



**California Pollution Control  
Financing Authority**

# **TAX-EXEMPT BOND AND RATE REDUCTION BOND FINANCING PROGRAMS**

**2018 ANNUAL REPORT TO THE  
CALIFORNIA STATE LEGISLATURE**

*March 2019*

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 businesses and environmental industries by being:

- A driving force of public and private partnerships.
- A leader in offering customized risk mitigation tools.
- At the forefront of projects that protect and restore the environment.

The California Pollution Control Financing Authority (CPCFA) provides California businesses with a reasonable method of financing pollution control facilities and fosters compliance with government imposed environmental standards and requirements. Over the last 46 years, CPCFA has evolved to meet California's needs as follows:

- For solid waste, recycling, water, and wastewater projects through its Tax-Exempt Bond Program.
- For water utility projects through the review of rate reduction bonds approved by joint powers authorities.
- For small businesses through the California Capital Access Program and other financing initiatives.
- With the reuse and redevelopment of brownfields through the California Recycle Underutilized Sites Program.

During the 2018 Calendar Year, the CPCFA board members were:

John Chiang, Chair  
*State Treasurer*

Betty T. Yee  
*State Controller*

Michael Cohen  
*Director of Finance*  
September 2013 – July 2018

Keely Martin Bosler  
*Director of Finance*  
August 2018 – present

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# **Pollution Control Tax-Exempt Bond Financing Program 2018 Annual Report**

## **PROGRAM SUMMARY**

The California Pollution Control Financing Authority (CPCFA) Tax-Exempt Bond Financing Program (the “Program”) stimulates environmental cleanup, economic development, and job growth throughout the State of California. The Program allows California businesses to meet their growth and capital needs by providing access to low-cost financing through private activity tax-exempt bonds that provide qualified borrowers with lower interest borrowing costs than conventional financing. CPCFA was established in 1972, and from 1973-2018 the Program has issued more than \$15.7 Billion for 738 projects.

In addition, CPCFA maintains a Small Business Assistance Fund (SBAF) to pay for qualified costs of issuance of tax-exempt bonds issued on behalf of certain small businesses. The assistance reduces the net cost of financing tax-exempt bonds for small businesses. SBAF can pay for letter of credit fees, transaction fees and other costs associated with the issuance of bonds.

CPCFA has chosen to feature the Green Bond Pledge and a project from the 2018 calendar year to highlight the environmental benefits being achieved in the State of California through tax-exempt financing.

## **REPORT OF 2018 ACTIVITIES**

This report of activities for the California Pollution Control Financing Authority (the “Authority”) Tax-Exempt Bond Financing Program is submitted pursuant to Health and Safety Code Section 44538 for the calendar year ending December 31, 2018.

### **1. APPLICATIONS RECEIVED**

The Authority received five new applications for a total dollar amount of \$188,425,000. (See [Table 1](#))

### **2. INITIAL RESOLUTIONS ADOPTED**

The Authority took initial action on four applications for a total dollar amount of \$146,425,000. (See [Table 2](#))

### **3. FINAL RESOLUTIONS ADOPTED**

The Authority took final action to approve the sale of bonds on nine applications for a total dollar amount of \$352,624,000. (See [Table 3](#))

### **4. BONDS SOLD**

The Authority sold four bond issues for a total of \$128,170,000 in new tax-exempt and refunding bonds. (See [Table 4](#))

### **5. PROJECTED NEEDS AND REQUIREMENTS FOR 2019**

The Authority has sufficient funds to operate its programs for the coming year and has no need for General Fund assistance.

### **6. ANALYSIS OF CHANGE IN CASH BALANCE FOR FISCAL YEAR ENDED JUNE 30, 2018.**

The Authority’s cash balance for fiscal year 2017/2018 decreased by \$2,394,805.83. The Authority’s ending balance for fiscal year 2017/2018 is \$21,109,128.89. (See [Table 5](#))

## Green Bond Pledge

**CPCFA is the first statewide financing authority in California to become a signatory to the Green Bond Pledge.**

The Green Bond Pledge (the “Pledge”) is a joint initiative developed and designed by international climate finance and environmental groups including the Climate Bonds Initiative, Mission 2020, CDP, Ceres, Citizens Climate Lobby, California Treasurer’s Office, California Governor’s Office, Global Optimism, the National Resources Defense Council, and The Climate Group.



The Green Bond Pledge is a simple declaration with broad and far-reaching impact. It is founded in the acknowledgment that climate change is real, and that intentional investments in infrastructure and capital projects that address environmental impact and climate risk is a globally accepted and preferred strategy to mitigate the impacts of climate change on our communities. To this end, green bonds have been recognized as assurance of the beneficial environmental and climate outcomes of infrastructure projects and related investments. A green bond designation signals that these imperatives have been deliberately

incorporated into the planning and deployment of projects funded through this market mechanism.

The green bond market started in 2007 with initial bonds from the European Investment Bank and the World Bank. The global market has grown steadily since then, with over \$160 billion in green bonds issued in 2017, doubling the amount issued during the prior year.



In 2017, the largest green bond issuance took place in California and New York. Each state issued over \$4 billion to finance green projects for mass transit, green schools, clean water, land preservation and green housing. Companies as diverse as Apple, Kaiser Permanente and Southern Power Company have issued green bonds. The U.S. market is growing in size and breadth, although still a fraction of the global market comparatively.

While California energy and environmental policy robustly embraces the same air quality and environmental priorities shared by green bond investors globally, and has adopted sophisticated regulatory requirements and incentives for public projects to address environmental impact and climate risk, the green bond market in California and elsewhere in the U.S. has been slower to take root as compared to the global market.



To carry out the Pledge, on October 17, 2018 the Authority directed CPCFA's Executive Director to engage stakeholders in the development of a green bonds strategic plan for incentivizing the designation of CPCFA's usual issuances as green bonds and for assisting the State with carrying out actionable strategies to accelerate the green bond market in California in an effort to meet the challenges of climate change and transform California into a more competitive, resilient and healthy economy for all residents in the State.



Since 1973, CPCFA has issued over \$15.7 billion in tax-exempt and taxable bonds for environmental waste management, recycling and water furnishing projects, with most meeting the project eligibility criteria for green bonds based on the use and management of bond finance proceeds. CPCFA bond financings continue to strengthen California's environmental, economic, and social

resilience to climate change. The Authority's tax-exempt and taxable bonds portfolio can now further contribute to the growth of climate investments in California with the addition of formally designated green bonds.

Pursuant to globally accepted standards, in 2017, CPCFA approved and issued the first Green Bond designated financing to CalAg, LLC for \$228,165,000.

### **Featured Project: Recology Inc.**

**Tax Exempt Private Activity Bonds worth \$100,000,000 issued to Recology, Inc. to finance the acquisition and construction of building improvements.**

Recology, Inc. (formerly known as NorCal Waste Systems) provides municipal disposal services throughout California. The Company's various services include waste collection, sorting, transfer, and landfill management.



CPCFA issued tax-exempt revenue bonds on August 21, 2018 for a total amount of \$100,000,000. Recology, Inc. paid \$195,000 in administrative fees and \$650,610.82 into CPCFA's Small Business Assistance Fund to assist small businesses with paying Costs of Issuance. Recology Inc. bond proceeds are being used to: (i) reimburse the Company for the acquisition of approximately 12.03 acres of land across two parcels in Santa Rosa; (ii)

acquire and install waste disposal and processing equipment, collection vehicles, and street cleaning vehicles (iii) expand and modernize the west wing of the 501 Tunnel Avenue transfer station in San Francisco to improve odor control, traffic flow, and expand the area's capacity to receive organic waste; (iv) make improvements to Recology's Sonoma Marin facilities (3400/3417 Standish Avenue) including paving 1.5 acres, replacing paneling on the Material Recovery Facility (MRF) building, and cement casing of columns.



Also as part of this financing, Recology will be removing old MRF equipment, filling in pits and holes in the yard, and upgrading office space and fixtures. The project is expected to be completed by the end of the first quarter of 2020.

## CPCFA Bond Program Record of Achievement

### Financing Approved

#### 1973-2018:

- More than \$15.7 Billion issued
- 738 Projects

#### 2018:

- More than \$128 Million in bonds issued
- 4 Projects

#### Green Bonds Issued to Date:

- More than \$228 Million in bonds issued
- 1 project

#### CPCFA tax-exempt bonds have helped California:

- Achieve a recycling rate of over 50%
- Clean our air and water
- Increase renewable energy use
- Maintain state-of-the-art waste collection and disposal systems
- Keep harmful materials out of our environment
- Create renewable and sustainable sources of energy through biomass conversion
- Divert organic waste from landfills
- Reduce methane emissions



**Table 1**

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY**

**APPLICATIONS RECEIVED IN 2018**

<b>APPL. NO.</b>	<b>DATE RECEIVED</b>	<b>APPLICANT NAME</b>	<b>PROJECT TYPE</b>	<b>AMOUNT</b>
921	01/17/18	North Fork Community Power, LLC	SWD	\$14,250,000
922	02/20/18	Metropolitan Recycling, LLC	SWD	\$15,500,000
923	06/18/18	Rialto Bioenergy Facility LLC	SWD	\$117,200,000
924	06/08/18	Atlas Disposal Industries, LLC	SWD	\$9,475,000
925	10/12/18	Alameda County Industries, INC.	SWD	\$32,000,000
		<b>TOTAL:</b>		<b>\$188,425,000</b>

(SWD) Solid Waste Disposal

**Table 2**

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY**

**INITIAL RESOLUTIONS (IR) ADOPTED IN 2018**

<b>IR NO.</b>	<b>DATE APPROVED</b>	<b>APPLICANT NAME</b>	<b>PROJECT TYPE</b>	<b>AMOUNT</b>
18-01	2/20/18	North Fork Community Power, LLC	SWD	\$14,250,000
18-02	03/12/18	Metropolitan Recycling, LLC	SWD	\$5,500,000
18-03	07/18/18	Rialto Bioenergy Facility LLC	SWD	\$117,200,000
18-04	07/18/18	Atlas Disposal Industries, LLC	SWD	\$9,475,000
			<b>TOTAL:</b>	<b>\$146,425,000</b>

(SWD) Solid Waste Disposal

**Table 3**

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY**

**FINAL RESOLUTIONS (FR) ADOPTED IN 2018**

<b>FR NO.</b>	<b>DATE APPROVED</b>	<b>APPLICANT NAME</b>	<b>PROJECT TYPE</b>	<b>AMOUNT</b>
00585	11/13/18	North Fork Community Power, LLC	SWD	\$14,250,000
00586	04/18/18	Amador Valley Industries, LLC	SWD	\$4,085,000
00587	08/21/18	Recology, INC.	SWD	\$100,000,000
00588	06/20/18	Metropolitan Recycling, LLC	SWD	\$14,615,000
00589	06/20/18	Viridis Fuels, LLC	SWD	\$34,000,000
00589	08/21/18	Viridis Fuels, LLC	SWD	\$38,000,000
00590	09/19/18	Atlas Disposal Industries, LLC	SWD	\$9,474,000
00591	09/19/18	Sioneer Stockton, LLC	SWD	\$21,000,000
00592	10/17/18	Rialto Bioenergy Facility LLC	SWD	\$117,200,000
			<b>TOTAL:</b>	<b>\$352,624,000</b>

(SWD) Solid Waste Disposal

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY**

**BONDS SOLD IN 2018**

<b>CLOSING DATE</b>	<b>BOND NAME</b>	<b>PROJECT TYPE</b>	<b>AMOUNT OF ISSUE</b>	<b>BEGINNING INTEREST RATE</b>	<b>MODE</b>	<b>SBAF AMOUNT AWARDED TO SB</b>
05/09/18	Amador Valley Industries	SWD	\$4,085,000	2.40	Monthly	\$189,821
07/05/18	Metropolitan Recycling, LLC	SWD	\$14,615,000 \$5,615,000 new money \$9,000,000 refunding	3.02	Monthly	\$193,134
09/06/18	Recology, Inc.	SWD	\$100,000,000	1.62	Weekly	\$ 0
10/03/18	Atlas Disposal Industries, LLC	SWD	\$9,470,000 \$5,101,000 new money \$4,369,000 refunding	3.48	Monthly	\$202,085
	<b>TOTAL:</b>		<b>\$128,170,000</b>			<b>\$585,040</b>

(SWD) Solid Waste Disposal

(SB) Small Business

(SBAF) Small Business Assistance Fund

Note: All bond sales terms are negotiated.

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY**

**\* ANALYSIS OF CHANGE IN CASH BALANCE  
FISCAL YEAR ENDED JUNE 30, 2018**

<b>CASH BALANCE</b>	<b>JULY 1, 2017</b>	<b><u>\$23,503,934.72</u></b>
ADDITIONS:		
	REVENUE/OPERATING REVENUE	\$2,167,429.15
DEDUCTIONS:		
	OPERATING EXPENDITURES	\$4,562,234.98
<b>CASH BALANCE</b>	<b>JUNE 30, 2018</b>	<b><u>\$21,109,128.89</u></b>

The cash balance represents the total agency, including other programs, not just the bond program.

\* This analysis will be validated in the pending 2017-18 Bond Program audit due June 30, 2019.

# **Pollution Control AB 850 – Rate Reduction Bond Financing Program 2018 Annual Report**

## **PROGRAM SUMMARY**

The California Pollution Control Financing Authority (CPCFA) is responsible to review the issuance of certain rate reduction bonds for water utility projects, approved by joint powers authorities. These issuances allow California water utility businesses access to low-cost financing through rate reduction bonds. Assembly Bill 850 (Nazarian, 2013) authorizes joint power authorities to issue rate reduction bonds to finance publicly owned water utility projects until December 31, 2020. The bonds are to be secured by utility project property and repaid through a separate utility project charge imposed on the utility customers' bills.

While the bonds are issued by the local joint power authorities, AB 850 includes an additional state review process by CPCFA, including:

- The review of each issue of rate reduction bonds and making a determination whether the issue is qualified for issuance under the provisions of the statute (Government Code, section 6588.7(b)(2)(A)-(B)).
- A determination that each project is a qualified utility project, and that its financing is paid from the utility project property and the utility project charge.
- A determination that the rates of the publicly owned utility plus the utility project charge are lower than the rates if the project was financed with revenue bonds.

CPCFA has not received any applications pursuant to AB 850 but anticipates an application in 2019.

In January 2019, Assembly Bill 305 (Nazarian) was introduced, which aims to extend the Rate Reduction Bond Financing Program indefinitely.