**FINANCIAL COVENANTS AND REQUIREMENTS FOR**
**DRINKING WATER AND WATER POLLUTION CONTROL REVOLVING FUNDS**

I. Rate Covenant
For revenue pledge borrowers, the rate covenant requires borrowers to maintain rates and fees at levels that will generate enough revenue after operating expenses to cover annual debt service at **1.10 times**.

The rate covenant is calculated as follows: **(TR – (OE – Depreciation)) / Annual Debt Service ≥ 1.10**

TR - Total revenues of the system including user charges, tap fees, interest income and other revenues.
OE - Operating expenses of the system, or what it costs to run the system.
Depreciation – Because depreciation is a non-cash expense it should be subtracted from OE.
Annual Debt Service – Debt service on new loan plus any other parity debt.

We use your annual audited financial statement/CAFR to calculate rate covenant compliance. It is helpful if your accountant/auditor includes this calculation in the audit.

II. Additional Bonds Test (ABT)
For revenue pledge borrowers, our loan agreement prescribes a debt service coverage test that must be met prior to taking on additional parity debt. Existing lenders want to make sure that a borrower has adequate annual revenue to make debt service payments on all existing loans/bonds as well as the new loan/bond where the priority of claim to the revenues is the same (on parity). Anticipated revenues from rate increases can be used in the calculation.

Leveraged Loans – For loans greater than $2.5 million the ABT is **1.10** and the calculation is the same as the above rate covenant calculation.

Direct Loans – For loans of $2.5 million or less the ABT is **1.10**. The calculation is the same as the above rate covenant calculation.

If you have a loan with us and issue additional debt, then we require a parity certificate be submitted.

III. Operation and Maintenance Reserve
The borrower is required to maintain reserves **equal to three months of operation and maintenance** expenses of the system. The reserve can be in the form of unobligated cash balances or it can be held as a restricted asset. If the reserve fund is held as a restricted asset then the calculation is as follows: **Restricted Asset > ((OE-Depr) x 0.25).** If the reserve is in the form of unobligated cash balance then the calculation is as follows: **(CA – CL) > ((OE-Depr) x 0.25)**

CA – Current Assets of the System. CL – Current Liabilities of the System

The O & M Reserve is capped at $1.25 million. We use your annual audited financial statement/CAFR to calculate O & M Reserve compliance. It is helpful if your accountant/auditor includes this calculation in the annual audit.

Please note that the Rate Covenant and ABT do not apply to G.O. loans.