

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

Meeting Date: June 19, 2012

Consideration and Approval to Issue a Request for Proposals to Solicit Lender Participation for a \$10 Million Loan Participation Program

Prepared by: *Sherri Kay Wahl*

Summary. Staff requests board approval to issue a Request for Proposals (RFP) to solicit lenders for a \$10 Million loan participation program to aid in the creation of an additional small business credit support program to encourage lending for energy efficiency improvements in commercial buildings. The RFP will present a new concept for lender financing through a Property Assessed Clean Energy (PACE) program (“Program”) wherein a building owner will secure a loan for financing energy and environmental retrofits utilizing a portion of the State Small Business Credit Initiative (SSBCI) funds received by CPCFA. The Program is envisioned to operate as a loan/assessment pool to create available needed capital at an affordable rate for borrowers participating in PACE programs. The program structure assumes CPCFA partnering with a lender (or consortium of lenders) to leverage private sources of capital to provide the capital bridge to businesses. Up to \$10 million is expected to be committed for this program.

Background.

SSBCI Funding. The SSBCI funds awarded to California totaled approximately \$168 million and are split between CPCFA and Business, Transportation, and Housing (BT&H). Funds were initially approved to facilitate CPCFA’s Capital Access Program (CalCAP) and BT&H’s Loan Guarantee Program. CPCFA has received the first \$27.8M of its share of the award. Per SSBCI guidelines, 80% of the first disbursement must be utilized prior to the receipt of additional funds. Since CPCFA and BT&H share the total Federal award, this 80% requirement must be met by both before either can receive additional funds. As of December 31, 2011, BT&H has reported using \$5,152,994 of its allotted funds and, as of February 29, 2012, CalCAP has used \$1,825,299 of its allotted funds. Per the SSBCI guidelines, the allocated funds must be used by December of 2016. CalCAP continues to build on the program’s success through the enrollment of new lenders and expanded program use by existing lenders; however, some of the large regional and national banks that initially indicated an interest have not become active in CalCAP. Without broader participation in CalCAP, it is uncertain whether CPCFA will use the full allocation. So, in order to fully utilize the SSBCI funds CPCFA staff submitted a request to Treasury to approve an adjustment of the awarded funds to include both a Collateral Support Program (presented to the Board at its May 2012 meeting) and a Loan Participation Program.

Program Description. Under a Property Assessed Clean Energy (PACE) program, a building owner will secure a loan for financing energy and environmental retrofits. The loan is paid back through an assessment placed on property tax bills; thus, loan repayments are made as part of the property tax bill payment. These PACE loans/assessments are then bundled and re-sold as a package of loans, which is usually made in the form of a taxable bond—although the initial loans can be in the form of a small bond that is ultimately taken out by the larger bond.

The proposed yet-to-be-named Program is envisioned to operate as a loan/assessment pool to create available needed capital at an affordable rate for borrowers participating in PACE

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programs. The Program would specifically help create a pool of money from which initial energy/environmental efficiency loans can be made. Program loans could ultimately become part of a PACE package of loans or could also serve as more traditional loans for energy and environmental improvements. However, Program loans would be for the short duration until the loans/assessments are packaged and re-sold. Even if the loans are not being re-sold, the Program would have a built-in exit strategy for their participation to ensure the participation remains short-term.

Currently, commercial PACE programs are facing challenges raising capital for the loans or assessments that would ultimately be paid back from the sales of a bond sale expected to occur within one year of the initial loans/assessments. Thus, the market is demonstrating a need for this type of additional financing. While CPCFA will support qualified small businesses by becoming a partner in an available pool of funds, it is looking to the lenders' proposals to present innovative ideas on operating the pooled fund concept. CPCFA envisions a public-private partnership to leverage private sources of capital to provide the capital bridge to businesses.

Guidelines. The Program concept requires a phased-approach for its design. Specifically, before all program guidelines can be firmly established, CPCFA will first issue a competitive request for proposal (RFP) to the lending community for participation in the Program. While CPCFA will support qualified small businesses by becoming a partner in an available pool of funds, it is looking to the lenders' proposals to present innovative ideas on operating the pooled fund concept. Until the proposals are submitted and evaluated, staff contemplates the Program will operate under the following parameters:

- (a) The Program will provide up to 20 percent of a pool of funds, with a lender or consortium of lenders providing 80 percent or more. *Specific amounts for the CPCFA contribution will be evaluated as part of the request for proposal.*
- (b) CPCFA funds would be expected to yield a low interest amount that would be blended with the rate on the balance of the funds to lower the effective rate to the borrower. *Interest rate expectations would be evaluated as part of the proposal.*
- (c) CPCFA will consider proposals for lenders or a consortium of lenders for use of the CPCFA SSBCI funds to cover a discount to the asset value of the pool if such a discount becomes necessary for the ultimate bond transaction. If the rate of the ultimate bond transaction exceeds the rate of the preceding loan pool, CPCFA will consider absorbing all or a portion of the discount, based on a pre-determined agreement resulting from the RFP process. *CPCFA will review the parameters for the discount that are included in the responses to the RFP, including how much the lender is willing to share in the risk associated with the potential discount.*
- (d) The interest earned on the CPCFA portion of funds will be collected by CPCFA for allowable SSBCI purposes.
- (e) The lender would be expected to repay the CPCFA portion after a specified period of time. *Proposals for how this will be accomplished will be evaluated as part of the RFP process.*

(f) CPCFA funds could cover proportionally more shortfalls due to payment defaults during the period the CPCFA funds are utilized, although CPCFA would be replenished by any recoveries. CPCFA will, however, expect a sharing of the risk with the lender. *Proposals for how this will be accomplished will be evaluated as part of the RFP process.*

(g) In all cases, CPCFA's decision to contribute Program funds will be determined on an individual project/loan basis.

(h) Lenders and borrowers will be required to make and certify in writing their respective SSBCI-required assurances with signed copies submitted to CPCFA upon lender and loan enrollment.

(i) The program will target an average borrower-size of 500 employees or less, but shall not provide support to those with more than 750 employees; also targeting loans with average principal amounts of \$1 million, not to exceed \$20 million.

Program Implementation. Staff is finalizing development of the RFP for the Program while waiting for Treasury approval. Upon approval of the amended application, Treasury expects implementation of programs within 90 days. During the RFP process staff will continue to develop and refine the parameters of the proposed program so it will be ready to launch within the 90 day timeline. Upon completion of the RFP process, staff will return to the Board for approval of (1) the recommended lender and (2) a more fully developed program description.

Estimated Timeline.

June 19, 2012	Authority meeting – obtain approval to proceed with the RFP.
July 10, 2012, or sooner	Lender workshop regarding basic proposed program parameters and SSBCI requirements.
July 23, 2012	Finalize RFP and post on DGS California State Contracts Register website.
July 31, 2012	Bidders' workshop/phone conference.
August 15, 2012	Bidders' proposals due to the Authority.
Aug./Sept. 2012	Authority Approval of Contract.
Aug./Sept. 2012	DGS approves contract.

Staff Recommendation. Staff recommends approval to issue a RFP to solicit lenders for a \$10 million loan participation program designed to encourage lending for energy efficiency improvements in commercial buildings, consistent with SSBCI standards and CPCFA statute, in an effort to utilize the Federal funds prior to the deadline.

**RESOLUTION OF THE
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
APPROVING THE SOLITICATION OF A REQUEST FOR PROPOSALS FOR
THE \$10 MILLION LOAN PARTICIPATION PROGRAM**

June 19, 2012

WHEREAS, the California Pollution Control Financing Authority (the "Authority") is authorized by California Health and Safety Code Section 44501(a) to use all practical means and measures to control, remediate, and eliminate pollution hazards to the environment;

WHEREAS, the Authority is authorized by California Health and Safety Code Section 44537.5 to provide the maximum opportunity for the use of the Authority's financing by small businesses in order to facilitate financing for projects that benefit the environment and the economy of the state;

WHEREAS, the loan participation program will encourage lending for energy efficient improvements in commercial buildings for small businesses; and

WHEREAS, the Authority has determined that is it necessary to issue a request for proposals to solicit financial institutions to aid in the development of the small business loan participation program which encourages lending for energy efficiency improvements in commercial buildings

NOW, THEREFORE, BE IT RESOLVED by the California Pollution Control Financing Authority as follows:

Section 1. The proposed program description presented at the June 19, 2012, meeting is hereby approved in substantially the form submitted. The Chair, Executive Director, or Deputy Executive Director is hereby authorized, for and on behalf of the Authority, to proceed with the implementation of a small business loan participation program to encourage lending for energy efficiency improvements in commercial buildings, upon approval from the U. S. Department of the Treasury, with the supporting documentation required by law.

Section 2. The Chair, Executive Director, or Deputy Executive Director of the Authority are hereby authorized and directed to issue a request for proposals to solicit financial institutions to aid in the development of a small business loan participation program to encourage lending for energy efficiency improvements in commercial buildings, and to execute and deliver any and all documents that they may deem necessary or advisable in order to effectuate the purposes of this resolution.

Section 3. This resolution shall take effect immediately upon its approval.