



California Pollution Control Financing Authority



2015 ANNUAL REPORT TO THE GOVERNOR AND THE CALIFORNIA STATE LEGISLATURE

JUNE 2016

About the California Pollution Control Financing Authority:

Mission Statement: As public servants, we are committed to promoting access to capital through the delivery of diverse financing options to California business and environmental industries by being the:

- Driving force of public and private partnerships.
- Leader in offering customized risk mitigation tools.
- Forefront of projects that protect and restore the environment.

The California Pollution Control Financing Authority (CPCFA) provides California businesses with financing options for pollution control facilities and small businesses. CPCFA, founded in 1972, administers programs serving a variety of goals, including:

- Helping businesses construct solid waste, recycling, water and wastewater projects as a conduit issuer of tax-exempt bonds.
- Assisting small businesses in obtaining loans for business start-up and expansion and working capital through the California Capital Access Program (CalCAP) and Collateral Support Program.
- Collaborating with the Air Resources Board (ARB) to provide lenders with loan loss reserve accounts to finance new, cleaner-burning, heavy-duty diesel trucks and buses.
- Transforming brownfields into vibrant housing and retail developments that enhance communities in the California Recycle Underutilized Sites (CALReUSE) Program.

This annual report to the Governor and Legislature describing the CalCAP and Collateral Support Program is prepared pursuant to Health and Safety Code section 44559.6.

During the 2015 Calendar Year, the CPCFA board members were:

John Chiang, Chair
State Treasurer

Betty T. Yee
State Controller

Michael Cohen, Director
Department of Finance

<http://www.treasurer.ca.gov/cpcfa/index.asp>



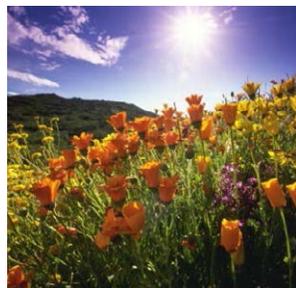
EXECUTIVE SUMMARY

CalCAP enjoyed another record-breaking year assisting small businesses in California, effectively deploying funds from the federal State Small Business Credit Initiative (SSBCI) and building on its partnership with the Air Resources Board (ARB) to expand the innovative ARB Heavy-Duty Vehicle Air Quality Loan Program.

In 2015, CalCAP recruited 11 new lenders to participate in the various programs, and 50 lenders enrolled loans. CalCAP lenders enrolled 4951 loans totaling over \$350 million in 2015, an increase of about 42 percent in the number of loans and 42 percent in the amount of money loaned compared with 2014. Approximately \$37 million in premiums were deposited to lenders' loan loss reserve accounts. CPCFA staff processed and approved 116 claims filed by lenders against their loan loss reserve accounts. Approximately \$3.3 million was paid from the loss reserve accounts.

PROGRAM FUNDING SUMMARY

The California Capital Access Program for Small Businesses (CalCAP) was established by legislation enacted in 1994. CalCAP is administered by the California Pollution Control Financing Authority (CPCFA). CalCAP assists small businesses in obtaining loans through participating financial institutions (lenders). CalCAP is a form of loan portfolio insurance which may provide up to 100% coverage on certain loan defaults. 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.



Prior to 2010, CalCAP was funded from small business assistance fees collected from CPCFA's bond issuance. In October 2010, the Legislature appropriated \$6 million from the State General Fund to the program. In 2011, CalCAP expanded rapidly due to funds from the United States Department of Treasury State Small Business Credit Initiative (SSBCI), made available by the Small Business Jobs Act of 2010. CPCFA was awarded half of the total \$168 million allocation to the State of California. The new funds enabled CalCAP to increase lending assistance for California small business owners. In 2011, CPCFA received the first injection of \$27.8 million of SSBCI funds. In 2013, CPCFA received a second \$27.8 million tranche of federal funds and continued to expand the program by creating the Collateral Support Program. The third and final tranche in the amount of \$28.8 was disbursed to California in 2015. CPCFA continues to use the State

general fund money as supplemental assistance for loan enrollments which are located in areas of high unemployment, and for the regular contributions for loans which may not be eligible under the stricter SSBCI requirements.

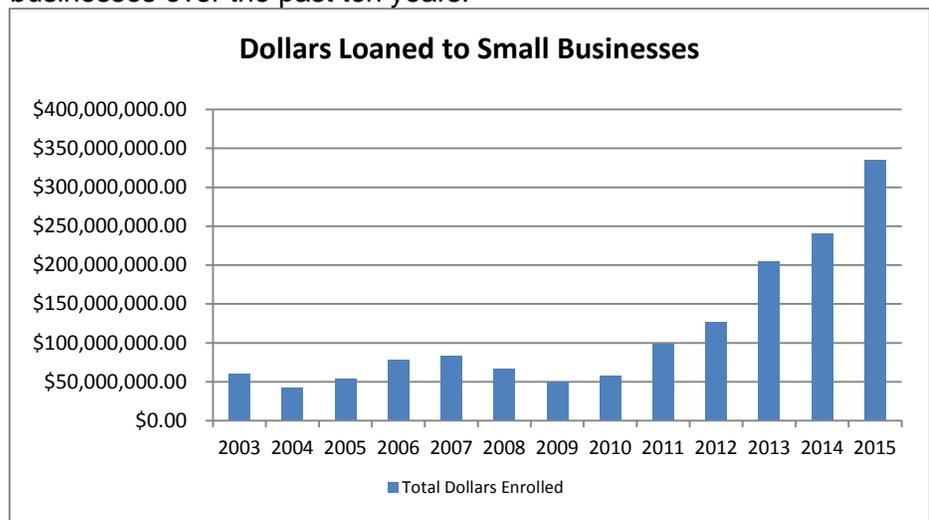


In addition to the SSBCI and State-funded CalCAP programs, CPCFA administers a loan loss reserve program funded by ARB to assist owners and operators of small fleets of heavy-duty diesel trucks achieve early compliance with ARB’s Statewide Truck and Bus Regulation designed to reduce diesel particulate matter emissions. As an Independent Contributor to the ARB Heavy-Duty Vehicle Air Quality Loan Program, ARB disbursed \$75,040,000 to CPCFA through the end of 2015 to fund loan loss reserve funds for lenders specializing in lending to small fleets.

In April 2015 CPCFA entered into an inter-agency agreement with the Energy Commission to establish and support an Electric Vehicle Charging Station Financing Program. As of December 31, 2015, staff had begun outreach with lenders and small businesses to promote the program.

As of December 31, 2015, CalCAP had \$14,067,204.79 in federal funds remaining to support both CalCAP and the Collateral Support Program and \$3,026,310.33 in State funds remaining to support loans in areas of high unemployment. In addition, CalCAP had \$1,715,958.82 in funding remaining from ARB to support loans under the ARB Heavy-Duty Vehicle Air Quality Loan Program.

The following graph shows the increase in dollars loaned to small businesses over the past ten years.



**Includes contributions from all independent contributor programs*

CALCAP SMALL BUSINESS PROGRAM RESULTS

The CalCAP Small Business Program includes loans enrolled in the loan loss reserve programs funded by SSBCI, the State Legislature, and CPCFA's own funds. By participating in CalCAP, lenders receive a credit enhancement that meets the financing needs of California small businesses.

CalCAP Loan Volume – In 2015, CalCAP enrolled 2,089 loans made to 1,713 California small business owners. As of December 31, 2015 the total number of loans enrolled in CalCAP since 1994 is 14,381.

CalCAP Loan Dollars – In 2015 over \$94 million was enrolled in CalCAP out of the approximately \$109 million in dollars loaned. The average loan size was \$52,341.38. As of December 31, 2015, CalCAP lenders have cumulatively loaned about \$1.57 billion since the program began in 1994.

CalCAP Microloans – Of the 2,089 loans made to California small business owners in 2015, 1,619 loans totaling approximately \$22 million were microloans.

CalCAP Jobs – In 2015, loans enrolled in CalCAP helped create 1,111 new jobs and retain 9,785 existing jobs.

CalCAP Loans by Industry – The following chart describes the distribution of enrollment activity by sector, using the North American Industry Classification System (NAICS) Sector number.



NAICS Sector	Description	Number of Enrollments	Dollars Loaned	Dollars Enrolled
11	Agriculture, Forestry, Fishing and Hunting	18	\$962,864.77	\$379,200.00
22	Utilities	1	\$5,251.05	\$5,251.05
23	Construction	117	\$6,788,801.26	\$6,400,220.74
31-33	Manufacturing	131	\$19,229,918.05	\$14,961,464.50
42	Wholesale Trade	74	\$13,474,628.67	\$12,871,011.92
44-45	Retail Trade	433	\$9,586,719.14	\$8,610,023.24
48-49	Transportation and Warehousing	260	\$10,557,596.34	\$7,257,042.43
51	Information	24	\$2,076,403.63	\$1,601,403.63
52	Finance and Insurance	19	\$1,154,432.09	\$1,111,432.09
53	Real Estate and Rental and Leasing	25	\$3,702,725.26	\$3,584,866.26
54	Professional, Scientific, and Technical Services	93	\$3,377,367.68	\$3,213,437.68
56	Administrative and Support and Waste Management and Remediation Services	99	\$3,189,183.88	\$2,151,683.88

Retail Trade and Accommodation and Food Services Businesses accounted for about 28% of the dollars enrolled in CalCAP in 2015.

61	Educational Services	20	\$394,761.05	\$389,072.57
62	Health Care and Social Assistance	77	\$2,623,849.02	\$2,621,849.02
71	Arts, Entertainment, and Recreation	18	\$278,022.16	\$278,022.16
72	Accommodation and Food Services	261	\$16,931,827.72	\$15,239,512.72
81	Other Services (except Public Administration)	160	\$3,188,245.05	\$3,161,735.05
92	Public Administration	2	\$350,000.00	\$350,000.00

Geographic Area Served – Exhibit A shows the distribution of the loans enrolled in 42 counties and indicates the number of enrollments and approximate dollars loaned.

Financial Condition

CalCAP Loan Loss Claims - CalCAP processed and approved 43 claims filed by lenders against their loan loss reserve accounts in 2015, totaling approximately \$400,000. This is a decrease in payments of about 74 percent when compared to claims paid in 2014.

CALCAP SMALL BUSINESS PROGRAM RESULTS DETAILED BY FUND

U.S. Treasury State Small Business Credit Initiative Fund – Beginning April 1, 2011 CPCFA provided contributions to loan loss reserve accounts using federal funds from the State Small Business Credit Initiative (SSBCI).



SSBCI Funds Loan Volume – In 2015 CalCAP enrolled 2,081 loans to California small business owners using SSBCI funds, bringing the total number of CalCAP loans funded by SSBCI up to 6,841.

SSBCI Funds Loan Dollars – CalCAP lenders loaned \$107,867,149.72 in 2015 bringing the total loaned since the SSBCI program began to approximately \$307 million.

SSBCI Funds Loan Contributions – CPCFA contributed \$3,854,385.62 of SSBCI funds to CalCAP loans in 2015.

SSBCI Funds Jobs – During the period of January 1, 2015 through December 31, 2015 there were 1,084 jobs created and 9,674 jobs retained in California as a result of loans enrolled using SSBCI funds.



SSBCI Loan Loss Claims – CalCAP processed and approved 40 claims filed by lenders against their loan Loss Reserve Accounts, totaling \$365,823.34 in payments.

State Funds – In October of 2010, CalCAP was appropriated \$6 million from the State General Fund. CPCFA used the State funds to cover

Of the enrolled 2,089 loans to eligible small businesses, approximately 31% were located in economically distressed areas and received added incentives.

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 2015, CalCAP enrolled 8 loans to California small business owners using the State funds, bringing the total number of CalCAP loans funded solely by State monies up to 410.

State Funds Loan Dollars – CalCAP lenders loaned \$1,473,986.02 in 2015 bringing the total loaned since the State program began to approximately \$29 million.

State Funds Loan Contributions – CPCFA contributed \$36,375.00 of State funds to CalCAP loans in 2015.

State Funds Jobs – In 2015, the 8 loans enrolled with State funds contributed to creating 27 jobs and retaining 111 jobs in California.

State Funds Loan Claims – CalCAP processed and approved 3 claims filed by lenders against their loan Loss Reserve Accounts, totaling \$34,100.25 in payments.

Severely Affected Communities (SAC) – Of the 2,089 loans enrolled with SSBCI and State funds, 715 were located in a Severely Affected Community. CPCFA contributed additional premiums in the amount of \$713,947.46 from State funds for those small businesses.

COLLATERAL SUPPORT PROGRAM



The Collateral Support Program was designed to enable financing that might otherwise not occur due to a collateral shortfall, for small businesses in California. In January 2013, the Collateral Support Program was approved by the U.S. Treasury as part of CPCFA's \$84 million allocation under SSBCI. Under the program, CPCFA provides a cash deposit to the lender to hold as partial insurance against potential loss, and the lender refunds the deposit back to CPCFA in annual installments according to a defined recapture schedule.

Collateral Support Loan Volume – In 2015, CPCFA enrolled 32 loans to 29 California small business owners.

Collateral Support Loan Dollars – In 2015, Collateral Support leveraged over \$47 million dollars in lending. The average loan size was approximately \$1.5 million.

Loans enrolled in CalCAP Collateral Support during 2015 helped create 253 new jobs and helped retain 933 existing jobs throughout California.

Collateral Support Loan Contributions – Under the program, CPCFA deposited a total of \$10.2 million for \$47 million disbursed to small businesses.

Severely Affected Community (SAC) – Of the 32 loans enrolled with SSBCI funds, 18 were located in a High Unemployment Area. Collateral Support contributed additional premiums in the amount of approximately \$1.4 million for these small businesses.

Collateral Support Jobs – In 2015, loans enrolled in Collateral Support helped create 253 new jobs and retain 933 existing jobs.

Collateral Support Loans by Industry - The following chart describes the distribution of enrollment activity by sector, using the North American Industry Classification System (NAICS) Sector number.

NAICS Sector	Description	Number of Enrollments	Dollars Loaned	Collateral Support Used
11-23	Construction	4	\$1,382,000.00	\$616,000.00
22	Utilities	1	\$800,000.00	\$400,000.00
31-33	Manufacturing	4	\$8,520,000.00	\$1,978,500.00
42	Wholesale Trade	2	\$3,056,550.00	\$903,000.00
44-45	Retail Trade	4	\$5,989,900.00	\$1,310,000.00
48-49	Transportation and Warehousing	2	\$294,000.00	\$147,000.00
51	Information	2	\$3,550,000.00	\$815,000.00
54	Professional, Scientific, and Technical Services	3	\$10,900,000.00	\$850,000.00
61	Educational Services	6	\$8,146,000.00	\$3,375,500.00
62	Health Care and Social Assistance	4	\$2,766,000.00	\$845,500.00
71	Arts, Entertainment and Recreation	1	\$3,499,875.00	\$500,000.00
81	Other Services (except Public Admin)	3	\$1,696,900.00	\$689,650.00



Geographic Area Served – Exhibit B shows the distribution of the loans enrolled in 14 counties and indicates the number of enrollments and approximate dollars loaned.

Financial Condition

Collateral Support Claims - Collateral Support lenders did not file any claims in 2015.

Collateral Support Recapture - Loans supported by the Collateral Support Program are subject to an annual recapture of the funds on deposit. In 2015 CalCAP recaptured \$6,947,358.70 in funds on 32 loans. The recaptured funds can be used for future CalCAP and Collateral Support loans.

Collateral Support Funds Used and Remaining - Of the total \$84 million in funds from SSBCI, CPCFA allocated \$54.7 million to the Collateral Support Program. As of December 31, 2015, \$43.6 million was utilized. Depending on the demand for the program, additional SSBCI funds may be reallocated to the Collateral Support Program under the State's agreement with the U.S. Treasury.

CALIFORNIA AIR RESOURCES BOARD FUNDS



In May of 2009, the California Air Resources Board (ARB) began participating in CalCAP as an independent contributor for the ARB Heavy-Duty Vehicle Air Quality Loan Program. ARB partnered with CPCFA to assist small business owners with heavy-duty diesel trucks in meeting state air quality regulations. ARB contributes 14 percent of each loan enrolled to the lender's loan loss reserve account until the lender receives \$500,000 in total contributions, after which the rate is reduced to 7 percent up to \$1.5 million in total contributions, then to 4 percent for all subsequent enrollments.

Funded by ARB's Air Quality Improvement Funding Plan, ARB has allocated a total of \$85,040,000 million to this program. As of December 2015, CPCFA had received \$75,040,000. The total allocation is expected to be exhausted by summer 2016.

Currently, 32 lenders have signed up to participate in the ARB Heavy-Duty Vehicle Air Quality Loan Program. Twenty-one of those lenders enrolled loans in the Program during 2015. Our top 3 participating lenders have enrolled approximately 44% of the total loan volume.

CALIFORNIA AIR RESOURCES BOARD PROGRAM RESULTS

ARB On-Road Loan Volume – In 2015, ARB enrolled 2,830 loans made to 2,662 California small business owners to purchase of 2,890 trucks, 71 trailers, and 115 diesel exhaust retrofits. This total surpasses ARB's biggest year prior to 2015 by 758 loans. Since the inception of the ARB Heavy-Duty Vehicle Air Quality Loan Program in 2009, the number of loans enrolled is 8,622.

ARB On-Road Loan Dollars – In 2015, \$193,196,454.60 in total loans were enrolled in this program, bringing the total amount enrolled since program inception to \$583,010,466.93. In 2015, CPCFA paid contributions of \$20,792,325.89 towards that amount. The average loan size was approximately \$68,267.

ARB On-Road Jobs – In 2015, loans enrolled in the ARB On-Road Heavy-Duty Diesel Vehicle Program helped create 1317 new jobs and retain 4420 existing jobs.

2015 was the largest year in program history by volume. CalCAP enrolled a record 2,830 loans in ARB Programs.



Terminal Rental Adjustment Clause (TRAC) Leases – In September of 2011, SB 225 (Simitian) (Chapter 492 of the Statutes of 2011) was approved by the Governor, which allows Terminal Rental Adjustment Clause (TRAC) Leases as a type of loan. A TRAC Lease is a different type of lending instrument that some lenders choose to use, giving borrowers another option for purchasing heavy-duty diesel vehicles. In 2015, CPCFA paid contributions of \$1,506,154.60 for 216 TRAC Leases. Of the \$192,185,379.79 enrolled in ARB On-Road Heavy-Duty Diesel Vehicle Program, a total of \$13,509,160.45 was a result of enrolled TRAC Leases.

Geographic Area Served – Exhibit C shows the distribution of the ARB-funded loans enrolled in 48 counties and indicates the number of enrollments and approximate dollars loaned.

Financial Condition

On-Road Loan Loss Claims – CalCAP processed and approved 73 claims filed by lenders against their loan loss reserve accounts, totaling \$2,895,356.20 in payments.

On-Road Total Program Funds Remaining – As of December 31, 2015, the amount available from the \$75,040,000 disbursement from ARB under the On-Road Heavy-Duty Diesel Vehicle Program was \$1,715,958.

OUTLOOK FOR 2016

CPCFA has seen much success with the Collateral Support Program funded by SSBCI since its launch in 2013. The Program has been well received by stakeholders and there has been an increased utilization across the state, which allows for quick deployment of the funds. CalCAP staff anticipates a similar pace in 2016.

The Collateral Support Program has been designed to recycle funds, therefore a portion of the support is returned to CPCFA on an annual basis and when the loan pays off. The recycling of SSBCI funds allows CPCFA to continue the Programs beyond the 2017 expiration of the SSBCI program.

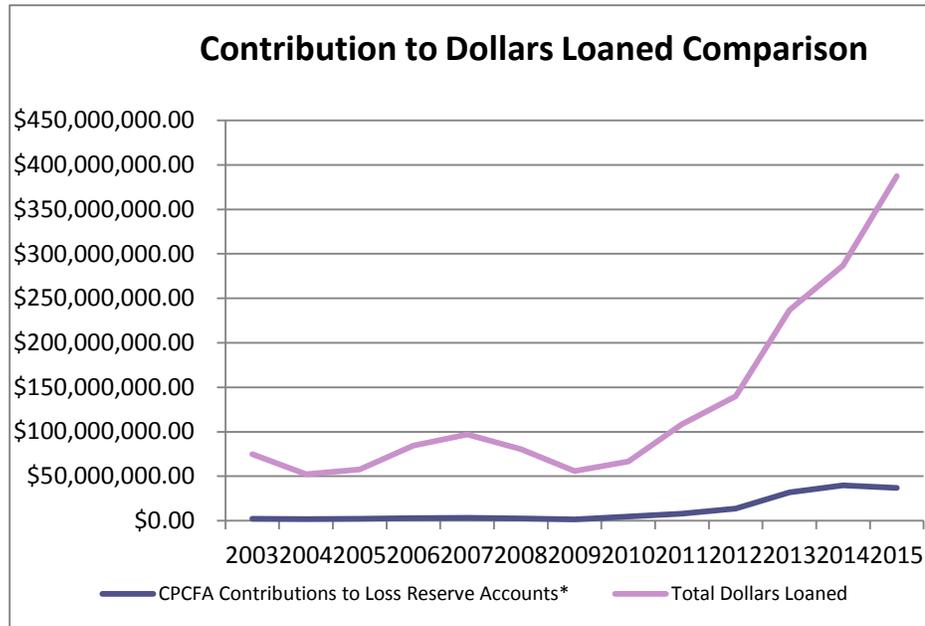
CPCFA’s partnership with the California Air Resources Board (ARB) continues to thrive and 2015 was the largest year in program history. CPCFA has seen an increase in the volume of enrollment applications submitted and expects the influx to continue through 2016.

CalCAP continues to leverage private funds. Currently, for every dollar CalCAP contributes through one of its credit enhancement programs,



In 2016, CalCAP will expand its activities with new programs providing more opportunities to promote small business lending.

approximately \$11 of private funding is used to help support small businesses throughout the state.



CPCFA plans to expand its activities in 2016 and reach out to more partners and lenders in an effort to provide more opportunities to promote small business lending in California. CPCFA introduced an Electric Vehicle Charging Station (EVCS) program in 2015. Loans enrolled in this program can be used for the design, development, purchase and installation of electric vehicle charging stations. Funded by the California Energy Commission, CalCAP may provide up to 100% coverage to lenders on certain loan defaults. Borrowers may be eligible to receive a rebate of 10 – 15% of the enrolled loan amount.

Currently, a program to assist California small businesses with financing costs to alter or retrofit existing small business facilities to comply with the requirements of the federal Americans with Disabilities Act (ADA) of 1990 is in development. In October 2015, Governor Brown signed legislation (Assembly Bill (AB) 1230 by Jimmy Gomez) appropriating \$10 million to CPCFA to establish the California Americans with Disabilities Act Small Business Capital Access Loan Program. Loans enrolled in this program may be used for the cost of surveying facilities for non-compliance, estimating and planning eligible alterations, construction costs, and other related expenses but do not include business expansion.

EXHIBIT A – GEOGRAPHIC AREA SERVED: CALCAP SMALL BUSINESS

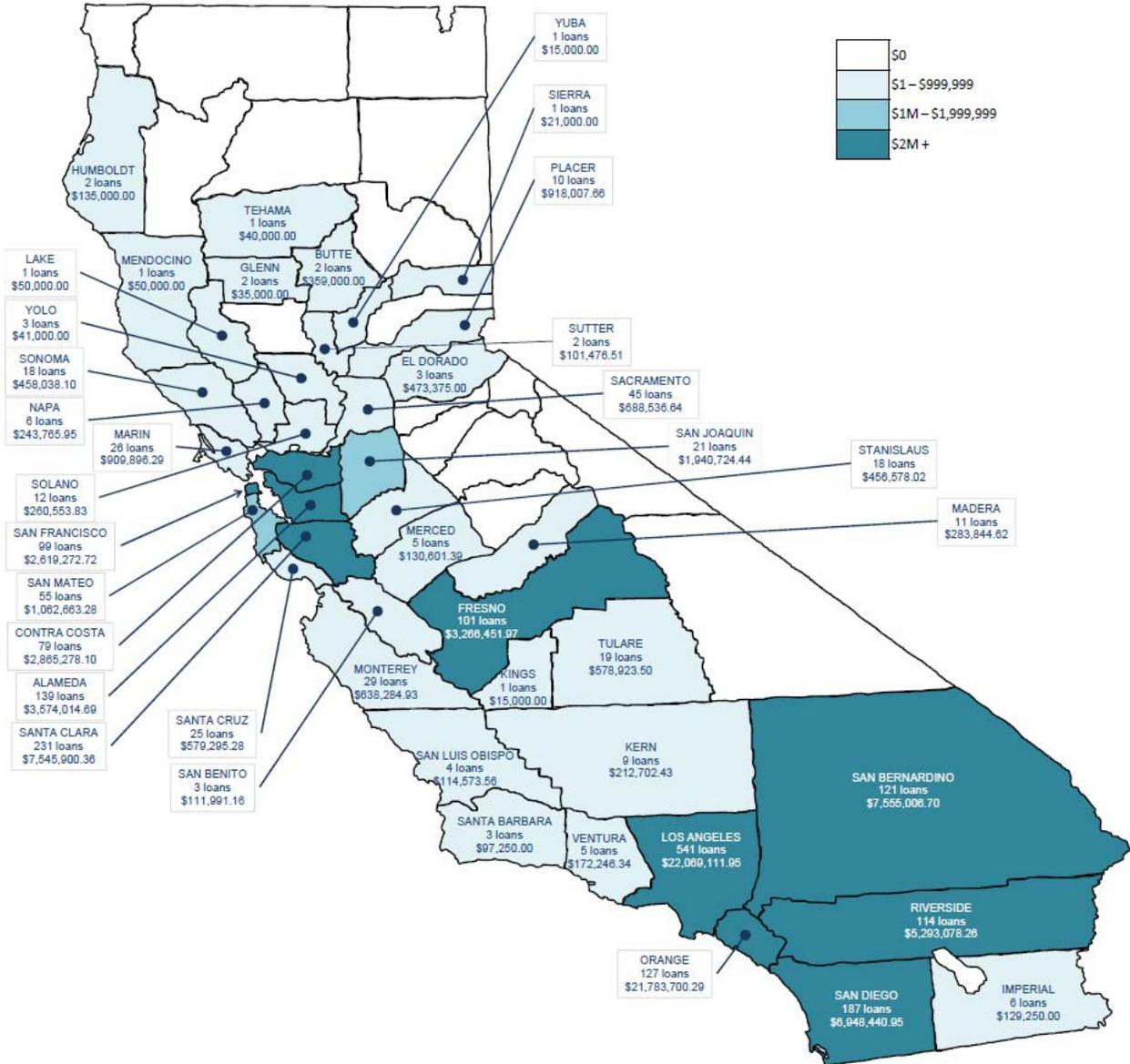


EXHIBIT B – GEOGRAPHIC AREA SERVED: COLLATERAL SUPPORT

