

January 15, 2014

California Infrastructure & Economic Development Bank  
980 9th Street, Suite 900  
Sacramento, CA 95814  
Attention: Ms. Teveia R. Barnes, Executive Director

Re: *California Infrastructure & Economic Development Bank, California, Infrastructure State Revolving Fund Revenue Bonds, Series 2008*

Dear Ms. Barnes:

Standard & Poor's Ratings Services ("Ratings Services") hereby affirms its rating of "AA+" for the above-referenced obligations and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

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Sincerely yours,

A handwritten signature in black ink that reads "Standard & Poor's". The signature is written in a cursive, flowing style. The word "Standard" is written in a larger, more prominent script, followed by "&" and "Poor's". The signature is set against a light green, textured background.

Standard & Poor's Ratings Services

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enclosure



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## Summary:

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

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## Summary:

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

## Credit Profile

California Infrastructure & Econ Dev Bnk infrastructure state revolving fd rev bnds ser 2008

*Long Term Rating*

AA+/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' long-term rating on California Infrastructure and Economic Development Bank's (I-Bank) infrastructure state revolving fund (ISRF) revenue bonds, series 2008. The outlook is stable.

We understand that the I-Bank intends to refund all outstanding ISRF revenue bonds other than the series 2008 bonds under a new 2014 indenture. We are affirming our rating on the series 2008 bonds based on our view that the refunding will not have a significant credit impact, positive or negative, on the series 2008 bonds.

The rating reflects our view of the following characteristics:

- A very strong enterprise risk score under our criteria due to low industry risk and a strong market position, and
- An extremely strong financial risk score based on an extremely strong loss coverage score and strong financial policies.

The series 2008 bonds are on parity with the I-Bank's series 2004 and series 2005 bonds, issued under a 2004 master indenture. Each series is secured by loan repayments from loans pledged to the respective series. Each series is also secured by the master indenture cross collateral account, which receives loan repayments from master indenture loans not specifically pledged to a series of bonds and surplus series indenture revenues after making series debt service payments. All series have individual debt service reserves, funded at the lesser of 10% of bond proceeds, maximum annual debt service, and 125% of average annual debt service.

Administered by the state I-Bank, the ISRF program provides loans to local governments throughout California for public infrastructure projects. The ISRF was initially capitalized with appropriations from the state in fiscal years 1999 and 2000. Loan funding comes from the program's equity, loan repayments, investment earnings, some fee income, and proceeds from bond issues.

We understand that the I-Bank plans to issue series 2014A refunding bonds in February 2014 to refund the series 2004 and 2005 bonds. Under the I-Bank's financing plan, the series 2014A bonds would be issued under a new master indenture. After the refunding, the series 2008 bonds would be the only bonds outstanding under the 2004 master indenture. For more information on the series 2014A bonds, please see our article published Jan. 10, 2014, on RatingsDirect.



In our view, the planned series 2014A refunding would not change the enterprise risk score for the series 2008 bonds, which we currently view as very strong, or the financial risk score, which we consider to be extremely strong.

The enterprise risk score is the result of a low industry risk score and a strong market position. The financial risk score is the result of an extremely strong loss coverage score, the lack of nonperforming loans, and financial policies that we view as generally strong. The proposed refunding under the scenario would reduce annual the debt service under the 2004 master indenture. It would also reduce loan repayment revenues after loans are removed from the 2004 master indenture program. The resultant loan repayment schedule under the scenario leads to debt service coverage of 1.5x or more in each year through the bonds' final maturity in 2036. The high coverage along with a debt service reserve with a current balance of about \$3.1 million provides loss absorption in the case of loan defaults, leading to the highest rating category under our CDO Evaluator test.

## **Outlook**

The stable outlook reflects our anticipation that loan portfolio credit quality will be generally stable and any delinquencies in repayments will be manageable and absorbed by the excess coverage and reserves. If the program were to experience increased delinquencies during the next two years, we could lower the rating. We do not anticipate raising the rating during this time period.

## **Related Criteria And Research**

### **Related Criteria**

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

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