

Summary:

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

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Credit Profile

California Infrastructure & Econ Dev Bnk Clean Wtr State Revolving Fd

Long Term Rating

AAA/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'AAA' long-term rating on California Infrastructure and Economic Development Bank's series 2002 clean water state revolving fund revenue bonds. The outlook is stable. The rating reflects our opinion of:

- Overcollateralization through both excess loan revenues and pledged reserves that meet our default tolerance criteria for a 'AAA' rated municipal pool;
- A cross-collateralization provision under the master trust indenture allowing excess loan revenues to be used to pay debt service on any bond issued under the indenture (currently there is only one outstanding series); and
- A stable loan pool with a majority of borrowers having outstanding Standard & Poor's ratings, most of which are in the 'A' category or higher.

Primarily securing debt service are pledged loan revenues, the debt service reserve, and any future payments available through cross-collateralization.

The only outstanding series of bonds issued under the master indenture is the bank's series 2002 clean water bonds. Annual cash flows from loan repayments show a minimum of 2x coverage of annual debt service. With the addition of a \$14 million pledged reserve fund, combined revenues are sufficient to meet our default tolerance for a 'AAA' municipal pool rating.

Excess loan repayments pledged to additional bonds issued under the master indenture can be used to pay debt service on other master indenture bonds, which provides a cross-collateralization mechanism. Also available for payment of debt service on any bonds issued pursuant to the master indenture is a general reserve, but this reserve is not funded at this time. If other master indenture bonds are issued in the future, our default tolerance analysis would consider any excess revenues and general reserve funds as available to cure defaults on other master indenture bonds.

In order to issue additional bonds, each master indenture series must have a fully funded reserve (equal to 33% of the principal outstanding of such series) and meet two cash-flow tests: pledged loan repayments and other pledged revenues must equal at least 100% of related bond series annual debt service, and aggregate pledged revenues for all series of bonds must equal at least 115% of aggregate debt service in each year.

Currently, the bank has \$139 million of bonds outstanding and \$335 million of loans outstanding. There are a total

of 76 loans to 42 borrowers. The largest borrower is San Francisco (15% of loan principal outstanding). Other large loan participants include Sacramento (8%), Santa Cruz (8%), Chico (7%), and Santa Rosa (7%). The loan portfolio includes loans from a number of unrated municipalities, as well as those with ratings on the same security pledge as the program loan. The credit distribution is as follows: 'AAA' (10%), 'AA' category (24%), 'A' category (21%), and 'BBB' category (2%).

Outlook

The stable outlook reflects Standard & Poor's expectation that the reserve funds and the cash flow generated from the loan portfolio will remain sufficient to meet our default tolerance for a 'AAA' rated municipal pool. In addition, in our view, the stable credit quality of the borrowers support the stable outlook.

The State Water Resources Control Board

The development bank issued the series 2002 bonds and deposited the proceeds into the state's clean water state revolving fund, administered by the state water resource control board. The state water resource control board was created in 1967, pursuant to state statutes from the merger of two other state agencies. It has five full-time salaried board positions. The state water resource control board sets state water policy, solely allocates surface water rights, administers financial assistance programs, coordinates and supports nine regional water boards, and preserves and enhances water quality.

Related Criteria And Research

USPF Criteria: Long-Term Municipal Pools, Oct. 19, 2006

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