

**BOARD OF WATER AND NATURAL RESOURCES  
ACTING AS THE SOUTH DAKOTA CONSERVANCY DISTRICT  
RESOLUTION NO. 2015 - 15**

**APPROVING THE FIRST AMENDMENT TO THE FIFTH AMENDED AND RESTATED MASTER TRUST INDENTURE AND INVESTMENT POLICY AND DESIGNATING THE CHAIRMAN AND SECRETARY TO APPROVE ANY CHANGES.**

**WHEREAS**, the South Dakota Conservancy District is duly constituted as an instrumentality of the State of South Dakota exercising public and governmental functions under the operation, management and control of the Board of Water and Natural Resources of South Dakota (the "*Board of Water and Natural Resources*"), pursuant to SDCL Chapters 46A-1 and 46A-2 (the "*Act*"); and

**WHEREAS**, pursuant to the Act and the Clean Water Act (as herein defined) the District has established a state revolving fund program; (the "*Clean Water Program*"); and

**WHEREAS**, pursuant to the Act and the Drinking Water Act (as herein defined) the District has established a state revolving fund program (the "*Drinking Water Program*"); and

**WHEREAS**, pursuant to the Act, the District is authorized to issue bonds and notes and to make loans to Borrowers (as herein defined) through the purchase of municipal securities or loans in connection with the Clean Water Program and the Drinking Water Program (each a "*Program*" and collectively, the "*Programs*"); and

**WHEREAS**, to fund the Programs, the United States Environmental Protection Agency currently makes annual capitalization grants to the states on the condition that each state provide an appropriate match for such state's related revolving fund; and

**WHEREAS**, pursuant to SDCL §46A-1-60.1, the State has heretofore established the state water pollution control revolving fund program and the state drinking water revolving fund program and provided that program subfunds (each, a "*Program Subfund*" and collectively, the "*Program Subfunds*") be created within the water and environment fund established pursuant to SDCL §46A-1-60; that each Program Subfund be maintained separately; and all federal, state and other funds for use in each such Program be deposited into the related Program Subfund, including all federal grants for capitalization of each such Program, all repayments of assistance awarded from each such Program Subfund, interest on investments made on money in each such Program Subfund, proceeds of discretionary bond issues allowed by SDCL §46A-1-31 and principal and interest on loans made from each fund, that money in the Program Subfunds may be used only for purposes authorized under federal law and that the Program Subfunds may be pledged or assigned by the District and to or in trust for the holder or holders of the bonds and notes of the District as permitted by law and may be transferred to and held by a trustee or trustees pursuant to SDCL §46A-1-39; and

**WHEREAS**, SDCL §46A-1-60.2 provides that funds from the Programs therein described shall be disbursed and administered according to rules enacted by the Board of Water and Natural Resources pursuant to SDCL §46A-1-65 and the provisions of SDCL §46A-1-60 to

§46A-1-60.3 inclusive and SDCL §46A-1-60.1 provides that money in the Program Subfunds may be used only for purposes authorized under federal law; and

**WHEREAS**, the District and The First National Bank in Sioux Falls has entered into that certain Fifth Amended and Restated Master Trust Indenture (as hereafter amended or supplemented from time to time, the "*Master Trust Indenture*") with The First National Bank in Sioux Falls, as trustee (together with any successor trustee, the "*Trustee*") dated September 1, 2010 and the Master Trust Indenture is supplemented from time to time by Series Supplemental Resolutions or supplemental indentures relating to individual Series of Bonds (as defined in the Master Trust Indenture); and

**WHEREAS**, pursuant to the Master Trust Indenture the District has agreed to invest funds on deposit with the Trustee (the "*Trust Funds*") only in "*Investment Obligations*" as therein defined, and the Board has determined it necessary and appropriate to adopt an Investment Policy (the "*Investment Policy*") to supplement the provisions of the Master Trust Indenture, various Series Resolutions and supplemental indentures and certain tax regulatory agreements related to the Trust Funds and a draft of such Investment Policy has been presented to the Board for its consideration; and

**WHEREAS**, Section 11.01 of the Restated Master Trust Indenture authorizes certain amendments or supplements thereto without the necessity of obtaining the consent of any Bondholder under certain circumstances, including in order to enter into one or more supplemental indentures that, when effective, would amend or modify any provisions of the Master Trust Indenture if, in the judgment of an Authorized Representative, the rating then in effect on any Outstanding Bonds and Notes from each Rating Agency (as defined in the Restated Master Trust Indenture) immediately preceding the time such supplemental indenture becomes effective will be maintained or improved after such supplemental indenture becomes effective; and

**WHEREAS**, for the purposes of Section 11.01(h) described above, the Authorized Representative must certify its judgment to the Trustee, and such judgment will be based upon the written ratings report or other written evidence provided by each Rating Agency (herein, the "*Amendment Requirement*"); and

**WHEREAS**, the Board of Water and Natural Resources has determined to implement the provisions of Section 11.01(f) of the Restated Master Trust Indenture by entering into a First Amendment to Fifth Amended and Restated Master Trust Indenture (the "*First Amendment*"), and to make a corresponding amendment to its Investment Policy to conform to the First Amendment (the "*Amended Investment Policy*"); and

**BE IT RESOLVED BY THE SOUTH DAKOTA BOARD OF WATER AND NATURAL RESOURCES, ACTING AS THE SOUTH DAKOTA CONSERVANCY DISTRICT, THAT:**

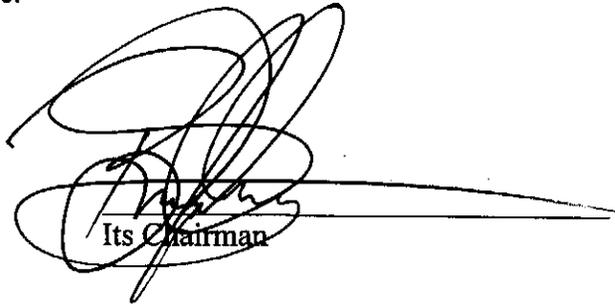
Section 1.01 First Amendment Approved. The form of the First Amendment presented to the Board is hereby approved in substantially the form on file, but with all such changes and

revisions as the Chairman and Secretary may approve following any input provided by any Rating Agency.

Section 1.02 Investment Policy Approved. The form of the Amended Investment Policy presented to the Board is hereby approved in substantially the form on file, but with all such changes and revisions as the Chairman and Secretary may approve following any input provided by any Rating Agency and any conforming changes to the exhibits.

Section 1.03 Effective Date. This Resolution is effective immediately and the First Amendment and Amended Investment Policies shall become effective upon satisfaction of the Amendment Requirement set forth in Section 11.01(h) of the Restated Master Trust Indenture and the filing thereof with the Trustee.

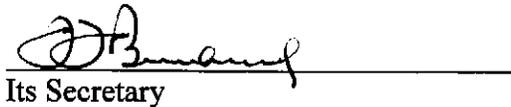
Adopted: January 8th, 2015.



Its Chairman

(SEAL)

Attest:



Its Secretary

# MOODY'S INVESTORS SERVICE

Moody's Investors Service, Inc.  
7 World Trade Center at  
250 Greenwich Street  
New York, NY 10007  
+1.212.553.0300 tel  
+1.212.553.4820 fax  
www.moody's.com

February 17<sup>th</sup>, 2015

SD Conservancy District SRF  
James F. Feeney  
Division Director  
Department of Environment & Natural Resources  
Joe Foss Building  
523 East Capitol  
Pierre, SD 57501-3182

**Re: South Dakota Conservancy District State Revolving Fund Program**  
USD 38,695,000 Taxable Revenue Bonds, Series 2010A (Build America Bonds)  
USD 38,645,000 Revenue Bonds, Series 2010B  
USD 57,715,000 Taxable Revenue Bonds, Series 2012A  
USD 48,500,000 Revenue Bonds, Series 2012B  
USD 9,060,000 Taxable Revenue Bonds, Series 2014A  
USD 50,755,000 Revenue Bonds, Series 2014B  
USD 100,000 Taxable Revenue Bonds, Series 1996  
(the "Obligations")

Dear Sir:

In response to your request, Moody's has reviewed the above mentioned Obligations of South Dakota Conservancy District State Revolving Fund Program in conjunction with the proposal to expand the definition of "Investment Obligations" in the Master Trust Indenture to include indebtedness issued by agencies and instrumentalities of the United States government, including those issued by government sponsored enterprises such as Fannie Mae, Fannie Mae and FHLB (the "Proposal"). At this time, the Proposal will not, in and of itself, result in a reduction, placement on review for possible downgrade or withdrawal of the current credit ratings on the Obligations.

This letter is provided on the basis that Moody's will receive conformed copies of all documents and legal opinions in an appropriate medium, and in a form satisfactory to Moody's, within 30 days of the date of this letter.

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This letter shall be governed by and construed in accordance with New York law and subject to the exclusive jurisdiction of the New York courts.

Yours faithfully,

***Moody's Investors Service, Inc.***

Moody's Investors Service, Inc.

cc: JT, Global Middle Office



130 East Randolph Street  
Suite 2900  
Chicago, IL 60601  
tel 312-233-7000  
reference no.: 40152378

January 26, 2015

South Dakota  
Department of Environment & Natural Resources  
523 East Capitol  
Joe Foss Building  
Pierre, SD 57501--0275  
Attention: Mr. James F. Feeney, Natural Resources Administrator

Re: *South Dakota Conservancy District, Outstanding Revenue State Revolving Fund Program*

Dear Mr. Feeney:

Standard & Poor's Ratings Services ("Ratings Services") hereby affirms its rating of "AAA" for the above-referenced obligations and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

This letter constitutes Ratings Services' permission for you to disseminate the above rating to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements) will become effective only after we have released the rating on [standardandpoors.com](http://standardandpoors.com). Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable.

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Please send hard copies to:

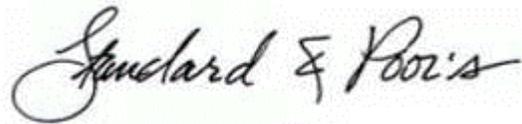
Standard & Poor's Ratings Services  
Public Finance Department

55 Water Street  
New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

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Sincerely yours,

A handwritten signature in black ink that reads "Standard & Poor's". The signature is written in a cursive, flowing style.

Standard & Poor's Ratings Services

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enclosure

cc: Ms. Jessica Cameron Mitchell, Senior Managing Consultant  
Public Financial Management, Inc.



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## Summary:

# South Dakota Conservancy District; State Revolving Funds/Pools

### Primary Credit Analyst:

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### Secondary Contact:

James M Breeding, Dallas (1) 214-871-1407; [james.breeding@standardandpoors.com](mailto:james.breeding@standardandpoors.com)

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Rationale

Outlook

Related Criteria And Research



130 East Randolph Street  
Suite 2900  
Chicago, IL 60601  
tel 312-233-7000  
reference no.: 40152378

January 26, 2015

South Dakota  
Department of Environment & Natural Resources  
523 East Capitol  
Joe Foss Building  
Pierre, SD 57501--0275  
Attention: Mr. James F. Feeney, Natural Resources Administrator

**Re: *South Dakota Conservancy District, Outstanding Revenue State Revolving Fund Program***

Dear Mr. Feeney:

Standard & Poor's Ratings Services ("Ratings Services") hereby affirms its rating of "AAA" for the above-referenced obligations and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

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Public Finance Department

55 Water Street  
New York, NY 10041-0003

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Sincerely yours,

The image shows a handwritten signature in black ink that reads "Standard & Poor's". The signature is written in a cursive, flowing style.

Standard & Poor's Ratings Services

th  
enclosure

cc: Ms. Jessica Cameron Mitchell, Senior Managing Consultant  
Public Financial Management, Inc.



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## SOUTH DAKOTA CONSERVANCY DISTRICT INVESTMENT POLICY

### 1. Background.

The South Dakota Conservancy District (the "*District*") will enter into that certain Fifth Amended and Restated Master Trust Indenture (as hereafter amended or supplemented from time to time, the "Master Trust Indenture") with The First National Bank in Sioux Falls, as trustee (together with any successor trustee, the "*Trustee*") on or about September 1, 2010 . The Master Trust Indenture is supplemented from time to time by Series Supplemental Resolutions or supplemental indentures relating to individual Series of Bonds or Notes (as defined in the Master Trust Indenture). The Master Trust Indenture, as so supplemented, is herein defined as the "*Indenture*." In addition, from time to time, the District has entered into or will in the future enter into tax regulatory or similar agreements with the Trustee governing various matters relating to the investment of funds on deposit with the Trustee (herein, such tax regulatory and similar agreements, as entered into and effective from time to time, the "*Tax Documents*"). Terms not defined herein shall have the meaning assigned thereto by the Indenture or Tax Documents, as applicable.

Reference is hereby made to the definition of "Investment Obligations" in the Master Trust Indenture. *Exhibit A* to this Policy contains a list of the Investment Obligations as set forth in the Master Trust Indenture, and if and when such term is amended, Exhibit A shall automatically be revised to conform with any such amendments. *Exhibit B* to this Policy contains a list of the investment agreements and other contracts (herein, the "*Investment Agreements*"), all of which qualify within clause (g) of the definition of "Investment Obligations", which have heretofore been entered into by the District or the Trustee through the date hereof, other than those which have expired prior to the date hereof. If and when the District or the Trustee enter into additional agreements described in clause (g) of the definition of "Investment Obligations", Exhibit B shall automatically be revised to conform with any such amendments.

### 2. Policy.

It is the policy of the District to invest amounts on deposit in the various Funds, Accounts and Subaccounts under the Indenture (the "**Trust Funds**") in a manner which will provide the maximum security, sufficient liquidity, and a competitive investment return to meet the daily cash flow demands of the Programs pending application of the funds to make loans or otherwise disburse funds for Program purposes. This policy must conform with all applicable laws and procedures governing the investment of public funds.

### 3. Scope.

This policy supplements the provisions of the Indenture and the Tax Documents, and in the event of a conflict between the Indenture or Tax Documents on the one hand and this Policy on the other, then the provisions of the Indenture or Tax Documents, as applicable, shall prevail.

### 4. Standard of Care.

The standard of care to be observed by the Trustee in the investment of Trust Funds shall be as provided in the Indenture.

## **5. Objectives.**

The primary objectives, in priority order, of the District's investment activities shall be:

### *A. Safety of Principal*

Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall Trust Funds. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the Trust Funds. The District has determined that diversification will primarily be addressed by the investment of Trust Funds associated with each Series of Bonds or Notes, where feasible, in Investment Agreements.

The Trust Funds shall also be invested to control interest rate risk. Interest rate risk is the risk that the market value of investments purchased with Trust Funds will fall due to changes in interest rates. The District has determined that interest rate risk will primarily be addressed by the investment of Trust Funds associated with each Series of Bonds or Notes, where feasible, in Investment Agreements.

### *B. Liquidity*

The District Program Trust Funds will remain sufficiently liquid to enable the District to meet all requirements which might be reasonably anticipated. The Trust Funds shall be invested so that securities mature to meet cash requirements for ongoing operations, including loan originations and debt service payments, thereby avoiding the need to sell securities on the open market prior to maturity except when liquidity needs require.

### *C. Return on Investments*

The District's Trust Funds shall be invested with the objective of attaining a competitive rate of return commensurate with the District's investment risk constraints and the cash flow requirements of the Programs, and subject in all events to the requirements of safety of principal and liquidity outlined above.

## **6. Management of Investments.**

Authority to manage the investment of Trust Funds has been granted to the Trustee pursuant to the Indenture.

The Trustee shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. The Trustee shall have in place procedures for: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral depository agreements, and banking services contracts.

## **7. Ethics and Conflicts of Interest.**

The employees of the Trustee involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees of the Trustee shall disclose any material interests in financial institutions with which they conduct business and any personal financial investment positions that could be related to the performance of the investment Trust Funds.

## **8. Certain Security Transactions.**

All security transactions, including collateral for repurchase agreements, entered into by the District shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian approved by the Trustee and evidenced by safekeeping receipts. If repurchase agreements are utilized, a Master Repurchase Agreement will be signed with the bank or dealer.

## **9. Authorized and Suitable Investments.**

The District is empowered by statute to invest only in the Investment Obligations listed in Exhibit A which include the Investment Agreements listed on Exhibit B, and subject in all events to changes in law or amendments or supplements to the Indenture.

## **10. Collateralization.**

In accordance with SDCL 4-6A, 51-10-9, and 52-5-20, Qualified Public Depositories will furnish collateral in the sum equal to one hundred ten percent (110%) of the public deposit accounts which exceed deposit insurance.

SDCL 4-6A-3 requires that collateral be segregated by each depository in such manner as approved by the South Dakota Public Deposit Protection Commission. Collateral may not be held in any safety deposit vault owned or controlled either directly or indirectly by the pledging financial institution but must be deposited for safekeeping in a financial institution that is a member of the Federal Reserve.

## **11. Diversification.**

The District has pursued diversification of the investment of its Trust Funds primarily by selecting different Investment Agreements on a series by series basis.

The balance of funds not invested in Investment Agreements is referred to herein as the "**Remaining Balance**". Investment of the Remaining Balance is subject to the following restrictions for the purpose of achieving diversification:

- a. The Remaining Balance or, if less, 15% of the Total Trust Funds will be invested in Investment Obligations rated in one of the two highest long-term rating categories or the highest or short-term rating category by the Rating Agencies.
- b. Subject to the exception of securities issued by the U.S. Treasury or guaranteed directly or indirectly by the U.S. Government, no more than 25 percent of the

aggregate of the Remaining Balance will be invested in the deposits of a single financial institution, provided, however, this limitation shall not apply to any money market fund or other investment described in clause (e) of the definition of "Investment Obligations" if such investment directly or indirectly involves solely securities described in clauses (a) or (b) of the definition of "Investment Obligations" or is rated in one of the two-highest long-term rating categories or the highest short-term rating category by the Rating Agencies (herein, each a "*Qualified Fund*").

- c. In addition, no more than 40 percent of the aggregate total of funds on deposit in the Revenue Fund, including all accounts and subaccounts therein, will be invested in the South Dakota Cash Flow Fund described in clause (i) of the definition of "Investment Obligations".
- d. The District will limit its investment in securities issued by government sponsored entities described in clause (c) of the definition of "Investment Obligations (a/k/a "*GSEs*"), or federally related institutions that are guaranteed directly or indirectly by, or backed by the full faith and credit of the U.S. Government to no greater than 40 percent of the total Trust Funds.
- e. Amounts credited to the Bond Fund, including any account or subaccount therein, shall only be invested in (i) Investment Agreements (if applicable), (ii) investments described in clauses (a) or (b) of the definition of "Investment Obligations", or (iii) Qualified Funds.

## **12. Maturity Constraints.**

*Maximum Maturity* — To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. The District may invest in individual securities with maturities of 5 years or less from the date of purchase, and mutual and money market funds holding securities with maturities of 5 years or less. Securities shall be redeemable at the option of the District in the open market. Mutual and money market fund investments shall be redeemable at the option of the District.

*Average Maturity* — The average dollar-weighted maturity target of the Trust Funds is 1.5 years, and for such purposes, amounts invested in Trust Funds shall be assigned a weighted average maturity of no more than 30 days. The Trust Funds shall be reviewed by the Trustee for rebalancing if the average maturity moves to either less than one (1) year or greater than two (2) years.

## **13. Internal Controls.**

The Trustee is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.

## **14. Reporting.**

The investment of the Trust Funds will be managed in accordance with the parameters specified within this policy. The Trustee shall prepare investment reports as required by the Indenture.

**15. Annual Review.**

The Board intends to review this policy annually.

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This Investment Policy was hereby approved and established pursuant to the authority of Resolution 2012-152 adopted by the Board of Water and Natural Resources acting as the South Dakota Conservancy District on November 8, 2012. This Investment Policy was hereby amended pursuant to the authority of Resolution 2015-15 on January 8, 2015, adopted by the Board of Water and Natural Resources acting as the South Dakota Conservancy District and made effective February 17, 2015.

## Exhibit A

### Investment Obligations as of February 17, 2015

“Investment Obligations” means and includes any of the following, if and to the extent the same are authorized as permitted investments for the District’s moneys in the Funds and Accounts created and maintained under this Indenture:

(a) Direct obligations of, or obligations the prompt payment of principal and interest on which are fully guaranteed by, the United States of America; or

(b) Bonds, debentures, notes or other evidences of indebtedness issued or fully insured or guaranteed by any agency or instrumentality of the United States of America which is backed by the full faith and credit of the United States of America; or

(c) To the extent not included within the scope of clause (b) above, such other bonds, debentures, notes or other evidences of indebtedness issued by agencies and instrumentalities of the United States government, including without limitation those issued by government sponsored enterprises such as Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation;

(d) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any Depository (including the Trustee), provided that such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or secured by obligations described in clauses (a) or (b) of this definition, or a combination thereof; or

(e) Money market funds or similar funds which invest exclusively in obligations described in clauses (a), (b), (f) or (g) of this definition, or a combination thereof; or

(f) Bonds, debentures, notes or other evidences of indebtedness issued by any state of the United States of America or any political subdivision thereof or any public authority or body or instrumentality therein which constitute obligations described in Section 103(a) of the Code and which are assigned a long-term rating by the Rating Agency which is no lower than the long-term rating assigned by the Rating Agency to the Outstanding Bonds (without taking into account any higher rating assigned to the Bonds by virtue of Credit Enhancement); or

(g) Any repurchase agreement or similar financial transaction with a national banking association or a bank or trust company organized under the laws of any state (including the Trustee), or with a government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement satisfies the following requirements: (1) it is secured, in the opinion of counsel, by a perfected security interest in any one or more of the securities described in clause (a) or (b); (2) provides that the collateral must be valued at least weekly and must

be maintained at a value of at least 103% of the amount invested plus accrued interest (with a no more than one-week cure period, if the value of collateral falls below this amount); (3) is entered into with a primary reporting dealer that reports to the Federal Reserve Bank of New York or one of the 100 largest United States commercial banks, as measured by domestic deposits; and (4) the securities which are the subject of the repurchase agreement must be held by the Trustee or by an agent or custodian on its behalf, provided that the requirements of clauses (3) and (4) shall apply only if and to the extent that South Dakota law so requires; or

(h) Any investment agreement, guaranteed investment contract or similar debt obligation which in the opinion of counsel is permitted by South Dakota law and the issuer or guarantor of such obligation is assigned, or such agreement, contract or obligation is assigned, the highest short-term debt rating by the Rating Agency or which is assigned a long-term rating by the Rating Agency which is no lower than the two highest long-term rating categories (without regard to numeric or other modifiers) at the time such investment is acquired or which agreement is approved by each Rating Agency then rating Outstanding Bonds as of the date the agreement is entered into by the District; or

(i) The South Dakota Cash Flow Fund provided the District determines that such fund invests solely in investments authorized by SDCL 4-5-26 or other investments which the District is authorized to acquire and hold.

## Exhibit B

### Investment Agreements as of February 17, 2015

<u>Bond Issue</u>	<u>Provider</u>	<u>Interest Rate</u>	<u>Cap on Investment</u>	<u>Amount Invested</u>	<u>Termination Date</u>
1996 <sup>(1)</sup>	MBIA Inc.	6.22	15,000,000	\$ 1,126,451	8/1/17
2001& 2004 <sup>(1)(2)</sup>	AIG Matched Funding Corp. (guaranteed by American International Group, Inc.)	5.07	60,000,000 <sup>(3)</sup>	\$60,091,570	8/1/25
2005 <sup>(1)(2)</sup>	AIG Matched Funding Corp. (guaranteed by American International Group, Inc.)	4.41	\$80,000,000 <sup>(3)</sup>	\$75,660,017	8/1/26

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<sup>(1)</sup> Clean Water.

<sup>(2)</sup> Drinking Water.

<sup>(3)</sup> Cap solely on Revenue Fund portion of total investment.