

Date of Hearing: April 29, 2015

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY  
Eduardo Garcia, Chair

AB 1537 (Committee on Jobs, Economic Development, and the Economy) – As Introduced March 25, 2015

**SUBJECT:** Small Business Financial Assistance Act of 2013: reports

**SUMMARY:** Expands the type of information being reported on financial assistance provided through the **Small Business Finance Center**. The bill requires reporting annually by city and county on number and dollar value of all credit enhancements and debt instruments issued by the small business financial development corporations (FDCs) and the Infrastructure and Economic Development Bank (I-Bank).

**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.
- 3) Requires the FDCs to report annually on their activities financed through the Small Business Finance Center.
- 4) Requires the I-Bank to prepare an annual report that includes the information provided by the FDCs.

**FISCAL EFFECT:** Unknown

**POLICY ISSUE FRAME:**

California offers a range of financial assistance to small businesses. One of the largest programs is the Small Business Loan Guarantee, which is administered through the Small Business Finance Center. As initially designed, the program was offered locally through a statewide network of FDCs. Each of the FDCs had a specific geographic area in which they were assigned.

Today, some FDCs serve small businesses across the state or within larger and sometimes overlapping geographic areas in the state. This change in program delivery necessitates a change in reporting. AB 1537, a committee bill, expands reporting requirements for all program offered through the Small Business Finance Center, including the Small Business Loan Guarantee Program, to include the city and county where the business is located.

The Comment section of the analysis includes additional information on the I-Bank, \$168 million in small business capital being administered through the under a federal grant, and related legislation.

## COMMENTS:

- 1) **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.

- 2) **State Small Businesses Credit Initiative:** In October 2010, Congress passed and the President signed the Small Business Jobs Act (Act). Among other things, the Act created the State Small Business Credit Initiative (SSBCI), which is authorized to expend up to \$1.5 billion for state sponsored small business finance programs. Over the life of this program, every federal dollar must be matched by \$10 from the private sector -- the deadline for using the funds is September 2017. Also, funding for program administration, outreach, and oversight is primarily the responsibility of the state.

Under the SBCCI funding formula, California is eligible to receive up to \$168 million, which is the largest amount of any state. California uses its moneys to capitalize the Small Business Loan Guarantee Program at the I-Bank's Small Business Finance Center and the California Capital Access Program (CalCAP) loan loss reserve program and a collateral support program administered through the California Pollution Control Financing Authority.

California has received \$110 million of the total \$168 million available and, as of June 30, 2014, the state has encumbered roughly \$87.6 million with approximately \$40.6 million set aside to cover loan

guarantees; \$7.2 million deposited with private financial institutions through the CalCap and \$39.8 million used for the collateral support program. Approximately \$2.4 million has been used for direct administrative costs, resulting in a cumulative 2.18% administrative cost per dollar allocated by the U.S. Treasury. Since inception, 47,202 jobs have been created (7,372) or retained (39,830) by the close of 2013. 2014 job impacts were 2,228 new jobs and 13,931 retained jobs.

AB 1537 reporting requirements would apply to the FDC administered portion of the SSBCI funds, as well as the \$32 million in state funds being delivered through the FDC under contract with the Small Business Finance Center.

3) **Related Legislation:** Below is a list of related legislation from current and previous legislative sessions:

- a) ***AB 780 (Bocanegra) Small Business Financial Development Corporation Funding:*** This bill would have appropriated \$2 million to provide administrative funding to the state's small business financial development corporations, specifying that each is eligible to receive \$150,000, and brings them under the jurisdiction of GO-Biz. Status: Held on the Suspense File of the Senate Committee on Appropriations, 2013.
- 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 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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