

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
STAFF REPORT**

**APPROVAL OF AMENDED CRITERIA, PRIORITIES AND GUIDELINES
FOR THE SELECTION OF PROJECTS
UNDER THE CLIMATE CATALYST REVOLVING LOAN FUND PROGRAM**

I. Introduction

The California Infrastructure and Economic Development Bank (“IBank”) staff recommends the IBank Board of Directors (the “Board”) adopt Resolution No. 25-03 approving the amended Criteria, Priorities, and Guidelines for the IBank’s Climate Catalyst Revolving Loan Fund. Amendments to the program will enable the Catalyst Fund to receive and deploy capital under the Inflation Reduction Act (“IRA”) of 2022, specifically the US Environmental Protection Agency’s (“EPA”) National Clean Investment Fund (“NCIF”).

II. Background

The Climate Catalyst Revolving Loan Fund Act (AB78, 2020), signed into law by Governor Newsom June 29th, 2020, required that IBank establish a program to provide financial assistance to eligible private and public entities of climate infrastructure projects. The initial Climate Catalyst Fund capital for wildfire and forest resilience was provided in Senate Bill 85, (\$16 million) and Senate Bill 170 (\$31 million) in 2021. Senate Bill 155 in September 2021 authorized IBank to use these funds. With the Board approval of the original Criteria, Priorities and Guidelines in January of 2022, IBank was prepared to administer this new program in service of California’s climate policy objectives.

At the federal level, the Inflation Reduction Act of 2022 included the \$27 billion Greenhouse Gas Reduction Fund (GGRF) to be administered by EPA. One component of GGRF is the NCIF, dedicated to funding a network of green finance entities across the United States. EPA describes the NCIF as follows:

“Under the \$14 billion National Clean Investment Fund (NCIF) program, the three grant recipients are establishing national clean financing institutions that deliver accessible, affordable financing for clean technology projects nationwide. These recipients are partnering with private-sector investors, developers, community organizations, and others to deploy projects, mobilize private capital at scale, and enable millions of Americans to benefit from the program through energy bill savings, cleaner air, job creation, and more.”¹

¹ <https://www.epa.gov/greenhouse-gas-reduction-fund/national-clean-investment-fund>

IBank is a named “subrecipient” under the winning application of the nonprofit group Coalition for Green Capital (“CGC”). Subject to the Board’s approval of the preceding action item, IBank will begin to deploy over \$446 million in capital via IBank’s Climate Catalyst Fund. In addition, IBank is in discussions with the State Treasurer’s Office (“STO”) about deploying a portion of this capital through its clean financing programs.

III. Discussion

This resolution, adopting the proposed changes to Catalyst Fund Criteria, Priorities and Guidelines (“CPG”), seeks to align this aspect of IBank activity with the requirements imposed by EPA and CGC under the NCIF program. As noted in the preceding staff report, to the extent IBank is able to successfully deploy the subaward during the program’s period of performance ending December 31st, 2025, this capital will “revolve” back to the Climate Catalyst Fund and become available as a permanent resource in the future to support California’s climate goals. The amended CPG document is designed to be applicable across the range of climate infrastructure investments allowed under the NCIF and that IBank may ultimately pursue. The amended document can be viewed in **Attachment A** of Resolution No. 25-03. **Attachment B** to the resolution provides a redline comparing the amended document to the prior CPG document, which was approved in January 2022.

The material proposed changes to the Criteria, Priorities and Guidelines are as follows:

- a. **Establish Dedicated NCIF Financing Instruments:** Given the urgency to efficiently and effectively deploy these funds, IBank will prioritize the use of specific financing tools as described in the Criteria, Priorities and Guidelines. This approach will promote additional private capital leverage of NCIF funding, and provide for efficient underwriting and execution of viable transactions. Initial product offerings will include:
 - i. **Climate Loan Guarantee:** supports loans made to qualifying businesses and projects to help finance the buildout of climate infrastructure. Lenders are provided coverage on the guaranteed portion of loan defaults. Loans can be term loans or lines of credit, short-term or long-term, have fixed or variable rates, be secured or unsecured (subject to adequate credit quality), and bear any type of amortization schedule.
 - ii. **Climate Loan Participation:** Under this product originating lenders (“Lead Lenders”) submit loans to IBank for a loan participation. The Participation serves as a shared risk and benefits model to increase the willingness of community lenders, credit unions, and other private investors to fund climate projects. Loan types and terms will be set by the Lead Lender, and IBank will participate on a *pari passu* basis.
 - iii. **Climate Incentives Bridge Loan:** provides bridge financing for public, private, and non-profit sector borrowers seeking to utilize anticipated incentives, such as utility and state agency rebates, federal clean energy tax credits, and reimbursable grant funds, to finance eligible project costs.

While the Climate Catalyst Fund will prioritize the three products above for NCIF in lieu of conventional direct loans, these may be considered on a case-by-case basis for high-impact, creditworthy projects. All products allow flexibility for IBank to support low-income and disadvantaged communities.

- b. **Financing Plans:** The revised document describes the process and use of Financing Plans and enumerates the now-current Financing Plans under the Climate Catalyst program, including the Plan (approved in September 2024) that will govern activity under the anticipated capitalization from the National Clean Investment Fund.
- c. **Intake and Initial Evaluation Process:** The revised document provides additional context and detail regarding IBank's process for initial investment review. The Climate Catalyst Program requires applicants demonstrate the following: (1) Eligibility under relevant Financing Plan guidelines, (2) Project Readiness and Feasibility, (3) Availability of Sufficient Resources to Complete the Project, (4) Compliance with all Regulations and Permits, and (5) Source of Financing Repayment and Security.
- d. **Expansion of Indicative Diligence Criteria:** The document provides expanded guidance to prospective borrowers and partner lenders regarding the factors IBank will consider in its diligence process. Central considerations include the applicant's capacity to repay the proposed financing ; presence of adequate collateral security in the project or business; execution capability and financial commitment ('skin in the game') of the applicant team; and conditions affecting the project from a micro- and macro-economic perspective.
- e. **Interest Rate Methodology:** Prospective borrowers and financing partners are provided high-level guidance regarding the criteria IBank will use in establishing interest rates for its climate-related financings. Under the Guarantee and Participation programs, lender rates are expected to be within reasonable ranges, and IBank's rates will always be subject to Board approval. Rates provided by IBank for Incentives Bridge Loans and other direct financings will also be reasonable, commensurate with risk.
- f. **Fees:** Fees will vary by product type as follows:
 - a. Climate Loan Guarantee Fee:
 - i. An origination fee that covers operational and transactional costs, anticipated to be 1.0-2.5% of the amount guaranteed.
 - ii. An annual servicing fee to support program solvency.
 - iii. An annual risk-based charge may be assessed pending IBank review.
 - b. Climate Loan Participation Fee:
 - i. The Lead Lender will implement all eligible fees and charges according to its loan policies, including application fees, closing fees, annual fees, servicing fees, and penalties, within an appropriate *pro rata* share accruing to IBank.

- c. Climate Incentives Bridge Loan Fee:
 - i. A one-time origination fee equal to 1.0% of the financing amount, paid one time at loan closing.

- g. **Project and Portfolio Requirements:** The document outlines programmatic requirements for the allocation of NCIF capital as required by EPA regulations, and the considerations IBank must balance in deploying capital for eligible projects. These federal requirements, including the Davis-Bacon and Related Acts for labor standards, Build America Buy America for domestic content requirements, among others, may prove challenging to comply with individually and in combination . The Justice40 Initiative also requires that at least 40% of NCIF funds support projects benefiting disadvantaged communities.

IV. **Conclusion and Recommendation**

IBank staff believes that the revised document entitled “Criteria, Priorities and Guidelines for the Selection of Projects Under the Climate Catalyst Revolving Loan Fund Program” presents a sound framework for the execution of IBank’s legislative mandate to support critical climate infrastructure in California, with important amendments resulting from the provision of significant new federal funding through the National Clean Investment Fund. Therefore, IBank staff recommends the Board approve Resolution No. 25-03.