

STAFF REPORT

EXECUTIVE SUMMARY

Request Board Approval of a Transfer of up to \$15 million of IBank's State Small Business Credit Initiative (SSBCI) Funds to the California Pollution Control Financing Authority (CPCFA) to Maximize California's Utilization of SSBCI Funds and Ensure CPCFA has Adequate Funding to Continue SSBCI support for CPCFA's CalCAP and Collateral Support Programs

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Summary. As described more fully below, Staff requests Board approval of the transfer of up to \$15 million of IBank's State Small Business Credit Initiative (SSBCI) funds to the California Pollution Control Financing Authority (CPCFA). The federal SSBCI funds have been apportioned between programs at CPCFA and the IBank, including IBank's Small Business Loan Guarantee Program (SBLGP). If the proposed transfer of SSBCI funds is approved, IBank would make up to \$15 million of IBank's SSBCI funds under SBLGP available for transfer to CPCFA for use in its CalCAP and Collateral Support Programs. By making such SSBCI funds available to CPCFA, IBank will help ensure that CPCFA has adequate funding to continue SSBCI support for its programs and ensure that the State is able to reach the obligated amount of at least 80% of the current SSBCI funds required before applying to the U.S Treasury for the State's third disbursement of funds (80% Target). The proposed transfer is expected to enable California to reach the required 80% Target at a quicker rate due to the high demand and increasing obligations under the Collateral Support Program.

Background. In 2011 California was awarded an allocation of \$168 million from the U.S. Treasury as part of the Small Business Jobs Act of 2010 that established the SSBCI program. The funds California received were divided between the State Treasurer's Office for CalCAP administered by CPCFA and The Business, Transportation and Housing Agency, the entity then administering the California Small Business Loan Guarantee Program (SBLGP). The Governor's Reorganization Plan 2 moved the SBLGP to the Governor's Office of Business and Economic Development (GO-Biz) as of July 1, 2013. Subsequent State legislation, enacted in October of 2013, created the Small Business Finance Center and transferred administration of the SBLGP to the IBank. Under the SSBCI program, SSBCI funds are disbursed to all states, including California, in three separate tranches. Each state must reach the 80% Target before applying to the U.S. Treasury for subsequent disbursements. To date, California has received two of the three tranches totaling \$110,684,111. If the third tranche is fully disbursed to the State, California's total award under the SSBCI program would be approximately \$168,000,000.

Currently, between IBank and CPCFA, three approved SSBCI programs—CalCAP, Collateral Support and SBLGP—are using the SSBCI funds. Because of the large amounts allowed under the Collateral Support Program, this program has enabled CPCFA to expend its SSBCI funds at a relatively faster rate than that of the SBLGP.

In an effort to enable California to more quickly reach the 80% Target used requirement, IBank wishes to share California's second tranche allocation by authorizing a transfer of up to \$15,000,000 of IBank's second tranche of SSBCI funds to CPCFA. Transferring an amount not to exceed \$15 million would allow for the uninterrupted operation of the CalCAP, Collateral Support and SBLGP programs until the third and final SSBCI tranche is received. It is expected that upon receipt of

California's third and final disbursement of SSBCI funds, CPCFA would make IBank whole by transferring to IBank a portion of its third tranche to restore to IBank's SBLGP the amounts CPCFA received under the transfer proposed in this Staff Report.

As part of the operating protocols arranged between CPCFA and IBank, each agency has committed to sharing weekly status updates of SSBCI expenditures and obligations, as well as the amount of funds in the pipeline (defined as completed but not yet approved loan enrollment documentation submitted by participating lenders and in possession of CPCFA, or loan guarantees under credit review by financial development corporations but not yet approved by IBank). Based on these weekly status reports and the expenditure rates, CPCFA will submit one or more invoices to IBank to request transfer(s) of funds to the CPCFA Program Account held at CPCFA's Trustee Bank. CPCFA has indicated to the IBank Staff that CPCFA will manage the funds received from IBank consistent with CPCFA program management and accounting procedures used in support of the approved Collateral Support Program as permitted in the Allocation Agreement between the U.S. Treasury and the State.

Staff Recommendation. Staff recommends approval of the transfer of up to \$15 million of IBank's State Small Business Credit Initiative funds to (i) enable California to more quickly reach the 80% Target for the third and final tranche of SSBCI funds; and (ii) ensure that CPCFA has adequate funding to continue the SSBCI support for CPCFA's CalCAP and Collateral Support Programs.
