


California Pollution Control
Financing Authority



***2012 Annual Report to the
California State Legislature***



About the California Pollution Control Financing Authority:

The California Pollution Control Financing Authority (CPCFA) provides California businesses with financing options for pollution control facilities, helping them comply with the environmental regulations that keep California's water, air and soil clean. CPCFA, founded 39 years ago, administers programs serving a variety of goals, including:

- Helping businesses construct solid waste, recycling, water and wastewater projects through the Tax-Exempt Bond Program.
- Assisting small businesses in obtaining loans for a variety of purposes in the California Capital Access Program (CalCAP).
- Collaborating with the Air Resources Board (ARB) to aid lenders with financing new, cleaner-burning heavy duty diesel trucks and buses, in CalCAP.
- Transforming brownfields into vibrant housing and retail developments that enhance communities in the California Recycle Underutilized Sites Program.

CPCFA consists of:

Bill Lockyer, Chair
State Treasurer

John Chiang
State Controller

Ana J. Matosantos, Director
Department of Finance





EXECUTIVE SUMMARY

CalCAP enjoyed another record-breaking year assisting small businesses in California, effectively deploying funds from the federal State Small Business Credit Initiative (SSBCI) and building on its partnership with the Air Resources Board (ARB) to expand the innovative ARB/CalCAP On-Road Heavy Duty Diesel Program.

CalCAP lenders enrolled 2,334 loans and lent \$126 million in 2012, an increase of about 65 percent in the number of loans and 26 percent in the amount of money loaned compared with 2011. About \$13.5 million in premiums were deposited to lenders' loan Loss Reserve Accounts. The amount in claims paid on defaulted enrollments declined for the second year in a row with \$1.1 million less than in 2011. CalCAP recruited 9 new lenders to participate in the program and 27 lenders enrolled loans.

BACKGROUND



The California Capital Access Program for Small Businesses ("CalCAP" or "Program") was established by legislation enacted in 1994. CalCAP is run by the California Pollution Control Financing Authority (CPCFA). The program assists small businesses in obtaining loans through participating financial institutions (lenders). Each lender is entirely liable for its loan losses; however, those losses can be reimbursed from each lender's loan Loss Reserve Account. The Loss Reserve Accounts are built through contributions made by the borrower, lender, and CPCFA.

In 2011, CalCAP expanded rapidly, largely due to an infusion of \$27.8 million in funds from the United States Treasury State Small Business Credit Initiative. (SSBCI) The new funds enable CalCAP to increase assistance for California small business owners. In 2012, CalCAP continued to expand the program by recruiting 9 new lenders.

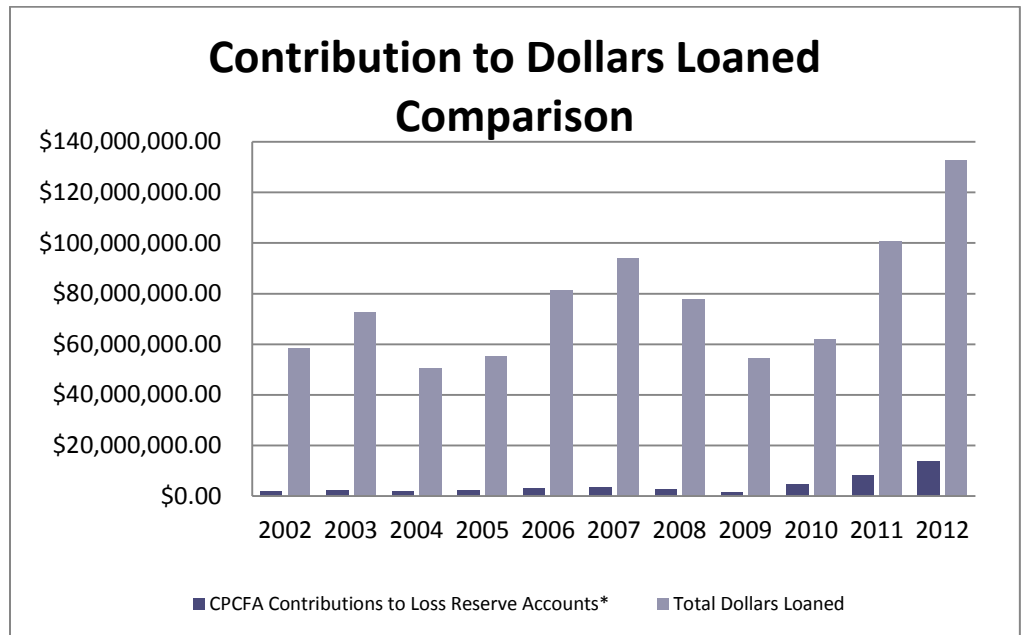
Program Results

2012 was the largest year in program history by volume. CalCAP enrolled a record 2,334 loans.

Loan Volume – In 2012, CalCAP enrolled 2,334 loans made to 2,130 California small business owners. This total surpasses CalCAP’s biggest year prior to 2012 by 825 loans. As of December 31, 2012 the total number of loans enrolled in the program since 1994 is 12,635.

Loan Dollars – In 2012 over \$116 million was enrolled in CalCAP out of the approximately \$126 million in dollars loaned. The average loan size was approximately \$54,000. As of December 31, 2012 CalCAP lenders have cumulatively loaned about \$2.2 billion since the Program began in 1994.

The following graph compares CalCAP contributions to Loss Reserve Accounts to dollars loaned over the past ten years.



**Includes contributions from all independent contributor programs*



Microloans – Of the 2,334 loans made to California small business owners in 2012, microloans—those under \$40,000—accounted for 1,224 and totaled approximately \$15 million.

Jobs – In 2012, loans enrolled in CalCAP helped create 903 new jobs and retain 7,403 existing jobs.

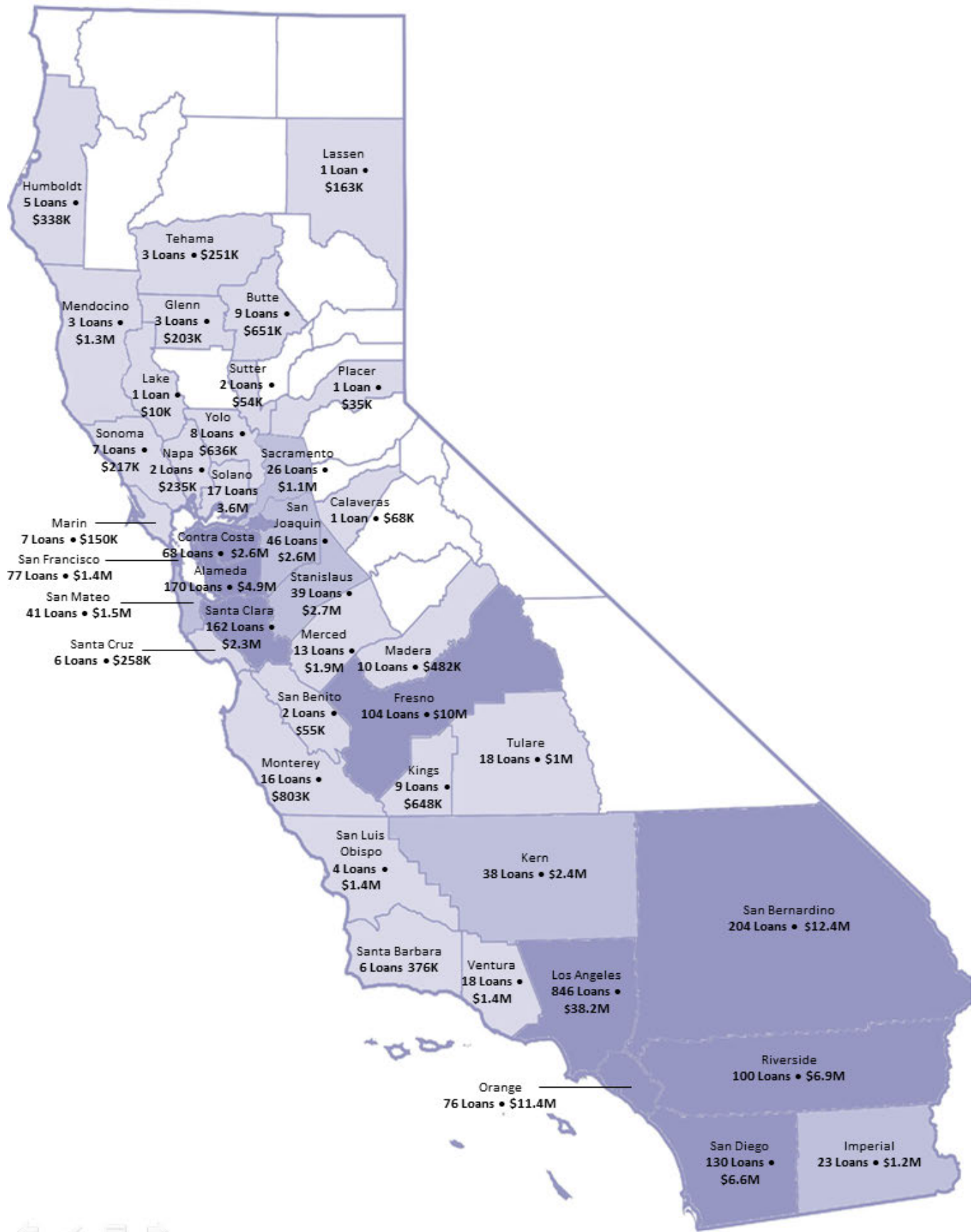
Construction and Manufacturing Businesses accounted for about 8% of the dollars enrolled in CalCAP in 2012.

Loans by Industry - The following chart describes the distribution of enrollment activity by sector, using the North American Industry Classification System (NAICS) Sector number.

| NAICS Sector | Description | Number of Enrollments | Dollars Loaned | Dollars Enrolled |
|--------------|--|-----------------------|-----------------|------------------|
| 11 | Agriculture, Forestry, Fishing and Hunting | 39 | \$4,391,388.71 | \$1,369,000.00 |
| 21 | Mining, Quarrying, and Oil and Gas Extraction | 1 | \$124,300.00 | \$50,000.00 |
| 23 | Construction | 116 | \$4,788,586.05 | \$4,217,948.00 |
| 31-33 | Manufacturing | 128 | \$5,475,377.99 | \$4,357,771.44 |
| 42 | Wholesale Trade | 89 | \$4,306,896.54 | \$4,185,972.32 |
| 44-45 | Retail Trade | 322 | \$6,265,818.47 | \$4,859,910.92 |
| 48-49 | Transportation and Warehousing | 1,255 | \$79,683,798.00 | \$77,753,693.96 |
| 51 | Information | 10 | \$183,781.98 | \$133,781.98 |
| 52 | Finance and Insurance | 10 | \$1,852,906.31 | \$1,847,176.31 |
| 53 | Real Estate and Rental and Leasing | 34 | \$2,951,389.29 | \$2,780,389.29 |
| 54 | Professional, Scientific, and Technical Services | 34 | \$3,142,285.18 | \$3,079,416.50 |
| 56 | Administrative and Support and Waste Management and Remediation Services | 73 | \$1,714,354.67 | \$1,416,151.12 |
| 61 | Educational Services | 8 | \$634,378.00 | \$621,878.00 |
| 62 | Health Care and Social Assistance | 37 | \$2,715,128.20 | \$2,512,298.20 |
| 71 | Arts, Entertainment, and Recreation | 10 | \$879,073.00 | \$865,823.00 |
| 72 | Accommodation and Food Services | 131 | \$5,292,245.76 | \$4,908,940.85 |
| 81 | Other Services (except Public Administration) | 87 | \$1,632,182.20 | \$1,538,352.20 |
| 92 | Public Administration | 4 | \$263,392.00 | \$263,392.00 |



Geographic Area Served - The following map shows the distribution of the loans enrolled in 41 counties and indicates the number of

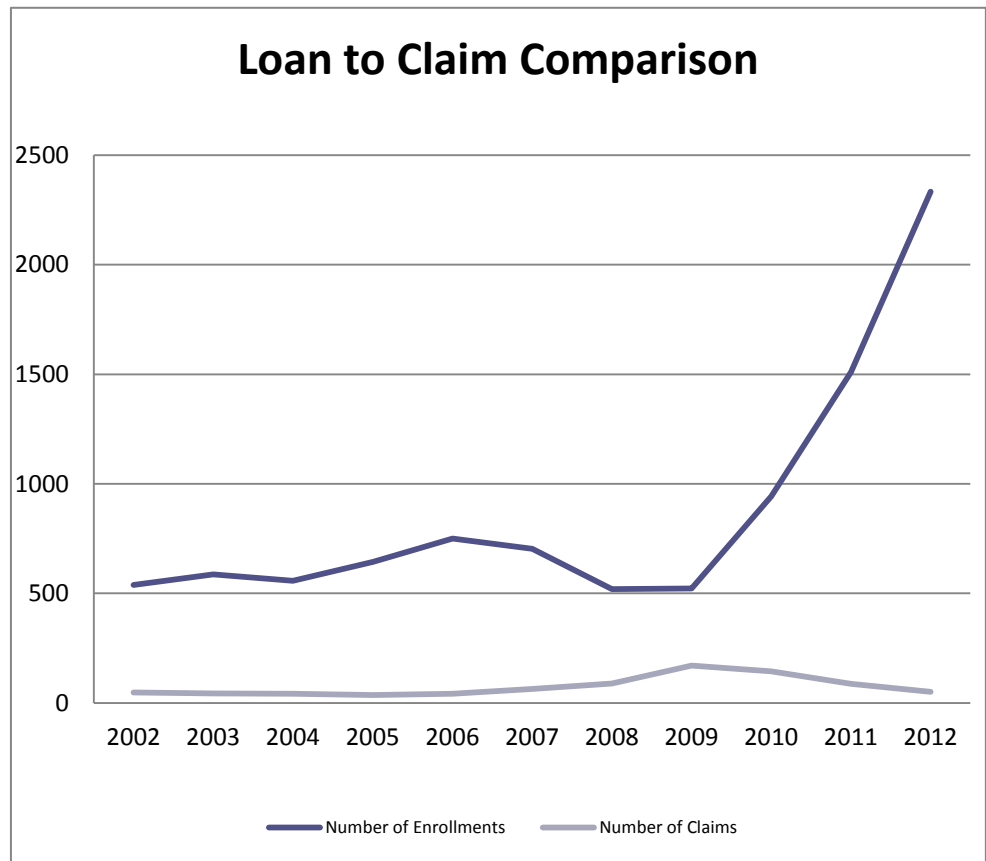


Financial Condition

Loan loss claims - CalCAP processed and approved 51 claims filed by lenders against their loan Loss Reserve Accounts. Approximately \$1.1 million was paid from the Loss Reserve Accounts. This is a reduction in payments of about 50 percent, compared to claims paid in 2011.

The following graph compares CalCAP claim activity to loan enrollment activity over the past ten years.

Signs of economic recovery were observed in 2012 with fewer claims and higher Loss Reserve Balances



PROGRAM RESULTS DETAILED BY FUND

U.S. Treasury State Small Business Credit Initiative Fund – Beginning April 1, 2011 CPCFA provided increased contributions to Loss Reserve Accounts using funds from the State Small Business Credit Initiative (SSBCI).

Of the enrolled 1,211 loans to eligible small businesses, approximately 42% were located in economically distressed areas and received added incentives.

SSBCI Funds Loan Volume – In 2012 CalCAP enrolled 1,168 loans to California small business owners using SSBCI funds.

SSBCI Funds Loan Dollars – CalCAP lenders loaned \$47,259,981.76 in 2012 bringing the total loaned since the SSBCI program began to \$91 million.

SSBCI Funds Loan Contributions – CalCAP contributed \$1,702,004.12 of SSBCI Funds in 2012.

SSBCI Funds Jobs – During the period of January 1, 2012 through December 31, 2012 there were 616 jobs created and 5,268 jobs retained as a result of loans enrolled using SSBCI funds.

State Funds – In November of 2010, CalCAP received \$6 million from the State General Fund. CPCFA used the State funds to cover contributions for CalCAP enrollments prior to receipt of the SSBCI funds and to cover contributions for those loan enrollments that did not qualify for the SSBCI fund after April 1, 2011. The funds also help meet a mandate for added incentives in economically distressed areas.

State Funds Loan Volume – In 2012, CalCAP enrolled 43 loans to California small business owners using the State funds.

State Funds Loan Dollars – CalCAP lenders loaned \$2,151,373.28 in 2012 bringing the total loaned since the State program began to \$24.4 million.

State Funds Jobs – In 2012 the 43 loans enrolled with State funds contributed to creating 8 jobs and retaining 444 jobs.

Severely Affected Community (SAC) – Of the 1,211 loans enrolled with SSBCI and State funds, 511 were located in an Enterprise Zone or High Unemployment Area. CalCAP contributed additional premiums in the amount of \$313,811 for the small businesses.

California Air Resources Board Funds

On-Road Heavy Duty Diesel Program – In May of 2009, the California Air Resources Board (ARB) began participating in CalCAP as an independent contributor for the On-Road Heavy-Duty Diesel Vehicle Program. ARB partnered with CPCFA assisting small business owners



CalCAP contributed to putting 1,163 cleaner emission trucks on the road this year, a 48% increase over 2011

with heavy-duty diesel trucks in meeting state air quality regulations. ARB contributes 20 percent of each loan enrolled (up to \$1 million in contributions, after which the rate is reduced to 14 percent) to the lender's loan Loss Reserve Account.

Currently 23 lenders have signed up to participate in the ARB On-Road Heavy-Duty Diesel Vehicle Program. Thirteen of those lenders have enrolled loans in the Program as of December 31, 2012.

On-Road Loan Volume – In 2012, lenders enrolled 1,040 loans for the purchase of 1,163 trucks, 2 trailers and 9 diesel exhaust retrofits. Since the inception of the ARB On-Road Heavy-Duty Diesel Vehicle Program in 2009, the number of loans enrolled is 2,076.

On-Road Loan Dollars – \$72,228,676.50 was enrolled in 2012 bringing the total as of December 31, 2012 to \$134,536,086.89. In 2012, CalCAP paid contributions of \$10,809,937.90 towards that amount.

On-Road Jobs – In 2012, loans enrolled in the ARB On-Road Heavy-Duty Diesel Vehicle Program contributed to creating 279 jobs and retaining 1,550 jobs.

On-Road Loan Loss Claims – CalCAP processed and approved 11 claims filed by lenders against their loan Loss Reserve Accounts, totaling \$265,095.22 in payments.

On-Road Loan Loss Reserve Balance – As of December 31, 2012, the combined balance of participating lenders' ARB loan Loss Reserve Accounts was \$21,247,793.45.

On-Road Total Program Fund – As of December 31, 2012, the amount available from the initial deposit remaining in the ARB On-Road Heavy-Duty Diesel Vehicle Program was \$8,505,234.72. At the current rate of participation, CalCAP staff anticipates these funds to run out by August 2013 unless the funding is augmented by ARB. Approximately 72% of the total fund has been distributed to lender loan Loss Reserve Accounts.



Terminal Rental Adjustment Clause (TRAC) Leases - In September of 2011, SB 225 (Simitian), Ch 492 of the Statutes of 2011 was approved by the Governor, which allows Terminal Rental Adjustment Clause

(TRAC) Leases as a type of loan. A TRAC Lease is a different type of lending instrument that some lenders choose to use, giving borrowers another option for purchasing heavy-duty diesel vehicles. In 2012, CalCAP paid contributions of \$1,536,125.80 for 134 TRAC Leases. Of the \$72,228,676.50 enrolled in ARB On-Road Heavy-Duty Diesel Vehicle Program, a total of \$10,725,025.22 was a result of enrolled TRAC Leases.

ARRA Off-Road Diesel Program – In October of 2010, ARB partnered with CalCAP to begin a program aimed at assisting small business owners with off-road equipment. The program helps provide financing for vehicles and equipment such as those used in construction, agriculture, mining and industrial operations. ARB received an allocation as part of the American Recovery and Reinvestment Act (ARRA) which is used to fund this program and assist equipment owners in complying with the in-use off-road diesel vehicle regulation. The objective of this program is to encourage early compliance by replacing, repairing or retrofitting existing vehicles. In March of 2012, marine vessels were added to the list of eligible equipment for enrollment in the ARRA Off-Road Program. In the ARRA Off-Road Program, ARB agreed to contribute 14 percent of the enrolled loan amount into the lenders' loan Loss Reserve Account. In 2012, CalCAP paid contributions of \$96,595.86 for five loans totaling \$689,970.46. September 2012 was the final month CalCAP enrolled loans in this program because the U.S. Environmental Protection Agency required the return of all unused ARRA funds.

Proposition 1B Loan Assistance Program – In January of 2012, the Proposition 1B Loan Assistance Program began. Only borrowers who received an invitation letter from the Air Resources Board (ARB) stating that they qualify to receive a grant are eligible to participate in the program. Loans enrolled in the Proposition 1B Loan Assistance Program can be used to finance 2007 or newer engine year model heavy-duty diesel trucks, or liquid natural gas (LNG), over 14,000 GVWR. In 2012, 79 loans were enrolled in the Proposition 1B Loan Assistance Program, resulting in the purchase of 81 compliant trucks. CalCAP paid a 20% contribution to the lenders' loan Loss Reserve Accounts, totaling \$793,456.04 in 2012 on \$3,967,280.35 loaned.

Department of Resources Recycling and Recovery - On January 21, 1999, CalRecycle (then the California Integrated Waste Management Board) entered into an interagency agreement with CalCAP for 18 months to act as an Independent Contributor. The contract was continually renewed until June 15, 2011. On June 29, 2012 CalRecycle and CalCAP entered into a new contract. CalRecycle provided \$500,000.00 to contribute to lenders' loan Loss Reserve Accounts for businesses that meet CalRecycle's criteria of source reduction, reuse, and recycling. Under this new contact, CalRecycle pays the borrower's and lender's portion of the contribution and CalCAP matches the combined contribution. This contract will be in effect until June 1, 2015. In 2012, one loan was made for \$225,000.00 and CalCAP contributed \$15,750.00.

OUTLOOK FOR 2013

In 2013 CalCAP will expand its activities to include more opportunities to promote small business lending.

In 2012, CalCAP took steps to expand its use of SSBCI funds through the development of a Collateral Support Program. CalCAP Collateral Support (CalCAP CS) would inject money into the small business lending community by providing cash collateral to cover the collateral shortfall of a loan. By providing up to 50 percent of the loan value in collateral support, CalCAP CS encourages lending to eligible California small businesses particularly effected by decreased value of assets due to the Great Recession.

During the first quarter of 2012, CalCAP developed preliminary guidelines for the Collateral Support Program and submitted an amendment to California's Allocation Agreement to the U.S. Treasury to allow a portion of the State's \$164 million SSBCI allocation to be used to support CalCAP CS. Pending approval from U.S. Treasury of the amendment to the Allocation Agreement and subsequent launch of the Collateral Support Program, CalCAP worked to refine the parameters of the program.

Throughout 2012, CalCAP continuously engaged stakeholders including current CalCAP participating lenders, outside lenders, Community Development Financial Institutions, the Small Business Administration, the California Bankers Association members, the National Association of Government Guaranteed Lenders, various economic development corporations, and subject matter experts with similar programs in other



states. While engaging stakeholders, CalCAP worked to ensure Collateral Support Program compliance with State and Federal statute, regulations, and guidelines, as well as, its ease of use for lenders.

As of this report CalCAP has established clear guidelines and procedures, both internal and external, for the Collateral Support Program. It is expected that the Program will launch in early 2013.