



California Pollution Control Financing Authority



2014 ANNUAL REPORT TO THE GOVERNOR AND THE CALIFORNIA STATE LEGISLATURE

MAY 2015

About the California Pollution Control Financing Authority:

Mission Statement: As public servants, we are committed to promoting access to capital through the delivery of diverse financing options to California business and environmental industries by being a:

- Driving force of public and private partnerships.
- Leader in offering customized risk mitigation tools.
- Facilitator of projects that protect and restore the environment.

The California Pollution Control Financing Authority (CPCFA) provides California businesses with financing options for pollution control facilities and small businesses. CPCFA, founded in 1972, administers programs serving a variety of goals, including:

- Helping businesses construct solid waste, recycling, water and wastewater projects as a conduit issuer of tax-exempt bonds.
- Assisting small businesses in obtaining loans for business start-up and expansion and working capital through the California Capital Access Program (CalCAP) and Collateral Support Program.
- Collaborating with the Air Resources Board (ARB) to provide lenders with loan loss reserve accounts to finance new, cleaner-burning heavy duty diesel trucks and buses.
- Transforming brownfields into vibrant housing and retail developments that enhance communities in the California Recycle Underutilized Sites Program (CALReUSE).

This annual report to the Governor and Legislature describing the CalCAP and Collateral Support Program is prepared pursuant to Health and Safety Code section 44559.6.

During the 2014 Calendar Year, the CPCFA board members were:

Bill Lockyer, Chair
State Treasurer

John Chiang
State Controller

Michael Cohen, Director
Department of Finance

<http://www.treasurer.ca.gov/cpcfai/index.asp>



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 Heavy-Duty Vehicle Air Quality Loan Program.

In 2014, CalCAP recruited 10 new lenders to participate in the various programs, and 43 lenders enrolled loans. CalCAP lenders enrolled 3,491 loans totaling \$247 million in 2014, an increase of about 8 percent in the number of loans and 20 percent in the amount of money loaned compared with 2013. Approximately \$40 million in premiums were deposited to lenders' loan loss reserve accounts. CPCFA staff processed and approved 143 claims filed by lenders against their loan loss reserve accounts. Approximately \$3.8 million was paid from the loss reserve accounts.

In May of 2014, CPCFA staff attended the United States Department of Treasury SSBCI National Conference in Washington D.C. Staff was invited to speak on a panel focusing on Measuring Lending Program Impact and led a working group relating to best practices in Capital Access Programs. At this conference, California was also recognized for having 7 of the top 15 SSBCI lenders nationwide, in terms of loan volume.



PROGRAM FUNDING SUMMARY

The California Capital Access Program for Small Businesses (CalCAP) was established by legislation enacted in 1994. CalCAP is administered by the California Pollution Control Financing Authority (CPCFA). CalCAP assists small businesses in obtaining loans through participating financial institutions (lenders). CalCAP is a form of loan portfolio insurance which may provide up to 100% coverage on certain loan defaults. 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.

Prior to 2010, CalCAP was funded from small business assistance fees collected from CPCFA's bond issuance. In October 2010, the Legislature appropriated \$6 million from the State General Fund to the program. In 2011, CalCAP expanded rapidly due to funds from the United States Department of Treasury State Small Business Credit Initiative (SSBCI), made available by the Small Business Jobs Act of 2010. CPCFA was awarded half of the total \$168 million allocation to the State of California. The new funds enabled CalCAP to increase

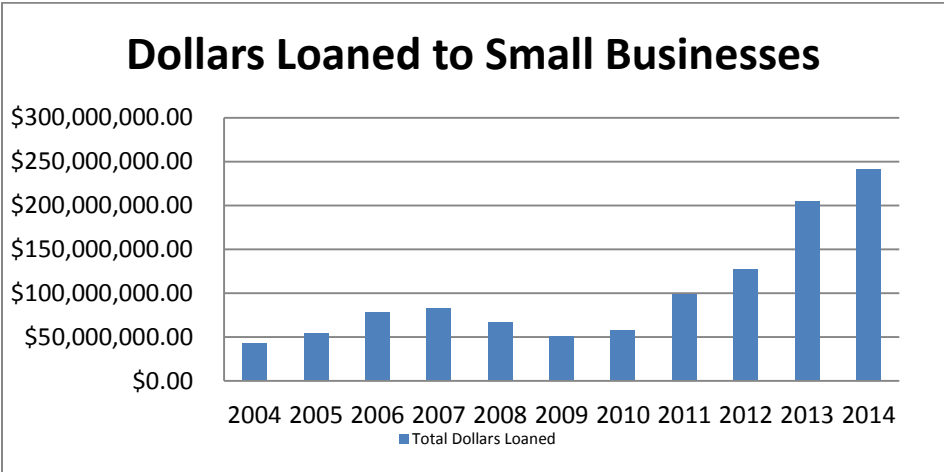


lending assistance for California small business owners. In 2011, CPCFA received the first injection of \$27.8 million of SSBCI funds. In 2013, CPCFA received a second \$27.8 million tranche of federal funds and continued to expand the program by creating the Collateral Support Program. The third and final tranche is expected to be disbursed to California in 2015. CPCFA continues to use the State general fund money as supplemental assistance for loan enrollments which are located in areas of high unemployment, and for the regular contributions for loans which may not be eligible under the stricter SSBCI requirements.

In addition to the SSBCI and State-funded CalCAP programs, CPCFA administers a loan loss reserve program funded by ARB to assist owners and operators of small fleets of heavy-duty diesel trucks achieve early compliance with ARB's Statewide Truck and Bus Regulation designed to reduce diesel particulate matter emissions. As an Independent Contributor to the ARB Heavy-Duty Vehicle Air Quality Loan Program, ARB disbursed \$55 million to CPCFA through the end of 2014 to fund loan loss reserve funds for lenders specializing in lending to small fleets.

As of December 31, 2014, CalCAP had \$8,312,499.86 in federal funds remaining to support both CalCAP and the Collateral Support Program until the disbursement of the third tranche, and \$3,703,506.89 in State funds remaining to support loans in areas of high unemployment. In addition, CalCAP had \$2,593,464.07 in funding remaining from ARB to support loans under the ARB Heavy-Duty Vehicle Air Quality Loan Program.

The following graph shows the increase in dollars loaned to small businesses over the past ten years.



**Includes contributions from all independent contributor programs*

On January 21, 1999, CalRecycle (then the California Integrated Waste Management Board) entered into an interagency agreement with CPCFA to act as an Independent Contributor. 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 contract, CalRecycle agrees to pay the borrower's and lender's portion of the contribution and CPCFA matches the combined contribution, for recycling projects referred by CalRecycle. This contract will be in effect until June 1, 2015. In 2014, there were no loans made in this Program.

CALCAP SMALL BUSINESS PROGRAM RESULTS

The CalCAP Small Business Program includes loans enrolled in the loan loss reserve programs funded by SSBCI, the State Legislature and CPCFA's own funds. By participating in CalCAP, lenders receive a credit enhancement that meets the financing needs of California small businesses.

CalCAP Loan Volume – In 2014, CalCAP enrolled 1,365 loans made to 1,269 California small business owners. As of December 31, 2014 the total number of loans enrolled in CalCAP since 1994 is 12,292.

CalCAP Loan Dollars – In 2014 over \$51 million was enrolled in CalCAP out of the approximately \$57 million in dollars loaned. The average loan size was \$41,881.45. As of December 31, 2014, CalCAP lenders have cumulatively loaned about \$1.46 billion since the program began in 1994.

CalCAP Microloans – Of the 1,365 loans made to California small business owners in 2014, 1,122 loans totaling approximately \$13 million were microloans \$40,000 or under.

CalCAP Jobs – In 2014, loans enrolled in CalCAP helped create 598 new jobs and retain 5,458 existing jobs.

CalCAP 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	25	\$1,901,753	\$942,500
21	Mining, Quarrying, and Oil and Gas Extraction	1	\$100,000	\$100,000
22	Utilities	1	\$5,075	\$5,075
23	Construction	78	\$3,083,346	\$1,945,225
31-33	Manufacturing	104	\$4,756,419	\$4,590,747

Retail Trade and Accommodation and Food Services Businesses accounted for about 42% of the dollars enrolled in CalCAP in 2014.

42	Wholesale Trade	69	\$6,899,597	\$6,487,702
44-45	Retail Trade	339	\$10,709,253	\$10,629,817
48-49	Transportation and Warehousing	179	\$10,497,050	\$8,085,835
51	Information	13	\$450,283	\$450,283
52	Finance and Insurance	5	\$48,125	\$48,125
53	Real Estate and Rental and Leasing	15	\$907,141	\$870,956
54	Professional, Scientific, and Technical Services	55	\$1,901,460	\$1,857,460
56	Administrative and Support and Waste Management and Remediation Services	78	\$1,554,307	\$1,353,846
61	Educational Services	11	\$1,017,686	\$1,017,686
62	Health Care and Social Assistance	47	\$1,621,224	\$1,610,032
71	Arts, Entertainment, and Recreation	13	\$300,519	\$285,454
72	Accommodation and Food Services	236	\$8,493,198	\$8,392,097
81	Other Services (except Public Administration)	96	\$2,921,745	\$2,901,085

Geographic Area Served – Exhibit A shows the distribution of the loans enrolled in 40 counties and indicates the number of enrollments and approximate dollars loaned.

Financial Condition

CalCAP Loan Loss Claims - CalCAP processed and approved 65 claims filed by lenders against their loan loss reserve accounts in 2014, totaling approximately \$1.5 million. This is consistent with the amount paid in claims during 2013.

CALCAP SMALL BUSINESS PROGRAM RESULTS DETAILED BY FUND

U.S. Treasury State Small Business Credit Initiative Fund – Beginning April 1, 2011 CPCFA provided contributions to loan loss reserve accounts using federal funds from the State Small Business Credit Initiative (SSBCI).



SSBCI Funds Loan Volume – In 2014 CalCAP enrolled 1,355 loans to California small business owners using SSBCI funds, bringing the total number of CalCAP loans funded by SSBCI up to 4,760.

SSBCI Funds Loan Dollars – CalCAP lenders loaned \$56,072,734.50 in 2014 bringing the total loaned since the SSBCI program began to approximately \$199 million.

SSBCI Funds Loan Contributions – CPCFA contributed \$2,232,854.76 of SSBCI funds to CalCAP loans in 2014.

SSBCI Funds Jobs – During the period of January 1, 2014 through December 31, 2014 there were 580 jobs created and 5,409 jobs retained in California as a result of loans enrolled using SSBCI funds.

SSBCI Loan Loss Claims – CalCAP processed and approved 51 claims filed by lenders against their loan Loss Reserve Accounts, totaling \$364,549.64 in payments.



State Funds – In October of 2010, CalCAP was appropriated \$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 2014, CalCAP enrolled 10 loans to California small business owners using the State funds, bringing the total number of CalCAP loans funded solely by State monies up to 402.

State Funds Loan Dollars – CalCAP lenders loaned \$1,095,447.08 in 2014 bringing the total loaned since the State program began to approximately \$28 million.

State Funds Loan Contributions – CPCFA contributed \$21,997.72 of State funds to CalCAP loans in 2014.

State Funds Jobs – In 2014 the 10 loans enrolled with State funds contributed to creating 18 jobs and retaining 49 jobs in California.

State Funds Loan Claims – CalCAP processed and approved 14 claims filed by lenders against their loan Loss Reserve Accounts, totaling \$1,181,366.42 in payments.

Severely Affected Communities (SAC) – Of the 1,365 loans enrolled with SSBCI and State funds, 564 were located in a Severely Affected Community. CPCFA contributed additional premiums in the amount of \$496,252.56 from State funds for those small businesses.

Of the enrolled 1,365 loans to eligible small businesses, approximately 40% were located in economically distressed areas and received added incentives.

COLLATERAL SUPPORT PROGRAM



The Collateral Support Program was designed to enable financing that might otherwise not occur due to a collateral shortfall, for small businesses in California. In January 2013, the Collateral Support Program was approved by the U.S. Treasury as part of CPCFA's \$84 million allocation under SSBCI. Under the program, CPCFA provides a

cash deposit to the lender to hold as partial insurance against potential loss, and the lender refunds the deposit back to CPCFA in annual installments according to a defined recapture schedule.

Collateral Support Loan Volume – In 2014, CPCFA enrolled 54 loans to 50 California small business owners.

Collateral Support Loan Dollars – In 2014, Collateral Support leveraged over \$54 million dollars in lending. The average loan size was approximately \$1 million.

Collateral Support Loan Contributions – Under the program, CPCFA deposited a total of \$18.7 million for \$54 million disbursed to small businesses.

Severely Affected Community (SAC) – Of the 54 loans enrolled with SSBCI funds, 36 were located in a High Unemployment Area. Collateral Support contributed additional premiums in the amount of approximately \$2.7 million for these small businesses.

Collateral Support Jobs – In 2014, loans enrolled in Collateral Support helped create 125 new jobs and retain 1,431 existing jobs.

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

Loans enrolled in CalCAP Collateral Support during 2014 helped create 125 new jobs and helped retain 1,431 existing jobs throughout California.

NAICS Sector	Description	Number of Enrollments	Dollars Loaned	Collateral Support Used
23	Construction	6	\$4,772,000	\$1,938,800
31-33	Manufacturing	9	\$5,245,000	\$2,357,500
42	Wholesale Trade	6	\$7,850,000	\$3,815,000
44-45	Retail Trade	4	\$4,745,000	\$1,923,000
48-49	Transportation and Warehousing	6	\$5,565,000	\$2,782,500
51	Information	1	\$3,000,000	\$1,500,000
52	Finance and Insurance	2	\$900,000	\$360,000
53	Real Estate and Rental and Leasing	2	\$3,073,700	\$715,000
54	Professional, Scientific, and Technical Services	2	\$350,000	\$150,000
56	Administrative and Support and Waste Management and Remediation	1	\$683,550	\$341,775
61	Educational Services	1	\$5,000,000	\$2,000,000
62	Health Care and Social Assistance	2	\$996,400	\$360,000
71	Arts, Entertainment and Recreation	2	\$5,266,000	\$600,000

72	Accommodation and Food Services	4	\$1,259,902.99	\$441,951.48
81	Other Services (except Public Admin)	6	\$5,372,100	\$2,122,240

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Geographic Area Served – Exhibit B shows the distribution of the loans enrolled in 19 counties and indicates the number of enrollments and approximate dollars loaned.

Financial Condition

Collateral Support Claims - Collateral Support lenders did not report any defaults or file any claims in the 2014.

Collateral Support Recapture - Loans supported by the Collateral Support Program are subject to an annual recapture of the funds on deposit. In 2014 CalCAP recaptured funds on 30 loans. The recaptured funds can be used for future CalCAP and Collateral Support loans.

Collateral Support Funds Used and Remaining - Of the total \$84 million in funds from SSBCI, CPCFA allocated \$54.7 million to the Collateral Support Program. As of December 31, 2014, \$33.4 million was utilized. Depending on the demand for the program, additional SSBCI funds may be reallocated to the Collateral Support Program under the State’s agreement with the U.S. Treasury.



CALIFORNIA AIR RESOURCES BOARD FUNDS

In May of 2009, the California Air Resources Board (ARB) began participating in CalCAP as an independent contributor for the ARB Heavy-Duty Vehicle Air Quality Loan Program. ARB partnered with CPCFA to assist small business owners 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 10 percent) to the lender’s loan loss reserve account.



Funded by ARB’s Air Quality Improvement Funding Plan, ARB has allocated a total of \$65 million to this program. As of December 2014, CPCFA had received \$55 million. The total allocation is expected to be exhausted by summer 2015.

Currently, 28 lenders have signed up to participate in the ARB Heavy-Duty Vehicle Air Quality Loan Program. Eighteen of those lenders enrolled loans in the Program during 2014. Our top 3 participating lenders have enrolled approximately 56% of the total loan volume.

CALIFORNIA AIR RESOURCES BOARD PROGRAM RESULTS

ARB On-Road Loan Volume – In 2014, ARB enrolled 2,072 loans made to 1,923 California small business owners to purchase of 1,968 trucks, 27 trailers and 205 diesel exhaust retrofits. This total surpasses ARB's biggest year prior to 2014 by 369 loans. Since the inception of the ARB Heavy-Duty Vehicle Air Quality Loan Program in 2009, the number of loans enrolled is 5,792.

2014 was the largest year in program history by volume. CalCAP enrolled a record 2,072 loans in ARB Programs.

ARB On-Road Loan Dollars – In 2014, \$135,355,062.01 in total loans were enrolled in this program, bringing the total amount enrolled since program inception to \$389,814,012.33. In 2014, CPCFA paid contributions of \$15,433,736.62 towards that amount. The average loan size was approximately \$65,660.

ARB On-Road Jobs – In 2014, loans enrolled in the ARB On-Road Heavy-Duty Diesel Vehicle Program helped create 1,143 new jobs and retain 3,421 existing jobs.

Terminal Rental Adjustment Clause (TRAC) Leases – In September of 2011, SB 225 (Simitian)(Chapter 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 2014, CPCFA paid contributions of \$2,422,112.50 for 292 TRAC Leases. Of the \$135,355,062.01 enrolled in ARB On-Road Heavy-Duty Diesel Vehicle Program, a total of \$17,357,512.37 was a result of enrolled TRAC Leases.

Geographic Area Served – Exhibit C shows the distribution of the ARB-funded loans enrolled in 45 counties and indicates the number of enrollments and approximate dollars loaned.

Financial Condition

On-Road Loan Loss Claims – CalCAP processed and approved 78 claims filed by lenders against their loan loss reserve accounts, totaling \$2,247,884.64 in payments.

On-Road Total Program Funds Remaining – As of December 31, 2014, the amount available from the \$55 million disbursement from ARB under the On-Road Heavy-Duty Diesel Vehicle Program was \$2,593,464.07.



OUTLOOK FOR 2015



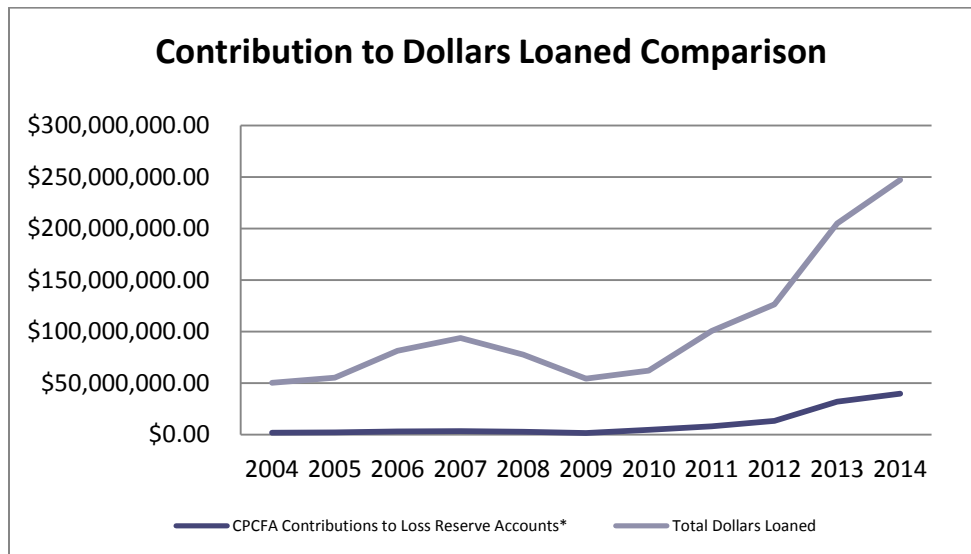
In 2015 CalCAP will expand its activities to include more opportunities to promote small business lending.

CPCFA has seen much success with the Collateral Support Program funded by SSBCI since its launch in 2013. The Program has been well received by stakeholders and there has been an increased utilization across the state, which allows for quick deployment of the funds. CalCAP staff anticipates a similar pace of in 2015, which will lead to an application for the third and final disbursement of the SSBCI allocation.

The Collateral Support Program has been designed to recycle funds, therefore a portion of the support is returned to CPCFA on an annual basis and when the loan pays off. The recycling of SSBCI funds allows CPCFA to continue the Programs beyond the 2017 expiration of the SSBCI program.

CPCFA's partnership with the California Air Resources Board (ARB) continues to thrive and 2014 was the largest year in program history. CPCFA has seen an increase in the volume of enrollment applications submitted and expects the influx to continue through 2015.

CalCAP continues to leverage private funds. Currently, for every dollar CalCAP contributes through one of its credit enhancement programs, \$16 of private funding is used to help support small businesses throughout the state.



CPCFA plans to expand its activities in 2015 and reach out to more partners and lenders in an effort to provide more opportunities to promote small business lending in California.

EXHIBIT A – GEOGRAPHIC AREA SERVED: CALCAP SMALL BUSINESS

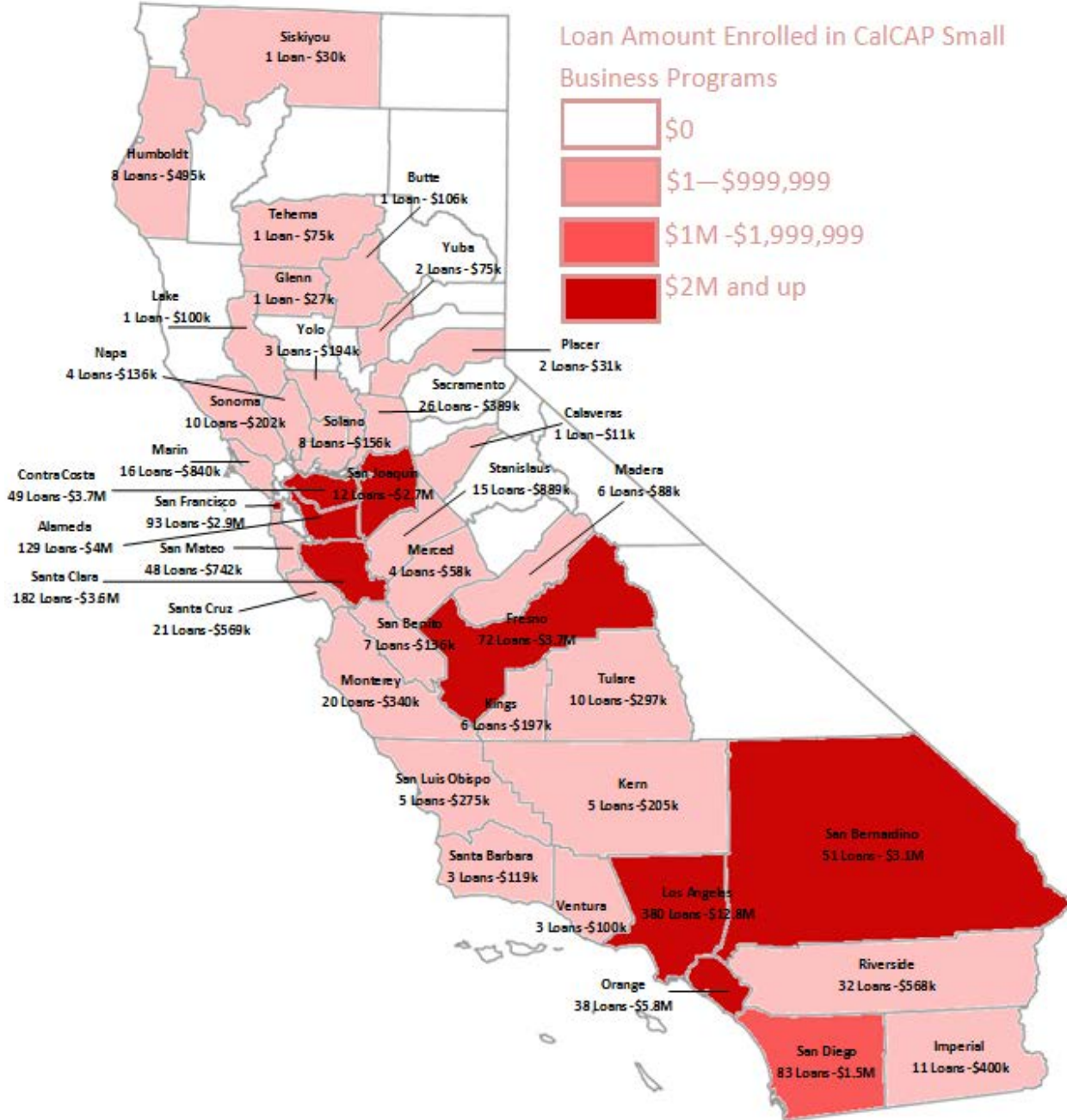


EXHIBIT B – GEOGRAPHIC AREA SERVED: COLLATERAL SUPPORT

