## EXECUTIVE SUMMARY

<table>
<thead>
<tr>
<th>Issuer:</th>
<th>California Infrastructure and Economic Development Bank (“IBank”)</th>
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</thead>
<tbody>
<tr>
<td>Par Amount Requested:</td>
<td>Not to exceed $420,000,000</td>
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<tr>
<td>Type of Issue:</td>
<td>New Money and Refunding</td>
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</table>

**Issue New Bonds and Use of Bond Proceeds:** IBank proposes to issue fixed-rate taxable\(^1\) and tax-exempt Infrastructure State Revolving Fund Revenue Bonds (the “Bonds”) and use the proceeds, together with other funds available to IBank, to (i) finance and refinance loans to eligible borrowers, including local governments, state agencies, and certain non-profit organizations for infrastructure and economic expansion projects pursuant to the Infrastructure State Revolving Fund (“ISRF”) Program; (ii) refund and defease all or a portion of IBank’s outstanding Infrastructure State Revolving Fund Revenue Bonds, Series 2014A Bonds, Series 2015A Bonds and Series 2016A Bonds (collectively, the “Outstanding Bonds”), (iii) establish and fund an escrow to refund and/or defease all or a portion of the Outstanding Bonds, (iv) fund a reserve fund, (v) provide funds for the administration and operation of the Infrastructure State Revolving Fund Program, and/or (vi) pay costs of issuance.

**Public Benefits:** Issuing the Bonds will enhance IBank’s ability to continue to provide low-cost, long-term financing to eligible borrowers for a variety of infrastructure and economic expansion projects throughout the state.

**Financing Structure:**
- **Type of Issue:** Publicly-offered fixed-rate bonds, issued in minimum denominations of $5,000 or integral multiples thereof.
- **Tax Status:** Taxable and and/or a Tax-exempt series.
- **Term:** Expected to be not later than October 1, 2055
- **Credit Enhancement:** None.

**Financing Team:**
- **Bond Counsel:** Orrick, Herrington & Sutcliffe LLP
- **Disclosure Counsel:** Stradling Yocca Carlson & Rauth
- **Joint Senior Managing Underwriters:** J.P. Morgan Securities, LLC. and Piper Jaffray & Co.
- **Co-Senior Manager:** Loop Capital Markets
- **Underwriter’s Counsel:** Schiff Hardin LLP
- **Financial Advisor:** Lamont Financial Services Corporation
- **Trustee:** U.S. Bank National Association
- **Agent for Sale:** California State Treasurer

**Date of IBank Board Meeting:** October 28, 2020

**Date of Staff Report:** October 13, 2020

**Resolution Number:** 20-19

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\(^1\) Bonds issued to refund and defease the Outstanding Bonds would be on a taxable basis because the Internal Revenue Code does not allow a tax-exempt refunding of the Outstanding Bonds at this time. Bonds issued to finance and refinance Loans previously made by IBank with its own proceeds are planned to be on a tax-exempt basis. Bonds issued for any other purposes will be issued on a tax-exempt basis to the extent possible under federal tax law and will otherwise be issued on a taxable basis.
Staff Recommendation:
The Staff recommends approval of Resolution No. 20-19 authorizing issuing the Bonds with (i) a par amount not to exceed $420,000,000, and (ii) a final maturity not expected to be later than October 1, 2055.
IBank staff requests authorization to issue up to $420 Million dollars of ISRF Program Bonds and to use the proceeds for two primary purposes: (1) refund and defease the Outstanding Bonds (the “Refunding Component”), and (2) reimburse ISRF Program loans IBank made in the recent past and/or fund ISRF Program loans IBank intends to make in the near future (the “New Money Component”). IBank intends to issue the New Money Component on a tax-exempt basis and in an amount between $20,000,000 and $80,000,000. IBank’s Executive Director will determine the ultimate amount of new money borrowing at or about the time of Bond pricing based on ISRF Program cash flows. The arbitrage yield of the New Money Component would be equal to or less than 2.1%.

Due to current uncertain market condition, IBank is considering two options for structuring and issuing the Refunding Component, both of which are described in detail below. In short, the first option (“Option I”) is to refund all of the Outstanding Bonds and the second option (“Option II”) is to refund only a portion of the Outstanding Bonds. IBank’s Executive Director will work with IBank’s underwriters to closely monitor the municipal bond market and will select Option I if the net present value savings associated with issuing the Refunding Component Bonds equals at least 3% of the Outstanding Bonds’ principal (the “Savings Threshold”). Otherwise, IBank will select Option II and refund only the portion of the Outstanding Bonds that meet the Savings Threshold.

Option I

Under this option IBank would refund all of the Outstanding Bonds (subject to the savings threshold discussed above) with the Bond proceeds. The aggregate outstanding principal balance of the Outstanding Bonds is $270,550,000. The Bonds would most likely be issued and secured under a new Master Indenture and one or more supplemental indentures under the Master Indenture (collectively, the “Indenture”). The Master Indenture would govern the Bonds and any future ISRF Program bonds IBank may issue. The supplemental indentures would provide the specific details needed for the Bond issue. Both the Master Indenture and the supplemental indentures would be between IBank and U.S. Bank National Association, as trustee (“Trustee”). Following the issuance of the Bonds, the Refunding Component proceeds would be deposited into an escrow account. The indenture securing the Outstanding Bonds would terminate and the Outstanding Bonds would be secured by and payable from amounts in the escrow account. Once the Outstanding Bonds hit their respective call dates, amounts in the escrow account would be released to retire them. The Pledged Loans would be released from the indenture for the Outstanding Bonds and would be the security and source of payment for the Bonds.

This option mimics the structure of the Outstanding Bonds. Those were governed by a master indenture created in 2014 (the “2014 Master Indenture”) and each series of bonds were issued under a supplemental indenture. Under the Option I, the old 2014 Master Indenture would be replaced by the new Master Indenture. The first bonds issued would be the Bonds. Any subsequent series of the ISRF Program Bonds would be issued under the Master Indenture and a new supplemental Indenture.

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2 The $20,000,000 to $80,000,000 range is based on IBank’s recent ISRF Program loan activity and projected future loan activity.

3 IBank’s Debt Management Policy dated October 24, 2017 allows advance refunding of IBank bonds only if the Savings Threshold is satisfied or if the Board approves a lower savings amount.
Option II

Under Option II, the 2014 Master Indenture would remain and the new Bonds would be issued pursuant to a one or more supplemental indentures under the 2014 Master Indenture and the Refunding Component would include only the portion of the Outstanding Bonds for which the Savings Threshold is met. The Bonds could be issued at different times as the Savings Threshold is met (see timing discussion below). The Outstanding Bonds not refunded under this option would remain outstanding until either repaid or redeemed.

Under either Option, Interest on the Bonds is expected to be payable each April 1 and October 1, commencing on April 1, 2021. Principal payments would be due on October 1 and also would commence on October 1, 2021.

Staff Preference

IBank intends to proceed with Option I if the Savings Threshold is satisfied. Option I would allow IBank to finance a wider variety of projects for ISRF Program borrowers and entering into the new Indenture would allow IBank greater flexibility in working with borrowers facing temporary financial struggles.

Option I allows IBank to reach more projects and borrowers because it would replace the Outstanding Bonds, issued on a tax-exempt basis, with taxable Bonds. All loans made with proceeds of the Outstanding Bonds, or moneys that derive from the proceeds of the Outstanding Bonds, must adhere to certain Internal Revenue Service (“IRS”) statutes and regulations. These statutes and regulations impair IBank’s ability to finance certain projects that are eligible under the IBank Act. Because Option I would replace tax-exempt bonds, with taxable bonds, IBank would be able to finance projects for ISRF Program borrowers mostly freed from the IRS restriction on the use of tax-exempt bond proceeds. This ultimately would allow IBank to reach a greater number of ISRF Program borrowers for a greater range of projects. In the past, IBank has not been able to finance several projects for credit-worthy municipal borrowers because the financings would not have complied with the IRS tax-exempt rules. Under Option I, IBank would be able to assist these borrowers.

Option II would not have the same benefits as Option I. Option II would refund only some of the Outstanding Bonds. This would partially free IBank from IRS project restrictions, but to a much lesser extent than Option I.

Second, Option I has the added benefit of allowing IBank to adopt the new Indenture. The structure of the 2014 Master Indenture makes it difficult for IBank to “work-out” troubled loans with borrowers. The 2014 Master Indenture allows IBank to modify an ISRF Program borrower’s payment obligations only if doing so would not reduce revenues to lower than 1.2 times Outstanding Bond debt service. The 2014 Master Indenture prevents IBank from providing relief to a borrower in some situations where doing so would have no impact on IBank’s ability to make any and all regular debt service payments on its bonds. This could prevent IBank from allowing temporary relief to a borrower experiencing short-term financial difficulty. Option I would create a new Master Indenture that could remed y this problem. IBank Staff believes the added flexibility to work-out troubled loans with borrowers may be important in the future as the full effects of Covid-19 hit some of IBank’s municipal borrowers.
For these reasons, IBank staff would like to proceed with Option I so long as the Savings Threshold is met.

**ISSUANCE TIMING**

Under either of the above two options IBank staff proposes that the Board’s authority to issue the Bonds remain open for a 360 day period. Normally, the authority to issue bonds remains open for only a 180 day period. IBank staff seeks the additional time to maximize its ability to take advantage of the historically low municipal interest rate environment. The lengthened authorization period would allow staff additional time to monitor the municipal capital markets and quickly price and sell when it appears most advantageous to do so. Under this structure, IBank would be able to make its market entry determination on the strength of the municipal capital markets and not on timing or other issuance constraints. IBank’s staff, the State Treasurer’s Office (as IBank’s statutory agent for sale of the Bonds), IBank’s municipal advisor, and its underwriters would monitor closely the municipal capital markets and determine the best time to issue the Bonds.

Further, authorizing Bond issuances at one or more times permits IBank to split its Bond sale. Instead of issuing all of the Bonds at once, IBank could issue multiple series at the most advantageous time to do so. The flexibility to issue Bond series at different times is particularly important due to the unique nature of this transaction. IBank would be refunding three series of the Outstanding Bonds on a taxable basis⁴ and issuing the New Money Component on a tax-exempt basis. It is possible that IBank will meet the Savings Threshold for some of the Outstanding Bonds but not others. In line with Option II, allowing IBank to issue the Bonds at different times provides IBank the flexibility to sell the portion of the Outstanding Bonds that meet the Savings Threshold soon after closing and then monitor the market to see if the remainder of the Outstanding Bonds later meet the Savings Threshold.

Similarly, allowing multiple issuances enables IBank to take advantage of pricing differences over time in the taxable and tax-exempt municipal bond markets. For instance, IBank could issue its taxable Bonds when that market is the better of the two and then later issue the tax-exempt bonds when the trend has reversed and the tax-exempt market has changed to IBank’s benefit.

A final benefit would be to allow IBank to issue the New Money Component at the most beneficial time for IBank. In prior years, IBank has issued bonds for new loans following two basic patterns: (1) obtaining issuance authority, issuing bonds soon thereafter, and then lending the proceeds to ISRF Program borrowers, and (2) lending available cash to ISRF Program borrowers, obtaining authority to issue new bonds, issuing the bonds soon thereafter, and then reimbursing IBank with the bond proceeds. Each method has its own

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⁴ As discussed above, the Outstanding Bonds could not be refunded on a tax-exempt basis. As is standard in the municipal market, IBank could not call the Outstanding Bonds until 10 years after issuance. In years past municipal bonds could be “advance refunded” by issuing new municipal bonds to replace the old ones and the money from the new issuance would be deposited into an escrow account. The old bonds would be secured by the money in the escrow account and the new bonds would be secured by the collateral. Once the call date came, money would be released from the escrow account to refund the old bonds and the new bonds would remain. However, tax-exempt advance refundings are no longer allowed. Therefore, IBank proposes to advance refund the Outstanding Bonds with the taxable Bonds.
strengths and weaknesses. The first method allows IBank to enter the capital markets at the most advantageous time. But, it also requires IBank to pay debt service on the bonds issued while it goes about lending the money. While IBank is able to somewhat time the market to obtain favorable interest rates, it is forced to incur carrying costs of obtaining loan funds before it has made loans. The benefits and detriments are switched with the second option. IBank is able to use the money right away, so it does not incur excess carrying costs, but it is not able to choose when it enters the bond market. Authorizing IBank to issue the Bonds at multiple times permits it to obtain the benefit of both methods described above while at the same time potentially avoiding the detriments. IBank could issue the New Money Component at a different time than issuing the Refunding Component. This way, IBank staff could wait until it has closed a number of loans with its available cash and then watch the bond market and determine the best time to issue the New Money Bonds. IBank would not incur excess carrying costs and also potentially issue bonds at the best possible pricing.

Multiple issuances would require IBank to launch more than one official statements (OS). In doing so, IBank would make any changes necessary to the preliminary official statement (POS) on file with the Secretary of the Board to accomplish bond sales at more than one time. Also, IBank would need to enter into another bond purchase contract and another supplemental indenture. Any additional or new documents would be substantially similar to those on file with the Secretary of the Board. If IBank staff determined that substantial deviations were required it would seek additional Board authorization.

Allowing multiple issuances does have one downside, it requires IBank to incur costs of issuance multiple times. However, based on past bond issuances, IBank staff has determined incurring additional costs of issuance is worth the benefits of the flexibility to issue the Bonds at different times.

**PROGRAM BACKGROUND**

Under the ISRF Program IBank makes loans to California governmental entities for infrastructure and economic expansion projects (the “Loans”). To provide funding for the ISRF Program, IBank issued the Outstanding Bonds as follows: the Series 2014A in the principal amount of $95,960,000 with true interest cost (“TIC”) of 3.471%, the Series 2015A in the principal amount of $90,070,000 with TIC of 3.136% and the Series 2016A in the principal amount of $141,600,000 with TIC of 3.003%. The Outstanding Bonds were issued and secured by IBank pursuant to the 2014 Master Indenture. Use of the proceeds of the 2014A Bonds included refunding the IBank Series 2004 and the Series 2005 Bonds and providing capital for Loans. Use of the proceeds of the 2015A Bonds included refunding the IBank Series 2008 Bonds and providing funds for Loans. The proceeds of the 2016A Bonds were generally used to fund Loans. The Outstanding Bonds were issued on a fixed-rate tax-exempt basis. The Outstanding Bonds are generally secured by, and payable from, Loan revenue. The 2014A Bonds and 2015A Bonds and the 2016A Bonds currently are rated as “AAA”, “Aaa”, and “AAA” by Fitch Ratings, Moody’s Investors Service, and Standard & Poor’s, respectively.
IBank Outstanding Bonds

<table>
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<tr>
<th>Outstanding Bonds</th>
<th>Issue Par Amount</th>
<th>Issue Date</th>
<th>True Interest Cost (“TIC”)</th>
<th>Final Maturity</th>
<th>Outstanding Balance as of 10/2/2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014A</td>
<td>$95,960,000</td>
<td>02/06/2014</td>
<td>3.471%</td>
<td>10/01/2043</td>
<td>$70,270,000</td>
</tr>
<tr>
<td>2015A</td>
<td>$90,070,000</td>
<td>06/17/2015</td>
<td>3.136%</td>
<td>10/01/2036</td>
<td>$66,360,000</td>
</tr>
<tr>
<td>2016A</td>
<td>$141,600,000</td>
<td>06/28/2016</td>
<td>3.003%</td>
<td>10/01/2045</td>
<td>$133,920,000</td>
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<tr>
<td>Total</td>
<td>$327,630,000</td>
<td></td>
<td></td>
<td></td>
<td>$270,550,000</td>
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</tbody>
</table>

1 – 2016A Bonds may be refunded under Option I.

IBank has made 127 Loans with initial principal amounts totaling nearly $795 million. As of August 31, 2020, IBank has 98 outstanding ISRF Program loans pledged as security for the Outstanding Bonds (the “Pledged Loans”) with current principal balances totaling approximately $404 million. All payments on the Pledged Loans have generally been made on time, and are in compliance with the material financial covenants of their governing financing agreements. IBank has two Loans that are not pledged as security for the Outstanding Bonds. Collectively, those Loans have an approximately $2.6 million outstanding principal balance. One Loan is to the Sacramento-Yolo Port District and the other is to the Paradise Irrigation District.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

Collateral

If approved by the Board, the Bonds will be limited obligations of IBank, payable solely from and secured by a pledge and assignment of all of IBank’s rights, title, and interest in and to revenue from the Pledged Loans and money in most of the funds and accounts held under the Indenture (collectively, the “Collateral”). Money in IBank’s other funds and accounts would not be at risk. If IBank were to default on the Bonds the bondholders’ recovery would be limited to Pledged Loan revenue and money in certain of the Indenture funds and accounts. So long as projected Pledged Loan revenues and projected earnings on Indenture funds and accounts pledged as security for the Bonds are at least 1.2 times the Bonds’ debt service, IBank would not be obligated to pledge additional Loans to the Indenture.

Reserve Fund

The Outstanding Bonds are secured by money in a reserve fund created under the 2014 Master Indenture and the First Supplemental Indenture established thereunder in 2014. The purpose of the reserve fund is to provide a backstop in case IBank is unable to timely make a debt service payment due to a temporary shortfall in Pledged Loan revenue. Because the ISRF Program has been operating for years and always had more than sufficient Pledged Loan revenue to make every debt service payment on time, IBank staff believes the bond buying public may not require IBank to maintain a reserve fund securing the Bonds. Therefore, IBank staff intends to pursue Option I without establishing a reserve fund. If
IBank is able to achieve this goal, and the reserve fund currently securing repayment of the Outstanding Bonds is released, IBank intends to use the money currently in the fund (over $20 Million) for additional Pledged Loans to the extent such money is not required to be used to fund the escrow account for the refunded Outstanding Bonds. However, if the presence of a reserve fund will materially lower the borrowing costs for IBank it will establish a reserve fund at the lowest possible amount. It will fund the reserve either with the Bond proceeds, money in the existing reserve fund, IBank’s available ISRF Program cash on hand, or a combination of all three.

Similarly, if IBank pursues Option II it will seek to do so without depositing additional money into the existing reserve fund. If an additional deposit into the existing reserve fund will materially lower IBank costs of borrowing, it would make an additional deposit into the fund. The deposit could be either the Bond proceeds, cash on hand, or both.

**RECOMMENDATION**

The Staff recommends approval of Resolution No. 20-19 authorizing issuing the Bonds with (i) a par amount not to exceed $420,000,000, and (ii) a final maturity not expected to be later than October 1, 2055.

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5 Under Option I the 2014 Master Indenture and each supplemental indenture established thereunder would terminate and the money in that reserve fund would be released back to IBank to the extent such money is not required to be used to fund the escrow account for the refunded Outstanding Bonds.