

Loan Loss Reserve Program Primer and Discussion of Comments to the Staff Proposal

Tuesday, November 8, 2022

Eileen Odell – Advisor to CPUC Commissioner Darcie Houck

Christopher Poschl – Supervisor Communications Division Loan Loss Reserve Program and LATA Program

Justin Fong – Senior Regulatory Analyst Communications Division

Michael Ammermuller – Senior Regulatory Analyst Communications Division

Angela Beane – Regulatory Analyst Communications Division

Christhian Ibanez Ortega – Associate Government Program Analyst



**California Public
Utilities Commission**

Why are we here, today?

- In July 2021, Governor Gavin Newsom signed historic broadband legislation SB 156 into law to help bridge the digital divide and provide reliable and affordable internet access to all Californians.
- In September 2021, the California Public Utilities Commission (CPUC) set out a procedural schedule to establish the program in a ruling.
- The CPUC is developing the Loan Loss Reserve Program to support local government, non-profits and tribes in their pursuit of building broadband infrastructure.
- Support includes payment of costs of debt issuance, obtaining credit enhancements and establishing and funding of reserves for the payment of principal and interest on debt.

Agenda

Loan Loss Reserve Program Background

Staff Proposal Overview

Comments and reply comments on the Staff Proposal

Loan Loss Reserve Fund

Fund established as a part of SB 156, codified in Public Utilities Code 281.2

- \$750 million, by fiscal year, mostly in Fiscal Year 23-24
- Source of funding: CA State General Fund
 - Subject to statutory reporting requirements

Credit enhancement for publicly funded broadband projects

- The Fund will provide collateral to local governments, non-profits and tribes to enable better borrowing rates and terms for bonds issued to deploy broadband infrastructure.
- Credit enhancements offered in the Loan Loss Program will be designed to attract private lending and reduce the cost of financing by reducing the lender's risk in the transaction.

Current Status of the Loan Loss Program

- Staff Proposal issued 9/26 in the Order Instituting Rulemaking Regarding Revisions to the California Advanced Services Fund (CASF) Rulemaking 20-08-021.
- Comments on Staff Proposal received Oct. 14, 2022 and reply comments received Oct. 24, 2022.
- After the public meeting, staff at the CPUC will work to develop a proposed decision which parties will have a chance to provide comments and reply comments on in 2023 prior to voting by the Commissioners.

Loan Loss Reserve Staff Proposal

[Loan Loss Reserve Webpage](#)

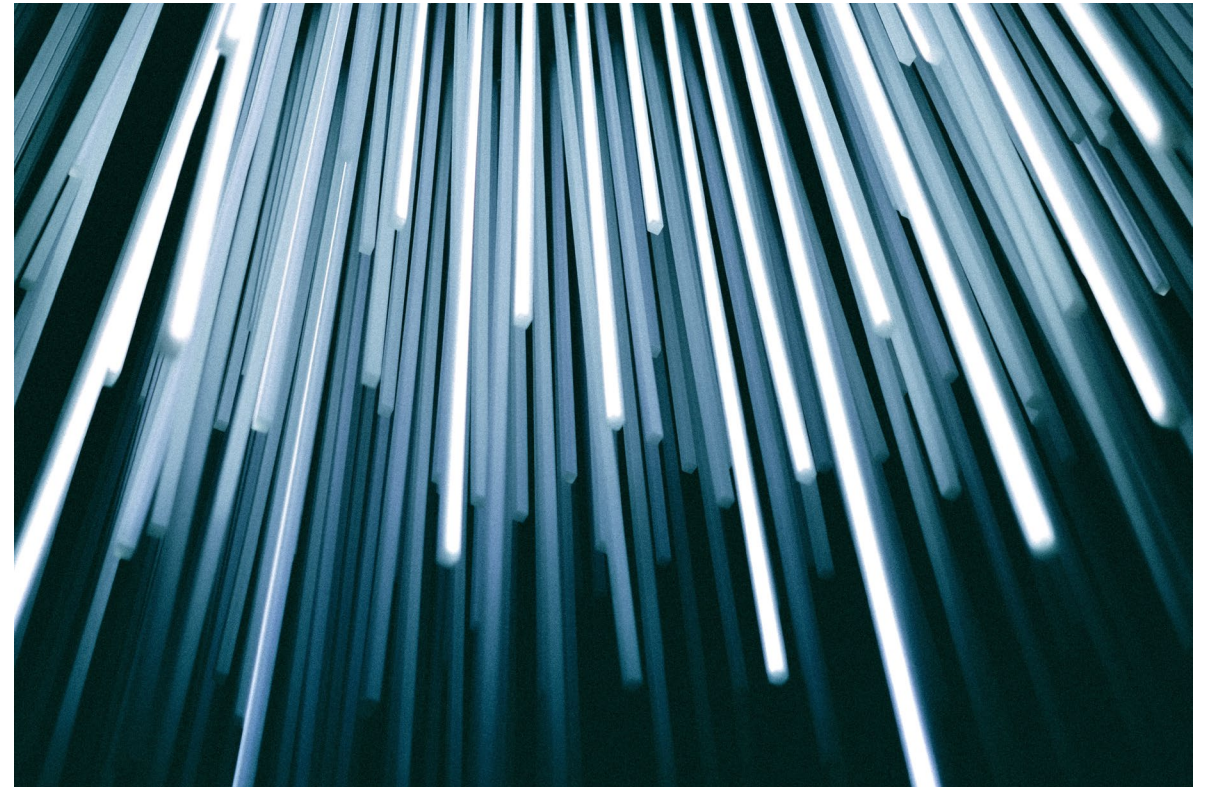
Loan Loss Reserve Staff Proposal Highlights

Loan Loss Reserve Fund	Debt Service Reserve Fund
Principal coverage 5-20% of the total amount of the project loan	Costs associated with the payment of principal and interest on debt not to exceed 20% of the total debt amount and 2 years of debt service payments

- Eligible costs include credit enhancement, transaction costs (e.g., bond counsel) and cost of the guarantor to issue.
- Payment of costs of debt issuance, not to exceed 5% of total debt issued.
- Funds may be encumbered up to 30 years.
- Application review process:
 - Part I – A review of applicant eligibility and project eligibility.
 - Part II – A review of the project’s financial solvency and “impact” of the credit enhancement on the loan.

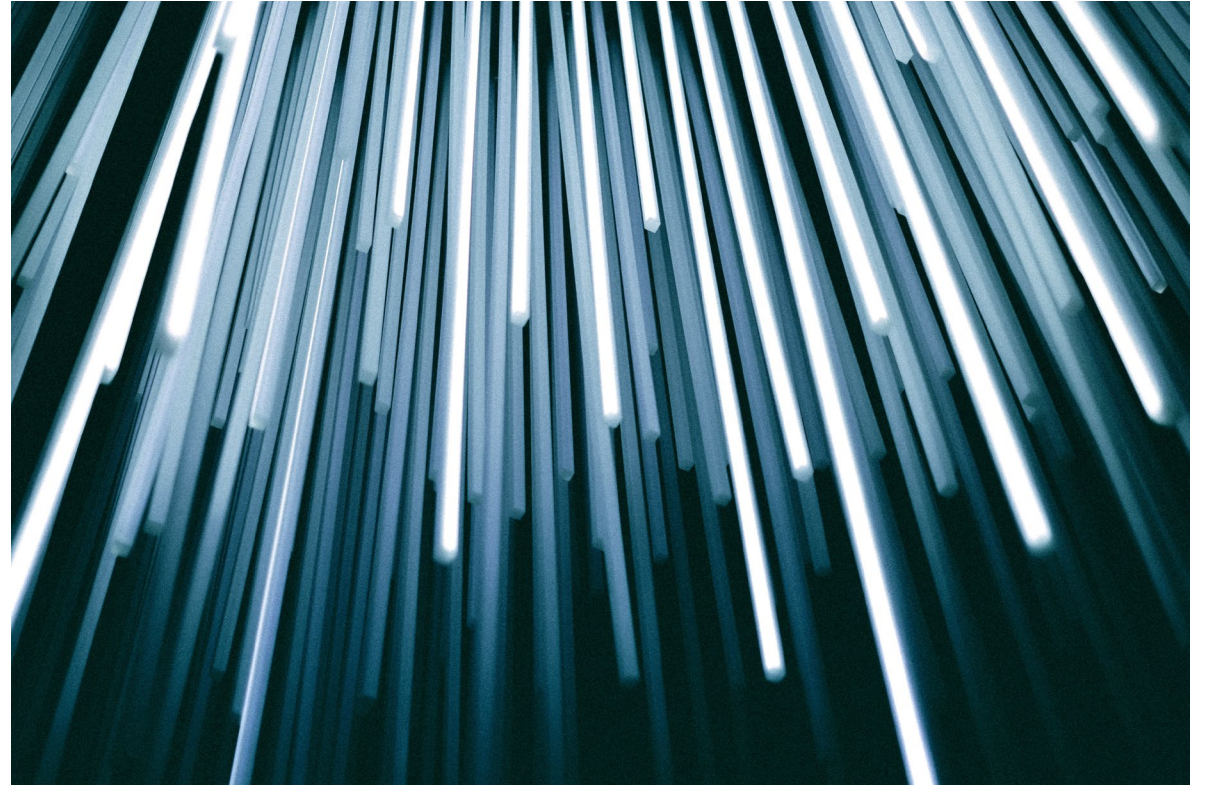
Oct. 14 - Comments from Parties on the Staff Proposal

1. California Cable & Telecommunications Association
2. Community Opportunity Coalition
3. National Diversity Coalition
4. Public Advocates Office
5. The Utility Reform Network
6. Unite LA
7. Yurok Tribe



Oct. 24 - Reply Comments from Parties on the Staff Proposal

1. California Cable & Telecommunications Association
2. Community Opportunity Coalition
3. National Diversity Coalition
4. Public Advocates Office
5. The Utility Reform Network
6. Center for Accessible Technology and Electronic Frontier Foundation



Priority Issues

Loan Loss Reserve Program Coverage

Financial Eligibility Guidelines

Clarification of the Escrow Account Holder and Bond Trustee

Applicant Prioritization

Proposed Loan Loss Reserve Program Coverage

Staff Proposal

Loan Loss Reserve

- Principal coverage 5-20%, dependent on perceived risk of application

Debt Service Reserve

- Principal and interest coverage $\leq 20\%$ of total debt amount and 2- year limit on debt service payments

Loan Loss Comments

- Higher principal coverage up to 100%
 - In order to reduce borrowing costs and interest rates
 - Secure a rating for a bond offering that makes it more marketable
- Principal coverage up to 25%, 10% if partially funded
- Cover up to 80% of project costs that serve unserved DACs

Debt Service Comments

- DSR covers up to 35% of interest and principal or 8 years of debt service
- DSR covers up to 30% of interest and principal, not to exceed 7 years of debt service
- If a bond-funded DSR is included in the bond transaction, DSR payments should not exceed 3 months
- DSR to cover 100% for projects that fulfill the highest prioritization criteria
- If a cap is established, program should eliminate a timed provision

Proposed Loan Loss Reserve Program Coverage

Staff Proposal

Loan Loss Reserve

- Principal coverage 5-20%, dependent on perceived risk of application

Debt Service Reserve

- Principal and interest coverage \geq 20% of total debt amount and 2-year limit on debt service payments

Loan Loss Reply Comments

- Only a portion of the LLR should be funded based on project risk and a cap of 5% for already served areas.
- Examine how the California Capital Access Program or the Property Assessed Clean Energy Program is structured.

Debt Service Reply Comments

- DSR should be in place for 10-years which will provide adequate timing for refinancing of the bond if needed.

Proposed Financial Eligibility Guidelines

Staff Proposal

- Audited financial statements for the past 3-years.
- Pro-forma 5-year financial forecast.
- Schedule of all outstanding and planned debt.
- Outside funding.
- Project budget and timeline.
- A binding term sheet that outlines the proposed financing deal.

Comments

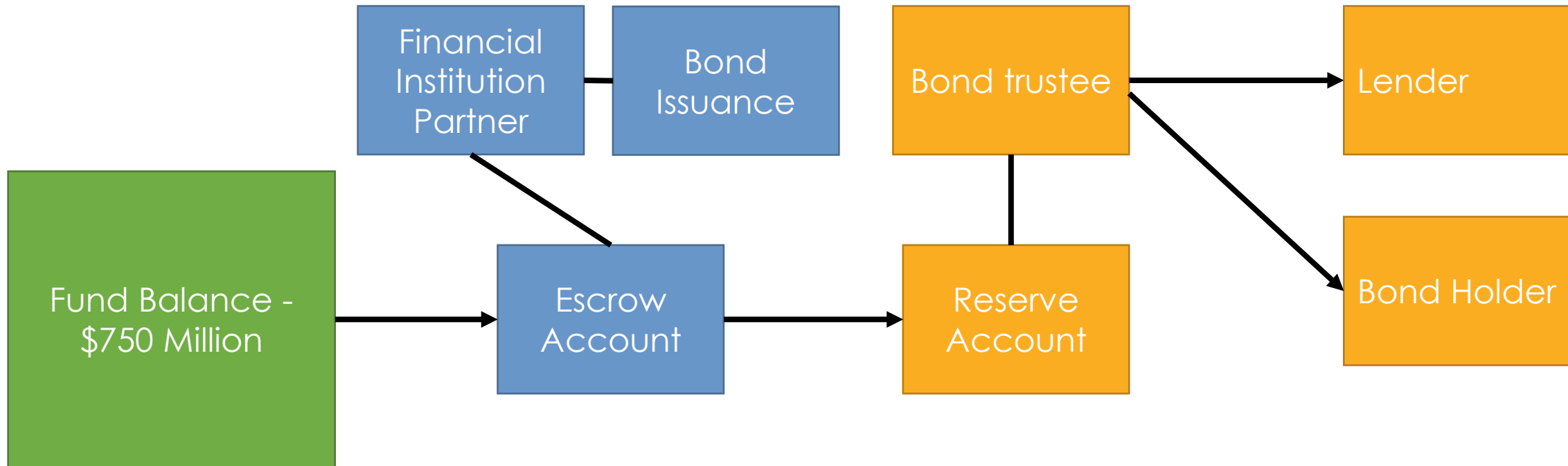
- Financial statements for as long as the applicant has been in existence.
- For newly formed organizations, financial statements from the parent or sponsoring organization, including relationship between the organizations.
- A non-binding term sheet that outlines the proposed financing deal.

Clarification of Escrow Account Holder and Bond Trustee

Staff Proposal

- The CPUC may hold the fund balance in an escrow account with a financial institution partner or other fiduciary, after which, subsets of the funds are moved in the appropriate proportion as stated in the Loan Loss Agreement into a reserve fund, as loan or bond protections are awarded
- **Comments**
- Clarification of the responsible entities and their respective roles.
- Reserve account for each LLR-supported transaction be held by the trustee of that transaction.
- Operations and management of the fund would be set forth in the indenture of the transaction.

Proposed Structure of Loan Loss Program



Applicant Prioritization

Staff Proposal

- If funds become encumbered greater than 80% (\$600 million) or fund balance is less than 30% (\$225 million), project prioritization will be considered for groups identified as:
 - Projects with secure financing and relatively low risk.
 - Communities identified in the CPUC ESJ Action Plan.
 - Unserved territories as defined in the Federal Funding Account Program and Guidelines.
- Criteria includes Project Technology Choice, Offers Affordability Program, Existing Broadband Service Need, Leveraging State Middle Mile.

Applicant Prioritization

Comments

- Should be applied from the start of the program to all applications.
- Commission to require a low-income plan.
- Offer both an Income-Qualifying Broadband Plan and a Generally Available Low-Cost Broadband Plan.
- Priority should go to projects where the credit guarantee makes obtaining financing possible that would not otherwise be feasible without the guarantee.
- Projects must achieve a minimum of a 40-point score to qualify for financing.

Applicant Prioritization

Reply Comments

- Do not limit the Loan Loss Reserve monies to only support projects in unserved areas.
- Prioritize projects that will serve ESJ, low-income and unserved communities.
- Adopting a “Worst First” Strategy Would Destroy the Loan Loss Reserve Program’s Ability to Aggregate Demand to Pay the Debt Vehicles.

Email the Communications Division at broadband.loanloss@cpuc.ca.gov if you have any questions or visit the [Loan Loss Reserve webpage](#).



California Public Utilities Commission

Q&A - Eileen Odell