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San Francisco, CA 94111-5432
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reference no.: 40431852

January 9, 2014

California Infrastructure & Economic Development Bank
980 9th Street, Suite 900
Sacramento, CA 95814
Attention: Ms. Teveia R. Barnes, Executive Director

Re: *US\$96,000,000 California Infrastructure & Economic Development Bank, California, Infrastructure State Revolving Fund Revenue Bonds, Series 2014A*

Dear Ms. Barnes:

Pursuant to your request for a rating on the above-referenced obligations, Standard & Poor's Ratings Services ("Ratings Services") has assigned a rating of "AAA". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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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. The word "Standard" is written in a larger, more prominent script, followed by "&" and "Poor's". The signature is set against a light, textured background.

Standard & Poor's Ratings Services

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enclosures

cc: Mr Greg Swartz, Senior Vice
President Piper Jaffray & Co

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California Infrastructure & Economic Development Bank; State Revolving Funds/Pools

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California Infrastructure & Economic Development Bank; State Revolving Funds/Pools

Credit Profile

California Infrastructure & Econ Dev Bnk infrastructure st revolving fd rev bnds ser 2014A

Long Term Rating

AAA/Stable

Rating Assigned

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to the California Infrastructure and Economic Development Bank's (I-Bank) series 2014A infrastructure state revolving fund (ISRF) revenue bonds. The outlook is stable.

The rating reflects our view of the following characteristics:

- A very strong enterprise risk score under our criteria, due to low industry risk and a strong market position;
- An extremely strong financial risk score based on an extremely strong loss coverage score and strong financial policies; and
- Our view that the program can withstand a stressed default scenario well above the level determined under the CDO Evaluator due to high debt service coverage, dedicated funds in a reserve, and additional funds held in an equity account, which we understand management intends to use to make more pledged loans over time.

The approximately \$96 million in bonds are being issued to refund the I-Bank's series 2004 and 2005 ISRF bonds, to reimburse the I-Bank for previously funded loans, and to pay cost of issuance. The refunding will leave only the series 2008 ISRF bonds outstanding under the 2004 indenture. The series 2014A ISRF bonds are being issued under a separate 2014 master indenture with a separate set of loans pledged. After issuance, the I-Bank will have about \$38 million in series 2008 bonds and \$96 million in series 2014A bonds outstanding. We understand that the I-Bank is leaving the 2004 indenture open to new debt in the future, although there are currently no plans to issue additional debt on this lien.

The series 2014A ISRF bonds are secured by revenues received from the repayment of pledged loans, plus certain funds created under the indenture. The bonds will also have a reserve, funded at the lesser of 10% of initial offer price, maximum annual debt service (MADS), or 125% of average annual debt service. Under the flow of funds, pledged loan repayment revenues are first used to pay principal and interest on the bonds. After curing any reserve fund deficiencies and covering certain bond-related administrative expenses, revenues accumulate in a supplemental revenue fund if projected debt service coverage falls below 1.20x, as projected by the I-Bank. If projected coverage exceeds this amount, as it will upon issuance of the bonds, revenues flow to the unrestricted assets account in the equity fund held by the trustee to fund one-and-a-half years of budgeted I-Bank operating expenses, then to the restricted assets account in the equity fund. The restricted assets account is pledged to the bonds while the unrestricted assets account is not. Funds can be transferred from the restricted assets account to the unrestricted assets account if the 1.20x coverage test is met without considering funds in the supplemental revenue fund. Funds in the unrestricted asset

account can be used by the I-Bank for any lawful purpose, including uses unrelated to the program.

Administered by the state I-Bank, the ISRF program provides loans to local governments throughout California for public infrastructure projects and economic expansion projects. The I-Bank was initially capitalized with appropriations from the state in fiscal years 1999 and 2000. Loan funding comes from the program's equity, loan repayments, investment earnings, some fee income, and proceeds from bond issuances.

The approximately \$96 million series 2014A ISRF bonds will initially be backed by \$184 million in existing pledged loans. We understand that after closing, the I-Bank anticipates having about \$68 million in the program's equity fund held by the trustee, including a \$33 million deposit of bond proceeds in the restricted assets account to reimburse past loans and a \$35 million transfer to the unrestricted assets account from the I-Bank's other cash sources. According to management, the intent of these funds is to fund new pledged loans over time. We understand that the I-Bank plans to issue additional debt in the future to reimburse itself for new loans and further support the program.

The rating is based on a very strong enterprise risk score and an extremely strong financial risk score under our criteria. We also apply a one notch positive override to the rating due to our view that the program can withstand a stress scenario with default rates well above the level determined under the CDO Evaluator test.

Outlook

The stable outlook reflects our anticipation that loan portfolio credit quality will be generally stable and any delinquencies in repayments will be manageable and absorbed by the excess coverage and reserves. The rating also reflects the I-Bank's intention to use funds held in the equity account to support the program through additional loans. If the I-Bank were to transfer significant funds out of the program or remove pledge loans in the future, as is allowed under the indenture if certain coverage tests are met, we could the lower rating.

Enterprise Risk Profile

We consider the ISRF bond program's enterprise risk score to be very strong. The score is the result of a low industry risk score and a strong market position. The ISRF was initially capitalized with state appropriations in fiscal years 1999 and 2000, with no additional appropriations received since.

Financial Risk Profile

We consider the program's financial risk score to be extremely strong. The score is the result of an extremely strong loss coverage score, only one five-day delinquency in the past 12 months which was cured, and financial policies that we view as generally strong. Formal credit criteria are incorporated in the program's loan origination policies. We understand that program staff reviews borrowers' financial statements and loan covenant certifications annually. In addition, the program has loan payment collection procedures that include 30-day advance notices to borrowers for upcoming payments and formal guidelines in the case of any delinquencies.

The repayment schedule for existing loans that will be pledged to the bonds provides debt service coverage of 1.6x to 1.7x through the bonds' final maturity in 2043. The high coverage along with a debt service reserve, with an initial funding requirement of about \$6.4 million provide loss absorption in the case of loan defaults, leading to the highest rating category under our CDO Evaluator test.

At the closing of the bonds, the I-Bank expects to have about \$33 million in bond proceeds deposited in the program's equity fund to reimburse the funding of past loans plus an additional \$35 equity deposited to the equity fund from the I-Bank's other cash sources. We understand the I-Bank intends to use the funds to make new loans over time, though legally the funds can be moved out of the program if projected coverage of at least 1.20x is maintained. Given the I-Bank's intention of keeping those funds within the program (primarily by making new, pledged loans), we applied a one-notch positive override, leading to the 'AAA' rating. This reflects our assessment that the program should be able to continue to withstand a stressed default rate that is at least 1.5x higher than the rate determined under the CDO Evaluator test.

Related Criteria And Research

Related Criteria

USPF Criteria: U.S. Public Finance Long-Term Municipal Pools, March 19, 2012

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