

RESOLUTION NO. 13-23

RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK APPROVING ADOPTION OF INTEREST RATE SETTING GUIDELINES FOR ESTABLISHING INTEREST RATES FOR LOANS MADE UNDER ITS INFRASTRUCTURE STATE REVOLVING FUND PROGRAM

WHEREAS, the California Infrastructure and Economic Development Bank (the “I-Bank”) is established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 et seq.) (the “I-Bank Act”), for the purpose of providing financial assistance to eligible projects in the State of California (the “State”) through a variety of financing mechanisms, which include, among other things, direct loans;

WHEREAS, pursuant to the I-Bank Act, the I-Bank established the Infrastructure State Revolving Fund Program (the “ISRF Program”) and in connection therewith, previously established and, on October 29, 2013, amended and restated its Criteria, Priorities and Guidelines for the Selection of Projects for Financing Under the ISRF Program (the “Amended Criteria”);

WHEREAS, in connection with the adoption, by the I-Bank Board of Directors (the “Board”), of the Amended Criteria, the Board directed I-Bank staff to propose a mechanism for setting interest rates for loans made under the ISRF Program;

WHEREAS, in accordance with Board instructions, I-Bank staff have prepared a proposed Interest Rate Setting Guidelines attached hereto as Attachment A (the “Rate Setting Guidelines”); and

WHEREAS, in the event that the proposed Rate Setting Guidelines is approved by the Board, then consistent with existing I-Bank practices, I-Bank staff would utilize the proposed guidelines to determine an interest rate to be recommended to the Board as part of staff’s request for final Board approval of any proposed ISRF loan.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the California Infrastructure and Economic Development Bank, as follows:

Section 1. The Board hereby finds that the above recitals are true and correct.

Section 2. Subject to final Board approval of any ISRF loan, the Board hereby approves the Rate Setting Guidelines and directs the I-Bank Executive Director and her assignees (the “Executive Director”) to apply such Rate Setting Guidelines to determine and recommend interest rates such loans.

Section 3. This resolution shall take effect immediately upon its adoption.

ATTACHMENT A

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)

GUIDELINES FOR ISRF INTEREST RATE SETTING METHODOLOGY

I-Bank's interest rate setting methodology is a three step process.

Step 1 Determine the quality of the Security Pledge to select the appropriate proxy MMD scale to use.

- 1) MMD GO scales will be the entry point for Strong Pledge Loans,
- 2) MMD Revenue Bond Scales will be the entry point for Good Pledge Loans, and
- 3) MMD COP scales be used as the entry point for Adequate Pledge Loans.

Step 2 Use Published Letter Category Ratings for the pledged revenue stream to determine the Base (Market Price) Spread from the MMD AAA GO Scale applicable to the Borrower. Unrated and/or Below Investment Grade Borrowers would be assigned a spread equal to 105% of the Baa/BBB Spread (by maturity) within each category determined in Step 1.

Step 3 Apply one or more subsidies (Subsidy or Subsidies) to the spread determined in Steps 1 & 2 subject to certain limits:

- 1) General Subsidy applicable to all Borrowers equal to 15% of the applicable spread
- 2) Median Household Income Subsidy available on a sliding percentage scale to Borrowers that meet certain thresholds compared to the State Average Median Household Income (weighted)
- 3) Unemployment Rate Subsidy available on a sliding percentage scale to Borrowers that meet certain thresholds compared to the State Average Unemployment Rate (weighted)
- 4) Additional Subsidies for Economic Disaster or as determined desirable by the Board & I-Bank Management (weighted)
- 5) Total Subsidies applicable to any Loan would be limited to the equivalent of a 2 letter category credit upgrade and 1 Security Pledge upgrade. In no event would a Borrower qualify for rates less than the MMD AAA GO (spread ≥ 0 except as outlined below in 6).
- 6) Upper limits on Loan Rates would be governed by Tax Law limitations on the portfolio yield.
- 7) If additional assistance is needed during construction, a stepped down coupon approach may be considered (x years at a discounted stepped down coupon rate, reverting to normal coupons at x+1); provided Borrowers agree to longer restrictions on pre-payments.

By applying this methodology under these Interest Rate Guidelines, individual ISRF Loans will be structured using the adjusted scale derived from above.

Schedule 1 to these Guidelines provides additional details on the Subsidy calculations, as well as several examples of how the methodology would be applied to different Borrowers.

Schedule 1

Base Proxy Interest Rate and Spread Tables

Hypothetical as of November 14, 2013

MMD Base Rates (AAA GO) & Spreads						ALL RATES as of: 11/14/2013									
GO (Stongest Pledge)						Revenue (Strong Pledge)					Lease/COP (Weak Revenue Pledge)				
Year	Spread to MMD AAA GO					Spread to MMD AAA GO					Spread to MMD AAA GO				
	AAA	AA	A	BBB	NR/<IG	AAA	AA	A	BBB	NR/<IG	AAA	AA	A	BBB	NR/<IG
1	0.17	0.02	0.16	0.68	0.71	0.03	0.05	0.19	0.71	0.75	0.25	0.27	0.41	0.93	0.98
2	0.33	0.03	0.22	0.93	0.98	0.04	0.07	0.26	0.97	1.02	0.38	0.41	0.6	1.31	1.38
3	0.5	0.07	0.24	1.09	1.14	0.05	0.12	0.29	1.14	1.20	0.4	0.47	0.64	1.49	1.56
4	0.78	0.09	0.31	1.13	1.19	0.07	0.16	0.38	1.2	1.26	0.48	0.57	0.79	1.61	1.69
5	1.16	0.11	0.45	1.18	1.24	0.08	0.19	0.53	1.26	1.32	0.5	0.61	0.95	1.68	1.76
6	1.52	0.14	0.58	1.31	1.38	0.09	0.23	0.67	1.4	1.47	0.5	0.64	1.08	1.81	1.90
7	1.9	0.19	0.66	1.37	1.44	0.1	0.29	0.76	1.47	1.54	0.5	0.69	1.16	1.87	1.96
8	2.22	0.21	0.74	1.48	1.55	0.1	0.31	0.84	1.58	1.66	0.5	0.71	1.24	1.98	2.08
9	2.42	0.23	0.78	1.52	1.60	0.1	0.33	0.88	1.62	1.70	0.5	0.73	1.28	2.02	2.12
10	2.61	0.24	0.8	1.53	1.61	0.1	0.34	0.9	1.63	1.71	0.5	0.74	1.3	2.03	2.13
11	2.77	0.25	0.81	1.55	1.63	0.1	0.35	0.91	1.65	1.73	0.5	0.75	1.31	2.05	2.15
12	2.91	0.25	0.81	1.57	1.65	0.1	0.35	0.91	1.67	1.75	0.5	0.75	1.31	2.07	2.17
13	3.06	0.25	0.81	1.57	1.65	0.1	0.35	0.91	1.67	1.75	0.5	0.75	1.31	2.07	2.17
14	3.21	0.25	0.81	1.57	1.65	0.1	0.35	0.91	1.67	1.75	0.5	0.75	1.31	2.07	2.17
15	3.34	0.25	0.81	1.57	1.65	0.1	0.35	0.91	1.67	1.75	0.5	0.75	1.31	2.07	2.17
16	3.46	0.25	0.81	1.56	1.64	0.1	0.35	0.91	1.66	1.74	0.5	0.75	1.31	2.06	2.16
17	3.57	0.25	0.81	1.53	1.61	0.09	0.34	0.9	1.62	1.70	0.49	0.74	1.3	2.02	2.12
18	3.66	0.25	0.81	1.5	1.58	0.09	0.34	0.9	1.59	1.67	0.49	0.74	1.3	1.99	2.09
19	3.75	0.24	0.81	1.46	1.53	0.08	0.32	0.89	1.54	1.62	0.48	0.72	1.29	1.94	2.04
20	3.81	0.24	0.81	1.43	1.50	0.08	0.32	0.89	1.51	1.59	0.48	0.72	1.29	1.91	2.01
21	3.87	0.24	0.8	1.4	1.47	0.06	0.3	0.86	1.46	1.53	0.48	0.72	1.28	1.88	1.97
22	3.92	0.24	0.8	1.37	1.44	0.06	0.3	0.86	1.43	1.50	0.48	0.72	1.28	1.85	1.94
23	3.97	0.24	0.78	1.36	1.43	0.06	0.3	0.84	1.42	1.49	0.48	0.72	1.26	1.84	1.93
24	4.01	0.24	0.77	1.32	1.39	0.06	0.3	0.83	1.38	1.45	0.48	0.72	1.25	1.8	1.89
25	4.04	0.23	0.76	1.32	1.39	0.06	0.29	0.82	1.38	1.45	0.48	0.71	1.24	1.8	1.89
26	4.07	0.23	0.75	1.3	1.37	0.05	0.28	0.8	1.35	1.42	0.48	0.71	1.23	1.78	1.87
27	4.09	0.23	0.74	1.29	1.35	0.05	0.28	0.79	1.34	1.41	0.48	0.71	1.22	1.77	1.86
28	4.11	0.22	0.73	1.28	1.34	0.05	0.27	0.78	1.33	1.40	0.48	0.7	1.21	1.76	1.85
29	4.12	0.22	0.73	1.28	1.34	0.05	0.27	0.78	1.33	1.40	0.48	0.7	1.21	1.76	1.85
30	4.13	0.22	0.73	1.28	1.34	0.05	0.27	0.78	1.33	1.40	0.48	0.7	1.21	1.76	1.85

Using these rates/spreads three hypothetical Borrowers would be assigned Base Spreads as follows:

Scenario 1.

An A rated Borrower seeking a loan secured by Water/Sewer Municipal Utility Revenues would complete Steps 1 & 2 and be assigned a starting scale based on spreads indicated in the A column of the Revenue (Strong Pledge) section (19 bps – 91 bps). After application of the General Subsidy (15% of the Base Spread) the revised Spreads would equal (16 bps – 77 bps).

Scenario 2.

A BBB rated Borrower seeking a loan secured by an annual appropriation lease on a city owned police/fire station would complete Steps 1 & 2 and be assigned a starting scale based on spreads indicated in the BBB column of the Lease/COP (Good Pledge) section (93 bps – 207 bps). After application of the General Subsidy (15% of the Base Spread) the revised Spreads would equal (79 bps – 176 bps).

Scenario 3.

An unrated/Below Investment Grade Borrower seeking a loan secured by an annual appropriation lease on a city owned office building would complete Steps 1 & 2 and be assigned a starting scale based on spreads indicated in the NR/<IG column of the Lease/COP (Adequate Pledge) section (98 bps – 217 bps). After application of the General Subsidy (15% of the Base Spread) the revised Spreads would equal (83 bps – 184 bps).

Subsidies:

General Subsidy:

1. General Subsidy	2. Subsidy (% of “Spread”)
3. All Borrowers	4. 15%

MHI Adjustments: (weighted)*

5. Median Household Income vs. State Average	6. Subsidy (% of “Spread”)
7. >= State Average MHI	8. 0%
9. < 75% of State Average MHI	10. 30%
11. < 50% of State Average MHI	12. 40%
13. < 25% of State Average MHI	14. 50%

Unemployment Rate Adjustments: (weighted)*

15. Unemployment Rate vs. State Average	16. Subsidy (% of “Spread”)
17. <= State Average Unemployment Rate	18. 0%
19. > 115% of State Average Unemployment Rate	20. 30%
21. > 125% of State Average Unemployment Rate	22. 40%
23. > 135% of State Average Unemployment Rate	24. 50%

**Economic Disaster/Other Circumstance Approved by Board Action
Adjustments: (weighted or add-on)**

25. Qualifies under Criteria	26. Subsidy (% of "Spread")
27. Yes	28. 25%
29. No	30. 0%