



**Criteria, Priorities, and Guidelines for the
Selection of Projects**

For IBank Financing under the

Climate Catalyst Revolving Loan Fund Program

Effective January 2022

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Note: Terms with their initial letter or letters capitalized shall have the same meaning set forth in the Bergeson-Peace Infrastructure and Economic Development Bank Act (hereinafter IBank Act, California Government Code Sections 63000-63089.98 et seq) unless otherwise defined herein.

1. Introduction

As a program of the California Infrastructure and Economic Development Bank (IBank), the Climate Catalyst Revolving Loan Fund (“**Catalyst Fund**”) supports California’s critical climate infrastructure: projects that advance the state’s climate goals, covering both climate *mitigation* (the reduction of climate harms by addressing the root causes of climate change) and climate *resiliency* (infrastructure investments that improve our ability to withstand and manage the effects of a changing climate).

Capital for Catalyst Fund may be general-purpose or sector-specific, depending on the source of funds. The following criteria and processes are intended to be applicable across all investment circumstances, irrespective of the source of funds.

Partnerships with aligned state agencies will drive IBank’s approach to project evaluation. For each sector that Catalyst Fund will provide financial assistance for, IBank will have a specified point of contact at the relevant aligned state agency that will provide guidance as to attributes of proposed projects that fit the state’s policy priorities. This input will be solicited on at least an annual basis and memorialized as appropriate, and will inform the holistic analysis that IBank will perform.

2. IBank Background

In 1994, IBank was established pursuant to the IBank Act, with the mission to finance public infrastructure and private development that promote economic growth, protect and sustain the environment, support clean energy and efficiency, revitalize communities, and enhance the quality of life for the citizens of California. The IBank Act gave IBank broad statutory authority to issue bonds and incur other indebtedness, make financings, and to provide guarantees and other credit enhancements for a wide variety of projects and borrowers to achieve its mission.

Since its inception, IBank has gained experience in infrastructure financing; has developed relationships with private investors; has supported private borrowers through its Small Business Finance Center, and has collaborated with the State Treasurer’s Office (STO), state energy agencies, environmental advocates, and other stakeholders. IBank understands the tight operating budgets and constitutional and regulatory limits of financings that public and non-

profit entities face. IBank is well staffed and has established procedures to evaluate projects and borrowers. In sum, IBank is well positioned to provide financial assistance to help the State meet its Greenhouse Gas Reduction Goals.

3. Authority

On June 29, 2020, Governor Gavin Newsom signed into law Assembly Bill 78, the Climate Catalyst Revolving Loan Fund Act. The bill requires IBank to administer the Climate Catalyst Revolving Loan Fund and authorizes IBank, under the Climate Catalyst Revolving Loan Fund Program, to “provide financial assistance to any eligible sponsor or participating party for eligible climate catalyst projects, either directly to the sponsor or participating party or to a lending or financial institution, as specified.” The bill defines Climate Catalyst Projects (“Catalyst Projects”) as “any building, structure, equipment, infrastructure, or other improvement within California, or financing the general needs of any sponsor or participating party for operations or activities within California that are consistent with, and intended to, further California’s climate goals, activities that reduce climate risk, and the implementation of low-carbon technology and infrastructure”.

The IBank Act provides that projects that receive financial assistance from IBank must comply with criteria, priorities and guidelines, including IBank’s underwriting criteria, adopted by the Board of Directors (the “Board”) in accordance with certain statutory requirements. Adoption of these criteria, priorities and guidelines, including IBank’s underwriting criteria in this document, as may be amended by the Board from time to time (collectively the “Catalyst Fund Criteria”), provides authority for IBank to offer financing assistance to eligible projects under the Catalyst Fund.

4. Catalyst Program Goals

A. Key Strategies – Alignment with State Climate Policy Goals

Climate Catalyst Fund will be active with either *sector-specific* or *economy-wide* investment capital. The sectors in which Catalyst Fund will be active and categories of eligible projects within those sectors will be defined in the companion document– the Catalyst Fund Financing Plan, which will be publicly available on the IBank website.

B. Project/Deal Flow Identification and Intake

Catalyst Fund has developed a market-facing web presence and a rolling application model with which to solicit and manage investment opportunities. Depending on the type of capital available at a given moment (general-purpose or sector-specific), the web presence will indicate

Catalyst Fund’s interest in specific deal types. The rolling application model is intended to help maintain a steady pace of financial assistance prospects, as well as up-to-date intelligence regarding the state of the markets that Catalyst Fund will serve. This process for managing inbound expressions of interest will be coupled with a market outreach strategy utilizing industry partnerships, earned media, and IBank’s social media presence.

If at any time, capital is no longer available for a specific sector, the web presence will so indicate, along with information regarding the period of next funding availability, if known.

C. Ongoing Engagement with Aligned State Agencies

For purposes of both sourcing and underwriting deal opportunities, IBank has developed, and will continue to develop, collaborative relationships with the lead agencies responsible for policy and grantmaking in the sectors of interest to Catalyst Fund. These lead agency relationships will be defined in the Catalyst Fund Financing Plan.

D. Catalyst Project Assessment Framework

Within the categories of project eligibility defined either in legislation or via guidance from lead state agencies, IBank will evaluate proposed financings using standard financial underwriting techniques. Catalyst Fund will consider financing proposals as they are presented, on a “rolling” basis.

Quantitative and qualitative assessment of projects will be used to determine whether a project advances in diligence. IBank will retain sole decision-making authority for each financing and will not defer to other state agencies for project selection. IBank will strive to maximize private leverage where appropriate, and to support state economic development goals in its investments via Catalyst Fund.

5. Catalyst Program Requirements

Catalyst Fund will utilize existing IBank investment tools and practices to deploy capital for climate infrastructure, applied on a case-by-case basis. This means that:

- i. Catalyst Fund will deploy capital via loan guarantees, direct lending and loan participations, conduit financing, and in conjunction with other intermediaries (i.e. other lenders, funds or SPVs); and
- ii. Catalyst Fund will utilize existing IBank procedures for deploying capital in these ways, modified to fit the market, technology and counterparty conditions that are

specific to both public and private-party investing in climate infrastructure in California; and

- iii. IBank will provide senior or subordinate loans, participations, and guarantees, on terms appropriate as determined by IBank's underwriting, subject to Board approval, on financings provided from Catalyst Fund. Subject to the availability of funds, IBank will consider various transaction sizes (as defined in section 7.A below), participation levels and concentration limits under Catalyst Fund. For smaller transactions, IBank will emphasize loan participation and guarantee structures.

6. Application Process

Eligible applicants under the Catalyst Fund include private corporations, nonprofits and local, state or tribal government, including any subdivision, including but not limited to departments, agencies, commissions, cities, counties, nonprofit corporations formed on behalf of an applicant, enhanced infrastructure financing districts, special districts, assessment districts, joint powers authorities within the state, or any combination of these subdivisions; as well as schools and hospitals that apply to IBank for financial assistance in connection with a Catalyst Project.

Applicants under a Catalyst Fund proposal may apply on a standalone basis or as the lead applicant as part of a proposal team. Applicants are required to identify all parties of the project team, including capital providers, lead providers, developers, energy service companies, owner operators, and similar participants. Applicants must provide whatever information IBank reasonably determines necessary for underwriting.

If the cumulative financing needs of Catalyst Projects otherwise eligible for IBank financing exceed the then current availability of funds for the applicable Catalyst Fund, IBank may give priority to projects located in disadvantaged communities or projects with the potential to deliver disproportionate environmental benefits. On a case-by-case basis, IBank will consider the advice of aligned state agency partners in evaluating the potential for technology demonstration present in specific project opportunities.

A. Project Costs

Catalyst Fund project costs eligible for financing include one or more of the following:

- i. All or any part of the cost of construction, renovation, and acquisition of all lands, structures, real or personal property;

- ii. Rights, rights of way, franchises, licenses, easements, and interests acquired or used for a project;
- iii. The cost of demolishing or removing any buildings or structures on land so acquired, including the cost of acquiring any lands to which the buildings or structures may be moved;
- iv. The cost of all machinery, equipment, and financing charges;
- v. Interest prior to, during, and for a period after, completion of construction, renovation, or acquisition, as determined by IBank;
- vi. Provisions for working capital under certain circumstances;
- vii. Reserves for principal and interest and for extensions, enlargements, additions, replacement, renovations, and improvements;
- viii. The cost of architectural, engineering, financial and legal services, plans, specifications, estimates, administrative expenses;
- ix. Operations, maintenance, and monitoring costs;
- x. Energy audits performed by licensed professionals acceptable to IBank to establish a baseline of performance;
- xi. Other expenses necessary or incidental to determining the feasibility of any project or incidental to the construction, acquisition, or financing of any project; or
- xii. Other costs considered on a case-by-case basis.

B. Initial Inquiry/Pre-Application Process

Catalyst Fund applicants will be asked to submit certain initial information which, among other things, will be used to determine project eligibility under Catalyst Fund rules as documented in the Catalyst Financing Plan. Prospective applicants may be encouraged to contact IBank Staff to schedule a preapplication meeting to discuss the Catalyst Fund Criteria and the Catalyst Fund financing options.

The following information will be collected in the pre-application process:

- i. Borrower information, including operational history, key members of the team, and demonstration of authority to receive IBank financing;
- ii. Business/operating plan, including an assessment of product or service markets and anchor customers/contracts;
- iii. Historical financial statements and tax returns;
- iv. Representation of all current capital commitments and anticipated future participation needed for the venture to be viable;

- v. A capital development budget showing the anticipated costs of the development and the sources of funds that will pay for these costs;
- vi. An operating pro forma showing income and expense for a term consistent with the life of the financing;~~and~~
- vii. A description of projected labor expenses, positions hired, salary and benefit costs associated with each position.

C. Readiness and Feasibility

- i. Applicants must demonstrate project readiness and feasibility to complete construction within a reasonable time after IBank’s financing approval. In this context, complete construction means that the portion of the Catalyst Project financed by IBank meets construction contract specifications for completeness and/or ability to operate. This will typically mean the project developer will obtain a Notice of Completion followed by a Certificate of Occupancy from the relevant local jurisdiction.

D. Available Resources to Complete the Project

- i. Applicants must demonstrate that the requested financing combined with committed amounts available from other sources, will be sufficient to complete the Catalyst Project. IBank will require all Catalyst Project funding sources, in addition to IBank’s financing, to be reasonably certain, subject to IBank’s discretion, prior to submission of the proposed financing to the Board for its consideration. In most cases, IBank will anticipate dispersal of funds to be complete within two years. In specific circumstances, IBank may consider recommending to the Board the provision of a conditional commitment letter expressing its intent to provide financing once further financing is secured.

E. Permits

- i. An applicant must provide evidence that it has applied for and/or received all permits or approvals, if appropriate for the type of financing being considered, necessary for the construction of the Catalyst Project. On a case-by-case basis, IBank may require that all permits be in place as a pre-closing condition. In general, Catalyst Fund will not provide disbursement for real estate acquisition, construction, or related costs until all relevant permits are in place.

F. Source of Financing Repayment and Security

Eligible sources of financing repayment and security include, without limitation, the following:

For private borrowers, repayment sources and security including:

- i. Projected revenues, including via contracts and grants in arrears;
- ii. Leases;
- iii. Guarantees;
- iv. Letters of Credit;
- v. Real and personal property security, including but not limited to intellectual property; and
- vi. Committed takeout financing.

For public borrowers:

- i. Water or Sewer Enterprise/Special Fund. Catalyst Projects that will be part of a revenue-producing water or sewer enterprise system may be financed with a financing that is payable with revenues from the water or sewer enterprise/special fund;
- ii. Other Enterprise/Special Fund. Other revenue producing enterprise systems such as ports, airports, solid waste systems, bridges, and parking facilities may be eligible if the proposed project and repayment stream are acceptable to IBank;
- iii. General Fund Lease. Financings secured by leases of Borrower assets;
- iv. Land Secured. Financings repaid with property taxes or property-related assessments;
- v. Voter-approved General Fund Debt or other voter-approved debt secured by full faith and credit (general obligation);and
- vi. Other sources of repayment, including debt service reserves, and/or alternative financing structures may be considered by IBank at its discretion.

G. Financing Approval

The Board is authorized to make financing and other decisions on any catalyst projects at any of its meetings, in accordance with and pursuant to the IBank Act and as otherwise provided by law.

7. Financing Terms, Fees and Limitations

Catalyst Projects may receive support via direct lending, loan participations, or loan guarantees. For loan guarantees up to \$5 million, the process will follow procedures governing the IBank

Small Business Finance Center's Small Business Loan Guarantee Program, as documented on the IBank website.

A. Amount

Subject to the availability of funds, and other factors including collateral, applicant credit quality, and overall risks to the Climate Catalyst Fund portfolio, IBank will consider various transaction sizes, participation levels and concentration limits under Catalyst Fund. Catalyst Projects may receive direct financings in amounts of \$1 million and above, subject to evaluation on a case-by-case basis. For smaller transactions, IBank will refer opportunities to the Small Business Finance Center, and in general will emphasize loan participation and guarantee structures.

B. Term

The financing term will not exceed the lesser of the Catalyst Project's useful life or 30 years. However, applicants may choose shorter maturities. Interest repayment of a direct financing will be targeted to begin as late as completion of construction, and in certain circumstances interest may be capitalized with the loan. As required, interest payments can be made from capitalized interest included in the financing amount or other sources identified by the applicant as documented in the applicable financing agreements. Direct financings will generally be amortized on a level repayment basis, but other amortization structures may be required or approved by IBank, as appropriate in a given case.

C. Interest Rate Setting Methodology

IBank will seek to lend using Catalyst Fund capital at the optimum interest rate balancing a number of factors, including IBank's cost of capital, operating expenses, expected losses, the length of the loan term, and the then-prevailing market conditions available to the project or similar projects. Proposed interest rates for each Catalyst Fund financing will be presented to the Board for its approval.

D. Fees

- i. Direct Loan Origination Fee:
 - a. A one-time origination fee equal to 1.0% of the financing amount will be charged for all Catalyst Program financings.
 - b. The minimum origination fee is \$10,000.
 - c. External fees will be borne by the borrower.
 - d. The origination fee must be included in the total project budget.
 - e. The origination fee may be included in the financing amount or paid by the applicant.

- f. Payment of the origination fee will be a condition of closing.
- ii. Loan Participation Fee:
 - a. To be determined in negotiation with the lead lender
- iii. Guarantee Fee:
 - a. To be determined following the procedures of the IBank Small Business Finance Center

8. Credit Underwriting Guidelines and Procedures

The aim of Catalyst Fund is to be flexible in support of nascent markets while still adhering to sound lending principles. The factors listed below will be considered individually and in aggregate, subject to case-by-case considerations, and informed by the evaluations of lead and co-lenders IBank may participate with.

- i. **Creditworthiness:** After review of the historical financial statements and reasonable projections of future income, does the applicant demonstrate the ability to repay the loan subject to appropriate covenants?
- ii. **Collateral:** Is there sufficient collateral available to cover the Catalyst Fund financing and any other loans to the project? If not, is additional collateral available which may be put toward the project?
- iii. **Character:** Has the applicant demonstrated a reasonable approach to business? Are personal and professional references available?
- iv. **Capacity:** What is the track record of the business, or of the individuals pursuing a new opportunity? Does management demonstrate sufficient skill and relevant knowledge to deliver a successful outcome?
- v. **Contributions –** What is the contribution of management to the capitalization of the project? What personal or corporate guarantees are being offered, or other commitments made that demonstrate management commitment to the project?

9. Conclusion

Catalyst Fund supports the state's critical climate infrastructure goals, for both mitigation and resiliency, across a range of sectors. Those goals, and the financial support required to achieve them, consistently evolve as the policy agenda for sustainability and climate stabilization is advanced. As such, IBank will periodically review and update these program guidelines to maintain consistency with our state partners and relevancy within the California marketplace.