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ATTACHMENT 1

Broadband Loan Loss Reserve Fund Program Guidelines

Revised Staff Proposal

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1. Background and Purpose

Pursuant to the September 16, 2021 Amended Scoping Memo in the Order Instituting Rulemaking Regarding Revisions to the California Advanced Services Fund (R.20-08-021), this California Public Utilities Commission (CPUC) revised staff proposal includes updated guidelines for comment and identifies implementation details for the administration of the Broadband Loan Loss Reserve Fund Program (hereafter, Loan Loss Program or LLP), in accordance with SB 156[1] and the Budget Act of 2021 (AB 164).[2]

SB 156 created the Loan Loss Reserve Program to fund costs related to financing broadband infrastructure deployment by a local government agency, tribal government agency, or a nonprofit organization, including payment of costs of debt issuance, obtaining credit enhancement, and establishment and funding of reserves for the payment of principal and interest on the debt.

Additionally, SB 156 authorizes the following:

- Permits the CPUC to establish, among other things, eligibility requirements, financing terms and conditions, and allocation criteria, for infrastructure projects deployed using financing supported in whole or in part by funds.
- Allows the CPUC to require a local government agency or nonprofit organization to provide information demonstrating the agency's or nonprofit organization's ability to reasonably finance and implement the infrastructure project deployed using financing supported in whole or in part by funds allocated pursuant to this section.
- Requires biannual progress reports identifying project milestones and percent completions to date and a completion report, including a full description of the completed project, comparison of approved versus actual costs of construction, and speed test data for all areas served by the project.

The following constitutes staff's revised proposed Broadband Loan Loss Reserve Fund Program Guidelines.

1.1 Guiding Operational Principles

1. The LLP should be optimized for effective utilization of limited funding to achieve the most extensive broadband deployment in conjunction with other applicable state and federal funding.
2. The CPUC will rely on the financial projections and credit agency ratings provided by the applicant to streamline the approval for a credit enhancement.
3. Credit enhancements offered in the LLP will be designed to induce bond investors or a private lender to lend to a borrower and reduce the cost of financing by reducing the risk of a loss for a bondholder/direct lender in the transaction.
4. The LLP will support local government agencies, non-profits, and sovereign Tribal governments in their bond issuances.

[1] Sen. Bill No. 156 (2021-2022 Reg. Sess.), adding §281.2 to the California Public Utilities Code.
[2] Assem. Bill No. 164 (2021-2022 Reg. Sess.) §34, Item 8860-062-0001.

1.2 Guiding Program Principles

5. The LLP credit enhancement should aim to manage a wide range of credit risk profiles by supporting a diverse portfolio of borrowers or issuers.
6. The issuance of municipal bonds backed by the LLP credit enhancement must have a clear and specific purpose to support a specific broadband infrastructure project or multiple broadband projects.
   6.1 The purpose, risks and structure of the bonds should be communicated to potential investors in a clear and concise manner through disclosure documents and other reporting requirements.
7. The bond issuer issuing the bonds should ensure that the proposed bond issuance is financially feasible and is structured in a manner that aligns with the LLP's long-term financial and broadband "future-proofing"[3] goals.
   7.1 This includes working with an expert third-party advisor to analyze the bond issuer's ability to repay the bond, considering factors such as revenue streams, debt service capacity, financial projections, project management, operations and maintenance, and technological choices.
8. The bond issuer should be transparent in its financial reporting and provide investors with regular updates on the project and the bond's financial performance.
9. The bonds supported by the LLP credit enhancement should be priced through a negotiated sale or directly placed with a lender in a private placement considering the cost of capital, current market conditions, the creditworthiness of the municipality, and "tax-exempt" treatment if possible.
10. The proceeds from the bond issuance backed by the LLP credit enhancement will be used to support a specific broadband infrastructure project as described in the Official Statement or Private Placement Memorandum (if any).
11. The issuance of municipal bonds backed by the LLP credit enhancement must comply with all applicable federal and state laws and regulations, including execution of a Continuing Disclosure Agreement (CDA) (if the deal is a public transaction) for any instrument guaranteed by the LLP and filing with the CPUC and the Municipal Securities Rulemaking Board (EMMA), if applicable.
12. The bond issuer should maintain good relationships with its investors or lenders, providing them with regular updates and responding to their inquiries in a timely manner.
13. The purpose of the LLP credit enhancement is to effectively leverage public funds and bridge the digital divide in California by connecting unserved communities, including low-income, socio-economically disadvantaged, and tribal communities.

2. Authority

Authority for the LLP is found in SB 156 (Chapter 112, Statutes of 2021) Section 8, which added Public Utilities Code section 281.2, and AB 164 (Chapter 84, Statutes of 2021) Section 34, Item 8860-062-0001.

3. Definitions

For purposes of the LLP, the following definitions apply:

"Arbitrage Rebate Returns" – The dollar profit earned from arbitrage that must be paid back (or rebated) to the federal government in connection with a tax-exempt bond deal.

"Bond Indenture" – A contract or legal document that records the obligations of the issuer and the

[3] Broadband projects that demonstrate a sufficient surplus capacity to remain competitive in the future without requiring major refurbishment upgrades.

benefits of the bondholders. It also provides repayment provisions and other rights of a credit enhancer, like a bond insurer, letter of credit bank or other guarantor. In most instances, a bond indenture can be referred to as a trust agreement, fiscal agent agreement, or a bond resolution.

“Conduit Issuer” – An organization, usually a government agency, that issues municipal securities to raise capital for revenue-generating projects where the funds generated from the bond sale are used by a third-party (known as the “conduit borrower”) for a project or activity that has a public benefit and where the funds are repaid solely by the conduit borrower from specified revenues.[4] The conduit issuer does not put its own credit behind the conduit bond and is not responsible for payment.

"Credit Enhancement “– A mechanism or arrangement that helps strengthen the creditworthiness or reduce the credit risk associated with a bond offering. It is designed to provide additional assurances to lenders or bondholders that their principal and interest payments will be made in the event of missed payments or default by the bond issuer. In the case of the LLP, the CPUC will provide the credit enhancement to applicable bond offerings in the form of a debt service reserve (DSR) guarantee supported by a Loan Loss Fund.

“Debt Service Reserve” – A liquid reserve of funds to make debt service payments in the event of a disruption or delay in a project’s cash flow. These typically cover 6-12 months of payments.

“Debt Reserve Fund Insurance Policy" -- Any insurance policy, surety bond, irrevocable letter of credit or similar instrument deposited in or credited to the Debt Service Reserve Fund in lieu of or in partial substitution for moneys on deposit therein. In a tax-exempt deal, Debt Service Reserve Funds must meet the following test when funded: the lesser of: (i) Maximum Annual Debt Service, (ii) 125% of Average Annual Debt Service, or (iii) 10% of the par amount[5] of the bonds[6].

“Depository” – An entity that holds financial securities in a dematerialized form. A bank, organization, or any institution holding and assisting in security trading is referred to as a depository. Depository accounts hold securities in the same way that bank accounts hold funds. A depository functions as a connection between the public companies that issue financial securities and the investors or shareholders.[7]

“Deployment Schedule” – All necessary schedules to complete a broadband project, including a schedule for obtaining necessary permits prior to construction. The schedule must include the timeline required for the California Environmental Quality Act (CEQA) review, as applicable. Also, a deployment schedule must include a schedule for project construction following receipt of permits, to complete the project within 24 months, or within 18 months if the project is categorically exempt from CEQA.

“Eligible Project” – A broadband network construction project that is “future proof,” when complete, and will be capable of offering wireline broadband service to last mile connections at or above 100 Megabits per second (Mbps) downstream and 100 Mbps upstream, or 100 Mbps downstream and 20 Mbps upstream if symmetrical service is constrained due to engineering limitations Hereinafter “100/100 Mbps” and “100/20 Mbps.” It will also demonstrate sufficient surplus capacity to remain

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[4] The Investopedia Team, Conduit Issuer, Investopedia (Aug. 15, 2022, 11:16 AM), https://www.investopedia.com/terms/c/conduit-issuer.asp.

[5] See definition Par Amount.

[6] IRS Code 1.148-2(f).

[7] CFI Team, Depository, Corporate Finance Institute (Aug. 15, 2022, 1:24 PM), https://corporatefinanceinstitute.com/resources/knowledge/finance/depository/.

competitive in the future without requiring major refurbishment upgrades.

“Loan Loss Fund” – The fund that will act as a support fund to the DSR guarantee and the fund which coverage guarantee approvals will be reserved against.

"Loan Loss Fund Balance” – The total amount of funds remaining in the Loan Loss Fund available to provide coverage as defined in Section 6.2.

"Guarantor” – A financial term describing an individual who promises to pay a borrower's debt in the event that the borrower defaults on their loan obligation..[8] The terms of the loan obligation will be defined in the bond indenture.

“Low-Income Customers” - Households with incomes that would qualify for CARE pursuant to Pub. Util. Code §739.1(a) and D.16-11-022 at 18 (or as updated in a successor decision.) The threshold is updated regularly in the CARE proceeding, A.19-11-003, et. al. [9] The CARE standard is 200% of Federal Poverty Guidelines. Through May 31, 2023, this threshold is $55,500 for a household of 4. Low Income Customers may also be defined as households with incomes at or below 80 percent of the statewide median income or with incomes at or below the threshold designated as low income by the Department of Housing and Community Development’s list of state income limits adopted pursuant to Section 50093 of the Health and Safety Code.8 “Low-income customers” include publicly supported housing developments, farmworker housing, and other properties categorically eligible for Broadband Public Housing Account grants. Note that these definitions are only applicable at the reporting stage, see section 11.2.

“Low-income broadband plans” – Income-qualified broadband plans offered to low-income customers.[10]

“Municipal Bond” – A bond issued by a local government agency or other eligible entity to raise capital by borrowing money from investors to meet financial obligations, or to fund projects that benefit their jurisdiction. As with other bonds, it involves a promise to return the principal and pay interest on specified dates, but the interest payment may be exempt from federal income taxes. There are many types of municipal bonds, but the two types most pertinent to public finance are Revenue Bonds and general obligation (GO) bonds.

“Par-Amount” or “the Par Value of a Bond” – The face value or principal amount of the bond that is paid back to the bondholder at maturity. It is the initial investment or amount borrowed by the issuer of the bond. The par amount is typically set at a fixed amount, such as $1,000 or $10,000, and serves as the basis for calculating interest payments and determining the repayment amount to bondholders.

“Payment Default” – The failure to make required interest or principal repayments on a debt, whether that debt is a loan or a security.[11] May also include all payments required under the indenture for the

[8] Andrew Bloomenthal, Guarantor, Investopedia (Aug. 15, 2022, 1:18 PM), https://www.investopedia.com/terms/g/guarantor.asp.
[9] *See* definitions in the Federal Funding Account Program Guidelines, D-22-04-055, Order Instituting Rulemaking Regarding Broadband Infrastructure Deployment and to Support Service Providers in the State of California, May 15, 2023 12:14 PM, https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M470/K481/470481278.PDF.
[10] *Id*.
[11] James Chen, Default, Investopedia (Aug. 15, 2022, 1:12 PM), https://www.investopedia.com/terms/d/default2.asp.

bonds (trustee fees, counsel fees, guarantee fees, insurance premiums, etc.).

"Priority Communities" – Areas that are Senate Bill (SB) 535-designated Disadvantaged Communities, including Tribes,[12] or low-income communities, defined as census tracts with median incomes below 80% of state or count median income, whichever is higher. Parties may see a representation of these areas on the Federal Funding Account map, by selecting the "Disadvantaged Communities" layer and the "Low-Income Areas" layer.[13]

"Project Budget" – The total projected costs required to complete a project over a defined period of time.

"Program Budget" – The total amount of available funds to be utilized for credit enhancement and administrative expenses.

"Revenue Bonds" – Bonds that finance projects such as hospitals, airports, toll roads, education facilities and bridges where the revenues from those projects repay the interest and principal of the issued bonds over time. The issuer's general credit (and collateral) is not usually pledged to these bonds, and the investors look solely to project revenues and performance. For example, a bridge financed by revenue bonds may have a toll paid by motorists each time they cross the bridge. Revenues from the toll are used to pay back investors who purchased the bonds used to finance construction of the bridge. These do not require voter approval.[14]

"Sovereign Tribal Government" – A Native American tribe located in California that is on the contact list maintained by the Native American Heritage Commission for the purposes of Chapter 905 of the Statutes of 2004, (see Cal. Pub. Res. Code § 21073). Also includes wholly owned Tribal corporations, Tribal consortiums, Tribal nonprofits, and Tribal utility companies with proof of authorization to apply by the Tribe's Council or other governing body or tribal law.

"Trustee" – A financial institution that is granted trust powers, such as a commercial bank or trust company. This entity, in turn, has a fiduciary duty to the bond holders to enforce the terms of the indenture, including any agreement or other credit support. A trustee sees that bond interest payments and principal repayments are made as scheduled and protects the interests of the bondholders if the issuer defaults.[15]

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[12] See https://oehha.ca.gov/calenviroscreen/sb535. These include:

- Census tracts receiving the highest 25 percent of overall scores in CalEnviroScreen 4.0 (1,984 tracts).
- Census tracts lacking overall scores in CalEnviroScreen 4.0 due to data gaps, but receiving the highest 5 percent of CalEnviroScreen 4.0 cumulative pollution burden scores (19 tracts).
- Census tracts identified in the 2017 DAC designation as disadvantaged, regardless of their scores in CalEnviroScreen 4.0 (307 tracts).
- Lands under the control of federally recognized Tribes. For purposes of this designation, a Tribe may establish that a particular area of land is under its control even if not represented as such on CalEPA's DAC map and therefore should be considered a DAC by requesting a consultation with the CalEPA Deputy Secretary for Environmental Justice, Tribal Affairs and Border Relations at TribalAffairs@calepa.ca.gov. https://oehha.ca.gov/calenviroscreen/sb535

[13] https://federalfundingaccountmap.vetro.io/map

[14] John Chang, California Bonds 101: A Citizens Guide to State Revenue Bonds, California State Treasurer (Aug. 15 2022, 4:24 PM), https://www.treasurer.ca.gov/publications/bonds101_revenue.pdf.

[15] James Chen, Bond Trustee, Investopedia (Aug. 15, 2022, 10:53 AM), https://www.investopedia.com/terms/b/bond-trustee.asp#:%7E:text=A%20bond%20trustee%20is%20a%20financial%20institution%20that,to%20enforce%20the%20terms%20of%20a%20bond%20indenture.

"Underwriter" – A Broker/Dealer who initially purchases the bonds for redistribution to the "public". They are often compensated in the form of a commission, premium, spread, or interest. Underwriters determine the level of risk for lenders and help them structure public market financings to provide project financing at the lowest possible rates. Underwriters purchase debt securities—such as government bonds, corporate bonds, municipal bonds, or preferred stock—from the issuing body (usually a company or government agency) to resell them for a profit. This profit is known as the "underwriting spread."[16]

"Unserved Communities" – An area for which no wireline broadband provider reliably offers broadband service at speeds of at least 25 Mbps downstream and 3 Mbps upstream to the entire community.[17]

4. Responsible Entities

The following entities and their roles and responsibilities have been identified for implementing the LLP, as applicable.

- Beneficial Owner / Investor
    - Roles and Responsibilities: Owner or purchaser of the bond issued by the local or tribal government agency / non-profit. Provides capital.
- Legal Counsel(s)
    - Bond Counsel: represents the Borrower and is responsible for the transactional structuring and documentation.
    - Counsel to the Underwriter (in a publicly issued bond transaction): represents the Underwriter's interest in the structuring and sale process.
    - Lender's Counsel (in a private/ loan transaction): represents the Lender's interests.
    - Disclosure Counsel (in a publicly-issued bond transaction): responsible for the accuracy and completeness of disclosure to the public markets and to private party purchasers.
    - Counsel to the Trustee: represents the discrete role of Trustee.
    - Conduit Issuer Counsel: represents the discrete role of Conduit Issuer.
    - Counsel to the CPUC as administrator of the LLP credit enhancement: represent the CPUC in the transaction and the servicing of the Bonds.

- California Public Utilities Commission (CPUC)
    - Roles and Responsibilities: Evaluator of applicant eligibility, operational and technical fitness; Administrator of the LLP credit enhancement; and Custodian of the Loan Loss Fund.
- Conduit Bond Issuer
    - Roles and Responsibilities:
        - An authorized government entity (including Joint Powers Authorities (JPA)) that issues the bond on behalf of a local or tribal government / non-profit.
        - Ensures that continuing disclosures are fulfilled in a publicly-issues transaction.
        - Calculates and files arbitrage rebate returns (for tax-exempt transactions).
- Credit Rating Agency
    - Roles and Responsibilities: Determines the credit rating of the bond.
- Obligor (Local Government Agency / Non-Profit / Joint Powers Authority / Tribal Government)

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[16] Caroline Banton, Underwriter, Investopedia (Aug. 15, 2022, 3:39 PM), https://www.investopedia.com/terms/u/underwriter.asp.
[17] See D.22-04-055 Appendix A at A-8.

  - Roles and Responsibilities: Borrower, responsible for the repayment of the bond.
  - Administering any construction or acquisition program for the buildout of broadband infrastructure.
  - Addresses any workout-related issues, should the broadband project require drawing upon credit enhancement.
- Municipal Advisor
  - Roles and Responsibilities: Advisor to the Bond Issuer or assists in structuring the bonds and payment structure supporting the borrower.
- Rebate Consultant
  - Roles and Responsibilities: Complies with ongoing covenants specific to tax-exempt deals and the requirement to rebate certain amounts to the IRS.
- Trustee, Registrar or Paying Agent
  - Roles and Responsibilities: Fiduciary, establishes and maintains funds and accounts and funds required by the indenture, sends payments as required by the indenture, holds investments as directed, registration of owners of the bonds. Ensures the enforcement of a bond indenture and ensures that bond interest and principal payments are made as scheduled. Protects the interests of the bond holder in the event of default by the borrower.
  - Assists Borrower and Issuer in complying with certain covenants. Calculates and files arbitrage rebate returns (for tax-exempt transactions).
- Underwriter
  - Roles and Responsibilities: Underwrites the debt issuance by purchasing the bonds and selling them to bond investors (in a publicly sold transaction)
- Lender
  - Roles and Responsibilities: Typically, a commercial bank that makes a loan that is evidenced by the Municipal Bond issued by an Issuer, the proceeds of which are lent to the Borrower. This is typically referred to as a private placement.

5. Eligible Entities

Entities eligible to participate in the LLP are nonprofit organizations or local government agencies as defined in Government Code Section 53167(e) including:

- a city.
- a county, including a county service area.
- a community service district.
- a public utility district.
- a municipal utility district.
- a joint powers authority.
- a local educational agency, as defined by Education Code section 47640.
- a sovereign Tribal government, as defined above.
- an electrical cooperative as defined by Public Utilities Code section 2776.

Privately-owned projects are not eligible for LLP support. Public-private partnerships are allowed, but infrastructure supported by the LLP must be owned by a public agency or non-profit.

6. Loan Loss Program Credit Enhancement

This section describes the LLP credit enhancement as consisting of a Debt Service Reserve (DSR) guarantee supported by a Loan Loss Fund that will be available to applicants accepted into the LLP. The LLP credit enhancement will support broadband financing by issuing DSR guarantees backstopped by the

Loan Loss Fund to Trustees on behalf of local government agencies, non-profits, and sovereign Tribal governments to support broadband bond issuance. If the debt is issued for the purpose of the development of broadband infrastructure, the applicant demonstrates sufficient expertise in deployment, and the proposed project is evaluated as financially viable, the Loan Loss Fund may support a portion of the bonds issued on behalf of the project. Such support will be limited to an amount equivalent to 100% of the bond's principal. Priority will be given to applicants requesting lower levels of coverage.

Credit enhancements offered in the LLP will be designed to induce bond investors or lenders to "lend" to a borrower and decrease the cost of financing by reducing the risk of a total loss for a bondholder/direct lender in the transaction. Credit enhancements function as a credit guarantee, with the positive credit benefit of the guarantee going primarily to the borrower by way of reducing costs or providing the borrower with the ability to obtain better financing terms than would be accessible without a credit enhancement.

6.1. Debt Service Reserve as Credit Enhancement

The LLP credit enhancement will consist of a DSR guarantee that shall be included in each applicable bond issuance, with sufficient funds to ensure timely regularly scheduled principal and interest payments to Trustees on behalf of bondholders/lenders up to the amount of the applicable approved guarantee. The DSR guarantee will be drawn upon if broadband revenues are insufficient to support such payments. DSR draws are a reportable material event for continuing disclosure purposes in a public transaction. DSR draws shall be outlined in the Indenture.

Should the DSR guarantee be drawn upon, it will be replenished from the Loan Loss Fund by the amount the DSR guarantee is depleted. For example, if an applicant receives coverage up to 30% of bond principal on a $10 million bond, the DSR guarantee will be replenished up to the $3 million, the maximum available from the Loan Loss Fund. The LLP will cover no more payments after this point. If the Loan Loss Fund is not immediately repaid, the liability to the Loan Loss Fund will bear interest. This liability will accrue interest at prime rate plus 5%, to act as a deterrent on draws.

6.1.1. Debt Service Reserve Tax-Exempt Basis

If a broadband bond transaction is issued on a tax-exempt basis, issuers and borrowers must coordinate with their respective bond counsel on structuring the DSR guarantees in ways that meet the federal tax requirements set forth in the Internal Revenue Service Code.

In a tax-exempt arrangement, DSR guarantees must meet the following test when funded: the lesser of: (i) Maximum Annual Debt Service, (ii) 125% of Average Annual Debt Service, or (iii) 10% of the par amount of the bonds.[18] In non-tax-exempt arrangements, parties may follow the tests as guidelines in determining the size of their DSR guarantees.

6.1.2 Debt Service Reserve Guarantee Repayment Seniority

The LLP DSR guarantee shall be required to be repaid before any broadband revenues can flow

[18] IRS Code 1.148-2(f).

through the flow of funds under the applicable Bond Indenture. Upon a failure to repay the LLP DSR guarantee, the CPUC shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture.

6.2. The Loan Loss Fund

The Loan Loss Fund will act as a support fund to the DSR guarantee. When applicants apply to the LLP, the percent coverage of principal they are awarded will depend on how much available funding is remaining in the Loan Loss Fund.

In the case of a draw upon the DSR, The Loan Loss Fund will continue to “refill” the applicable DSR account until the allocated guarantee is exhausted, assuming there are no outstanding issues with respect to the bond’s tax-exempt status.

6.2.1. Loan Loss Fund Release of Guarantee from Awardee

LLP funds reserved as credit guarantees may be gradually released according to pre-defined performance milestones, to be made available again as credit enhancement for future applicants, as awardees’ partially-enhanced bonds are paid down successfully. Provisions ensuring a gradual release of committed LLP funds will be prioritized if there are applications for more funding than is available (see Section 7.3).

6.2.2. Loan Loss Fund Earned Interest

Interest earnings in the Loan Loss Fund will be used first to pay for the administrative services incurred from the management of the Loan Loss Fund; the remainder will be used to replenish or grow the Loan Loss Fund.

6.2.3. Loan Loss Fund Location

Per legislation and after the July 2023 appropriation the Loan Loss Fund will be transferred from the General Fund to Fund 3411[19]. The CPUC will work with the California Department of Finance and the State Controller’s Office to initiate the transfer. Following the transfer, the LLR Fund will be managed by the CPUC and any funds not reserved by applicants shall be placed in the Surplus Money Investment Fund (SMIF) where it will earn interest as designated by the SMIF.

6.3. Loan Loss Program and Multiple Bond Issuances

The LLP will permit funds to be reserved for multiple bond issuances: applicants are able to reserve funds to provide new credit enhancements for multiple projects. Applicants are required to submit a new application when they plan to issue new bonds. Funds will be awarded on a per-application and per project basis, and will require a new application for each reservation.

6.4. Loan Loss Program Funding Allocation Timing

Applicants have the ability to encumber funds in the LLP to be used as a credit enhancement for up to 30 years. Shorter times are preferable so that funding can be released, returned to the fund, and redistributed to support other projects as stated in section 6.2.1.

6.5. Matching Funds Are Not Required

The LLP will not require applicants to provide matching funds to support their project, but projects with

[19] https://esd.dof.ca.gov/funds/app/download/3411

external funding will be prioritized for LLR funds if there are applications for more funds than are available.

6.6. Provisions for Increased Capitalized Interest after Application Approval

It is possible that the need for capitalized interest could increase due to changing economic conditions between the time applicants submit their project for consideration and bond issuance. To increase speed and flexibility during these negotiations, staff may ministerially approve support for an increase in capitalized interest of up to 20% above the amount identified in the project application if allowable under applicable law.

Applicants must provide justification that the increase in costs are due to factors outside their control in a letter to the Director of Communications Division.

6.7. Required Bond Terms

Staff proposes the following requirements for every bond issuance that receives LLP support. The purpose of these provisions is to ensure that the Loan Loss Fund is protected, and to ease the negotiation of bond terms by setting a minimum standard before bond negotiations begin, which include:

1. The CPUC must consent to any additional debt to be issued that can either be repaid from the same LLP guarantee or that can negatively impact the revenue repayment source on an existing LLP guarantee.

2. The bond trustee shall not be replaced without the consent of the CPUC.

3. Bond documents and indentures shall not be revised without the consent of the CPUC.

4. Ongoing information such as audited financial information, notices of draws on reserve accounts prior to any withdrawals, notice of defaults, prior redemption/refunding notices, notice of commencement of any bankruptcy proceedings, and any notices (including rating agency-related matters) that go to bond owners/lenders must also be sent concurrently to the CPUC and its representatives.

5. The CPUC is a third-party beneficiary of the issuing documentation.

6. Delinquent payments owed to the credit enhancer (CPUC) will be at the prime rate plus 5%.

7. Any documents that could impact the security or sources of repayment of the bonds or credit enhancer (CPUC) cannot be entered into without the prior written consent of the CPUC.

8. Legal opinions also must be addressed to the CPUC and its legal representatives.

9. The indenture cannot be fully discharged until all amounts due and owing to the CPUC have been repaid.

10. The CPUC or its legal representatives must have signoff on flow of funds.

11. Costs/fees/amounts owed to the CPUC shall be included in calculations for additional debt to be issued.

6.8. Loan Loss Program Eligible Capitalized Costs

Costs associated with the issuance of debt for the development of broadband infrastructure are considered "eligible" project costs under Public Utilities Code Section 281.2. These include costs related, but not limited, to:

- Payment of costs of debt issuance (not to exceed two percent of the total debt issued for non-profits in a tax-exempt transaction).[20]
- Obtaining credit enhancement; costs may include transaction costs (bond counsel fees) and cost of the guarantor to issue.

6.9. Loan Loss Program Funding Reservation Period

After an application is approved by Resolution, applicants have 180 days to close the bond transaction. Any extensions for factors outside of the applicant's control must be approved by the Director of Communications Division.

6.10. Additional Support In Case of Revenue Shortfalls

If a project is facing financial difficulties, the bond issuer may be required to hire a consultant with relevant expertise to evaluate operational problems of the system and make recommendations to the borrower's management.

This may be required if the project meets the following two criteria:

1. The borrower has not fully repaid any draws on the DSR guarantee.
2. Revenues, minus operations and maintenance costs, are less than 105% of the funds required to meet bond payments for a period of 12 months (a key indicator of financial viability).

After deliberations with CPUC staff, recommendations which are determined likely to improve the project's financial stability will be implemented by the borrower.

7. Program Design Proposals

7.1 Background

In comments and reply comments on the staff proposal received on October 14, 2022, and October 24, 2022, respectively, parties made a wide range of recommendations with respect to the amount of bond coverage reserved from the Loan Loss Fund that would allow bonds to be financeable at terms acceptable to the issuer. These recommendations ranged from 5% of principal[21] to 100% principal and interest for the highest priority areas.[22] This range of recommendations suggests that different bond issuers have widely varying needs in terms of the amount of coverage necessary to issue bonds at reasonable interest rates.

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[20] IRS Section 501(c)(3) federal tax exemptions place a two percent limit on the cost of debt issuance for nonprofits.

[21] Comments of the California Cable and Telecommunications Association on the Assigned Commissioner's Ruling Inviting Comments on Staff Proposal for Broadband LLP Fund Program, p 6.

[22] Opening Comments of the National Diversity Coalition on Phase IIA Staff Proposal for Broadband LLP Guidelines, page 7.

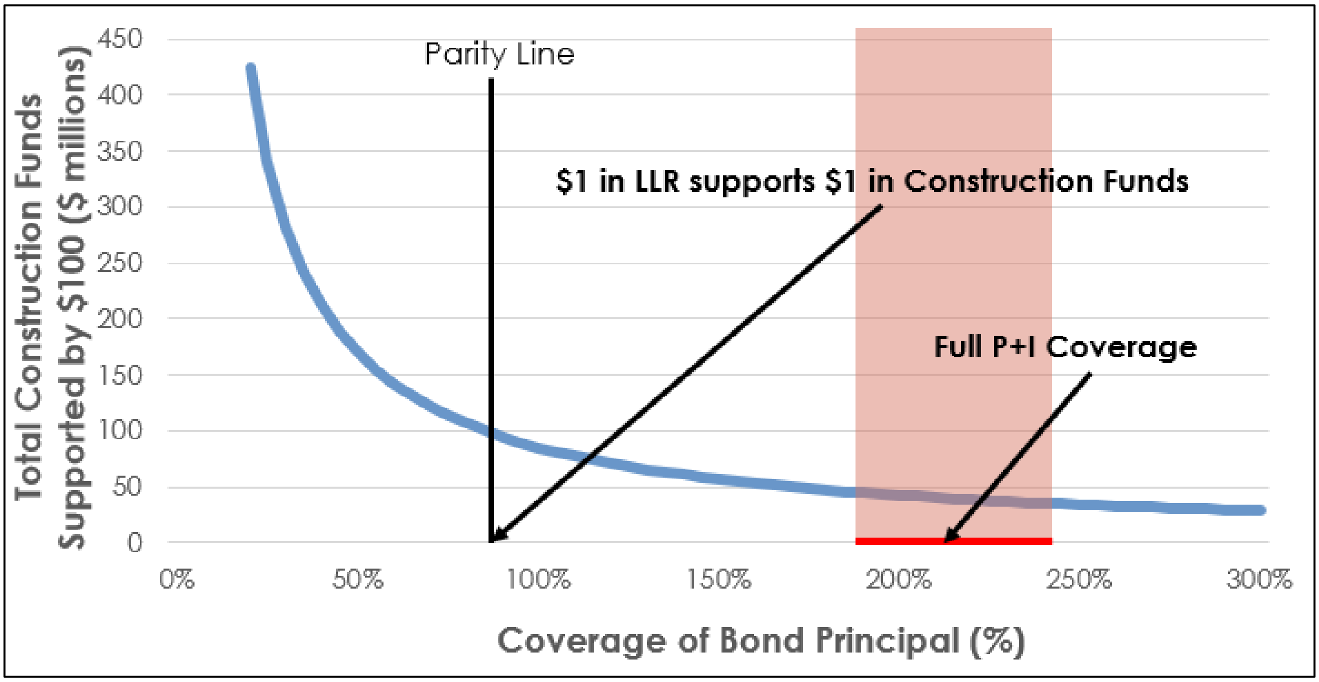
The CPUC's desire to maximize the number of projects supported by the LLP must be balanced against applicants' desire to receive the best possible financing terms through higher coverage guarantees. As demonstrated in Section 7.2, covering a higher portion of a bond's principal comes at significant cost to the LLP and to potential future applicants. While a guarantee of all principal and interest for a bond would be appealing for issuers and creditors alike, it would substantially reduce the number of projects the LLP can support. This staff proposal therefore recommends that the LLP be designed in a way that maximizes leveraging of the Loan Loss Fund.

7.2. Relationship Between Principal Coverage and Construction Funds

Increased coverage of bonds results in a lower ability to leverage the Loan Loss Fund. The "parity line" in Figure 1 approximates the point at which $1 in LLP coverage supports less than $1 in construction funds in the medium- to long-term. Staff estimates that roughly 15 - 25% of each bond's principal will cover issuance costs, capitalized interest, and other expenses, so LLP funds reach parity with construction funds around 75-85% of bond principal, depending on the bond interest rate and other factors. Any coverage above 100% of the principal is guaranteeing interest payments. A guarantee that ensures a yield comparable to a US Treasury Bond could reduce the incentives of lenders or investors to adequately vet projects.

In addition, Figure 1 demonstrates that covering all principal and interest dramatically reduces the CPUC's ability to leverage funds. This significant level of coverage turns $100 million of LLP funds into roughly $30-$50 million in construction funds in the medium- to long-term.

Figure 1. Relationship Between Principal Coverage and Construction Funds



7.3. Two Potential LLP Models for Party Input

This staff proposal provides two possible models to allocate DSR guarantee support from the Loan Loss Fund. Both are organized to balance applicants' need for varying levels of bond support against the need to conserve staff resources.

7.3.1. Tranche Offering

The Tranche Offering would accept applications three times per year for a subset of that year's available LLP funds (see Table 1, below). Applicants could apply for any level of support up to an amount equivalent to 100% of bond principal. Applications would be prioritized in order of the amount of requested Loan Loss Fund coverage (see section 7.4 for additional prioritization factors). For example, applications for 20% bond principal coverage would receive priority over applications for 30% bond principal coverage, which would in turn be prioritized over applications for 60% bond principal coverage. Note that while the amount of funds allocated from the Loan Loss Fund will be calculated relative to bond principal, the DSR guarantee will cover principal *and* interest payments in the event of revenue shortfalls.

To ensure that funds are available for low-income and vulnerable communities, each offering will be split into a "General Market" track and an "Equity" offering. The Equity track would be restricted to projects where three fourths or more of the project area is within "priority communities."[23] The tracks will

[23]See https://federalfundingaccountmap.vetro.io/map. Parties may see a representation of eligible communities on the Federal Funding Account map, by selecting the "Disadvantaged Communities" layer and the "Low-Income Areas" layer

otherwise be identical.

Table 1. Proposed Funding Allocation for Tranche Offering in each Fiscal Year

	Cycle 1	**Cycle 2 (4 months after round 1)**	**Cycle 3 (4 months after round 2)**
General Market Track	1/6 of available funds	1/6 of available funds, plus any remaining funds from Cycle 1	1/6 of available funds, plus any remaining funds from Cycles 1 and 2
Equity Track Open to projects serving SB 535 Disadvantaged Communities (including Tribes)	1/6 of available funds	1/6 of available funds, plus any remaining funds from Cycle 1	1/6 of available funds, plus any remaining funds from Cycles 1 and 2

7.3.2 "Stepped" Approach

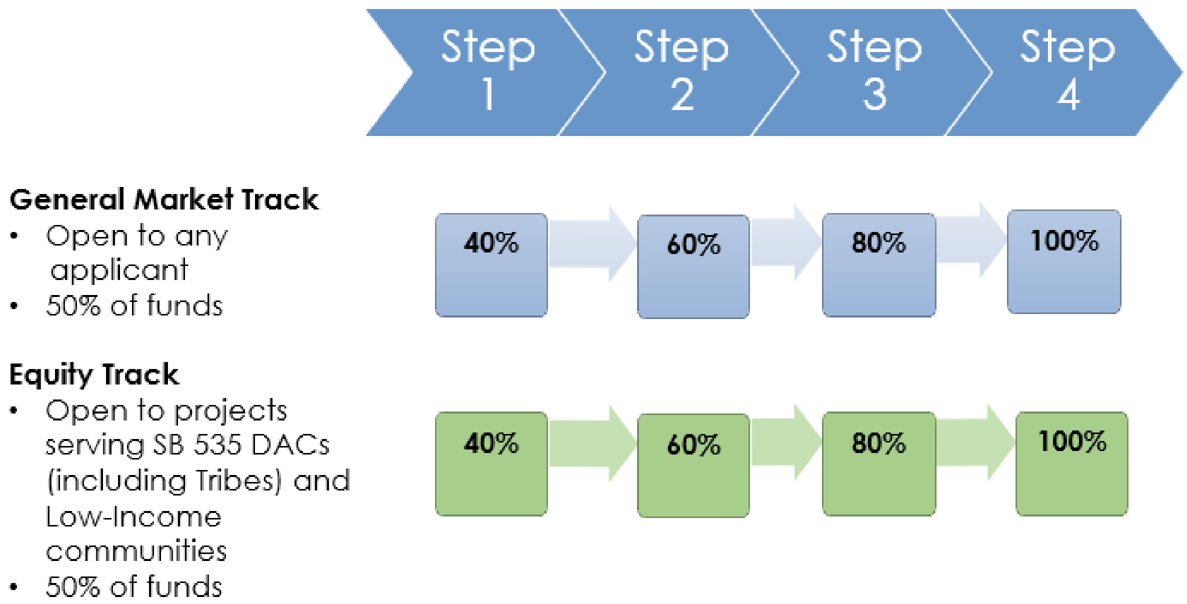
An alternative to the Tranche Offering is to offer bond coverage in increasing steps over the span of several months, and repeat this cycle on an annual basis. In the first step, available LLP credit enhancement in the form of a DSR guarantee supported by the Loan Loss Fund will cover up to 40% of principal, with an amount equivalent to approximately 10% of the bond's principal amount being set aside to function as a debt service reserve or to the lesser of what is proposed in Section 6.1.1. Applicants could apply for coverage up to the maximum amount of coverage available in the step. If an application is approved, funds would be reserved for the project, Staff will post the remaining fund balance to the website, and the LLP would then notice a new application window and begin accepting applications for higher levels of coverage. If an application cannot be approved via CPUC Resolution prior to the next increased coverage step, that application will be considered in the following step. This process will repeat on a regular basis, with maximum coverage from the LLP increasing in 20% increments, until the highest step is reached or funds are exhausted. See Figure 2 for a diagram of this process.

Initially, the LLP funding will be split equally between the two tracks. Aside from eligibility restrictions and maximum coverage limitations, the tracks will be identical. The "General Market" track will have no applicant restrictions, while the "Equity" track will be restricted to projects with more than three fourths of their project area within "priority communities" as defined in this staff proposal. This is to ensure that LLP funds are not absorbed entirely by projects serving wealthier or better-resourced communities in the early stages of the fund.

Tracks will not have their funding rebalanced between steps. For example, if the General Market track is fully reserved by the second step, it will not be replenished during the first program year. Any funds remaining after the final step will be carried over to the next year's "Step 1."

Staff seeks input from parties on reasons for specific timing of the "Stepped" Approach. Staff proposes to increase available coverage not more than once every three months.

Figure 2: Proposed "Stepped" Approach



7.4 Project Prioritization

In the event that the LLP receives more applications for funding within a step or cycle than is available, Staff proposes to prioritize the projects requesting the lowest coverage amount, followed by prioritization criteria specified below to identify which applicants receive funding. For example, if two otherwise-identical applications request funding from the LLP, the project requesting a lower coverage amount would be prioritized for funding.

Under either approach, applications will be further prioritized based on the following factors:

- Amount of project funding excluding the LLP, including other CPUC grant programs or Federal support.
- Whether the bond terms include a realistic provision for refinancing or "rolling off" the LLP's commitment within 10 years. This would allow more rapid "cycling" of LLP funds.
- Whether the project offers a low-income broadband plan to customers.

Staff seeks comments on this proposed methodology in the ruling accompanying the Staff Proposal.

8 Applicant Eligibility Criteria

8.1. Project Service Standards

Eligible broadband projects under the LLP should be designed to reliably offer, upon completion, symmetrical speeds at or above 100 Mbps download and upload. In some cases, 100 Mbps symmetrical speeds may be constrained due to engineering limitations and minimum speeds of 100 Mbps download and 20 Mbps upload may be considered. Additionally, broadband projects should demonstrate sufficient surplus capacity to remain competitive in the future without requiring major refurbishment upgrades.

Further, staff recommends that providers offer a low-income broadband plan to customers through participation in the Affordable Connectivity Program (ACP) or a successor program as identified by the CPUC, and open access middle-mile infrastructure requirements. Projects meeting these requirements will be prioritized in cases where there are insufficient funds to support all applicants.

8.2. Outreach Plan

Participation of communities with critical needs in the implementation and operation of the LLP is vital to program and project success. This includes outreach to communities to be served. Applicants shall provide a plan that encourages subscription of the service in the project locations. Applicants shall also include evidence of support from communities affected by the proposed broadband projects, planned marketing and outreach efforts, including proposed stakeholder engagement, or any other relevant material in their application, as required by Section 9.2 Application Guidelines, above.

9. Implementation

9.1. Application Submission and Review Process

Applicants shall complete and submit the required application information as stated in section 9.2 Application Guidelines to Broadband.LoanLoss@cpuc.ca.gov by the application deadline to be considered for the LLP or submit applications as directed by CPUC Staff. Any applicant submitting their application after the deadline will be asked to apply again in the next step or funding cycle.

The application submittal and timeline will be posted to the CPUC Broadband LLP webpage prior to the application period opening. Accepted applications will have summary information posted to the CPUC Broadband LLP webpage along with basic project location information. When applications are awarded or denied through CPUC Resolution, staff will post a list of current funding levels, application statuses, deadlines, and notices to the CPUC Broadband LLP webpage.[19]

Staff shall notify an applicant by letter or email specifying reasons for rejection/denial should an application fail to meet the LLP eligibility criteria. Rejected applicants may reapply in a future application cycle.

Based on comments, staff will work with a financial consultant to finalize the LLP application and post to the LLP's webpage.

9.2. Application Guidelines

In order to receive an approval, at minimum, an application should provide all items below to demonstrate the financial, technical, and operational capacity to execute the project successfully and completely in the timeframe established. Further, the application should demonstrate a well-planned project with a reasonable budget that shows it will deliver speeds and service proposed and be sufficiently robust to meet increasing demand for bandwidth.

This section describes the components and requirements that should be included in the application.

An application must contain the following items:

- Application Item 1 – Project Summary
    - Description of proposed broadband project plan.
        - Project location name.
        - Project technology type.
        - Credit guarantee requested.
        - LLR Track (General Track or Equity Track).
    - Describe the project cost and how the proceeds from the debt financing will be utilized to fund its development.
    - Map of projected area (with census block groups indicated).
    - Map of where infrastructure will be built within project area.
    - Number of unserved locations the project will serve, including total number of households within these locations.
    - Customer concentration data
        - Potential customer count
        - Revenue contribution by customer group
- Application Item 2 – Applicant Entity Information
    - Organization name.
    - Key contact information.
    - Certificate of good standing issued by the CA Secretary of State (if applicable/for nonprofits).
    - Organizational chart.
    - Key company officers and organization history.
    - Identify staff or entities responsible for legal counsel, project design and construction, marketing and technical support, and maintenance and operation.
        - This shall include information about the project architects or engineers and general contractor (if already identified).
        - Applicant should provide a history of the team's prior work together, if applicable
    - Documentation (e.g., a signed letter or contract) of in-house or contracted expertise for evaluating and deploying broadband infrastructure.
    - Documentation of expertise in bond financing and financial administration, or contracts with consultants or advisory entities (e.g., underwriters, financial advisors, bond counsel, etc.) necessary for successful bond issuance or encumbrance of other forms of debt for project deployment.
    - Documentation of expertise in debt management (e.g., administrative capacity, debt ratio coverage, past performance)
    - Statement of readiness to build, manage, and operate broadband.
- Application Item 3 – Description of Applicant's Current Broadband Infrastructure and Existing Infrastructure in the Area
    - A description of the applicant's current broadband infrastructure and service within 5 miles of the proposed project.
    - A description of other providers' infrastructure within the project area which can be leased, purchased, or accessed via interconnection.
    - Max speed offered currently to households by incumbent providers.
- Application Item 4 – Project Location Data

  - Proposed broadband project location shapefile.
  - Geographic location of project related key network equipment.
- Application Item 5 – Median Income
  - Median household incomes of all census block groups in project area.
- Application Item 6 – Deployment Schedule
  - Project start and end dates.
  - Schedule for obtaining permits prior to construction.
  - Estimated project plan with major milestones and construction timeline.
  - Milestone risks.
- Application Item 7 – Proposed Project Expenditures
  - Project Budget (Total, major equipment costs).
  - Estimated breakdown of aerial and underground installations.
  - Availability of matching funds with identified funding source.
- Application Item 8 – Economic Life of all assets to be funded.
  - Description of major infrastructure to be deployed, including economic life.
  - Buildings, outside plant, towers and poles, network and access equipment, operating equipment, customer premise equipment), the type of equipment (new building, prefabricated building, rehab of existing building, new towers or poles, modification of existing towers and poles, broadband switching equipment, office furniture and fixture, etc., and the estimated useful life (10, 15, 20, etc. years).
- Application Item 9 – Proposed Pricing
  - Proposed pricing for the project, including pricing model for monthly services, installation and return requirements.
  - Other recurring costs.
  - Other non-recurring costs.
  - Applicant participation in Affordable Connectivity Plan (ACP).
- Application Item 10 – Marketing/Outreach Plan
  - Applicant must include a plan for engaging and marketing to Environmental and Social Justice (ESJ) communities.
  - Applicant must provide an estimate of the percentage of ESJ community residents in the project area.
- Application Item 11 – Local Government and Community Support (optional)
  - Letters of support from state, local, tribal government, community organization, or tribe.
  - Anchor institutions and public safety locations in the project area that will receive new or improved service.
- Application Item 12 – Funding Sources
  - All project funding sources such as loans, bonds, financial contributions of the provider and other sources.
  - Applicant must describe whether applicant has or will pursue additional sources of outside funding (Sources and Uses Table).
- Application Item 13 – Financial Qualifications
  - Certified Public Accountant-audited financial statements for the last three years. Local governments may submit Annual Comprehensive Financial Reports. If an applicant has less than three years of financial statements, as many years as

financial documents exist from the parent or sponsoring organization, providing the borrower's:
        - Balance Sheet
        - Income Statement
        - Statement of Cash Flows
    - Pro forma five-year financial forecast
    - Schedule of all outstanding and planned debt
    - Collateral documentation
        - Indicate status of sources and uses of funding
    - A non-binding term sheet that outlines the proposed financing deal (for an issuance that is underway but not yet complete).
- Application Item 14 – Project Viability
    - Pro-forma financial forecast over 5-years (specific to the broadband project)
        - Income Statement
    - Project viability forecast to include projected revenue from customers, showing take rate, changes in subscription and service rates, estimated revenue per customer, and minimum revenue per customer to cover debt service payments.
- Application Item 15 – Providing Voice Service (If applicable)
    - Availability of voice service that meets California and FCC requirements for 9-1-1 service.
    - Listing of types of services offered.
    - Timeframe of offering.
    - Deployment plans for applicable Federal and state requirements for battery back-up, if applicable.
- Application Item 16 – Environmental Review
    - Ensure that the applicant plans to do environmental review or demonstrates a plan for the review.
- Application Item 17 – Application Checklist
    - Applicant must complete the LLR Application Checklist form and attach it to each credit guarantee proposal.
- Application Item 18 – Affidavit
    - Applicant provides affidavit attesting that all information provided in their application is true and correct.
- Application Item 19 – Bond Terms
    - Bond length maturity schedule, coupon rate, coupon dates, and maturity date.
    - Other relevant security details.
    - Details of additional bonds test
    - Other outstanding debt
        - Bonds issued under separate indentures or agreements by the applicant which rely on the same broadband revenue source.
    - Proposed debt service reserve for bonds
        - An account that holds the maximum annual debt service for the bond issuance stated in the application.
    - Debt service schedule for financing, security, and sources of payment
    - Flow of Funds
    - Estimate of bond interest rate with and without LLR guarantee

- Expected Bond Rating, if any
- Municipal Advisor, if any
- Underwriting Team
- Legal Matters
    - Material litigation, if any
    - Legal team
        - A breakdown of counsel titles and responsibilities to parties on legal matters pertaining to the implementation of the bond issuance.

9.3. LLP Application Approval Process

The following constitutes the major steps to approve an LLP application:

1. Staff to review LLP application and address any deficiencies prior to reserving requested credit guarantee.
2. Staff issue draft Resolution for public comment.
3. Staff will specify the "form of guarantee"[24] and draft the terms, which will be provided to the applicant's bond counsel as an attachment to the Resolution and must be included in the applicant's closing bond documentation.
4. CPUC votes to approve the Resolution.

9.3.1 Form of Guarantee

Following CPUC Resolution approval, staff will provide the "form of guarantee" to be included in the related bond documents to the applicant's bond counsel. Applicant's bond counsel should then include the information in their documentation attached to the bond sale.

Staff will work with guarantee counsel to determine industry conventions and standardization for the "form of guarantee" document, including contingency account funding provisions. The Guarantee counsel will ensure that the offering is proper and the liability and risk to the CPUC is limited by the terms of the guarantee.

9.4. Pre-Buildout and Buildout Phase

Broadband projects under the LLP shall be completed within 36 months after their project start date. Staff and the awardee shall determine a project start date after the awardee has obtained CPUC Resolution approval, completed all necessary documentation, and obtained all necessary permits to begin construction. Awardees will provide a phased approach project plan to staff prior to project start date. Should the awardee or the awardee's contractor fail to commence work at the agreed upon date or deviate from the awardee's Deployment Schedule as defined in Section 3 Definitions, awardee will notify the Communications Division staff by written letter as to the nature of the delay with estimated revised project start dates as soon as they are aware.

[24] The "form of guarantee" will be a standard non-negotiable form that will be updated for each deal depending on the size of the guarantee.

If there is a project delay during buildout, the borrower shall provide Communication's Division with a written letter as to the nature of the delay with estimated revised dates for the project to resume as soon as they are aware. Communication's Division may then provide a project delay exemption to the awardee and update its internal tracking systems.

After completion of the project, revenues generated from the broadband network will be used for debt service and operations and maintenance expense. If there are any shortfalls, the debt service reserve fund will be drawn upon as many times as needed to cover either a portion or all of the interest or principal payments.

9.5. Loan or Bond Default

The issuer, borrower, staff, trustee, lender/bond owner and any other partnering agency or entity servicing the bond may work together to address any issues that occur throughout the life of the bond. In the event of a Payment Default as defined in Section 3 Definitions, parties will follow the procedure described in section 11.3. Incident Reporting, and any additional applicable procedures set out in the Bond Indenture.

10. Outreach

Prior to and during the implementation of the LLP, staff will work with and leverage the expertise of other state agencies and partners to better coordinate outreach to eligible entities within the state. Additionally, staff will monitor and evaluate outreach efforts to ensure alignment with the CPUC's Environmental and Social Justice Action Plan.

11. Reporting

11.1 Bi-Annual Progress Reporting

LLP awardees will be required to file progress reports identifying project milestones and percent completions to date on a bi-annual basis per Public Utilities Code 281.2(d)(1). Progress reports are due on March 1 and September 1 of each year. In the event either date falls on a weekend or holiday, the reports are due the following business day.

Bi-annual public reporting will consist of the information listed below. This reporting will be submitted to the CPUC's Communications Division and will be made available to the public via the CPUC's Broadband LLP webpage. Submission instructions and other relevant information, consistent with these guidelines, will be provided by the Communications Division and will be available on the Broadband LLP webpage.

- Description of project accomplishments during the reporting period.
- Identification of project milestones and the percent complete to date. If the percent completed is more than 5% delayed from the estimated target milestones shown in the Loan Loss application, the applicant must provide a narrative description explaining the delay.
- Major construction milestones (including a reporting on all CEQA mitigation implementation and monitoring activities, if CEQA review was required), date of completion of each task/milestone as well as problems/issues encountered, and actions taken to resolve these issues/problems during construction (including CEQA compliance, if applicable).
- Description of any challenges or issues and any risks faced during the reporting period in

achieving planned progress on the project, including environmental compliance and permitting challenges if applicable.

- Description of significant project milestones or accomplishments planned for the following reporting period.
- Projected date of completion of the project, problems/issues encountered since previous bi-annual report and actions taken to resolve these issues/problems during construction (and comprehensive reporting on CEQA mitigation compliance, if applicable).
- Certification that each progress report is true and correct, under penalty of perjury.

11.2 Completion Report

In addition to public bi-annual reporting requirements, awardees will file a completion report within 30 days of the project completion date. The completion report will contain the following:

- Description of the project, including any changes in the project construction and alignment, if applicable.
- Comparison of approved versus actual costs of construction.
- Description of status of progress as compared with Deployment Schedule proposed in application.
- Subscribership information to date.
    - Projected subscribers versus actual subscribers (by subscriber type), as of the date of the completion report.
    - The actual number of current subscribers by subscriber type and subscriber speed.
    - The potential number of subscribers of each type that could be served using the LLP project's existing facilities at the same minimum defined speed.
    - Both the number of low-income customers in the project area and the number of low-income customers subscribing to low-income plans.
    - Number of subscribers broken down by each broadband plan offered, if applicable.
- Speed test data at the address level for the project area, including:
    - Test results for download and upload speeds.
    - A representative sample of speed test results at dispersed locations in the project area, including locations at the edge of the project area; the number of tests will vary based on the project.
    - Maps and associated data of speed test locations and results in a .kmz/ .kml file, shapefile or .csv spreadsheet.
    - A screenshot of the results of CalSPEED speed tests, which can be accessed at http://www.calspeed.org/index.html.
- Maps and associated data of all locations served.
- The geographic coordinates of all locations that are served. This information will be provided in a plain-text, comma-separated values (.csv) file, or .kmz/ .kml file or shapefile that contains geo- located street address information, including latitude and longitude, as well as census block code (GEOID).
- Identification of the number of served locations in the project area that have broadband availability at or above the aforementioned minimum speeds.
- Documentation of advertisements issued, billing inserts and marketing information.
- Documentation of all service plans offered by the awardee, including speed tiers and prices.
- Open access interconnections (if applicable).
    - The number of interconnection requests and executed service agreements.

- Updates on project permitting (if applicable).

11.3. Incident Reporting

To minimize risk of losses, the LLP requires sufficient notice in the event of an anticipated deficiency in broadband revenues. To that end, as soon as an awardee and the applicable Trustee know (or should know) they anticipate deficiencies in broadband revenue for the payments on debt secured by the LLP, the awardee must notify the Director of the Communications Division in writing of the following facts[25]:

- The anticipated date of the draw on the applicable debt service reserve fund LLP guarantee.
- Incident type and details including preventative measures.
- Amount of default or anticipated future draws from debt service reserve fund LLP guarantee.

(END OF ATTACHMENT 1)

[25] These items can also be addressed via “Notice Provisions” required of the trustee to seek reimbursement for draws on the debt service reserve.