

MINUTES

**California Pollution Control Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
June 28, 2011**

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Chairperson, called the California Pollution Control Financing Authority (CPCFA or Authority) meeting to order at 11:00 a.m.

Members Present: Bettina Redway for Bill Lockyer, State Treasurer
Alan Gordon for John Chiang, State Controller
Pedro Reyes for Ana J. Matosantos, Director, Department of Finance

Staff Present: Michael Paparian, Executive Director
Sherri Kay Wahl, Deputy Executive Director

Quorum: The Chairperson declared a quorum

2. MINUTES

Ms. Redway asked if there were any questions or comments concerning the May 24, 2011 meeting minutes. There were none.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the minutes; upon a second, the minutes were unanimously approved.

3. EXECUTIVE DIRECTOR'S REPORT

Mr. Paparian stated that growth in the California Capital Access Program (CalCAP) is allowing CPCFA to hire additional limited term staff to assist with the workload. Mr. Paparian announced that Alanna Parker has been promoted to an Analyst position. Alanna has worked for CPCFA for several years as an Office Technician and has prior experience with bookkeeping and accounting practices.

CalCAP is also getting help this summer from a student aid. Jake Egger is a local student who is diligently helping staff work through a backlog of tasks in the CalCAP program. Jake is a welcome addition to the CalCAP staff.

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Mr. Paparian talked about the CalCAP 2010 Annual Report. He stated that CalCAP has been around since 1994. It is modeled on a program that started in Michigan and is similar to programs in 22 other states. Through CalCAP, lenders can reduce the risks on loans that fall just outside their normal lending criteria. Through a CalCAP model, dollars are highly leveraged with about \$25 in loans for every CalCAP dollar.

He continued to report that 2010 was the busiest year to date in CalCAP in terms of number of loans processed. CalCAP enrolled 943 loans totaling \$62 million. The second busiest year was 2006 when staff enrolled 750 loans. Mr. Paparian stated that there were several factors affecting loan volumes. For example, CalCAP's partnership with the Air Resources Board (ARB) blossomed in 2010, accounting for 507 of the 943 loans.

From 1994 to 2010, CPCFA contributed in excess of \$38 million into CalCAP. All of these funds came from fee revenues charged to large businesses contributing on private activity bond transactions. In 2007 and 2008, staff recognized that the fund sources were limited (due to a decrease of large business bond issuances) and lowered contributions to CalCAP in order to conserve the funds. CalCAP cut its loan size, cut the amount contributed for each loan and stopped marketing the Program.

The CalCAP ARB Truck Loan Program started in 2009 and this helped CalCAP with lending for diesel trucks and related retrofits. Through 2010, staff assisted with 522 loans in the ARB Program.

Mr. Paparian stated that two things happened in 2010 that re-invigorated CalCAP. First, it received an infusion of state funds which helped boost its loan loss reserve contributions and allowed staff to begin marketing CalCAP again. Second, staff also learned that additional funds would be available for CalCAP through the Federal Small Business Jobs Act.

CalCAP saw a burst of activity in late 2010, which has continued into 2011, with its state funds. CalCAP's federal funds became available in April and staff continues to use the state funds for those loans that do not otherwise qualify for federal funds. Eventually, CalCAP hopes to use the state funds to assist with added incentives for lending in high unemployment and other economically depressed areas.

CalCAP now allows up to \$2.5 million of a qualified loan to be enrolled. Mr. Paparian stated that there is no minimum and staff continues to see loans as low as \$500. In 2010, 602 of its 943 loans were under \$40,000. The average loan size over the years hovers around \$100,000.

2010 saw a spike in claims as one would expect during a recession. Mr. Paparian stated that CalCAP processed over \$15 million in claims. This was nearly twice as much as the second highest claim year – 2009. Prior to 2007, typical yearly claims totaled approximately \$1 to \$3 million.

This year CalCAP is on pace to be much busier than 2010. To date, staff has processed 588 loans totaling over \$46 million. As more lenders join CalCAP and with its continued use of federal funds, staff expects a continued acceleration of program usage.

Mr. Paparian stated that he is required to inform Board Members of use of his delegated authority related to bond transactions and certain contracts. In the past month, Mr. Paparian has used his delegated authority several times, including:

- Allowing appointment of a new remarketing agent for the Musco Olives transaction.
- Allowing a new remarketing agent for the Hilmar Cheese transaction.
- Signing an interagency agreement with the State Treasurer’s Office of Public Finance Division (PFD) for services as Agent for Sale. This agreement is for up to \$10,000. In prior years, PFD charged a flat fee per transaction so an agreement was not necessary. PFD is now charging for actual costs; therefore, CPCFA expects to see similar interagency agreements in the future.
- Signing a contract with Montague and Associates for up to \$300,000 for financial advisory services. This contract is pending final approval by the Department of General Services. CPCFA will be using Montague to assist with a variety of financial analysis and related tasks. CPCFA has seen some transactions over the past few years that have involved unusual structures that staff has struggled to understand. These structures result from borrowers trying to take advantage of both tax exempt bonds and a variety of federal tax related incentives. Mr. Paparian stated that at times it has been difficult for staff to try and sort those issues out and he is hoping that the financial advisors will be able to assist with that as well as with questions that arise in terms of how the financial aspects of a bond transaction might work for a potential applicant.

4. BUSINESS ITEMS

A. CONSIDERATION AND APPROVAL OF AMENDMENT TO REGULATIONS FOR THE BOND PROGRAM PERTAINING TO SMALL BUSINESS ASSISTANCE FUND (SBAF) FEES AND PUBLIC AGENCIES

Presented by: Deanna Hamelin, Analyst

Staff requested Board approval to file permanent regulations to amend a section of the CPCFA regulations pertaining to waiving the SBAF fees for public agencies. Upon approval, staff will file the regulations with the Office of Administrative Law (OAL). Under current CPCFA regulations, a public agency is not eligible to receive a SBAF subsidy but is, as an applicant, obligated to pay into the SBAF program. The proposed regulations would exempt a public agency from paying SBAF fees, while preserving the original intent of the fees, which is to charge large businesses a fee that is then used to support CPCFA programs that benefit small businesses.

Staff recommended adoption of a resolution to amend regulations concerning SBAF fees

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for the Bond Program and to authorize staff to undertake regular rulemaking proceedings and other actions related to CPCFA Bond Program regulation revisions.

Mr. Paparian clarified that the types of transactions that would qualify for this exemption would be those that are solely in the name of government agencies. If there is an applicant, or a joint applicant, that is a private entity then the SBAF fee would apply to that transaction.

Mr. Reyes asked if there is an estimate as to the loss of revenue associated with this type of transaction.

Mr. Paparian stated that, to his knowledge, there has been no government applicant to date.

Mr. Paparian further stated that there is a pending application from the Marina Coast Water District (MCWD) and the Monterey County Water Resources Agency (MCWRA), as co-applicants, which for various reasons are in need of a private activity bond. This would be the first time that the proposed regulations would be used if the co-applicants come forward in the time frame proposed.

Mr. Reyes asked if the regulations would be in place before MCWD and MCWRA's application is processed.

Mr. Paparian replied in the affirmative.

Mr. Gordon asked if the service area has been determined that MCWRA would serve with its desalination plant.

Mr. Paparian stated that CPCFA has queried MCWRA regarding its service area. One of the uncertainties is that there is MCWRA which provides water to various entities, and not all of the entities are clear, although its service territory is most of Monterey County, the Fort Ord area, Seaside down into Pacific Grove and then inland. The city of Salinas is served by the California Water Services Company (CWSC). It is not yet contracting for the water; however, it would be interested in the water if it were made available to CWSC.

Ms. Redway asked if there were any questions or comments from the Board or public. There were none.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the item; upon a second, the item was unanimously approved.

5. PUBLIC COMMENT

Ms. Redway asked if there were any comments from the public. There were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting adjourned at 11:11 a.m.

Respectfully submitted,

Michael Paparian
Executive Director