STANDARD & POOR'S RATINGS SERVICES

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Summary:

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

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Credit Profile		
US$69.295 mil clear wtr st revolving fd rfdg rev bnds ser 2012		
Long Term Rating	AAA/Stable	New
California Infrastructure & Econ Dev Bnk Clean Wtr State Revolving Fd		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to California Infrastructure and Economic Development Bank's (I-Bank) series 2012 clean water state revolving fund (SRF) revenue bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the I-Bank's series 2002 clean water SRF revenue bonds. The outlook is stable.

The rating reflects our opinion of:

- Overcollateralization through excess loan repayment revenues,
- An extremely strong enterprise risk score under our criteria due to low industry risk and an extremely strong market position, and
- An extremely strong financial risk score based on an extremely strong loss coverage score and good financial policies.

The $69.3 million series 2012 bonds are being issued to refund the I-bank's outstanding series 2002 bonds for debt service savings. The series 2002 bonds were originally issued to provide funds for the state's Clean Water State Revolving Fund program, administered by the State Water Resources Control Board.

The series 2012 bonds are secured by loan repayments from a pool of pledged loans. Unlike the series 2002 bonds being refunded, the series 2012 bonds will not have a reserve fund. After issuance, the series 2012 bonds will be the only clean water SRF fund bonds outstanding. Additional bonds can be issued on parity with the series 2012 bonds if the state water board certifies that the pledged loan repayment schedule provides at least 1.05x debt service coverage in each year on existing and proposed debt. Pledged loan repayment revenues accumulate in a restricted asset fund, where they are used to pay debt service and certain other expenses. The accumulated funds can also be used to acquire additional pledged loans and redeem bonds. The SRF can release excess funds if the 1.05x coverage test is met. If the SRF accumulates cash in the restricted asset fund account, this balance can be used for future loss absorption if needed. We understand that upon issuance of the series 2012 bonds, the fund will not have a balance. The excess debt service coverage provides additional loss absorption.

The clean water SRF makes loans to local governments in California to finance water pollution control projects. The program receives annual financial support from the federal government through capitalization grants under the Clean Water Act, along with state and local match revenues. For the series 2012 bonds, the board is pledging 24 loans totaling$395 million in principal amount, $143 million of which is due by Oct. 1, 2018, the final maturity of the bonds. The largest obligor is the Orange County Water District (AAA/Stable), representing 29% of the loan balance through 2018.

We consider the clean water SRF bond program's enterprise risk score to be extremely strong. The score is the result of a low industry risk score and an extremely strong market position.

We consider the program's financial risk score to be extremely strong. The score is the result of an extremely strong loss coverage score, no pledged loan delinquencies in the past 12 months, and financial policies we view as generally good. The loan repayment schedules provide debt service coverage of about 1.7x or greater in each year through final maturity of the bonds in 2018. This high debt service coverage provides substantial loss absorption, leading to the highest rating category under the CDO Evaluator test. According to management, the loan origination process includes formal guidelines for credit analysis. For existing loans, we understand that not all borrowers are required to submit annual financial information although management performs an annual review on a subset of borrowers. We understand that no pledged loans are delinquent, but that the overall SRF program has a non-pledged loan in which the borrower has indicated it will not be able to make its next payment.

We understand that the state may issue additional clean water SRF revenue bonds in the future depending on loan demand and existing funding sources.

Outlook

The stable outlook reflects our anticipation that the loan portfolio credit quality will be generally stable and any delinquencies in repayments will be manageable and absorbed by the excess coverage. We do not anticipate lowering the rating during the next two years.

Related Criteria And Research

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

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