

**FITCH AFFIRMS CALIFORNIA INFRA  
AND ECON DEVEL BANK'S \$56MM SRF  
REV BONDS AT 'AAA'; OUTLOOK STABLE**

Fitch Ratings-Chicago-08 October 2014: Fitch Ratings affirms its 'AAA' rating on the following California Infrastructure and Economic Development Bank (CIEDB) state revolving funds (SRF) revenue bonds issued under the 2012 master trust indenture (MTI) for the benefit of the California State Water Resources Control Board (SWRCB):

--Approximately \$56 million in outstanding clean water SRF refunding revenue bonds, series 2012.

The Rating Outlook is Stable.

**SECURITY**

The series 2012 bonds are secured by pledged borrower loan repayments.

**KEY RATING DRIVERS**

**STRONG FINANCIAL STRUCTURE:** Fitch's cash flow modeling demonstrates that SWRCB's clean water SRF program (the program) would perform even with portfolio loan defaults in excess of Fitch's 'AAA' liability default hurdle, as produced using Fitch's Portfolio Stress Calculator (PSC).

**SOLID LOAN SECURITY:** All loans are secured by the obligors' utility system revenue pledges.

**HIGH BORROWER CONCENTRATION:** The loan portfolio has single-borrower concentration. However, this risk is mitigated by the strong credit quality of the pool's largest borrower, which is rated 'AAA' by Fitch, as well as by the expected diversification over time.

**RATING SENSITIVITIES**

**REDUCTION OF STRUCTURAL ENHANCEMENT:** A measurable decline in loan quality could pressure the rating. The Stable Outlook reflects Fitch's view that structural enhancement and program credit quality will be sufficiently maintained

**CREDIT PROFILE**

The 2012 MTI is an open indenture with bonds issued under separate supplemental series indentures. The program bonds are structured using a traditional cash flow model with pledged loan repayments securing the bonds. Bond proceeds are used to fund loans to local governments and other public entities throughout the state for clean water SRF projects.

**FINANCIAL STRUCTURE EXHIBITS STRONG DEFAULT TOLERANCE**

The SRF program's scheduled pledged loan repayments are projected to provide significant minimum debt service coverage of 1.8x. Overall, Fitch calculates the program's asset strength ratio (PASR) to be a strong 2.1x, which is notably higher than Fitch's 'AAA' median of 1.6x. The PASR includes total scheduled loan repayments divided by total scheduled bond debt service.

Given significant pledged resources, Fitch's cash flow modeling demonstrates that the program can continue to pay bond debt service even with hypothetical loan defaults of 100% over the final four-

year period of the bonds life (ending in 2018). This is in excess of Fitch's 'AAA' liability stress hurdle of 25.8% as produced by the PSC. The liability stress hurdle is calculated based on overall pool credit quality as measured by the rating of underlying borrowers, size, and loan term.

While additional leverage is expected, Fitch believes that management will continue to keep coverage at levels that protect the program's high credit quality given historical performance in other SWRCB revolving fund programs as well as existing management policies. In addition, SWRCB's clean water SRF program benefit's from a substantial pool of non-pledged loans totaling approximately \$3.6 billion, which could be pledged at any time to the series 2012 and future program bonds.

#### SMALL POOL; HIGH BORROWER CONCENTRATION

The clean water loan pool has only 16 borrowers which results in high portfolio concentration risk. Orange County Water District, the largest borrower, represents approximately 28% of the total portfolio, with the second largest borrower (the city of Hayward) accounting for 11% of the pool. Fitch anticipates that the pool will begin to diversify slightly in the next two years as additional borrowers are expected to be added to support future clean water leverage under the MTI.

#### UNDERLYING BORROWER QUALITY REMAINS FAVORABLE

The 2012 MTI pool's loan credit quality is strong. Fitch estimates that at least 55% of all loan principal is of 'A+' credit quality or higher. Furthermore, underlying loan security is solid, with loan repayments primarily secured by each borrower's water or wastewater utility system revenues, a pledge which Fitch believes is very strong.

#### Contact:

Primary Analyst  
Adrienne M. Booker  
Senior Director  
+1-312-368-5471  
Fitch Ratings, Inc.  
70 W. Madison Street  
Chicago, IL 60602

Secondary Analyst  
Major Parkhurst  
Director  
+1-512-215-3724

Committee Chairperson  
Karen Ribble  
Senior Director  
+1-415-732-5611

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: [elizabeth.fogerty@fitchratings.com](mailto:elizabeth.fogerty@fitchratings.com).

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

#### Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', dated June 16, 2014;  
--'State Revolving Fund and Leveraged Municipal Loan Pool Criteria', dated April 28, 2014.

#### Applicable Criteria and Related Research:

State Revolving Fund and Leveraged Municipal Loan Pool Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=746076](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=746076)

Revenue-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=750012](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.