California Pollution Control Financing Authority

Tailored Financing Options: Incentivizing Publicly-Accessible Electric Vehicle Charging Infrastructure

Reneé Webster-Hawkins
Executive Director
rwebster@treasurer.ca.gov
April 23, 2014

CALIFORNIA CAPITAL ACCESS PROGRAM

Introduction to CPCFA

- **Bond Program**: Tax-exempt private activity bonds for solid waste recovery, water treatment and water furnishing facilities. Upwards of $2 million.
- **CALReUse**: Grants and loans to brownfields projects for infill site assessment and remediation. Proposition 1C
- **CalCAP**: Loan Loss Reserve program to increase access to capital for small businesses, including in high unemployment areas.

Nimble programs designed to encourage public private partnerships:

- *Move capital to small businesses in California*
- *Stimulate local economies through job creation and retention*
- *Achieve state policy objectives*

Options for Steering Private Capital and Public Funds Towards EVSE

Conventional Options

- Rebates
- Grants
- Direct Loans

Tailored Options

- Loan Loss Reserve
- Collateral Support
- Loan Participation
- Debt Service
- Direct Subsidy

How does CalCAP help the Economy?

- Since its inception CalCAP lenders have cumulatively loaned over $2.4 billion for over 15,835 loans, supported by CalCAP loan loss reserve portfolios.

2013 CalCAP Facts

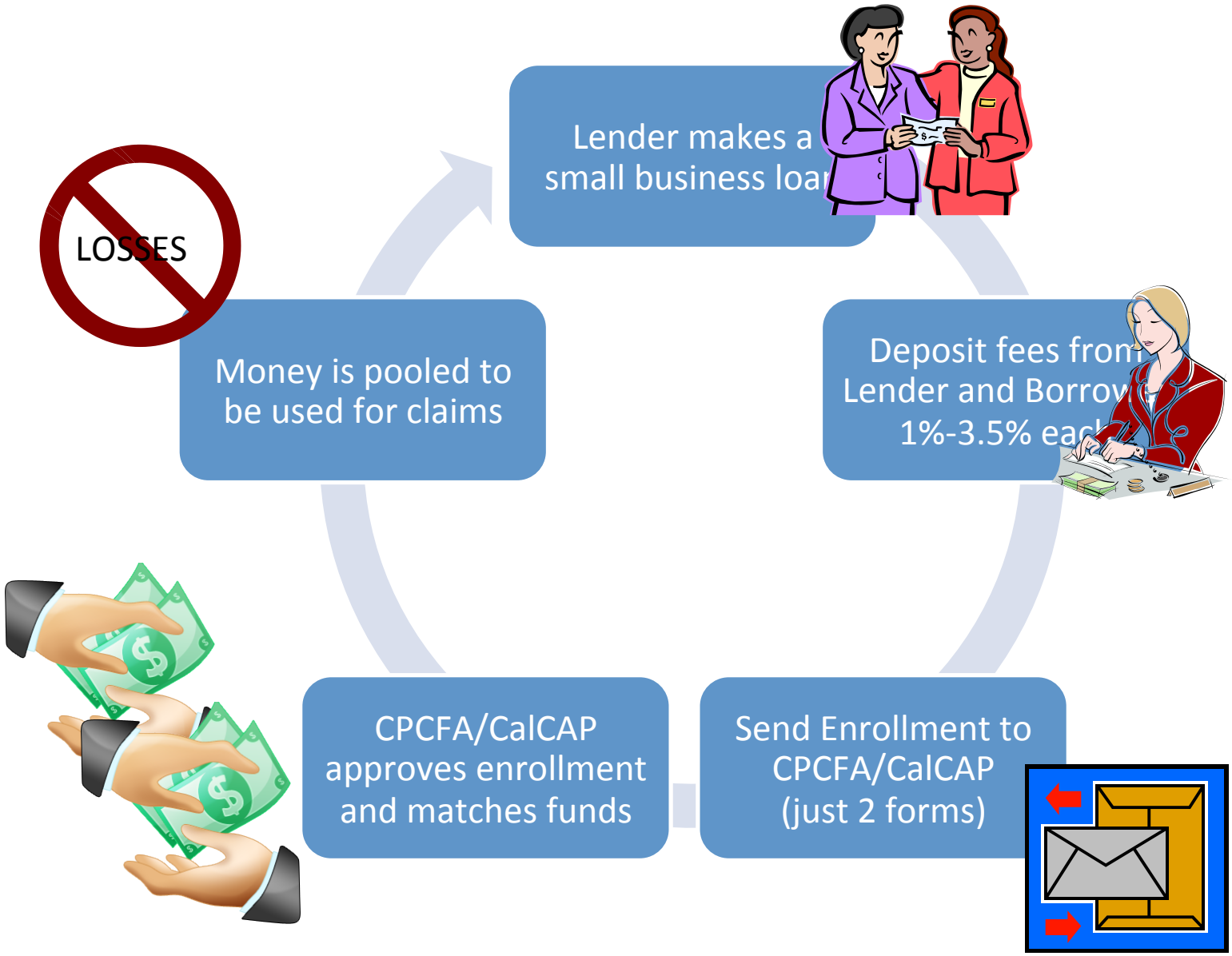
✓ Largest year in program history by volume
✓ 3200+ loans for $205 million to 2,985 small business owners
✓ $31.4 million in public contributions
✓ Loans ranged from $500 to $5 million
✓ 1,483 were microloans (less than $40,000)
✓ Created or preserved 10,333 jobs

How does CalCAP work?

- The borrower **applies for a loan** at a participating lender.
- The lender applies its own, **customary underwriting criteria**, and decides whether a lower interest rate or better terms may be offered with the credit mitigation provided by CalCAP.
- The lender assists the borrower with completing a **simple loan enrollment** and borrower certification forms:

  http://www.treasurer.ca.gov/cpcfa/calcap/sb/index.asp
- The **lender deposits a premium** of 1-3.5% of the enrolled loan amount into its loan loss reserve account, and the **borrower pays an equal premium**.
  - *Note: The loan loss reserve account may be held at the lender institution or by a CalCAP-selected trustee.*
- **CalCAP** generally **matches the total premiums** deposited by the lender and borrower.

CalCAP in Action



Current CalCAP Programs by Funding Source

Program	Funding Source	Program Type
CalCAP for Small Business	•Federal U.S. Treasury State Small Business Credit Initiative (SSBCI) •State CPCFA Small Business Assistance Fund (SBAF)	Lender and Borrower Premiums (1-3.5% each) plus CalCAP match
CalCAP Truck Loan Assistance Program	California Air Resources Board (ARB)	Independent Contributor (ARB) pays single premiums (10-20%)
CalRecycle Loans for Recycling Businesses	CalRecycle	Independent Contributor pays lender and borrower premiums plus CalCAP match

Trade-Offs of Loan Loss Reserve for EVSE

Private/public Leverage ratio is from 5:1 to 10:1	Recapture is slower
Understood by lenders	Most attractive to lenders if funding amount or source is significant and enduring
Good for large volume of small loans	May only benefit one or two lenders
Easily replicable	No incentive to borrower for early pay off

CalCAP Collateral Support (SSBCI) FAQs

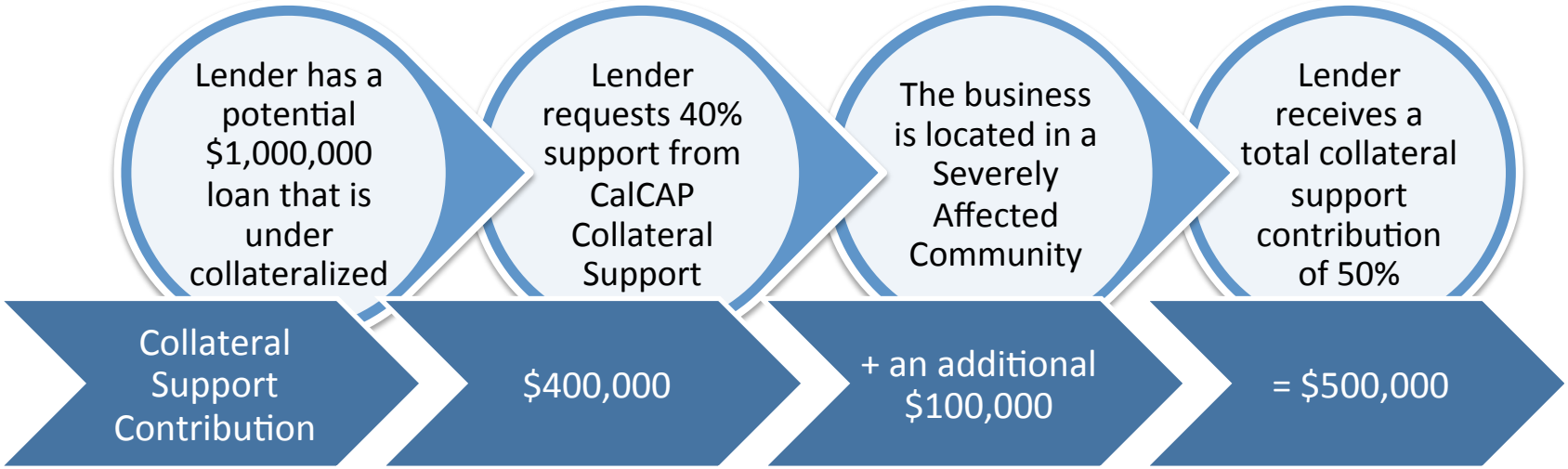
- **Provides a cash collateral deposit** to cover the collateral shortfall of a small business loan.
  - Bridge Loans: Needed prior to obtaining permanent financing.
  - Construction Loans: Especially (but not exclusively) for commercial energy efficiency or environmental improvement projects.

- **Key Terms**
  - Cash deposit of up to 50% of enrolled loan amount.
    - 40% support + plus 10% if borrower located in SAC
    - Maximum loan of $20 million/minimum loan of $100,000
    - Maximum deposit = $5 million

SSBCI
State Small Business Credit Initiative

CALIFORNIA CAPITAL ACCESS PROGRAM

CalCAP Collateral Support Program



SSBCI
State Small Business Credit Initiative

CALIFORNIA CAPITAL ACCESS PROGRAM

CalCAP Collateral Support Fees

- Fees are charged on the support at closing, based on the term of the support.
- Minimum fee of $1,000 at closing.
- Loans over 48 months are subject to an annual fee.
- Fees will not be charged on the additional Severely Affected Community portion of the contribution.
- Bridge loans are allowed extensions.
- Recapture schedules apply.

Original Term of Loan	Energy Efficiency or Environmental Improvement	Bridge Loans	Small Business Loans
≤ 12 months	0.50%	0.50%	0.50%
12.1 months -24 months	0.75%	0.50%	0.75%
24.1 months - 36 months	2.00%	2.00%	2.00%
36.1 months - 48 months	2.75%	2.75%	2.75%
≥48.1 months	2.00% at closing and annually	2.00% at closing and annually	2.00% at closing and annually

Trade-Offs of Collateral Support for EVSE

Private/public Leverage ratio is approximately 5:1 depending on risk	Risk of each loan is independent, not pooled
Recapture can be quick	Newer product to lenders – education and comfort is needed
Good for one or two large project proponents with plans for wide deployment	May only benefit one or two lenders
Can support working capitol, inventory and business start-up or expansion costs	Cannot be used to support loans or leases
Easily replicable and easy to administer	

Loan Participation FAQs

- **A public-private partnership in direct lending.**
  - Ideally a 4:1 ratio.

  Example: $4 million in private capital + $1 million in public funds to fund the principal in a portfolio of individual loans

  - Private lender or investor makes **primary underwriting decisions**, with independent review and determination by CPCFA.
  - State can take **first loss position** in the event of default of individual loans.
  - Set incentives to **accelerate recapture of public funds**, through short terms or securitization of the asset.

CALIFORNIA CAPITAL ACCESS PROGRAM

Trade-Offs of Loan Participation for EVSE

Private/public Leverage ratio is approximately 5:1	Risk of each loan is independent, not pooled
State takes first loss position	Newer product to lenders – education and comfort is needed
Good for one competitive investor able to demonstrate a ready pool of eligible borrowers	May only benefit one lender.
Can support working capitol, inventory and business start-up or expansion costs	Cannot be used to support loans or leases.
Possibility for recapture is quick	New program requires business planning

Debt Service Fund FAQs

- **Debt Service Fund could support a lease structure**
  - Would operate similar to a loan loss reserve, with specified deposits from both the lessor and the State into a Debt Service Fund for each participating lessor.
  - The deposits would be calculated to lower the cost of the lease to the lessee to incentivize the use of the program by EVSE hosts.
  - The lessor would have the option of tapping its own fund up to the amount of the deposits in the event a lessee skipped payments prior to default or charge off.
  - Other conditions could be placed on the ability to tap the fund to tailor the purpose of the fund.

Example: The DSF could be restricted to circumstances where the utilization rate at the host's station lags what was anticipated, or if electricity costs not passed on to consumers exceeded specified rates.

CALIFORNIA CAPITAL ACCESS PROGRAM

Trade-Offs of Debt Service Fund for EVSE

Fairly well understood by lenders (i.e. loss insurance)	Recapture is slower, depending on terms of lease
Good for large volume of smaller leases	
Designed to lower cost of lease to borrower	No incentive for borrower to pay off early, if the unspent funds return to lender and state, and equipment servicing is included in term of the lease
Can tailor the use of the fund depending on the policy objective sought for each placement	
Fairly easy to administer	Need to manage individual funds in real time

Direct Subsidy FAQs

- **Direct Subsidy to the Business Host of the EVSE**
  - Designed to **reduce the installation costs and financing risk** to the host.
  - Based on a **percentage** of the project/loan/lease costs (e.g. 10% or 20%)
  - Subsidy to be **placed in a Year 1 trust fund**, a) to be charged by the lender in the event of skipped payments that year, ***or*** b) to subsidize each monthly payment the first year by pre-agreement
  - Balance in the trust fund at the end of Year 1 is **paid out to the host**
  - "Year 1" could be defined as the data-backed estimation of when the site will achieve its expected optimum utilization
  - In Years 2 thru 5 of the lease, the lessor would repay the State in installments, totaling 50% of the subsidy.
  - *The repayment plan could be adjusted up or down by variables such as:*
    - *The actual utilization rate at the host*
    - *The revenue received by the servicing company from the host*
    - *The extent of any skipped payments*

CALIFORNIA CAPITAL ACCESS PROGRAM

Trade-Offs of Direct Subsidy for EVSE

Good for large volume of small loans or leases	Recapture is steady from Years 2 thru 5, depending on variables
Designed to lower cost and risk of lease to borrower	Need to manage individual funds in real time
Incentive to borrower to keep up payments in Year 1	May be the most costly to the lender, in exchange for higher on-time payments in Year 1
Can tailor the use of the subsidy depending on the policy objective sought for each placement	Risk of each loan or lease is independent, not pooled
Best for project sites expected to become self-sustaining	

Mix & Match Financing Tools

Other Tools in the Toolbox

- Forgivable loan
- Direct subsidies on certain costs:
  - Equipment
  - Interest
  - High electricity rates
  - Other transaction costs

Key Questions

- IF: The goal is to broadly jumpstart the private market's investment in EVSE…
- THEN: Go simple with products the lending world is familiar with, such as loan loss reserve, debt service (loan insurance) or maybe collateral support

- IF: The goal is to direct the public subsidy towards gaps in utilization rates and policy goals (i.e. continuous network)…
- THEN: A tailored approach is possible, requiring more risk tolerance by both the private investors and the State