

California Pollution Control
Financing Authority



CALIFORNIA CAPITAL ACCESS PROGRAM

*2011 Annual Report to the
California State Legislature*

About the California Pollution Control Financing Authority:

The California Pollution Control Financing Authority (CPCFA) provides California businesses with a reasonable method of financing pollution control facilities and fosters compliance with government imposed environmental standards and requirements. Over the last thirty years CPCFA has evolved to meet California's needs as follows:

- For solid waste, recycling, water and wastewater projects through its Tax-Exempt Bond Program.
- For small businesses through the California Capital Access Program.
- With the reuse and redevelopment of brownfields through the California Recycle Underutilized Sites Program.
- With financial assistance to cities and counties in their community planning and development efforts through the Sustainable Communities Grant and Loan Program.

CPCFA consists of:

Bill Lockyer, Chair
State Treasurer

John Chiang
State Controller

Ana J. Matosantos, Director
Department of Finance



EXECUTIVE SUMMARY

In March of 2011 CalCAP received an initial transfer of \$27.8 million in SSBCI funds, from a total allocation of \$84.3 million. This infusion of new funding allowed CalCAP to return to the historical practice of matching lender and borrower premiums, thus providing increased contributions to lenders' loan Loss Reserve Accounts. These increased contributions led to a remarkable year of CalCAP activity.

Enrollment activity increased by 566 loans and CalCAP lenders loaned approximately \$38.6 million more than in 2010, an increase of approximately 60% in both number of enrollments and dollars loaned. Approximately \$8 million in premiums were deposited to lenders' loan Loss Reserve Accounts. The amount in claims paid on defaulted enrollments was \$12.9 million less than in 2010. CalCAP recruited 10 new lenders to participate in the program and 25 lenders enrolled loans. The ARB On-Road program reached a milestone with its 1000th loan enrolled in the fall of 2011.



BACKGROUND

The California Capital Access Program for Small Businesses ("CalCAP" or "Program") was established by legislation enacted in 1994. CalCAP is run by the California Pollution Control Financing Authority (CPCFA). The program assists small businesses in obtaining loans through participating financial institutions (lenders). Each lender is entirely liable for its loan losses; however, those losses can be reimbursed from each lender's loan Loss Reserve Account. The Loss Reserve Accounts are built through contributions made by the borrower, lender, and CPCFA.

In 2011, CalCAP experienced rapid expansion in program activity largely due to an infusion of \$27.8 million in funds from the United States Treasury State Small Business Credit Initiative. These new funds enabled CPCFA to again increase the contribution level for CalCAP loan enrollments. To promote continued growth and increased economic benefit for California small business owners, CalCAP renewed efforts to

recruit new lenders and successfully enrolled 10 new financial institutions.

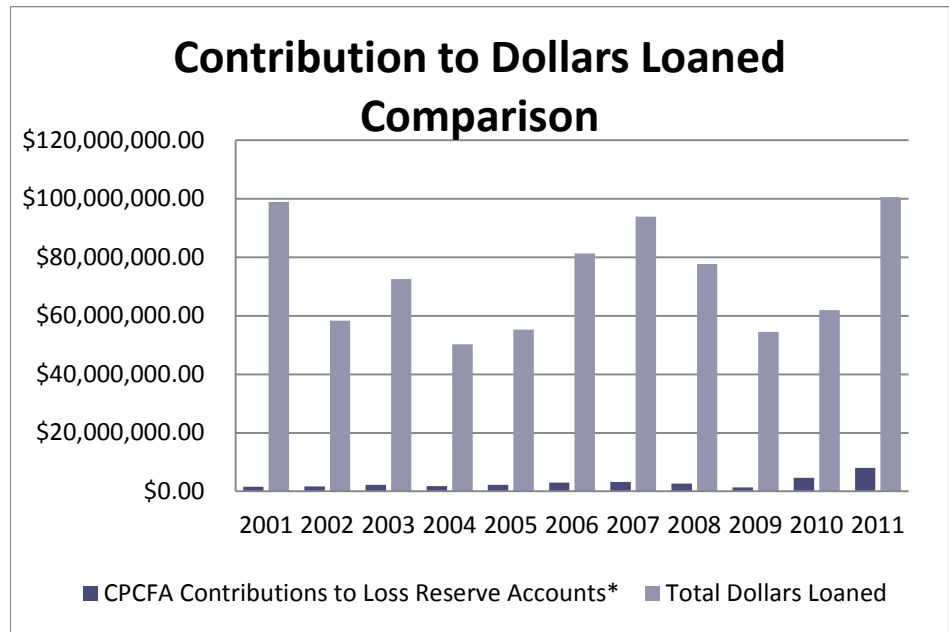
2011 was the largest year in program history by volume. CalCAP enrolled a record 1509 loans.

Program Results

Loan Volume – In 2011, CalCAP enrolled 1509 loans made to 1441 California small business owners. As of December 31, 2011 the total number of loans enrolled in the program since 1994 is 10,301.

Loan Dollars – As of December 31, 2011 CalCAP lenders have cumulatively loaned approximately \$2.07 billion since the Program’s inception in 1994. In 2011 over \$85 million was enrolled in CalCAP out of the approximately \$101 million in dollars loaned. The average loan size was approximately \$66,000.

The following graph compares CalCAP contributions to Loss Reserve Accounts to dollars loaned over the past ten years.



**Includes contributions from all independent contributor programs*



Microloan Activity¹ – Of the 1509 loans made to California small business owners in 2011, 896 were microloans totaling approximately \$11.3 million.

¹ Microloan is defined as a loan that is for \$40,000 or less.

Manufacturing businesses account for over 11% of the dollars enrolled in CalCAP in 2011.

Employment Effect² – In 2011, loans enrolled in CalCAP contributed to creating and/or affecting 866 jobs during the period of January 1 through March 31, 2011. During the period of April 1 through December 31, 2011, 836 jobs were created and 6,396 jobs were retained as a result of loans enrolled in CalCAP.

Breakdown of Enrollments by Industry Sector - The following chart describes the distribution of enrollment activity by North American Industry Classification System (NAICS) Sector number and indicates the number of loan enrollments, dollars loaned, and dollars enrolled.

NAICS Sector	Description	Number of Enrollments	Dollars Loaned	Dollars Enrolled
11	Agriculture, Forestry, Fishing and Hunting	33	\$1,692,260.61	\$624,000.00
21	Mining, Quarrying, and Oil and Gas Extraction	1	\$3,075.00	\$3,075.00
22	Utilities	1	\$334,000.00	\$334,000.00
23	Construction	35	\$5,245,536.21	\$4,411,416.21
31-33	Manufacturing	123	\$12,130,182.06	\$9,608,337.81
42	Wholesale Trade	75	\$8,582,311.27	\$7,883,528.74
44-45	Retail Trade	240	\$4,716,392.10	\$4,014,379.45
48-49	Transportation and Warehousing	589	\$37,903,394.92	\$36,760,769.89
51	Information	7	\$190,500.00	\$121,809.85
52	Finance and Insurance	8	\$1,023,000.00	\$620,500.00
53	Real Estate and Rental and Leasing	25	\$2,192,291.42	\$981,621.42
54	Professional, Scientific, and Technical Services	43	\$5,946,511.88	\$4,206,021.88
56	Administrative and Support and Waste Management and Remediation Services	62	\$7,136,414.45	\$4,808,914.45
61	Educational Services	14	\$334,881.58	\$288,631.58
62	Health Care and Social Assistance	52	\$5,559,572.82	\$3,965,655.11
71	Arts, Entertainment, and Recreation	7	\$251,223.67	\$226,223.67
72	Accommodation and Food Services	123	\$4,730,079.21	\$3,845,841.91
81	Other Services (except	74	\$2,703,717.37	\$2,583,483.43



² CalCAP data collection methods for Employment Activity changed effective April 1, 2011 due to regulation changes.

	Public Administration)			
92	Public Administration	1	\$25,000.00	\$25,000.00

Geographic Areas Served – The following map shows the distribution of loans enrolled in 41 counties and indicates the number of loan enrollments and approximate dollars loaned.

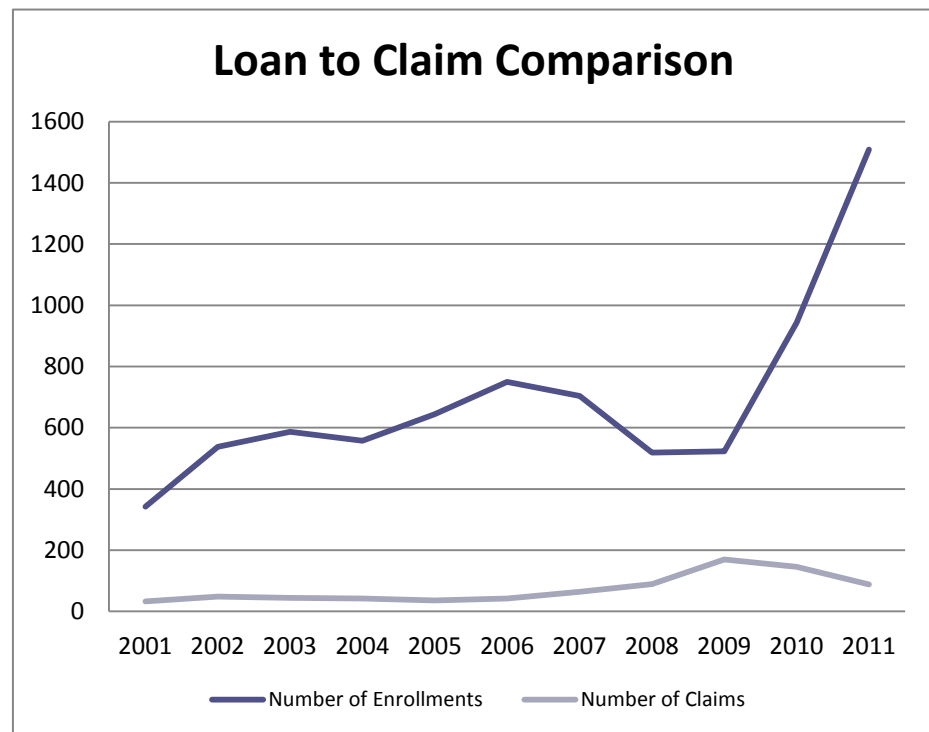


Signs of economic recovery were observed in 2011 with fewer claims and higher Loss Reserve Balances

Financial Condition

Loan loss claims - CalCAP processed and approved 88 claims filed by lenders against their loan Loss Reserve Accounts. Approximately \$2.3 million was paid from the Loss Reserve Accounts; this is a reduction in payments of approximately 85% compared to claims paid in 2010.

The following graph compares CalCAP claim activity to loan enrollment activity over the past ten years.



Loan loss reserve balance – As of December 31, 2011, the loan loss reserve balance for all Loss Reserve Accounts was approximately \$27.1 million. This increase of approximately \$8.7 million from 2010 recovers the majority of the approximately \$9 million in 2010 losses.

PROGRAM RESULTS DETAILED BY FUND

U.S. Treasury State Small Business Credit Initiative Fund – Beginning April 1, 2011 CPCFA was able to provide increased contributions to Loss Reserve Accounts using funds from the State Small Business Credit Initiative (SSBCI).

SSBCI Funds Loan Volume – Since April, 2011 CalCAP enrolled 742 loans to California small business owners.

CalCAP was able to pay an additional \$469,814.61 in premiums to Loss Reserve Accounts with the new SSBCI Funds.

SSBCI Funds Loan Dollars – As of December 31, 2011, CalCAP lenders have loaned approximately \$43.5 million.

SSBCI Funds Loan Contributions – As of December 31, 2011, CalCAP has contributed approximately \$1.4 million.

SSBCI Funds Employment Effect – During the period of April 1 through December 31, 2011, 479 jobs were created and 4,013 jobs were retained as a result of loans enrolled using SSBCI funds.

State Funds – In November of 2010, CalCAP received \$6 million from the State. CPCFA used the State funds to cover contributions for CalCAP enrollments prior to receipt of the SSBCI funds and to cover contributions for those loan enrollments that did not qualify for the SSBCI fund after April 1, 2011. The funds also help meet a mandate for added incentives in economically distressed areas.

State Funds Loan Volume – In 2011, CalCAP enrolled 253 loans to California small business owners using the State funds.

State Funds Loan Dollars – As of December 31, 2011, CalCAP lenders have loaned approximately \$22.3 million.

State Funds Employment Effect – In 2011, loans enrolled with the State funds contributed to creating and/or affecting 785 jobs during the period of January 1 through March 31, 2011. During the period of April 1 through December 31, 2011, 137 jobs were created and 1,551 jobs were retained as a result of loans enrolled with the State funds

California Air Resources Board Funds

On-Road Heavy Duty Diesel Program – In May of 2009, the California Air Resources Board (ARB) began participating in CalCAP as an Independent Contributor for the On-Road Heavy-Duty Diesel Vehicle



Program. ARB partnered with CPCFA to assist small business owners with heavy-duty diesel trucks to meet state air quality regulations. ARB contributes 20 percent of each loan enrolled (up to \$1 million in contributions, then the rate becomes 14 percent) to the lender's loan Loss Reserve Account.

One major change to this program went into effect in September of 2011 when SB 225 (Simitian), Ch 492 of the Statutes of 2011 was approved by the Governor and allowed Terminal Rental Adjustment Clause (TRAC) Leases as a type of qualified loan. A TRAC Lease is a different type of lending instrument that some lenders choose to use that gives borrowers another option for purchasing heavy-duty diesel vehicles.

CalCAP contributed to putting 561 cleaner emission trucks on the road this year, a 30% increase over 2010

There are currently 21 lenders that have signed up to participate in the ARB On-Road Heavy-Duty Diesel Vehicle Program. Nine of those lenders have enrolled loans in the program.

On-Road Loan Volume – Since the inception of the ARB On-Road Heavy-Duty Diesel Vehicle Program in 2009, 1,033 loans were enrolled. In 2011, lenders enrolled 511 loans for the purchase of 561 trucks, 11 trailers and 18 diesel exhaust retrofits.

On-Road Loan Dollars – As of December 31, 2011, CalCAP lenders have cumulatively loaned \$62,307,410.39 toward the purchase of compliant trucks and retrofits; \$34,593,169.58 of this was enrolled in 2011.

On-Road Employment Effect – In 2011, loans enrolled in the ARB On-Road Heavy-Duty Diesel Vehicle Program contributed to creating and/or affecting 88 jobs during the period of January 1 through March 31, 2011. During the period of April 1 through December 31, 2011, 219 jobs were created and 832 jobs were retained as a result of loans enrolled in the ARB On-Road Heavy-Duty Diesel Vehicle Program.

On-Road Loan Loss Claims – CalCAP processed and approved 4 claims filed by lenders against their loan Loss Reserve Accounts. \$29,887.99 was paid from the Loss Reserve Accounts.

On-Road Loan Loss Reserve Balance – As of December 31, 2011, the combined balance of participating lenders' ARB loan Loss Reserve



Accounts was \$9,901,884.51; of that amount, \$5,866,819.04 was contributed in 2011.

On-Road Total Program Fund – As of December 31, 2011, the amount available from the initial deposit remaining in the ARB On-Road Heavy-Duty Diesel Vehicle Program was \$10,609,359.97. ARB may provide an additional \$23,000,000 for this program at a future date. Approximately 54% of the total fund has been distributed to lender loan Loss Reserve Accounts.



ARRA Off-Road Diesel Program – In October of 2010, ARB partnered with CalCAP to begin a program aimed at assisting small business owners with off-road equipment. The program helps provide financing for vehicles and equipment such as those used in construction, agriculture, mining and industrial operations. ARB received an allocation as part of the American Recovery and Reinvestment Act (ARRA) which is being used to fund this program and assist equipment owners to comply with the in-use off-road diesel vehicle regulation. The objective of this program is to encourage early compliance and is used to replace, repair or retrofit existing vehicles, not to finance new vehicles that would expand a borrower's current fleet size. In the ARRA Off-Road Program, ARB has agreed to contribute 14 percent of the enrolled loan amount into the lender's loan Loss Reserve Account. In 2011, CalCAP paid a contribution of \$11,868.50 for one loan totaling \$84,775 enrolled in the ARRA Off-Road Program.

Department of Resources Recycling and Recovery – On January 21, 1999, CalRecycle (then the California Integrated Waste Management Board) entered into an interagency agreement with CalCAP for 18 months to act as an Independent Contributor. Under that contract, CalRecycle paid the borrower's portion of the contribution to a lender loan Loss Reserve Account. Qualified loans enrolled were for businesses that met the following CalRecycle criteria: source reduction, reuse, and recycling. The contract was continually renewed until June 15, 2011. CalRecycle did not contribute any funds for recycling related business loans in 2011.

OUTLOOK FOR 2012

2012 promises to be another active year for CalCAP with new legislation taking effect in January and several planned program expansions.

In 2012 CalCAP will expand its activities to include more opportunities to promote small business lending.

AB 981 (Hueso), Ch. 484 of Statutes of 2011 took effect January 1, 2012. It allows CalCAP to contribute additional incentives to lenders enrolling loans where the borrower resides within an area of high unemployment (over 100% of the statewide average), within an Enterprise Zone, or any other comparable economically distressed geographic area designated by the Executive Director in order to provide a greater benefit to small businesses located in these areas. State Funds will be used for these added incentives.

With the passing of AB 901 (Perez), Ch. 483 of Statutes of 2011, Microbusiness Lenders are able to participate in CalCAP after January 1, 2012. All Microbusiness Lenders that qualify for the Program will be required to offer pre-loan and post-loan assistance to their borrowers and are subject to audit requirements from their regulated funding source. The addition of this qualified Participating Financial Institution will give borrowers throughout the state another option for loan financing. Participating in CalCAP will allow Microbusiness Lenders to help more borrowers obtain the financing necessary to the growth and development of their small businesses. State Funds will also support these enrollments.



CalCAP plans to renew its interagency agreement with the Department of Resources Recycling and Recovery (CalRecycle) in 2012. The pending agreement will allocate up to \$500,000 of CalRecycle funds to assist recycle-based small businesses to obtain financing on loans to be enrolled in CalCAP. In order to make the new contract more successful, CalRecycle will increase its contribution to pay the borrower and lender premium portion to the lender's Loss Reserve Account, and CalCAP will continue to pay a matching combined contribution.

In 2012, CalCAP plans to expand its use of SSBCI funds through the development of a Collateral Support Program and a Loan Participation Program. A Collateral Support Program will pledge cash to cover the collateral shortfall of a loan in order to enable financing that might otherwise be unavailable to a small business. A Loan Participation Program will allow CalCAP to use SSBCI funds to add to a small business

loan pool. Both programs would inject money into the small business lending community and encourage lending to California small businesses.