

**STATE OF CALIFORNIA**  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 08/15)

Fiscal Year 2016/2017	Business Unit 0235028	Department Governor's Office of Business and Economic Development	Priority No. 001
Budget Request Name 0509-005-BCP-BR-2016-GB		Program <b>CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBANK)</b>	Subprogram <b>CALIFORNIA LENDING FOR ENERGY AND ENVIRONMENTAL NEEDS (CLEEN CENTER)</b>

Budget Request Description  
 Cap and Trade Expenditure Plan – California Lending for Energy and Environmental Needs Center

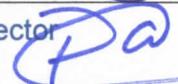
Budget Request Summary

The Governor's Office of Business and Economic Development requests an allocation of \$20 million from the Greenhouse Gas Fund to California Infrastructure and Economic Development Bank for use in its California Lending for Energy and Environmental Needs Center greenhouse gas emission reduction programs. This a one-time funding request.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.  
 FSR  SPR Project No. Date:

If proposal affects another department, does other department concur with proposal?  Yes  No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Prepared By Teveia Barnes 	Date 1/5/2016	Reviewed By Jenifer Henneke 	Date 1/5/2016
Department Director Panorea Avdis 	Date 1/5/2016	Agency Secretary	Date

**Department of Finance Use Only**

Additional Review:  Capital Outlay  ITCU  FSCU  OSAE  CALSTARS  Dept. of Technology

BCP Type:  Policy  Workload Budget per Government Code 13308.05

PPBA 	Date submitted to the Legislature 1/5/16
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## Analysis of Problem

### A. Budget Request Summary

The Governor's Office of Business and Economic Development (GO-Biz) requests an allocation of \$20 million from the Greenhouse Gas Fund (Fund 3228) to California Infrastructure and Economic Development Bank (IBank) for use in its California Lending for Energy and Environmental Needs (CLEEN) Center greenhouse gas emission reduction programs. This request is for a one-time funding. The new funding will allow IBank to serve the public with its CLEEN Center. The entire \$20 million will be used for the CLEEN Center programs that fund transactions for projects that reduce greenhouse gas emissions. This new funding will not be used for administration cost.

### B. Background/History

Implementation of the California Global Warming Solutions Act of 2006 (AB 32) includes measures that achieve real, quantifiable, cost-effective reductions of Greenhouse Gas (GHG) emissions and return California to 1990 emission levels by 2020. Since 2006, the State has continued to steadily implement a set of actions that are driving down GHG emissions, cleaning the air, diversifying the energy and fuels that power our society, spurring innovation in a range of advanced technologies and improving natural resource health statewide.

These efforts have put California on course to achieve the 2020 emissions limit, and have created a framework for ongoing climate action that can be built upon to maintain and continue reductions beyond 2020. In addition to the near-term GHG emission reduction goals established in AB 32, mid-term and longer-term GHG emission reduction targets have been established in Executive Orders B-30-15 and S-3-05 to reduce greenhouse gas emissions by 40 percent below 1990 levels by 2030 and 80 percent below 1990 levels by 2050, respectively (GHG Goals).

The Greenhouse Gas Reduction Fund (GGRF - funded by the Cap-and-Trade Program generated Auction Proceeds, authorized by AB 32) has been established for the purpose of funding measures that allow California to achieve its GHG reduction goals, furthering the purposes of AB 32. In addition, SB 535 (de León, Chapter 830, Statutes of 2012) requires that twenty-five percent of GGRF funds are spent to benefit designated disadvantaged communities, and ten percent must be spent within disadvantaged communities.

The IBank was created in 1994 to finance public infrastructure and private development that promote a healthy climate for jobs, contribute to a strong economy and improve the quality of life in California communities. IBank operates pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act contained in the California Government Code Sections 63000 et seq. IBank is located within the GO-Biz and is governed by a five-member Board of Directors consisting of the Director of GO-Biz, the State Treasurer, the Secretary of Transportation, the Director of the Department of Finance and a Governor's Appointee.

IBank has broad authority to issue tax-exempt and taxable bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage State and Federal funds. IBank's current programs include:

#### **IBANK'S DIRECT LOAN UNITS**

- IBank's Infrastructure State Revolving Fund (ISRF) was established in 1994. The ISRF Program provides low-cost financing to public agencies for a wide variety of infrastructure and economic expansion projects.
- IBank has recently established the CLEEN Center to encourage public and private investments. The CLEEN Center also will utilize IBank's access to capital markets for clean energy and energy efficiency projects. The CLEEN Center at IBank will help drive energy related projects for State and local governments in California through the Statewide Energy Efficiency Program (SWEEP).

The funds that support these revolving fund programs are generated and leveraged with the issuance of revenue bonds in the public market. In 2014, IBank issued a bond for \$95,960,000 and in 2015 issued a bond for a little over \$90,000,000. IBank has demonstrated its ability to raise capital to continuously support its direct loan programs.

## Analysis of Problem

On September 23, 2014, the IBank Board of Directors unanimously approved its Resolution No. 14-14, authorizing the establishment of the Clean Energy Finance Center (Center) and the creation of SWEEP. In 2015, the Center was renamed to the CLEEN Center and on June 23, 2015, the CLEEN Criteria, Priorities and Guidelines for the Selection of Projects (CLEEN Criteria) was posted to IBank's website to receive public comment. On August 25, 2015, the IBank Board of Directors adopted Resolution No. 15-12 adopting the CLEEN Criteria to implement the CLEEN program within IBank, and to begin financing projects under the CLEEN Criteria. Under this program, IBank is poised to become an essential contributor in protecting California's environment and vast natural resources by offering financing that helps achieve the State's Green House Gas Reduction Goals as announced by Governor Brown in Executive Order B-30-15 (Executive Order). The Executive Order established a new interim California greenhouse gas emission reduction target to reduce greenhouse gas emissions to 40 percent below 1990 levels by 2030 to ensure the State meets its ultimate target of reducing greenhouse gas emissions to 80% below 1990 levels by 2050.

Billions of dollars are required to adequately transform the energy sector of California. By leveraging these new funds with additional funding through IBank's eventual issuance of green bonds under the CLEEN Center, public/private investments and other funding, IBank can be more proactive and impactful in meeting the low-cost financing needs of state and local governmental entities, municipalities and public universities, schools and hospitals (MUSH Borrowers) to achieve the State's greenhouse gas reduction goals. IBank will be able to leverage the investments in the CLEEN Center to provide energy saving financings and improve the quality of life for the people of California.

### C. State Level Considerations

IBank was created through legislation in the California Government Code sections 63000 et seq.

In general, the objective of the Legislature's vision for IBank is to promote economic revitalization, future development, and a healthy climate for jobs in California, and to support the efforts of businesses attempting to expand, businesses seeking to locate in California, and local economic development organizations, public agencies, and new entrepreneurs by dedicating public fiscal resources to confront obstacles and barriers that impede economic growth.

When the legislation was written, it was recognized that existing mechanisms that coordinate federal, state, local, and private financial resources were inadequate to attract and sustain a sufficient level of private investment that is essential to a growth economy. It also stated California's ability to compete in a global economy depends upon its capacity to implement policies that take maximum advantage of public and private resources at the local, regional, state, and national levels. It is the intent of the Legislature in enacting this act to create a mechanism to finance projects needed to implement economic development and job creation and growth management strategies, and to provide a secure and stable funding source for implementation of this act in order to meet critical economic, social, and environmental concerns. The State of California created a financing entity structured with broad authority to issue bonds, provide guarantees, and leverage state and federal funds using techniques that will target public investment to facilitate economic development.

The CLEEN Center Business Plan was presented to the IBank Board in February 2015 as an integral part of protecting California's (State) environment and vast natural resources by offering financing that helps achieve the State's GHG Goals. On August 25, 2015, the IBank Board of Directors adopted Resolution No. 15-12, adopting the Criteria, Priorities and Guidelines to implement the CLEEN Center programs within IBank (CLEEN Center Criteria), and to begin financing projects under the CLEEN Center Criteria. IBank will enhance the quality of life our State is known for by promoting and stimulating economic growth, creating clean energy jobs, protecting and caring for the environment and revitalizing communities. The Business Plan is supported by the Board, which represents other state agencies, notably the Department of Transportation, Department of Finance, and the State Treasurer's Office.

IBank posts Board meeting dates and deadline on its website for applications and submittal under the CLEEN Center to meet those specific dates. It is implied that applications can be finalized generally within 90 days. It is IBank's policy to do its due diligence to present complete and thorough requests to the Board while accommodating the borrowers' schedule and implied application processing time of 90 days.

## Analysis of Problem

IBank intends to work with the California Energy Commission (CEC)

IBank is working closely with CEC to form a collaboration that will improve efficiencies within both organizations. The CEC Energy Loan Portfolio(s) consists primarily of its Energy Conservation Assistance Act (ECAA) program that provides loans (ECCA Loans) to school districts and local government borrowers. The ECAA Loans could be pledged to serve as a credit enhancement for IBank's CLEEN Bonds for municipalities and public universities, schools and hospitals (MUSH) borrowers. CLEEN Bonds also would be secured by new IBank clean energy financings, including energy efficiency financings to MUSH Borrowers. IBank would Pledge the 2005A CEC Pledged Assets (CEC Portfolio) and the additional unpledged ECCA Loans to the CLEEN Bonds. CLEEN Bond proceeds also could be used by IBank to fund larger/more complex clean energy projects for MUSH borrowers. This type of collaboration unites state agencies in our attempts to leverage funding more efficiently. IBank is in discussions with CEC to formally work out details of a future partnership.

IBank prides itself on providing quality customer service to its internal and external clients and strives to uphold that important reputation and responsibility.

There is no known opposition to this proposal.

### D. Justification

Although the CLEEN Center is still in the early stages of its implementation, IBank has identified 28 eligible projects for a little over \$176 million which constitutes 50 percent of the pending loan applications. The Criteria for the CLEEN Center programs is similar to that of the ISRF Program so it is anticipated that CLEEN Center financings will take approximately 90 days to complete. Applications will be highly complex analytic and research based and will require specific expertise in lending in the field of clean energy and the environment. The recent Board approval for the CLEEN Center Criteria gives IBank the ability to produce CLEEN financings, for which IBank already has potential deals lined up. As the State continues its efforts to meet the Governor's goal to reduce greenhouse gas emissions to 40 percent below 1990 levels by 2030 to ensure the State meets its ultimate target of reducing greenhouse gas emissions to 80 percent below 1990 levels by 2050 (GHG Goals), the CLEEN Center programs will continue to gain momentum, creating an even larger demand for low cost financing for clean energy projects. The \$20 million will help to fund IBank's low cost financings to meet this increasing demand for clean energy.

### Solving the Problem

As a general principle, the CLEEN Center will focus on clean energy projects and retrofits that employ technologies that drive the public benefit such as carbon reduction necessary to achieve the GHG Goals. The CLEEN Criteria lists many, but not all, of the technologies that would be eligible clean energy projects. IBank may consider additional project types beyond the current scope in the CLEEN Criteria if the potential to increase energy efficiency or renewable energy and/or a potential to decrease greenhouse gas within the State is adequately demonstrated. The requested funding will only target those projects that reduce GHG emissions.

The key strategy of the CLEEN Center for achieving the State's GHG Goals and enhancing market confidence in clean energy investing is to:

1. Target projects such as generation, distribution, transmission and storage of electrical energy, energy conservation measures, environmental mitigation measures, and water treatment and distribution,
2. Provide affordable financings to state and local municipalities and public universities, schools and hospitals for energy conservation improvements and clean energy additions and energy savings and
3. Be open to established and innovative financing structures that control risks and maximize the Greenhouse Gas Goals.

For IBank to succeed in contributing to the GHG Goals of carbon/pollution reduction, it must be able to fund its comprehensive programs under the CLEEN Center that will ultimately save money by using less energy. There are widespread investment opportunities across the State in conservation, generation and other clean

## **Analysis of Problem**

energy measures that could yield hundreds of millions of dollars of energy savings over the next 10 years and create substantial employment opportunities in clean energy jobs. By increasing the amount of clean energy actually realized for every dollar of funds invested in clean energy, the new funding will assist IBank in significantly contributing to achieving the State's GHG Goals and simultaneously stimulate economic development.

The CLEEN Center's programs are designed to encourage concerted public and private investments in investable clean energy projects and utilize IBank's access to capital markets more effectively. The additional funding will also energize capital markets for the clean energy industry so as to reduce the cost of capital and government support.

The financing obligations pledged to repay the green bonds for the CLEEN Center Programs will be targeted to prospective borrowers seeking operating savings through energy conservation improvements, clean energy capacity additions, reductions in carbon load and enhancements in the environment.

IBank has a growing reputation throughout California for quality service, responsiveness, transparency and value. The success of the CLEEN Center Programs, hinges on IBank's strong underwriting, legal and administrative capabilities and the strength of the financings and credit support provided by the program structure and program reserves. The CLEEN Center under the broad authority of IBank can mobilize private capital and accelerate the utilization of clean energy throughout the State in support of the GHG Goals. The \$20 million is the first major step towards effectuating that objective and sustaining funding for clean energy projects.

### **Adverse Impact**

While the clean energy industry is well established, IBank and the CLEEN Center do not currently have dedicated funding specifically for clean energy projects. There must be public confidence that the CLEEN Center will be appropriately capitalized with the required levels of funding to successfully impact the GHG Goals.

In addition, the CLEEN Center is a new IBank Center. Without the \$20 million, IBank will be limited in its ability to maximize the effectiveness of the CLEEN Center Programs. These funds position IBank alongside private investors and helps IBank coordinate with other State agencies engaged in the clean energy sector to access grants and other incentives to facilitate the utilization of clean energy technology.

### **Effect on External Client and Stakeholders**

The CLEEN financings are intended to be an integral part of protecting California's environment by offering financing that helps the Governor achieve the State's GHG Goals. The CLEEN Center within IBank has begun financing projects under the CLEEN Center Criteria to allow municipalities and public universities, schools and hospitals to become more eco-friendly and energy efficient. Without this new funding, it will take IBank longer to meet the demand for low cost clean energy financing, and state and local governmental agencies, municipalities, universities, schools and hospitals will be unable to assist in improving the quality of life for the people of California. Inability to successfully produce CLEEN Center financings will slow the process of our State's mission to promote and stimulate economic growth, create clean energy jobs, protect and care for the environment and revitalize communities.

IBank has the ability to help diminish many of the financial barriers to facilitate the flow of private capital to clean energy projects in the State. In addition, with the \$20 million, IBank will have the ability to leverage private capital and provide for a cleaner environment, system resilience, job creation and economic development.

### **Issues Related to CLEEN Center**

The solution to IBank's continued growth and development of new programs to support California's growing need for low cost financing for clean energy projects is to provide the \$20 million to IBank for the CLEEN Center programs that support the Governor's goals to reduce greenhouse gas emissions by 40 percent below 1990 levels by 2030.

## **Analysis of Problem**

The public need for this request is evident in the increase in applications for CLEEN Center clean energy loan requests. Now that the CLEEN Center Criteria was approved by the IBank Board in August 2015, IBank is considering almost 20 inquiries for financings from state and local agencies. The \$20 million will be a good start in meeting this growing demand.

There are no legal implications to this proposal.

The State should assume responsibility for this change as it benefits the people of California, specifically state and local government and public agencies, municipalities, and public universities, schools, and hospitals. Providing low cost financing under the CLEEN Center will assist in the Governor's goals of stimulating the economy, while reaching emissions and gas reduction goals, with minimal cost to the State.

### **E. Outcomes and Accountability**

#### **Improvement Measures**

Improvements will be measured by the number of inquiries and applications processed and completed.

#### **Reports**

IBank produces Annual Activity Reports to the Legislature for all of its programs each fiscal year. In addition IBank produces a fiscal year end Comprehensive Annual Financial Report (CAFR) that reveals the net position of IBank funds and the net increase over the previous year and includes an independent auditors report. As indicated in IBank's CAFR for fiscal year 2014, "The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the California Infrastructure and Economic Development Bank for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the third consecutive year that the California Infrastructure and Economic Development Bank achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements."

### **F. Supplemental Information**

No special resources are needed to support this proposal.

### **G. Recommendation**

The Governor's Office of Business and Economic Development requests an initial allocation of \$20 million from the Greenhouse Gas Fund (Fund 3228) to IBank for the CLEEN Center greenhouse gas emission reduction programs. This request is for a one-time funding for Fund 3228 at this time. The new funding will allow IBank to serve the public with its CLEEN Center. The entire \$20 million will be used for the CLEEN Center programs to reduce greenhouse gas emissions. This new funding will not be used for administration cost.

#### **Adverse Effects of Denial**

If this proposal is not approved, the adverse impact could be significant delays in financing clean energy projects for state and local governmental agencies, universities, schools and hospitals in the State as IBank would not be able to keep up with the present and developing demands for low cost clean energy financings. It is IBank's responsibility to serve the communities throughout California as they continue to face significant challenges in addressing needed clean energy retrofits to their existing infrastructure. As the state's clean energy infrastructure continues to require attention, IBank must continue to advance its programs based on the needs of the economy, public agency requirements and the goals and objectives of the state.

## BCP Fiscal Detail Sheet

BCP Title: Cap and Trade Expenditure Plan - I-Bank, California Lending for Energy Needs Center

DP Name: 0609-005-BCP-DP-2016-GB

### Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Operating Expenses and Equipment						
539X - Other	0	20,000	0	0	0	0
<b>Total Operating Expenses and Equipment</b>	<b>\$0</b>	<b>\$20,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Budget Request</b>	<b>\$0</b>	<b>\$20,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### Fund Summary

Fund Source - State Operations						
3228 - Greenhouse Gas Reduction Fund	0	20,000	0	0	0	0
<b>Total State Operations Expenditures</b>	<b>\$0</b>	<b>\$20,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total All Funds</b>	<b>\$0</b>	<b>\$20,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### Program Summary

Program Funding						
0235028 - California Infrastructure and Economic Development Bank	0	20,000	0	0	0	0
<b>Total All Programs</b>	<b>\$0</b>	<b>\$20,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>