

**MINUTES OF THE  
CALIFORNIA INFRASTRUCTURE AND  
ECONOMIC DEVELOPMENT BANK**

For the meeting held on  
Tuesday, July 22, 2008 – 1:30 p.m  
1001 I Street – Training Room, East 2<sup>nd</sup> Floor  
Sacramento, California 95814

Chairwoman Marjorie Berte called the meeting of the California Infrastructure and Economic Development Bank (I-Bank) Board to order at approximately 1:35 p.m.

**1. Call To Order and Roll Call.**

Marjorie Berte represented the Secretary of the Business, Transportation and Housing Agency. Anne Sheehan represented the Director of the Department of Finance. Paul Rosenstiel represented the State Treasurer. Michael Saragosa represented the Secretary of the State and Consumer Services Agency. Everett Rice, Governor's Appointee, was present.

The following I-Bank staff members were in attendance: Stan Hazelroth, Roma Cristia-Plant, Tara Dunn, and Brooke Bassett.

**2. Executive Director's Report.**

Executive Director Stan Hazelroth apprised the Board of the following:

- An article appeared in the Sunday July 20, 2008, *Sacramento Bee* newspaper about COPIA: The American Center for Wine, Food and the Arts (COPIA) and included, among other things, a discussion of the bonds issued by the I-Bank in 1999 and 2007.
- The I-Bank was in receipt of notices from COPIA in which COPIA declared it was unable to make a monthly payment that was due on June 26, 2008, as required under a loan agreement related to the 2007 Bonds. Mr. Hazelroth further stated that the loan agreement also requires COPIA file with the I-Bank, the trustee and bond insurer a plan of action (Plan) to rectify the non-payment issue, and that the I-Bank has requested, but has not yet received, a copy of the Plan. Mr. Hazelroth confirmed for the Board that payments under the 2007 Bonds are current, with the next bond debt service payment due December 1, 2008. Mr. Hazelroth indicated that he will keep the Board apprised of material issues related to this conduit bond transaction
- Staff has begun work on issuing the third series of bonds to leverage the Infrastructure State Revolving Fund (ISRF) Program, and a kickoff call took place on July 2<sup>nd</sup>. Approximately \$50 million in bonds are anticipated to be issued in mid-September.
- Due to the ongoing fall-out from the sub-prime mortgage markets, two of the I-Bank's investment providers that hold investments related to the Infrastructure State Revolving Fund Program bonds have had their credit ratings downgraded from the highest rating category of "AAA." The Board was apprised that staff, with the advice of its investment advisor, Bondlogistix, amended collateralized investment contracts with American International Group, Inc. to permit the provider to carry a rating of "AA-" and amended a collateralized investment contract with MBIA, Inc. to allow for liquidation with a make-whole payment in the event of a provider rating of less than "AA." He explained that since MBIA, Inc.'s current rating is less than "AA," staff is working with MBIA to

liquidate the investment contract within the next few weeks, and expects to make a reinvestment decision along with the investment of funds resulting from the third series of ISRF Program bonds in late September.

- On June 25<sup>th</sup>, the California Industrial Development Financing Advisory Commission (CIDFAC) submitted a Strategic Plan for public comment. Currently, CIDFAC approves the allocation of tax-exempt bond dollars for small manufacturing businesses seeking Industrial Development Bonds (IDBs). The Strategic Plan includes near-term program changes to the point scoring system and marketing and outreach efforts, and a long-term proposal to expand CIDFAC's limited authority to allow it to issue IDBs through an entity called the California Economic Development Financing Authority (CEDFA). Mr. Hazelroth reminded the Board that the I-Bank is currently the only State level issuer of IDBs, that there once existed a CEDFA that was merged into the I-Bank in the late 1990's, and that staff intends to provide CIDFAC with comments regarding the Strategic Plan.

Following Mr. Hazelroth's Executive Director's report, Ms. Brooke Bassett clarified and confirmed for Anne Sheehan that as a conduit bond issuer (e.g., bonds issued for COPIA), the bond offering documents and the indentures state that the bonds are not an obligation of the I-Bank or the State of California, that the I-Bank serves a very discreet tax requirement role, and the I-Bank does not have the authority to use any State taxpayer monies for the repayment of conduit bonds. Ms. Bassett further explained that the I-Bank assigns all of its rights and responsibilities to the trustee for conduit bonds, and that the trustee is responsible for protecting the bondholders if the conduit bond borrower fails to make bond payments. She confirmed that the COPIA conduit bond structure is typical of all I-Bank conduit bond issuances.

#### **Consent Items:**

#### **3. Approve minutes from the meeting held on June 24, 2008.**

Chairwoman Berte asked if there were any questions or comments from the Board or those present regarding the minutes. There being none, Ms. Berte entertained a motion to approve the minutes. Ms. Sheehan moved to approve the minutes and Mr. Michael Saragosa seconded the motion. The minutes were approved by Chairwoman Berte, Mr. Paul Rosenstiel, Ms. Sheehan and Mr. Saragosa. Mr. Everett Rice abstained citing that he was not present at the June 24<sup>th</sup> meeting.

#### **Action Items:**

#### **4. Adopt resolution approving the sale, issuance and delivery of taxable and tax-exempt industrial development revenue bonds for the South Malt Avenue Corporation for an amount not to exceed \$3,200,000.**

Tara Dunn presented a staff report describing the project that includes the acquisition of land adjacent to the current facility, construction of additional manufacturing facility and employee parking lot, acquisition of new equipment and the refinancing of existing debt. She also indicated that South Malt Avenue Corporation leases the facility to iWorks, that iWorks uses the facility to manufacture lighting fixtures for various hotel chains and builders including Marriott

and Wynn Hotels, and that the facility includes an environmentally green finishing system, a full-blown machine shop that can produce individual prototypes as well as high-volume production runs and a wiring department that is UL Certified and performs 100% continuity tests on all its electrical fixtures. Ms. Dunn introduced Mr. Eric Dortch, the CEO of iWorks.

Chairwoman Berte asked for any questions or comments from the Board. Ms. Bassett clarified for Mr. Rosenstiel that City National Bank is proposed to be the letter of credit provider, that the bonds will be rated by Standard and Poor's, that the conduit bond policies require an "A" rating, and that references to Fitch Ratings will be removed from the resolution 08-20. Mr. Rosenstiel concurred with Ms. Bassett that the provider does not need to be specifically named in the resolution, but that minimum "A" rating requirement should remain.

Chairwoman Berte asked if any member of the public wish to address this item. Hearing none, Chairwoman Berte entertained a motion to approve Resolution No. 08-20 as amended to remove the reference to the letter of credit provider and the reference to Fitch Ratings. Ms. Sheehan moved to approve the amended resolution, and Mr. Rosenstiel seconded the motion. The Board unanimously approved the amended resolution.

**5. Adopt resolution approving the sale, issuance and delivery of 501(c)(3) revenue bonds for the Hillview Mental Health Center for an amount not to exceed \$3,610,000.**

Ms. Dunn presented a staff report describing the project, which includes the refinancing of debt used to acquire facilities in which Hillview Mental Health Center provides integrated comprehensive services to a targeted high needs population, and provides supervised housing for adults and transitional age youth. She also indicated that the project includes the acquisition of a medical records information system and the installation of a parking kiosk. Ms. Dunn introduced Carl and Eva McCraven, Hillview Vice President and President, respectively, and Dan Bronfman, of Growth Capital Associates, the financial advisor for the financing.

Chairwoman Berte asked the Board if they had any questions or comments on this item. A detailed discussion ensued between Mr. Rosenstiel and Ms. Bassett regarding the wording of Resolution 08-21 with respect to the references to the letter of credit provider and a sole rating by Fitch Ratings, and whether the resolution is in compliance with the current conduit policies adopted by the I-Bank Board in 1999. Mr. Rosenstiel indicated that he wished to avoid what appear to be exceptions to the policies when there is a Fitch only rating on the bonds, since Fitch is not listed in the policies. Ms. Bassett clarified for Mr. Rosenstiel that the policies were adopted many years ago before Fitch became a nationally recognized rating agency and that certainly there could be more words clarifying the intent of the rating requirement in the policies. She further stated that staff has always interpreted the policies to allow a letter of credit provider to have an "A" rating from Standard and Poor's or Moody's Ratings, Inc., but not necessarily using that that rating for the bond in cases in which Fitch Ratings was the sole ratings for the bonds, and consistent with this interpretation of the policies the Board has approved Fitch only ratings in the past. She recommended leaving the language in the resolution that lists Comerica as the letter of credit provider and Fitch as the rating entity for this transaction, and further recommended at Mr. Rosenstiel's suggestion that staff clarify the ratings requirements contained in the policies at next month's Board meeting to ensure consistency with historical interpretation

and applications and to avoid the Board having to make exceptions to the ratings policy on a case-by-case basis.

Chairwoman Berte asked the Board members had any additional comments or questions, or if the public wished to address this item. There being none, she entertained a motion to approve Resolution No. 08-21. Ms. Sheehan moved to approve the resolution and Mr. Saragosa seconded the motion. The Board unanimously approved the resolution.

**6. Adopt resolution approving the sale, issuance and delivery of 501(c)(3) revenue bonds for the Colburn School for an amount not to exceed \$150,000,000.**

Ms. Dunn presented a staff report for financing that includes the refunding of all or a portion of the outstanding bonds previously issued by the I-Bank in 2006 as auction rate securities and insured by Ambac (2006 Bonds), and stated that failed auctions and the insurer ratings downgrade have caused the interest rates of the 2006 Bonds to significantly increase resulting in higher borrowing costs for Colburn. She described the project financed by the 2006 Bonds, including the construction, equipping and furnishing of an approximately 384,000 square foot educational facility along with other facility renovations. Ms. Dunn described that the proposed bonds will be variable rate bonds, with a portion refunding a portion of the 2006 Bonds and backed by a letter of credit, and the remaining portion of the proposed bonds will either convert or fully refund the remaining portion of the 2006 Bonds. Ms. Dunn introduced Jean Sommerville, the school's Chief Financial Officer, and Raigen Padayachee, from Banc of America Securities, the underwriter for the transaction.

Chairwoman Berte asked the Board if they had any questions or comments on this item. Mr. Rosenstiel requested clarification of the ratings policy since the resolution stated the rating on the bonds needed to be in the top three rating categories, which would include an "A-". Ms. Bassett confirmed that an "A-" rating was consistent with the Board approved ratings policies since the policies have always been interpreted by staff to exclude modifiers. A further discussion ensued between Ms. Bassett, Chairwoman Berte, Mr. Rosenstiel and Mr. Padayachee that concluded with the consensus that the resolution be amended to delete the reference to a rating in one of the top three rating categories and instead state that the rating needed to be at least a "A" by Standard and Poor's or "A2" by Moody's Ratings, and to delete the reference to Fitch Ratings.

Chairwoman Berte asked if there were any additional questions or comments by the Board or the public on this item. There being none, she entertained a motion to approve Resolution No. 08-22, as amended in the discussion. Mr. Saragosa moved to approve the amended resolution and Ms. Sheehan seconded the motion. The Board unanimously approved the amended resolution.

**Other Business.**

Ms. Bassett confirmed for Chairwoman Berte that there was no intention by staff to lower the rating standards for the resolutions presented to the Board for consideration at today's meeting, that staff had gotten into the habit of getting an "A-" from any of the rating agency, and that there is a lack of clarity in both the policy and the words the market uses on the issue. Mr. Rosenstiel discussed the need to obtain clarity on what the policy states and staff's interpretation

given the current market. Upon the request of Chairwoman Berte that this item be brought before the Board for further discussion, Ms. Bassett suggested that staff would like the opportunity to come back to the Board with very clear rating policy language that may be more expansive than what the policy currently states. Ms. Cristia-Plant confirmed that staff would be prepared for such a discussion at the August board meeting.

Chairwoman Berte called for any other business; there was none.

**Public Comment.**

Chairwoman Berte called for any public comment; there was none.

**Adjournment.**

Chairwoman Berte declared the meeting adjourned at approximately 2:35 p.m.