MINUTES

California Pollution Control Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
May 15, 2012

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Chairperson, called the California Pollution Control Financing Authority (CPCFA or Authority) meeting to order at 10:35 a.m.

Members Present:	Bettina Redway for Bill Lockyer, State Treasurer Alan Gordon for John Chiang, State Controller Pedro Reyes for Ana J. Matosantos, Director, Department of Finance
Staff Present:	Michael Paparian, Executive Director Sherri Kay Wahl, Deputy Executive Director
Quorum:	The Chairperson declared a quorum

2. MINUTES

Ms. Redway asked if there were any questions or comments concerning the April 17, 2012, meeting minutes. There were none.

Ms. Redway asked if there was a motion.

Mr. Gordon moved approval of the minutes; upon a second, the minutes were unanimously approved.

3. EXECUTIVE DIRECTOR'S REPORT

Mr. Paparian announced that congratulations were in order for one of CPCFA's staff. Nancee Trombley has been promoted to the position of Treasury Program Manager I for the California Capital Access Program (CalCAP). Ms. Trombley has been a fixture in CalCAP for several years and previously served as Acting Manager. Nancee's extensive background in the banking industry has been invaluable as CalCAP expands with the influx of federal funds and with the other programs associated with CalCAP.

Mr. Paparian further stated that CalCAP is on pace to break the record volume it experienced last year. Staff has enrolled over 600 loans so far in 2012.

Mr. Paparian stated that CalCAP and the Small Business Loan Guarantee Program (SBLGP) at the Business, Transportation and Housing Agency (BT&H) were audited last fall by the U.S. Treasury Office of Inspector General (OIG) as part of its review of the Treasury's State Small Business Credit Initiative Program (SSBCI). Staff received draft findings last month and provided a joint response with BT&H to SSBCI. Staff expects the audit results to be made public sometime in May.

Mr. Paparian reported that OIG had two findings related to CalCAP. OIG found that a number of the loan files of CalCAP lenders were missing written assurances from borrowers; such as, that the borrowers were not using the funds to repay delinquent taxes, and that the borrowers were not related to the lenders among other items. When CalCAP initially implemented the program on April 1, 2011, staff believed the lenders could get these assurances in the manner they chose, including verbally, as long as the lenders certified to CalCAP that they had done so. CPCFA was informed in early May 2011 that Treasury expected the assurances to be in writing, and staff was able to impose this requirement on the lenders as of May 17, 2011. Mr. Paparian further reported that the auditors found that CPCFA should have had the assurances in writing during the time frame of April 1 to May 17, 2011. As a result, staff removed the subject loans from the federally funded program for that time period. OIG's other finding related to accounting for personnel expenses. CalCAP had signed timesheets and activity reports delineating staff work on the federally funded program. However, the activity reports were not signed by staff. Staff is correcting this oversight and expects the issues to be resolved promptly.

BT&H had other findings related to its program implementation and is working through those issues. Together with BT&H, staff believes they have corrected the items the auditors found and will now return to expanding the business assistance the funds are intended for.

Mr. Paparian reported that over the past few CPCFA Board meetings he has described the expanded CalCAP use of SSBCI funds for a Collateral Support Program (CSP) and a Loan Participation Program (LPP). Today, staff is providing details of the CSP and related regulations. In June, staff expects to provide the Board with more details relating to the LPP. It is staff's hope to receive the go-ahead within the next few weeks to use the SSBCI funds for these new programs. Once CPCFA receives approval, Treasury expects the programs to be launched within ninety days.

Mr. Paparian stated that there continues to be much interest in the Bond Program. Recently, staff met with two companies interested in anaerobic digestion and ethanol from waste biomass projects. On May 14, 2012, Mr. Paparian met with Mr. Leon Woods, a representative for Mendota Bioenergy, LLC, a company that hopes to turn sugar beets into fuel. Mr. Paparian stated that he hopes Mendota Bioenergy, LLC will be coming before the Board in the next year or so. On May 15, 2012, Mr. Paparian spoke to representatives of the waste industry from throughout California who were in Sacramento to attend an annual event.

Mr. Paparian reported that CalAg is back on the CPCFA agenda and it continues to come closer to finalizing its project. Mr. Paparian further reported that staff is also continuing to keep up with the Carlsbad Desalination Project. Since last month, the San Diego County

Water Authority (SDCWA) has developed a new draft of its Water Purchase Agreement with Poseidon and is now working on issues related to the extent of pipeline upgrades that will be needed.

In CPCFA's work with the Public Finance Division of the State Treasurer's Office, it was determined that staff may need to evaluate certain securities and related issues on the Poseidon bond deal. Since the attorneys in the Attorney General's office, and the four attorney firms that CPCFA has on contract, do not have both the expertise in securities law and tax matters, and due to some of the attorneys being under contract with other parties to this deal, CPCFA is bringing on an additional firm to assist staff as needed. Mr. Paparian has signed a contract with Nixon Peabody to provide this work. The contract is for up to $100,000 to assist with issues related to the Carlsbad Desalination Project. The contract is still pending final approval from the Department of General Services.

4. BUSINESS ITEMS

A. CONSIDERATION AND APPROVAL OF A COLLATERAL SUPPORT PROGRAM TO BE ADMINISTERED BY THE CALIFORNIA CAPITAL ACCESS PROGRAM (CALCAP)

Presented by: Emily Jarrett, Analyst

On February 17, 2011, CPCFA was awarded approximately $84 million in SSBCI funds by the U.S. Department of the Treasury. SSBCI approved programs help small businesses attain capital. CalCAP is able to utilize the Federal SSBCI funds as an approved participating State program. Staff requested Board approval of the creation of a CSP to function as a SSBCI approved participating State program and utilize a portion of the allotted SSBCI funds. Emphasis in this program will be placed on promoting energy efficiency projects and assisting businesses in severely affected communities. On March 29, 2012, CPCFA submitted a request to Treasury to approve an adjustment of the awarded funds to include a CSP.

Ms. Redway asked if there were any questions or comments from the Board or public.

Mr. Reyes stated that he thought it was a great program and that Ms. Jarrett gave a good presentation.

Mr. Gordon stated that he would like to know the capacity of staff to review the loans. He further stated that these are fairly sophisticated financial transactions and he would like to understand what the processes are and the backstops that show that staff has a good understanding of what is being done.

Ms. Jarrett responded that CalCAP is developing a risk analysis matrix. Staff requested the lending institutions risk analysis of the borrower. Staff also asked what the lending institution's collateral analysis of the borrower is as well as the reason why the support is being requested by the borrower.

Mr. Gordon asked how many people CalCAP has on staff reviewing these items.

Ms. Jarrett replied that the review has not yet begun, but it would be CalCAP staff.

Mr. Gordon asked what the number of staff is in CalCAP.

Mr. Paparian responded that there are four to five positions currently in CalCAP.

Mr. Gordon then asked what the classifications of the staff making those reviews are.

Ms. Jarrett replied that the classifications are Staff Services Analyst, Associate Treasury Program Officer and Treasury Program Manager I.

Mr. Gordon then asked if anyone in those positions has a Master in Business Administration (MBA).

Mr. Paparian responded that there is not a MBA on staff; however, there is a candidate for a MBA. He also stated that Ms. Trombley does have an extensive banking background. Mr. Paparian further commented that, unlike other programs, the CSP will be forty to fifty percent of the loan value, but it will not be the first monies tapped in the event of a default. It would be the last monies tapped in the event of a default. Therefore, the expectation and the requirement from the U.S. Treasury on the use of these funds is that all other collateral is liquidated, and that all other attempts to collect monies are exhausted before the collateral support monies may be tapped. Mr. Paparian stated that this program is different from the existing CalCAP program in as much as the money is put out and then staff expects the lenders to replenish the funds after collections. In this case, the money is not getting released until the collection process is done.

Mr. Gordon thanked Mr. Paparian for the information.

Ms. Redway stated that the application is still a work in progress. She further stated that since there is a tight timeline, the Board is moving on parallel tracks with the application and development of the program at the same time.

Mr. Paparian stated that he believed there were some public comments regarding the item under discussion.

Mr. Michael Banner, President and Chief Executive Officer of the Los Angeles Local Development Corporation, a non-profit Community Development Financial Institution (CDFI), stated that his corporation has effectively worked with CalCAP and a number of other programs within the State that are involved in capital access from tax-exempt bonds to the California Recycle Underutilized Sites Program. His company has about a twenty five year history.

Mr. Banner further stated that he was before the Board today to endorse the recommendations of staff that new programs need to be developed. Mr. Banner then recommended staff and the Board think more proactively and innovatively about how to develop new and more effective programs. He reported that a CSP can be helpful in the market, but what he would like to suggest is that there is an industry of finance companies which are CDFI's, of which there are eighty-eight federally certified in California, more than any other state. California, through the Insurance Commissioner's Office, also has a CDFI program. Mr. Banner stated that this is a channel of capital providers with the expertise to help staff effectively take advantage of this $168 million that the federal government has allocated to the state to be used by 2016. CalCAP would have to use approximately $20 million of its allocation a year over the next four years to attain the target and it will have to be done with a high level of leveraging because for every dollar in there is a ten-to-one leverage expectation.

Mr. Banner stated that if CalCAP wants to have a shot at doing that, staff is going to have to get some mechanisms in place that move beyond traditional banks as the sole source of getting the monies on the street. Most evidence today shows that lending to small businesses is still not happening in a robust way. Mr. Banner stated that this is primarily because the decision makers are financial institutions that have more money than they know what to do with right now and the money is not reaching the borrowers. He feels that CalCAP needs to have programs that try to move to the edges of what a bank might do in order to be successful.

Mr. Banner continued that, statistically, most banks that make business loans, especially those that are considered small business loans, have an approval rate, if they are great at it, of 30%. No institution ever does more than that which means that 70% of people applying for a business loan are rejected. Now the question would be why the loans are being rejected and what can be done to correct it. Mr. Banner said that CalCAP's CSP is the program that is supposed to try and figure out how to find and approve at least 10% more of the rejected loans. CalCAP would be making a substantial difference but it will not get there by doing business the same way banks are doing it.

Mr. Banner would like to challenge the public policy makers to think about that. He said the best solution would be to do everything possible to get the CDFI industry more actively involved in this process. Mr. Banner stated that the policy makers would have to find a way to get the capital to the CDFI's. CDFI's are the institutions that make the loans that CalCAP would want to see made. A bank is interested in very high-volume, low risk transactions. Mr. Banner stated that those transactions are going to be more labor intensive and slower, so there is a mismatch in terms of the delivery channels that are being focused on solely now. Mr. Banner said that the alternative channels need to be looked at.

Ms. Redway asked Mr. Banner to clarify her understanding and asked if CDFI's that currently participate in CalCAP would also be allowed to participate in this program is accurate.

Mr. Banner stated yes.

Ms. Redway stated that the Board would be more than happy to continue discussions with Mr. Banner.

Mr. Banner stated that he has been involved with CalCAP since its inception. The inducement is 2%.

Mr. Gordon asked Mr. Banner to explain what that means.

Mr. Banner stated that it means his company makes a loan to CalCAP; it enrolls the loan which has some small fees that are put into a fund and held there. The borrower and the lender each contribute 2% for a total of 4%.

Ms. Redway then asked if Mr. Banner is asking CalCAP to expand its loan inducement, as he calls it; what specifically is Mr. Banner asking of CalCAP.

Mr. Banner replied that loans need to be put in the hands of CDFI's because they will make the loans. If the Board were to look at the history of the past five years and look at the amount of loans made by traditional banks versus the amount of loans made by the CDFI industry, it is very different. The capital needs to be put in places where it is going to get it to the borrowers that CalCAP intended to serve. Mr. Banner's CDFI has done more than $250 million worth of financings since 1995. Mr. Banner stated that his is a small company with no more staff than CalCAP. He stated that it is direct lending going into businesses and companies.

Mr. Gordon asked if part of the problem is that traditional financial institutions are missing certain communities because of the underwriting criteria.

Mr. Banner stated that is part of the problem. He said that the Board needs to understand the business models. Mr. Banner feels that this business is now very cost sensitive, and staff needs to be able to touch a customer very quickly, make a decision and move on. The more time taken, the more costly; therefore, there may be no return. As soon as credit losses are factored in, there may be no profit. If your "targeted borrower", smaller less sophisticated borrowers, require more time, there is a mismatch. The economics are against traditional financial institutions. CDFI's typically are smaller and can spend the time and patience to work on a transaction, but CDFI's have no capital. Therefore, the capital needs to be channeled to the companies that might be able to reach the customer, which is the point Mr. Banner is trying to make.

Mr. Gordon asked if CDFI's are already involved in these programs and a new program is being structured, is there a need for some kind of a workshop where CalCAP staff would sit down with the CDFI community and work on structuring these programs in a way that would work better for those particular institutions. Is something along these lines already in place?

Mr. Banner stated that there can never be enough done. His CDFI has a relationship with thirty-five banks, and in his experience, it always starts out with “No, we can’t make a loan.” Mr. Banner feels that the way to get effective products put together is to get all parties to the table. His CDFI sometimes brings transactions to the bank and others he does borrowing with. There are relationship issues in the CDFI industry that do not necessarily happen with a State Program that is domiciled in Sacramento. These relationships need to be developed to get the capital to flow. CDFI’s are an integral part of helping the State have the proper relationships in as much as CalCAP has federal money which comes from the Treasury Department which actually runs the CDFI Program. Mr. Banner said that there are a lot of connections here and, that if some time was spent; it would result in a more effective program. The normal push back from a financial institution is, “I do not have the time and energy to work on another government program.” Mr. Banner said that is the role that CDFI’s play in the financial channels right now.

Mr. Gordon asked if the Board needs a motion to formally go forward with this item, or can the Board rely on Mr. Paparian and his staff to develop the needs of this program to make this happen to suit the needs of the community.

Mr. Paparian responded that he works with Mr. Banner quite often and staff will continue to do so. CalCAP has a very extensive outreach program and staff has placed over a thousand calls in the past year to the various lenders, including every CDFI that does small business lending. Mr. Paparian stated that some of the best ideas are coming out of the CDFI’s. He feels that these institutions are some of the most nimble and creative businesses out there. Mr. Paparian stated that CDFI’s know how to get new programs launched, get them implemented, and get the money to where it is needed.

Mr. Reyes asked how the CDFI default rate compares to commercial banks.

Mr. Banner stated that, historically, if you look at the industry, CDFI’s losses are less than the banks. One reason for that is that CDFI’s take the time to work with a borrower before and after the loan is made. In a typical banking environment most of the time it is now an electronic credit scored situation unless tens of millions of dollars are being borrowed, and the institution is willing to sit down and understand the business that is doing the borrowing. CDFI’s make that happen at a lower level.

Ms. Redway then stated that it was her sense that the Board supported staff and that staff would like to work with CDFI’s and will continue to work with CDFI’s with support from the Board. Ms. Redway said that there are constraints to the federal guidelines on how the money can be spent and the statutes, so in terms of the inducement that the Board can provide, there are limits as to how much and how the Board can provide it; but within those limits, Ms. Redway said that the staff will continue to work with Mr. Banner to try and develop programs that will energize the CDFI community and enable it to make more loans. Ms. Redway said that this is a shared goal.

Mr. Banner clarified that he is not suggesting that anything be held back in terms of the direction the Board is moving. He said there are some other opportunities that need to be explored because $84 million is a lot of money to get out in small increments to small companies.

Ms. Redway replied that this item is definitely evolving, but the Board is moving quickly. She said that there will be chances to continue to develop programs as the Board moves forward.

Mr. Gordon asked if there is any type of microcredit activity going on in California, and is it even appropriate in a place as expensive to do business as California.

Mr. Banner replied that there is a subset of the larger CDFI industry which is involved in micro finance. Of the eighty organizations in California that are CDFI's, a number of those organizations focus on microcredit. There are different channels within the CDFI industry that are trying to effectively drive capital to solve some of these problems. Mr. Banner further stated that there are a wide variety of CDFI's that can work on all types of financing issues.

Mr. Paparian introduced Mr. Jim LaTanner with the California Department of Resources Recycling and Recovery (CalRecycle). CalCAP partners with CalRecycle on some of its programs and Mr. LaTanner has extensive experience with borrowers as CalRecycle has its own direct lending program.

Mr. LaTanner stated that he supervises several loan programs in CalRecycle. The loans are made directly to manufacturers in California. CalRecycle has been an independent contributor of CalCAP for approximately eleven years now. Mr. LaTanner stated that he is here to support the CSP and feels there is definitely a need for it and it will fill a gap that is not being met at this time.

Ms. Redway asked if there were any further comments from the Board, or the public. There were none.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the item; upon a second, the item was unanimously approved.

B. CONSIDERATION AND APPROVAL OF AMENDMENTS TO THE REGULATIONS FOR CALCAP

Presented by: Jillian Franzoia, Analyst

CalCAP expects to expand its capacity to help borrowers throughout California obtain capital. CalCAP plans to use a portion of the $84 million in SSBCI funds awarded by US Treasury to offer lenders an option for collateral support on their loans. With approval from the Board and authorization from US Treasury, CalCAP will move forward with administering this program. Staff requested approval to file emergency regulations amending the existing CalCAP regulations to include the use of the Federal funds as a way to offer collateral support to lenders for making under-collateralized loans to small businesses. Upon approval, staff will proceed concurrently with the emergency and permanent rulemaking process.

Ms. Redway asked if there were any questions or comments from the Board or public.

Mr. Banner had a comment concerning Section 8070, Attachment A, page 2, Item (m) (2). He stated that this item is indicative of his recent experience due to the recession that the country is currently in. Most of these programs have this notion that passive real estate should not be something that can be used to borrow money. Mr. Banner feels that is a classic Small Business Administration (SBA) approach which programs tend to accept and adopt. Mr. Banner further commented that business owners who historically were able to operate their small businesses have had to shut down due to the recession. These businesses also own real estate; so what would typically be induced in financing is somebody who occupies a building within the business parameter would get a loan. If the building is no longer occupied, the business would then be ineligible for the loan. Mr. Banner feels that this is causing problems for refinancing.

As an example, he cited a company in San Francisco his CDFI was helping that had operated a printing business for thirty years. The business had to shut down so it took its property and leased it to another party. The business bank decided that it could no longer extend the loan although the company had never missed a payment. Mr. Banner is suggesting that, due to the situation the State is in, it is time to rethink the manner in which these loans are handled. California is a real estate dependent state and his belief is that just because a building is not occupied by the owner does not mean it cannot have a positive impact on the community. Mr. Banner feels that it is time to think about being more flexible with the loan process. He tells borrowers his company is the place to go when the bank says no. Unfortunately, his company has limited resources. This is a bigger problem.

Ms. Redway asked if these regulations were going out for comment at this time.

Mr. Paparian replied that staff is going through the emergency regulation process first. That is followed by the permanent rule making process, at which time there will be an extended comment period. The item Mr. Banner is discussing is not an item that staff is suggesting be changed as part of the emergency regulation process. Mr. Paparian had a conversation with the head of the SSBCI Program at the Treasury. He was told that Treasury will be providing new guidelines related to passive real estate. Staff should expect these new guidelines within the next month or so. Mr. Paparian stated that if the new guidelines allow more flexibility for use of the federal funds, he would then be inclined to come back before the Board to ensure maximum use of the funds.

Ms. Redway stated that it sounds like staff will keep working on this item.

Mr. Banner had another suggestion for the Board. He feels that the Board should tell Treasury that the passive real estate guidelines are a problem and not necessarily let Treasury dictate the guidelines.

Ms. Redway stated that the Board could definitely do that. The Board talks to Treasury frequently. She then thanked Mr. Banner.

Ms. Redway asked if there were any further comments from the Board or public. There were none.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the item; upon a second, the item was unanimously approved.

Mr. Reyes moved approval of items 4.C.1. and 4.D.1.; Mr. Gordon seconded the motion.

Ms. Redway then directed staff to briefly describe the two items.

C. REQUEST TO APPROVE INITIAL RESOLUTION REFLECTING OFFICIAL INTENT TO ISSUE REVENUE BONDS

1) NASA Services, Inc.
Presented by: Deanna Hamelin

Staff introduced Dan Bronfman of Growth Capital Associates, Inc.

Staff requested approval of an Initial Resolution for an amount not to exceed $15,900,000 in tax-exempt and taxable bonds to finance the acquisition and installation of waste collection equipment, which includes Compressed Natural Gas (CNG) powered collection and service vehicles, bins, carts, tubs and containers, to provide waste collection and recycling services pursuant to a contract approved by the City of Pico Rivera. In addition, bond proceeds will be used to acquire a 6-acre site and existing buildings along with CNG powered collection and service vehicles.

D. REQUEST TO APPROVE EXTENSION OF FINAL RESOLUTION AUTHORIZING THE ISSUANCE OF REVENUE BONDS

1) CalAg, LLC, CalPlant I, LLC

Presented by: Deanna Hamelin

CalAg, LLC and/or its Affiliates received approval from the CPCFA Board on November 17, 2010 for a Final Resolution in an amount not to exceed $175,300,000 to finance a facility to utilize waste rice straw to manufacture medium density fiberboard (MDF). On October 25, 2011, the Board granted an extension to the Final Resolution. The current Final Resolution is set to expire on June 30, 2012. CalAg, LLC anticipates securing a Private Placement of fixed rate tax-exempt bonds and issuing these bonds between the third and fourth quarter of 2012. Therefore, staff requested an extension of Final Resolution No. 511 to December 31, 2012.

Ms. Redway stated that there was already a motion and a second on both items. She then asked if there were any questions or comments from the Board or public. There were none. Both items 4.C.1. and 4.D.1. were unanimously approved.

5. PUBLIC COMMENT

Ms. Redway asked if there were any comments from the public.

Mr. Dan Bronfman, Gates Capital Corporation, acting as underwriter for NASA Services, thanked staff for accommodating the quick timeline on NASA Services' inducement. NASA Services needed the resolution to preserve some costs and is very appreciative of staff's flexibility and hard work in bringing the item before the Board.

Ms. Redway stated that the Board always likes to hear positive feedback regarding staff.

Mr. Reyes also stated that CPCFA has great staff.

Mr. Bronfman reiterated that there was a timing issue, and the inducement came in right at the deadline. Once again, he thanked staff for accommodating NASA Services in such a timely manner.

Ms. Redway asked if there were any further comments from the public. There were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting adjourned at 11:09 a.m.

Respectfully submitted,

Michael Paparian
Executive Director