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tel 415 371-5000  
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**I-BANK**

April 27, 2010

California Infrastructure & Economic Development Bank  
980 9th Street, Suite 900  
Sacramento, CA 95814  
Attention: Ms. Roma Cristia-Plant, Assistant Executive Director

**Re: *California Infrastructure & Economic Development Bank, California, Revenue Bonds,  
(Clean Water State Revolving Fund)***

Dear Ms. Cristia-Plant:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have affirmed the "AAA" rating and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Ms. Roma Cristia-Plant

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Please send all information to:

Standard & Poor's Ratings Services  
Public Finance Department  
55 Water Street  
New York, NY 10041-0003

If you have any questions, or if we can be of help in any other way, please feel free to call or contact us at [nypublicfinance@standardandpoors.com](mailto:nypublicfinance@standardandpoors.com). For more information on Standard & Poor's, please visit our website at [www.standardandpoors.com](http://www.standardandpoors.com). We appreciate the opportunity to work with you and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services  
a Standard & Poor's Financial Services LLC business

A handwritten signature in cursive script that reads "Standard & Poor's (LLC)".

vb

enclosure

**Summary:**

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

**Primary Credit Analyst:**

Lisa Schroeer, Charlottesville (1) 434-220-0892; [lisa\\_schroeer@standardandpoors.com](mailto:lisa_schroeer@standardandpoors.com)

**Secondary Credit Analyst:**

David G Hitchcock, New York (1) 212-438-2022; [david\\_hitchcock@standardandpoors.com](mailto:david_hitchcock@standardandpoors.com)

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## Summary:

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

## Credit Profile

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' rating, with a stable outlook, on California Infrastructure & Economic Development Bank's clean water state revolving fund 2002 revenue bonds.

Payments on the bonds are made from a pool of loans to local government units by the state water resources control board. Bondholders will hold a perfected first-security interest in pledged revenues.

The rating reflects our opinion of:

- The state revolving fund program's consistency with Standard & Poor's default tolerance criteria for an 'AAA' rated program based on cash flow tests for the combined pledged water quality loans,
- A mechanism to provide limited cross-collateralization between future series of bonds issued under the master trust indenture by a pledge of excess loan revenues from any one bond series to pay for the shortfalls in debt service of any other bond series, and
- The stable credit quality of the borrowers under the combined leverage program.

Officials used bond proceeds to provide water quality improvement loans to large local governments under the state's revolving loan fund.

Officials have pledged these loans with a principal amount of \$518 million outstanding as of June 30, 2009, from 46 borrowers to the series 2002 bonds, producing cash flow coverage well in excess of 'AAA' requirements. Scheduled loan repayments in place as of fiscal year-end 2009 cover 2002 annual debt service by 2.2x-2.3x in each future year, exceeding the coverage needed to maintain a 'AAA' rating based on the loan portfolio's current composition.

The development bank issued the series 2002 bonds under a master trust indenture and a series indenture. Each subsequent series of bonds issued under the master trust indenture is to have a separate pool of pledged loans attributable to that respective series and its own separate debt service reserve fund pledged only to that series. An additional general reserve, pledged to all bonds issued under the master trust indenture, provides limited cross-collateralization between all bond series to the extent a pool of loans pledged to an individual series of bonds has excess revenues. The general reserve is to equal the shortfall in the combined debt service reserve requirements of each of the bond series under the master trust indenture. Initially, the general reserve requirement was zero. It rises to the extent any one series has a cash flow shortfall; but according to management, there have been no shortfalls. If

the general reserve is at its requirement, excess money can be released for any purpose. While there have not been any cash flow shortfalls or missed payments, the general reserve was \$16.1 million as of June 30, 2009.

Management notes that the California Regional Water Quality Control Board has indicated it is considering another bond issue for either late 2010 or 2011.

The development bank can issue additional bonds secured by the general reserve under the master trust indenture, and loans pledged to existing series of bonds can be released from the pledge upon the following:

- Bonds designated at the time of sale as cash flow bonds must meet a cash flow coverage test pursuant to which pledged loan repayments and other pledged revenues must equal at least 100% of related bond series annual debt service, aggregate pledged revenues for all series of cash flow bonds must equal at least 115% of aggregate debt service in each year for the cash flow bonds scheduled to be outstanding, and each cash flow bonds' related debt service reserve requirement (as set by separate series indenture) is fully funded.
- Bonds designated at the time of sale as reserve fund bonds must have a funded debt service reserve fund for each such series at least equal to 33% of the principal outstanding of such series, and the pool of loans and other associated revenues pledged to each bond series produces annual revenues equal to 100% of the respective series' debt service, excluding the principal component of each series-related debt service reserve from the calculation of the principal component of investment obligations used in calculating pledged revenues.

The largest loan in the pledged pool of repayments for the series 2002 bonds is for San Francisco at 17% of the pool, as of June 30, 2009. Other large loan participants include East Bay Municipal Utility District at 8% and Santa Cruz, Calif. at 6%.

The loan portfolio includes loans from a number of unrated municipalities, as well as publicly rated municipalities. The water pollution control loan portfolio's credit profile for publicly rated municipalities is: 'AAA' category (9%), 'AA' category (24%), and 'A' category (20%).

## **Outlook**

The stable outlook reflects Standard & Poor's expectation that the reserve funds and the cash flow generated from the loan portfolio should sufficiently meet minimal program requirements for an 'AAA' rating. In addition, our view of the continued strong program management and the stable credit quality of the borrowers support the stable outlook.

## **The State Water Resources Control Board**

The development bank issued the bonds and deposited the proceeds into the state's clean water state revolving fund, administered by the state water resource control board. In 1967, the state water resource control board was created 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

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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