

**NEW JERSEY ENVIRONMENTAL
INFRASTRUCTURE TRUST
2006 DIRECT LOAN
FINANCING PROGRAM**

Authority Applicants

Financial Addendum Form

Dated: April 21, 2006

Authority: _____
Project No. _____

FOR AUTHORITIES

New Jersey Environmental Infrastructure Trust

THE INFORMATION CONTAINED IN THIS DOCUMENT MAY BE USED FOR THE FOLLOWING PURPOSE: Review by the New Jersey Environmental Infrastructure Trust and its consultants.

INSTRUCTIONS:

1. To the greatest extent possible, all information is to be completed on this form. Please mark "N/A" (Not Applicable) where appropriate.
2. If additional pages are needed, they are to be clearly marked with the Authority name and the item number and inserted behind the page that contains the original question.
3. If you are unsure how to respond to a particular question, please call Maryann Kall at the Trust: (609) 219-8600.
4. Please note: The applicant Authority will be referred to herein interchangeably as "Authority" or "Local Unit".

Authority: _____
Project No. _____

DOCUMENT CHECKLIST

The following documents are to be submitted with each copy of the completed Financial Addendum Form:

Section I

- _____ 1. Copy of Authority's Contact List.
- _____ 2. Signed Affidavit.

Section II

- _____ 1. Copies of any existing general bond resolution and draft series resolutions authorizing this project's financing and the issuance of bonds to the Trust and the State. (2.1)
- _____ 2. Copy of form of authorizing resolution (only if materially different from Exhibit 2.2).
- _____ 3. Copy of Litigation language. (2.3)
- _____ 4. One copy of Local Finance Board Application to Dennis Hart, Richard T. Nolan, Esq. and Clifford T. Roncs, Esq. only (upon submission thereof to LFB). (2.4)
- _____ 5. Certified copy of the resolution of the Local Finance Board approving the bonds or notes immediately upon receipt thereof. Copies of any other resolutions adopted by the Local Finance Board in connection with the financing of this project immediately upon receipt thereof. (2.5)
- _____ 6. Attach a copy of all service agreements and/or deficiency agreements, and all amendments thereto, to which the authority is a party. ***If no service and/or deficiency agreements are in place, please contact the Trust immediately.*** Indicate if the bonds to be issued by the Authority to the Trust and the State will NOT be entitled to the benefits of the service agreement(s) and/or deficiency agreements(s) (absent any indication, the Trust and the State will presume said agreement(s) will run to the Trust and the State). (2.6)
- _____ 7. Provide a listing of each series of the Authority's outstanding bonds including the outstanding principal amount. Include all indebtedness on a parity with or subordinated to the Authority's senior lien debt. (2.7)

SECTION I

INTRODUCTION

A. DISTRIBUTION

Copies of this Addendum should be sent to the following:

Dennis Hart, Executive Director

Mailing Address:

New Jersey Environmental Infrastructure Trust
P.O. Box 440
Trenton, NJ 08625

Location:

New Jersey Environmental Infrastructure Trust
3131 Princeton Pike, Building 6, Suite 201
Lawrenceville, NJ 08648

Phone: (609) 219-8600

Fax: (609) 219-8620

Clifford T. Rones, Esq. (General Counsel)

Deputy Attorney General

Division of Law

Financial Section

Hughes Justice Complex, 2nd Floor

Market and New Warren Streets

P.O.Box 112

Trenton, NJ 08625

Phone: (609) 292-1537

Fax: (609) 777-3514

Richard T. Nolan, Esq. (Bond Counsel)

McCarter & English, LLP

Four Gateway Center -15th Floor

100 Mulberry Street

Newark, NJ 07102

Phone: (973) 639-2096

Fax: (973) 624-7070

Barbara Bisgaier (Financial Advisor)

Public Financial Management, Inc.

2 Logan Square, Suite 1600

Philadelphia, PA 19103

Phone: (215) 567-6100

Fax: (215) 567-4180

Authority: _____
Project No. _____

B. APPLICANT CONTACTS

PRIMARY CONTACT PERSON:

Name: _____

Title: _____

Address: _____

Telephone No.: _____

Fax No: _____

Email Address _____

BOND COUNSEL:

Name: _____

Firm: _____

Address: _____

Telephone No.: _____

Fax No: _____

Handling Attorney (if different from above) _____

Email Address _____

GENERAL COUNSEL:

Name: _____

Firm: _____

Address: _____

Telephone No.: _____

Fax No: _____

E-Mail Address: _____

ENGINEER:

Name & Title: _____

Firm: _____

Address: _____

Telephone No.: _____

Fax No: _____

E-Mail Address: _____

FINANCIAL ADVISOR

Name & Title: _____

Firm: _____

Address: _____

Telephone No.: _____

Fax No: _____

E-Mail Address: _____

ACCOUNTANT/AUDITOR

Name & Title: _____

Firm: _____

Address: _____

Telephone No.: _____

Fax No: _____

E-Mail Address: _____

Authority: _____
Project No. _____

**Financial Background Information for an Authority Borrowing from
The Environmental Infrastructure Financing Program**

AFFIDAVIT

I, _____, the undersigned authorized representative of _____, the applicant for a New Jersey Environmental Infrastructure Trust loan and a New Jersey Environmental Infrastructure Fund loan, being duly sworn according to law, upon my oath depose and say that:

1. I have read and reviewed the information contained in this Addendum and in the attached documents to this Addendum.
2. The information contained in this Addendum and the documents submitted herewith are true, correct, and complete to the best of the applicant's knowledge, information and belief.
3. The documents attached to this Addendum are true and correct copies of documents contained in the applicant's files.

By execution of this affidavit, [*insert applicant's name*] _____ agrees to reimburse the Trust for any expenses incurred by or on behalf of the Trust in connection with the evaluation of the acceptability of any collateral, regardless of whether the loan is actually closed. The Trust will not undertake any expense without the prior notification to the borrower.

Dated: _____, 2006

Signature of Authorized Representative

Name/Title of Authorized Representative
(typed)

Sworn to and subscribed
before me this ____ day
of _____ 2006.

[notary public]

Authority: _____
Project No. _____

SECTION II

AUTHORITY RESOLUTIONS, LITIGATION, LOCAL FINANCE BOARD APPROVAL, SERVICE AGREEMENTS AND PARITY DEBT

NOTE: YOUR BOND COUNSEL MUST REVIEW SECTION II PRIOR TO YOUR SUBMISSION OF THIS FINANCIAL ADDENDUM FORM.

Authority: _____
Project No. _____

II. AUTHORITY RESOLUTIONS, LITIGATION, LOCAL FINANCE BOARD APPROVAL, SERVICE AGREEMENTS AND PARITY DEBT

[NOTE: YOUR BOND COUNSEL MUST REVIEW SECTION II PRIOR TO YOUR SUBMISSION OF THIS FINANCIAL ADDENDUM FORM.]

2.1 GENERAL AND SERIES BOND RESOLUTION(S)

Attach a draft copy of the proposed or, if applicable, existing copy of the general and series bond resolution(s) authorizing the project financing and the issuance of bonds or notes to both the Trust and the State in connection therewith.

Maximum principal amount of bonds authorized by the series resolution for this financing:
\$_____.

PLEASE NOTE: Certified copies of the above-referenced general and series bond resolution(s) duly adopted in accordance with law (including the passage of all estoppel periods) must be submitted to the Trust and the State ***prior to loan closing.***

2.2 SUGGESTED FORM OF RESOLUTION AUTHORIZING EXECUTION OF AGREEMENTS

Attached as Exhibit 2.2 is a suggested form of a resolution authorizing authorized representatives of the Authority to execute Trust and Fund Loan Agreements. If the form intended to be used varies from the exhibit in any material respect, disclose the variations and supply a form of the proposed resolution. This resolution need not be adopted at the time of submission of the Financial Addendum Form, but must be adopted ***prior to loan closing.***

_____ Will use suggested form of resolution set forth in Exhibit.
_____ Alternate form of resolution attached.

2.3 LITIGATION

Provide a brief description (including projected liability) of (a) any threatened litigation, (b) any litigation in which the applicant is a defendant or (c) any other proceeding involving a court, administrative body of any other government entity relating to any existing debt of the Local Unit, the financial condition of the Local Unit or any other material item that would or should be disclosed in any offering document under federal securities laws were the Local Unit issuing its bonds directly to the general public. To the extent litigation exists, edit the suggested language regarding Litigation below:

There is no litigation or other proceeding pending or to the knowledge of counsel to the Authority, after due inquiry, threatened in any court or other tribunal of competent jurisdiction (either State or Federal) (i) questioning the creation, organization or existence of the Authority Local Unit or any service area local units, (ii) questioning the validity, legality or enforceability of the Loan Agreement[s], Service Contract[s], Direct Authority Service Contract[s], Indirect Authority Service Contract[s], the Loan,

Authority: _____
 Project No. _____

the Authority's bond resolution or the Authority Local Unit Bond, (iii) questioning the undertaking or completion of the Project, (iv) questioning the imposition or collection of the Annual Charges (as defined in the Service Contract) or any annual charges under the Direct Authority Service Contract[s] or Indirect Authority Service Contract[s], (v) otherwise challenging the Authority's ability to consummate the transactions contemplated by the Loan, Loan Agreement[s], Service Contract[s], Direct Authority Service Contract[s] or Indirect Authority Service Contract[s], or (vi) if adversely decided, would have a material adverse impact on the financial condition of the Authority.

2.4 LOCAL FINANCE BOARD APPLICATIONS

N.J.S.A. 58:11B-9(a) of the Environmental Infrastructure Trust Act requires that the notes and bonds to be issued to the Trust by the Local Unit be approved by the Local Finance Board in the Division of Local Government Services, Department of Community Affairs. This is a requirement with respect to the notes and bonds to be issued to the State as well. In addition, N.J.S.A. 40A:5A-6 of the Local Authorities Fiscal Control Law requires that the Local Finance Board render findings with respect to the Trust Loan Bond and the Fund Loan Bond. Please state the following:

- (a) When application has been or is expected to be filed with the Local Finance Board.
- (b) When the Local Unit was heard or is expected to be heard on its application by the Local Finance Board.
- (c) Please indicate below the other Local Finance Board actions which will be applied for or have been received in connection with participation in the Financing Program:

<u>Applied for</u>		<u>Received</u>			
Yes	No	Yes	No		
___	___	___	___	40A:5A-6,-7,-8	Issuance of findings and recommendations regarding proposed project financing or proposed deficiency agreement with municipality
___	___	___	___	40A:5A – 24	Approval to roll over temporary debt later than three years from original date of issuance
___	___	___	___	Other LFB action	(list with statutory citation)

Immediately upon submission thereof to the Local Finance Board, please submit copies of your completed Local Finance Board application (and any amendments or supplements thereto) to Dennis Hart, Richard T. Nolan, Esq. and Clifford T. Rones, Esq. at the respective addresses set forth on page 4 hereof.

Authority: _____
Project No. _____

2.5 SUBMISSION OF RESOLUTIONS OF LOCAL FINANCE BOARD

As soon as it is issued, please provide a **certified copy** of the resolution of the Local Finance Board approving the bonds or notes to be issued to the Trust and, with respect to the matching loan from the Environmental Infrastructure Fund, to the State. Please also provide a **certified copy** of any other resolution adopted by the Local Finance Board in connection with the Authority's receipt of project financing from the Trust and the State. Also provide a copy of the Group Affidavit of the board members of the Authority recognizing the findings of the Local Finance Board.

NOTE: *Certified copies of the above-referenced Local Finance Board resolution(s) must be submitted to the Trust as soon as they are available from the Local Finance Board.*

2.6 SERVICE AGREEMENTS AND/OR DEFICIENCY AGREEMENTS: Attach a copy of all service agreements and/or deficiency agreements, and all amendments thereto, to which the authority is a party. ***If no service and/or deficiency agreements are in place, please contact the Trust immediately.*** Indicate if the bonds to be issued by the Authority to the Trust and the State will NOT be entitled to the benefits of the service agreement(s) and/or deficiency agreements(s) (absent any indication, the Trust and the State will presume said agreement(s) will run to the Trust and the State).

2.7 Provide a listing of each series of the Authority's outstanding bonds including the outstanding principal amount. Include all indebtedness on a parity with or subordinated to the Authority's senior lien debt.

Authority: _____
Project No. _____

SECTION III

2006 PROJECT INFORMATION

Authority: _____
Project No. _____

III. 2006 FINANCING INFORMATION

PLEASE COMPLETE THE FOLLOWING QUESTIONS CAREFULLY. YOUR ANSWERS WILL PROVIDE THE BASIS FOR THE REPAYMENT TERMS OF YOUR TRUST AND FUND LOANS.

3.1 Project Description

Please provide a brief description of the project.

3.2 Construction Schedule (the borrower's draw schedule must be finalized prior to the closing date) (in responding to this question, you **MUST** specify a month)

- (a) Estimated Construction Start Date: Month: _____; Year: _____.
- (b) Estimated Construction Completion Date: Month: _____; Year: _____.
- (c) Does the applicant intend to borrow for "reserve capacity": ____ Yes ____ No
- (d) Is the project a well project?: ____ Yes ____ No

(Reserve capacity permits the borrower to construct excess plant capacity. In most circumstances, the Trust will not subsidize the cost of reserve capacity construction through the zero interest Fund Loan but will, at the option of the borrower, finance 100% of reserve capacity costs at market rates through a Trust Loan. Borrowers requesting this option will also be required to authorize the Trust to bond for the debt service reserve fund amount associated with the reserve capacity portion of the Trust Loan).

3.3 Payment Dates

Authority borrowers will make their debt service payments on each February 1 and August 1 unless prohibited from doing so by an outstanding bond ordinance. If this issue exists, indicate the date or dates upon which debt service payments must be made. The Trust will not permit alternative payment dates for any other reason.

3.4 No Capitalized Interest

If you do not wish to capitalize interest, indicate that by checking here. ____

A borrower that elects **NOT** to capitalize interest will make a first interest payment on August 1, 2007 and a first principal payment on August 1, 2008.

Authority: _____
Project No. _____

3.5 Capitalized Interest

If you wish to capitalize interest, indicate that by checking here. ____

Circle the date through which you wish to capitalize interest.

8/1/07 2/1/08 8/1/08 2/1/09 8/1/09

This date must meet the following requirements:

- 1) be no more than six months after the scheduled construction completion date or, if the project is to be undertaken for private use, no later than the construction completion date; **AND**
- 2) be either a February 1 or an August 1.

For example, if your scheduled construction completion date is May 2008, you may capitalize interest through August 1, 2008 and your first current payment of interest will be on February 1, 2009.

If you capitalize interest, your first principal payment will be on the August 1 next succeeding your scheduled construction completion date.

3.6 Final Maturity Date

Indicate your final principal payment date: August 1, 20____. (This may be no later than August 1, 2026.)

3.7 Unallowable Costs

Please provide descriptions as to how the Authority plans to finance 1) the unallowable costs of the project, and 2) the allowable costs, if any, not covered by the Trust and Fund loans made in this State fiscal year's funding cycle. **-OR-**

Please state if the Authority will have no such unallowable costs.

*Note that the Trust and State will **not** disburse any loan proceeds unless the Authority has on hand moneys to pay all unallowable costs (including any remaining local soft costs), non-Trust/Fund financed allowable costs and cost overruns. Whether the Authority can satisfy the requirement by having funds available is determined on a case-by-case basis by the Trust, and the Trust should be contacted accordingly.*

Authority: _____
Project No. _____

3.8 Authority Debt Service Reserve Fund

Is the Authority required by its bond resolution to fund a debt service reserve fund for the Authority bonds to be issued to the Trust and the State? _____

What is the expected source of such money? _____

Please note that the Trust does not require the Authority to create or fund a debt service reserve fund. Therefore, the Trust will not fund the debt service reserve fund if required for the Authority's bonds. The Authority will be required to fund this debt service reserve fund from its own sources. (See Exhibit 3.8 for a discussion of certain implications related to the Authority's funding of its own debt service reserve fund.)

EXHIBITS

EXHIBIT 2.2

**RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF LOAN AGREEMENTS
TO BE EXECUTED BY THE [NAME OF LOCAL UNIT] AND EACH OF THE NEW JERSEY
ENVIRONMENTAL INFRASTRUCTURE TRUST AND THE STATE OF NEW JERSEY,
ACTING BY AND THROUGH THE DEPARTMENT OF ENVIRONMENTAL PROTECTION,
ALL PURSUANT TO THE 2006 NEW JERSEY ENVIRONMENTAL
INFRASTRUCTURE TRUST DIRECT LOAN FINANCING PROGRAM**

WHEREAS, the [Name of Local Unit] (the "Local Unit"), in the County of [County], New Jersey, has determined that there exists a need within the service area of the Local Unit to [acquire, construct, renovate or install] [refinance] the Project (the "Project") as defined in each of that certain Loan Agreement (the "Trust Loan Agreement") to be entered into by and between the Local Unit and the New Jersey Environmental Infrastructure Trust (the "Trust") and that certain Loan Agreement (the "Fund Loan Agreement", and together with the Trust Loan Agreement, the "Loan Agreements") to be entered into by and between the Local Unit and the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection (the "State"), all pursuant to the 2006 New Jersey Environmental Infrastructure Trust Financing Program (the "Program");

WHEREAS, the Local Unit has determined to [finance] [refinance] the acquisition, construction, renovation or installation of the Project with the proceeds of a loan to be made by each of the Trust (the "Trust Loan") and the State (the "Fund Loan", and together with the Trust Loan, the "Loans") pursuant to the Trust Loan Agreement and the Fund Loan Agreement, respectively;

WHEREAS, to evidence the Loans, each of the Trust and the State require the Local Unit to authorize, execute and deliver the Local Unit's _____ Bonds, Series _____, to the Trust in an aggregate principal amount not to exceed \$ _____ (the "Trust Loan Bond") and _____ Bonds, Series _____, to the State in an aggregate principal amount not to exceed \$ _____ (the "Fund Loan Bond", and together with the Trust Loan Bond, the "Local Unit Bonds") pursuant to the terms of applicable law and the Loan Agreements; [and]

NOW, THEREFORE, BE IT RESOLVED by the governing body of the Local Unit as follows:

Section 1. The Trust Loan Agreement and the Fund Loan Agreement (collectively, the "Financing Documents") are hereby authorized to be executed and delivered on behalf of the Local Unit by either the [Title] or the [Title] in substantially the forms attached hereto as Exhibits A and B, respectively, with such changes as the [Title] or the [Title] (each an "Authorized Officer"), in their respective sole discretion, after consultation with counsel and any advisors to the Local Unit (collectively, the "Local Unit Consultants") and after further consultation with the Trust, the State and their representatives, agents, counsel and advisors (collectively, the "Program Consultants", and together with the Local Unit Consultants, the "Consultants"), shall determine, such determination to be conclusively evidenced by the execution of such Financing Documents by an Authorized Officer as determined hereunder. The Secretary of the Local Unit is hereby authorized to attest to the execution of the Financing Documents by an Authorized Officer of the Local Unit as determined hereunder and to affix the corporate seal of the Local Unit to such Financing Documents.

Section 2. The Authorized Officers of the Local Unit are hereby further severally authorized to (i) execute and deliver, and the Secretary of the Local Unit is hereby further authorized to attest to such execution and to affix the corporate seal of the Local Unit to, any document, instrument or closing certificate deemed necessary, desirable or convenient by the Authorized Officers or the Secretary of the Local Unit, as applicable, in their respective sole discretion, after consultation with the Consultants, to be executed in connection with the execution and delivery of the Financing Documents and the consummation of the transactions contemplated thereby, which determination shall be conclusively evidenced by the execution of each such certificate or other document by the party authorized hereunder to execute such certificate or other document, and (ii) perform such other actions as the Authorized Officers deem necessary, desirable or convenient in relation to the execution and delivery thereof.

Section 3. This resolution shall take effect immediately.

Section 4. Upon the adoption hereof, the Secretary of the Local Unit shall forward certified copies of this resolution to [name of Local Unit Bond Counsel], bond counsel to the Local Unit, and Richard T. Nolan, Esq., McCarter & English, LLP, Bond Counsel to the Trust.

EXHIBIT 3.7

TAX RELATED COVENANTS FOR AUTHORITY LOCAL UNITS

(f) Exclusion of Interest from Federal Gross Income and Compliance with Code.

(i) The Local Unit covenants and agrees that it shall not take any action or omit to take any action that would result in the loss of the exclusion of the interest on any Trust Bonds now or hereinafter issued from gross income for purposes of federal income taxation as that status is governed by Section 103(a) of the Code.

(ii) The Local Unit shall not take any action or omit to take any action that would cause its Local Unit Bond or the Trust Bonds (assuming solely for this purpose that the proceeds of the Trust Bonds loaned to the Local Unit represent all of the proceeds of the Trust Bonds) to be "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, unless the Local Unit receives the prior written approval of the Trust, the Local Unit shall not (A) permit any of the proceeds of the Trust Bonds loaned to the Local Unit or the Project financed or refinanced with the proceeds of the Trust Bonds loaned to the Local Unit to be used (directly or indirectly) in any manner that would constitute "private business use" within the meaning of Section 141(b)(6) of the Code, (B) use (directly or indirectly) any of the proceeds of the Trust Bonds loaned to the Local Unit to make or finance loans to persons other than "governmental units" (as such term is used in Section 141(c) of the Code), or (C) use (directly or indirectly) any of the proceeds of the Trust Bonds loaned to the Local Unit to acquire any "nongovernmental output property" within the meaning of Section 141(d)(2) of the Code.

(iii) The Local Unit shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds (or amounts replaced with such proceeds) or any other funds or take any action or omit to take any action that would cause the Trust Bonds (assuming solely for this purpose that the proceeds of the Trust Bonds loaned to the Local Unit represent all of the proceeds of the Trust Bonds) to be "arbitrage bonds" within the meaning of Section 148(a) of the Code.

(iv) The Local Unit shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to pay the principal of or the interest or redemption premium on or any other amount in connection with the retirement or redemption of any issue of state or local governmental obligations ("refinancing of indebtedness"), unless the Local Unit shall (A) establish to the satisfaction of the Trust, prior to the issuance of the Trust Bonds, that such refinancing of indebtedness will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds, and (B) provide to the Trust an opinion of Bond Counsel to that effect in form and substance satisfactory to the Trust.

(v) The Local Unit shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to reimburse the Local Unit for an expenditure with respect to a Cost of the Local Unit's Project paid by the Local Unit prior to the issuance of the Trust Bonds, unless (A) the allocation by the Local Unit of the proceeds of the Trust Bonds to reimburse such expenditure complies with the requirements of Treasury Regulations §1.150-2 necessary to enable the reimbursement allocation to be treated as an expenditure of the proceeds of the Trust Bonds for purposes of applying Sections 103 and 141-150, inclusive, of the Code, or (B) such proceeds of the Trust Bonds will be used for refinancing of indebtedness that was used to pay Costs of the Local Unit's Project or to reimburse the Local Unit for expenditures with respect to Costs of the Local Unit's Project paid by the Local Unit prior to the issuance of such indebtedness in accordance with a reimbursement allocation for such expenditures that complies with the requirements of Treasury Regulations §1.150-2.

(vi) The Local Unit shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to pay any Cost of the Local Unit's Project that does not constitute a "capital expenditure" within the meaning of Treasury Regulations §1.150-1.

(vii) The Local Unit shall not use the proceeds of the Trust Bonds (assuming solely for this purpose that the proceeds of the Trust Bonds loaned to the Local Unit represent all of the proceeds of the Trust Bonds) in any manner that would cause the Trust Bonds to be considered "federally guaranteed" within the meaning of Section 149(b) of the Code or "hedge bonds" within the meaning of Section 149(g) of the Code.

(viii) The Local Unit shall not issue any debt obligations that (A) are sold at substantially the same time as the Trust Bonds and finance or refinance the Loan made to the Local Unit, (B) are sold pursuant to the same plan of financing as the Trust Bonds and finance or refinance the Loan made to the Local Unit, and (C) are reasonably expected to be paid

out of substantially the same source of funds as the Trust Bonds and finance or refinance the Loan made to the Local Unit.

(ix) Neither the Local Unit nor any "related party" (within the meaning of Treasury Regulations § 1.150-1) shall purchase Trust Bonds in an amount related to the amount of the Loan.

(x) The Local Unit will not issue or permit to be issued obligations that will constitute an "advance refunding" of the Local Unit Bond within the meaning of Section 149(d)(5) of the Code without the express written consent of the Trust, which consent may only be delivered by the Trust after the Trust has received notice from the Local Unit of such contemplated action no later than sixty (60) days prior to any such contemplated action, and which consent is in the sole discretion of the Trust.

[(xi) The Local Unit will not have a reserve or replacement fund (within the meaning of Section 148(d)(1) of the Code) allocable to the Local Unit Bond evidencing the Loan.]

[(xi) The Local Unit has a reserve or replacement fund (within the meaning of Section 148(d)(1) of the Code) that is allocable to the Local Unit Bond evidencing the Loan, and such reserve or replacement fund is financed with indebtedness of the Local Unit the interest on which is excluded from gross income for purposes of federal income taxation. Accordingly, amounts held in the reserve or replacement fund allocable to the Local Unit Bond evidencing the Loan shall be invested by the Local Unit at a yield not in excess of the yield on the Trust Bonds throughout the term of the Loan, unless the Local Unit receives prior written approval of the Trust. Amounts in the reserve or replacement fund allocable to the Local Unit Bond evidencing the Loan will be held in a segregated account and invested separately from any other moneys so that such amounts will not be held in a "commingled fund" (within the meaning of Treasury Regulations § 1.148-1(b)). The investment restrictions contained in this subsection shall not apply in the event the Trust receives an opinion of Bond Counsel to the effect that non-compliance with such restrictions will not affect the exclusion from gross income of the interest on the Trust Bonds.]

[(xi) The Local Unit has a reserve or replacement fund (within the meaning of Section 148(d)(1) of the Code) that is allocable to the Local Unit Bond evidencing the Loan, and such reserve or replacement fund is not financed with indebtedness of the Local Unit the interest on which is excluded from gross income for purposes of federal income taxation. Accordingly, amounts held in the reserve or replacement fund allocable to the Local Unit Bond evidencing the Loan shall be invested by the Local Unit at a yield not in excess of the yield on the Trust Bonds throughout the term of the Loan, unless the Local Unit receives prior written approval of the Trust. Amounts in the reserve or replacement fund allocable to the Local Unit Bond evidencing the Loan will be held in a segregated account and invested separately from any other moneys so that such amounts will not be held in a "commingled fund" (within the meaning of Treasury Regulations § 1.148-1(b)). The investment restrictions contained in this subsection shall not apply in the event the Trust receives an opinion of Bond Counsel to the effect that non-compliance with such restrictions will not affect the exclusion from gross income of the interest on the Trust Bonds.]

(xii) No "gross proceeds" of the Trust Bonds held by the Local Unit (other than amounts in a "bona fide debt service fund") will be held in a "commingled fund" (as such terms are defined in Treasury Regulations § 1.148-1(b)).

(xiii) Based upon all of the objective facts and circumstances in existence on the date of issuance of the Trust Bonds used to finance the Project, (A) within six months of the date of issuance of the Trust Bonds used to finance the Project, the Local Unit will incur a substantial binding obligation to a third party to expend on the Project at least five percent (5%) of the "net sale proceeds" (within the meaning of Treasury Regulations § 1.148-1) of the Loan used to finance the Project (treating an obligation as not being binding if it is subject to contingencies within the control of the Local Unit, the Trust or a "related party" (within the meaning of Treasury Regulations § 1.150-1)), (B) completion of the Project and the allocation to expenditures of the "net sale proceeds" of the Loan used to finance the Project will proceed with due diligence, and (C) all of the proceeds of the Loan used to finance the Project (other than amounts deposited into the Debt Service Reserve Fund allocable to that portion of the Loan used to finance reserve capacity, if any) and investment earnings thereon will be spent prior to the period ending three (3) years subsequent to the date of issuance of the Trust Bonds used to finance the Project. Accordingly, the proceeds of the Loan deposited in the Project Loan Account used to finance the Project will be eligible for the 3-year arbitrage temporary period since the expenditure test, time test and due diligence test, as set forth in Treasury Regulations § 1.148-2(e)(2), will be satisfied.

(xiv) The weighted average maturity of the Loan does not exceed 120% of the average reasonably expected economic life of the Project financed or refinanced with the Loan, determined in the same manner as under Section 147(b) of the Code. Accordingly, the term of the Loan will not be longer than is reasonably necessary for the governmental purposes of the Loan within the meaning of Treasury Regulations §1.148-1(c)(4).

(xv) The Local Unit shall only enter into service contracts (including management contracts), with respect to any portion of the Project financed by the Trust Bonds, with a "governmental unit" (within the meaning of Section 141 of the Code) or only when such contract complies with Rev. Proc. 97-13, 1997-1 I.R.B. 18, or successor provisions applicable to the Trust Bonds *provided*, that the Borrower delivers an opinion of Bond Counsel, in form and substance satisfactory to the Trust, to the effect that the entering into of such contracts by the Borrower will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds.

For purposes of this subsection and subsection (h) of this Section 2.02, quoted terms shall have the meanings given thereto by Section 148 of the Code, including, particularly, Treasury Regulations §§1.148-1 through 1.148-11, inclusive, as supplemented or amended, to the extent applicable to the Trust Bonds, and any successor Treasury Regulations applicable to the Trust Bonds.

(h) Records and Accounts.

(i) The Local Unit shall keep accurate records and accounts for its Environmental Infrastructure System (the "System Records") separate and distinct from its other records and accounts (the "General Records"). Such System Records shall be audited annually by an independent registered municipal accountant, which may be part of the annual audit of the General Records of the Local Unit. Such System Records and General Records shall be made available for inspection by the Trust at any reasonable time upon prior written notice, and a copy of such annual audit(s) therefor, including all written comments and recommendations of such accountant, shall be furnished to the Trust within 150 days of the close of the fiscal year being so audited or, with the consent of the Trust, such additional period as may be provided by law.

(ii) Unless otherwise advised in writing by the Trust, in furtherance of the covenant of the Local Unit contained in subsection (f) of this Section 2.02 not to cause the Trust Bonds to be arbitrage bonds, the Local Unit shall keep, or cause to be kept, accurate records of each investment it makes in any "nonpurpose investment" acquired with, or otherwise allocated to, "gross proceeds" of the Trust Bonds not held by the Trustee and each "expenditure" it makes allocated to "gross proceeds" of the Trust Bonds. Such records shall include the purchase price, including any constructive "payments" (or in the case of a "payment" constituting a deemed acquisition of a "nonpurpose investment" (e.g., a "nonpurpose investment" first allocated to "gross proceeds" of the Trust Bonds after it is actually acquired because it is deposited in a sinking fund for the Trust Bonds)), the "fair market value" of the "nonpurpose investment" on the date first allocated to the "gross proceeds" of the Trust Bonds, nominal interest rate, dated date, maturity date, type of property, frequency of periodic payments, period of compounding, yield to maturity, amount actually or constructively received on disposition (or in the case of a "receipt" constituting a deemed disposition of a "nonpurpose investment" (e.g., a "nonpurpose investment" that ceases to be allocated to the "gross proceeds" of the Trust Bonds because it is removed from a sinking fund for the Trust Bonds)), the "fair market value" of the "nonpurpose investment" on the date it ceases to be allocated to the "gross proceeds" of the Trust Bonds, the purchase date and disposition date of the "nonpurpose investment" and evidence of the "fair market value" of such property on the purchase date and disposition date (or deemed purchase or disposition date) for each such "nonpurpose investment". The purchase date, disposition date and the date of determination of "fair market value" shall be the date on which a contract to purchase or sell the "nonpurpose investment" becomes binding, i.e., the trade date rather than the settlement date. For purposes of the calculation of purchase price and disposition price, brokerage or selling commissions, administrative expenses or similar expenses shall not increase the purchase price of an item and shall not reduce the amount actually or constructively received upon disposition of an item, except to the extent such costs constitute "qualified administrative costs".

(iii) Within thirty (30) days of the last day of the fifth and each succeeding fifth "bond year" (which, unless otherwise advised by the Trust, shall be the five-year period ending on the date five years subsequent to the date immediately preceding the date of issuance of the Trust Bonds and each succeeding fifth "bond year") and within thirty (30) days of the date the last bond that is part of the Trust Bonds is discharged (or on any other periodic basis requested in writing by the Trust), the Local Unit shall (A) calculate, or cause to be calculated, the "rebate amount" as of the "computation date" or "final computation date" attributable to any "nonpurpose investment" made by the Local Unit and (B) remit the following to the Trust: (1) an amount of money that when added to the "future value" as of the "computation date" of any previous payments made to the Trust on account of rebate equals the "rebate amount", (2) the calculations supporting the "rebate amount" attributable to any "nonpurpose investment" made by the Local Unit

allocated to "gross proceeds" of the Trust Bonds, and (3) any other information requested by the Trust relating to compliance with Section 148 of the Code (e.g., information related to any "nonpurpose investment" of the Local Unit for purposes of application of the "universal cap").

(iv) The Local Unit covenants and agrees that it will account for "gross proceeds" of the Trust Bonds, investments allocable to the Trust Bonds and expenditures of "gross proceeds" of the Trust Bonds in accordance with Treasury Regulations §1.148-6. All allocations of "gross proceeds" of the Trust Bonds to expenditures will be recorded on the books of the Local Unit kept in connection with the Trust Bonds no later than 18 months after the later of the date the particular Cost of the Local Unit's Project is paid or the date the portion of the project financed by the Trust Bonds is placed in service. All allocations of proceeds of the Trust Bonds to expenditures will be made no later than the date that is 60 days after the fifth anniversary of the date the Trust Bonds are issued or the date 60 days after the retirement of the Trust Bonds, if earlier. Such records and accounts will include the particular Cost paid, the date of the payment and the party to whom the payment was made.