

Date of Hearing: April 22, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 2749 (Jobs, Economic Development, and the Economy) – As Amended: April 10, 2014

SUBJECT: Economic development

SUMMARY: Makes technical changes to the Government Code relating to the transfer of economic development related programs from the Business, Transportation and Housing Agency (BTH) to the Governor's Office of Business and Economic Development (GO-Biz). Specifically, this bill:

- 1) Makes technical corrections to the transfer of the administration of the Economic Adjustment Assistance Grant and the Sudden and Severe Economic Dislocation Grant Program from the BTH to GO-Biz.
- 2) Renumbers within statute the following definitions (no changes have been made to the definitions):
  - a) Local Economic Development Organization
  - b) Financial Intermediary
  - c) Regional Economic Development Organization
  - d) Regional Economic Development Corporation
  - e) Regional Economic Development Organization
  - f) Small Businesses
  - g) Economic Development Corporation
  - h) Community Development
  - i) Triple Bottom Line
  - j) Financial Institution Capital
  - k) Economic Development
  - l) Community Development Intermediary
  - m) Local Economic Development
  - n) Microbusiness Lender
  - o) Emerging Domestic Market
  - p) California Council on Science and Technology
- 3) Modifies the annual reporting requirements of the I-Bank including: consolidating requirements; making submittal of the report to the Legislature rather than the Joint Legislative Audit Committee; requiring that aggregate-level reporting be provided on revolving loan fund activities rather than the current requirement to report, in detail, on every application received during the reporting period; and requiring the annual report be posted on its website.
- 4) Removes the requirement for the Small Business Advocate to consult with the Department of Transportation on the Small and Emerging Manager Contractor Technical Assistance Program, a program that sunseted on January 1, 2013.
- 5) Makes other technical and conforming changes to the Government Code.

EXISTING LAW:

- 1) Places the definitions for specified terms relating to economic development within part 4.7 of division 3 of title 2 of the California Government Code, concerning Business and Tourism (Ca. Gov. Code § 13997.2). This is reflective of BTH's previous role as administrator of economic development programs within the executive branch of the California government.

- 2) Establishes the authority of GO-Biz as “the lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, and economic growth.” (Ca. Gov. Code §12096.3)
- 3) Designates the Director of GO-Biz as the official state administrator of the Economic Adjustment Assistance Grant and the Small Business Expansion Fund. (Ca Gov Code §13997.7 as amended by SB 820, Chapter 353, Statutes of 2013)
- 4) Establishes the California Small Business Finance Center within the I-Bank for the purpose of overseeing programs locally delivered through a network of small business financial development corporations (FDCs). (Ca Gov Code § 63088 et sec as established through AB 1247, Chapter 537, Statutes of 2013)

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's Purpose: This measure makes a number of technical changes to conform existing law with previously enacted legislation.
- 2) Office of Business and Economic Development: In April 2010, the Governor's Office of Economic Development was established to provide a One-Stop-Shop for serving the needs of businesses and economic developers. While initially established through Executive Order S-01-10, the office was later codified and renamed as the Governor's Office of Business and Economic Development (GO-Biz), in AB 29, Chapter 475, Statues of 2010. In 2012, GO-Biz assisted over 5,300 companies which resulted in the creation and/or retention of 9,050 jobs and \$1.45 billion in investments. GO-Biz directly assisted over 6,500 companies in 2013.

Among other programs, GO-Biz provides permits and other technical assistance for new and expanding businesses, as well as administering the California Innovation Hub Program in partnership with the statewide network of 16 regional economic development partnerships. The Office of the Small Business Advocate is located at GO-Biz and the state's international trade and foreign investment activities are coordinated through GO-Biz.

In 2012, the Governor initiated, and the Legislature allowed to advance, a comprehensive reorganization of the state's administrative structure [Governor's Reorganizing Plan 2 (GRP2)]. Key changes included the dismantling of the Business, Transportation and Housing Agency (BTH) and further consolidating GO-Biz' position as the state's lead in economic development. Effective July 1, 2013, GO-Biz has the administrative authority for more economic development related programs and services including the Small Business Loan Guarantee Program and the Infrastructure and Economic Development Bank.

- 3) Economic Adjustment Assistance Grant: The federal Economic Adjustment Assistance Grant program was initially designated to be administered through the Technology, Trade, and Commerce Agency, which was eliminated in 2003. Although the State Controller retained the federal money, no state entity had the legal authority to actually use the money.

In 2008, BTH was designated as the state administer of the funds and the moneys were transferred to the California Expansion Fund where they could be used under contract through the state's network of

FDCs. Code clean-up to the Governor's GRP 2 transferred the authority to use the federal funds and the responsibility to oversee the FDC contracts from BTH to GO-Biz. However, legislation enacted in 2013, transferred the FDC programs to the I-Bank, a unit within GO-Biz [AB 1247 (Medina), Chapter 537, Statutes of 2013]. AB 2749, as proposed to amended in Assembly Appropriations, would give the executive director of the I-Bank the authority to administer the federal funds through the FDCs.

- 4) Background on 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), State Treasurer, Director Department of Finance, 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 \$344 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.

The seismic upgrade of the Bay Bridge is an example of how conduit revenue bonds can be used to raise capital for infrastructure projects without impacting the state General Fund. In this example, the repayment of the bonds was based on a \$1 per vehicle surcharge collected on seven Bay Area state-owned toll bridges. In addition to this type of bonding activity, the I-Bank has also been involved in other unique financings including Tobacco Securitization Bonds, Tribal Compact Asset Securitization Bonds, and Imperial Irrigation District Preliminary Loan Guarantees.

- 5) Related Legislation: The following is a list of related legislation.
- a) *AB 29 (John A. Pérez) Creation of GO-Biz*: This bill established the Office of Economic Development within the Governor's Office for the purpose of serving as the lead entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. Status: Signed by the Governor, Chapter 475, Statutes of 2011.

- b) *AB 901 (V. Manuel Pérez) Definition of Financial Institutions*: This bill expanded the definition of financial institutions eligible to participate. Particularly, the bill included a small business financial development corporation or microenterprise development organization that met the established standards. Additionally, it required an annual report to be given to Governor and the Legislature that included: outstanding loans, new loans issued since the prior report, total number of businesses served, jobs created, jobs retained, the geographic distribution of loans, and the breakdown of businesses served by industry sector. Status: Signed by the Governor, Chapter 483, Statutes 2011.
- c) *AB 192 (Budget Committee) BTH Authority to Administer Grant Program*: This bill, among other things, made the necessary statutory changes to allow the transfer of \$4.3 million in federal funds held by the State Controller's Office to the Business Transportation and Housing Agency in order to reactivate the Sudden and Severe Economic Dislocation Grant Program as was approved in the budget. Status: Signed by the Governor, Chapter 312, Statutes of 2007.
- d) *AB 1247 (Medina and Bocanegra) Small Business Finance Center*: This bill established the California Small Business Finance Center at the I-Bank, within GO-Biz, and transferred 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.
- e) *AB 1317 (Frazer) GRP 2 Implementation*: This bill made the necessary statutory changes to reflect the alterations made by the Governors' Reorganization Plan 2 (GRP 2) as introduced to the Legislature on May 3, 2012 and made effective on July 3, 2012. Status: Signed by the Governor, Chapter 352, Statutes of 2013.
- f) *AB 1399 (Jobs Committee) Code Maintenance*: This bill, as it passed JEDE, would have made a number of technical changes to the Government Code consistent with the Governor's 2012 Reorganization Plan. Due to delays in passing AB 1317 to the Governor, the code maintenance provisions were removed in order to avoid chaptering problems. Status: Pending in the Senate Governance and Finance Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

None Received

Opposition

None Received

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