

MINUTES

**California Pollution Control Financing Authority
801 Capitol Mall, Room 150
Sacramento, California
June 20, 2017**

1. CALL TO ORDER & ROLL CALL

Steve Juarez, Chairperson, called the California Pollution Control Financing Authority (CPCFA) meeting to order at 10:29 a.m.

Members Present: Eraina Ortega for Michael Cohen, Director of Finance
Anne Baker for Betty T. Yee, State Controller
Steve Juarez for John Chiang, State Treasurer

Staff Present: Reneé Webster-Hawkins, Executive Director

Quorum: The Chairperson declared a quorum

2. MINUTES

Mr. Juarez asked if there were any questions or comments concerning the meeting minutes from the meeting held June 12, 2017. There were none.

Ms. Ortega moved approval of the minutes; upon a second, the minutes were unanimously approved.

The item was passed by the following vote:

Eraina Ortega for the Director of Finance	Aye
Anne Baker for the State Controller	Aye
Steve Juarez for the State Treasurer	Aye

3. EXECUTIVE DIRECTOR'S REPORT

Ms. Webster-Hawkins stated that she signed an Interagency Agreement (IA) CPCFA01-17 with the State Controller's office (SCO) on June 16, 2017 to implement an automated system to provide travel reimbursement to state employees which all agencies are being asked to sign.

Ms. Webster-Hawkins updated the Board with program updates, specifically regarding annual reports that the Legislature requires of CPCFA.

SB99 annual audit that the state law requires to be conducted on CPCFA's Bond program has been completed although it is not yet official it will be published within the week. There were no findings for fiscal year 2015-2016.

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The 2016 California Capital Access (CalCAP) Program and the California Recycle Underutilized Sites (CALReUSE) Program annual reports will be published within the week and will contain all of the program data and expenditures.

Mr. Juarez stated he would like to add, for the benefit of the other Board members, to have a discussion in the fall of 2017 any audit findings from the reports. He stated that there were not any current findings but would like to ask CPCFA how the Board would understand what needs to happen to ensure that all items are in compliance with what the audit is expecting CPCFA to be in compliance with. He stated that it may be a short conversation but one that still needs to occur.

Mr. Webster-Hawkins offered to provide a summary of the items examined, the actual materials examined, and the report of the auditor at the next CPCFA Board meeting.

Mr. Juarez stated they will plan to have a discussion about that and thanked Ms. Webster-Hawkins.

Ms. Webster-Hawkins updated the Board on recent CPCFA promotions. In the CALReUSE program, Alison French-Tubo was promoted from Staff Services Analyst to Associate Treasury Program Officer. In the CalCAP program, Lauren Ross and LeAndre Henry were promoted from Staff Services Analysts to Associate Treasury Program Officers. In the administration department, Lisa Johnson and Ryan Mallory were promoted from Office Technicians to Staff Services Analyst, and Gerardo Martin was elevated from a limited term Office Technician to a permanent Office Technician. Ms. Webster-Hawkins stated that she is happy to provide these career opportunities and will be recruiting for additional staff.

Mr. Juarez offered his congratulations to the staff that received the promotions.

Ms. Webster-Hawkins informed the Board that she has an informational item and a slide deck presentation on the regulatory updates to the CalCAP Small Business and ARB Heavy Duty Vehicle Loan Programs. Copies of the presentation were given to the Board members, as well as copies available to the public and posted on the CPCFA website.

Ms. Webster-Hawkins provided an overview of the dynamics leading CPCFA staff to propose a comprehensive rulemaking for the CalCAP for Small Business and CalCAP/ARB programs, and referred to the first slide which reflected the three principal administrative objectives and trends.

- CPCFA has had incredible program growth since the CalCAP program was established in 1994. After steady volume for the first 15 years, the economic recession in 2008 drove up demand for the program from borrowers seeking capital under distressed economic conditions. CPCFA received three significant new sources of funding around 2010, including \$6 million in State General Funds and a major allocation from the U.S. Treasury to expand our CalCAP for Small Business Program and to design and implement the Collateral Support Program, plus the beginning of Air Quality

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Improvement Program funding from the Air Resources Board to establish CalCAP for the purchase and retrofit of heavy duty trucks. As the program grows, to ensure program efficiency and integrity, it begs the need for both the State and our participating financial institutions to remain ever diligent in applying sound lending and administrative practices.

- In the recent years, program volume, including both loan enrollments and claim applications are accelerating dramatically in an upward curve, even as we now are reaching the foreseeable end of the revenues in both programs. The Allocation Agreement with the U.S. Treasury for our federally funded programs ended on March 31, 2017, and will cease to govern the administration of those funds once they are expended. As for the truck loan program, while the CalCAP/ARB program remains a strong priority for the Air Resources Board, the Board also must invest the finite amount of funding in its Air Quality Improvement Plan (AQIP) in an expanding list of technologies and industrial priorities, so we are being asked to stretch the effectiveness of the funding we have received so far.
- So, a principal driver of the regulatory package we are preparing, is to ensure the sustainability of the programs to support future lending to small business borrowers throughout the State into the foreseeable future even without a steady supply of new funding.
- CPCFA has an incredible opportunity before us. This challenge presents us with a unique opportunity to establish a sustainable capital access program by creating a recapture mechanism to recycle stale contributions in the lenders' loan loss reserve accounts. ARB is directing us to adapt the heavy duty truck program in this way. Additionally, as good stewards of the one-time SSBCI allocation to California, we are compelled to do the same in our CalCAP Small Business program. Six weeks ago, our staff announced to our lenders for our federally funded CalCAP for Small Business Program, the end of that funding is now likely once we finally approve the loan enrollments that have been submitted for our review and final approval. Recapture is essential if we are to continue to support the enrollment of new loans after this summer. In our research we are not aware of any loss reserve program in the nation that has a recapture feature. There are a few that have a maximum allowable threshold in the loss reserve accounts, such as those that support energy efficiency retrofits. However, a built-in recycling mechanism may be the first of its kind.
- At all times, in everything we do here at CPCFA, we are mindful of our duty to be active public stewards of taxpayer funding while ensuring the availability of our program to the widest number of small business owners. At the heart of CalCAP is the notion that, by providing a credit enhancement to support private commercial lending, the small business sector can be sustained, can grow, and can create more jobs and economic opportunities for Californians. In the environment that we have just described, of program growth and declining new resources, being good public stewards in large part means keeping an eye on the program integrity, operations, and accessibility to lenders and small business borrowers in all areas and industrial sectors in California. Therefore,

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the rulemaking package also includes many recommendations to solidify best practices related to loan enrollment, claim reimbursement, and monitoring. In this presentation, we will describe the key administrative areas which will be revised and updated in our CalCAP regulations.

First, Ms. Webster-Hawkins presented the current CalCAP Fiscal Data showing the condition of our program funds.

The next slide presented the key financials associated with our CalCAP programs, and included the Collateral Support Program as well.

For each program, CPCFA provided the total funding available by program, the share of the program funding expended or available for administrative costs, and net funding available for program contributions. CPCFA indicated the program expenditures in each program as of June 16, 2017, and the remaining program funds as of that time that were available for CPCFA contributions in each program.

Most breathtaking is that CPCFA staff has estimated that the end of the initial federal allocation for CalCAP for Small Business is very near. It is impossible to forecast precisely, since in the CalCAP programs we do not obligate program funding until final approval of the loan enrollments. However, in addition to an ever increasing number of loan applications submitted in the 1st Quarter of 2017, CPCFA has received a significant number of larger loans, which has presented the potential of a somewhat unexpected increase in the rate of expenditures.

In the program notice that CPCFA issued at the end of April 2017, it was explained that, once the federal funding is exhausted, we will revert to our State funds – of which we have \$1.9 million remaining – and the rules and contribution rates associated with the State-funded program, to approve and fund the credit enhancements for subsequent loan enrollments. At that point, the CPCFA contribution will be equal to the lender fee only, and the contributions and fees for those loans will be deposited in each lender's CalCAP State Loss Reserve Account.

Funds remaining in CPCFA's State fund is \$1.9 million of the initial \$6 million. Since 2010, it has been steadily supporting additional incentives we provide for loans made to borrowers located in areas of high unemployment, as well as the occasional loan that is not eligible under federal rules. However, the expenditure rate will accelerate once it becomes the primary source of funding for all contributions. We have indicated that the funding might end this Summer 2017, but please note that that is truly a back of the envelope estimate, to be determined only by the number and size of loans enrolled by lenders, as well as the lender fees elected by each lender for each loan.

Lastly, in the Heavy Duty Vehicle Loan Program, of the \$104 million total allocated to us from the ARB, we have approximately \$6.8 million remaining, which, if the spring and summer proves to be as robust a sales season as we have seen in previous years, will last until about October of 2017. An interagency agreement (IA) amendment for your consideration later on in this meeting would add another \$3 million.

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To summarize the areas of focus in the Proposed Rulemaking Package:
For CalCAP for Small Business:

- Given the end of the Allocation Agreement, CPCFA seeks to ensure that any program rules which have been required by the U.S. Treasury and which we have found helpful to sound and effective administration of the CalCAP program are included in our regulations.
- In addition, CPCFA seeks to clarify what types of refinances are eligible for enrollment into CalCAP. There has been some confusion between differences in our existing State rules and those under federal rules, so we will align them into a single standard.
- Given the foreseeable end of our SSBCI and General Fund monies, we seek to establish a recapture mechanism to create a sustainable program. Ms. Webster-Hawkins stated she will describe the details later on in the briefing.
- CPCFA will also propose to refine the manner in which loan loss reserve accounts are distributed after a lender ends its participation in CalCAP. Currently, once a lender stops enrolling loans in the program, all previously enrolled loans must fully mature before the loss reserve account can be dissolved, and that would remain the same. The difference would be in the formula applied to the remaining funds in the account after the loan portfolio is matured. Currently, the regulations provide that the lender would receive the proportion of the fund balance related to the lender and borrower fees deposited in the account. However, staff believes that there is no policy rationale for providing a lender the fees deposited by the borrower. If the fees were paid out of pocket by the borrower, the lender has no entitlement to those funds. If the lender paid the borrower's fee and included the amount of the fee in the principle of the loan, then the lender has already been adequately remunerated by the payment of principal and interest by the borrower. Staff recommended a change to the disbursement by awarding the lender the amount proportionate to the lender's fees, with the remaining reverting to CPCFA to fund future program expenditures and loan enrollments by other lenders.
- Lastly, there has been increasing desire by lenders to sell or transfer interest in their CalCAP portfolios to other lenders and investors. The regulatory package will include the procedural steps CPCFA has developed informally in response to these requests, to ensure that all lenders are aware of the process for obtaining CPCFA's approval of such transfers.

As for the Collateral Support Program, CPCFA developed this program with the federal money, and has administered it according to the rules contained in the Allocation Agreement with the Treasury and the federal guidelines. Now that the Allocation Agreement has expired, CPCFA needs to formalize the program rules in our own regulations, which is the primary objective.

- Put into regulation the key elements of our Program Guidelines adopted by the Board in 2013.

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- Clarify the rules associated with the enrollment of lines of credit, to avoid ambiguous situations that have arisen in the last several years.
- Clarify the claim procedures, given the extra complexity of lender workout scenarios with these larger loans.

The regulatory objectives for our CalCAP/ARB program include:

- The need to place into regulation the program rules which have been described previously in our interagency agreements with ARB.
- The need to adopt a recapture mechanism, to sustain the program given decreasing allocations from ARB in the future.
- To clarify the procedure related to the sale or transfer of a lender's interest in its CalCAP loan portfolio.

Of primary interest is the proposed recapture mechanism.

Ms. Webster-Hawkins showed a graphic representation of a proposal developed by CPCFA staff, after two years' worth of discussions with lenders, public finance experts, economic forecasters and research into relevant state and national datasets. CPCFA's CalCAP/ADA and CalCAP/Seismic Safety programs each contain a recapture mechanism. Lenders active in our legacy programs, however, expressed a desire for a modified approach for our Small Business and Truck Loan programs, where a minimum threshold amount in a loan loss reserve would always be assured. Opportunity Fund, as a micro lender active in both our Small Business and Truck Loan Programs, sponsored legislation this session - Senate Bill 551 - as amended now, which changed this morning. But as originally proposed by Opportunity Fund, the minimum threshold be set at 20% of the outstanding principal balance of enrolled loans. In other words, after calculating the amount of contributions deposited for loans enrolled more than five years prior, the lenders would be assured that the balance in the loan loss reserve after the annual recapture would never dip below 20% of the outstanding principal balance of loans enrolled in the previous 60 months.

Without any clear data or analysis presented in support of this proposal, CPCFA's independent research and proposal to be included in the proposed regulations centers on three key datasets:

- One, national data compiled by the Small Business Administration shows that, among the variety of lenders engaged in small business lending, including large depository banks, community banks, credit unions and CDFIs, most of the lender-funded loss reserve accounts range from 1-8% of the principal balance of the loans.
- Two, in reviewing agreements between CalCAP lenders and other institutions acquiring an interest in a CalCAP portfolio, we see an average of 10% being cited as the likely loan loss reserve account balance to shore up the enrolled loans.

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- Three, based on data maintained and calculated by CPCFA over a ten year period, including through the Great Recession, shows that the aggregate loan loss reserve balance across all lenders, as compared to the outstanding principal balance of enrolled loans, ranged from 10-15%.

These three data points support the staff conclusion that: 10% seems reasonable to provide loss protection against prudently underwritten loans, and setting it any higher may not result in any recaptured funds, especially after the first year in which we may receive a windfall resulting from the oldest enrolled loans.

Another salient point that has informed the staff proposal: Some lenders are articulate about maintaining the loss reserve fund based upon reliance on the original program rules, and that resonates with us. Therefore, we are proposing that the recapture be voluntary. In other words, if Lender A wants to rely on the original program rules, it may do so. However, given that the original program never promised a never-ending source of program funding, Lender A would not be able to enroll future loans after the federal money runs out, or, in the case of the ARB program, after the date the emergency regulations become effective. Lender A's previously enrolled loans would be fully supported by its loan loss reserve account until all of those loans mature, according to the original program rules. For other existing and new lenders wanting to take advantage of the recycled funds or continued funding after the date of the rulemaking, then they will need to "opt-in" to the new CalCAP rules including recapture, even as applied to previously enrolled loans. If Lender B opts-in, then recapture applies to all previous and future enrolled loans, and Lender B gets the benefit derived from a sustainable program based on recycled funds. Please note, however, that once a Lender opts in, it would not be able to choose at a later date to opt-out.

As a result, we are recommending what we are calling a Voluntary Step Down to 10% Minimum Threshold. Assuming that the Board adopts the emergency rulemaking presented at next month's Board meeting, CPCFA would conduct the first annual recapture as follows:

- First, staff would calculate the amount subject to recapture, equaling the total amount of public contributions, in other words, CPCFA's deposits, for all matured loans or those enrolled more than 60 months ago, minus any contributions made for defaulted loans.
- Second, the amount calculated above would be decreased if necessary, to ensure that each lender's resulting balance in its loss reserve account does not fall below 15% of its outstanding principal balance of loans enrolled in the previous five years.
- Last, the recaptured funds would be deposited in the CalCAP program fund to be used for future program expenditures. Funds recycled from CalCAP for Small Business loss reserve accounts would be dedicated to future CalCAP for Small Business loan enrollments and program expenditures. Funds recycled from CalCAP/ARB loss reserve

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accounts would be dedicated to future CalCAP/ARB loan enrollments and program expenditures.

The recapture would be performed annually following the end of each fiscal year so that in 2018, the minimum threshold would step down in 1% increments each year until 10% is reached in 2022.

Next Ms. Webster-Hawkins summarized the strengths and unknowns associated with this proposed mechanism. CPCFA presented this approach to the sponsor of Senate Bill 551, and forwarded the language that we have prepared for our regulatory package. That language has recently been amended into SB 551, indicating the sponsor's support of the approach. The pro's from a lender's perspective the minimum threshold is slightly higher than the national lending data which reports that the small business lending portfolios have anticipated loss reserves of 1%-8%. It appears to be supported by the sponsor of SB 551. A positive is that it is a specific, predictable, numerical threshold for lenders to count on. Also, the step down increases the likely amount of available recaptured funds after year one.

Lastly, the opt-in permits lenders to rely on original program rules and their current portfolio can remain fully supported by the loss reserve account.

The unknowns are whether the recapture amounts will sustain the programs all year long especially in subsequent years. Another potential drawback would be if this approach is codified in SB 551, the Authority would lose its ability to modify this approach nimbly if the recapture does not produce sufficient revenue to sustain the programs all year long.

The next two slides Ms. Webster-Hawkins spoke about represented the proposed rulemaking schedule. The staff is preparing a single package with sections tailored to each of the three programs. Given the likely exhaustion of the funds in the Small Business and Truck Loan programs, we are proposing that the package be adopted as emergency rulemaking. Under that procedure, we will publicly post the language of the proposed package no later than July 11, 2017, present the package for your consideration on July 18, 2017, and anticipate that the Office of Administrative Law would file them with the Secretary of State on August 3, 2017 which would enable CPCFA to then conduct the first recapture.

Following the emergency rulemaking, staff would conduct the regular rulemaking to conform the emergency regulations into permanent provisions within the following 180 days, by December 6, 2017.

Assuming that current version of SB 551 passes the legislature and is signed into law, it would take effect January 1, 2018. No further changes in regulations would be necessary, again if the current version of SB 551 passes. If further amendments are made, we would likely to conduct further rulemaking to conform the regulations accordingly.

Ms. Webster-Hawkins informed the Board that this morning SB 551 as amended which includes the mechanism described this morning passed, out of the Jobs, Economic

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Development and Economy (JEDE) Committee with a vote of 6-0. The staff analysis is generally supportive of SB 551.

Ms. Webster-Hawkins mentioned a couple of important points of clarification both to the Board members and to all of the lenders.

First, the staff analysis made a reference to “previously planned recaptures.” CPCFA believes that this is a misstatement as there were no prior plans. Staff has engaged lenders on the idea of recapture for two years, taking it slow due to initial reluctance and unfamiliarity of how it might or could work. The purpose of those discussions were to develop an idea to a fully-fledged mechanism based on a concept.

Second, there is a passage on the staff analysis that presents this as a deal or a compromise agreement. Ms. Webster-Hawkins expressed to the staff who authored the analysis that even if the bill’s sponsor is framing the latest amendments this way, CPCFA staff has neither cut a deal, made pledges, or otherwise agreed to a compromise with any particular lender. CPCFA is well aware that even though many of the lenders have identified themselves as a coalition, they are not monolithic and in fact hold different lending priorities and risk policies. Moreover, CPCFA’s commitment to transparency and public participation in decision making is paramount, including deep respect and regard for the decision making responsibility of the Board. Simply put, no deals have been offered, no promises made.

Ms. Webster-Hawkins stated her appreciation for Senator Hueso’s support of and regard for CPCFA’s expertise in the administration of the loss reserve programs. SB 551 in its current form is substantially changed from what was introduced and reflects the Board’s leadership and staff data analysis of over 23 years of successful CalCAP administration.

Ms. Webster-Hawkins concluded her briefing and asked if there were any questions.

Mr. Juarez asked the other Board members if there were any questions or comments and there were none.

Mr. Juarez stated just in terms of the idea that this will be put into statute which would otherwise be the Board’s ability to complete through regulatory means. Mr. Juarez stated that this may be something to discuss and bring to Mr. Hueso. Mr. Juarez stated that he can see that the Board could make an allowance within the Legislation and should prove necessary because of the fact that it doesn’t produce enough in terms of year round support of the program, and that we might enjoy the authority to revise the schedule appropriately to reflect the fact that we need more funds to continue to run the program. Mr. Juarez stated he doesn’t know the receptivity of this, but that this is something that may want to be discussed with the author before it gets through the Legislature and on to the Governor. Mr. Juarez wanted to state publicly that this is something that the Board would chose to do.

Ms. Webster-Hawkins stated that she thought it would be worth approaching the author with that suggestions, and that she knows that some of the lenders do see it as a priority to ensure that these programs run twelve months out of the year so that there may be some receptivity for

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an escape clause to be included in the Legislation. Ms. Webster-Hawkins stated that the Board does have statutory authority to adopt these regulations without SB 551 and that in fact SB 551 by its very language is limited to the CalCAP small business program and so it's under the existing authority that CPCFA is moving forward with these regulations generally. Ms. Webster-Hawkins stated that anything that happens with SB 551 will not affect the ARB program. Ms. Webster-Hawkins stated that representatives from ARB were present and have had similar, intensive and very fruitful discussion about this mechanisms and we hope that this generates the type of revenue that mutually would like to see come in to this program but would enjoy the flexibility to make a change if necessary in that program.

Mr. Juarez asked if SB 551 were to pass, which would likely be in September or October of 2017, could the Board accommodate any changes that need to be made as part of the regulatory process as far as the permanent regulations that would be adopted.

Ms. Webster-Hawkins stated that it could be accommodated, as long as it is relevant to the topic in the rulemaking but most likely yes.

Mr. Juarez stated he has been a part of this process for a couple of months in terms of Ms. Webster-Hawkins updating the Board of what she has tried to achieve. He stated he has seen where this started and where it has come to be and Mr. Juarez commended Ms. Webster-Hawkins and the CPCFA staff. He stated to go through the painstaking process of working with numerous groups to try to find an accommodation that both protects the sanctity of the program going forward and recognizes the needs of the lenders. Mr. Juarez stated Ms. Webster-Hawkins did a good job and compliments to her and the CPCFA staff for reaching the compromise and believes that it's a good one. He stated the actual vote will happen next month and complimented Ms. Webster-Hawkins and CPCFA staff for a job well done.

Mr. Juarez asked if there were any comments from the Board or the public. There were none.

4. BUSINESS ITEMS

A. REQUEST TO APPROVE INITIAL RESOLUTION REFLECTING OFFICIAL INTENT TO ISSUE REVENUE BONDS/NOTES

Potential Industries, Inc. and/or its Affiliates

Presented by: Dmitri Godamunne, Staff Services Analyst

Staff introduced Mark Holmstedt, Westhoff, Cone & Holmstedt

Potential Industries, Inc. and/or its Affiliates requested approval of an Initial Resolution for an amount not to exceed \$7,145,000 of tax-exempt notes to finance the acquisition of new machinery and equipment at an existing recycling plan which services the Cities of Los Angeles, Long Beach, Torrance and others in Southern California.

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Staff recommended approval of Initial Resolution No. 17-09 for Potential Industries, Inc. and/or its Affiliates for an amount not to exceed \$7,145,000.

Mr. Juarez asked Mr. Holmstedt if he had any comments, Mr. Holmstedt stated no.

Mr. Juarez stated that assuming this item passes, they look forward to seeing the company back in the fall of 2017 for a final resolution.

Mr. Juarez asked if there were any comments from the Board or the public. There were none.

Ms. Ortega moved approval of the item; there was a second.

The item was passed by the following vote:

Eraina Ortega for the Director of Finance	Aye
Anne Baker for the State Controller	Aye
Steve Juarez for the State Treasurer	Aye

B. REQUEST TO APPROVE FINAL RESOLUTION AUTHORIZING THE ISSUANCE OF REFUNDING REVENUE NOTES

Zerep Management Corporation and/or its Affiliates

Presented by: Kris Luoma, Staff Services Analyst

Staff introduced Mark Holmstedt, Westhoff, Cone & Holmstedt

Zerep Management Corporation and/or its Affiliates requested approval of a Final Resolution to issue revenue refunding notes in an amount not to exceed \$32,925,000 to refund the previously issued Series 2011A Bonds in an amount not to exceed \$11,230,000 and the Series 2014 Bonds in an amount not to exceed \$21,695,000.

In reviewing the company's response to the legal status questionnaire, CPCFA notes that in 2015 the City of Industry's administrative practices, including its contracts and expenditures for service provided by Zerep, were audited by an independent audit company. The audit in part found that Zerep's invoices to the City lacked sufficient detail to validate whether all expenditures were proper. In June of 2015 a lawsuit was filed by the City of Industry against Zerep, based in part on the audit's findings. On April 17, 2017 the City of Industry agreed to a mediated settlement with Zerep.

Also during this time, on May 7, 2015, the California State Controller's Office (SCO) began an investigation into the record keeping and internal accounting controls of The City of Industry. On January 28, 2016 the SCO completed its Review. The findings showed weaknesses with the City's accounting, procurement and administrative controls. In June of 2015, the City hired a new City Manager, reviewed its competitive bidding of contracts

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and implemented additional review procedures when paying invoices for services provided to the City by a third party vendor.

On May 31, 2016, a SCO press release applauded the efforts of the City of Industry for taking seriously the accounting shortcomings that were found during the SCO's review. The City Council also approved a consulting agreement with former State Treasurer, Bill Lockyer, to serve as an independent Reform Advisor.

Based primarily on the positive remarks by the State Controller about the City's meaningful improvements in its contract management and accounting, CPCFA staff believes that any concerns about the sufficiency of Zerep's invoices will be resolved and have a positive impact on the ability to confirm the use of bond proceeds by the company.

The Financing team is:

- Municipal Advisor to Borrower: Westhoff, Cone & Holmstedt
- Note Purchaser: Comerica Bank
- Trustee: The Bank of New York Mellon Trust Company, N.A.
- Note Counsel: Law Offices of Leslie M. Lava

Staff recommended approval of Final Resolution No. 567 for Zerep Management Corporation, and/or its Affiliates for an amount not to exceed \$32,925,000.

Mr. Juarez asked if Mr. Holmstedt had any comments.

Mr. Holmstedt stated with respect to the note financing and prior use of bond proceeds, none of the comments relative to the audit were reflected on the bond proceeds. He then stated on the financial viability which is what the legal questionnaire goes to amongst other things, the original financing was a participation with Comerica Bank and Bank of the West and, as part of the financing, Comerica Bank is increasing its participation and taking over the whole lending relationship and Bank of the West will no longer be a part of the transaction. Mr. Holmstedt stated that Comerica Bank was sufficiently served with information relative to all of this and they increased their participation and that Mr. Holmstedt feels good about this transaction.

Mr. Juarez asked if the Board members had any questions. There were none.

Mr. Juarez asked if the savings associated with the refinancing are primarily from the current environment versus the original issuance, or are there other factors that contribute to the savings.

Mr. Holmstedt stated that it was a good question, and stated that primarily what is happening now is that in the past, and the Board is seeing a lot of the financing from Westhoff, Cone & Holmstedt where they were bank letters of credit (LOC), and this transaction is a good example of one, in the past the borrower paid an underlying remarketing rate which today's rate is roughly one percent for Comerica paper and then they paid a credit spread which on this credit is something in excess of one percent, but

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moving forward with the note financing, there is no concept of an outside market for the papers, so there is no remarketing fee which saves one eighth of one percent and the interest rate is now going to be pegged to London Interbank Offered Rates (LIBOR) instead of the market for tax exempt variable rate demand bonds, and then the rate that is going to be charged to the borrower will now be a percentage, which is seventy percent of what the credit spread would have been plus seventy percent of LIBOR. Mr. Holmstedt stated that right now LIBOR and the tax exempt bonds are roughly the same so there will be a thirty percent reduction in the underlying interest rate and a thirty percent reduction in the credit spread plus the one eighth of one percent fee that the borrower would pay to Westhoff, Cone & Holmstedt firm to remarket the bonds and the savings in the fact that the company will not need an outstanding rating any longer. As a result of these programs the savings is overall significant.

Mr. Juarez stated for the record that generally this is a story bond given the history that Kris cited in the like and there has to be a comfort received and Mr. Juarez is comforted by working with the city's attempt to reach an accommodation and also to clean up their act in terms of how they account funds and the fact that this is a refunding gives Mr. Juarez comfort. Mr. Juarez stated aside from that there might be some questions but otherwise is in order.

Mr. Juarez asked if there were any comments from the Board or the public. There were none.

Ms. Ortega stated that she had some of the same questions, and she echoed Mr. Juarez's comments that the information that was provided gave her a level of comfort with the financing and she then moved the item for approval.

The item was passed by the following vote:

Eraina Ortega for the Director of Finance	Aye
Anne Baker for the State Controller	Abstain
Steve Juarez for the State Treasurer	Aye

C. REQUEST FOR APPROVAL OF AMENDMENT 5 TO AN INTERAGENCY AGREEMENT WITH THE CALIFORNIA AIR RESOURCES BOARD (ARB) REGARDING THE CALIFORNIA CAPITAL ACCESS PROGRAM (CALCAP) INDEPENDENT CONTRIBUTOR PROGRAM

Presented by: Bianca Smith, Treasury Program Manager

Staff requested Board approval to amend Interagency Agreement No. 13-606 between the California Pollution Control Financing Authority and the Air Resources Board. The Agreement funds loan loss reserve contributions for the On-Road Heavy Duty Vehicle Air Quality Loan Program also known as the CalCAP ARB program and this amendment will:

- Extend the expiration date of the Agreement from December 31, 2017 to March 31, 2018;
- Increase the allocated amount of the Agreement from \$60 million to \$63 million;

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- Allow for use of funds received from settlement of enforcement actions pursuant to ARB's Supplemental Environmental Project Policy ("SEP") ;
- Allow program eligibility for engines using other fuel types and documenting the type of fuel used; and
- Allow CPCFA to set aside \$845,838.72 for administrative and trustee costs associated with loans enrolled under the previous interagency agreement (No. 08-607) between CPCFA and ARB.

Staff recommended approval of the Resolution to authorize the Executive Director or Deputy Executive Director to execute a fifth amendment to Interagency Agreement No. 13-606 with the revisions described above.

Mr. Juarez stated that the Board appreciates the partnership that CPCFA and ARB have and in continuing and expanding the partnership.

Mr. Juarez asked if there were any comments from the Board or the public. There were none.

Ms. Ortega moved approval of the item; there was a second.

The item was passed by the following vote:

Eraina Ortega for the Director of Finance	Aye
Anne Baker for the State Controller	Aye
Steve Juarez for the State Treasurer	Aye

5. PUBLIC COMMENT

Mr. Juarez 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 11:13 a.m.

Respectfully submitted,

(Originally signed by)

Reneé Webster-Hawkins
Executive Director