

Date of Hearing: April 29, 2015

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Eduardo Garcia, Chair

AB 1533 (Committee on Jobs, Economic Development, and the Economy) As Introduced March 24, 2015

SUBJECT: Infrastructure financing

SUMMARY: Makes a number of technical changes to the definition section of the code relating to the Infrastructure and Economic Development Bank (I-Bank). In addition, the bill makes conforming changes to the operation and programs of the small business financial development corporations consistent with the Governor's Reorganization Plan 2 (GRP 2) and other legislation from 2013.

EXISTING LAW:

- 1) Establishes the I-Bank within the Governor's Office of Business and Economic Development (GO-Biz) and authorizes it to undertake a variety of infrastructure related financial activities including, but not limited to, the administration of a revolving loan fund, oversight of the Small Business Finance Center, and the issuance of tax-exempt and taxable revenue bonds.
- 2) Establishes the Small Business Finance Center within the I-Bank for the purpose of assisting businesses seeking capital resources not otherwise available in the private markets including:
 - a) Loan guarantees and other credit enhancements;
 - b) Direct loans and other debt instruments;
 - c) Disaster loan guarantees; and
 - d) Surety bond guarantees.

FISCAL EFFECT: Unknown

POLICY ISSUE FRAME:

This is the I-Bank code maintenance bill from the Assembly Committee on Jobs, Economic Development, and the Economy. The bill contains technical and conforming changes to prior legislative actions.

COMMENTS:

- 1) **Updating Definitions:** Existing law includes an extended list of definitions for the operation of the I-Bank including definitions related to the types of:
 - Financial actions the I-Bank is authorized to undertake including bond purchase agreements, financial assistance, and loan agreement
 - Projects the I-Bank is authorized to finance including economic development facilities, education facilities and public development facilities.

AB 1533 reorganizes the placement of certain definitions, clarifies some definitions, and updates cross references within the I-Bank's definition code sections.

- 2) **Reorganization Update:** Over a decade ago, California received \$2 million from the federal Economic Development Agency through an Economic Adjustment Assistance Grant, which funds economically-distressed communities, and the Sudden and Severe Economic Dislocation Grant Program, which provides capital to businesses in economically-distressed areas.

In 2008 the federal funds were deposited in the Small Business Expansion Fund and the Business, Transportation, and Housing Agency (BTH) was given oversight responsibility. GRP 2, submitted to the Legislature in 2012, eliminated BTH. The technical clean-up bills to GRP2 transferred the California Small Business Expansion Fund (including the federal funds) to the I-Bank and the program authority to oversee the federal funds to I-Bank's parent agency, GO-Biz.

AB 1533 proposes a more streamlined organization structure for the federal funds by authorizing the I-Bank to oversee both the money and program implementation responsibility. According to the Author, this shift is recommended because the:

- I-Bank already operates under the purview of GO-Biz, meaning GO-Biz will still have oversight
- I-Bank already has authority to provide direct loans and guarantees to businesses seeking capital, meaning they are well equipped to appropriately expend the funds
- I-Bank already has primary responsibility for the funds in the California Small Business Expansion Fund

- 3) **Infrastructure and the Economy:** World class infrastructure plays a key role in business attraction, as multinational companies consistently rank the quality of infrastructure among their top four criteria in making investment decisions. Research shows that U.S. infrastructure has been in decline while infrastructure in other countries is rapidly increasing. The 2012-13 Global Competitiveness Report by the World Economic Forum places U.S. infrastructure 25th in the world, down from 23rd in 2010 and 7th in 2000.

California's 2013 Infrastructure Report Card by the American Society for Civil Engineers estimates that California's annual unfunded infrastructure investment is \$65 billion. The impact of this lack of investment is compounded by the substantial new infrastructure investments made in other states and nations, including the expansion of the Panama Canal.

Since the 1980's infrastructure to support economic development activities has focused on supporting specific areas of "industry clusters" where multiple firms and organizations working in the same, or similar, fields draw on each other's discoveries, products, and in some cases workforces leading to a highly focused and productive innovation center with prodigious output. Silicon Valley and Hollywood are archetypical examples, specializing in electronics and cinema, respectively.

Globalization is changing the economic paradigm, which makes the linkages between regional economies more relevant and comparative advantages are increasingly based on the quality and efficiency of the technologies that link the location with other areas of the world.

- 4) **Background on the I-Bank:** The I-Bank was established in 1994 to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California. Housed within GO-Biz, it is governed by a five-member board of directors comprised of the Director of GO-Biz (chair), the State Treasurer, the Director Department of Finance, the Transportation Agency, and a Governor's appointee. The day-to-day operations of the I-Bank are directed by the Executive Director

who is an appointee of the Governor and is subject to confirmation by the California State Senate. Currently, the I-Bank has authority for 25 staff members.

The I-Bank does not receive any ongoing General Fund support, rather it is financed through fees, interest income and other revenues derived from its public and private sector financing activities. According to its Comprehensive Annual Financial Report for the fiscal year ended June 2013, its programs continued to provide revenues sufficient to cover operating expenses.

The I-Bank administers three programs: (1) the Infrastructure State Revolving Fund which provides direct low-cost financing to public agencies for a variety of public infrastructure projects; (2) the Conduit Bond Program which provides financing for manufacturing companies, public benefit nonprofit organizations, public agencies and other eligible entities; and (3) the Small Business Finance Center which helps small businesses access private financing through loan guarantees, direct loans, and performance bond guarantees. There is no commitment of I-Bank or state funds for any of the conduit revenue bonds. Even in the case of default, the state is not liable.

Since its creation in 1994, the I-Bank has loaned, financed, or participated in over \$34 billion in infrastructure and economic expansion projects. This includes over \$400 million to local and state agencies, developing a high-level of expertise in the financing of public infrastructure. The I-Bank also serves as the state's only general purpose financing authority with broad statutory powers to issue revenue bonds, make loans, and provide guarantees. Over \$33 billion in conduit revenue bonds have been issued by the I-Bank since 2000.

- 5) **Related Legislation:** Below is a list of related legislation from current and previous legislative sessions:
- a) ***AB 311 (V. Manuel Pérez) I-Bank California-Mexico Border Assistance:*** This bill would have expanded the role of the I-Bank to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. The bill would have also made related technical changes to the definitions of eligible projects. Status: Died in the Assembly Committee on Appropriations, 2014.
 - b) ***AB 1247 (Medina and Bocanegra) Small Business Finance Center:*** This bill establishes the California Small Business Finance Center at the I-Bank, within the Governor's Office of Business and Economic Development, and transfers the authority to administer the small business loan guarantee program and other related programs to the I-Bank. Status: Signed by the Governor, Chapter 537, Statutes of 2013.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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