State of California Climate Financing Request for Information

I. Introduction

The California Infrastructure and Economic Development Bank ("IBank"), in collaboration with the State Treasurer's Office ("STO") and jointly serving as California's "Green Bank," issues this Request for Information ("RFI") to inform our strategy for climate lending in specific priority sectors. We are prioritizing these sectors to comport with anticipated awards from the US Environmental Protection Agency's ("US EPA") National Clean Investment Fund ("NCIF"), which was created as part of the Inflation Reduction Act of 2022. These priority sectors are (1) Distributed Generation and Storage, (2) Net-Zero Emissions Buildings, and (3) Zero-Emission Transportation, and are described in greater detail below.

IBank and STO anticipate receipt of federal funding for these sectors beginning in H2 2024, and in anticipation of this event, are soliciting input from market participants to:

1. Identify where **financing gaps** exist to maximize the impact of public resources and effectively meet the market's needs;
2. Learn from **established financing products** that have been effectively deployed and demonstrated viability in the marketplace, inside and outside of California, that can be taken to scale using public resources;
3. Evaluate potential **financing platform partnerships** the state can leverage, in order to reach target market sectors – many of which require small-scale capital commitments that state lending entities may be challenged to directly effectuate.

II. Priority Sectors in Detail

While the state intends to actively explore expanding the list of eligible sectors, the RFI prioritizes the following three sectors, as described in the National Clean Investment Fund Notice of Funding Opportunity. For more information on the National Clean Investment Fund and its potential impact on climate lending in California, see Section V below.

A. **Distributed Generation and Storage:** "Projects, activities, and technologies that deploy small-scale power generation and/or storage technologies (typically from 1 kW to 10,000 kW), plus enabling infrastructure necessary for deployment of such generation and/or storage technologies," including but not limited to:
   1. Residential rooftop solar
   2. Residential rooftop solar + storage
   3. Community wind and solar
   4. Fuel cells
   5. Stand-alone energy storage (including replacement of diesel backup)
   6. Distributed Generation and Storage that support microgrids
   7. All of the above plus distribution system upgrades needed for project interconnection

B. **Net-Zero Emissions Buildings:** "Projects, activities, and technologies that either (1) retrofit an existing building, making a substantial contribution to that building being a net-zero emissions building and as part of a plan for that building achieving zero-over-time, or (2) construct a new net-zero emissions building in a low-income and disadvantaged community." For example, residential (1-4 family homes, manufactured homes, multifamily housing), commercial, industrial and "other" buildings – especially properties providing affordable housing. Eligible measures include but are not limited to:

1. Energy and water efficiency, geothermal heating and cooling, and grid-interactive appliance electrification in affordable multifamily homes
2. School building space and water heating grid-interactive electrification
3. "Whole-home" retrofits for 1-4 family housing to improve efficiency
4. Decarbonization retrofits for "adaptive reuse" to create housing, childcare, and other community facilities
5. New construction of net-zero residential buildings, in rural areas and urban infill, transit-oriented locations in low-income and disadvantaged communities

C. **Zero-Emissions Transportation:** "Projects, activities, and technologies that deploy zero-emissions transportation modes, plus enabling infrastructure necessary for zero-emissions transportation modes—especially in communities that are overburdened by existing diesel pollution, particulate matter concentration, and degraded air quality." Eligible measures include but are not limited to:

1. Deployment of chargers (including prewiring for future charger installation) and other infrastructure to support zero-emission micro-mobility and light-duty vehicles for individuals and families, particularly at and near multifamily housing
2. Chargers and other infrastructure for zero-emissions medium- and heavy-duty vehicles for small businesses and farms
3. Charging and/or refueling depots for zero-emissions school buses, trucks, and public transportation vehicles
4. Small-scale infrastructure to improve walkability and bikeability

III. Request for Information

IBank and STO seek to build new financing programs to advance progress in the above sectors, reflecting an urgency to act quickly and an imperative to build programs that can last. Specifically, we are seeking input on the following points, applied to the three priority sectors:

A. Under current and anticipated market conditions, what are the types of **financial products** that the market needs from the state green bank, in particular products that will close project finance gaps, address risks that the private capital markets cannot, and in so doing mobilize significant volumes of new private leverage? In this category, we are particularly interested to hear from market participants regarding how to balance the need for catalytic financial interventions with the goal of creating a durable, scalable lending program that can advance the state's climate agenda for years to come.

- For example, debt instruments such as pre-development, construction, and term lending; loan warehousing, purchasing, and aggregation facilities; credit enhancements such as loan guarantees, loan guarantee funds, and loan loss reserves; and other structures as appropriate and indicated as needed by market participants.
- In considering these questions, please speak to issues including loan tenor, pricing, seniority, principal and interest deferrals, guarantees as an alternative to direct lending, co-

lending strategies, consumer protections, and any other investment product features that should be emphasized.
- What examples embodying these product design priorities have been effectively deployed in the marketplace, inside and outside of California, that can be taken to scale using NCIF resources? What financial product design features have been demonstrated to be ineffective, and should be avoided in this new initiative?

B. Under current and anticipated market conditions, and given the need to efficiently deploy significant amounts of capital into thousands of small-scale assets, are there **intermediaries or partnership platforms** the state should establish or promote, across the three priority sectors? For example, are there entities with whom the state green bank can partner, who in turn can, in some combination, source, underwrite and service loans across the three sectors of relevance to the NCIF?

- Examples of potential platform partnerships the state is considering include:
    - Capital to aligned local lenders with good reach into project origination, including CDFIs, Credit Unions, community-focused commercial lenders, and others.
    - Direct lending to Community Choice Aggregators/POUs, underwriting to the balance sheets of these entities, who will then originate and capitalize NCIF-priority projects.
    - Capital to support existing and proposed utility on-bill financing strategies.
    - Existing clean energy program implementers that support state policy through incentives administration, again underwriting to the balance sheets of these entities who would on-lend directly.

IV. Request for Information Schedule

The RFI is open to all interested stakeholders. Feedback from private capital partners, impact investors, developers, local governments, community groups, philanthropies, and other market participants is crucial in identifying financing gaps and maximizing the impact of public resources to meet the evolving needs of the climate solutions market.

IBank and STO encourage respondents to submit all responses in Word Document (.doc) or PDF (.pdf) format, not to exceed 15 pages.

Please **direct all responses and questions** to climatefinancingrfi@ibank.ca.gov.
Responses submitted on or before February 9, 2024 at 11:59 PM will inform strategy for climate financing under the NCIF. All responses following that date will be periodically reviewed to continuously inform IBank and STO's program offerings. Multiple submissions are welcomed, as market participants gain knowledge and develop concepts over time, with a priority on early responses that can inform the state's strategy in the January-February 2024 timeframe.

V. Background

About the California IBank and the State Treasurer's Office

The IBank and the State Treasurer's Office [specifically, the California Alternative Energy and Advanced Transportation Financing Authority ("CAEATFA"), and the California Pollution Control Financing Authority ("CPCFA")] are working collaboratively to act as the Green Bank for the state of California. Together, the Green Bank entities have facilitated investment of more than $35 billion in California's clean energy economy and the safeguarding of its environment through green bonds, direct lending, credit enhancements, and sales tax exclusions.

IBank, established by the California Bergeson-Peace Infrastructure and Economic Development Act (CA Government Code § 63000) in 1994, operates a municipal lending program, conduit bond program, small business credit programs, an impact-oriented venture capital program, and a climate-focused financing program. In recent years, IBank's programs have financed more than $3 billion in climate resiliency projects, including, but not limited to, green bonds to replenish the state's Clean Water and Drinking Water Fund, loan guarantees for climate entrepreneurs, and municipal lending for organic materials management infrastructure, and invested in projects that have created more than 22,000 jobs across the state. IBank has embedded a focus on climate, job creation, and increasing access to capital for underserved communities into every one of our programs.

In preparation for available financing through the National Clean Investment Fund, IBank received the legislative authority in 2023 to operate a climate financing program consistent with California's Scoping Plan for Achieving Carbon Neutrality, which lays out California's path to achieve targets for carbon neutrality and reduce anthropogenic greenhouse gas emissions to 85% below 1990 levels no later than 2045.

CAEATFA was established to incentivize private sector activity that reduces dependence on fossil fuels, safeguards air and water quality, and advances the state's greenhouse gas reduction goals. Since 2010, CAEATFA has awarded sales tax exclusions on $14.9 billion of investment in high-quality green jobs and industries including recycling, advanced transportation and alternative fuels production. Through its GoGreen Financing program CAEATFA has leveraged nearly $90 million in private capital for energy efficiency retrofits to California homes and businesses, more than 50% of which has been invested in low-to-moderate-income census tracts.

CPCFA administers programs that incentivize capital investment in specific economic activities reflecting state and federal policy goals. While formed to incentivize projects that addressed industrial air and water pollution, CPCFA has evolved to utilize multiple mechanisms to make capital more effective, including conduit bond issuances for solid waste and water projects, credit enhancement for loans to small businesses, and grants to support work in California's underserved communities. Since CPCFA began taking action in 1973, it has supported over $17 billion in conduit bond transactions for public benefit projects and provided credit enhancements for more than 66,000 loans made to small businesses, some 40,000 of which supported the purchase of air quality–compliant vehicles.

About Green Banks and the National Clean Investment Fund

"Green Banks" are a relatively novel concept, structured as policy-aligned but market-oriented lenders focused on promoting infrastructure investments that advance environmental sustainability. Green banks can be government entities, as in California's case, or can be established as not-for-profit entities closely aligned with the public interest. The number of green banks in the U.S. has grown considerably in recent years, reaching 39 as of December 2022, reflecting in part the urgent need to mobilize significant amounts of new capital to address the climate crisis.[1]

[1] American Green Bank Consortium, "Green Banks in the United States: Green Bank Annual Industry Report Calendar Year 2021 and 2022". https://mcusercontent.com/3e3337737c870aa879b2ef144/files/58657110-26b4-3ee5-a3e4-45fda1bb6594/CGC_Consortium_AnnualReport.01.pdf.

In recognition of the role that locally-focused climate lenders such as state green banks can play, the Inflation Reduction Act of 2022 created the NCIF to be administered by the US EPA. The federal program will capitalize multiple national green financing entities, which will then provide flexible capital to state green banks targeting specific sectors of the climate economy, creating new permanent, financing funds that can be continuously redeployed to meet the evolving needs in the market for climate solutions.

US EPA requires adherence to specific policy objectives in NCIF project deployment:

1. Consistency with the Biden Administration's Justice40 Initiative: per Executive Order 14008, "the Federal Government has made it a goal that 40% of the overall benefits of certain Federal investments flow to **disadvantaged communities** that are marginalized, underserved, and overburdened by pollution." California embraces these principles in its own climate policies and strategies, and we will implement the NCIF Fund in accordance with these directives.
2. Build America, Buy America Act (BABA): Subject to further guidance from US EPA, implementation of the NCIF will require conformity with BABA, which "requires that all of the iron, steel, manufactured products, and construction materials used in infrastructure projects are **produced in the United States**."
3. Davis-Bacon and Related Acts: Subject to further guidance from USEPA, implementation of the NCIF will require conformity with Davis-Bacon and Related Acts, which stipulates that "contractors and subcontractors must pay their laborers and mechanics employed under the contract no less than the locally **prevailing wages** and fringe benefits for corresponding work on similar projects in the area."

It is anticipated that US EPA will make awards under this program in Q2 2024, with funding available for deployment as early as Q3 2024.

VI. Disclaimer

This RFI is neither a contract offer, nor a request for proposals, and does not commit the IBank and STO to award a contract, perform any obligation, pay any costs incurred in preparing a response, or to procure or contract for services or supplies. Respondents are encouraged to respond to this RFI; however, failure to submit a response will not impact a Respondent's ability to respond to any future competitive solicitation process (if any) for IBank and STO projects or influence the selection of a service provider going forward or affect its rights and obligations under any applicable laws or in any legal proceeding. IBank and STO reserve the right to discontinue or modify the RFI process at any time, and makes no commitments, implied or otherwise, that this process will result in a business transaction or negotiation with one or more Respondents. All costs associated with responding to this RFI will be solely at Respondents' expense. All materials and information submitted to IBank and STO shall be the sole property of IBank and STO and shall be available for use as determined by IBank and STO in their sole discretion.