3. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS**

#### **3.1. Loan Management Information**

Availability of funds for NJ CHAMP is limited to funds received as grants from this revolving loan program, funds appropriated by the State for match, all repayments, fees, and interest earned on loans and unutilized funds in the State's loan account. To date, NJ CHAMP was appropriated and has received \$646,297 as match funds from the State to be disbursed as loans.

The loan application process (see **Appendix A.1** for the complete loan application process, including project certification and credit requirements) will mirror the I-Bank's application process for its Water and Transportation Bank programs. Specifically, participants are required to provide initial information on the project including location, project size (i.e., estimated dollar amount), project construction schedule, and scope of work, as well information on the recipient, including but not limited to their federal tax ID number, population served by the asset to be financed, a completed financial addendum form, credit information, and eventually, confirmation of compliance with the State's public bond law process.

The I-Bank provides flexible financing, similar to a line of credit loan, in each of its financing programs up to and including project construction completion. The I-Bank utilizes separate funds provided for each of

its financing programs for these loans. Providing loan funds on a requisition basis through construction completion allows maximum flexibility for both cost overrun and cost underrun adjustments. Project sponsors will not be required to make repayments until construction completion.

The I-Bank uses a cash flow model to manage future loan projects (see Section 2.2.4). In addition, the I-Bank ensures that the Program's funds are properly managed and used for eligible purposes by implementing covenants in its loan agreements. Such covenants include borrower guarantees of repayment obligations as well as remedies in the event of default. Loan covenants also provide restrictions on the project itself, ensuring that it is properly maintained and utilized for its intended purpose. The I-Bank has almost four decades of experience lending to municipalities and LGUs without a single default in its bond program.

In the short-term, NJ CHAMP anticipates committing approximately \$7 million of its STORM RLF grant and State match funds to eligible projects by December 31, 2024. In the mid- and long-term, and depending on future STORM RLF grant funds from FEMA, NJOEM and the I-Bank expect to expand NJ CHAMP and leverage the Program to serve multiple coastal and riparian communities with hazard mitigation needs. **This last projection is dependent on the amendment of the STORM RLF Act to allow flexible interest rates from private bond investors.**

### **3.2. Criteria and Method for Loan Distribution**

The I-Bank and NJOEM are both experienced and adept at assisting program participants with navigating federal application and reporting requirements. Additionally, both administrators work with engineering, bond counsel and construction industry members in the State to facilitate a streamlined application and construction process for program participants. Resilience project participants may lack the necessary technical, financial, and/or managerial skill sets for the compliance requirements pertaining to the application, remediation, and construction processes.

As part of their coordination of the State's HMP, NJOEM has developed and implemented checklists for project compliance with FEMA regulations that would be applicable to NJ CHAMP. NJOEM has a history of strong working relationships already built into their process with local communities, health departments, inspector offices, etc. throughout the State.

Similar to the Water Bank's SAIL disaster relief program that the I-Bank manages in cooperation with NJOEM, NJ CHAMP will provide oversight on projects to ensure participants which may lack the technical, managerial, and/or financial capacity are in compliance with federal and state laws. Also similar to the SAIL disaster relief program, no FEMA funds will be disbursed to any project until such compliance is confirmed. Again, as in the discussion with requisitions (see Section 2.2.3), the I-Bank will disburse funds to participants as expenses are incurred once all supporting documentation of such expenses has been provided to the I-Bank.

The ranking methodology is consistent and based upon the social vulnerability criteria established through the FEMA hazard mitigation planning process. In its early years, given the limited amount of funds available, the Program intends to issue all loans with consistent terms to each participating borrower. Prioritized borrowers / projects will receive the available funds within the financing program.

For the complete loan distribution methodology refer to **Appendix B.1.**

### **3.2.1. Creating a Project Proposal List**

Refer to the Project Proposal List in **Appendix C.2**.

#### **3.2.1.1. Prioritization Methodology**

NJ CHAMP utilizes a ranking system to determine the priority order of projects to be financed. NJ CHAMP's ranking methodology prioritizes projects that are located in areas designated as a Disadvantaged Community as defined by the CDC SVI. NJ CHAMP also prioritizes projects that are located in low-income geographic areas as defined in 42 U.S.C. § 5135 (m)(6). See **Appendix C.1** for the complete ranking system utilized by NJ CHAMP.

#### **3.2.1.2. Tie-Breaking Procedure**

If there are insufficient funds to fund all projects in a given fiscal year and two or more applications with equal ratings request a short-term loan closing, the first criterion (i.e., the Project is located in an area designated as a Disadvantaged Community as defined by the CDC SVI) will function as the primary tiebreaker and projects having the greatest CDC SVI score will be given. The second criterion (i.e., the Project is located in a low-income geographic area as defined in 42 U.S.C. § 5135 (m)(6)) will serve as a secondary tiebreaker, as needed. The final tiebreaker will be the number of documented insurance and/or FEMA claims concerning the Project area, as needed.

## **4. FINANCIAL MANAGEMENT**

### **4.1. Financial Status of the NJ CHAMP Safeguarding Tomorrow Revolving Loan Fund**

The I-Bank will oversee the credit, legal and financing requirements and processes for all NJ CHAMP borrowers. The I-Bank will also manage the receipt, disbursement and reporting of all funds received and or associated with the loan fund. The I-Bank has 38 years of experience managing revolving loan programs in New Jersey.

The Program loan fund will be comprised of FEMA's STORM RLF capitalization grant funds and State match funds. The I-Bank also received a small appropriation from the State for Program administrative expenses. In addition, the I-Bank also anticipates earning interest on all funds sitting in the loan fund. Any interest earned on the loan fund will remain in the fund for future loans. Fees received from NJ CHAMP borrowers will be allocated to operating expenses. Loan repayments will be deposited back into the Program loan fund. NJ CHAMP funds shall be invested pursuant to the I-Bank's Investment Policy (see **Appendix A.3**), in short-term investments until such time that the funds are utilized for new loans/project expense disbursement. Loan repayments are redeployed to the next qualified, ranked project.

NJOEM has a long withstanding history of overseeing projects receiving FEMA funding and has proven measures in place to ensure oversight. These same measures will be utilized.

The I-Bank will not combine other revolving loan funds with NJ CHAMP loan funds. The I-Bank statute requires the I-Bank to manage each of its financing program's sources of funds separately. However, NJ CHAMP projects may be co-funded with the I-Bank's SRF or Transportation Bank revolving loan programs. In such instances NJ participants will receive separate loans from each financing program.

The I-Bank has received \$500,000 from the State to cover its first few years of administrative and operating costs. To the extent that the State's initial commitment of \$500,000 is insufficient to cover the I-Bank's administrative expenses, the parties will look to the revolving loan funds' grant monies to make

up the difference to the extent permitted under the law. At this point, it is not anticipated that any funds greater than two percent (2%) of the revolving loan funds may be needed to supplement internal funds.

**4.1.1. Financial Status of the NJ CHAMP Loan Fund**

**4.1.1.1. Financial Status of the NJ CHAMP Loan Fund for Fiscal Year 2023**

Available loan funds for FFY2023 NJ CHAMP total \$7,109,260 including the FFY2023 capitalization grant of \$6,462,963, and match Funds of \$646,297. In addition, the State appropriated \$500,000 to the I-Bank for operating and administrative expenses. During FFY2023 the I-Bank used a portion of these appropriated funds for operating and administrative costs and will use the remainder of the appropriated funds for operating and administrative expenses over the next 18 months. See Table 1 & Table 2 in Section 4.1.1.2 below, for a breakdown of the NJ CHAMP Loan Fund and administrative fund sources and uses.

**4.1.1.2. Financial Status of the NJ CHAMP Loan Fund for Fiscal Year 2024**

The sources of funds for NJ CHAMP in FY2024 include the FY2023 capitalization grant, the FY2023 non-federal Match funds and State appropriated funds. During FY2024 NJ CHAMP Loan Funds are expected to be used for operating and administrative costs, with the remainder for financing capital projects. See Table 1 & Table 2 below, for a breakdown of NJ CHAMP Loan Fund sources and uses.

**Table 1: NJ CHAMP Loan and Administrative Funds Sources**

<i>Sources</i>	<i>Previous Fiscal Year 2023</i>	<i>Current Fiscal Year 2024</i>
Loan Fund Capitalization Grant	\$6,462,963	\$6,462,963 (carryover)
Loan Fund State Match	\$646,297	\$646,297 (carryover)
<b>Total for Loan Fund</b>	<b>\$7,109,260</b>	<b>\$7,109,260</b>
Administrative Fund	\$500,000	\$463,659 (carryover)

**Table 2: NJ CHAMP Loan and Administrative Funds Uses**

<i>Uses</i>	<i>Previous Fiscal Year 2023</i>	<i>Current Fiscal Year 2024</i>
Loan Fund	\$0	\$7,109,260 (anticipated)
Administrative Fund	\$36,341	\$240,000 (anticipated)

**4.2. Financial Terms of Loans**

Each NJ CHAMP participant may receive a loan as early as the project’s planning and design, and construction phases with a five-year draw period, wherein interest will accrue at one percent (1%). The loan will convert from a line of credit loan during the draw period to a fixed rate, fixed maturity loan at the earlier of project completion or at the end of the draw period (the “Effective Date”). Each loan will have a maturity of up to 30 years (depending on borrower type). Interest and principal will not be payable until the Effective Date. Projects that remain incomplete at the end of the draw period may be eligible to receive additional time to draw down any unspent proceeds, however repayments will not be deferred.

Each borrower is required by statute to provide the I-Bank with a pledge on its repayment obligation in the form of a bond guarantee. The I-Bank requires such bonds be backed by either a general obligation pledge (for public entities) or a revenue pledge (for non-public entities).

Financing through NJ CHAMP will have the following terms:

- **Maturity** - NJ CHAMP maturity terms for local government units will be limited to the lesser of the project's useful life as certified by the borrower's engineer or:
  - 1) Ten (10) years for loans of \$150,000 less than or equal to \$500,000;
  - 2) Fifteen (15) years for loans greater than \$500,000 and less than or equal to \$1,000,000;or
  - 3) Maximum allowable limit permitted by the STORM Act for loans greater than \$1,000,000.
  
- **Interest Rate** - Pursuant to the STORM Act:
  - All NJ CHAMP loans will be charged one percent (1%) interest.
  
- **Fees** - Similar to the I-Bank's two other financing programs:
  - **Application Fee**: 2% of the project cost amount with half (1%) due up front (incorporated in loan amount – i.e., no cash outflow for borrower at time of closing). Balance to be paid at the Effective Date (i.e., the lesser of construction completion or 5 years).
  
  - **Annual Loan servicing fee**: 0.17% of total amount of Program funds provided per annum. Program fees will be used to fund NJ CHAMP administrative and operating costs. Any excess fees may be used to fund future loans.
  
- **Repayments**: Borrowers will begin NJ CHAMP loan repayments within one year of project completion or five years, whichever occurs first. Additionally, as above, loans made to municipal and county local government units are secured by the full faith and credit thereof, secured by their ad valorem taxing power. In accordance with the STORM Act, borrower's repayments will be deposited back into the NJ CHAMP loan fund to be used for future loans.

#### **4.2.1. Standard Loans**

See Section 4.2 above for loan terms.

The I-Bank requires repayment pledges in the form of a bond backed by a public entity's ad valorem taxing authority or a non-public entity's general revenue pledge.

#### **4.2.2. Loans for Low-Income Geographic Areas or Underserved Communities**

As described in Section 3.2 and Section 4.2, in its early years, given the limited amount of funds available and the low-interest rate limitations imposed by the STORM Act, NJ CHAMP intends to issue loans with consistent terms to each participating borrower. Underserved communities and those in low-income geographic areas are prioritized pursuant to the ranking methodology provided by NJOEM.

#### **4.3. Loan Disbursements**

Given its experience and success with its two other successful existing loan programs, the I-Bank anticipates that all available STORM capital funds which NJ CHAMP receives in its early years of operations will be committed to the Program's highest ranked projects as direct loans within the first 12 to 15 months upon receipt of such grant funds. Based on historical data regarding construction duration, Water Bank projects typically take 2 to 5 years for project completion and Transportation Bank projects typically take

1 to 3 years for project completion, the I-Bank expects NJ CHAMP resilience projects to have similar durations based on project type.

The I-Bank would like to be able to finance more Program projects by leveraging STORM Act funds through a bond program. The STORM Act's cap on interest rates that States may charge on STORM funds makes this structure impossible. An amendment to the STORM Act to permit higher interest rates would allow States to introduce private loan funds. Assuming such an amendment is enacted and once a critical mass of assets has been achieved, the I-Bank would look to leverage Program funds at a 2:1 ratio (i.e., 200% utilization) to increase the lending capacity of NJ CHAMP.

The I-Bank has a 37-year history of working with local governments to make loans for critical infrastructure with and without a dedicated revenue source. The I-Bank has made approximately \$9 billion of loans over this time to over 400 counties, municipalities, and water systems in New Jersey under two separate revolving loan programs (i.e., a water program with rate-based revenue sources, and a transportation program back by general budget sources). As such, the I-Bank is well-versed in local revenue streams, tax-exempt credits, and the State's rules and regulations for local government units to issue and repay bonds. In addition, the I-Bank has strict statutory and credit requirements for a project sponsor's qualification pursuant to its Enabling Act and Credit Policy, respectively. In its 37-year history of issuing loans to public entities, the I-Bank has never had a default in its bond program.

## **5. ENTITY PROGRAM MANAGEMENT**

### **5.1. Technical Assistance**

In the early years, NJ CHAMP is based on current HMP needs. Due to the limited amount of funds anticipated to be available to states through this new program, NJ CHAMP will not be offering technical assistance, although Program staff at the NJOEM and the I-Bank will assist NJ CHAMP participants with application requirements just as each party currently does in their existing programs.

### **5.2. Local Capacity Development**

NJOEM currently utilizes HMA funds to obligate capacity building projects. However, should a need emerge through project identification and community outreach, NJ CHAMP will evaluate the best method to meet the need.

### **5.3. Environmental and Historic Preservation Compliance**

Projects that may impact the environment, including, but not limited to, the construction of communication towers, modification or renovation of existing buildings, structures, and facilities, or new construction including replacement of facilities, must participate in the EHP review process. Project types that do not require EHP reviews include mitigation planning, building code adoption and enforcement, and zoning and land-use planning. Because NJ CHAMP will be funding the local match share of only those prioritized projects which have been identified by FEMA to receive a FEMA grant, NJ CHAMP will rely on FEMA's Environmental and Historic Preservation ("EHP") reviews.

### **5.4. Public Meetings and Comment Activities**

The proposed IUP setting the project priorities and project priority list underwent a public participation process by publication and notice on March 18, 2024. Comments received from the process will be addressed upon completion of the comment period. NJOEM has engaged in conversation with interested stakeholders and has incorporated their comments and feedback in our selection process. NJOEM has utilized media, notices on the NJOEM webpage, direct communication with stakeholders, and messaging

through the New Jersey League of Municipalities in their periodic newsletter sent to all municipalities in the State to amplify the programmatic messaging; however, minimal comments have been received.

The client base for both NJOEM and the I-Bank consists of local governments. Leveraging existing communication structures at the I-Bank and NJOEM is the primary source for outreach (e.g., websites, conferences, seminars, mailing lists, bulletins, social media, and blog posts). With this broad customer base of local governments, NJ CHAMP's co-administrators have a state-wide reach and the capability to get the word out, although potential funding amounts do limit the level of resources available for allocation to this process. Current relationships with municipal and construction associations within the State (e.g., League of Municipalities, Council of Mayors, Utility & Transportation Contractors Association) facilitate expanded outreach for future marketing and project ideas.

## **6. AUDITS AND REPORTING**

### **6.1. Compliance with Federal Reporting Requirements**

Ensuring transparency and accountability, all program materials are posted on the I-Bank's [website](#). The I-Bank's current financial auditor (CliftonLarsonAllen LLP), which performs a comprehensive audit for the I-Bank and its existing financing programs, including a single audit and the Clean Water / Drinking Water audit for the Water Bank program, will conduct an independent audit of the Program to ensure financial integrity for the Annual and Biennial Audits. The I-Bank Board's audit and governance committee is responsible for the procurement and oversight of I-Bank audits and reviews the financial audit report for each year directly with the I-Bank's auditor.

We commit to entering project and benefits data into the FEMA Non-Disaster Grants system ("ND Grants") and financial data in the Payment and Reporting System to support the evaluation of the NJOEM and I-Bank's Program. Among other parameters, FEMA will use the data from the audits and reporting to evaluate how the entity loan funds:

- Efficiently administer the fund
- Provide project benefits to local communities
- Promote equity

We will enter project benefits data into ND Grants by the end of the quarter in which the capitalization grant is received. After the period of performance, we will enter required project benefits data into FEMA's ND Grants by the end of the fiscal year for this Intended Use Plan.

### **6.2. Publication of Information**

The I-Bank shall publicly acknowledge, through a dedicated page for the Program on its [website](#), the type and location of each project financed as well as the dollar amount received from NJ CHAMP, and the project's expected funding schedule and completion date. It is expected that the Program's individual project information will be updated quarterly.

### **6.3. Loan Recipient Auditing and Reporting**

NJ CHAMP will be managed in a manner that mirrors the I-Bank's Water and Transportation Bank Programs with respect to project review and requisition payments. Borrowers will receive a loan based on a consulting engineer's project cost estimate for the duration of planning, design, and construction of the project. NJ CHAMP loan funds are not disbursed to any borrower unless and until a borrower submits invoices accompanied by supporting documentation that such costs were incurred (i.e., a borrower need not pay the expense, but must incur the expense, and forward the invoice and supporting paperwork to



the I-Bank) and the invoices relate to an activity that complies with Program requirements. If a Borrower misuses the Program or looks to receive funds for an ineligible cost or non-approved change order, the I-Bank does not release loan funds to the borrower for those expenses. In this way, NJ CHAMP maintains tight control over the performance of each project and each borrower's use of STORM RLF funds.

# **APPENDICES**

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# **APPENDIX A**

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# **APPENDIX A.1**

## Loan Application Process

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## Loan Application Process

A separate application is required for each NJ CHAMP Project. Loan applications are accepted at any time throughout the year, and to that end, readiness is a central component of Project prioritization. Applications are not accepted after construction advertisement. The Program's funding commitment arises at the time of loan closing, subject to the project sponsor's receipt of an I-Bank authorization to award a construction contract related to that loan. Generally, the loan application process is as follows:

1. The Project Sponsor's submission of the following:
  - Project Description form; with Environmental Letter of Interest / Historic Preservation Documentation (as applicable);
  - Loan Application;
  - Engineering design and specifications;
  - Applicable permits;
  - An executed engineering or construction contract (or draft thereof); and
  - A completed FAF.
2. The I-Bank's issuance of:
  - Creditworthiness Approval;
  - Authorization to Advertise Construction;
  - Applicable Contract Award Authorization; and
  - Applicable Contract Certification.
3. The NJ Division of Local Government Services issuance of:
  - Approval of the Project Sponsor's Note or Bond issued to the I-Bank (as applicable).
4. FEMA issuance of:
  - Environmental (National Environmental Policy Act ("NEPA") determination (as applicable); and
  - Historic Preservation determination (as applicable).
5. Execution of a Loan Agreement.<sup>1</sup>

### Conference Calls / Meetings

Upon receipt of a Project's initial application, conference calls or meetings will be held with a project sponsor and its professional advisors to provide the project sponsor with an overview of the application process as it relates to its specific Project. A project sponsor is provided with guidance as to what, if any, submissions are required to document a project's potential impact upon the environment and historic properties (if applicable). In addition, a project sponsor is provided with other information to further reduce confusion, application-related costs and delays.

A project sponsor is also provided guidance as to the submission of the engineering contract (draft or executed) and FAF in preparation for loan closing to ensure Program funding is in place to pay for professional services throughout the project application process.

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<sup>1</sup>. While loans are made for the total estimated project cost, funding commitments are limited to the approved (certified) contract, typically commencing with the engineering contract, and ending with the final construction contract.



### Environmental Planning/Historic Preservation

NJ CHAMP intends to fund the local match share of only those projects which are receiving a FEMA grant. As such, NJ CHAMP will rely on FEMA's Environmental and Historic Preservation ("EHP") reviews.

Projects that may impact the environment, including, but not limited to, the construction of communication towers, modification or renovation of existing buildings, structures, and facilities, or new construction including replacement of facilities, must participate in the EHP review process. Project types that do not require EHP reviews include mitigation planning, building code adoption and enforcement, and zoning and land-use planning.

### Engineering

Program approval of engineering contracts (if financed through the Program), construction plans and construction contract specifications, as well as construction contract award is required as part of all NJ CHAMP applications.

Project sponsors are initially required to submit draft contract documents, including:

- Certification that the project sponsor has not and shall not enter into any contract with any person debarred/suspended from government contracting;
- Certification that the project sponsor and its contractors shall comply with discrimination and affirmative action provisions of N.J.S.A. 10:2-1 through 10:2-4;
- Disclosure of Investment Activities in Iran form; and
- Certification of Non-Involvement in Prohibited Activities in Russia or Belarus form.

Project sponsors are also required to submit draft documents (e.g., Plans & Specifications) produced by a licensed professional engineer including but not limited to the following:

- A set of detailed plan drawings including site plan/section/elevation views;
- Current NJ prevailing wage rates;
- Bonding (performance, payment, maintenance as applicable) (N.J.S.A. 40A:2-1 et seq. and N.J.S.A. 40A:3-1 et seq.);
- Build America, Buy America Act (P.L. 177-58, Secs. 70911-70917) provisions (N.J.S.A. 40A:11-18);
- Competition, brand name or equal unless otherwise justified (N.J.S.A. 40A:11-13(d));
- Equal Employment Opportunity certification form;
- Affidavit of Non-Collusion form;
- Certification of Non-Segregated Facilities form;
- Disclosure of Investment Activities in Iran form; and
- Certification of Non-Involvement in Prohibited Activities in Russia or Belarus form.

NJ CHAMP retains the right to elicit additional information from the project sponsor in conducting its review of either a project's potential environmental impacts or engineering compliance with governing regulations.

### Prevailing Wage/Permitting

NJ CHAMP borrowers are required to pay not less than the prevailing wage rate to workers employed in the performance of any construction contract pursuant to P.L.1963, c.150 (C.34:11-56.25 et seq.) and P.L.1985, c.334 s.26 (N.J.S.A. 58:11b-26(b)), as applicable. Project sponsors are furnished with relevant provisions to be inserted in contract specifications during the application process.

NJ CHAMP borrowers are required to satisfy relevant NJ State permits.

### Construction Contract Advertisement/Award

Upon the I-Bank's approval of the application and technical submissions for each contract as compliant with NJ CHAMP requirements, the I-Bank will authorize the borrower to advertise and award the contract in accordance with the provisions of New Jersey's Local Public Contracts Law N.J.S.A. 40A:11-1 et seq. Borrowers shall submit construction bids, an official action authorizing the construction award, and an executed construction contract within 24 months of loan closing and within 120 days of issuance of the I-Bank's Authorization to Advertise. Failure to award construction in a manner compliant with the provisions of this paragraph shall result in the immediate revocation of the Authorization to Advertise, require the immediate repayment of the loan with reference to the stated contract and render the contract ineligible for I-Bank funding. If a project is compliant with the requirements of, and has received approval for assistance from, another FEMA Grant program, the I-Bank will rely on the previously obtained approvals, as applicable, in lieu of the review requirements listed in this section above.

**I-Bank Project Certification** – For a Project to receive NJ CHAMP financing, the I-Bank must certify that a Project's component contracts satisfy NJ CHAMP program requirements in compliance with the STORM Act (e.g., engineering contract certification is a determination that costs associated with a Project's environmental planning and/or engineering design are eligible for financing, and construction contract certification is a determination by the NJ CHAMP program staff that construction costs are eligible for financing).

**Credit Approval** – All Borrowers that receive a form of loan financing from the I-Bank are required to satisfy the I-Bank's Credit Policy. In brief, all project sponsors are required to have no less than an investment grade rating (e.g., at least BBB+, Baa1, or BBB+) or two investment grade ratings if the lower of the two ratings is BBB/Baa2/BBB, or BBB-/Baa3/BBB-from Fitch Ratings, Moody's Investors Service or Standard & Poor's Ratings, respectively. There are limited exceptions to this requirement listed in the Credit Policy (e.g., the ability of a borrower to supply the I-Bank with a Municipal Qualified Bond Act bond pursuant to State Law wherein the NJ State Treasurer pays the borrower's debt service directly to the bond Trustee from State Aid that the borrower would otherwise receive from the State Treasurer). In addition, each project sponsor is required to secure its note or bond to the I-Bank with a General Obligation tax pledge.

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## **APPENDIX A.2**

Financial Planning Methodology:

I-Bank Credit Policy

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# **NEW JERSEY INFRASTRUCTURE BANK**



## **CREDIT POLICY**

**Revised – June 2023**

## POLICY AND PROCEDURE

NO. 1.21

SUBJECT: Credit Policy

REVISION HISTORY:	Adopted:	1/10/2013	Effective:	1/29/2013
	Revised:	10/17/2013	Effective:	10/31/2013
	Revised:	2/20/2014	Effective:	3/7/2014
	Revised:	6/12/2014	Effective:	6/30/2014
	Revised:	1/15/2015	Effective:	2/2/2015
	Revised:	6/9/2016	Effective:	6/24/2016
	Revised:	6/18/2018	Effective:	7/3/2018
	Revised:	3/20/2020	Effective:	4/3/2020
	Revised:	8/13/2020	Effective:	9/25/2020
	Revised:	8/8/2022	Effective:	9/23/2022
	Revised:	10/13/2022	Effective:	10/28/2022
	Revised:	6/8/2023	Effective:	6/26/2023

PURPOSE: To define and clarify the credit worthiness standards required for participation in the New Jersey Environmental Infrastructure Financing Program (“Water Bank”) and the New Jersey Transportation Infrastructure Financing Program (“Transportation Bank”) (each a “Financing Program” and together the “Financing Programs”).

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## Credit Worthiness Policy for Loans of the New Jersey Infrastructure Bank

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The I-Bank prides itself on staying true to its core mission:

- Promoting and facilitating the construction of:
  - Water quality and public health infrastructure projects throughout the State by providing low-cost funding to local government units and drinking water systems;
  - Local transportation infrastructure projects throughout the State by providing low interest loans to local government units; and
- Fulfilling a fiduciary responsibility to ensure that the credit standards of the Water Bank and Transportation Bank provide the highest levels of protection of capital, thereby allowing future generations to borrow funds through each Financing Program at the lowest and most efficient costs available.

In simplest terms, the Water Bank and Transportation Bank are each pools of subsidized loans dedicated to financing improvements to New Jersey’s water quality and transportation infrastructure, respectively. Central to the I-Bank’s continued success is the dedication of infrastructure project funding in perpetuity through a revolving fund structure. When participating borrowers in the Water Bank and Transportation Bank (“Borrowers”) repay the State-funded component of their loans, these funds are re-lent to other Borrowers to finance new projects, hence, the revolving fund moniker.

In the event a Borrower defaults on its repayment obligation to the Water Bank or the Transportation Bank, the consequences of the default are: 1) the loss of funds reduces the total amount of revolving loan funds available for future borrowers; and 2) the default negatively impacts the credit rating of bonds issued by the Water Bank or the Transportation Bank, as the case may be, thereby increasing the cost of financing for other Borrowers. Accordingly, the I-Bank maintains Borrower credit eligibility requirements as a precondition to qualification for a loan through either Financing Program. The Water Bank and Transportation Bank are not meant to be lenders of last resort. This Credit Policy protects each Financing Program as a sustainable source of low-cost infrastructure financing for current and future Borrowers.

Since the I-Bank’s inception, the Water Bank has provided \$7.2 billion in zero percent and low interest rate long-term loans to local communities through a combination of federal and State funds and I-Bank bond proceeds, resulting in an estimated interest cost savings of over \$2.6 billion to these local communities. The Water Bank has made an additional \$1.1 billion of short-term construction loans to projects that will receive long-term financing from the Water Bank upon completion of construction. New Jersey’s rate payers and taxpayers are the direct beneficiaries of the Water Bank’s multiple cost savings, subsidies, and administrative benefits. The Transportation Bank, which was organized in 2018, and which has either allocated or issued short-term loan funds totaling \$76.3 million for project design and construction to date, was established to offer similar savings and benefits to local communities.

In this Credit Policy, the I-Bank addresses the requirement of credit worthiness through the analysis of risk that each loan applicant (“Applicant”) presents. This risk analysis considers the



probability that a Borrower will not fulfill its annual debt service repayment obligation on its loan on time and in full, as well as how each loan is secured to minimize any corresponding loss. This Credit Policy articulates the I-Bank's credit requirements to address the complex range of projects and Applicants that are reviewed by the Water Bank and the Transportation Bank.

To apply this Credit Policy in a manner that is practical, transparent and fair to each Applicant, the Credit Policy considers (i) each Applicant's ability to repay its loan as demonstrated (in almost all cases) by an investment grade credit rating from Fitch Ratings, Inc., Moody's Investors Service or S&P Global Ratings, and (ii) the type of collateral that each Applicant will pledge as security for its loan, most typically, any of (a) a General Obligation ("G.O.") Bond pursuant to the terms of which a municipal or county Borrower has unconditionally and irrevocably pledged its full faith and credit and covenanted to exercise its unlimited *ad valorem* taxing powers to secure its payment obligations, (b) a G.O. pledge by the underlying county or municipality(ies) being served by the Borrower's system pursuant to the terms of a service agreement, or (c) in the case of certain Water Bank Loans only, a Revenue Bond, that is an obligation secured by the gross receipts of the water system or overall general revenues of the Borrower.

This Credit Policy segregates Applicants by Borrower-type (County, Municipality, Authority, or Private Water System), by collateral-type (G.O. Bond or Revenue Bond) and by Financing Program (Water Bank or Transportation Bank). Given the early stages of the Transportation Bank, this Credit Policy limits qualified Applicants to the Transportation Bank to municipalities and counties providing an investment grade rated G.O. pledge and qualifying regional transportation Authorities that secure and provide an investment grade rated G.O. pledge from the underlying County or municipality. Given the more secure and stable nature of cash flow streams from water-related projects relative to transportation projects, the Credit Policy provides more latitude for Applicants to the Water Bank by qualifying certain higher-risk Applicants, including Revenue Bond Applicants and non-rated de-minimis borrowers. In recognizing the value of an investment grade G.O. pledge, and in order to ensure that all future, qualified Applicants receive fair access to the Financing Program's subsidized zero percent and low interest loans (*a benefit that has saved the average Borrower more than 25% of its aggregate Financing Program loan principal amount*), this Credit Policy requires more collateral from certain, higher-risk Water Bank Applicants. In this way, the Water Bank is less prone to future default and loss risks.

If you have any questions regarding this Credit Policy, please do not hesitate to contact either the I-Bank or our legal or financial advisors. We look forward to providing you the top-rated and efficient service that has always been the hallmark of the I-Bank Financing Programs.

Respectfully,



David E. Zimmer, CFA  
Executive Director  
June 26, 2023

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# **New Jersey Infrastructure Bank Credit Policy Statement**

Revised June 26, 2023

## **I. STATUTORY AUTHORITY**

The I-Bank, originally organized in August of 1986 as the “New Jersey Wastewater Treatment Trust”, is a public body corporate and politic with corporate succession, constituted as an instrumentality of the State, exercising public and essential government functions, and organized and existing under and pursuant to N.J.S.A. 58:11B-1 et seq. (as amended from time to time, the “I-Bank Act”). Since 1987, the I-Bank and the State have provided loan financing for acquiring, constructing, improving, or installing wastewater treatment projects for wastewater treatment systems undertaken by local government units in the State. In 1998, the I-Bank Act was amended, thereby expanding the program to finance the costs of drinking water supply projects undertaken by local government units, private entities, and nonprofit entities.

On October 14, 2016, the I-Bank Act was further amended pursuant to Public Law 2016, Chapter 56 (the “Amending Statute”), changing the name of the I-Bank to the “New Jersey Infrastructure Bank” and expanding its statutory authority. More specifically, the I-Bank’s statutory authority was expanded to make loans and provide other assistance to local government units to finance the cost of certain transportation infrastructure projects, as defined in the I-Bank Act. The Amending Statute became effective on January 16, 2018, pursuant to Public Law 2017, Chapter 327.

The I-Bank is structured organizationally as two distinct operating departments:

- (i) one department, the NJ Environmental Infrastructure Trust (“NJEIT”), partners with the NJ Department of Environmental Protection (“NJDEP”) (the I-Bank and the NJDEP, defined herein as Financing Program Principals) for the purpose of jointly operating and administering the New Jersey Environmental Infrastructure Financing Program, known as the New Jersey Water Bank (the “Water Bank”), and
- (ii) a second department, the NJ Transportation Infrastructure Bank, partners with the NJ Department of Transportation (“NJDOT”) for the purpose of jointly operating and administering the New Jersey Transportation Infrastructure Financing Program, known as the New Jersey Transportation Bank (the “Transportation Bank”).

The I-Bank is responsible for ensuring that I-Bank Loans in the Water Bank and the Transportation Bank are administered efficiently and fairly to all *qualified* Applicants in a fiscally responsible manner that safeguards the I-Bank’s future ability to make infrastructure loans in the most cost-efficient manner.<sup>1</sup>

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<sup>1</sup> Note: Capitalized terms used herein shall have the meaning ascribed to such terms in Article V hereof, unless otherwise noted.

## **II. OBJECTIVE**

The I-Bank maintains minimum credit worthiness standards, compliance with which is a pre-condition to an Applicant's qualification to receive a Water Bank or Transportation Bank Loan. These credit worthiness standards help to ensure that (i) loans made through the Water Bank and the Transportation Bank are repaid on-time and in full, thereby enabling the I-Bank to relend these funds on a revolving basis to other Borrowers in the State, (ii) publicly issued I-Bank Environmental Infrastructure bonds maintain a AAA/Aaa/Aaa Credit Rating from the three Nationally Recognized Rating Agencies ("NRRAs") and, as a result, the I-Bank is able to issue its bonds at the lowest absolute rate for the benefit of all current and future Water Bank Borrowers, and (iii) publicly issued Transportation Infrastructure bonds receive the highest possible rating, given the size of the pool, from the three NRRAs and, as a result, the I-Bank is able to issue its bonds at a low rate for the benefit of all current and future Transportation Bank Borrowers.

Recognizing that one of the I-Bank's hallmarks has always been equal and shared access for all qualified Applicants to the I-Bank's low financing costs offered through the Water Bank and the Transportation Bank, the I-Bank was neither created to be, nor intended to perform as, the lender of last resort for every Applicant seeking financing for environmental infrastructure or transportation infrastructure projects in the State. Consequently, the purpose of this Credit Policy is to further define the financial conditions and requirements that must be satisfied by each Applicant so that all lending decisions and actions by the I-Bank continue to be consistent, transparent and, ultimately, fiscally prudent.

The creditworthiness standards and requirements established by this Credit Policy (including, without limitation, the Credit Eligibility Requirements contained in Section VI:2 hereof), as this Credit Policy may be amended further by the I-Bank from time to time, have been accepted and approved by the State Treasurer for application by the I-Bank to all financings provided by the State through the Water Bank Financing Program, including, without limitation, any loan made by the State through the NJDEP. Such acceptance and approval by the State Treasurer is evidenced by the letter of the State Treasurer, dated August 10, 2020, which is attached hereto as Appendix 1.

## **III. RECENT HISTORY**

The Water Bank: The Water Bank Financing Program has been subject to a number of policy revisions and product innovations since its inception more than 35 years ago. These revisions and innovations include: the introduction of a water supply system or drinking water ("DW") component (1998), the introduction of the Master Program Trust Account ("MPTA"), which serves as Water Bank Loan coverage or a reserve fund that is capitalized with Fund Loan repayments owed to the State and that acts as additional collateral support for the I-Bank's Environmental Infrastructure Loan Program outstanding bonds (1995), the clarification and revision of the State's credit policy (2001), the Direct Loan Program (2001), introduction of the Financing Program's Enterprise Application Software system (2012), the Small System (NANO) Loan Program (2012), the Supplemental Financing Program (2012), the I-Bank's initial Credit

Policy (2013), the SAIL Disaster Relief Loan Program (2013), the multi-year Short-Term Construction Loan Program (2015), the rolling application process (2016) and the articulation of the State’s credit policy with respect to the State loan component of Water Bank Loans (2020).

Over 90% of the loans made by the Water Bank’s Financing Program Principals to date are secured either by (i) a general obligation (“G.O.”) bond issued by a taxing entity (a Municipality or county) and secured by a pledge of its full faith and credit or (ii) a Revenue Bond issued by an Authority and ultimately secured by a G.O. pledge of the full faith and credit of the municipal Participants served by that Authority. The Authority pledges to the Financing Program Principals, through its indenture or bond resolution, all payments payable to the Authority by the Participants pursuant to the Service Agreement. When applicable, these G.O. pledges obligate the Municipalities and/or counties to raise *ad valorem* taxes “without limitation as to rate or amount” in order to either (i) satisfy their debt service obligation to the Financing Program Principals or (ii) satisfy any payment obligations pursuant to the Service Agreement in order for the Authority to repay its debt service obligations to the Financing Program Principals.

The remainder of the outstanding Water Bank loans made by the I-Bank and/or the NJDEP (i.e., less than 10%) are secured by a Revenue Bond. Revenue Bonds are not secured by a G.O. pledge of one or more Municipalities or Counties. As such, these Revenue Bonds may pose greater repayment default AND loss risk to the Water Bank. While the I-Bank’s publicly held bonds have never suffered a payment default, it is critical to establish and maintain policies that identify and safeguard against the risk of default and loss in the future.

The Transportation Bank: The SFY2019 Financing Program was the first full year of operation for the Transportation Bank. The Transportation Bank offers program loans to qualified Borrowers at extremely low interest rates to significantly reduce Borrower financing costs relative to independent financing.

#### **IV. RISK PARAMETERS**

This Credit Policy segregates default risk by Borrower-type and by credit pledge-type. In the event of a potential bankruptcy, Borrowers which are Municipalities, Counties or local Authorities must obtain the approval of the Local Finance Board within the Department of Community Affairs (“DCA”) before they are legally able to commence bankruptcy proceedings. Given (i) the G.O. pledge that secures the I-Bank Loan and (ii) the additional legal hurdle and corresponding oversight from the State associated with bankruptcy proceedings, these entities have a greater hurdle, and therefore, a lower likelihood of experiencing default than their non-governmental/non-G.O. counterparts. In addition, the strength of a Borrower’s security for its respective loan(s) has a limiting effect on both its probability of default as well as the magnitude of any principal or interest repayment loss should that Borrower default on its repayment obligation to the I-Bank. As such, any Borrower that can be compelled to raise, or compel a Participating municipality to raise, *ad valorem* taxes through its pledge of either a direct or

indirect G.O. will be less likely to default and, in the unlikely Event of Default, will be less likely to cause a loss on its repayment obligations to the I-Bank. With this in mind, this Credit Policy divides Water Bank Borrowers and Transportation Bank Borrowers into the following categories:

1. **Water Bank and Transportation Bank**
  - a. G.O. Pledge:
    - i. Municipality/County
    - ii. Authority
2. **Water Bank only**
  - a. G.O. Pledge
    - i. Redevelopment Project sponsored by an LGU
  - b. Revenue Pledge:
    - i. Authority
    - ii. Corporate/Private-ly-Owned Water System
  - c. *De-minimis* Borrowers
  - d. SAIL Loans

*(See Section VI for further discussion of risk categories and corresponding criteria.)*

## **V. DEFINITIONS**

**“Aggregate Annual Debt Service”** means, with respect to any given Applicant, the total of the annual debt service payments for both direct and indirect (i.e., as a result of such Applicant’s participation in an Authority) obligations of the Applicant to either the Water Bank or Transportation Bank, as applicable, due and payable, or in the instance of a Short-Term Loan, estimated to be payable on a long-term basis, each State Fiscal Year to the I-Bank with respect to all outstanding Water Bank Loans or all outstanding Transportation Bank Loans when aggregated, or to the State with respect to all outstanding Fund Loans when aggregated. Note, the Aggregate Annual Debt Service calculation facilitates the determination of *De-minimis* status.

**“Applicant”** means an entity having submitted, pursuant to the I-Bank Act and applicable regulations, project information and/or a Letter of Intent or Short-Term Financial Addendum Form or an application for the financing of a project through the Water Bank or Transportation Bank.

**“Authority”** means a State authority, a municipal, county or regional sewerage or utility authority, a municipal sewerage district, an improvement authority, or any other political subdivision of the State, *other than* a Municipality or county, that is authorized to construct, operate and maintain a wastewater treatment system or a public water supply system, or to construct, rehabilitate, operate or maintain water supply facilities or otherwise provide water for human consumption, or a regional transportation authority, or any other political subdivision of the State authorized to construct, operate, and maintain public highways or transportation projects.

**“Borrower”** means any entity that has any Water Bank or Transportation Bank loans outstanding with either the State and/or the I-Bank.

**“Credit Eligibility Requirements”** means those standards set forth in Section VI:2 below pursuant to an Applicant’s borrower-type and security pledge.

**“Credit Rating”** means an assessment by one or more of the three NRRAs of the credit worthiness (i) of an Applicant and the Applicant’s ability to repay principal and interest on its bonds, or (ii) of a Nationally Chartered Bank or a State Chartered Bank and its ability to satisfy its liabilities.

**“De-minimis Loan Applicant”** means an Applicant with respect to which the *Pro-Forma* Water Bank Aggregate Annual Debt Service owed to the I-Bank, or the State is less than \$50,000. De-minimis Applicants must be an LGU or HOA that services multiple units and must provide the I-Bank with all information necessary for review at least 4 months prior to the date of loan closing.

**“Direct Loan Closing”** means the date on which a Borrower delivers to the I-Bank and State (if applicable), and the I-Bank and State accepts from such Borrower, a note or other obligation evidencing an I-Bank Loan and Fund Loan to such Borrower pursuant to the direct loan program of the Water Bank or Transportation Bank, established pursuant to the I-Bank Act and one or more resolutions of the I-Bank.

**“Escrow Closing”** means the date on which the I-Bank, the State (if applicable), a Borrower and an escrow agent appointed by the I-Bank each enter into an escrow agreement, pursuant to which (i) the I-Bank and the State each commit to make a loan to the Borrower with respect to a particular Environmental Infrastructure Project under the Water Bank or the I-Bank commits to make a loan to the Borrower with respect to a particular Transportation Infrastructure Project under the Transportation Bank; (ii) the Borrower commits to accept a loan from each of the I-Bank and the State with respect to such Environmental Infrastructure Project or the Borrower commits to accept a loan from the I-Bank with respect to such Transportation Infrastructure Project; and (iii) the I-Bank Loan Agreement and I-Bank Loan Bond for both Water and Transportation Infrastructure Projects and the Fund Loan Agreement and Fund Loan Bond for Water Bank Projects, together with certain other documents and legal opinions, are deposited into escrow, to be released by the escrow agent upon the issuance by the I-Bank of its bonds.

**“Environmental Infrastructure Project”** means the acquisition, construction, improvement, repair or reconstruction of all or part of any structure, facility or equipment, or real or personal property necessary for or ancillary to any (i) wastewater treatment system project, including any stormwater management or combined sewer overflow abatement projects, or (ii) water supply project, as authorized pursuant to P.L.1985, c.334 (C.58:11B-1 et seq.) or P.L.1997, c.224 (C.58:11B-10.1 et al.), including any water resources project, as authorized pursuant to P.L.2003, c.162.

**“Event of Default”** means any occurrence or event defined as an Event of Default pursuant to an I-Bank Loan Agreement or a Fund Loan Agreement.



**“Financial Due Diligence Meeting”** means a meeting convened by the I-Bank to discuss elements of an Applicant’s financial health, including, without limitation, the sources of funding for an Applicant’s Environmental or Transportation Infrastructure Project, the current Credit Rating, the potential impact of such an Environmental or Transportation Infrastructure Project on the Applicant’s Credit Rating, and other matters deemed necessary or appropriate by the I-Bank to aid it in assessing (i) an Applicant’s compliance with this Credit Policy and (ii) its financial eligibility to receive and repay an I-Bank Loan and Fund Loan. Financial Due Diligence Meetings may include the following representatives:

- Representatives of the NRRAs that rated the Applicant’s outstanding debt;
- The Applicant’s chief financial officer, highest elected official, and business administrator;
- One or more representatives of the developer of the Environmental or Transportation Infrastructure Project, if applicable, possessing knowledge and authority to provide detailed information regarding the Environmental or Transportation Infrastructure Project and its regulatory and financial details;
- A representative of each of the non-I-Bank entities, including other State Agencies, if any, providing funding for any aspect of the Environmental or Transportation Infrastructure Project;
- A representative of each entity that may provide a guarantee for the financing of the Environmental or Transportation Infrastructure Project, if applicable;
- Two representatives of the I-Bank’s senior management;
- A representative of any entity that may serve as signatory to an I-Bank Loan Agreement or Fund Loan Agreement, or another form of contractual obligation in connection with the financing of the Environmental or Transportation Infrastructure Project; and
- Such other individuals deemed necessary or appropriate by the I-Bank to aid in conducting financial due diligence including, without limitation, representatives from the New Jersey Department of Community Affairs and/or the New Jersey Board of Public Utilities.

**“Financing Program Principals”** means the I-Bank and the State, collectively, as parties to the Water Bank.

**“Finding of Unacceptable Credit Risk”** means a finding, evidenced in a written instrument by the I-Bank and delivered thereby to the Applicant, stating that one or more of the following has occurred: (i) the I-Bank has determined that the Applicant fails to meet the Credit Eligibility Requirements, (ii) a Material Event pursuant to either clause (i) or clause (ii) of the definition thereof has occurred within the immediately preceding sixty (60) months, or (iii) the I-Bank identifies credit, liquidity or operational risks with respect to the Applicant that have occurred within the immediately preceding twelve (12) months, which risks may include, without limitation, the occurrence of any Material Event pursuant to clause (iii) through clause (x) of the definition thereof, provided further that, with respect to clause (ii) and clause (iii) hereof, such occurrences are determined by the I-Bank (and evidenced in the written findings of the I-Bank that are delivered to the Applicant) to constitute unacceptable risks to the Water Bank or Transportation Bank.

**“Fund Loan”** means a loan provided by the State, acting by and through the NJDEP, to a Borrower for the financing as part of the Water Bank of all or a portion of an Environmental Infrastructure Project pursuant to the Federal Clean Water Act or the Federal Drinking Water Act.

**“Fund Loan Agreement”** means an agreement, by and between the State, acting by and through the NJDEP, and a Borrower, pursuant to which the State extends a Fund Loan to a Borrower in connection with the financing of all or a portion of an Environmental Infrastructure Project, and the Borrower agrees to certain terms and conditions, including, without limitation, the construction of the Environmental Infrastructure Project and the repayment of the Fund Loan.

**“Fund Loan Bond”** means a senior lien bond issued by a Borrower to the State, acting by and through the NJDEP, in order to evidence and secure the Fund Loan repayment obligations of such Borrower to the State, all in connection with the financing of all or a portion of an Environmental Infrastructure Project. The State may, in its discretion, accept a Junior Lien Bond, in compliance with the provisions of Section VI.1. hereof, in lieu of a senior lien bond.

**“I-Bank Investment Grade Rated”** means an Applicant with either (i) at least one current rating assigned by an NRRRA that is BBB+ (S&P and Fitch) or Baa1 (Moody’s) or better, or (ii) at least two current ratings assigned by NRRAs that are BBB- (S&P and Fitch) or Baa3 (Moody’s) or better, as well as for both (i) and (ii) no Non-Investment Grade Rated Credit Ratings from any of the NRRAs.

**“I-Bank Loan”** means a loan made by the I-Bank to a Borrower for the financing, as part of the Water Bank or Transportation Bank, of all or a portion of an Environmental Infrastructure Project or Transportation Infrastructure Project pursuant to N.J.S.A. 58:11B-1 et seq.

**“I-Bank Loan Agreement”** means an agreement, by and between the I-Bank and a Borrower, pursuant to which the I-Bank extends an I-Bank Loan to a Borrower in connection with the financing of all or a portion of an Environmental Infrastructure Project or Transportation Infrastructure Project, and the Borrower agrees to certain terms and conditions, including, without limitation, the construction of the Environmental Infrastructure Project or the Transportation Infrastructure Project and the repayment of the I-Bank Loan on-time and in-full.

**“I-Bank Loan Bond”** means a senior lien bond issued by a Borrower to the I-Bank in order to evidence and secure the I-Bank Loan repayment obligations of such Borrower to the I-Bank, all in connection with the long-term financing of all or a portion of an Environmental Infrastructure Project or Transportation Infrastructure Project pursuant to N.J.S.A. 58:11B-1 et seq. The I-Bank may, in its discretion, accept a Junior Lien Bond, in compliance with the provisions of Section VI.1. hereof, in lieu of a senior lien bond.

**“I-Bank Non-Investment Grade Rated”** means an Applicant that possesses either (i) a Credit Rating assigned by an NRRRA that is lower than BBB- (S&P and Fitch) or Baa3 (Moody’s), or (ii) only one Credit rating and the rating assigned by an NRRRA is lower than BBB+ (S&P and Fitch) or Baa1 (Moody’s).

**“Internal Revenue Code”** means the Internal Revenue Code of 1986, as amended, and the regulations promulgated pursuant thereto.

**“Letter of Credit” or “LOC”** means an irrevocable Letter of Credit issued by a Nationally Chartered Bank or a State Chartered Bank that secures the payment of the principal and/or interest on (as

applicable) the I-Bank Loan Bond and Fund Loan Bond issued to the I-Bank and the State, respectively, by the Applicant that procured such LOC.

**“Loan Loss Reserve Fund” or “LLR”** means a fund established by the I-Bank, pursuant to N.J.S.A. 58:11B-1 et seq., for the deposit of the annual Risk Premium as defined herein. Risk Premium payments will be deposited by the I-Bank into the LLR and shall secure repayments owed only on those Water Bank or Transportation Bank loans in connection with which Risk Premium payments are required.

**“Local Government Unit” or “LGU”** means (i) a State Authority, county, Municipality, municipal, county or regional sewerage or utility Authority, municipal sewerage district, joint meeting, improvement Authority, or any other political subdivision of the State authorized pursuant to law to construct, operate and maintain wastewater treatment systems, or (ii) a State Authority, district water supply commission, county, Municipality, municipal, county or regional utilities Authority, municipal water district, joint meeting or any other political subdivision of the State authorized pursuant to law to operate or maintain a public water supply system or to construct, rehabilitate, operate or maintain water supply facilities or otherwise provide water for human consumption; or (iii) a county, municipality, municipal, county or regional transportation authority, or any other political subdivision of the State authorized to construct, operate, and maintain public highways or transportation projects as defined pursuant to this section.

**“LGU Sponsor”** means a Local Government Unit whose participation in an I-Bank Loan Agreement and/or a Fund Loan Agreement, or any other form of contractual obligation, is necessary to satisfy Water Bank or Transportation Bank requirements, including, but not limited to, compliance with this Credit Policy for the purpose of assisting a third party in securing access to funding from the Water Bank for an Environmental Infrastructure Project or Transportation Bank for a Transportation Infrastructure Project of mutual benefit to such Local Government Unit and such third party.

**“Material Event”** means, with respect to a given Applicant, a determination by the I-Bank, evidenced in a written instrument by the I-Bank and delivered thereby to the Applicant, that any one or more of the following has occurred: (i) an Event of Default under (1) an outstanding short-term loan from the I-Bank, (2) an outstanding I-Bank Loan Agreement and/or (3) an outstanding Fund Loan Agreement, in each case, to which the Applicant is a party, has occurred, which Event of Default is neither promptly cured by the Applicant nor the subject of lender forbearance and, therefore, has been determined by the I-Bank to be continuing; (ii) the filing by the Applicant of a bankruptcy petition or the administration of the Applicant pursuant to the provisions of any applicable bankruptcy statute or the inability or failure of the Applicant to timely pay its debts or obligations as they become due; (iii) the Applicant’s receipt of notice of a criminal complaint, criminal investigation or indictment pertaining to the Applicant or any of its officers or directors; (iv) a material change in financial position demonstrating a material adverse effect upon the Applicant’s financial position within the last two fiscal years; (v) any written documentation that is produced by the NJDEP, NJDOT or the I-Bank which identifies (1) material mismanagement by the Applicant of (a) any of its Environmental or Transportation infrastructure facilities, or (b) the proposed Environmental or Transportation Infrastructure Project to be financed through the I-

Bank, in which the Applicant has been unable to cure such material mismanagement or (2) failure of such Applicant to properly satisfy its repayment obligations with respect to any outstanding Water Bank or Transportation Bank Loans, including, without limitation, late principal and/or interest payments three or more times within a three year period or (3) failure of such Applicant to properly and promptly apply unexpended proceeds of any outstanding Water Bank or Transportation Bank Loans pursuant to the terms of the applicable agreement; (vi) material misrepresentations by the Applicant in any Water Bank or Transportation Bank application documents or written submissions; (vii) failure by the Applicant to submit timely written responses to requests for information presented to the Applicant by the I-Bank and/or the NJDEP/NJDOT; (viii) failure by the Applicant to satisfactorily complete in a fully compliant and timely manner all filings or other submissions with the LFB or any other overseeing State agency that are required pursuant to any applicable statute, regulation, ordinance, resolution or policy; (ix) being placed under oversight by the LFB or any overseeing State agency; or (x) the declaration of a State of Emergency by the Governor of the State, either State-wide or within the county in which the Applicant is located, which Material Event shall continue for so long as such declared State of Emergency remains in effect.

**“Municipality”** means any city, borough, town, township, or village situated within the boundaries of the State of New Jersey.

**“Nationally Chartered Bank”** means a banking institution chartered and supervised by the Office of the Comptroller of the Currency, an agency in the U.S. Treasury Department, pursuant to the National Bank Act, 12 U.S.C. § 21 *et seq.*

**“Nationally Recognized Rating Agency” or “NRRRA”** means any of Fitch Ratings, Inc. (“Fitch”), Moody’s Investors Service (“Moody’s”) or S&P Global Ratings (“S&P”).

**“NJDEP”** means the New Jersey Department of Environmental Protection.

**“NJDOT”** means the New Jersey Department of Transportation.

**“New Jersey Infrastructure Bank” or “I-Bank”** means a body corporate and politic organized under the laws of the State of New Jersey pursuant to N.J.S.A. 58:11B-1 *et seq.*

**“Non-Rated”** means an entity, which does not possess a current Credit Rating or ratings assessment from any of the three NRRAs.

**“Participant”** means one or more Municipalities and/or Authorities that have entered into a Service Agreement in which they have pledged their G.O. to a Special Obligation Entity.

**“Preliminary Financial Information”** means certain written information produced by an Applicant and delivered to the I-Bank pursuant to a written request submitted by the I-Bank, all in furtherance of the assessment by the I-Bank of the Applicant’s compliance with this Credit Policy.

**“Privately-Owned Water System”** means a drinking water system required to comply with New Jersey State primary drinking water regulations for which a Public Water System Identification number (“PWSID”) exists.

**“Pro-forma Aggregate Annual Debt Service”** means, with respect to any given Applicant for both direct and indirect obligations to the Water Bank or Transportation Bank separately, the sum of (i) the Aggregate Annual Debt Service and (ii) the additional annual debt service payments due and payable each State Fiscal Year with respect to the I-Bank Loan and Fund Loan for which the Applicant is then applying to the Water Bank or Transportation Bank.

**“Qualified Bonds”** means any bond issued by a Municipality pursuant to the provisions of the Qualified Bond Act, N.J.S.A. 40A:3-1 *et seq.*, which Act provides supplemental collateral as security for bonds issued thereunder in furtherance of satisfaction of the Credit Eligibility Requirements as set forth herein.

**“Qualified Bond Debt Service Coverage Ratio”** means the annual debt service to be paid by a municipality each fiscal year on any of its outstanding and authorized Qualified Bonds divided by the annual funds available for these payments pursuant to the Qualified Bond Act.

**“Ratings”** means:

Investment Grade Rating of the three major rating agencies	I-Bank Rank			
	Moody's	S&P	Fitch	
Best Quality	Aaa	AAA	AAA	12
High Quality	Aa1	AA+	AA+	11
	Aa2	AA	AA	10
	Aa3	AA-	AA-	9
Upper Medium Grade	A1	A+	A+	8
	A2	A	A	7
	A3	A-	A-	6
Medium Grade	Baa1	BBB+	BBB+	5
	Baa2	BBB	BBB	4
	Baa3	BBB-	BBB-	3
Non-Investment Grade	Ba1	BB+	BB+	2
	Ba2	BB	BB	1
	Below Ba2	Below BB	Below BB	0

**“Redevelopment Project”** a project 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 one or more of the following fact scenarios exists: (i) such government unit secures its repayment obligations pursuant to the provisions of the Redevelopment Area Bond Financing Law; (ii) the redeveloper’s contractor administers or oversees all or a portion of project construction; or (iii) the borrowed funds are provided by the government unit to a redeveloper or its agent to fund all or a portion of the project’s expenses (“Conduit Borrower”).

**“Revenue Bond”** means a bond supported by the revenue from the general revenues of the Applicant or specifically sponsored project.

**“Risk Premium”** means an annual premium imposed by the I-Bank on Borrowers providing Revenue Bonds to the I-Bank in an amount equal to 1% of the outstanding aggregate principal amount of the I-Bank Loan and the Fund Loan, provided, however, such amount shall be subject to the limitations imposed by the Internal Revenue Code as such limitations shall be interpreted and applied by the I-Bank following consultation with counsel.

**“SAIL Loan”** a short-term or temporary loan to repair environmental infrastructure that was damaged during a declared disaster or to improve the resiliency of such infrastructure that otherwise would have been damaged in future disasters pursuant to N.J.S.A. 58:11B-9.5.

**“Service Agreement”** means an agreement wherein a Special Obligation Entity agrees to provide wastewater treatment service or drinking water to one or more Participants in exchange for monetary compensation.

**“Short-Term Loan Closing”** means the date on which a Borrower delivers to the I-Bank, and the I-Bank accepts from such Borrower, a note or other obligation evidencing a short-term or temporary loan made by the I-Bank to such Borrower pursuant to the short-term loan program of the Water Bank, established pursuant to N.J.S.A. 9(d) and one or more resolutions of the I-Bank, or the short-term loan program of the Transportation Bank, established pursuant to N.J.S.A. 58:11B-9(g) and one or more resolutions of the I-Bank.

**“Special Obligation Entity”** means an Authority, a nonprofit entity, a private entity, or any other Applicant or Borrower with respect to which the obligation to repay the I-Bank Loan and the Fund Loan is not secured by the irrevocable pledge of such Applicant or Borrower to exercise its unlimited taxing powers for the timely payment thereof.

**“State”** means the State of New Jersey.

**“State Chartered Bank”** means a banking institution chartered and supervised by the New Jersey Department of Banking and Insurance pursuant to the laws of the State, including, without limitation, N.J.S.A. 17:9A-1 *et seq.*

**“State Fiscal Year” or “SFY”** means the period beginning on the first day of July of each calendar year and ending on the thirtieth of June of the next succeeding calendar year, such period of time being established as the fiscal year of the State pursuant to N.J.S.A. 52:5-1. Each State Fiscal Year shall be designated by the calendar year in which such State Fiscal Year concludes.

**“Transportation Bank”** means the New Jersey Transportation Infrastructure Financing Program implemented by the NJDOT and the I-Bank in partnership to provide loans to Borrowers for Transportation Infrastructure Projects pursuant to N.J.S.A. 58:11B-1 *et seq.*

**“Transportation Infrastructure Project”** means capital projects for public highways, approach roadways and other necessary land side improvements, ramps, signal systems, roadbeds, transit lanes or rights of way, pedestrian walkways and bridges connecting to passenger stations and servicing facilities, bridges, and grade crossings as authorized pursuant to P.L.1985, c.334 (C.58:11B-1 *et seq.*).

**“Water Bank”** means the New Jersey Environmental Infrastructure Financing Program implemented by the NJDEP and the I-Bank in partnership to provide loans to Borrowers for Environmental Infrastructure Projects pursuant to N.J.S.A. 58:11B-1 *et seq.*, the Federal Clean Water Act, and the Federal Drinking Water Act.

## **VI. LOAN APPLICANTS**

### **1. GENERAL APPLICABILITY PROVISIONS**

**Introduction:** Except as may be provided in one or more Addenda attached hereto, Applicants must meet the Credit Eligibility Requirements of this Credit Policy as set forth in Section VI:2 below in order to evidence and secure (i) an I-Bank Loan repayment obligation or (ii) a Fund Loan repayment obligation, in either case, through the issuance of privately negotiated bonds. Such Credit Eligibility Requirements shall apply to all Applicants seeking an I-Bank Loan and/or a Fund Loan. In assessing compliance by an Applicant with the Credit Eligibility Requirements, the I-Bank will consider credit, liquidity, and operational risk as well as any other factors deemed necessary and appropriate by the I-Bank to (i) evaluate the risk of repayment default and (ii) in order to determine that there are no existing Material Events.

**Credit Ratings:** For the purposes of this Credit Policy, Applicant Credit Ratings may be either a public rating or a ratings assessment. All public ratings must be currently under surveillance at the time of loan closing by the NRRRA that issued such public rating, and Borrowers with \$2 million or greater in outstanding principal amount of loans from the I-Bank in all I-Bank financing programs must maintain and update annually the rating until the maturity of such loans or until the remaining outstanding principal amount of such loans is less than \$2 million. The I-Bank may require an Applicant to have a rating re-affirmed if a Material Event has occurred since the last review by the Rating Agency. Any Applicant relying on a ratings assessment must have received such ratings assessment from a NRRRA within twelve months prior to the I-Bank’s determination of the Applicant’s compliance with the I-Bank’s Credit Eligibility Requirements. Separately, the unenhanced rating (i.e., giving no consideration to enhancement from, among other sources,

the State's "Chapter 72 School Bond Reserve Program") of a school district which shares the same geographical limits as the Applicant may be cited and relied upon by a Municipality(ies) not possessing a Credit Rating or ratings assessment and which is providing either a direct or indirect obligation in order to evidence and secure its own I-Bank Loan repayment obligation or the repayment obligation of an Authority. In the case of an applicant that has entered into either a tri-party agreement or guarantee agreement, in a form acceptable to the I-Bank, that establishes a Municipal, County, or other LGU guaranty or a corporate parent guaranty, such credit support may be cited and relied upon for the purposes of evaluation as to creditworthiness pursuant to the criteria set forth within.

Portfolio Limitations: The I-Bank retains the right to reject outright any Applicant for which the resulting I-Bank Loan Bond is a Revenue Bond, the aggregate principal amount of which will serve to increase the projected I-Bank Revenue Bond principal exposure to an amount that exceeds 10% of the projected principal amount of publicly issued I-Bank Environmental Infrastructure bonds. Further, the I-Bank retains the right to require a rating from a NRRRA for a *De-minimis* Loan Applicant for which the resulting I-Bank Loan Bond is a Revenue Bond, the aggregate principal amount of which will serve to increase the I-Bank's projected exposure to *De-minimis* Loan Borrowers to an amount that exceeds \$10 million.

Miscellaneous:

- i. Any supplemental collateral relied upon by an Applicant for purposes of satisfying the Credit Eligibility Requirements must comply fully with the terms of this Credit Policy but, in no event, shall such supplemental collateral be rated less than Baa3 by Moody's or BBB- by Fitch or S&P.
- ii. The principal amount of each loan, other than a loan for asset management planning, must be no less than \$150,000.
- iii. In assessing an Applicant's compliance with the Credit Eligibility Requirements of this Credit Policy, the I-Bank, at its sole discretion, may require the Applicant to participate in a Financial Due Diligence Meeting, regardless of the Applicant's Credit Rating. The Applicant shall submit Preliminary Financial Information to the I-Bank no later than fifteen (15) business days following receipt of such written request from the I-Bank.

*De-minimis* Loan Requirement: For all *De-minimis* Loan Applicants, the Applicant shall provide to the I-Bank, in the case of an Applicant providing a direct or indirect G.O. pledge, evidence of either approval from the Local Finance Bond to incur debt through the I-Bank and/or NJDEP for the requested Loan amount or in the case of a Revenue Bond Applicant, evidence from the Board of Directors, or other governing body, of the Applicant, a resolution pursuant to which such governing body acknowledges and agrees to:

- i. The projected debt service repayment obligation of the Applicant over the course of the proposed I-Bank Loan and Fund Loan.
- ii. With respect to any Applicant that is a Local Government Unit, a contractual obligation to provide an annual certification of an authorized officer of the Applicant that the Applicant has timely provided to the Division of Local Government Services within the New Jersey Department of Community Affairs (the "DLGS") a balanced budget for the forthcoming



fiscal year, and that such budget has been approved by the Director of the DLGS, all in accordance with the Local Budget Law or the Local Authorities Fiscal Control Law, as applicable.

- iii. A contractual obligation, to be set forth in the I-Bank Loan Agreement and Fund Loan Agreement of the Applicant that obligates the Applicant each year, a Program Loan is outstanding, to fix the rates it charges its service customers in an amount at least equivalent to pay all outstanding debt service, operation & maintenance charges, and further, to pay any other expenses necessary to operate the Applicant's system in compliance with applicable laws and regulations. The Applicant will further covenant to provide to the I-Bank and the State a certification of an authorized officer of the Applicant, on an annual basis at the conclusion of each fiscal year of the Applicant, to the effect that the Authority has for such fiscal year, complied with the rate covenant set forth above. Failure to provide such certification, upon the expiration of a thirty-day notice and cure period, shall be an Event of Default pursuant to each the I-Bank Loan Agreement and the Fund Loan Agreement, and shall give rise to a right of acceleration of the Program Loans by the I-Bank and the State, respectively.
- iv. In addition, the Applicant shall be subject to a covenant obligation to provide written notice to the I-Bank and the NJDEP within 30 days of the occurrence of any Event of Default, pursuant to and as defined in its indenture of trust or bond resolution, or any event that with the passage of time and/or the giving of notice shall constitute an Event of Default.

Junior Lien Bond Policy: Neither the Water Bank nor the Transportation Bank require debt service reserve funds of I-Bank Investment Grade Rated Authorities to act as security for the I-Bank Loan Bond or the Fund Loan Bond issued by such Authority. Furthermore, if such reserve funds are required by the Authorities' own indenture of trust or bond resolution, neither the Water Bank nor the Transportation Bank will make I-Bank Loan proceeds or Fund Loan proceeds available to Authorities to fund such debt service reserve funds. However, the Water Bank or Transportation Bank will accept from such Authorities a junior-lien bond as evidence of and security for the I-Bank Loan and Fund Loan repayment obligations of such Authority. While this junior-lien bond is subordinated to any senior-lien debt of that Authority, the Water Bank and the Transportation Bank each protect themselves from repayment default and loss by requiring each Authority to comply with the following: (i) compliance with Credit Eligibility Requirements; (ii) a Service Agreement that is secured by the full faith and credit of one or more Participants; and (iii) a contractual obligation set forth in the indenture of trust or bond resolution of the Authority that obligates the Authority to raise the rates it charges its service customers by an amount at least equivalent to pay all outstanding debt service (including debt service with respect to the Junior-Lien I-Bank Loan Bond and the Junior-Lien Fund Loan Bond), operation and maintenance charges, and further, to pay any other expenses necessary to operate the Authority in compliance with applicable laws and regulations. In addition, the Authority shall be subject to a covenant obligation to provide written notice to the I-Bank, and the NJDEP when applicable, immediately upon the occurrence of any Event of Default, pursuant to and as defined in its indenture of trust or bond resolution, or any event that with the passage of time and/or the giving of notice shall constitute an Event of Default. The failure by the Authority to satisfy the obligation set forth in

(iii), above, shall constitute an Event of Default, pursuant to and as defined in its I-Bank Loan Agreement and its Fund Loan Agreement.

A Finding of Unacceptable Credit Risk / Notification of Ineligibility: Any Finding of Unacceptable Credit Risk shall exist when evidenced in a written instrument by the I-Bank and delivered to the Applicant and shall render the Applicant ineligible to receive an I-Bank Loan from the Water Bank or Transportation Bank for such Financing Program year (i.e., the then-current State Fiscal Year). If such determination is made by the I-Bank in the manner set forth herein, the status of an Applicant's eligibility may be re-evaluated by the I-Bank, if an Applicant (i) provides additional security for their loans (including, without limitation, their I-Bank Loan and their Fund Loan) through mechanisms, such as Qualified Bonds, as shall be identified by the I-Bank and/or (ii) submits to enhanced due diligence review by the I-Bank, which may require the production by such Applicant of such financial and other data as shall be identified and required by the I-Bank and/or (iii) if, after providing their Rating Agency(s) a copy of the written notice of a Finding of Unacceptable Credit Risk from the I-Bank, has a rating re-affirmed since the last review by the Rating Agency(s).

Report of a Material Event to the Board: At the meeting of the Board that is scheduled to occur immediately subsequent to the execution and delivery of any loan instruments relating to a loan made to a Borrower by the I-Bank, in connection with which the Executive Director of the I-Bank has determined, and provided the requisite written instrument to the Borrower with respect to, the occurrence of a Material Event (as defined and provided herein) with respect to such Borrower, the Executive Director of the I-Bank shall provide a report to the Board of Directors of the I-Bank concerning details of such transaction and the Material Event that was identified by the Executive Director of the I-Bank. Such report shall include, with respect to such Borrower that was a recipient of such loan, (i) the identity of the Borrower, (ii) a summary of the project(s) for which financing was provided, (iii) the nature of the Material Event at issue, and (iv) a discussion of the Borrower's compliance with the Credit Eligibility Requirements.

Action by the I-Bank Pursuant to the Credit Policy: Any determination or action authorized or required to be undertaken by the I-Bank pursuant to the terms and provisions of this Credit Policy may be undertaken or performed by any authorized officer designated as such by the Board of Directors of the I-Bank through formal action, including but not limited to I-Bank Board Resolution No. 11-10 (Delegation to the Executive Director of the I-Bank to Evaluate and Bypass Applications for Loans) enacted on April 7, 2011.

## **2. CREDIT ELIGIBILITY REQUIREMENTS**

Applicants shall satisfy the I-Bank's Credit Eligibility Requirements. A determination as to compliance with the Credit Eligibility Requirements shall be made by the I-Bank at the earlier of the time of the Environmental Infrastructure Project's or Transportation Infrastructure Project's:

- i. Short-Term Loan Closing, including, without limitation, the Disaster Relief Emergency Loan Financing Program (SAIL), or
- ii. Escrow Closing, or

- iii. Direct Loan Program Closing, or
- iv. Notice from the I-Bank of a Finding of Unacceptable Credit Risk.

If a Borrower (i) does not satisfy the Credit Eligibility Requirements as set forth in this Credit Policy, as determined by the I-Bank, and (ii) is eligible pursuant to the Appropriations Act for a New Jersey Environmental Infrastructure Financing Program Fund Loan for 100 percent of the cost of its project, upon determination of (i) and (ii) above, the I-Bank shall, in consultation with the Director of DLGS, provide a credit report relating to the Borrower to the NJDEP Commissioner, or his/her designee, in order that he/she may make a determination as to whether to provide a 100 percent Fund Loan to the Borrower, notwithstanding the failure of such Borrower to satisfy the Credit Eligibility Requirements set forth herein, as determined by the I-Bank.

If a Borrower satisfies the Credit Eligibility Requirements, as determined by the I-Bank, at the time of Short-Term Loan Closing and is downgraded thereafter, but prior to the closing of its Long-Term Loan, to a level at which it would be required under this Credit Policy to provide additional collateral, the Borrower will be required to provide such additional collateral as security for its Long-Term Loan at the time of the closing thereof. If the Borrower is unable to satisfy such additional collateral requirements, the I-Bank may provide long-term funding, to the extent available, from outside of the regular program, such as through a separate bond series.

Excepting the existence of a Material Event(s) or the implementation of temporary additional credit guidelines, the Credit Eligibility Requirements are waived for supplemental and residual loans that serve to supplement Water Bank or Transportation Bank funding previously provided via an outstanding I-Bank Loan and/or an outstanding Fund Loan. Supplemental and residual loans require, at a minimum, the same collateral and funding terms as the original I-Bank Loan and/or Fund Loan. However, if a Borrower is downgraded prior to the closing of the supplemental or residual loan to a level whereby it otherwise would be required under this Credit Policy to provide additional collateral, the Borrower will be required to provide such additional collateral for its supplemental or residual loan. If the Borrower is unable to meet such additional collateral requirements, the I-Bank may provide supplemental or residual loan funding, to the extent available, from outside of the regular program, such as through a separate bond series.

## **I. WATER BANK OR TRANSPORTATION BANK CREDIT ELIGIBILITY REQUIREMENTS**

### **A. PLEDGED G.O., *provided that the Applicant is a Municipality/County* which is:**

- i. **I-Bank Investment Grade Rated:** No additional requirements.
- ii. **I-Bank Non-Investment Grade Rated:** For an Applicant that is a Municipality, credit support is provided in the form of (i) a Qualified Bond, and (ii) a covenant obligation on the part of the Applicant to satisfy upon issuance of such Qualified Bond, the Qualified Bond Debt Service Coverage Ratio at  $\leq 80\%$  and to immediately notify the I-Bank if, and when, the Applicant's Qualified Bond Debt Service Coverage Ratio exceeds 80% until the maturity of the I-Bank Loan Bond and Fund Loan Bond;

- iii. **Non-Rated:** A Credit Rating is obtained by the Municipality or the county from any of the three NRRAs and the applicable requirements relating to such Credit Rating as outlined in either Sections VI:2.1-A(i) or VI:2.1-A(ii) are satisfied.

A Municipality or a county failing to meet any one of the above criteria is ineligible to receive an I-Bank Loan and/or a Fund Loan under this provision.

**B. PLEDGED G.O., provided that the Applicant is an Authority which is:**

- i. **I-Bank Investment Grade Rated:** No additional requirements.
- ii. **I-Bank Non-Investment Grade Rated:** A Letter(s) of Credit issued by a Nationally Chartered Bank or State Chartered Bank:
  - a) with a Credit Rating(s) of no less than A+ (Fitch or S&P) or A1 (Moody's) and no Non-Investment Grade Credit Rating(s) from any of the three NRRAs; **and**
  - b) which Letter(s) of Credit shall be maintained at least at A+ (Fitch or S&P) or A1 (Moody's), or be replaced by the Borrower with a Letter of Credit from a Nationally Chartered Bank or State Chartered Bank which satisfies the preceding paragraph (i); **and**
  - c) licensed to do business in the State of New Jersey; **and**
  - d) which secures the payment of the principal of and interest on (as applicable) the I-Bank Loan Bond and the Fund Loan Bond issued to the I-Bank and the State, respectively, by such Borrower for the term of the I-Bank Loan and Fund Loan.
- iii. **Non-Rated:**
  - a) A Credit Rating is obtained from any of the three NRRAs and the applicable requirements relating to such Credit Ratings as outlined in either Sections VI:2.1-B(i) or VI:2.1-B(ii) are satisfied; **or**
  - b) The Authority has only one Participant and the Participant has an Investment Grade Rating.

An Authority failing to meet any one of the above criteria is ineligible to receive an I-Bank Loan and/or a Fund Loan under this provision.

**II. WATER BANK CREDIT ELIGIBILITY REQUIREMENTS**

**A. PLEDGED G.O., for a Redevelopment Project sponsored by a Local Government Unit which is:**

- i. **I-Bank Investment Grade Rated:**
  - a) A Financial Due Diligence Meeting is required to discuss the financial impact upon the LGU Sponsor of the proposed additional debt (note: if the NRRRA that has rated the LGU Sponsor does not attend the Financial Due Diligence Meeting, the LGU Sponsor shall present to the I-Bank a certification from an Authorized Official of the LGU Sponsor that the NRRRA

- has been informed in writing of the proposed financing and has chosen not to attend); ***and***
- b) Additional requirements as appropriate are agreed upon to secure the LGU Sponsor including, but not limited to:
    - i. PILOT payments,
    - ii. Statutory rights pursuant to the Redevelopment Area Bond Financing Law,
    - iii. Reserve funds, and
    - iv. Corporate guarantees.
- ii. **I-Bank Non-Investment Grade Rated LGU Sponsor:**
    - a) A Letter(s) of Credit issued by a Nationally Chartered Bank or State Chartered Bank:
      - i. with a Credit Rating(s) of no less than A+ (Fitch or S&P) or A1 (Moody's) and no Non-Investment Grade Credit Rating(s) from any of the three NRRAs; ***and***
      - ii. which Letter(s) of Credit shall be maintained at least at A+ (Fitch or S&P) or A1 (Moody's), or be replaced by the Borrower with a Letter of Credit from a Nationally Chartered Bank or State Chartered Bank which satisfies the preceding paragraph (i); ***and***
      - iii. licensed to do business in the State of New Jersey; ***and***
      - iv. which secures the payment of the principal of and interest on (as applicable) the I-Bank Loan Bond and the Fund Loan Bond issued to the I-Bank and the State, respectively, by such Borrower for the term of the I-Bank Loan and Fund Loan; ***and***
    - b) All requirements as set forth in Section VI:2.II-A(i) must be satisfied.
  - iii. **Non-Rated LGU Sponsor:** A Credit Rating is obtained from any of the three Nationally Recognized Rating Agencies and the applicable requirements based on the ratings as outlined in either Sections VI:2.II-A(i) or VI:2.II-A(ii) are satisfied.

A redevelopment project failing to meet any one of the above criteria is ineligible to receive an I-Bank Loan and/or a Fund Loan under this provision.

**B. REVENUE BOND, *provided that the Applicant is a(n):***

**a. Authority and is:**

**i. I-Bank Investment Grade Rated:**

- a) The indenture of trust or bond resolution pursuant to which the Authority issues its I-Bank Loan Bond and Fund Loan Bond shall include:
  - i. A debt service coverage ratio covenant; ***and***
  - ii. A rate covenant; ***and***
  - iii. A debt incurrence test,
 each deemed by the I-Bank to be acceptable; ***and***
- b) For any time during the life of the Loan that a Credit Rating has been assigned to the Authority by any NRRAs of less than A- or A3, the annual Risk Premium will be imposed by the I-Bank; provided, however, such

amount shall be subject to the limitations imposed by the Internal Revenue Code as such limitations shall be interpreted and applied by the I-Bank following consultation with counsel. The payments will be deposited by the I-Bank into the LLR. This Provision will be enacted beginning with Water Bank Loans made in SFY2014.

**ii. I-Bank Non-Investment Grade Rated:**

- a) A Letter(s) of Credit issued by a Nationally Chartered Bank or State Chartered Bank:
  - i. with a Credit Rating(s) of no less than A+ (Fitch or S&P) or A1 (Moody's) and no Non-Investment Grade Credit Rating(s) from any of the three NRRAs; ***and***
  - ii. which Letter(s) of Credit shall be maintained at least at A+ (Fitch or S&P) or A1 (Moody's), or be replaced by the Borrower with a Letter of Credit from a Nationally Chartered Bank or State Chartered Bank which satisfies the preceding paragraph (i); ***and***
  - iii. licensed to do business in the State of New Jersey; ***and***
  - iv. which secures the payment of the principal of and interest on (as applicable) the I-Bank Loan Bond and the Fund Loan Bond issued to the I-Bank and the State, respectively, by such Borrower for the term of the I-Bank Loan and Fund Loan; ***and***
- b) The indenture of trust or bond resolution pursuant to which the Authority issues its I-Bank Loan Bond and Fund Loan Bond shall include (i) a debt service coverage ratio covenant, (ii) a rate covenant and (iii) a debt incurrence test, each deemed to be acceptable by the I-Bank;

- iii. Non-Rated:** A Credit Rating is obtained from any of the three Nationally Recognized Rating Agencies and the applicable requirements relating to such Credit Ratings as outlined in either Sections VI:2.II-B.a(i) or VI:2.II-B.a(ii) are satisfied.

An Authority failing to meet any one of the above criteria is ineligible to receive an I-Bank Loan and/or a Fund Loan under this provision.

**b. Privately-Owned Water System and is:**

**i. I-Bank Investment Grade Rated:**

- a) The indenture of trust pursuant to which the Privately-Owned Water System issues its I-Bank Loan Bond and Fund Loan Bond shall include
  - i. A debt service coverage ratio covenant; ***and***
  - ii. A rate covenant; ***and***
  - iii. A debt incurrence test,each deemed by the I-Bank to be acceptable; ***and***
- b) For any time during the life of the Loan that a Credit Rating has been assigned to the Privately-Owned Water System by a Nationally Recognized Rating Agency of less than A- or A3, the annual Risk Premium will be imposed by the I-Bank; provided, however, such amount shall be subject

to the limitations imposed by the Internal Revenue Code as such limitations shall be interpreted and applied by the I-Bank following consultation with counsel. The Risk Premium payments will be deposited by the I-Bank into the LLR. This Provision will be enacted beginning with Loans made in SFY 2014.

**ii. I-Bank Non-Investment Grade Rated:**

a) A Letter(s) of Credit issued by a Nationally Chartered Bank or State Chartered Bank:

i. with a Credit Rating(s) of no less than A+ (Fitch or S&P) or A1 (Moody's) and no Non-Investment Grade Credit Rating(s) from any of the three NRRAs; ***and***

ii. which Letter(s) of Credit shall be maintained at least at A+ (Fitch or S&P) or A1 (Moody's), or be replaced by the Borrower with a Letter of Credit from a Nationally Chartered Bank or State Chartered Bank which satisfies the preceding paragraph (i); ***and***

iii. licensed to do business in the State of New Jersey; ***and***

i. which secures the payment of the principal of and interest on (as applicable) the I-Bank Loan Bond and the Fund Loan Bond issued to the I-Bank and the State, respectively, by such Borrower for the term of the I-Bank Loan and Fund Loan; ***and***

b) The indenture of trust pursuant to which the Privately-Owned Water System issues its I-Bank Loan Bond and Fund Loan Bond shall include (i) a debt service coverage ratio covenant, (ii) a rate covenant and (iii) a debt incurrence test, each deemed to be acceptable by the I-Bank;

**iii. Non-Rated:** A Credit Rating is obtained from any of the three Nationally Recognized Rating Agencies and the applicable requirements relating to such Credit Ratings as outlined in either Sections VI:2.II-B.b(i) or VI:2.II-B.b(ii) are satisfied.

A Privately-Owned Water System failing to meet any one of the above criteria is ineligible to receive an I-Bank Loan and/or a Fund Loan under this provision.

**C. PLEDGED G.O. or REVENUE BOND, *De-minimis Loan Applicant, provided that the Applicant is:***

i. **I-Bank Investment Grade Rated:** No additional requirements. The I-Bank reserves the right to require the Borrower to establish a debt service reserve account as collateral for the I-Bank Loan and Fund Loan. Funds for a debt service reserve fund may not be borrowed.

ii. **I-Bank Non-Investment Grade Rated:** A Letter(s) of Credit issued by a Nationally Chartered Bank or State Chartered Bank:

a) with a Credit Rating(s) of no less than A+ (Fitch or S&P) or A1 (Moody's) and no Non-Investment Grade Credit Rating(s) from any of the three NRRAs; ***and***

b) which Letter(s) of Credit shall be maintained at least at A+ (Fitch or S&P)

or A1 (Moody's), or be replaced by the Borrower with a Letter of Credit from a Nationally Chartered Bank or State Chartered Bank which satisfies the preceding paragraph (i); ***and***

- c) licensed to do business in the State of New Jersey; ***and***
- d) which secures the payment of the principal of and interest on (as applicable) the I-Bank Loan Bond and the Fund Loan Bond issued to the I-Bank and the State, respectively, by such Borrower for the term of the I-Bank Loan and Fund Loan.

- iii. **Non-Rated:** An Applicant meeting the established financial criteria, as set forth by the I-Bank from time to time and publicly disseminated (*See Attachment 1*), shall be eligible to receive an I-Bank Loan and Fund loan subject to the requirements as outlined in Section VI:2.II-C(i) above. Additionally, such Applicant shall provide proof of authorization to enter into the Loan Agreements with the NJDEP and the I-Bank from its governing body, such as a Board of Directors. Any Applicant not meeting the established financial criteria, as set forth by the I-Bank, is subject to the requirements as outlined in Section VI:2.II-C(ii) above.

A *De-minimis* Loan Applicant failing to meet any one of the above criteria is ineligible to receive an I-Bank Loan and/or a Fund Loan under this provision.

**D. SAIL Loans:** Notwithstanding anything in this Credit Policy to the contrary, except as stated below, in the event that an Applicant providing a General Obligation pledge seeks financing through the SAIL Program and at least 50% of the loan amount has been obligated by and is anticipated to be reimbursed by FEMA or other similar Federal grant program, such Applicant shall be deemed compliant with the Credit Eligibility Requirements of the Credit Policy.

**E. Declaration of a State of Emergency:** Upon the declaration of a State of Emergency by the Governor, and as long as such State of Emergency continues, the I-Bank Executive Director may declare a Statewide Material Event that applies to all Applicants. During such a State of Emergency, the Executive Director of the I-Bank may implement additional credit guidelines that are applicable to all Applicants. For the avoidance of doubt, all Applicants, including Applicants seeking financing through the SAIL Program, must satisfy these additional credit guidelines to qualify for a loan (including, without limitation, an I-Bank Loan and/or a Fund Loan) from either of the Financing Programs during the declared State of Emergency



# APPENDIX

# APPENDIX 1

## Letter from State Treasurer Maher Muoio



State of New Jersey  
OFFICE OF THE STATE TREASURER  
PO Box 002  
TRENTON, NJ 08625-0002

PHILIP D. MURPHY  
*Governor*

SHEILA Y. OLIVER  
*Lt. Governor*

ELIZABETH MAHER MUOIO  
*State Treasurer*

October 1, 2020

Mr. David E. Zimmer, CFA, Executive Director  
New Jersey Infrastructure Bank  
3131 Princeton Pike, Office, Bldg. 4, Suite 216  
Lawrenceville, NJ 08648

Dear Mr. Zimmer:

In connection with loans ("Fund Loans") to be made by the State of New Jersey (the "State"), acting by and through the New Jersey Department of Environmental Protection (the "DEP"), pursuant to the New Jersey Environmental Infrastructure Financing Program (the "NJ Water Bank"), jointly administered by the New Jersey Infrastructure Bank (the "I-Bank") and the DEP, it shall be the policy of the State to evaluate applicants for eligibility to receive a Fund Loan in accordance with the Credit Policy initially adopted by the Board of Directors of the I-Bank on January 10, 2013, as the same has been amended most recently on March 20, 2020 and may be amended by the Board of Directors of the I-Bank from time to time. The foregoing Credit Policy shall apply to all Fund Loans and all applicants, regardless of whether a companion loan is made by the I-Bank to any such applicant for the same project scope. This letter amends and supersedes any previous correspondence to you of prior State Treasurers regarding this subject.

Sincerely,

A handwritten signature in blue ink, appearing to read "E. Muoio".

Elizabeth Maher Muoio  
State Treasurer

# ATTACHMENTS

# Attachment 1

## Deminimis Credit Metrics Criteria Municipality -- General Obligation Pledge

### Water Utility Fund Primary Factors (Required)

Debt Service Coverage Ratio	$\geq 1.1$
Liabilities to Asset Ratio	$\leq 65\%$
Quick Ratio	$> 1.0$

### Secondary Factors (3 of 5 Required)

Fund Balance (Reserve) as % of Revenue	$\geq 10\%$ for last three years
Long Term Debt per customer Year 1 - Pro Forma	$\leq \$1,500$
Long Term Debt per customer Year 5 - Pro Forma	$\leq \$1,500$
Account Growth	$\geq$ Stable
Water Charge as % of Median Household Income	$< .75\%$
Water and Sewer Charge as % of Median Household Income	$< 1.5\%$

### Additional Factors (Considered)

Demographics:	
Median Household Income Relative to County	
Median Home Value relative to County	
Town Metrics	
NJ fund Balance as percentage of Muni Revenue	$\geq 10\%$ for last three years
Total Full Value per Capita	$\geq \$100,000$
County Credit Ratings	
Number of Households Served	

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## Deminimis Credit Metrics Criteria Utility Authority -- No General Obligation Pledge

### Primary Factors (Required)

Debt Service Coverage Ratio	$\geq 1.25$
Liabilities to Asset Ratio	$< 65\%$
Quick Ratio	$> 1.0$
Board Resolution Acknowledging and Agreeing to Loan Terms, Program Requirements and Repayment Obligations	Passed Prior to any Program Financing

### Secondary Factors (3 of 5 Required)

Cashflow	Positive for prior two years
Long Term Debt per customer Year 1	$\leq \$1,500$
Long Term Debt per customer Year 5	$\leq \$1,500$
Account Growth	$\geq$ Stable
Water Charge as % of Median Household Income	$< .75\%$
Water and Sewer Charge as % of Median Household Income	$< 1.5\%$

### Additional Factors (Considered)

Demographics:
Median Household Income
Median Home Value
Town and County Credit Ratings
Number of Households Served

## Deminimis Credit Metrics Criteria Small Systems/HOA's No General Obligation Pledge

### Primary Factors (Required)

Debt Service Coverage Ratio	≥1.5%
Liabilities to Asset Ratio	≤ 65%
Quick Ratio	> 1.1
Board Resolution Acknowledging and Agreeing to Loan Terms, Program Requirements and Repayment Obligations	Passed Prior to any Program Financing
Reserves - separate line item for reserve contributions	Minimum at least 10% of gross expenses
Delinquent HOA Dues/Policy	No more than 10% of total units can be in arrears, past 30 days for fee payments, a copy of delinquent dues collection policy and procedure must be submitted
Special Assessment	(If Yes) Certified explanation is required

### Secondary Factors (3 of 5 Required)

Cashflow	Positive for prior two years
Long Term Debt per customer Year 1	≤ \$1,500
Long Term Debt per customer Year 5	≤ \$1,500
Account Growth	≥ Stable
Water Charge as % of Median Household Income	< .75 %
Water and Sewer Charge as % of Median Household Income	< 1.5%

### Additional Factors (Considered)

Demographics:
Median Household Income Relative to County
Median Home Value relative to County
Town and County Credit Ratings
Number of Households Served

# Attachment 2

## Definitions for Municipalities (G.O. Pledge)

**“DEBT SERVICE COVERAGE RATIO” (DSCR)** - measures the ability of a System to pay current debt obligations plus pro forma. DSCR is net operating income expressed as a percentage of debt obligations due within one year, including interest, principal, sinking-fund and lease payments. The higher the ratio, the greater the ability of a system to pay its creditors. These figures are located on the applicant’s Statement of Operations & Changes in Fund Balance.

DSCR is calculated as follows:

$$\text{DSCR} = \text{Net Operating Income} / \text{Annual Debt Service}$$

Net Operating Income = Gross Revenues less Operating Expenses.

Annual Debt Service = Principal, Interest and Lease payments due per year.

Gross Revenues = Annual revenues including all taxes collected, operating service fees, connection charges, wholesale supply charges, consulting fees, etc.

Operating Expenses = Total annual expenditures including all Operations & Maintenance (n.b. excludes capital replacement expenditures).

**“LIABILITIES TO ASSET RATIO”** means a municipality’s liabilities divided by its total assets as listed in the Statement of Assets, Liabilities, Reserves & Fund Balance of the Current Fund. A measure of leverage which indicates the degree to which a municipality’s assets are financed through borrowing and other obligations. A ratio closer to 0.0 indicates a low level of municipal assets are financed through long-term obligations.

**“QUICK RATIO” (Q.R.)** equals current assets divided by current liabilities as listed in the most recent Statement of Assets, Liabilities, Reserves & Fund Balance of the applicant’s Current Fund. The Q.R. is a measure of liquidity and indicates the ability of the municipality to pay all current liabilities, meet short-term expenses and emergencies.

QR is calculated as follows:

$$\text{Q.R.} = \text{Current Assets} / \text{Current Liabilities}$$

**“FUND BALANCE”** means the difference between a governmental fund’s current assets (i.e., cash, short-term investments, inventories, receivables, and other unrestricted assets expected to be available to finance operations in the immediate future) and its current liabilities. A positive difference of current assets minus current liabilities gives an indication of the resources immediately available to finance ongoing operations. The Fund Balance is located on the applicant’s Statement of Operations & Changes in Fund Balance.

**“FUND BALANCE AS % OF REVENUE”** means a Municipality’s Fund Balance as a percentage of the Total (annual) Revenues within the Current Fund located on the applicant’s Statement of Operations & Changes in Fund Balance. This ratio measures the ability of a municipality to supplement annual revenues without increasing rates.



Fund Bal/Revenue is calculated as follows:

$$= \text{Fund Balance} / \text{Total Revenues}$$

**“LONG-TERM DEBT PER CUSTOMER”** means the ratio of total bonded debt of the municipality divided by the number of (commercial, non-profits, households) customers located within the municipality as of the most recent U.S. Census.

**“ACCOUNT GROWTH”** related to service area demographics is growth in a municipality’s residential, commercial, industrial, and government customer bases as well as its customer concentration. Stable growth is considered 3% per annum or less and moderate/rapid growth exceeds 3% per year.

**“WATER CHARGE AS % OF MEDIAN HOUSEHOLD INCOME”** the percentage of average annual household water charges of the system divided by the Median Household Income as of the latest U.S. Census figures. This figure is calculated in the Applicant’s Environmental Decision Document (EDD) issued by NJDEP.

**“WATER AND SEWER CHARGE AS % OF MEDIAN HOUSEHOLD INCOME”** the percentage of average annual household water and sewer charges of the system divided by the Median Household Income as of the latest U.S. Census figures. This figure is provided by the Applicant and calculated in the Applicant’s Environmental Decision Document (EDD), issued by NJDEP.

**“MEDIAN HOUSEHOLD INCOME RELATIVE TO COUNTY”** means the applicant’s Median Household Income divided by the County Median Household Income according to the latest U.S. Census figures.

**“MEDIAN HOME VALUE RELATIVE TO COUNTY”** means the Municipality’s Median Home Value divided by the County Median Home Value according to the latest U.S. Census figures.

**“TOTAL FULL VALUE PER CAPITA”** means an applicant’s full property value (the value of all taxable property as calculated by the tax assessor) divided by the population of the municipality as of the latest U.S. Census figures.

**“COUNTY CREDIT RATING”** means an assessment issued by one or more of the three Nationally Recognized Rating Agencies relating to the credit worthiness of the County in which the Applicant is located indicating the County’s ability to repay principal and interest on its bonds in full and on time.

**“NUMBER OF HOUSEHOLDS SERVED”** means the number of households in the Municipality served by the specific Applicants water or water and sewer system.

# Attachment 3

## Definitions for Utility Authorities (No G.O. Pledge)

**“DEBT SERVICE COVERAGE RATIO” (DSCR)** - measures the ability of a System to pay current debt obligations. DSCR is net operating income expressed as a percentage of debt obligations due within one year, including interest, principal, sinking-fund and lease payments. The higher the ratio, the greater the ability of a system to pay its creditors. These figures are located on the applicant’s Statement of Operations & Changes in Fund Balance.

DSCR is calculated as follows:

$$\text{DSCR} = \text{Net Operating Income} / \text{Annual Debt Service}$$

Net Operating Income = Gross Revenues less Operating Expenses.

Annual Debt Service = Principal, Interest and Lease payments due per year.

Gross Revenues = Annual revenues including operating service fees, connection charges, wholesale supply charges, consulting fees etc.

Operating Expenses = Total annual expenditures including all Operations & Maintenance (excludes capital replacement expenditures).

**“LIABILITIES TO ASSET RATIO”** means a Utility Authority’s liabilities divided by its total assets as listed in the Statement of Net Position. A measure of leverage which indicates the degree to which a Utility Authority’s assets are financed through borrowing and other obligations. A ratio closer to 0.0 indicates a low level of the authority’s assets are financed through long-term obligations.

**“QUICK RATIO” (Q.R.)** equals current assets divided by current liabilities as listed in the most recent Statement of Assets, Liabilities, Reserves & Fund Balance of the applicant’s Current Fund. The ability of the utility authority to pay all current liabilities, meet short-term expenses and emergencies, measures liquidity.

QR is calculated as follows:

$$\text{Q.R.} = \text{Current Assets} / \text{Current Liabilities}$$

**“NET POSITION”** means the difference between (1) assets and deferred outflows of resources, and (2) liabilities and deferred inflows of resources. Governments display net position in three components; (i) net investment in capital assets, (ii) restricted, and (iii) unrestricted. Net Position can be located in the applicant’s Statement of Net Position.

**“NET POSITION AS % OF REVENUE”** means a Utility Authority’s Net Position as a percentage of the Current Fund Total Revenues located on the applicant’s Statement of Revenues, Expenses & Changes in Net Position.

**“CASH FLOW”** means Incomings and outgoings of cash, representing the operating activities of an organization, the difference in amount of cash available at the beginning of a period (opening balance) and the amount at the end of that period (closing balance). It is called positive if the closing balance is higher than the opening balance, otherwise called negative. Cash flow is increased by (1) selling more

goods or services, (2) selling an asset, (3) reducing costs, (4) increasing the selling price, (5) collecting faster, (6) paying slower, (7) bringing in more equity, or (8) taking a loan.

**“NUMBER OF HOUSEHOLDS SERVED”** means the number of households in the Authority’s service area served by the specific applicant’s water or water and sewer system.

**“LONG-TERM DEBT PER CUSTOMER”** means the ratio of total bonded debt of the utility divided by the number of (commercial, non-profits, households) customers located within the utility’s service area as of the most recent U.S. Census.

**“ACCOUNT GROWTH”** related to service area demographics is growth in a utility’s residential, commercial, industrial, and government customer bases as well as its customer concentration. Stable growth is considered 3% per annum or less and moderate/rapid growth exceeds 3% per year.

**“WATER CHARGE AS % OF MEDIAN HOUSEHOLD INCOME”** the percentage average annual household water charges of the system divided by the Median Household Income as of the latest U.S. Census figures. This figure is calculated in the Applicant’s Environmental Decision Document (EDD) issued by NJDEP.

**“WATER AND SEWER CHARGE AS % OF MEDIAN HOUSEHOLD INCOME”** the percentage average annual household water and sewer charges of the system divided by the Median Household Income as of the latest U.S. Census figures. This figure is calculated in the Applicant’s Environmental Decision Document (EDD) issued by NJDEP.

**“MEDIAN HOUSEHOLD INCOME” (MHI)** means the calculation computed by the U.S. Census Bureau - Income of Households - This includes the income of the householder and all other individuals 15 years old and over in the household, whether they are related to the householder or not. Because many households consist of only one-person, average household income is usually less than average family income. The median divides the income distribution into two equal parts: one-half of the cases falling below the median income and one-half above the median. For households and families, the median income is based on the distribution of the total number of households and families including those with no income. The median income for individuals is based on individuals 15 years old and over with income. Median income for households, families, and individuals is computed on the basis of a standard distribution.

**“MEDIAN HOME VALUE” (MHV)** means that one half of all homes were worth more and one-half were worth less. The midway point of all the houses/units sold at market **price** (or sold amount) over a set period (monthly, yearly, quarterly, etc.). (See US Census Reports).

**“TOWN AND COUNTY CREDIT RATING”** means an assessment issued by one or more of the three Nationally Recognized Rating Agencies relating to the credit worthiness of the Town and County in which the Applicant is located indicating the Town’s and County’s ability to repay principal and interest on its bonds in full and on time.

# Attachment 4

## Definitions for Small Systems/HOAs (No G.O. Pledge)

**“DEBT SERVICE COVERAGE RATIO” (DSCR)** - measures the ability of a Homeowner’s Association (HOA) to pay current debt obligations. DSCR is net operating income expressed as a percentage of debt obligations due within one year, including interest, principal, sinking-fund and lease payments. The higher the ratio, the greater the ability of a system to pay its creditors. These figures are located on the applicant’s Statement of Operations & Changes in Fund Balance.

DSCR is calculated as follows:

$$\text{DSCR} = \text{Net Operating Income} / \text{Annual Debt Service}$$

Net Operating Income = Gross Revenues less Operating Expenses.

Annual Debt Service = Principal, Interest and Lease payments due per year

Gross Revenues = Annual fees assessed and collected plus any other miscellaneous charges.

Operating Expenses = Total annual expenditures including all Operations & Maintenance (n.b. excludes capital replacement expenditures).

**“LIABILITIES TO ASSET RATIO”** means a HOA’s liabilities divided by its total assets as listed in the Statement of Net Position. A measure of leverage which indicates the degree to which a HOA’s assets are financed through borrowing and other obligations. A ratio closer to 0.0 indicates a low level of the HOA’s assets are financed through long-term obligations.

**“QUICK RATIO” (Q.R.)** equals current assets divided by current liabilities as listed in the most recent Statement of Assets, Liabilities, Reserves & Fund Balance of the applicant’s Current Fund. The ability of the HOA to pay all current liabilities, meet short-term expenses and emergencies, measures liquidity.

QR is calculated as follows:

$$\text{Q.R.} = \text{Current Assets} / \text{Current Liabilities}$$

**“RESERVES”** means the funds that are earmarked by an Applicant from its operations set aside for future use, such as for the payment of likely-to-be-incurred bad debts.

**“BOARD RESOLUTION ACKNOWLEDGING AND AGREEING TO LOAN TERMS, PROGRAM REQUIREMENTS AND REPAYMENT OBLIGATIONS”** means a formally adopted resolution of the Applicant’s governing body acknowledging and agreeing to the loan terms and program requirements of the NJEIFP and obligating the HOA members to the repayment of any liability on time and in full.

**“DELINQUENT HOA DUES/POLICY”** means the Small System/HOA Board approved delinquency policy for collection of unpaid dues/assessments. A sound policy will include due date, grace period, late fee amount and/or penalty amount, timing of collection letters (often on 30-60-90-day schedule, when the matter will be turned over to the association attorney, when a lien will be filed of record, when foreclosure will begin.

**“DELINQUENT ACCOUNT BALANCE”** means the number of HOA units in arrears (both # and dollar amount), or past 30 days due for fee payments or assessments. At any point over the past 2 years, no more than 10% of the total HOA units can be in arrears, past 30 days for fee payments or assessments.

**“SPECIAL ASSESSMENT”** means an amount of money that a condominium trust/homeowner’s association (HOA) needs in order to pay for a project or outstanding debt that was not part of the annual budget/assessment. The trustees of the condominium/HOA levy the special assessment against all unit owners and require them to pay their fractional interest of the money being requested. The payment of the special assessment is divided by each unit owner’s interest in the common area. The amount may be requested immediately from each unit owner or may be broken into installments depending on how the trustees have decided to handle it.

**“CASH FLOW”** means Incomings and outgoings of cash, representing the operating activities of an organization, the difference in amount of cash available at the beginning of a period (opening balance) and the amount at the end of that period (closing balance). It is called positive if the closing balance is higher than the opening balance, otherwise called negative. Cash flow is increased by (1) selling more goods or services, (2) selling an asset, (3) reducing costs, (4) increasing the selling price, (5) collecting faster, (6) paying slower, (7) bringing in more equity, or (8) taking a loan.

**“NUMBER OF HOUSEHOLDS SERVED”** means the number of households in the small system’s service area served by the specific Applicants water or water and sewer system.

**“LONG-TERM DEBT PER CUSTOMER”** means the ratio of total debt of the HOA divided by the number of households being serviced by the system.

**“ACCOUNT GROWTH”** related to service area demographics is growth in a utility’s residential, commercial, industrial, and government customer bases as well as its customer concentration. Stable growth is considered 3% per annum or less and moderate/rapid growth exceeds 3% per year.

**“WATER CHARGE AS % OF MEDIAN HOUSEHOLD INCOME”** the percentage average annual household water charges of the system divided by the Median Household Income as of the latest U.S. Census figures. This figure is calculated in the Applicant’s Environmental Decision Document (EDD) issued by NJDEP.

**“WATER AND SEWER CHARGE AS % OF MEDIAN HOUSEHOLD INCOME”** the percentage average annual household water and sewer charges of the system divided by the Median Household Income as of the latest U.S. Census figures. This figure is calculated in the Applicant’s Environmental Decision Document (EDD) issued by NJDEP.

**“MEDIAN HOUSEHOLD INCOME” (MHI)** means the calculation computed by the U.S. Census Bureau - Income of Households - This includes the income of the householder and all other individuals 15 years old and over in the household, whether they are related to the householder or not. Because many households consist of only one-person, average household income is usually less than average family income. The median divides the income distribution into two equal parts with 50% of the cases falling below the median income and 50% above the median. For households and families, the median income is based on the distribution of the total number of households and families, including those with no income. The median income for individuals is based on individuals 15 years old and over with income. Median income for households, families, and individuals is computed on the basis of a standard distribution.

**“MEDIAN HOME VALUE” (MHV)** means that one half of all homes were worth more and one-half were worth less. The midway point of all the houses/units sold at market **price** (or sold amount) over a set period (monthly, yearly, quarterly, etc.). (See US Census Reports).

**“TOWN AND COUNTY CREDIT RATING”** means an assessment issued by one or more of the three Nationally Recognized Rating Agencies relating to the credit worthiness of the Town and County in which the Applicant is located indicating the Town’s and County’s ability to repay principal and interest on its bonds in full and on time.

# Addendum #1

## To the Credit Policy of the New Jersey Infrastructure Bank

### 1. Transportation Bank BIL Match Project Credit Rating Waiver

**Effective Date:** Section 1 of this Addendum pertaining to the BIL Match Program shall be in full force and effect until such time as funds are no longer available through the Infrastructure Investment and Jobs Act (“IIJA”), also referred to as the Bipartisan Infrastructure Law (“BIL”) signed into law by President Biden on November 15, 2021 (“BIL”) to Transportation Bank project sponsors.

**Waiver Eligibility:** This credit rating waiver is available to Local Government Unit Project Sponsors of Transportation Projects in disadvantaged communities that would otherwise not have access to Transportation Bank Funds (e.g., communities that have a non-investment grade rating and/or cannot provide satisfactory QBA) and have received a commitment of competitive grant funds from the United States Department of Transportation through BIL (a “BIL Grant”). In order for the I-Bank to determine eligibility, all Borrowers must obtain a credit rating from an NRRRA or, if applicable, undergo the de-minimis credit review process as defined in Attachments 1 through 4 of the I-Bank’s Credit Policy. This credit waiver shall only pertain to BIL Match Fund Loans. Any additional project loan funds must satisfy all conditions in the I-Bank’s Credit Policy.

**Maximum Allowable Transportation Bank Funding per Project:** The federal match required of the local government unit to receive the BIL grant, to the extent funds are available and in priority order. (*n.b., The annual program amount set aside for the BIL Match Program is established in the Transportation Bank Financial Plan each year.*)

**Waiver:** For Borrowers with eligible Transportation Bank loans as defined above, section VI of the I-Bank Credit Policy in its entirety shall be waived at the time of short-term and long-term loan closing.

### 2. Water Bank 100% PF Credit Rating Waiver

**Effective Date:** Section 2 of this Addendum pertaining to Water Bank 100% PF projects shall be in full force and effect in any State Fiscal Program Year in which 100% PF Loans are made available to Water Bank Borrowers.

**Waiver Eligibility:** This credit rating waiver is available to Project Sponsors of Water Bank Projects that would otherwise not have access to Water Bank Funds (e.g., communities that have a non-investment grade rating and/or cannot provide satisfactory QBA) anticipated to receive long-term funding solely through a Fund Loan for the total project costs (inclusive of all Program fees) which will receive 100% Principal Forgiveness. Any additional project costs requiring a loan not subject to principal forgiveness must satisfy all conditions in the I-Bank’s Credit Policy or otherwise receive approval from the NJDEP Commissioner for a 100% Fund Loan pursuant to section VI.2.

**Maximum Allowable Water Bank Funding per Project:** Total project costs eligible for Principal Forgiveness (inclusive of all Program fees). (*n.b., The annual program amounts set aside for 100% PF loans is established in the Water Bank Financial Plan each year.*)

**Waiver:** For Borrowers with eligible Water Bank loans as defined above, the I-Bank Credit Policy in its entirety shall be waived at the time of short-term and long-term loan closing.

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## **APPENDIX A.3**

Financial Planning Methodology:

I-Bank Investment Policy

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# **NEW JERSEY INFRASTRUCTURE BANK**



## **INVESTMENT POLICY**

**Amended & Restated  
April 2020**

## POLICY AND PROCEDURE

NO. 1.22

SUBJECT: Investment Policy

REVISION HISTORY:	Adopted:	12/03/2005	Effective:	12/23/2005
	Revised:	07/12/2007	Effective:	07/27/2007
	Revised:	09/12/2013	Effective:	09/27/2013
	Revised:	03/09/2017	Effective:	03/24/2017
	Revised:	02/08/2018	Effective:	02/26/2018
	Revised	03/20/2020	Effective:	04/03/2020
	Revised	04/09/2020	Effective:	04/27/2020

PURPOSE: To define and clarify (i) the investment standards required and allowable of all fiduciaries with regards to the funds under the control of the NJIB, and, (ii) the procedures to be followed to ensure compliance with clause (i).

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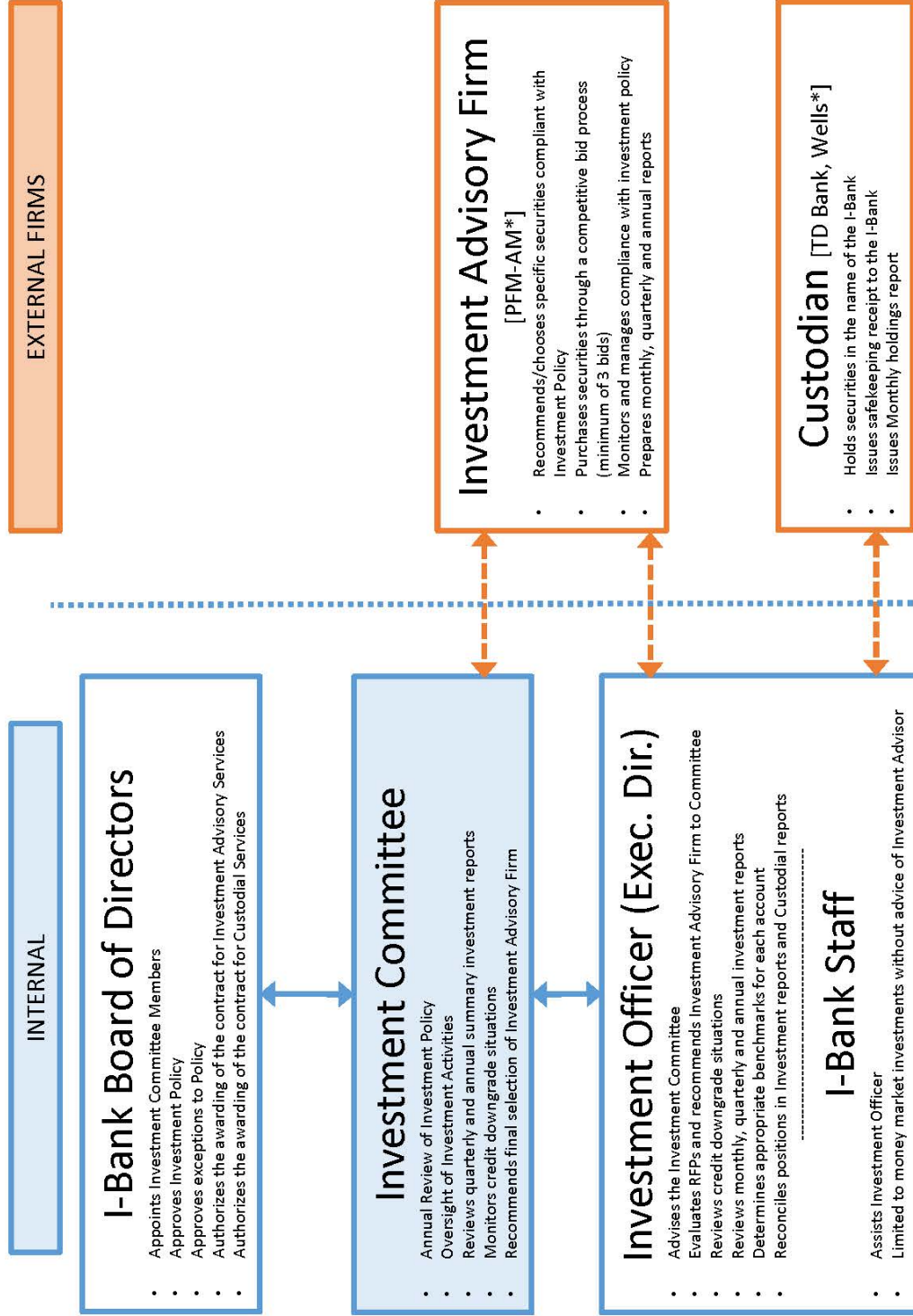
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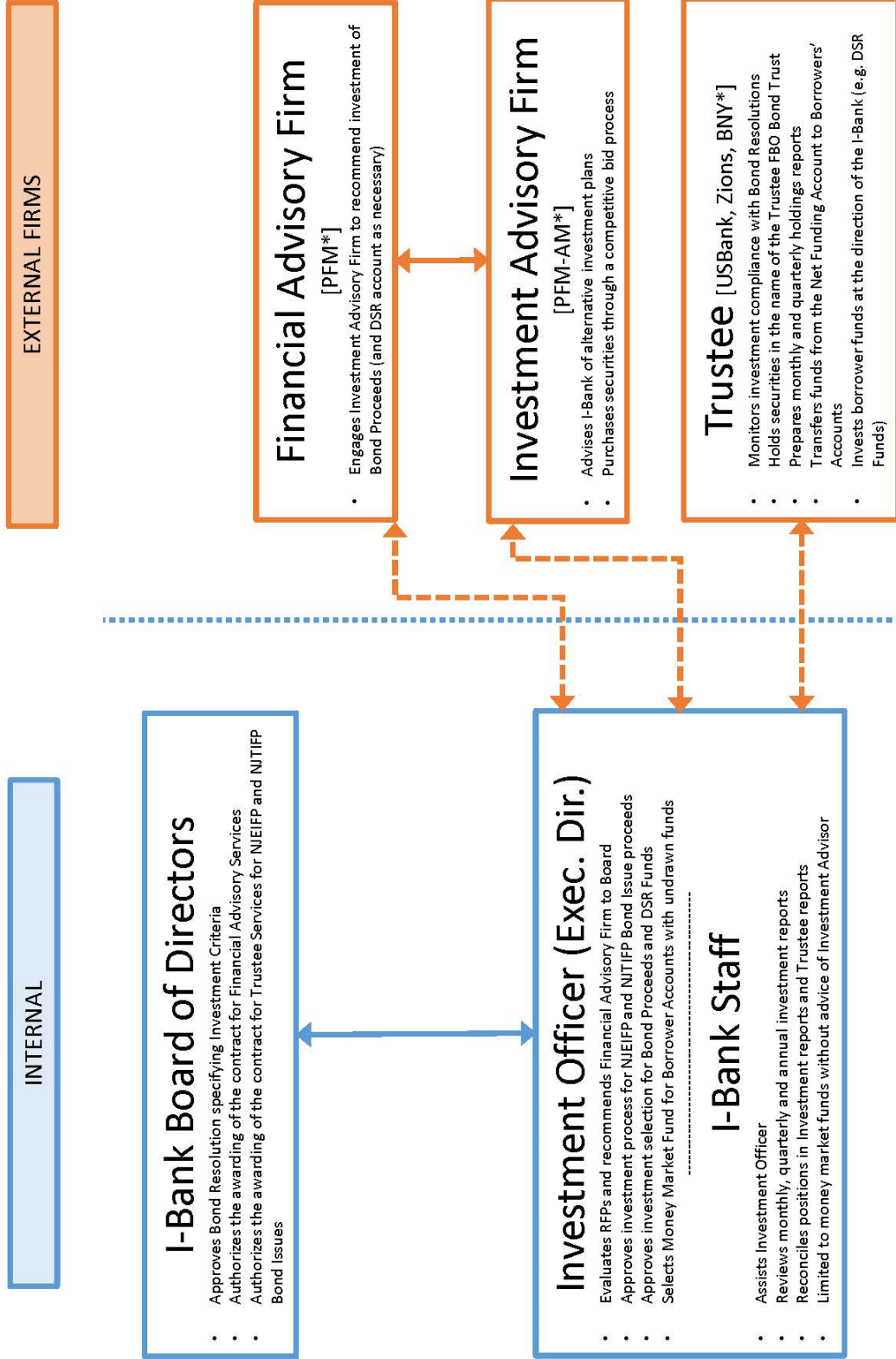
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# 1. Responsibilities – I-Bank CA\$H-on-Hand



\* [External firms] which are currently under contract. Continued service subject to competitive bid procurement.

## 2. Responsibilities - Bond Proceeds



\* [External firms] which are currently under contract. Continued service subject to competitive bid procurement.

## **I. Purpose**

The purpose of this Investment Policy Statement (“Policy”) is to set forth the investment and operational policies for the management of the Investment Activities (“Activities”) on behalf of the New Jersey Infrastructure Bank (“I-Bank”).

The underlying policies are designed to ensure that the Activities are consistent with the I-Bank’s overall financial needs and result in compliance with the Policy, the prudent management of invested funds, the timely availability of operating, administrative, and capital funds, all while generating a sound Investment Return.

Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in “Investment Policy Defined Terms” attached hereto as Exhibit A.

## **II. Scope**

This Policy governs the overall administration and investment management of all funds available for investment (“Investment Portfolio”) by or on behalf of the I-Bank, including, without limitation, the Proceeds of bonds or notes issued by the I-Bank, funds utilized for Debt Service Reserve purposes, funds of the State of New Jersey, funds appropriated to the New Jersey Department of Environmental Protection (“DEP”) and funds appropriated to the New Jersey Department of Transportation (“DOT”). This Policy may only be superseded by and shall be subject to the terms and provisions of (i) bond resolutions duly adopted by the I-Bank and specific to bonds or notes issued by the I-Bank and the Proceeds of such bonds or notes, and (ii) the New Jersey State Investment Code for funds of the I-Bank, the State, the DEP or the DOT. This Policy shall apply to Investment Portfolio funds from the time of receipt until such time that the funds are no longer held by or on behalf of, or are the responsibility of, the I-Bank. The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the Activities and management or administration of the Investment Portfolio, including I-Bank staff, I-Bank Board members, I-Bank’s executive personnel, and, when applicable, the I-Bank’s outside Investment Advisory Firm.

## **III. Investment Objectives**

The primary objective of the I-Banks’s Activities, in order of priority, shall be (i) safety of Principal, (ii) Liquidity, and (iii) yield/Investment Return.

### **1. Safety of Principal**

Safety of Principal is the foremost objective of the Activities. The objective is to mitigate both credit risk and interest rate risk.

#### **a. Credit Risk**

The I-Bank will seek to minimize credit risk, defined as the risk of an adverse change in market value or loss of Principal due to either (i) the actual or perceived failure of the Issuer of any security held in the I-Bank’s portfolio, or (ii) the actual or perceived failure



of an Investment Intermediary performing investments services to the I-Bank by:

- Limiting investments to the types of securities listed in Section VI of this Policy;
- Pre-qualifying the Financial Institutions, Brokers/Dealers, intermediaries, and advisors with which the I-Bank will do business (See Section VII.3 of this Policy for specific criteria);
- Diversifying the Investment Portfolio so that the impact of potential losses from any single asset class or Issuer will be minimized;
- Limiting Counterparty Risk by following the provisions in Section VII.3 of this Policy, maintaining an approved list of pre-approved counterparties, and having programs in place to monitor those pre-approved counterparties. The I-Bank may rely on outside Investment Advisory Firm(s) for maintaining the list of pre-qualified counterparties and having adequate Due Diligence programs in place; and
- Limiting the Trading Exposure or the amount of trades outstanding with any one counterparty at any given time. Except for Activities associated with bond sale Proceeds, neither the I-Bank nor any of its representatives shall execute and have outstanding investment trades with one counterparty at any given time, whereby the Principal amount represented by such trades exceeds 20% of all Investable Funds thereby minimizing the risk of loss or litigation to the Investment Portfolio should the counterparty be unable to fulfill its obligation for any reason.

b. Interest Rate Risk

The I-Bank will seek to minimize interest rate risk, the risk that the market value of securities in the portfolio will fall due to rising interest rates, by:

- Structuring the Investment Portfolio so that security maturity dates meet cash requirements for ongoing operations, and that Durations are managed in-line with the liability nature of each individual fund, thereby avoiding the need to sell securities prior to Maturity.
- Limiting the Duration of each individual account to between 85% and 110% of the Duration of the identified Benchmark for each account. Such Durations shall be identified each quarter and investment compliance of this requirement shall be stated in the I-Bank's quarterly performance reports.

**2. Maintenance of Liquidity**

The Investment Portfolio shall be structured to meet all operating requirements that may be reasonably anticipated. This shall be accomplished by structuring the Investment Portfolio so that securities mature concurrent with cash needs to meet anticipated demands (Static Liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist of securities with active secondary or resale markets (Dynamic Liquidity).

Monthly cash flow analyses will be conducted by the Investment Officer, with the assistance of the Investment Advisory Firm to ensure that the Investment Portfolio is positioned to provide sufficient Liquidity.

### **3. Return on Investment**

The Investment Portfolio shall be designed with the objective of attaining an optimized market Rate of Return throughout budgetary and economic cycles, taking into account the investment risk constraints and Liquidity needs of the I-Bank. Return on Investment is of secondary importance compared to the safety and Liquidity objectives described above.

## **IV. Internal Procedure and Governance**

### **1. Investment Committee**

Duly appointed members of the NJIB Board of Directors (“Board”) shall be appointed by Board resolution to serve as the I-Bank’s Investment Committee (“Investment Committee”). The Investment Committee shall meet at a minimum of once a year to review the progress of the Activities. By adoption of this Policy, the Board hereby grants oversight of the Activities to the Investment Committee. The Investment Committee may, at its discretion, refer any matter to the Board for discussion and action.

This Policy shall be reviewed at least annually by the Investment Committee and the Investment Officer (as hereinafter defined) to ensure its (i) consistency with the overall objectives of the I-Bank and the Activities (ii) compliance with applicable law, as well as (iii) relevance to financial and economic trends. Any modifications to this Policy will be recommended by the Investment Officer to the Committee and approved by the Board.

### **2. Delegation of Authority**

Management responsibility for the Activities is delegated by the Board to the I-Bank’s Executive Director (herein referred to as the “Investment Officer”), with support from the Assistant Director of the I-Bank and the Chief Financial Officer of the I-Bank, and under the general direction of the Investment Committee. The Investment Officer shall act in accordance with established written procedures and internal controls for the operation of the Activities in a manner consistent with this Policy. If so affirmed by the Investment Committee and in accordance to the Investment Advisory Firm selection process as detailed in Section IV.3 of this Policy, the Investment Officer may delegate certain investment management responsibilities to an outside Investment Advisory Firm. The Investment Advisory Firm must abide by all terms of this Policy as stipulated in the terms of the contract for Investment Services agreed to by the Investment Advisory Firm and the I-Bank.

### **3. Competitive Selection of Investment Advisory Firm**

It may be the policy of the I-Bank to delegate certain investment management responsibilities to a qualified institution through a formal and competitive Investment Advisory Firm selection process.

The I-Bank shall solicit bids through a Request for Proposal (“RFP”) and evaluate all received responses. An Evaluation Committee, made up of no fewer than three (3) staff members of the I-Bank, including the Investment Officer, (the “Evaluation Committee”) shall review the proposals submitted in response to the RFP. Through the Evaluation

Committee, the Investment Officer shall make recommendations to the Investment Committee, which will then evaluate these recommendations and make a final recommendation to the Board. Proposals will be evaluated based on the major evaluation criteria set forth in the Procurement Policy and considering the following factors:

- The proposed cost for services and the methodology stated for setting Investment Advisory Firm compensation;
- The Investment Advisory Firm’s experience and capability to efficiently manage funds, maintain accounts and records, and provide all required services;
- The experience and qualifications of the Investment Advisory Firm’s team proposed for the Activity;
- The sufficiency of the Investment Advisory Firm’s assets to assume and execute required responsibilities;
- The Investment Advisory Firm’s reputation as a respected, nationally known, experienced investment management firm;
- Investment Services available and offered by the Investment Advisory Firm; and
- The Investment Advisory Firm’s online capabilities and functionality available to the I-Bank.

## V. Standards of Care

### 1. Standards of Prudence

There are currently two commonly accepted standards of care in the United States with respect to the general management of investment funds; (i) Prudent Person Rule and (ii) Prudent Expert Rule:

- (i) Prudent Person Rule directs fiduciaries as follows - “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” (*Harvard College v. Armory (1830) MA*).
- (ii) Prudent Expert Rule directs fiduciaries as follows – A portfolio shall be managed “with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent man acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.” (*Employee Retirement Income Security Act (ERISA), Section 404(a)(1)(B)*).

*(n.b. The main difference between these standards is the “familiar with such matters” clause, which suggests a higher level of standard required by the “Expert” and the acceptance of a portfolio approach to investments under the Expert Rule which allows for greater flexibility involving individual investment decisions).*

Management of the I-Bank's investment Activities, responsibilities and action, as outlined in this Policy, by the I-Bank Board, Investment Committee, Investment Officer, and staff regarding funds available for investment on the I-Bank's behalf shall be subject to the "Prudent Person" standard. Further, the Investment Officer and staff, acting in accordance with this Policy and exercising Due Diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that any deviations from the Policy are reported to the Committee in a timely fashion.

While the Prudent Person Rule is the standard of prudence to be used by investment officials who are officers or employees of the I-Bank, any person or firm, including, without limitation, the Investment Advisory Firm, hired or retained to invest, monitor, or advise the I-Bank concerning the Investment Portfolio and the Activities shall be held to the higher standard of "Prudent Expert".

## **2. Ethics and Conflict of Interest**

Any person involved in the investment process and the Activities, either employed by the I-Bank, or hired as an advisor to the I-Bank, including, without limitation, the Investment Advisory Firm (including any individual employed thereby who is assigned by such employer to provide services to the I-Bank, on behalf of such employer, in connection with this Policy), shall refrain from personal business activity that could conflict with the proper execution and management of the Activities, or that could impair their ability to make impartial decisions. These persons shall not:

- 1) Accept any money, loan, gift, favor, service, or business or professional opportunity that could influence them in the performance of their official duties with respect to the Activities;
- 2) Accept any business or professional opportunity when they know there is a reasonable likelihood that the opportunity is being afforded to influence them in the performance of their official duties;
- 3) Enter into any personal investment transactions with the same individual with whom business is conducted on behalf of the I-Bank; or
- 4) Disclose or use confidential information that is not generally available to the public for their own or another person's financial benefit.

The responsibilities of I-Bank employees pursuant to the State of New Jersey Conflict of Interest's standards and Rules of Professional Conduct are neither superseded nor limited by this Policy.

## **VI. Authorized Investments and Asset Classes**

The I-Bank is permitted to invest in those investment securities and vehicles that are specifically listed below, provided, however, that, at the time any investment is made, (i) such investment shall be (a) permitted pursuant to the rules and regulations of the New Jersey State Investment Council or (b) approved by the Director of the Division of Investment in the Department of the Treasury upon a finding that such investments are consistent with the corporate purposes of the I-Bank, and (ii) if and to the extent the amounts being invested

constitute Proceeds of bonds or notes of the I-Bank, such investment shall be permitted pursuant to the terms and provisions of the duly adopted bond resolution of the I-Bank pursuant to which such bonds or notes were issued.

Investments made without the advice of the Investment Advisor should be limited to, permissible money market funds.

Credit criteria listed in this section refer to the credit of the issuing organization at the time the security is purchased. Only credit ratings of Nationally Recognized Statistical Rating Organizations (“NRSRO”) will be observed and considered, including Standard & Poor’s, Moody’s Investor Service, and Fitch Ratings Service. Ratings are provided by category. For example, the second highest rating category will include bonds rated AA+, AA and AA- for Standard & Poor’s and Fitch Ratings and Aa1, Aa2 and Aa3 for Moody’s Investors Service.

Investment Portfolio percentage restrictions by security type and Issuer are applicable only on the date of purchase of the investment and are based on market value at the Investment Portfolio fund level as defined by the State’s Investment Policy. All Funds related to each specific program of the NJIB shall be treated as separate investment portfolio funds pursuant to the State’s Investment Policy and held in segregated accounts at one or more Custodial Banks.

## **1. Government Investments**

- 1) Direct Obligations of the United States of America and securities fully and unconditionally guaranteed as to the Timely Payment of Principal and interest by the United States of America, provided that the Full Faith and Credit of the United States of America must be pledged to any such Direct Obligation or guarantee (“Direct Obligations”).
  - a. Sector Limit: the I-Bank may hold 100% of the Investment Portfolio in this asset class.
  - b. Maturity Limit: no greater than twenty (20) years at time of purchase.
- 2) Any obligation that a Federal Agency or a Federal Instrumentality has issued in accordance with an act of Congress.
  - a. Sector Limit: the I-Bank may hold up to 75% of the Investment Portfolio in this asset class.
    - Mortgage-Backed Securities shall make up no more than 10% of the Investment Portfolio.
  - b. Issuer Limit: no single Issuer shall exceed 35% of the Investment Portfolio.
  - c. Maturity Limit: no greater than ten (10) years at time of purchase, unless the security type is a Callable or Mortgage-Backed Security. Callable Federal Agency Securities shall be further limited to a five (5) year Maturity limit at the time of purchase. Mortgage-Backed Securities shall have a maximum Duration no greater than five (5) years at the time of purchase.
- 3) Municipal Obligations. Taxable and tax-exempt securities issued only by states and state agencies in the United States may be purchased if the following conditions are

met:

- a. Sector Limit: up to 30% of the Investment Portfolio may be invested in Municipal Obligations as described above.
  - b. Issuer Limit: no single Issuer shall exceed 5% of the Investment Portfolio.
  - c. Maturity Limit: no greater than five (5) years at the time of purchase.
  - d. Credit Quality: the Issuer has a long-term debt rating in one of the two highest categories by at least two NRSROs and is rated not lower than AA (or its equivalent) by any one NRSRO, or a minimum short-term rating in the top category by at least two NRSROs, depending on whether the security is issued with short-term or long-term ratings.
- 4) Municipal Obligations of Local Units, Subject to Limited Circumstances. Such municipal obligations as are described in Addendum #1 hereto, as and to the extent permitted therein.

## **2. Money Market and Money Market-like Investments**

- 1) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52: 18A-90.4), if the following conditions are met:
  - a. Sector Limit: up to 100% of the Investment Portfolio may be invested in this asset class.
- 2) Money Market Mutual Funds may be purchased, if the following conditions are met:
  - Fund must be registered with the U.S. Securities and Exchange Commission (“SEC”) as a Money Market Mutual Fund, comply with SEC Rule 2a-7, and maintain a stable Net Asset Value (“NAV”);
  - Investment is permitted in Treasury-Only, Government and “Prime” funds;
  - Fund sponsor must be domiciled in the United States of America; and
  - Before investing in any fund, the most current prospectus must be obtained and reviewed by the Investment Officer or the Investment Advisory Firm.
  - a. Sector Limit: up to 100% of the Investment Portfolio may be invested in this asset class.
  - b. Fund Limit: The I-Bank may hold 100% of the Investment Portfolio in Treasury-only or Federal Government-only funds. No other single fund shall exceed 50% of the Investment Portfolio.
  - c. Credit Quality: the fund is rated in the top Money Market Mutual Fund category by any one NRSRO.
- 3) Agreements for the repurchase of fully Collateralized securities, if:
  - The Custody of Collateral is transferred to a Third Party;
  - The Maturity of the agreement is not more than 30 days;
  - The underlying securities are purchased through a Public Depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41);
  - A Master Repurchase Agreement providing for the custody and security of collateral is executed; and
  - The Fair Market Value of the securities in relation to the amount of the

repurchase obligation, including Principal and interest, must be equal to at least 102%.

- a. Sector Limit: up to 10% of the Investment Portfolio may be invested in this asset class.
- b. Issuer Limit: no single Issuer shall exceed 10% of the Investment Portfolio. For purposes of clarity, other than short-term, Repurchase Agreements described in this Section (VI.2), Guaranteed Investment Contracts (GICs), Forward Delivery Agreements and other such Structured Investment Products are prohibited investments unless agreed to on a case-by-case basis by a vote of the full Board.

### 3. Corporate Securities

Corporate Debt instruments, including Commercial Paper, Corporate Notes, Certificates of Deposit, Bank Deposit Notes, and Bankers' Acceptances. In aggregate, these instruments are limited by Sector and Issuer as follows:

- Sector Limit: in the aggregate, up to 50% of the Investment Portfolio may be invested in Corporate Debt instruments of the types listed below;
- Industry Limit: in aggregate, no greater than 25% of the Investment Portfolio may be invested in Corporate Debt Issuers that are categorized by industry type as "Financials"; and
- Issuer Limit: no single Corporate Debt Issuer shall exceed 5% of the Investment Portfolio.

- 1) **Bankers' Acceptances.** Bankers' Acceptances issued by a domestic bank or a Federally Chartered Domestic Office of a foreign bank, which are eligible for purchase by the Federal Reserve System may be purchased for the Investment Portfolio if the following conditions are met:

- Maturity Limit: no greater than one hundred-eighty (180) days; and
- Credit Quality: the issuing corporation, or its guarantor, has a short-term debt rating in the highest category by at least two NRSROs.

- 2) **Commercial Paper.** Unsecured short-term debt of U.S. domiciled corporations may be purchased for the Investment Portfolio if the following conditions are met:

- Maturity Limit: no greater than two hundred-seventy (270) days; and
- Credit Quality: the issuing corporation, or its guarantor, has a short-term debt rating in the highest category by at least two NRSROs.

- 3) **Certificates of Deposit and Bank Deposit Notes.** Deposit obligations of domestic banks and Federally Chartered Domestic Offices of foreign banks may be purchased for the Investment Portfolio if the following conditions are met:

- Maturity Limit: no greater than one (1) year at the time of purchase; and
- Credit Quality: the issuing corporation, or its guarantor, has a short-term debt rating in the highest category by at least two NRSROs or a long-term debt rating in the highest two categories by at least two NRSROs and is rated not lower than A (or its equivalent) by any one NRSRO.

- 4) **Corporate Notes.** Senior debt obligations issued by corporations organized and operating under the laws of the United States may be purchased if the following conditions are met:
- Maturity Limit: no greater than five (5) years at the time of purchase; and
  - Credit Quality: the issuing corporation has a long-term debt rating in one of the three highest categories by at least two NRSROs and is rated not lower than A (or its equivalent) by any one NRSRO.

## **VII. Policy Considerations**

### **1. Credit Downgrade**

If a security(ies) in the Investment Portfolio is downgraded to a level below the quality required by this Policy, the Investment Officer shall consult with the Investment Advisory Firm to review the credit situation of the security(ies). Upon completion of such review, the Investment Officer shall make a determination as to whether to sell or retain such security(ies) in the Investment Portfolio and provide a written report to the Committee, informing the Committee of the situation, the investment decision, and the justification for a such a decision.

If a decision is made to retain a downgraded security in the Investment Portfolio, its presence in the Investment Portfolio will be monitored and reported monthly, in writing, to the Investment Officer and the Committee.

### **2. Exemptions**

If the Investment Portfolio falls out of compliance with this Policy, the Investment Advisory Firm shall notify the Investment Officer and present a plan of action, the objective of which will be to bring the Investment Portfolio back into compliance with the Policy. The Investment Officer shall provide regular written reports with respect to such developments to the Committee for as long as the Investment Portfolio is non-compliant with this Policy.

### **3. Authorized Financial Institutions**

All transactions of individual investments shall be executed with qualified Broker/Dealers that meet all of the following criteria:

- a. Primary Dealers and regional Dealers that qualify under Securities and Exchange Commission Rule 15c3-1 (uniform net capital rule);
- b. Capital of at least \$25,000,000;
- c. Registered as a Dealer under the Securities Exchange Act of 1934;
- d. Member of the Financial Industry Regulatory Authority (FINRA);
- e. Registered to sell securities in the State of New Jersey; and
- f. Engaged in the business of effecting transactions in authorized investments of this Policy for at least five (5) consecutive years.

The I-Bank may delegate the selection of qualified Broker/Dealers to its Investment Advisory Firm.



#### **4. Sale of Securities**

From time to time, securities held in the Investment Portfolio may be traded for other similar securities to improve yield, Maturity, and/or credit risk. For these transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security:

- a. Yield has been increased;
- b. Maturity has been adjusted in anticipation of interest rate changes; or
- c. Quality of the investment has been improved.

#### **5. Competitive Selection of Investment Instruments**

It will be the policy of I-Bank to transact all security purchases/sales only with qualified institutions through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers. The I-bank will accept the offer which (a) provides the highest Rate of Return within the Maturity required; and (b) optimizes the investment objective of the overall Investment Portfolio. When selling a security, the I-bank, or when designated, the Investment Advisory Firm on behalf of the I-Bank, will select the bid that generates the highest sale price. A report of all bid results shall be electronically transmitted or faxed, by the Investment Advisory Firm, the Financial Advisor or other Financial Intermediary who was responsible for managing the bid process, to the Investment Officer for additional record keeping at the I-Bank. Records of all transactions shall be stored electronically and made available by the Investment Officer to any member of the Committee upon request.

### **VIII. Safekeeping and Custody**

All investment securities purchased for the Investment Portfolio or held as collateral on deposits or investments shall be held by the I-bank or by a third-party Custodial Agent who may not otherwise be a counterparty to the investment transaction. All securities in the Investment Portfolio shall be held in the name of the I-Bank.

Further, all investment transactions will be conducted on a Delivery vs. Payment (DVP) basis. DVP is a means of limiting risk in financial transactions, whereby payment is made through a third-party intermediary simultaneously as securities are delivered and accepted. The Custodial Agent shall issue a safekeeping receipt to the I-Bank listing the specific instrument, Rate, Maturity, and other pertinent information. On a monthly basis, the Custodial Agent will also provide reports that list all securities held for the I-Bank, including the book and market values of holdings as of month-end. The I-Bank will reconcile its account holdings monthly with its custodian's records.

### **IX. Performance Standards**

The Investment Portfolio shall be structured and managed with the objective of obtaining a market Rate of Return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cashflow needs of the I-Bank. Appropriate Benchmarks shall

be selected for comparison to the various accounts that make up the Investment Portfolio and identified in all quarterly performance reports to the Committee.

## **X. Reporting**

The Investment Officer shall prepare or have prepared an investment report on a monthly basis. The report will include the following:

- a. Listing of individual securities held at the end of the reporting period.
- b. Listing of investments by Maturity date.
- c. Percentage of the total portfolio that each type of investment represents.
- d. Average Weighted Yield to Maturity of investments.

Additionally, on at least a quarterly basis, the Investment Officer shall prepare or have prepared a written investment report that, in addition to the above requirements, includes a management summary that provides analysis of the status of the current Investment Portfolio and transactions made over the last quarter. The Investment Officer shall provide the quarterly overview report to the Committee. The report will show the investments held in, and performance for, the Investment Portfolio and individual accounts, and shall include a comparison to the relevant Benchmarks for each account, for the current quarter and year-to-date period.

## **XI. Exceptions to this Policy; Inconsistent Provisions**

(1) In the event of purchases or sales of municipal obligations of Local Units pursuant to Section (VI)(1)(4) of this Policy and Addendum #1, those requirements of this Policy as identified in Addendum #1 hereto shall not apply to such purchases as and to the extent provided in Addendum #1 hereto.

(2) Exceptions to this Policy are prohibited without the prior written approval of the I-Bank Board.

## **XII. Investment Policy Adoption**

This Policy is adopted by the Board of Directors of the I-Bank this 9<sup>th</sup> day of April 2020.

## **XIII. Exhibit A: Defined Terms**

**Advisory Firm:** A firm that provides professional investment or financial advice to an organization or an individual for a fee. The primary purpose of an Advisory Firm in this case, is to provide subject matter expertise as well as access to industry-specific specialists and advisors.

**Average Weighted:** To aggregate data into an average, based on the relative value weights of each data point. For example, to calculate the average interest rate of a group of securities,

it is useful to calculate the average on a weighted basis, with the yield of each security being given a weighting based on the dollar value of that security as a percentage of the dollar value of all the securities.

**Bankers Acceptances:** A type of investment that is used to facilitate trade transactions between two entities, especially useful in trading international goods. Bankers' Acceptances are used as a short-term investment instrument and are usually traded at a discount from face value on the basis of the credit quality of the guaranteeing bank. Typically issued with maturities less than one year; may be rated with a short-term rating by any NRSRO (see subsequent definition).

**Bank Deposit Notes:** A debt security issued by a bank and backed by federal deposit insurance up to the FDIC insurance coverage amount (the current standard deposit insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category).

**Benchmark:** An Investment Portfolio whose overall performance is used as a market index for measuring the comparative performance of a managed Investment Portfolio. A performance Benchmark should represent a close correlation to the investment guidelines and risk tolerance of the managed Investment Portfolio.

**Bond Proceeds:** The total monies paid to the Issuer by the purchasers of a new issue of bonds.

**Broker/Dealers:** A person or firm transacting securities business with customers. A Broker acts as an agent between buyers and sellers and receives a commission for these services. Dealers trade financial assets from their own Investment Portfolios, placing their own capital at risk in the trade. A Dealer takes risk by owning an inventory of securities, whereas a Broker merely matches up buyers and sellers.

**Callable Bond/Security:** Securities which contain an option that provides the Issuer the right to redeem the securities prior to the stated original Maturity, at a predetermined price and time.

**Certificates of Deposit (CDs):** Obligations issued by a bank or thrift institution, generally offering a fixed Rate of Return for a specified period of time. CDs may be rated with a short-term or long-term rating, depending on the original Maturity date and may be backed by FDIC insurance coverage.

**Collateralized:** Process by which a borrower pledged securities, property, or other deposits for securing the repayment of a loan and/or security.

**Commercial Paper:** Short-Term unsecured Corporate (promissory) Notes, issued at a discount with a redemption value at Maturity equal to par or face value. Maximum Maturity is typically 270 days; may be rated with a short-term rating by an NRSRO.

**Corporate Notes/Debt:** Unsecured debt instruments issued by a corporation with a Maturity of greater than one year; may be rated with a long-term rating by an NRSRO.

**Counterparty Risk:** The risk that the other party to a transaction will fail in its related obligations. For example, in the case of buying a security, the risk that the Broker/Dealer will not deliver the security to an entity's custodian on the agreed-upon date.

**Custody of Collateral:** Collateral (including but not limited to cash, Government securities, securities, real estate, commodities, and assets) held by a Custodial Agent.

**Credit Downgrade:** A reduction in the rating assigned to an Issuer. A rating agency downgrades the debt of a company or governmental entity when its ability to meet its financial obligations deteriorates or is expected to deteriorate.

**Custodial Agent:** A Financial Institution that holds a customer's securities, in the customer's name, to minimize the risk of their theft or loss. Service normally includes the holding and reporting of the customer's securities and values, the collection and disbursement of income/coupon payments and maturities received.

**Debt Service Reserve Fund:** An account usually funded in whole or in part with Bond Proceeds. This account is set aside in reserve to pay debt service if revenue sources are insufficient to pay debt service.

**Delivery vs. Payment (DVP):** Settlement procedure in which securities are delivered simultaneously upon the transfer of cash payment for said securities. Most security transactions are performed via DVP as a protection for both parties to a transaction.

**Direct Obligation:** A security issued under obligation of the U.S. Government, backed by the Full Faith and Credit of the Federal Government.

**Due Diligence:** Exercising proper care when presenting or acting on a potential investment, idea, or strategy, with a goal of avoiding or preventing unanticipated harm.

**Duration:** A measurement of interest rate sensitivity, which shows the effective Maturity of a fixed income obligation, using the average of the time to each revenue stream (coupon or Principal payment) made on the obligation on a weighted basis. The greater the Duration of an obligation, the greater the percentage price sensitivity/volatility with respect to changes in interest rates.

**Dynamic Liquidity:** Obligations having active secondary or resale markets.

**Fair Market Value:** The price that a given asset or security is expected to sell for in the market, at a specific point in time.

**Federal Agency:** Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a Financial Intermediary by borrowing in the

marketplace (issuing bonds and notes) and directing Proceeds to specific areas of the economy. The most common federal agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, and TVA.

**Federal Instrumentality:** An entity that serves a public purpose and is closely tied to federal and/or state government.

**Federal Reserve System:** The independent central bank system of the United States that establishes and conducts the nation's monetary policy. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven-member Board of Governors known as the "Federal Reserve Board" and led by its Chairman.

**Federally Chartered Domestic Office:** Financial Institutions authorized and regulated by the federal government rather than the state government.

**Financial Institutions:** An entity that focuses its business on transacting in the financial markets, such as investments, loans and deposits. Conventionally, Financial Institutions are composed of organizations such as banks, Broker/Dealers, custodians, insurance companies, and trust companies.

**Financials:** Issuers that focus their business on providing financial services, such as banks and trust companies.

**FINRA:** Financial Industry Regulatory Authority, a private corporation that acts as a self-regulatory organization (SRO), performing financial regulation of member brokerage firms and exchange markets. FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD).

**Forward Delivery Agreements:** An agreement for the delivery of an underlying asset at a date agreed upon in a forward contract. At the Forward Delivery date, one party will supply the underlying asset and the other will purchase the asset at a price agreed upon at the onset of the contract or trade date.

**Full Faith and Credit:** The unconditional guarantee that accompanies the interest and Principal of obligations issued by in this case, either the United States of America or U.S. Municipalities.

**Guaranteed Investment Contracts (GICs):** Insurance contracts that guarantee the repayment of Principal and a fixed or floating interest rate for a predetermined period.

**Government MM:** A Money Market Mutual Fund that invests in high-quality, short-term Money Market instruments that consist of U.S. Government obligations and Repurchase Agreements Collateralized by U.S. Government obligations.

**Intermediary:** An entity that acts as a Broker between two parties in a financial transaction.

**Investable Funds:** The aggregate amount of funds available for investment.

**Investment Committee:** The Committee, made up of certain members of I-Bank Board of Directors, according to the I-bank's Investment Policy which oversees the investment and operational policies and Activities for I-Bank investment program.

**Investment Portfolio:** All funds available for investment on I-Bank behalf.

**Investment Return:** Investment performance measured over a period of time that includes income received and any realized and unrealized gains or losses. Realized gains are captured when a security is sold, whereas unrealized gains are estimated gains on paper for current holdings and are thus not yet realized.

**Investment Services:** Those services offered by an investment advisor related to the prudent management of the I-Bank's Investment Portfolio.

**Issuer:** An entity that develops, registers, and sells securities for financing its operations. Issuers are legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational Activities required by the regulations of their jurisdictions.

**Liquidity:** The relative ease of converting an asset into cash; also, a relative measure of cash and near-cash items in a portfolio of assets.

**Local Unit:** A New Jersey county or municipality.

**Long-Term Debt Rating:** An NRSRO's forward-looking opinion of the general creditworthiness of an Issuer over a period exceeding the next 365 days.

**Master Repurchase Agreement:** An agreement that is used to govern and document Repurchase Agreements (see subsequent definition) and protect the interest of parties in a Repurchase Agreement transaction.

**Maturity:** Date on which the final Principal payment of a financial obligation is to be paid and the obligation satisfied in full.

**Maturity Limit:** A limit to the length of time until financial obligations reach Maturity, set forth by an entities' investment policy.

**Money Market Funds:** A type of mutual fund generally believed to provide daily Liquidity, which invests solely in short-term market instruments, generally having maturities less than one year such as: U.S. Treasury bills, Commercial Paper, Bankers' Acceptances, and Repurchase Agreements.

**Mortgage-Backed Securities:** Mortgage-Backed Securities represent an ownership interest in a pool of mortgage loans made by Financial Institutions, to finance the borrower's

purchase of a home or other real estate. The majority of Mortgage-Backed Securities are issued by Federal Agencies, including GNMA, FNMA and FHLMC. Mortgage- Backed Securities carry specific reinvestment risks as Principal and interest payments are uncertain and dependent on the timing of payments on underlying mortgages as determined and paid by the mortgage borrowers (homeowners). Expected payment streams are sometimes “prepaid,” when homeowners refinance or sell their properties.

**Municipal Obligations:** A security issued by a state, municipality, or county to finance its capital expenditures.

**Net Asset Value (NAV):** The market value of one share of an investment company, such as a Money Market Mutual Fund.

**New Jersey State Investment Code:** Regulations, including those of the New Jersey State Investment Council, governing the permitted investments as well as the limitations of investments in various assets and securities for public entities operating in New Jersey.

**NRSRO:** Nationally Recognized Statistical Rating Organization, an organization of which the SEC has deemed to have a strong national presence in the United States of America. Examples include: Fitch, Moody’s, and S&P.

**Prime MM:** A Money Market Mutual Fund that invests in high-quality, short-term Money Market instruments that consist of U.S. Government obligations, Repurchase Agreements, and Corporate Debt instruments.

**Principal:** The face value of a financial instrument on which interest accrues, or the original investment amount.

**Prudent Person:** A legal adage restricting a fiduciary’s discretion in a client’s account by directing that “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” (*Harvard College v. Armory (1830) MA*).

**Prudent Expert:** A measure contained in Section 404(a)(1)(B) of the Employee Retirement Income Security Act (ERISA) that requires the fiduciary of a defined contribution retirement plan to use the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent man acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.” The “familiar with such matters” language has been interpreted to mean “expert”. This language creates an important distinction from the earlier Prudent Person guideline, in that it holds fiduciaries to a stricter standard of care and action. In addition, the Prudent Expert identification of a portfolio approach suggests that individual

security decisions, taken out of context of an entire portfolio, may be imprudent.

**Public Depository:** A public entity that accepts deposits of cash for safekeeping of behalf of the depositor.

**Rate:** Amount of expected earnings/(payments) received/(owed) from/(on) an investment/(liability), expressed as a percentage of the funds that were invested/(borrowed).

**Repurchase Agreement:** A short-term investment vehicle in which an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the Agreement.

**Return on Investment (ROI):** The economic benefit of investing. ROI is calculated by first subtracting the cost of the investment from the gains of the investment, then dividing the difference by the cost of the investment. (See below.)

$$\frac{[(\text{Gain from Investment}) - (\text{Cost of Investment})]}{(\text{Cost of investment})}$$

**SEC Rule 2a-7:** Rule 2a-7 of the Investment Company Act of 1940, which restricts the quality, Maturity, and diversity of investments by Money Market Funds.

**Sector Limit:** The maximum amount of money that an entity can invest in any one asset class. Sectors are widely defined as U.S. Treasuries, federal agencies, Corporates, Municipals, and Money Market Funds.

**Short-Term Debt Rating:** Short-Term Debt Rating looks at the probability of an entity defaulting or being unable to repay a financial obligation within a one-year time frame. In contrast, a Long-Term Debt Rating evaluates the same probability beyond the one-year time horizon.

**State of New Jersey Cash Management Fund:** An NAV money-market-like investment fund, administered and managed by the New Jersey Department of Treasury, which provides a legal depository for State, municipal or school district funds.

**Static Liquidity:** Structuring an Investment Portfolio such that securities will mature, and investment funds will be available in cash form concurrent with the expected cash demands/Liquidity needs of the investor.

**Structured Investment Products:** Investment products designed to specifically meet an investor's financial needs, typically derived from a security, portfolio of securities, index, commodity, or debt issuances.

**Third Party:** An individual or entity that is involved in a transaction but is not one of the principals.



**Timely Payment:** A payment that has been paid on or before the due date, to ensure there is no default or accrual of any interest or penalties.

**Trading Exposure:** The dollar amount of outstanding trades with a single counterparty, expressed as a percentage of Investable Funds of the I-Bank. The I-Bank has established a limit such that the amount of outstanding trades with any one counterparty shall not exceed 20% of Investable Funds of the I-Bank and thereby has mitigated the risk that the default of any single trading counterparty cause irreparable harm to the I-Bank's Investment Portfolio.

**Treasury Securities:** Collective term used to describe debt instruments backed by the U.S. Government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds.

**Treasury-only MM:** A Money Market Mutual Fund that invests in nothing but short-term U.S. Treasury Securities and other securities that are 100% backed by U.S. Treasuries.

**Yield to Maturity:** Calculated Return on Investment (ROI), assuming all cash flows from the security are reinvested at the same original yield. There are different day count conventions for calculating YTM for various types of securities.

## ADDENDUM #1

### TO THE INVESTMENT POLICY OF THE NEW JERSEY INFRASTRUCTURE BANK

#### Local Unit BAN Investment Policy

- I. **Policy:** In addition to those investment securities and vehicles that are specifically identified in Section VI of the Investment Policy, the I-Bank may, upon the occurrence of a state-wide emergency as formally declared by the Governor of the State of New Jersey, invest in tax-exempt and taxable bond anticipation notes issued pursuant to the Local Bond Law (each, a “BAN” or “BANs” and, collectively, the “BANs”), that are issued by New Jersey counties and municipalities (each, a “Local Issuer” or a “Local Unit”), as such BANs are more thoroughly defined in Section I(1), below, subject to satisfaction of each of the following conditions set forth in Section I, below, as well as the closing requirements set forth in Section II, below:
  1. **Qualifying BANs:** The BANs that may be the subject of an investment by the I-Bank, pursuant to the terms hereof, shall be limited to those BANs that are both (i) issued as a “roll-over” or a “renewal” by a Local Unit of its previously-issued BAN that has reached its maturity date, and (ii) the subject of a “Failed Sale” as defined in Section I(9) hereof;
  2. **Investment Council Regulations:** Such investments by the I-Bank in BANs issued by Local Issuers shall be (i) permitted pursuant to the rules and regulations of the New Jersey State Investment Council or (ii) approved by the Director of the Division of Investment in the Department of the Treasury upon a finding that such investments are consistent with the corporate purposes of the I-Bank;
  3. **Available Liquidity:** The Investment Officer, in consultation with (i) the Advisory Firm that serves as the financial advisor to the I-Bank with respect to the particular I-Bank Financing Program from which the funds to be invested are derived (the “Financial Advisor”), and (ii) a representative of the New Jersey Department of the Treasury shall make a determination as to the availability of liquidity in the I-Bank’s funds for purposes of investing in BANs, as provided herein;
  4. **Sector Limit:** No more than 40% of the Investment Portfolio may be invested in BANs, as provided herein; and for purposes of calculating this percentage, all funds related to each Financing Program of the I-Bank shall be treated as a separate portfolio investment fund, pursuant to the Investment Policy of the State of New Jersey;
  5. **Issuer Limit:** No single Local Issuer shall exceed the greater of \$5,000,000 or 5.00% of the Investment Portfolio; and for purposes of calculating this percentage, all

funds related to each Financing Program of the I-Bank shall be treated as a separate portfolio investment fund, pursuant to the Investment Policy of the State of New Jersey

6. **Maturity Limit:** No greater than ninety (90) days from the date of issuance of the BAN, provided that the date of issuance succeeds the sale date by ten (10) business days or less; and if the date of issuance succeeds the sale date by more than ten (10) business days, the maturity limit shall be no greater than ninety (90) days from the sale date of the BAN;
7. **Credit Quality:** The Local Issuer (i) has at least one long-term debt rating from any one of the three major recognized NRSROs, and (ii) no such rating by any one NRSRO is lower than A- (or its equivalent); the BANs that are the subject of investment by the I-Bank do not require a rating by an NRSRO;
8. **Interest Rate:** The interest rate shall be determined pursuant to negotiation between the Investment Officer, in consultation with the Financial Advisor, on behalf of the I-Bank, and the Local Issuer;
9. **Prior Marketing Efforts:** The Local Unit must demonstrate, to the satisfaction of the Investment Officer, with respect to its BAN that is being evaluated for investment by the I-Bank, the occurrence of one or more of the following circumstances: (i) the Local Unit previously undertook a competitive sale of such BANs and either (A) no qualifying bids were submitted or (B) each qualifying bid proposed an interest rate that exceeded 250 basis points greater in spread than the most recent similar maturity BAN sale(s) in the State, as determined by the I-Bank in its sole discretion; or (ii) the Local Unit previously undertook a private sale of its BANs and serially engaged in discussions with no less than three different potential purchasers of its BANs (in each case, either (A) a prior purchaser of one or more BANs previously issued by such Local Unit or (B) an institution that is a regular purchaser within the municipal BAN private purchase market within the State), and (1) each of such institutions declined to purchase by private sale the Local Unit's BANs, or (2) those institutions that offered to purchase by private sale the Local Unit's BANs proposed an interest rate that exceeded 250 basis points greater in spread than the most recent similar maturity BAN sale(s) in the State, as determined by the I-Bank in its sole discretion; the occurrence of any one of the foregoing circumstances shall be referred to herein as a "Failed Sale";
10. **Application of the Investment Policy and Exceptions Thereto:** The provisions of the Investment Policy shall otherwise apply to the purchase by the I-Bank of Local Unit BANs, as described in this Addendum #1, with the exception of those sections of the Investment Policy that shall not apply to such purchases as and to the extent that the requirements set forth in such sections are inconsistent with accepted market practices for the purchase and sale of BANs via a private sale between a Local Unit

issuer of BANs and the I-Bank as a private purchaser thereof, which sections of the Investment Policy shall include, without limitation:

- (i) Section VII(1) (“Credit Downgrade”);
- (ii) Section VII(3) (“Authorized Financial Institutions”);
- (iii) Section VII(5) (“Competitive Selection of Investment Instruments”);
- (iv) Section VIII (“Safekeeping and Custody”); and
- (v) any provision of the Investment Policy (including, without limitation, the provisions of Section VI of the Investment Policy) that would otherwise establish a role for the Investment Advisor with respect to the investment by the I-Bank in BANs pursuant to the terms of this Addendum #1.

If there is a conflict between the terms of the Investment Policy and the terms of this Addendum #1, the terms of this Addendum #1 shall prevail.

II. **Execution; Closing:** Prior to an investment by the I-Bank, pursuant to its Local Unit BAN Investment Policy as set forth in this Addendum #1, of any funds held by the I-Bank, the following conditions precedent shall be satisfied:

1. Submission by the Local Unit applicant of an application in a form developed by Investment Officer on behalf of the I-Bank (the “Investment Application”).
2. Submission by the Local Unit applicant of a certification demonstrating compliance with the provisions of Section (I)(9) hereof relating to the prior marketing efforts of the Local Unit and the occurrence of a Failed Sale. Such certification of the Local Unit applicant shall be in a form deemed acceptable by the Investment Officer, shall be signed by an authorized officer of the Local Unit, and, in the case of clause (ii) of Section I(9), above, shall identify by name (including contact information) each of the three potential purchasers with which it has engaged in discussion. Such certification shall form a part of the Investment Application.
3. Submission by the Local Unit applicant of a certification (i) stating that the proceeds of its BANs will not fund any project that constitutes a private business use for purposes of the Internal Revenue Code of 1986, as amended, and the regulations promulgated pursuant thereto (the “Code”), and (ii) addressing any other factual questions that may be identified by Bond Counsel to the I-Bank for purposes of compliance with the Code. Such certification of the Local Unit shall be in a form deemed acceptable by the Investment Officer, shall be signed by an authorized officer of the Local Unit, and shall form a part of the Investment Application.
4. Satisfaction by the Local Unit applicant of (i) the BAN maturity limitation set forth in Section I(6), above, and (ii) the creditworthiness standards of the I-Bank applicable to the Local Unit applicant as set forth in Section I(7), above.

5. Receipt by the I-Bank of the approving opinion of bond counsel to the Local Unit (or a reliance letter with respect thereto) with respect to the BANs issued by such Local Unit and sold to the I-Bank, in a form deemed acceptable by the Investment Officer following consultation with Bond Counsel to the I-Bank and the Office of the Attorney General of the State.
6. Receipt by the I-Bank of such other certifications and closing deliverables as may be deemed necessary or appropriate by the Investment Officer following consultation with Bond Counsel to the I-Bank and the Office of the Attorney General of the State.

III. **Sale of Investment:** Those BANs that are the subject of investment by the I-Bank pursuant to the provisions of Section I and II, hereof, may be sold by the Finance Officer on behalf of the I-Bank, at the following times and in the following manner:

1. **Sale, Generally:** Such BANs may be sold, at the discretion of the Investment Officer, at any time prior to the maturity thereof, regardless of whether the state-wide emergency, as formally declared by the Governor of the State of New Jersey (as provided in Section I hereof), continues or has concluded. In engaging in any such sale of BANs, the Investment Officer shall act in furtherance of the introduction of liquidity into the BAN market within the State pursuant to the objectives of this Addendum #1, provided that such efforts do not conflict with the best investment interests of the I-Bank and the preservation of I-Bank funds invested in such BANs.
2. **Sale of BANs Individually or via Collective Portfolio:** The Finance Officer, pursuant to his or her discretion, may sell all or selected BANs held by the I-Bank (i) individually to one or more purchasers thereof or (ii) as a collective portfolio of all or a portion of its BANs to a single purchaser of such portfolio. The particular BANs selected for sale by the Finance Officer may be identified and chosen by the Finance Officer pursuant to his or her discretion.
3. **Sale by Negotiation:** The purchaser of any individual BAN or a collective portfolio of BANs, as applicable, shall be selected by the Finance Officer by negotiation pursuant to his or her discretion, but subject to the demonstration by such purchaser of one or more of the following selection parameters: (i) the purchaser possesses experience with municipal and county BAN markets; (ii) if applicable, the purchaser presents to the I-Bank novel concepts for the purchase of a collective portfolio of all or a portion of the BANs held by the I-Bank; (iii) the purchaser possesses sufficient capital for purposes of the proposed transaction with the I-Bank; and (iv) the purchaser presents pricing terms that serve the New Jersey BAN market liquidity objectives of the I-Bank pursuant to this Addendum #1.
4. **Necessity of Sale by Negotiation:** It is hereby deemed necessary that a purchaser of BANs pursuant to the terms hereof be selected by the Finance Officer by negotiation pursuant to his or her discretion, but subject to the above selection parameters, due to the following New Jersey BAN market considerations: (i) the need for the I-Bank to

- act in an expeditious and timely fashion in response to New Jersey BAN market developments, including, in particular, illiquidity developments in such market; (ii) the state-wide emergency, as formally declared by the Governor of the State of New Jersey (as provided in Section I hereof) that has resulted in illiquidity in the New Jersey BAN market, and the need for expeditious and timely action by the I-Bank, pursuant to the terms of this Addendum #1, as a response to such emergency; and (iii) the limited and fluid market for New Jersey BANs.
5. **Portfolio Rating:** In the case of the sale by the I-Bank of a collective portfolio of BANs, the Finance Officer, pursuant to his or her discretion, may obtain a rating of such portfolio from any one of the three major recognized NRSROs, to the extent such rating(s) will enhance the marketability of such portfolio.
  6. **Closing:** The sale of BANs pursuant to the provisions hereof shall satisfy such closing conditions precedent as shall be established by the Finance Officer, pursuant to his or her discretion, following consultation with Bond Counsel to the I-Bank and the Office of the Attorney General of the State.
  7. **Application of the Investment Policy and Exceptions Thereto:** The provisions of the Investment Policy shall otherwise apply to the sale by the I-Bank of BANs, as described in this Section III, with the exception of those sections of the Investment Policy that shall not apply to such sales as and to the extent that the requirements set forth in such sections are inconsistent with accepted market practices for the sale of BANs via a negotiated sale by the I-Bank to the purchasers described herein, which sections of the Investment Policy shall include, without limitation:
    - (i) Section VII(1) (“Credit Downgrade”);
    - (ii) Section VII(3) (“Authorized Financial Institutions”);
    - (iii) Section VII(5) (“Competitive Selection of Investment Instruments”);
    - (iv) Section VIII (“Safekeeping and Custody”); and
    - (v) any provision of the Investment Policy (including, without limitation, the provisions of Section VI of the Investment Policy) that would otherwise establish a role for the Investment Advisor with respect to the sale by the I-Bank of BANs pursuant to the terms of this Section III.

If there is a conflict between the terms of the Investment Policy and the terms of this Section III, the terms of this Section III shall prevail.

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## **APPENDIX B**



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## **APPENDIX B.1**

### Loan Distribution Methodology

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## Loan Distribution Methodology

NJ CHAMP will offer loans at a one percent (1%) interest rate designed to significantly reduce the financing cost for a Borrower participating in the Program relative to the financing cost associated with independent financing by that Borrower.

Each Project financed through NJ CHAMP will receive a loan to finance the cost of engineering work and construction, as well as certain soft costs. Borrowers are not obligated to make repayments until the Effective Date, generally at construction completion, at which time the loan amount and schedule of repayment is set. This structure offers: (i) low-cost capital (through a flexible loan) from Project design through construction completion; (ii) generally, no debt service repayment until after construction completion; (iii) a loan maturity that is the lesser of the Project's useful life (as certified by the Project Sponsor's engineer) or 10, 15 or 20 years (30 years for low-income geographic areas as defined at 42 U.S.C. § 5135(m)(5)); and (iv) significantly lower interest rates on loans compared to independent financing by the Project Sponsor.

Project Sponsors may close on a loan for the entire eligible cost of the project after the I-Bank has certified at least one of the Project's contract(s) (e.g., engineering, construction management, or construction). Funds become available to the Project Sponsor for eligible Project costs upon loan closing and each individual contract certification and are disbursed upon the I-Bank's receipt and approval of requisitions and contractor invoices. Loan interest rates will be charged at a fixed rate of one percent (1%), consistent with the requirements of the STORM Act. The Borrower is generally not obligated to repay principal or interest during the term of the design and construction phases of the loan. Interest charges are accrued and may be capitalized for the term of the loan for up to six months after construction completion. The loan draw period is generally termed out at the earlier of construction completion or five (5) years. Payments of principal, interest, and fees commence after the Effective Date of the Loan.

Assuming the Project Sponsor has the requisite approvals in place, loans are available within as little as three (3) weeks of receiving (i) I-Bank contract certification, (ii) approval by the Director of Local Government Services, and (iii) satisfaction of NJ CHAMP's creditworthiness standards defined in the I-Bank Credit Policy. Loan maturity has a maximum term equal to 10, 15 or 20 years (30 years for low-income geographic areas as defined at 42 U.S.C. § 5135(m)(5)), as determined by the size of the Loan.

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## **APPENDIX C**

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## **APPENDIX C.1**

### Project Proposal List Prioritization Methodology



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## Project Proposal List Prioritization Methodology

The following information illustrates the ranking and scoring system utilized by NJ CHAMP to evaluate each project financing application for prioritization.

#	Criteria	Potential Total Points
1	Project is located in an area designated as a Disadvantaged Community as defined by the Centers for Disease Control and Prevention (CDC) Social Vulnerability Index (SVI). <b>Note:</b> Areas with a CDC SVI greater than or equal to 0.60, as well as geographic areas within Tribal jurisdictions are considered disadvantaged.	25
2	Project is located in a low-income geographic area as defined in 42 U.S.C. § 5135 (m)(6).	25
3	Risk Reduction/Resilience Effectiveness – the project will reduce risk and increase resilience. Point Breakdown: 1. Creates a safer community by reducing loss of life and property (10); 2. Enables individuals to recover more rapidly from floods and other disasters (5); 3. Lessens the financial impact on the Treasury, States, Tribes, and communities (5)	20
4	Repetitive loss – project will mitigate repetitive losses related to two (2) or more documented insurance and/or FEMA claims	20
5	Repetitive loss – project will mitigate repetitive losses related to one (1) documented insurance and/or FEMA claim	10
6	Climate Change and Other Future Conditions - the project will enhance climate adaptation and resilience and be responsive to the effects of climate change <sup>1</sup> (such as sea level rise <sup>2</sup> ) and/or other future conditions (population/demographic/land use, etc.)	10
7	Project aligns with the statutory objectives of the State’s current Hazard Mitigation Plan.	10
8	Incorporation of nature-based solutions for hazard mitigation. For more information on potential nature-based solutions, please reference <a href="#">Building Community Resilience with Nature-Based Solutions: A Guide for Local Communities</a> .	5
9	Designation as an Economically Disadvantaged Rural Community (as defined in 42 U.S.C. § 5133(a) as a small, impoverished community), or a federally recognized Tribal government, or any community with a CDC SVI of 0.80 or higher.	5
10	Project addresses multiple hazards or related to a larger and/or externally funded Hazard Mitigation project.	5

<sup>1</sup>. Climate change is defined as “Changes in average weather conditions that persist over multiple decades or longer. Climate change encompasses both increases and decreases in temperature, as well as shifts in precipitation, changing risk of certain types of severe weather events, and changes to other features of the climate system.” ([Fourth National Climate Assessment](#) applies definition set forth in the U.S. Global Change Research Program [glossary](#))

<sup>2</sup>. May use any valid source that is based on recognized sea level rise estimation methods for sea level rise. Several federal government sources are available for relative sea level rise data along coastal areas. Some of these sources include, but are not limited to National Oceanic and Atmospheric Administration Center for Operational Oceanographic Products and Services’ Mean Annual SLR Trend Data (<https://tidesandcurrents.noaa.gov/sltrends/sltrends.html>) and U.S. Army Corps of Engineers Sea-Level Change Curve Calculator (Version 2022.72) ([https://cwbi-app.sec.usace.army.mil/rcslc/slcc\\_calc.html](https://cwbi-app.sec.usace.army.mil/rcslc/slcc_calc.html)).

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## **APPENDIX C.2**

### Project Proposal List

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