

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

California Capital Access Program

Meeting Date: December 17, 2013

***Request to Approve Interagency Agreement with the California Air Resources Board (ARB)
Regarding the CalCAP Independent Contributor Program***

Prepared by: *Ian Davis*

Independent Contributor: California Air Resources Board	Amount: Not to exceed \$10,000,000
Program Location: Statewide	Term of Agreement: January 1, 2014 through December 31, 2015

Summary.

The California Air Resources Board (ARB) desires to continue as an Independent Contributor in the California Capital Access Program (CalCAP), to provide loan loss reserve funding for the Heavy-Duty Vehicle Air Quality Loan Program (HDV Air Quality Loan Program). The proposed Interagency Agreement (the Agreement) between the California Pollution Control Financing Authority (the Authority or CPCFA) and ARB allocates up to \$10,000,000 of ARB funds appropriated in Senate Bill 359 (Chapter 415, Statutes of 2013), to continue the HDV Air Quality Loan Program begun in 2009. These funds will be used to provide financial assistance to small business owners of heavy-duty diesel vehicles affected by the ARB’s Statewide In-Use Truck and Bus Regulation and the Heavy-Duty Vehicle Greenhouse Gas Emission Reduction Regulation (the Regulations). The term of the Agreement will be from January 1, 2014 through December 31, 2015.

Background. CalCAP assists small businesses in obtaining financing. CalCAP encourages banks and other financial institutions to make loans to small businesses that have difficulty obtaining financing. CalCAP is a form of loan portfolio insurance which may provide up to 100% coverage on certain loan defaults. The CalCAP Independent Contributor Program provides a mechanism that allows third parties to participate in CalCAP to meet a specific goal or mission. Independent Contributors agree to pay the loan loss reserve contributions of the borrower and can also pay the loan loss reserve contributions of the lender and CPCFA. The Independent Contributor Program has been a very successful part of CalCAP. Since May 2009, CPCFA has administered the HDV Air Quality Loan Program on behalf of ARB, directing ARB’s contributions into loss reserve funds supporting loans for over \$236,970,538.61 of loans resulting in 3,816 cleaner emission trucks and 229 retrofitted trucks on the road to date. The success of the HDV Air Quality Loan Program is due in part to the 29 CalCAP lenders currently participating in the program statewide.

ARB adopted Statewide In-Use Truck and Bus Regulations and Heavy-Duty Vehicle Greenhouse Gas Emission Reduction Regulations in December 2008. Most diesel trucks and buses, which can last 20 years or longer, have little or no emission controls. As a result, these vehicles emit large amounts of oxides of nitrogen or NOx, which contributes to high levels of smog, and soot also known as particulate matter or PM, which is toxic. The Regulations require

fleets to install exhaust retrofits that capture pollutants before they are emitted to the air, and to accelerate vehicle replacements to those with cleaner engines. The Regulations are expected to significantly reduce particulate matter and oxides of nitrogen pollution and prevent premature deaths.

In general, ARB's Regulations require owners to reduce emissions in their fleet by upgrading existing vehicles by either installing PM retrofits or replacing vehicles according to a prescribed schedule based on the existing engine model year. The Regulations will apply to approximately 40,000 California registered vehicles. The cost of the available options range from \$5,000 to over \$200,000; therefore, the cost to individual truck owners and fleets are significant. During the course of developing the Regulations, many fleets indicated they would need to borrow money to purchase the required retrofits or replacement vehicles.

The Interagency Agreement. This proposed Agreement between the Authority and ARB allocates up to \$10,000,000 of ARB funds toward the HDV Air Quality Loan Program and the term of the Agreement will be from January 1, 2014 through December 31, 2015. The proposed Agreement will continue the HDV Air Quality Loan Program currently administered by the Authority under the current Interagency Agreement Number 08-607. Under the current agreement, the Authority has contributed \$33.7 million in loan loss reserve funds, allocated from ARB's Air Quality Improvement Program. The funding for the new Agreement is appropriated in SB 359.

As the Independent Contributor, ARB modifying the HDV Air Quality Loan Program in two specific ways, to further the policy goals of the Regulations and SB 359. ARB has set the maximum interest rate a lender may charge on any single loan at 20 percent annual percentage yield. ARB has also reduced the maximum fleet size fleet, requiring a business to have 10 or fewer on-road heavy-duty vehicles and certify to the number in the fleet. ARB has agreed to pay an amount equal to 10% of a borrower's enrolled loan amount to cover the contributions of the borrower, lending institution, and CPCFA toward the loan loss reserve. For lenders newly enrolled in the program and existing lenders that have not yet reached \$5 million in total loan volume under the program, ARB has agreed to pay an amount equal to 20% of a borrower's enrolled loan. When a lender's total loan volume through the program reaches \$5 million, ARB's premium contribution will be reduced to an amount equal to 10% of a borrower's enrolled loan amount for all subsequent loans. Any adjustment to the premium contribution, interest rate, fleet size, or other material change shall be made through an amendment to the Agreement. Additionally, the Interagency Agreement provides that the Authority will recover its costs associated with the administration of the HDV Air Quality Loan Program.

The proposed Agreement is intended to continue the HDV Air Quality Loan Program administered under Interagency Agreement #08-607, with the above-described modifications. When the proposed Agreement is effective, Interagency Agreement Number 08-607 will be terminated, and any funds transferred to CPCFA under Interagency Agreement Number 08-607, including interest, that have not been transferred to a lender's ARB loan loss reserve account, or have not been used to cover costs related to maintaining the ARB Trustee Accounts or CPCFA costs for administration of the HDV Air Quality Loan Program under Interagency Agreement Number 08-607, shall be transferred for use in the new Agreement.

Agenda Item - 4.C.

Participating lenders may utilize the same loss reserve accounts established and maintained, either by the participating lender or the Trustee, under Interagency Agreement #08-607 for the purpose of the new HDV Air Quality Loan Program.

Staff Recommendation. Staff recommends approval to enter into a new Interagency Agreement with the California Air Resources Board to continue to participate as an Independent Contributor in CalCAP for the HDV Air Quality Loan Program in an amount not to exceed \$10,000,000, from January 1, 2014 through December 31, 2015.

**RESOLUTION OF THE
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
AUTHORIZING THE EXECUTIVE DIRECTOR OR
DEPUTY EXECUTIVE DIRECTOR TO SIGN AN INTERAGENCY
AGREEMENT WITH CALIFORNIA AIR RESOURCES BOARD**

WHEREAS, the California Pollution Control Financing Authority (“Authority”) was created under the provisions of Section 44500 of the Health and Safety Code; and

WHEREAS, Section 44522(c) of the Health and Safety Code provides that the Authority is authorized to “do all things generally necessary or convenient to carry out its powers”; and

WHEREAS, the Authority wishes to enter into an Interagency Agreement with the California Air Resources Board (ARB) for an amount not to exceed \$10,000,000, the term of which will be January 1, 2014 through December 31, 2015; and

WHEREAS, pursuant to the Interagency Agreement, the ARB will participate as an Independent Contributor to the Authority’s California Capital Access Program (“CalCAP”) to establish loan loss reserve funds in support of the HDV Air Quality Loan Program, pursuant to California Code of Regulations, title 4, section 8078.

NOW THEREFORE BE IT RESOLVED, that the Executive Director or Deputy Executive Director of the Authority is hereby authorized to prepare and execute an Interagency Agreement with the ARB in an amount not to exceed \$10,000,000 for the Authority to provide financial support services through CalCAP to the HDV Air Quality Loan Program.

FURTHER, that the Executive Director or Deputy Executive Director shall execute and submit the Interagency Agreement to the Department of General Services for approval.

Date of Adoption: December 17, 2013

Reneé Webster-Hawkins
Executive Director