

MINUTES

**California Pollution Control Financing Authority
915 Capitol Mall Room 587
Sacramento, California, 95814
July 23, 2019**

1. Call to Order & Roll Call

Jovan Agee, Chairperson, called the California Pollution Control Financing Authority (CPCFA or Authority) meeting to order at 10:30 a.m.

Members Present: Karen Finn for Keely Martin Bosler, Director of Finance
Jacqueline Wong-Hernandez for Betty T. Yee, State Controller
Jovan Agee for Fiona Ma, State Treasurer

Staff Present: Reneé Webster-Hawkins, Executive Director

Quorum: The Chairperson declared a quorum

2. MINUTES

Mr. Agee asked if there were any questions or comments concerning the meeting minutes from the meeting held May 21, 2019. There were none.

Ms. Karen Finn moved approval of the minutes; upon a second, the minutes were approved.

The item was passed by the following vote:

Karen Finn for the Director of Finance	Aye
Jacqueline Wong-Hernandez for the State Controller	Aye
Jovan Agee for the State Treasurer	Aye

3. EXECUTIVE DIRECTOR'S REPORT

Ms. Webster-Hawkins greeted the Board then proceeded to begin her report.

Ms. Webster-Hawkins welcomed the Board and announced that Ravinder Kapoor from the State Treasurer's Legal Counsel office is sitting in for Spencer Walker and also with us today is the Issuer's Counsel, Deborah Yang.

Ms. Webster-Hawkins began her report by informing the Board about the Bond Program SB-99 Audit.

- The independent financial audit of the Bond Program pursuant to Senate Bill 99 was completed on time and submitted to the State Controller's Office by June 30, 2019.

Agenda Item 2.

There were no findings in the audit, and for the sixth year in a row the annual audits have been free of such findings.

- The hard copy has been presented to the Board members, and the report can be found on CPCFA's website for the public.

For the legislative update, Ms. Webster-Hawkins described three bills that affect CPCFA and its programs and the respective status of each one.

- SB 667 (Hueso) creates the California Recycling Infrastructure Investment Account administered by the Treasurer, to support financing mechanisms and strategies to support development of recycling facilities and markets in California. Since May, the bill has been amended, from providing an investment strategy for this market to instead directing CalRecycle to conduct a needs assessment of the types of financing that might be provided. It is unclear what role CPCFA would have in the development of the needs assessment, and there is no funding for the needs assessment in the bill. Staff has submitted language to the author suggesting that the implementation be placed with CPCFA, to assist the Treasurer with interstate policy development.
Status: Referred to the Assembly Appropriations Committee.
- AB 305 (Nazarian): Extends the sunset date on the pilot program for Rate Reduction Bonds for water utilities, and expands the eligibility to waste water facilities.
Status: It has passed out of the Senate Appropriations Committee.
- AB 85 (Committee bill, chaired by Ting)(omnibus budget bill) would authorize the California Air Resources Board to contract with CPCFA to fund programs that we administer to reduce mobile and stationary sources of criteria air pollutants or toxic air contaminants, with the funding originating from the Greenhouse Gas Reduction Fund.
Status: Pending in the Committee on Budget and Fiscal Review.

Ms. Webster-Hawkins stated that she did not take any actions under her delegated authority to report to the Board. Then she proceeded to tell the Board that she is reporting about an informational item regarding the delegation of volume cap authority from California Debt Limit Allocation Committee (CDLAC) to CPCFA.

She indicated that she was happy to report that on Wednesday, July 17th, the CDLAC Board unanimously approved the delegation of authority to CPCFA to administer the Exempt Facility Project Pool, for both the 2018 Carryforward Allocation and the 2019 Volume Cap Allocation. This approval is the culmination of a collaborative initiative pursuant to the leadership of Treasurer Ma, to restore the streamlined "one-stop" financing shop for pollution control projects in California administered by CPCFA.

Beginning in 2008, CDLAC began authorizing CPCFA to award private activity allocation to qualifying pollution control facilities, which reduced the burden on private companies to secure tax-exempt revenue bonds for the projects. By securing both financing approval and an award of allocation at the same public meeting, CPCFA was able to offer more certainty and coordination of those approvals, and to do it more efficiently and nimbly in response to variable

Agenda Item 2.

market dynamics. CPCFA's projects are distinct from the housing projects which CDLAC awards most of its allocation to.

With climate change mandates, the need for new and improved waste infrastructure to support the Governor's ambitious housing goals, and China's decision to stop accepting waste from the United States, the imperative to accelerate capital to new and expanding waste and recycling facilities is more urgent. Treasurer Ma appreciates that restoring the one-stop financing shop is a critical path to meet those challenges.

Under the Treasurer's leadership, staff from CDLAC and CPCFA collaborated to restore and improve the delegation of authority for CPCFA to award allocation for the remainder of this year and in coming years. To do so, CDLAC approved a resolution delegating authority to CPCFA to award allocation for exempt facilities from:

- The remaining 2018 Carryforward in the amount of \$124,350,000, and
- An additional \$125,000,000 in the 2019 State Ceiling.

The CDLAC Resolution approved on July 17, 2019 also included terms and conditions such as:

- Directing CPCFA to include in our suballocation resolution critical requirements to ensure post issuance compliance with the Internal Revenue Service and CDLAC regulations;
- Relief from specific ministerial procedures to facilitate project financing. One important provision will allow project developers to submit applications to CPCFA for financing and allocation without all environmental and land use permits, as long as the executed permits are delivered to CPCFA staff prior to the respective Board meeting.
- Frequent staff-to-staff reporting on the status of allocation awarded and bonds issued.
- A report by November 1st of each year to CDLAC returning any unused current year volume cap allocation to the Committee for use by other projects. Additionally, CPCFA shall be permitted to request additional volume cap allocation midyear if needed.

The restoration of the one-stop financing shop will facilitate the increase in project financings such as the CalPlant transaction, which is before the Board today. It will also allow CPCFA to robustly market our green bonds program and fulfill our commitment to the goals of the Green Bonds Pledge.

Ms. Webster-Hawkins asked the Board if there were any questions. There were none.

Mr. Agee asked if there were any questions from the public or on the phone. There were none.

Business Items

A. REQUEST TO APPROVE FINAL RESOLUTION AUTHORIZING THE ISSUANCE OF SOLID WASTE DISPOSAL SUBORDINATE REVENUE GREEN BONDS AND THE EXECUTION AND DELIVERY OF AMENDMENTS IN CONNECTION WITH EXISTING SOLID WASTE DISPOSAL REVENUE GREEN BONDS RELATING TO FINANCING FOR SOLID WASTE DISPOSAL FACILITIES FOR CALPLANT I, LLC AND/OR ITS AFFILIATES, AND REQUEST TO APPROVE A RESOLUTION FOR THE DEDICATION OF VOLUME CAP ALLOCATION

Presented by: Alison French-Tubo, Associate Treasury Program Officer

CalPlant I, LLC requested approval of a Final Resolution and Volume cap Allocation for an amount of up to \$80,000,000 in tax-exempt revenue green bonds for the treatment and disposal of solid waste, specifically rice straw. The bond proceeds will be used to finance and refinance additional costs relating to the project which is the construction of a facility to recycle waste rice straw into medium density fiberboard (MDF). Construction is underway in Willows, Glenn County and the first fiberboard production is anticipated in the fourth quarter of 2019. This issuance will be subordinate to the previous issuance in 2017 and approval to amend certain documents for the 2017 Bond is requested as part of the Final Resolution. The Board is also requested to approve a Resolution dedicating a portion of 2018 carry forward allocation to this project.

Staff recommended approval of Final Resolution No. 19-01-596 and Volume Cap Allocation Resolution No. 19-073-01 both in the amount of \$80,000,000. Additionally, Staff also recommended recognition of the issuance as a Green Bond consistent with the International Capital Market Association's Green Bond Principles (GBP) as evidenced by the third party verification of the GBP by Steven Vajda Consulting.

Mr. Agee asked if there were any comments.

Ms. Wong-Hernandez asked Mr. Uhland about his journey to getting to this point in the financing process.

Mr. Uhland said he thought that he holds the record for the longest standing project at CPCFA. He stated that he sent the first California grown rice straw to England for a particle board trial in October 1996. He also said they worked with internationally recognized equipment supply and technology providers in the composite particle board industry. He was in Sweden for five to six years and they were near ready for the project to be funded in the latter part of 2007 then the recession happened and the press and energy division of the company in Sweden was sold to the German company Siempelkamp. In 2009, the research and development project for manufacturing rice product based medium density fiberboard (MDF) panels was started from scratch and it took many years to understand the dynamics of using rice straw instead of wood-based products and it involved a lot of testing. In 2014, CalPlant was close to completing their financing plan but one of the financing partners did not work out. Then they worked with Teachers Insurance and Annuity Association (TIAA) and spent nine months on a terms sheet and they also visited Germany to see the process. Mr. Uhland stated that there was a change in the bond market in 2016 so the bond commitments they had in place were cut in half. Then they worked

Agenda Item 2.

with Stifel and Citigroup and it got them to where they are today. The forming line is currently 90% completed, the press line is 70% completed, and the finishing line is 50% completed. CalPlant expects to produce its first boards in the 3rd quarter of 2019. They have commitments from more rice growers than their process can support and the plant capacity will be able to transform 100,000 acres of rice straw into medium density fiberboard. Mr. Uhland also said that Glenn County, Willows, and the local rice growers have been unbelievably supportive of the project.

Ms. Wong-Hernandez thanked Mr. Uhland for the information and stated that that the project was a long time coming. Ms. Webster-Hawkins asked Mr. Uhland to explain factors and changes that led to the subordinate bond issuance.

Mr. Uhland stated that Siempelkamp has been continuing to do research on the MDF board making process in Germany and had to change horsepower on equipment to adjust for a better product and the press is now able to do a 2-millimeter board, which is only produced in one other location in the United States in Montana. The object for the future is a self-optimized plant that can make a higher quality of boards and the company can cut back on the glue in the process. The modifications that happened have opened the possibility for increased capacity at the plant, and production of a wider range of boards with a higher profit margin.

Mr. Agee asked if there were any other questions. Ms Webster-Hawkins said that she had a comment for the Board's edification. She said that CPCFA staff was informed by CalPlant the evening of July 22, 2019 that there are some ongoing discussions between CalPlant and Siempelkamp about the schedules for equipment delivery and installation, which will affect the construction timelines and may also have financial consequences for the project. The outcome of these discussions will affect the contents of the PLOM, at a minimum. Ms. Webster-Hawkins stated that she has the delegated authority to approve certain changes to the documents after the Board's approval, provided if the changes are not substantial. She also said she would consult with Issuer's counsel about the scope and impact should changes to the bond documents occur after today. She then said that staff hopes that any changes would be kept to a minimum and would not necessitate subsequent approval by the Board.

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

Mr. Agee asked for any questions from the public or on the phone. There were none.

The item was passed by the following vote:

Karen Finn for the Director of Finance	Aye
Jacqueline Wong-Hernandez for the State Controller	Aye
Jovan Agee for the State Treasurer	Aye

B. REQUEST TO APPROVE AMENDED AND RESTATED FINAL RESOLUTION AUTHORIZING THE ISSUANCE OF TAX-EXEMPT AND TAXABLE SOLID WASTE DISPOSAL REVENUE GREEN BONDS

Agenda Item 2.

Presented by: Kris Luoma, Staff Services Analyst

North Fork Community Power, LLC and/or its affiliates (“North Fork” or “the company”) requested approval of an amended and restated Final Resolution for an amount not to exceed \$14,805,000 comprised of \$9,305,000 in tax-exempt bonds and \$5,500,000 in taxable bonds to finance the construction of a forestry residue fueled biomass power plant in North Fork (the “Project”). The company has obtained independent validation that the issuance meets the guidelines to be classified as “Green Bonds” under the International Capital Market Association’s Green Bond Principles.

On November 13, 2018, the CPCFA Board approved a Final Resolution authorizing the issuance of Solid Waste Disposal Revenue Green Bonds in an amount not to exceed \$14,205,000. The bonds were to be comprised of \$9,305,000 in tax-exempt bonds and \$4,900,000 in taxable bonds. On December 12, 2018, the California Debt Limit Allocation Committee (“CDLAC”) approved Allocation Resolution No. 18-128 for an amount not to exceed \$9,305,000. On May 22, 2019, CDLAC granted an extension to the issuance of the Allocation deadline to September 10, 2019. The company is requesting an increase of the aggregate principal amount of taxable bonds. North Fork has incurred additional Project costs as a direct result of delays related to its electric grid interconnection application due to PG&E’s bankruptcy and increasing costs of issuance.

Staff recommended approval of Amended and Restated Final Resolution No. 18-01-585 approving the issuance of Solid Waste Disposal Revenue Green Bonds in an amount not to exceed \$14,805,000, comprised of an aggregate principal amount not to exceed \$9,305,000 in tax-exempt bonds and an aggregate principal amount not to exceed \$5,500,000 in taxable bonds, to finance solid waste disposal facilities and equipment of North Fork Community Power, LLC and/or its affiliates.

Ms. Karen Finn asked the company representative, Mark Holmstedt, as to why the cost for utility connection is no longer listed in the project costs. Mr. Holmstedt stated that there is a cost for it and said that with the help of the Governor’s Office of Business and Economic Development (GO-Biz), I-Ban, the company closed a \$1.2 million dollar loan two weeks ago that is going to pay the PG&E connection fee.

Ms. Finn commented that she was checking if the fee was put off or not.

Mr. Holmstedt said it was not being put off and there is no revenue without this fee and stated that the GO-Biz efforts on this funding were tremendous and this project would have been done a while ago, had it not been for the litigation issues for PG&E.

Ms. Webster-Hawkins said she had a comment and told the Board that an issue had been raised on the financing team in the North Fork deal, which has been surfacing in recent project financings. And that issue is the issue of increasing bond counsel fees, underwriters fees, and management fees.

Agenda Item 2.

She went on to say that in CPCFA's tax-exempt financings, a maximum of two percent of the bond proceeds can be used to offset the costs of issuance including these fees. Additionally, CPCFA's enabling statute empowers the Authority to set the fees for bond counsel, financial consultants and other advisors. In 2005, CPCFA staff proposed fee guidelines to monitor these fees in all transactions. As agent for sale for our conduit issuances, the Public Finance Division of the State Treasurer's Office (PFD) has compared the actual costs of issuance in each deal against the staff-generated guidelines. However, it is notable that the guidelines were never presented to the Board for approval. Staff has been informed by PFD staff that no other Board, Commission or Authority have similar guidelines.

She stated that the cost of issuance for CPCFA's project financings have been increasing notably. This in part due to the following factors:

- Increasing complexity in the engineering of waste management and recycling projects, including those that convert organic waste to biofuels and electricity, which requires more detailed tax analysis.
- Delayed and complicated financial structures to account for instability in the market, which can include trade tariffs, utility power purchase agreements, uneven regulatory enforcement, and disruption in the supply and demand, and increasing hourly fees by bond counsel firms.

Ms. Webster-Hawkins went on to say that in this transaction, McGuire Woods, as Bond Counsel, has provided top-notch service to CPCFA, is asking for permission to exceed the top of our guidelines for bond counsel fees. The North Fork transaction has been challenging for all the reasons she just cited, including some additional tax implications unique to the Borrower's use of New Market Tax Credits. Again, noting that this Board has not set a hard line on her ability to approve or disapprove the fees, she has asked Bond Counsel to take note that this a small business which needed to ask for an emergency loan from the I-Bank to continue its construction project while awaiting for its PPA and interconnect from PG&E, and for the investors to get comfortable with the revenues from the project, and perhaps offer any reasonable discount to North Fork.

Ms. Webster-Hawkins completed her comments by saying that she was bringing this up as a point of transparency, so that all parties and PFD are comfortable and that the Board is aware of the bond counsel fee bill in this matter. She stated that she would also invite discussion or direction to her by the Board as appropriate, if the Board would like to consider a future policy proposal pursuant to Section 44526(d) to fix fees in our bond transactions.

Mr. Agee said he would like to hear more about the rationale methodology used to determine the fees in question.

Agenda Item 2.

Ms. Finn asked Ms. Webster-Hawkins if they are taking action on this item today and Ms. Webster-Hawkins replied to clarify that there is not an action item regarding this discussion today.

Ms. Finn asked if the transaction fees for today's transaction are within the guidelines.

Ms. Webster-Hawkins said that they are within the two percent of cost of issuance but it does exceed the par amount of the deal and does not preclude the borrower from paying fees from other sources.

Ms. Wong-Hernandez stated that she would like to know where these guidelines came from and preferred to have this discussion to be on a future agenda.

Mr. Agee stated that his question to counsel on the phone would be tabled until a future discussion of fee guidelines.

Mr. Agee asked if there were any further comments. There were none.

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

Mr. Agee asked for any questions from the public. There were none.

The item was passed by the following vote:

Jacqueline Wong-Hernandez for the State Controller	Aye
Karen Finn for the Director of Finance	Aye
Jovan Agee for the State Treasurer	Aye

5. PUBLIC COMMENT

Mr. Agee asked if there were any comments from the public.

Mr. Mark Holmstedt stated that he had comments not relative to the closed session agenda item today. He said he was speaking as the Underwriter of the Aemerge Redpack transaction and as a taxpayer of the State of California. He shared with the Board that Aemerge Redpack has \$40 million of bonds currently in default. He stated that it was not because of problems with facility operations, but that it was related to permitting standards and Environmental Protection Agency (EPA) and CalEPA guidelines and how that had an impact on the materials received by the company for processing.

Mr. Holmstedt went on to say that Aemerge developed their project specifically at the request of the State of California Department of Health and that GO-Biz helped with the project. He also said that there was a sales tax grant and an educational training grant involved with this project. The impetus for this project was legislation that was passed in 1992 regarding requirements of the disposal of medical waste. He stated that this project was completed with the expectation that regulations would be enforced and therefore Aemerge Redpak would have enough material to process so they could

Agenda Item 2.

financially operate the facility. However, due to waivers, the company has not received the amount of medical waste materials that were expected.

6. CLOSED SESSION

- A. Litigation (Government Code section 11126(e)(2)(A)(B)). *Facility Builders & Erectors, Inc. v. Aemerge RedPak Services Southern California, LLC, et al* (San Bernardino County Superior Court Case No. CIVDS1903159). The Board adjourned to closed session with its legal counsel to discuss pending litigation.

7. RECONVENE MEETING

8. PUBLIC COMMENT

Mr. Agee asked for any questions from the public or the phone. There were none.

9. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting adjourned at 11:15 a.m.

Respectfully submitted,

(Originally signed by)

Reneé Webster-Hawkins
Executive Director