

POLICY NUMBER: 6

SUBJECT: **REVIEW OF REQUESTS FOR PARITY STATUS ON NEW DEBT TO BE INCURRED BY EXISTING BORROWERS**

EFFECTIVE DATE: November 25, 1996

REVISED DATES: January 28, 1998
July 26, 1999

POLICY: The Colorado Water Conservation Board may consent to parity on new debt of a borrower based upon a specific request. Each request will be reviewed and evaluated by the CWCB staff on a case-by-case basis and will be approved or denied at the discretion of the CWCB Director. (Parity debt means that the CWCB and a subsequent lender would share claims to the borrower's assets. In the event of default, the two lenders would divide the available assets on a pro-rata basis.)

PURPOSE: To provide a consistent method for evaluating requests for parity on new debt.

APPLICABILITY: This policy and procedure applies to all loans from the CWCB Construction Fund and Severance Tax Trust Fund Perpetual Base Account.

PROCEDURE: The CWCB will consent to parity status for a subsequent loan only if the borrower meets the following conditions:

1. The borrower is currently and at the time of the issuance of the parity debt in substantial compliance with all of its long-term obligations to the CWCB including, but not limited to, being current on the annual payments due under all loan contracts and in the accumulation of all amounts then required to be accumulated in the borrower's debt service reserve fund(s).
2. The borrower provides to the CWCB a Parity Certificate from an independent certified public accountant certifying that, based on an analysis of the borrower's revenues for 12 consecutive months out of the 18 months immediately preceding the date of issuance of such parity debt, the borrower's revenues are sufficient to pay:
 - a. its annual operating and maintenance expenses,
 - b. annual debt service on all outstanding indebtedness having a lien on the pledged revenues,

- c. the annual debt service on the proposed indebtedness to be issued, and
 - d. all deposits to any reserve funds required by all CWCB loan contracts or by the lender(s) of any indebtedness having a lien on the pledged revenues.
3. No more than ten percent of total revenues originating from tap and/or connection fees will be considered in the certification described in item number 2, above.
 4. The analysis of revenues will be based on the borrower's current rate structure or the rate structure most recently adopted by the borrower's governing body authorized to establish rates or fees. The borrower must demonstrate that a recently adopted rate structure will be implemented within a reasonable period of time following the CWCB consent to parity.

Approved by the CWCB
July 26, 1999 Board Meeting