



915 Capitol Mall
Sacramento, CA 95814
p (916) 651-8157
f (916) 657-4821
caeatfa@treasurer.ca.gov
www.treasurer.ca.gov/caeatfa

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ADDENDUM NOTICE NO. 2

CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY (CAEATFA)

CAEATFA'S RESPONSES TO RESPONDENT QUESTIONS ON REQUEST FOR INFORMATION (RFI) REGARDING SECURE CASH FLOW SOLUTIONS FOR CAEATFA'S ON-BILL REPAYMENT FINANCING PILOT PROGRAMS (CAEATFA03-16)

November 8, 2016

The following information is provided in response to questions received by CAEATFA regarding RFI Number 03-16, as shown below:

Responses to Questions:

- 1. Who will be the account owner? This structure parallels the methods for collecting Child Support Payments that the State already has in place, so is there a specific reason why the State does not want to own the accounts?

Answer:

Funds being remitted are private repayments from borrowers, repaid via the borrowers' utility bill, and ultimately remitted to private lenders. They are not public funds; therefore CAEATFA has received different messages from banks as to whether or not CAEATFA (as the State) is the most appropriate owner of the accounts. Additionally, unlike the Child Support Payments, CAEATFA has no legal authority by which to mandate these payments; they are the result of voluntary contracts between borrowers and private lenders. CAEATFA is open to owning the accounts, if CAEATFA ownership is the most effective way to provide a secure cash flow. CAEATFA seeks further input from the banking industry as to what the most prudent account ownership structure would be.

- 2. What are the volumes of transactions? What we are looking for here is the amount of detail information that will be on the addenda records and transmitted to the bank for delivery to the Master Servicer?

Answer:

Please see the answer to question three for transaction volume.

As for information transmitted to the bank, we are expecting the IOU to send an automated clearing house (ACH) or electronic data interchange (EDI) transfer to the remittance deposit account. We are expecting the bank on a daily basis to send the Master Servicer a BAI data file that would include all of the transaction detail related to each of the Remittance Deposit Accounts and Operational Reserve Account(s) including incoming and outgoing transfers.

All detail regarding the underlying breakdown of repayments that the utilities deposit (via ACH or EDI transfer), are sent directly from the IOU to the Master Servicer in a detailed Remittance file. This detail does not pass through the bank because the Master Servicer is responsible for apportioning the repayments among Participating Lenders and communicating the underlying transaction detail to lenders as to which borrowers should be repaid how much.

3. What are the size of transactions, and then what is the expected average daily balance in the Remittance Deposit accounts?

Answer:

Incoming deposits from each of the four (4) IOUs will be aggregated repayments from all borrowers in the on-bill repayment (OBR) programs in each Investor-Owned Utility (IOU) company's jurisdiction. The total amount deposited every day will depend on the level of program participation and how many payments the utilities are ready to remit on a particular day.

Each OBR Pilot Program (small business, non-residential large commercial, residential/consumer, and multi-family) will only receive applications for new loans for a two (2) year period. During the beginning of the program, uptake is likely to be slow, resulting in only a few payments received each month from each IOU. The residential program is expected to be high volume, low dollar; the commercial programs will support projects that are larger, but fewer. As years go by, loans will be paid off and the incoming deposits will gradually reduce.

Deposits that are received on a particular day will be processed by the Master Servicer for distribution to Participating Lenders the following business day; the daily balance will reflect the deposits for that day that have not yet been transferred to Participating Lenders. The average daily balance will depend on program uptake but is unlikely to be significant during the first six (6) months of the program.

Eventual uptake is difficult to predict as several key program design features that will influence the attractiveness of the program are still being worked out.

Please see below for more information on the variance of repayment amounts from individual borrowers.

4. What is the average loan payment?

Answer:

CAEATFA is currently developing regulations for the programs that will govern financing product terms. Once regulations are adopted, lenders will enroll with proposed products. The OBR infrastructure serves several different programs: residential/consumer (in PG&E territory), small business, non-residential, large commercial; and multi-family so the size of loan payments will vary a great deal.

CAEATFA's current proposed program design does not cap interest rates for in any of its commercial programs. We expect to see financed amounts of \$2,500-\$1,500,000 for the small business pilots, with terms of three (3) to ten (10) years. We expect to see financing up to \$5 million for the non-residential, large commercial, repaid over five (5) to ten (10) years. We expected to see financed amounts from \$200-\$500 in the residential program, repaid over a one (1) to two (2) year period.

5. What is the frequency of charge backs?

Answer:

CAEATFA is interpreting "charge-back," in this context, to mean when a customer's payment to the IOU is discovered by the IOU to become a returned item. In certain situations, that will prompt the Master Servicer to trigger the use of the Operational Reserve Fund to keep other Participating Lenders whole since the IOU

will hold back the amount of the returned item. We do not have concrete numbers on the frequency of these charge-backs, but expect them to be rare.

6. Why would there be funding delays by the IOU's and if so can you provide additional details as to the length of time that delays may take before full funding is made?

Answer:

Occasionally, the IOUs are unable to read a meter and/or do not generate a bill. In this case, billing is delayed, leading to a delay in when the repayment is received by the IOU and transferred to the bank. In addition, because this is a pilot program, there may be other rare circumstances in which the IOU is delayed in remitting a customer's payment to the Deposit Remittance Account. The Operational Reserve serves as safeguard for unanticipated funding delays so that payments can be made to a Participating Lender.

In the case of an IOU delay, we expect the Operational Reserve to be reimbursed within 30 days of being utilized through either 1) the IOU issuing the bill to the customer and then receiving payment or 2) the IOU resolving the inability to remit payments.

7. What is the program oversight by the State agency (reporting and collateral)? If the State owns the Remittance Deposit Accounts the balances should be minimal and balance fluctuations would allow tracking of collateral similar to the DCSS process.

Answer:

CAEATFA, as a public agency, develops the regulations for each of the pilot programs. CAEATFA will receive and vet applications from lenders, evaluating their proposed products, benefit to end users, licenses and/or charter, committed capital, organizational soundness, and track record. CAEATFA establishes minimum underwriting guidelines and credit criteria for borrowers. CAEATFA also establishes eligibility requirements for the underlying projects, including contractor compliance, eligible measures and quality assurance and quality control procedures. When the program is operational, CAEATFA or its agent will review and approve each transaction that will be placed on a utility bill for compliance with all program requirements.

As for oversight of the accounts, CAEATFA through its agent (Master Servicer) is responsible for the tracking of funds into the deposit remittance accounts and out to the lenders. CAEATFA and its agent (Master Servicer) are responsible for tracking, reconciling and reporting on the use of Operational Reserve Funds which are ratepayer dollars.

CAEATFA is still researching whether, if CAEATFA were to own them, the accounts would require collateralization.

Please see the answer to question three regarding the balance balances in the remittance deposit accounts. Generally, we expect funds to be dispersed to lenders the day after the IOUs remit the funds.

8. Who would be authorized to transfer funds (signers on the account vs. third party access)?

Answer:

If CAEATFA were to own the accounts, CAEATFA would need to give authorization to its designated agent for fund transfer from the remittance deposit accounts to the participating Financial Institutions (FIs) OR from the Operational Reserve to the participating FIs.

9. Who would have authorization to make transfers to/from the reserve account initiation (State agency, IOU's, 3rd party data collector, etc.)?

Answer:

CAEATFA would instruct the IOUs to fund transfers into the Operational Reserve Account(s) initially at the start of the program, and from time to time as more loans are enrolled and program participation increases. The IOUs would not need to transfer funds out of the Operational Reserve.

The Master Servicer will require authorization to transfer funds (1) from the Operational Reserve to participating FIs, and (2) from the remittance deposit accounts to replenish the Operational Reserve (after a delayed payment is received).

CAEATFA, on occasion, will need to instruct the Trustee Bank (U.S. Bank) to transfer funds to the Operational Reserve to replenish the reserve. This occurs in the event a lender was paid funds that turn out to be a returned payment and then a credit default. For the programs with a credit enhancement, that lender may file a claim with CAEATFA and CAEATFA will instruct the Trustee Bank to first reimburse the Operational Reserve prior to paying the claim.

There may be instances (e.g. where there is a credit default but no Credit Enhancement) in which a participating lender needs to reimburse the Operational Reserve. In these cases, it would be helpful to know if the bank could process a check from a lender to the Operational Reserve.

CAEATFA's Request for Information (RFI) Number 03-16 can be accessed by clicking on the following link: <http://www.treasurer.ca.gov/caeatfa/cheef/rfi.pdf>.

Addendum Notice No. 1 to CAEATFA's Request for Information (RFI) Number 03-16, which revises due dates for response submissions, can be accessed by clicking on the following link: http://www.treasurer.ca.gov/caeatfa/cheef/caeatfa03_16.pdf.

If you have any questions regarding this addendum, or should you require any clarifying information, the contact person for this RFI is:

Dallas Aicega
California Alternative Energy and
Advanced Transportation Financing Authority
915 Capitol Mall
Sacramento, CA 95814
(916) 653-3303
caeatfa@treasurer.ca.gov

Thank you for your consideration, and we appreciate any and all responses to this Request for Information.