

Date of Hearing: April 21, 2015

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Eduardo Garcia, Chair

AB 484 Gipson – As Amended April 14, 2015

SUBJECT: California Infrastructure and Economic Development Bank: insurance

SUMMARY: This bill expands the types of financial products the Small Business Finance Center may offer to include insurance and co-insurance for the purpose of increasing small business export activities. Specifically, **this bill:**

- 1) Authorizes the Small Business Finance Center, administered through the California Infrastructure and Economic Development Bank (I-Bank), to include insurance, coinsurance, and other forms of surety among the types of financial products included in programs administered by the I-Bank.
- 2) Requires the I-Bank to adopt implementing directives and requirements should the I-Bank choose to activate this program.
- 3) Requires a participating small business to:
 - a) Have less than 250 employees (consistent with other I-Bank programs);
 - b) Be an exporter or plan to become an exporter of California products including agricultural products, as specified;
 - c) Demonstrate that the business could not otherwise access the surety product under reasonable terms and conditions;
 - d) Demonstrate their ability to fully make the payments covered by the surety; and
 - e) Have a minimum equity interest in the business, as set by the I-Bank.
- 4) Requires the I-Bank to adopt collateral or security requirements to ensure the solvency of any insurance, coinsurance, or surety extended under this bill.
- 5) Authorizes the I-Bank to charge the applicant or financial institution an insurance origination fee or other fee on all instruments made by the I-Bank, as specified.
- 6) Authorizes the I-Bank to act as agent for creditworthy California exporters, to sell approved and insured accounts receivable to qualified parties and function as a clearinghouse for the collection and disbursement of funds relative to those sales.
- 7) Specifies the amount of insured liability outstanding at any one time shall be secured by no less than a 25% reserve amount of funds on deposit in the California Small Business Expansion Fund plus any receivables due from the funds loaned from the California Small Business Expansion Fund to another fund in state government, as specified.

EXISTING LAW:

- 1) Establishes GO-Biz for the purpose of serving as the lead state entity for economic strategy and

marketing of California on issues related to business development, private sector investment, and economic growth.

- 2) Establishes the I-Bank, within GO-Biz, to administer a range of programs including the Small Business Finance Center, the State Infrastructure Revolving Loan Fund, and to serve as a conduit bond issuer.
- 3) Establishes the Small Business Finance Center for the purpose of assisting businesses seeking new capital resources 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:

Prior to the elimination of the Technology, Trade, and Commerce Agency in 2003, the California Export Finance Office (CEFO) served as the state's primary point-of-contact for small businesses seeking technical assistance and capital for expanding into foreign markets. Since that time, California's economic and business development framework has changed considerably. The central point of the state's programs and services is GO-Biz and the economic development entities under its purview including the I-Bank and the Small Business Finance Center.

Last year, the Assembly Jobs Committee heard and passed SB 511 (Lieu), which reestablished two components of the CEFO programs within the I-Bank: The Export Finance Advisory Board and gap insurance authority for exporting small businesses. SB 511 was held in the Assembly Appropriations Committee.

AB 484 proposes to implement one portion of the prior legislation, that being the expansion of the financial offerings of the California Small Business Finance Center. With the implementation of AB 484, California small business could have access to the same types of finance export assistance as previously offered through the CEFO.

Unlike state programs offered through other departments, I-Bank program authority is permissive. This means that activation of the new insurance authority would be dependent on the I-Bank Bank determining that the program was necessary to meet an unmet market need, that there was sufficient capital to back an insurance program, and that the I-Bank was confident that an appropriate administrative structure was in place to successfully deliver the program.

The Comment Section of the bill analysis includes information on the role and structure of GO-Biz and the I-Bank, California's trade-based economy, and related legislation.

COMMENTS:

- 1) **Author's Purpose:** According to the author's statement, "By giving the California Small Business Finance Center another financial tool aimed at trade promotion, AB 484 will help drive economic growth and raise living standards throughout California by supporting and creating new jobs."
- 2) **Traded Industries and Economic Growth:** California's \$2.2 trillion economy naturally functions as an independent economic power within the global economy. In fact, compared to other nations, California has one of the 10 largest economies in the world, in part, due to it being a top-tier trade partner, a best-in-class investment location, a high quality producer of goods and services, and serving as the home and key access point for a massive consumer-base. In 2014, California exported \$174 billion in products to over 220 foreign countries. While California was significantly impacted by the recession, exports continued to increase in almost every quarter from 2010 through 2014.

The value of trade-related industries, as a component of the broader economy, was the subject of a study by the Brookings Institute and JP Morgan Chase, *Export Nation 2013*. The report found that between 2003 to 2012 exports drove post-recession growth in the 100 largest metro areas including Los Angeles, San Diego, and the Inland Empire.

The study is unique in that it collected data by **origin of production** rather than **origin of export movement**, as is the case with the U.S. Department of Commerce export data reported above. Using the *Export Nation* methodology, total California exports for goods and services in 2012 was \$252 billion, as compared to the U.S. Census Bureau's 2012 number of \$162 billion for goods only, as measured by origin of movement.

In 2012, exports represented 8.8% of California GDP, based on *Export Nation* data. The top five California metro areas with the highest concentration of export-related GDP in the report period include: (1) Los Angeles (37.1%); (2) San Francisco (15%); (3) San Jose (13.7%); (4) San Diego (11.5%), and (5) the Inland Empire (9.2%). **Chart 1** includes more specific data on selected California exports of goods and services, as expressed in 2012 dollars (adjusted for inflation) and based on the *Export Nation* methodology.

Chart 1 – Southern California Largest Metro Areas Exports (2007-2012)(in millions of dollars, adjusted for inflation)						
Metropolitan Statistical Area	2003 Exports (millions)	2012 Exports (millions)	Export Share of GDP	Export in Goods 2012	Export in Services 2012	Annualized 2009-2012 Growth in Manufacturing (Post-Recession)
El Centro, CA Metropolitan Statistical Area	432.7954	586.8708	9.3%	456.5946	130.2762	8.9%
Los Angeles-Long Beach-Santa Ana, CA Metropolitan Statistical Area	62850.51	93871.65	12.0%	56462.39	37409.26	4.0%
Oxnard-Thousand Oaks-Ventura, CA Metropolitan Statistical Area	3997.99	6462.674	15.2%	4822.016	1640.658	3.8%
Riverside-San Bernardino-Ontario, CA Metropolitan Statistical Area	7999.825	13128.07	9.2%	8407.373	4720.697	5.9%
San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area	11996.96	21613.47	11.5%	13702.52	7910.954	7.2%

San Francisco-Oakland-Fremont, CA Metropolitan Statistical Area	15417.44	38046.75	12.5%	23306.12	14740.64	-0.7%
San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area	21384.90	34641.22	23.8%	26418.39	8222.831	10.9%
Source: Export Nation 2013, Global Cities Initiative, a joint project of Brookings Institute and JP Morgan Chase						

According to research by the California Employment Development Department, the state's future economic growth will be strongly correlated to the strength of its trade-related industry sectors including advanced manufacturing, information technology, and professional services. The high growth potential of these industry sectors is based on their links to external markets, as well as to internal markets in the U.S. and California.

- 3) **California Export Activities:** If California were a country, it would be the 31st largest exporter and the 15th largest importer in the world. Merchandise exports from California (\$174.1 billion) accounted for over 10.7% of total U.S. exports in goods, shipping to over 220 foreign destinations in 2014. California's land, sea, and air ports of entry served as key international commercial gateways for the \$577 billion in products entering and exiting the U.S. in 2014. Statewide, 4.4 million California jobs are dependent on foreign trade. Over 602,800 California workers benefit from jobs with foreign-owned firms, which accounts for 4.8% of all private sector jobs in the state.

Mexico has been California's top trading partner since 1999 and in 2014, California exported \$25.4 billion (14.5%) in goods. **Chart 2** shows export data on the state's top five trade partners, based on origin of movement. Other top-ranking export destinations not shown on the chart include Hong Kong, Taiwan, Germany, the Netherlands, and the United Kingdom.

Chart 2 - California Exports 2011 to 2014 (billions of dollars)					
	Partner	2011	2012	2013	2014
	World	159.4	161.7	168.0	174.1
1	Mexico	25.8	26.3	23.9	25.4
2	Canada	17.2	17.4	18.8	18.2
3	China	14.2	13.9	16.2	16.0
4	Japan	13.1	13.0	12.7	12.2
5	South Korea	8.4	8.2	8.3	8.5
6	Hong Kong	7.6	7.8	7.7	8.5
7	Taiwan	6.2	6.3	7.5	7.4
8	Germany	5.3	4.9	5.5	5.4
Source: International Trade Administration, accessed 4/11/2015					

California's largest industry sector by employment is Trade, Transportation, and Utilities, which encompasses everything from major retail outlets, to import-export businesses, to transportation and warehousing. California leads the nation in export-related jobs. The U.S. Department of Commerce estimates that for every one million dollars of increased trade activity, 11 new jobs are supported. Workers in trade-related jobs earn on average 13% to 28% higher wages than the national average.

In today's globally linked economy, manufacturing utilizes products from across the U.S., as well as from other nations. In 2012, 61% (\$1.3 trillion) of the products imported into the U.S. were inputs and components intended for use by American producers. In addition, U.S. imports often include components or have benefited from services provided by U.S. firms, including many California

companies. The Wilson Center estimates that Mexican imports and Canadian imports contain 40% and 20% U.S. components, respectively.

Trade and foreign investment support new job creation, bring new technologies and skills to California workers, generate local and state revenues, and generally strengthen the state's economic base. In the future, California's economy will become increasingly reliant on accessing foreign markets where a majority of global economic growth is expected to occur.

- 4) **Export Competition: Domestic and Foreign:** The California Center at the Milken Institute released a study in 2012 that considered what actions the state should consider in expanding export opportunities for California businesses. The report's major recommendation called for the state to develop and implement a comprehensive trade strategy that utilizes existing resources, leverages private sector expertise, focuses on key export destinations, and includes a detailed export promotion strategy. Top barriers to export promotion (cited from a prior BTH study) included regulatory problems, access to capital, difficulty in identifying foreign business partners, lack of internal resources and market knowledge, and the fragmented state of trade services offered by California.

As shown in **Chart 3**, the California Center at the Milken Institute found that California's export growth fell far short of other states. By comparison, the study noted, states that had aggressively advanced trade promotion strategies were more successful including Florida, Alabama, and

	Percent Growth (1998-2011)
United States	139%
Texas	217%
Alabama	181%
Florida	165%
Pennsylvania	157%
California	66%

Source: Strategies for Expanding California's Exports, California Center, Milken Institute, 2012

Pennsylvania. These strategies often included partnerships with private industry, overseas trade promotion, and trade assistance to exporting businesses. Other examples highlighted in the report included Germany and South Korea who both

implemented robust trade strategies which included direct investment in export promotion. Germany also offers loan guarantees to small and medium-sized businesses and South Korea helps businesses identify growing markets for goods and then assists companies to penetrate those markets.

In February 2014, GO-Biz issued the California International Trade and Investment Strategy, which called for expanding the export of California goods and services, and by increasing foreign direct investment into the state. Based on these guiding policy goals, the California strategy sets forth a comprehensive set of recommendations around six strategic objectives:

- a) Develop a comprehensive, coordinated and cohesive strategy framework with a clear vision to expand trade and investment, which includes other relevant state agencies, with input from private and public sector stakeholders;
- b) Implement more proactive outreach, awareness, education and engagement programs both within the state for California-based companies and through foreign partners and trade office(s);
- c) Maximize China Trade Office resources and opportunities to expand exports and investment;
- d) Develop an action plan to address key challenges facing our ports and related infrastructure to ensure their competitiveness;

- e) Re-engage and strengthen working relationships with the Office of the U.S. Trade Representative and the state's Congressional delegation to advocate California interests related to international trade and investment; and
- f) Develop and implement a more user-friendly, comprehensive, interactive and useful website to assist California companies wanting to export and to attract foreign investment.

AB 484 could assist in the implementation of these strategic objectives and serve as a key facilitator for bringing resources together into a comprehensive network to better serve the exporting needs of smaller size businesses.

5) **Related Legislation:** Below is a list of bills from the current and prior sessions.

- a) ***AB 826 (Chau) Promotion of Foreign and Domestic Investments:*** This bill strengthens the statutory framework for Governor's Office of Business and Economic Development engagement on issues related to California's position within the global economy. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development and the Economy on April 21, 2015.
- b) ***AB 1067 (Medina) EB-5 Immigration Oversight:*** This bill establishes the California Foreign Investment Program within the Governor's Office of Business and Economic Development to oversee the state's participation in the federal EB-5 foreign investment visa program. Among other things, this office will set the terms and conditions regarding the designation of Targeted Employment Areas, as related to the EB-5 visas. Status: Signed by the Governor, Chapter 535, Statutes of 2013.
- c) ***AB 1545 (V. Manuel Pérez) Bi-National Infrastructure and Economic Development Bank:*** This bill would have expanded the role of the California Infrastructure and Economic Development Bank to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Status: Held on the Suspense File of the Senate Committee on Appropriations, 2012.
- d) ***AB 2012 (John A. Pérez) Economic Development Reorganization:*** This bill transferred the authority for undertaking international trade and foreign investment activities from the Business, Transportation and Housing Agency to the Governor's Office of Business and Economic Development. In addition, the bill transferred the responsibility for establishing an Internet-based permit assistance center from the Secretary of the California Environmental Protection Agency to GO-Biz. Status: Signed by the Governor, Chapter 294, Statutes of 2012.
- e) ***AB 2713 (Quirk-Silva) Public Private Partnerships to Promote Trade:*** This bill authorizes the Governor's Office of Business and Economic Development to establish public-private partnerships to help guide state activities related to the export of California products and the attraction of employment-producing foreign investment. The bill requires the establishment of a subaccount to hold private donation for county and industry-specific marketing activities. The bill also requires the establishment of a partnership to support California trade and investment within South Korea. Status: Pending in the Senate Appropriations Committee.
- f) ***SB 511 (Lieu) California Export Finance Office:*** This bill would have re-established the California Export Finance Office within the California Infrastructure and Economic Development Bank and required the Governor's Office of Business and Economic Development to convene a statewide business partnership to discuss the promotion and greater utilization of California ports. Status: Held on the Suspense File in the Assembly Committee on Appropriations, 2014.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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