



# California Pollution Control Financing Authority

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## 2016 ANNUAL REPORT TO THE GOVERNOR AND THE CALIFORNIA STATE LEGISLATURE

**JUNE 2017**

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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) has been providing low-cost innovative financing to California businesses since 1972 with an objective of making California more economically prosperous and environmentally clean. CPCFA is committed to promoting access to capital through:

- the delivery of financing options to California business and environmental industries by being the driving force of public and private partnerships, a leader in offering customized risk mitigation tools and at the forefront of projects that protect and restore the environment.
- partnering with sister state agencies to achieve the State's environmental policy objectives by administering high-impact financing programs designed to assist regulated entities and other stakeholders with accessing private capital.
- issuing tax-exempt private activity bonds which facilitate low cost financing to qualified waste and recycling projects and other projects to control pollution and improve water supply.
- administering the California Capital Access Program (CalCAP), which encourages financial institutions to make loans to small businesses and provides for specialty programs targeted toward building an improved infrastructure for zero- and partial-emission vehicles, creating more charging stations for electric vehicles, helping small businesses comply with the federal Americans with Disabilities Act, and assisting small businesses and property owners with financing costs to seismically retrofit existing buildings and homes.

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

During the 2016 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/cpcfai/index.asp>



**CALIFORNIA CAPITAL ACCESS PROGRAM**  
**2016 Annual Report**

**EXECUTIVE SUMMARY**

CalCAP enjoyed another 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 2016, CalCAP recruited 9 new lenders to participate in the various programs, and 48 lenders enrolled loans. CalCAP lenders enrolled 5,893 loans totaling over \$357 million in 2016, an increase of about 19 percent in the number of loans and 5 percent in the amount of money loaned compared with 2015. Approximately \$25 million in contributions were deposited to lenders' loan loss reserve accounts. CPCFA staff processed and approved 297 claims filed by lenders against their loan loss reserve accounts. Approximately \$9.3 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 and 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 support which may provide up to 100% coverage on certain loan defaults. While each lender is entirely liable for its loan losses, those losses can be reimbursed from each lender's loan loss reserve account. The loss reserve accounts are built through fees paid by the borrower and lender; and contributions made by 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 tranche of \$27.8 million in federal funds and expanded the program by creating the Collateral Support Program. The third tranche in the amount of \$28.8 million was disbursed to California in 2015. The

***The California Pollution Control Financing Authority continues to grow by administering and developing new programs such as the Electric Vehicle Charging Station, the California Capital Access Americans with Disabilities Act, and the Seismic Safety Capital Access Financing Programs.***

fourth and final tranche from a reallocation of federal funds of \$321,717 was disbursed at the end of 2016. CPCFA continues to use State general funds 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 the California Air Resources Board (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 over \$92 million to CPCFA through the end of 2016 to fund loan loss reserve funds for lenders specializing in lending to small fleets.

Since its inception in 2015, CPCFA continues to grow with new and existing lenders participating in the CalCAP Electric Vehicle Charging Station Financing Program (EVCS). Funded by the California Energy Commission, loans enrolled in the program can be used for the design, development, purchase, and installation of charging stations at small business locations in California.

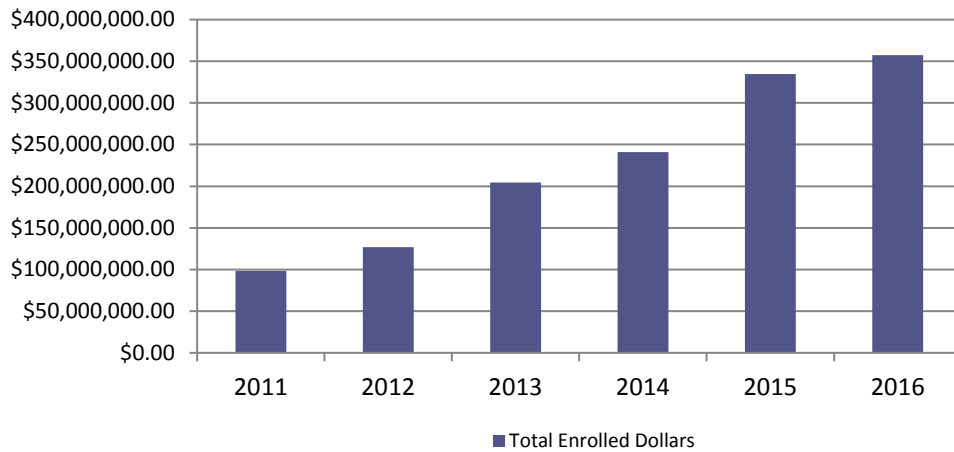
In 2016, CalCAP launched the California Capital Access Americans with Disabilities Act (ADA) Financing Program. With a \$10 million appropriation from Assembly Bill 1230, the ADA program assists small businesses with financing the cost to alter or retrofit existing small business facilities to comply with the requirements of the federal Americans with Disabilities Act of 1990.

On June 25, 2016, Senate Bill 837 was signed by the Governor. The bill allocates a \$10 million, one-time appropriation to CPCFA to fund the California Seismic Safety Capital Access Loan Program. Anticipating a January 1, 2017 program start, staff had begun outreach with lenders and stakeholders to promote the program, anticipating a January 1, 2017 program start.

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



## Dollars Loaned to Small Businesses



*\*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 2016, CalCAP enrolled 1,933 loans made to 1,836 California small business owners. As of December 31, 2016 the total number of loans enrolled in CalCAP since 1994 is 16,314.

**CalCAP Loan Dollars** – In 2016 over \$96 million was enrolled in CalCAP out of the approximately \$106 million in dollars loaned. The average loan size was approximately \$55,037. As of December 31, 2016, CalCAP lenders have cumulatively loaned about \$1.68 billion since the program began in 1994.

**CalCAP Microloans** – Of the 1,933 loans made to California small business owners in 2016, 1,437 loans totaling approximately \$20 million were microloans.

**CalCAP Jobs** – In 2016, loans enrolled in CalCAP helped create 1,106 new jobs and retain 10,171 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.

**Retail Trade and Accommodation and Food Services Businesses accounted for about 33% of the dollars enrolled in CalCAP in 2016.**

NAICS Sector	Description	Number of Enrollments	Dollars Loaned	Dollars Enrolled
11	Agriculture, Forestry, Fishing and Hunting	15	\$804,492.21	\$392,182.00
21	Mining, Quarrying, and Oil and Gas Extraction	1	\$21,000.00	\$21,000.00
22	Utilities	2	\$37,242.45	\$37,242.45
23	Construction	132	\$5,929,329.77	\$5,685,290.93
31-33	Manufacturing	130	\$15,587,791.31	\$13,797,951.31
42	Wholesale Trade	71	\$7,686,876.64	\$7,257,627.08
44-45	Retail Trade	360	\$11,436,681.11	\$11,401,655.11
48-49	Transportation and Warehousing	364	\$17,001,771.57	\$13,088,079.62
51	Information	24	\$2,122,869.09	\$1,372,869.09
52	Finance and Insurance	23	\$1,355,709.71	\$1,355,709.71
53	Real Estate and Rental and Leasing	21	\$2,471,715.61	\$2,460,305.61
54	Professional, Scientific, and Technical Services	105	\$7,842,677.17	\$6,741,279.17
56	Administrative and Support and Waste Management and Remediation Services	126	\$4,611,271.31	\$3,963,062.31
61	Educational Services	23	\$1,600,319.83	\$1,600,319.83
62	Health Care and Social Assistance	71	\$6,933,192.36	\$6,863,192.36
71	Arts, Entertainment, and Recreation	22	\$1,083,250.88	\$1,083,250.88
72	Accommodation and Food Services	276	\$16,566,303.20	\$16,433,209.90
81	Other Services (except Public Administration)	167	\$3,293,597.03	\$3,227,097.03



**Geographic Area Served** – Exhibit A shows the distribution of the loans enrolled in 44 counties and indicates the number of enrollments and approximate dollars loaned.

**Financial Condition**

**CalCAP Loan Loss Claims** - CalCAP processed and approved 96 claims filed by lenders against their loan loss reserve accounts in 2016, totaling approximately \$1.3 million. The default rate for 2016 is 5 percent which is an increase in payments of about 116 percent when compared to claims paid in 2015.

**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 2016 CalCAP enrolled 1,889 loans to California small business owners using SSBCI funds, bringing the total number of CalCAP loans funded by SSBCI up to 8,730.

**SSBCI Funds Loan Dollars** – CalCAP lenders loaned approximately \$98 million in 2016 bringing the total loaned since the SSBCI program began to approximately \$405 million.

**SSBCI Funds Loan Contributions** – CPCFA contributed \$3.9 million of SSBCI funds to CalCAP loans in 2016.

**SSBCI Funds Jobs** – During the period of January 1, 2016 through December 31, 2016 there were 1,054 jobs created and 9,665 jobs retained in California as a result of loans enrolled using SSBCI funds.

**SSBCI Loan Loss Claims** – CalCAP processed and approved 96 claims filed by lenders against their loan Loss Reserve Accounts, totaling \$1.3 million in payments. The default rate for 2016 is 5 percent.

**California State Funds**– In October of 2010, CalCAP was appropriated \$6 million from the State General Fund. 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 to meet a mandate for added incentives in economically distressed areas.

**State Funds Loan Volume** – In 2016, CalCAP enrolled 44 loans to California small business owners using the State funds, bringing the total number of CalCAP loans funded solely by State monies up to 454.

**State Funds Loan Dollars** – CalCAP lenders loaned approximately \$8.5 million in 2016 bringing the total loaned since the State program began to approximately \$37 million.

**State Funds Loan Contributions** – CPCFA contributed \$260,620 of State funds to CalCAP loans in 2016.

**State Funds Jobs** – In 2016, the 44 loans enrolled with State funds contributed to creating 52 jobs and retaining 506 jobs in California.

**State Funds Loan Claims** – CalCAP did not receive claims for the 2016 year. The default rate for 2016 is zero percent.

**Severely Affected Communities (SAC)** – Of the 1,933 loans enrolled with SSBCI and State funds, 357 were located in a Severely Affected Community. CPCFA approved additional contributions in the amount of \$435,268 from State funds for those small businesses.

**Of the enrolled 1,933 loans to eligible small businesses, approximately 18% were located in economically distressed areas and received added incentives.**



## 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 collateral 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 2016, CPCFA enrolled 22 loans to 22 California small business owners.

***Collateral Support Loan Dollars*** – In 2016, Collateral Support leveraged over \$20 million dollars in lending. The average loan size was approximately \$943,000.

***Collateral Support Loan Contributions*** – Under the program, CPCFA deposited a total of \$7 million in support for \$20 million disbursed to small businesses.

***Severely Affected Community (SAC)*** – Of the 22 loans enrolled with SSBCI funds, 12 were located in a High Unemployment Area. Collateral Support approved additional contributions in the amount of \$635,005 for these small businesses.

***Collateral Support Jobs*** – In 2016, loans enrolled in Collateral Support helped create 286 new jobs and retain 511 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.

***Loans enrolled in CalCAP Collateral Support during 2016 helped create 286 new jobs and helped retain 511 existing jobs throughout California.***

NAICS Sector	Description	Number of Enrollments	Dollars Loaned	Collateral Support Used
23	Construction	5	\$3,933,000.00	\$1,527,400.00
31-33	Manufacturing	7	\$10,799,700.00	\$4,125,000.00
42	Wholesale Trade	2	\$1,593,000.00	\$546,500.00
44-45	Retail Trade	1	\$1,000,000.00	\$400,000.00
52	Finance and Insurance	1	\$1,000,000.00	\$300,000.00
53	Real Estate and Rental and Leasing	1	\$362,740.00	\$136,027.00
54	Professional, Scientific, and Technical Services	1	\$950,000.00	\$285,000.00
62	Health Care and Social Assistance	2	\$797,500.00	\$254,100.00



71	Arts, Entertainment and Recreation	1	\$160,000.00	\$80,000.00
81	Other Services (except Public Admin)	1	\$150,000.00	\$50,000.00

**Geographic Area Served** – Exhibit B shows the distribution of the loans enrolled in 15 counties and indicates the number of enrollments and approximate dollars loaned.

**Financial Condition**

**Collateral Support Claims** – A Collateral Support lender filed 1 claim in the amount of \$9,344 on a loan for \$1,750,000. This was the Program’s first claim filed since the Program’s inception in 2013.



**Collateral Support Funds Used and Remaining** - Of the total \$85 million in funds from SSBCI, CPCFA allocated \$65 million to the Collateral Support Program. As of December 31, 2016, \$55.4 million was expended.

**Collateral Support Recapture** - Loans supported by the Collateral Support Program are subject to an annual recapture of the funds on deposit. In 2016, CalCAP recaptured approximately \$2.6 million in funds on 24 loans. The recaptured funds will be used for future Collateral Support loans to sustain the program.

**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 \$104.3 million to this program. As of December 31, 2016, CPCFA had received \$92.3 million. The total allocation is expected to be exhausted by the 4<sup>th</sup> quarter of 2017.

Currently, 42 lenders have signed up to participate in the ARB Heavy-Duty Vehicle Air Quality Loan Program. Twenty-two of those lenders enrolled loans in the Program during 2016. Our top 3 participating lenders have enrolled approximately 41% of the total loan volume.

## CALIFORNIA AIR RESOURCES BOARD PROGRAM RESULTS

**2016 was the largest year in program history by volume. CalCAP enrolled a record 3,938 loans in ARB Programs.**

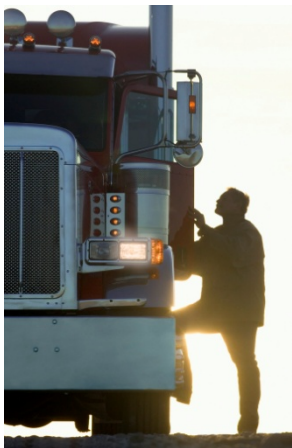
**ARB On-Road Loan Volume** – In 2016, ARB enrolled 3,938 loans made to 3,705 California small business owners to purchase of 4,018 trucks, 80 trailers, and 47 diesel exhaust retrofits. This total surpasses ARB’s biggest year prior to 2016 by 1,108 loans. Since the inception of the ARB Heavy-Duty Vehicle Air Quality Loan Program in 2009, the number of loans enrolled is 12,600.

**ARB On-Road Loan Dollars** – In 2016, \$240,436,884 in total loans were enrolled in this program, bringing the total amount enrolled since program inception to \$239,766,764. In 2016, CPCFA paid contributions of \$12,339,352 towards that amount. The average loan size was approximately \$61,056.

**ARB On-Road Jobs** – In 2016, loans enrolled in the ARB On-Road Heavy-Duty Diesel Vehicle Program helped create 1,972 new jobs and retain 5,667 existing jobs.

**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 2016, CPCFA paid contributions of \$1,650,993 for 452 TRAC Leases. Of the \$239,766,764 enrolled in ARB On-Road Heavy-Duty Diesel Vehicle Program, a total of \$26,487,949 was a result of enrolled TRAC Leases.

**ARB 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	2	\$145,635.00	\$145,635.00
21	Mining, Quarrying, and Oil and Gas Extraction	1	\$91,134.00	\$91,134.00
23	Construction	25	\$2,407,516.32	\$2,402,116.32
31-33	Manufacturing	7	\$723,166.85	\$723,166.85
44-45	Retail Trade	3	\$212,250.63	\$212,250.63
48-49	Transportation and Warehousing	3876	\$234,619,031.12	\$233,984,311.63
53	Real Estate and Rental and Leasing	3	\$189,114.70	\$189,114.70
54	Professional, Scientific, and Technical Services	3	\$268,890.26	\$268,890.26

56	Administrative and Support and Waste Management and Remediation Services	12	\$1,224,293.90	\$1,224,293.90
61	Educational Services	2	\$41,445.00	\$41,445.00
81	Other Services (except Public Administration)	4	\$514,405.99	\$484,405.99

**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 200 claims filed by lenders against their loan loss reserve accounts, totaling \$8,032,300 in payments disbursed to date.

**On-Road Total Program Funds Remaining** – As of December 31, 2016, the cash available from the \$92.3 million disbursement from ARB under the On-Road Heavy-Duty Diesel Vehicle Program was \$7.4 million.

## **OUTLOOK FOR 2017**

CPCFA has seen increasing demand for the Loan Loss Reserve and partnership programs. Dedicated to their sustainability and committed to each program’s continued expansion, beyond their anticipated funding expirations, CPCFA has reached out to program stakeholders, to solicit suggestions to make that vision a reality. Confidence in the proven success of each program and the ever growing need for them, illustrates why, throughout the year, CalCAP has seen an increase in stakeholder participation to achieve these sustainability goals.

CPCFA continues to witness success with the Collateral Support Program funded by SSBCI since its launch in 2013. Designed to recycle funds on an annual basis upon loan maturity, the recycling of SSBCI funds allows CPCFA to continue the program beyond the 2017 expiration of the SSBCI program.

The Collateral Support program has been well received by stakeholders and continues to be utilized across the state, which allows for quick deployment of the funds. CPCFA’s goal is to develop and model the recycling system to other CalCAP programs for long-term sustainability.

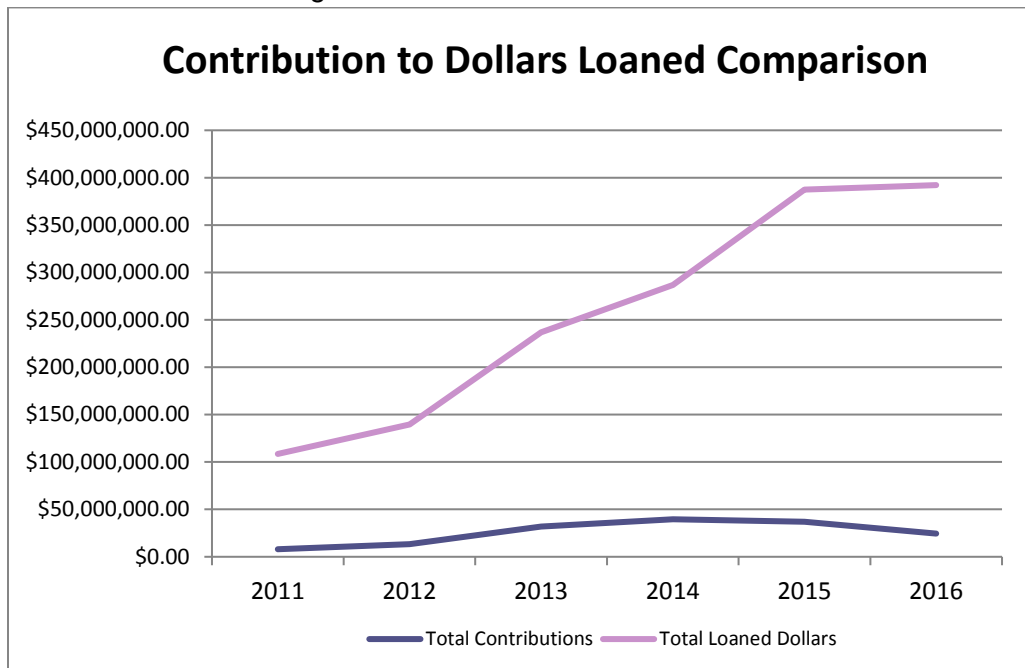
CPCFA’s partnership with the California Air Resources Board (ARB) continues to thrive and 2016 was the largest year in program history. CPCFA has seen an increase in the volume of enrollment applications

submitted (39% increase compared to 2015) and expects the influx to continue through 2017.

***In 2017, CalCAP will expand its activities with new programs providing more opportunities to promote small business lending.***

The CalCAP Electric Vehicle Charging Station (EVCS) Financing Program aims to expand the number of electric vehicle charging stations installed by small businesses in California. The program, funded by the California Energy Commission, provides small business borrowers and lenders incentives to finance electric vehicle charging station equipment acquisition and installation. This partnership allows CalCAP to provide up to 100% coverage to lenders on certain loan defaults. Borrowers with good repayment history may be eligible to receive a rebate of 10 – 15% of the enrolled loan amount.

CalCAP continues to leverage private funds. Currently, for every dollar CalCAP contributes through one of its credit enhancement programs, approximately \$7 of private funding is used to help support small businesses throughout the state.



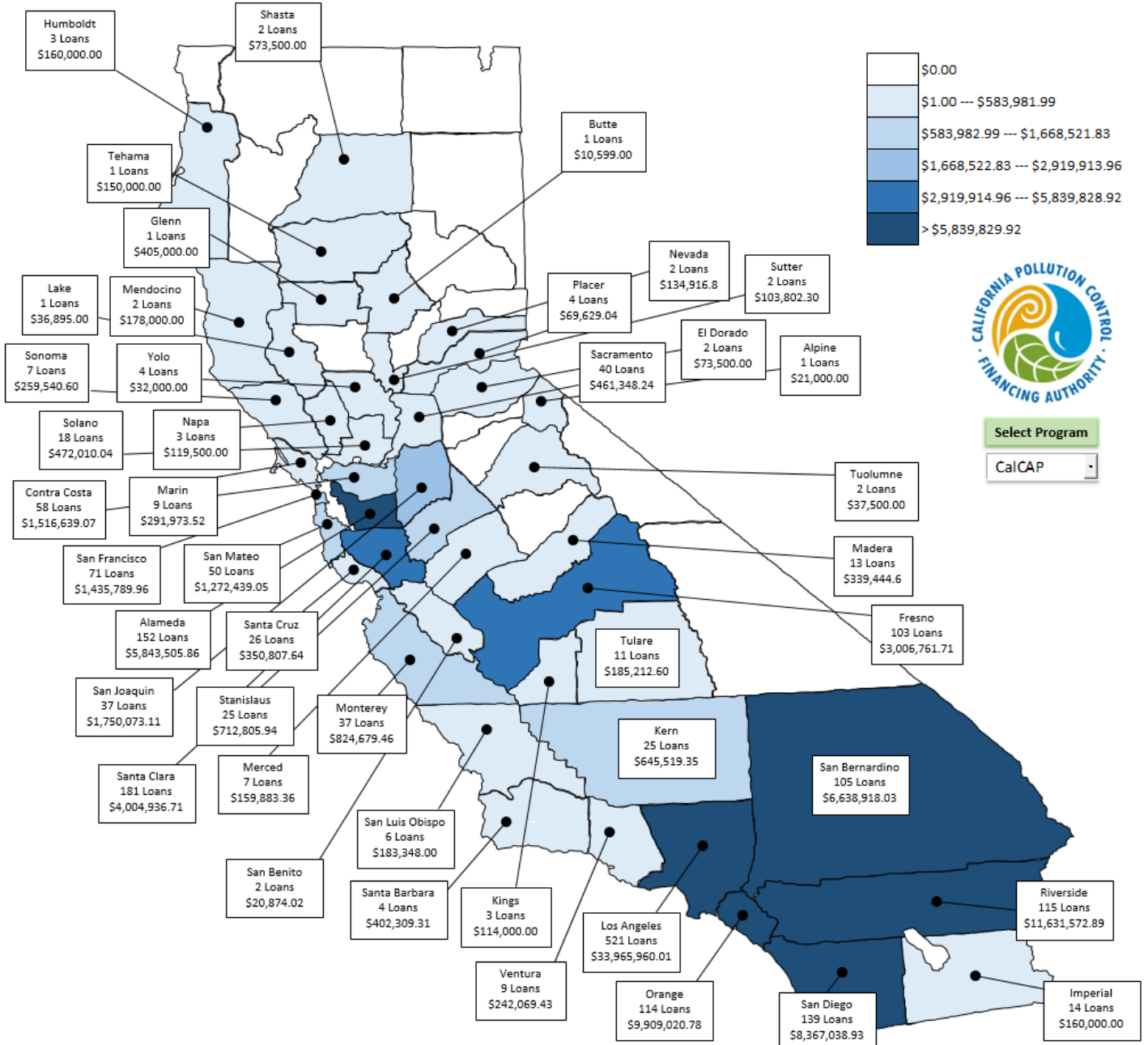
CPCFA plans to expand its activities in 2017 and continue its outreach to more partners and lenders in an effort to provide more opportunities to promote small business lending in California. CPCFA introduced the California Americans with Disabilities Act Small Business Capital Access Loan Program (CalCAP/ADA) in 2016. 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.



Currently, the California Seismic Safety Capital Access Loan Program (CalCAP/Seismic Safety) is in development to assist California small businesses and residents with costs related to seismic retrofit construction to substantially mitigate seismic damage.

Both of these programs are anticipated to enable Participating Lenders to expand their loan portfolios and increase their ability to lend to a more diverse range of borrowers.

# EXHIBIT A – GEOGRAPHIC AREA SERVED: CALCAP SMALL BUSINESS

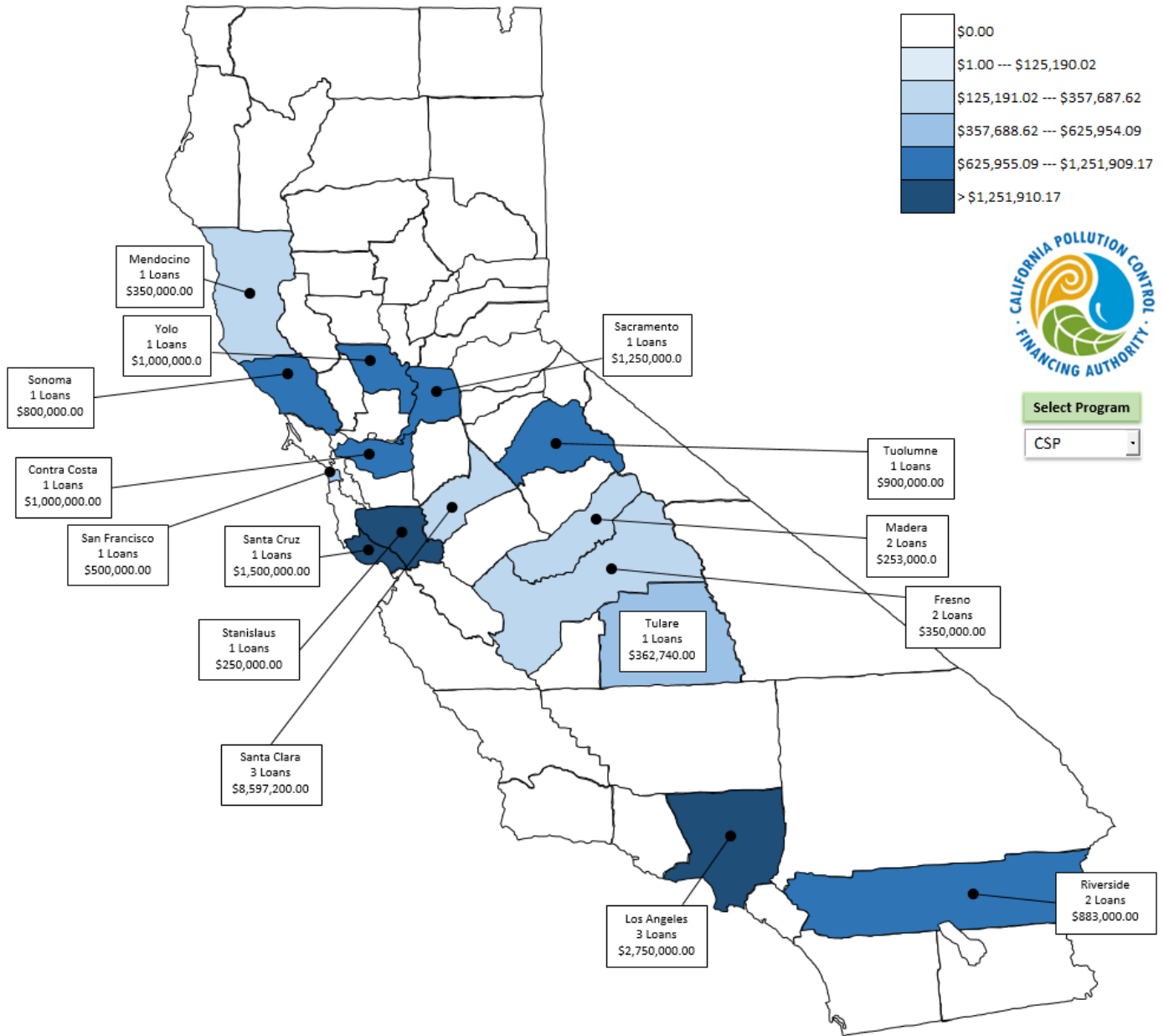


Select Program

CalCAP



# EXHIBIT B – GEOGRAPHIC AREA SERVED: COLLATERAL SUPPORT



# EXHIBIT C – GEOGRAPHIC AREA SERVED: ARB PROGRAMS

