MOODY'S INVESTORS SERVICE

New Issue: dy's assigns a Aaa rating t Calif rnia Infrastructure and Ec n mic Devel pment Bank Clean ater State Rev lving Fund Refunding Revenue Series 2012 B nds; Outl k is stable

Gl bal Credit Research - 10 Oct 2012

$69.3 mi i n f debt affected

CALIFORNIA INFRA TRUCTURE & ECONOMIC DEVELOPMENT BANK
tate Revolving Fund
CA

dy's Rating

ISSUE	RATING
Clean Water tate Revolving Fund Refunding Revenue Bond , erie 2012	Aaa
Sale Am unt $69,295,000	
Expected Sale Date 10/15/12	
Rating Descripti n Revenue: Government Enterpri e	

dy's Outl k TA

Opini n

NEW YORK, October 10, 2012 --Moody' Inve tor ervice ha a igned a Aaa rating to $69.3 million of California Infra tructure and Economic Development Bank (I-Bank) Clean Water tate Revolving Fund Refunding Revenue erie 2012 Bond . The outlook i table.

RATING RATIONALE

The rating i primarily ba ed on ca h flow projection which demon trate the program' ability to with tand a default on 42% of the pledged loan portfolio over the life of the bond . A uming no pledged loan default , the minimum debt ervice coverage i trong - 1.73x in the year 2014. Additionally, the erie 2012 Bond will be i ued under a new Ma ter Indenture which offer the obligor, tate Water Re ource Control Board (WRCB or the Board), with more flexibility and provide bondholder with a olid legal framework.

The refunding i e timated to generate approximately $10 million in pre ent value aving for the Board.

Credit trength :

* High default tolerance of 42%.

* trong minimum debt ervice coverage of 1.73x.

* trong (Aa-range) credit quality of pledged loan portfolio

* In the unlikely event that a pledged loan doe not perform a expected, management i willing and able to ub titute it with a performing loan from the Board' balance heet.

* The Ma ter Indenture offer the Board with more flexibility and provide bondholder with a olid legal framework.

Credit Challenge :

* There i high concentration and limited diver ity among 16 unique borrower that compri e the pledged loan portfolio, but thi ri k i mo tly mitigated by the credit trength mentioned above.

DETAILED CREDIT DI CU ION

U E OF PROCEED : The proceed of the erie 2012 Bond will be u ed to refund all of the out tanding erie 2002 Bond , and to pay co t of i uance of the erie 2012 Bond . A portion of the proceed of the erie 2012 Bond , together with amount on depo it in certain fund with re pect to the erie 2002 Bond , will be depo ited in the erie 2002 E crow Fund e tabli hed pur uant to E crow In truction from the I-Bank to the Trea urer of the tate of California, a e crow agent.

LEGAL ECURITY: The erie 2012 Bond are pecial limited obligation of the I-Bank, generally payable from and ecured by the pledged revenue derived from the pledged loan , inve tment earning on depo it, and any other amount that the Board may elect to apply, including any amount tran ferred from the Re tricted A et Fund.

ERIE 2012 BOND EXHIBIT ROBU T DEFAULT TOLERANCE

The 2012 Bond are ecured by 24 pledged loan from 16 unique borrower ; the repayment of which are derived from clean water, ewer, and related revenue . Pledged loan principal i $394.8 million, and of that, $143.1 million i maturing prior to the maturity of the bond . Ca h flow projection demon trate that the minimum debt ervice coverage throughout the life of the bond i 1.73x in the year 2014. Thereafter, the debt ervice coverage reache a maximum of 3.41x in the bond' final year of payment.

A default tolerance ca h flow cenario, which mea ure the maximum level of pledged loan default over the life of the bond without di rupting debt ervice obligation , i a key credit factor of the rating on the bond . The Program' default tolerance cenario demon trated a robu t level of 42% pledged loan default , a uming that thi proportion of the pledged loan portfolio defaulted immediately and the Board did not benefit from any recovery.

The erie 2012 Bond utilize a ca h flow model, and therefore do not maintain a debt ervice re erve a did the erie 2002 Bond that are being refunded.

PLEDGED LOAN PORTFOLIO FEATURE

The pledged loan portfolio exhibit limited diver ity characteri tic . It i mall (16 unique borrower), the top 5 borrower compri e a ignificant amount of the pool (66%), and there are no borrower compri ing le than 1% of the loan portfolio. High level of concentration i a credit negative becau e the RF i more u ceptible to the nonperformance of one borrower. However, the RF exhibit everal feature that mitigate thi ri k. Fir t, the weighted average pool rating i trong (Aa-range), and therefore we a e thi pool more favorably than one of imilar unfavorable diver ity attribute but of lower credit quality. The trong weighted average pool rating i driven by 59% of the portfolio being rated A1 or above. In particular, the large t borrower, Orange County Water Di trict (compri ing about 28% of the pool) i rated Aa1 (table outlook). econdly, a di cu ed above, the pool exhibit a robu t default tolerance level that provide bondholder with uperior credit protection from nonperformance of pledged loan . La tly, the Board ha the willingne and ability to ub titute nonperforming pledged loan , if any, from it large inventory of performing loan .

2012 MA TER INDENTURE EXHIBIT OLID LEGAL FRAMEWORK

The 2012 ma ter indenture exhibit key provi ion that offer the Board flexibility and provide bondholder with a olid legal framework.

The ma ter indenture permit the ub titution of pledged loan at the Board' di cretion, and management communicated it willingne and ability to ub titute a nonperforming or di tre ed pledged loan with one( ) from the unpledged portfolio if appropriate. A of June 30, 2012, the Board maintained $3.1 billion of loan (of which $2.8 billion were amortizing, and $394 million are pledged to the 2012 Bond). We view thi a a very trong feature of the legal framework becau e, although unlikely, it mitigate the ri k a ociated with the nonperformance of a pledged borrower. The trength of thi feature however could deteriorate if the amount of unpledged loan available for ub titution i materially reduced.

The 2012 indenture utilize an open tructure - meaning additional parity revenue bond may be i ued under the indenture in the future provided that the additional bond te t i ati fied. With thi feature, all bond i ued under the indenture can be cro -collateralized with program-level a et , a oppo ed to having a erie - pecific flow of fund a wa the ca e in the 2002 indenture. The 2012 indenture maintain a clo ed-loop tructure which retain pledged a et unle relea ed per the Coverage Te t at the Board' di cretion. The Coverage Te t mu t demon trate that program a et are not le than 105% of debt ervice for each bond year, and that the debt ervice re erve, if any, i fully funded a per the minimum requirement. (The 2012 Bond are not required to maintain a re erve). If the e two condition are met, pledged a et may be relea ed from the lien of the indenture and tran ferred to the Clean Water RF (out ide of the indenture) free and clear. Furthermore, the legal framework e tabli he the opportunity to potentially cro -collateralize with the Drinking Water RF, which i admini tered by California' Department of Public Health, in the future. There are no drinking water loan in the program at thi time.

OUTLOOK

The outlook on the bond i table to reflect ufficient additional re ource and ability to mitigate the ri k a ociated with nonperforming loan , including: high default tolerance, trong credit quality of the loan portfolio, and the ability to ub titute loan under the Ma ter Indenture.

What could change the rating up:

* Not applicable

What could change the rating down:

* Material deterioration of the loan portfolio credit quality

* ignificant decline in minimum debt ervice coverage or default tolerance

KEY INDICATOR

* Bond program type - Ca h flow

* Default tolerance - 42%

* Minimum debt ervice coverage - 1.73x

* Pool weighted average rating range - Aa

* Unique borrower - 16

* Borrower with le than 1% of the total portfolio - 0%

* Top 5 borrower - 66%

1.Orange County Water Di trict (Aa1) - 28%

2.City of Hayward (NR) - 12%

3.Yucaipa Valley Water Di trict (A1) - 10%

4.City of Chico (NR) - 10%

5.Inland Empire Utilitie Agency (Aa2) - 7%

The principal methodology u ed in thi rating wa U. . tate Revolving Fund Debt publi hed in July 2010. Plea e ee the Credit Policy page on www.moody .com for a copy of thi methodology.

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