STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

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

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California Infrastructure & Econ Dev Bnk Clean Wtr State Revolving Fd		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' long-term rating on California Infrastructure and Economic Development Bank's (I-Bank) series 2012 clean water state revolving fund (SRF) revenue bonds. At the same time, we removed our rating on I-Bank's series 2005 infrastructure SRF bonds because the bonds have been called. The outlook is stable.

The rating on the clean water SRF bonds reflects our opinion of:

- 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 (LCS) and good financial policies.

I-Bank has about $30 million of clean water SRF bonds outstanding. The program is administered by the State Water Resources Control Board.

Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'.

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 (DSC) 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. The excess DSC provides additional loss absorption, if needed.

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. The board has pledged 24 loans totaling about $350 million in principal amount to the series 2012 bonds. Through maturity on the bonds, $79 million of payments are due compared with $32 million of debt service payable. The largest obligor is the Orange County Water District, representing 37% of the total outstanding pledged loans.

We consider the clean water SRF bond program's enterprise risk score 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 extremely strong. The score is the result of an extremely strong LCS, no pledged loan delinquencies in the past 12 months, and financial policies we view as generally good. The loan repayment schedules provide DSC of about 1.9x or greater in each year through final maturity of the bonds in 2018. This high DSC 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.

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, but if for some reason actual program defaults occurred, management's policies became weaker, or the program was leveraged up significantly which also led to an inability to absorb a level of defaults we believed consistent with the current rating level, the rating our outlook could potentially be pressured downward.

Related Criteria And Research

Related Criteria

- USPF Criteria: U.S. Public Finance Long-Term Municipal Pools, March 19, 2012
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, Sept. 19, 2014

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.