CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

POST BOND ISSUANCE STAFF REPORT

ISSUE: The RAND Corporation (RAND) requests amendments to existing documents in connection with the outstanding California Infrastructure and Economic Development Bank, Revenue Bonds (The RAND Corporation), Series 2008A, and the California Infrastructure and Economic Development Bank, Revenue Bonds (The RAND Corporation), Series 2008B (together, 2008 Bonds). The proposed amendments will add a new interest index rate mode and allow for a private placement of the 2008 Bonds with a qualified institutional buyer.

BACKGROUND INFORMATION: In 2002, I-Bank issued two series of bonds (2002 Bonds) used to finance the construction of a new RAND corporate headquarters and office facility at 1776 Main Street, Santa Monica, California (Prior Project). The Prior Project was completed in October 2004.

In 2007, I-Bank issued bonds (2007 Bonds) to refund one of the two series of the 2002 Bonds. The purpose of the refunding was to issue the 2007 Bonds with a short-term interest rate known as auction rate securities to achieve a then projected present value savings of approximately $2 million.

Both the 2002 and 2007 Bonds were insured by Ambac Assurance Corporation (Ambac) as a form of credit enhancement.

In 2008, due to events related to the sub-prime mortgage market, the credit rating of Ambac was downgraded, causing an increase to the interest rates paid on the 2007 Bonds, which resulted in significantly higher borrowing cost for RAND. In order to mitigate interest rate risks associated with the Ambac credit rating downgrade, the I-Bank issued bonds in 2008 to refund both the 2002 and 2007 Bonds that removed Ambac as the bond insurer (2008 Bonds). The 2008 Bonds were issued as variable interest rate bonds, supported by a letter of credit from Bank of America, N.A. another form of credit enhancement.

Currently the 2008 Bonds are outstanding in the amount of $120,800,000, and RAND is in compliance with all 2008 Bond payment requirements and covenants.

NEED FOR BOARD APPROVAL: RAND requests the conversion of the 2008 Bonds to a new interest index rate mode that allows RAND to choose either an index based on LIBOR (London Interbank Offered Rate) or an index based on SIFMA (Securities Industry and Financial Markets Association)(Index Rate Mode). The 2008 Bonds will need to be tendered to effect the proposed Index Rate Mode, and RAND is also requesting that the amendments allow the tendered bonds to only be purchased by a qualified institutional buyer as that term is defined below (see Financing Structure section). Wells Fargo Municipal Capital Strategies, LLC (Purchaser), an affiliate of Wells Fargo Bank, National Association, has agreed to purchase the tendered bonds in a private placement.

This matter is being brought before the Board for consideration since the proposed amendments result in a change to the terms of the 2008 Bond indentures (Indentures) by introducing a new interest rate mode and financing structure not originally contemplated by the Board when the resolution approving the 2008 Bonds was adopted.

The amendments to the Indentures do not require bondholder consent, as they will become effective only after a mandatory tender of the 2008 Bonds prior to the date the amendments become effective.

Tax counsel has advised I-Bank staff that the amendments to the documents and the remarketing may constitute a "reissuance" of the 2008 Bonds under federal tax law and accordingly has advised that a supplemental tax certificate and agreement be entered into between the I-Bank and RAND.

FINANCING STRUCTURE: In accordance with the I-Bank's adopted Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities (Policies), the I-Bank's policy is to issue bonds bearing a long-term credit rating of at least A3 (Moody's) or A- (S&P or Fitch). The Policies provide that the Board may waive the requirement for a credit rating where bonds are sold using a private placement or limited underwriting offering structure subject to the following additional conditions:

1. **Sophisticated Investor**. The investor(s) will be required to sign a "sophisticated investor" letter acceptable to the Infrastructure Bank. Each investor must be a qualified institutional buyer within the meaning of S.E.C. Rule 144A (QIB), or an equivalent sophisticated investor with a demonstrated understanding of the risks associated with the municipal market, acceptable to the Infrastructure Bank.

2. **Resale Limitations**. Depending on the circumstances of the proposed sale, the Infrastructure Bank may require conditions for the resale of the 2008 Bonds after initial issuance.

3. **Minimum Denomination**. The Infrastructure Bank will require a minimum bond denomination of at least $100,000 on private placements or limited underwritten offerings; denominations may be higher depending on the circumstances of the sale.

The proposed amendments, in accordance with the Policies set forth above, provide that if the 2008 Bonds are not rated the Purchaser must (i) provide a sophisticated investor letter acceptable to the I-Bank, (ii) qualify as a QIB and (iii) purchase the 2008 Bonds in a minimum denomination of at least $100,000 (unless the 2008 Bonds are in the Index Rate Mode, then the minimum denomination shall be $250,000). Furthermore, the proposed amendments require any subsequent purchaser of the 2008 Bonds to satisfy these same requirements.

RECOMMENDATION: Staff recommends approval of Resolution 12-06 authorizing an amended and restated Indenture to, among other things, add an Index Rate Mode for setting the interest rate on the California Infrastructure and Economic Development Bank, Revenue Bonds (The RAND Corporation), Series 2008A, and the California Infrastructure and Economic Development Bank, Revenue Bonds (The RAND Corporation), Series 2008B, and to permit the tendered 2008 Bonds to be purchased by Wells Fargo Municipal Capital Securities, LLC in a private placement.