

Date of Hearing: April 9, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 701 (John A. Pérez) – As Introduced: February 21, 2013

SUBJECT: California Infrastructure and Economic Development Bank

SUMMARY: Authorizes the California Infrastructure and Economic Development Bank (I-Bank) to serve as the primary state agency for applying to any federal infrastructure bank or financing authority. Further, the bill expands the membership of the board of directors from five to seven members and specifies that legislative members will be nonvoting members.

EXISTING LAW:

- 1) Establishes the I-Bank within the Business, Transportation and Housing Agency (BTH), and authorizes it to undertake a variety of infrastructure related financial activities including, but not limited to, the administration of a revolving loan fund and the issuance of tax-exempt and taxable revenue bonds.
- 2) Provides that the board of directors is comprised of five specified people, defines a quorum at three people and specifies that an affirmative vote of three people is required on any action taken by the board.
- 3) Specifies that the I-Bank board of directors shall consist of the following:
 - a) The Director of Finance or designee;
 - b) The Treasurer or designee;
 - c) Secretary of Business, Transportation and Housing or designee;
 - d) Governor's appointee; and
 - e) Secretary of State Consumer Services Agency or designee.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's Purpose: According to the author, "This bill is intended to allow the Legislature to participate in critical decisions affecting the I-Bank. Given the I-Bank's integral role in issuing tax-exempt and taxable revenue bonds, providing financing to public agencies, and leveraging State and Federal funds, it is important that the Legislature have input on how those decisions are made. "
- 2) Policy Question: This designates the I-Bank as the state's primary liaison with the federal government on issues related to a national infrastructure bank and adds legislative Members to the Board of Directors in order to more closely link its activities to the state's broader development activities.

In advocating for the heightened participation of the state in federal legislative and congressional activities, the author notes the importance of finding new sources of capital for upgrading California's infrastructure and the continuing interest in a national bank model. Additional information on the role

of infrastructure within the California economy, including the significant defects and funding gaps are discussed below.

- 3) Infrastructure and the California 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 as U.S. infrastructure has been in decline, infrastructure in other countries is rapidly increasing. The 2010-11 Global Competitiveness Report by the World Economic Forum places U.S. infrastructure 23rd in the world, a drop from its rank of 7th in 2000.

California's infrastructure is in a similar state, according to the American Society of Civil Engineer's report, California Infrastructure Report Card 2012, estimated a \$65 billion a year investment gap. The impact of this lack of investment is compounded by the substantial new investments made in other states and nations, including the expansion of the Panama Canal.

Traditionally, innovation infrastructure has been based around the idea of "Industry Clusters," areas where multiple firms and organizations working in the same, or similar, fields can 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.

However, as the world has globalized, transportation and communication times and costs have shrunk. A new global business paradigm is emerging in which location is less relevant and competitive advantage, based on the quality and efficiency of the technologies that link the location with other areas of the world.

- 4) National Infrastructure Bank: Spending on infrastructure by the federal government has been declining. According to the Congressional Budget Office, spending on transportation and water infrastructure as a share of U.S. GDP was 3.1% in 1959 and was only 2.4% in 2007.

The National Surface Transportation Infrastructure Financing Commission estimates that there is a highway and transit funding gap of \$2.3 trillion. The federal Environmental Protection Agency similarly finds there is great need to repair and upgrade water systems including a 2009-19 funding gap of \$122 billion for clean water and \$102 billion for drinking water. Not surprising, there has been a national call for renewed infrastructure investment to support manufacturing, goods movement, energy production, and broadband deployment, among other economic and community development purposes.

A National Infrastructure Reinvestment Bank was first proposed by Senators Christopher Dodd and Chuck Hagel in 2007. President Barack Obama supported the legislation in 2008 and again in 2010. More recently, in his 2013 State of the Union, President Obama emphasized the importance on fixing the nation's infrastructure as part of his "Plan for a Strong Middle Class and A Strong America" and proposed both a \$50 billion "Fix it First" program from peace dividends and a "Partnership to Rebuild America" initiative, which would use public policies to attract private investment in upgrading America's infrastructure.

Models for a national infrastructure bank have varied and the state I-Bank has been asked to Washington D.C. several times to discuss differing models. In one instance, the federal government would use \$60 billion in seed money over 10 years with an expected return of \$500 billion in private investment. Given the significance of quality infrastructure within every state's global

competitiveness, it would seem that engaging in the development of the national program would be within the state's interest. AB 701 would specifically designate the state I-Bank as the primary state agency for applying to the federal infrastructure bank.

- 5) 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 BTH, it is governed by a five-member board of directors comprised of the BTH Secretary (chair), State Treasurer, Director Department of Finance, Secretary of the State and Consumer Services 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 24 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 2009-10 independent audit, its programs continue to provide sufficient revenues to support all operating expenses.

The I-Bank administers two categories of programs: 1) the Infrastructure State Revolving Fund which provides direct low-cost financing to public agencies for a variety of public infrastructure projects; and, 2) Bond Financed Programs which provide financing for manufacturing companies, nonprofit organizations, public agencies and other eligible entities. 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 over \$400 million to local 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. Over \$30 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.

- 6) Board Structure: The I-Bank's board of directors is currently comprised of five members, four of which are state public officials. Each of the public officials either has specific program-related expertise or has access to experts within their respected departments or agencies.

Under existing law, the Governor has the authority to appoint one public member to the board. This public member is not required to have any particular skill set or represent a particular stakeholder group other than the public-at-large. Chart 2 – Board Structures from Selected Economic and Workforce Development entities details, that there is no consistent board appointment structure.

Chart 2 – Board Structures from Selected Economic and Workforce Development Entities					
	Total Mem-bers	Gov Appts	Speaker Appts	Senate Rules Appts	Other Information
Waste Management Board and the Recycling Market Development Zones	6	4	1	1	<u>Four Public Members:</u> Four members are appointed by the Governor, two of whom represent the public, one member with industry expertise, and one with expertise in the environmental field. One member is appointed by the Senate Committee on Rules and one is appointed by the Speaker of the Assembly to represent the public. <u>Reference: PRC 404001</u>
Employment Training Panel	7	3	2	2	<u>One Public Member:</u> The Speaker and President pro Tempore each appoint two members, one being a private sector labor representative and the other being a business representative. Gov. appoints three members, one being a private sector labor representative, one being a business representative, and one public member. <u>Reference: UIC 10202.5</u>
Workforce Investment Board	No limit	No limit	2	2	<u>There is no statutory limit on the number of people</u> who may serve on the board. A majority of Gov appointments are from business, including small business. At least 15% of the Gov. appointments shall be from labor organizations nominated by state labor federations. In addition to these appointments the Gov. may place an unlimited number of state officials and state government representatives. Legislature appoints two public members each. <u>Reference: UIC 14012</u>
California Small Business Board	11	7	2	2	<u>Two public members:</u> Secretary of BTH serves as chair. Gov. appoints six members from small business community. Between the Assembly and the Senate one business and one agricultural representative is appointed. Plus, one Assembly Member and one Senator to serve on the board. <u>Reference: Corp 14021</u>

- 7) 2011 JEDE Oversight Hearing: In March 2011, the Assembly Economic Development Committee (JEDE) held the first of several oversight hearings on how infrastructure development impacted local, state and federal economic recovery efforts and California's economic position in post-recession economy. From these hearings, JEDE released a preliminary list of recommendations and proposed amendments to better align the authorities of the I-Bank with the state's current and future infrastructure needs. The resulting I-Bank package included AB 700 (Blumenfeld) to reorganize the I-Bank as an independent agency; AB 696 (Hueso) to enhance the I-Bank's ability to develop financing methods best suited for the post-recession economy; and, AB 893 (V. Manuel Pérez) and AB 1094 (John A. Pérez) to expand the membership of the board and allow the I-Bank to function more broadly as a development and business creation entity. None of these measures were ultimately enacted, however in vetoing AB 700, the Governor stated his intent to reorganize the I-Bank. AB 701 is substantively a reintroduction of AB 1094 from 2011. With the reorganization agreed to (discussed below), it seems appropriate for the other policy recommendations to be brought forward again.

- 8) Reorganization: In March 2012, the Governor initiated a reorganization process to realign the state's administrative structure. Key changes were proposed and agreed to by the Legislature including the dismantling of the Business, Transportation and Housing Agency (BTH) and the shifting of a number of key programs and services to GO-Biz including the I-Bank. In addition, the Secretary of BTH is

replaced by the Director of GO-Biz as Chair of I-Bank and the newly established Secretary of Transportation replaces the Secretary of State and Consumer Services on the I-Bank board.

Programmatic approval of the reorganization was granted in July 2012 and will become effective July 2013. The necessary statutory changes are being made in AB 1317, which recently passed the Assembly Committee on Accountability and Administrative Review and is pending in Assembly Appropriations.

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

- a) AB 311 (V. Manuel Perez) Bi-National Infrastructure and Economic Development Bank: This bill expands the role of the I-Bank to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development and the Economy on April 9, 2013.
- b) AB 1094 (John A. Pérez) Board Membership of the California Infrastructure Bank: This bill, as it was heard by JEDE, would have added a member of the Assembly and a member of the Senate as advisory members to the board of administration of the California Infrastructure and Economic Development Bank. Amendments were taken to remove the Bank provisions and the bill was related to a different topic and a different author at the time the bill was pulled into the Senate Committee on Rules. Status: Held in the Senate Committee on Rules in 2012.
- c) AB 1272 (Medina) Infrastructure Consortiums: This bill authorizes the California Infrastructure and Economic Development Bank (I-Bank) to formally participate in regional, national and international organizations related to infrastructure financing. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development and the Economy on April 9, 2013.
- d) AB 1380 (Bass) California Infrastructure and Economic Development Bank: Board of Directors: This bill would have expanded the membership of the board of directors of the I-Bank from five to seven members. Status: Held in the Senate Rules Committee in 2010.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

Analysis Prepared by: Toni Symonds / J., E.D. & E. / (916) 319-2090