

Date of Hearing: May 3, 2011

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE  
ECONOMY

V. Manuel Pérez, Chair

AB 893 (V. Manuel Perez) – As Amended: April 25, 2011

SUBJECT: California Infrastructure and Economic Development Bank

SUMMARY: Requires the California Infrastructure and Economic Development Bank (I-Bank) to provide technical assistance to small and rural communities in obtaining financing for infrastructure projects. Specifically, this bill:

- 1) Requires the General Obligation bond acts to contain, among other provisions, a plan on how the bond act will be administered including, but not limited to, outreach and oversight to ensure that the objectives of the bond act will be met.
- 2) Revises the membership of the I-Bank board, as follows:
  - a) Removes the Secretary of the Consumer Services Agency;
  - b) Adds a representative from the economic development community, to be appointed by the Speaker of the Assembly;
  - c) Adds a representative from the business community, to be appointed by the Senate Rules Committee; and
  - d) Adds as ex officio nonvoting members of the board the chairpersons of the Senate and Assembly policy committees that oversee infrastructure and economic development issues.
- 3) Requires the executive director to oversee and to ensure that outreach is coordinated with other similar federal and state infrastructure development resources.
- 4) Modifies the annual reporting requirements to include:
  - a) A listing of outreach activities; and
  - b) Details on the number of jobs created, retained, and indirectly impacted.
- 5) Requires the I-Bank to provide technical support to small and rural communities in the state in obtaining financing for local infrastructure projects, as follows:
  - a) Requires the I-Bank to develop a competitive process for selecting communities to be assisted, based on infrastructure need and community readiness to undertake the infrastructure project based on specified priority. Also provides that the I-Bank widely advertise the availability of services and encourage applications from historically underserved communities;

- b) Defines "technical support" to mean assisting communities in developing strategic plans, writing grants, applying for public and private loans and guarantees, issuing bonds, and other activities directly related to obtaining funding for infrastructure projects, as specified;
  - c) Requires the I-Bank to provide no less than three professional positions and one staff position to ensure the implementation of the program;
  - d) Establishes within the California Infrastructure and Economic Development Fund a technical assistance account and specifies that only non-General Fund moneys may be deposited into the account;
  - e) Requires the I-Bank to individually track each funding source and its use to ensure that all funding conditions are met; and
  - f) Authorizes the I-Bank to contract with other state, local or federal entities for the purpose of providing technical support to small and rural communities.
- 6) Requires a 60-day notification prior to adoption or modification of criteria, priorities and guidelines to appropriate entities.

EXISTING LAW:

- 1) Creates the I-Bank within the Business, Transportation and Housing (BTH) Agency, to promote economic revitalization, enable future development, and encourage a health climate for jobs in California. The I-Bank has the authority to issue tax-exempt and taxable revenue bonds to underwrite the costs of infrastructure development that meets certain public purposes.
- 2) Provides that the board of directors is comprised of five specified people, defines a quorum as three people and specifies that an affirmative vote of three people is required on any action taken by the board. The I-Bank board of directors consists 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.
- 3) Establishes the State G.O. Bond Law, that authorizes proceeds from the sale of bonds to pay the costs of a state agency for administering a bond funded program.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's purpose: According to the author, "AB 893 modernizes the operations of the I-Bank, by including the economic development community on the board, mandating outreach to communities, and adding new reporting requirements detailing the number of jobs created and retained and industries served.

This bill will assist communities that have been traditionally underserved by state programs in obtaining funds for critically needed local infrastructure projects. The communities this bill seeks to assist are typically small and rural incorporated and/or unincorporated areas that have difficulty affording additional staff or consultants. Generally, these communities are competing against larger communities for infrastructure funds."

- 2) Benefits of technical assistance programs: Technical assistance, as provided in AB 893, is modeled after a successful program that operated in the 1970's and 1980's, the Rural Development Assistance Program (RDAP). Initially, the RDAP was operated by the Department of Housing and Community Development (HCD) as a pilot project with the federal government. Under the program, technical advisors and loan packagers were assigned to rural communities to assist them in applying for infrastructure funding.

Between 1980 and 1982, the state leveraged \$30 million in housing and community facility construction while only investing \$272,000 in state and \$132,000 in federal dollars. HCD estimated over \$130 million in local economic activity was generated, 2,379 jobs were created, and over \$8 million in local and state taxes were paid as a result of this program.

- 3) Structure and operation of BTH and the I-Bank: BTH is the state agency responsible for the oversight and coordination of the activities of various departments, offices, and economic development programs, with responsibility for maintaining the strength and efficiency of California's infrastructure and financial markets. These programs provide financial and programmatic regulation important to the economic marketplace, community development, and the safe and efficient flow of commerce. Among the key economic development programs overseen by BTH are:

- The Small Business Direct Loan and Guarantee Programs;
- The I-Bank;
- Technology-related programs;
- California International Trade Promotion Activities; and
- Community Development Block Grant Program.

The I-Bank was established in 1994 to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California. Among other duties, the I-Bank has the authority to issue tax-exempt and taxable revenue bonds.

I-Bank activities are 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 is financed through the California Infrastructure and Economic Development Bank Fund (CIEDB Fund) and the California Infrastructure Guarantee Trust Fund, into which fees, interest income and other revenues are deposited and from which I-Bank expenses are paid. The cost of administering the programs of the I-Bank is off-set by these types of program income. Monies in these Funds are held within the California State Treasury or by the bond trustee for The Infrastructure State Revolving Fund (ISRF) bonds.

The I-Bank is operated on a revolving fund basis and thereby generates continuous funding for new project investments. The I-Bank does not receive any ongoing General Fund support for loan or bond financing and according to its 2009-10 independent audit, its program continues to provide sufficient revenues to support all operating expenses.

The I-Bank administers two categories of programs: (1) The ISRF 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 and has developed a high-level of expertise in the implementation of public infrastructure and financing programs. In addition, over \$30 billion in conduit revenue bonds have been issued by the I-Bank since 2000.

- 4) The state's all-purpose financing authority: In addition to the programs discussed above, the I-Bank also serves as the state's only general purpose financing authority with broad statutory powers to issue revenue bonds and act on the state's behalf in certain statutorily authorized circumstances. Below is a list of examples of the types of financing by the I-Bank in support of various State entities and programs.
  - a) *Energy Efficiency Bonds*. In April 2003, the California Consumer Power and Conservation Financing Authority (CPA) issued \$28,005,000 in energy efficiency bonds on behalf of the California Energy Commission (CEC). On October 25, 2004, the CPA assigned its rights and responsibilities for these bonds to the I-Bank when the CPA's operations were closed down as a result of budget elimination. In May 2005, the I-Bank issued a second series of revenue bonds in the amount of \$37 million to provide additional funding for the CEC's Energy Efficiency Financing (EEF) Program, which provides low-cost loans up to \$3 million to schools, hospitals and local governments for the installation of energy-saving measures. The bonds are repaid from previously approved EEF loans. Eligible projects include heating, ventilation, air conditioning, equipment control, small co-generation and photovoltaic systems.
  - b) *California Insurance Guarantee Association Bonds*. In August 2004, the I-Bank issued \$750 million of revenue bonds for the California Insurance Guarantee Association (CIGA) pursuant to authorization contained in Chapter 645, Statutes of 2003 (AB 227). CIGA is an organization created by the California Legislature in 1969 to pay claims of insolvent insurance carriers that are licensed to do business in the State of California. The proceeds of the bonds were used by CIGA to pay claims and related expenses that

arose as a result of the insolvencies of insurance companies providing workers' compensation insurance. The bonds are repaid solely from special and regular premium assessments on worker's compensation premiums paid by insurance companies to CIGA.

- c) *Toll Bridge Seismic Retrofit Bonds*. In August 2003, the I-Bank issued \$1.16 billion of long-term fixed rate revenue bonds for Caltrans pursuant to authorization in Chapter 907, Statutes of 2001 (AB 1171). The bonds were rated in the "AA" category by all three rating agencies and were repaid solely from revenues and related interest earnings generated by the \$1 per vehicle seismic retrofit surcharge collected on the seven Bay Area State-owned toll bridges. Caltrans used the bond proceeds to fund a portion of the construction of the new East Span of the San Francisco-Oakland Bay Bridge.
- d) *Clean Water State Revolving Fund (CWSRF) Bonds*. In August 2002, the I-Bank issued \$300 million of fixed-rate revenue bonds to provide additional funding for the CWSRF Program. The CWSRF, which is administered by the State Water Resources Control Board (SWRCB), provides low-cost loans up to \$25 million per year to local agencies, throughout the State, for the construction of wastewater treatment and water recycling facilities. The bonds, which are repaid by 98 previously-approved CWSRF loans from 50 different borrowers, received natural "AAA" ratings from all three rating agencies. The bond issuance represented the first time the State leveraged a federally funded state revolving fund program, and joined over 20 other states that have utilized this innovative financing technique to expand lending capacity.

In addition to the above programs, 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) Infrastructure and the post-recession 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.

As California moves slowly toward economic recovery, growth in the post-recession economy will likely be more resource and capital constrained, placing even greater pressure on the state's infrastructure to support higher levels of service at a smaller per unit price. In addition, some analysts believe the global economy is experiencing a great "rebalancing of economic power," whereby the U.S.' dominant economic position will be challenged by other large economies like those in Japan, China and the European Union.

The Brookings Metropolitan Policy Program has published its own assessment of how this rebalancing will be experienced in the U.S. and has noted four key trends to watch in the post-recession economy. The first trend is that the economy will be more export oriented and second, it will be fueled by new, lower-carbon energy sources. The third trend identified is that the next economy will be based on a higher level of global innovation, which will require "a relentless pace of innovation, adaptation, and embracement of new markets and processes." The fourth key trend is that next economy will be led by major metropolitan areas – not nations and not states.

California's historical comparative advantage in innovation-based industries, networked global supply chains and strong regional economies should give instate businesses certain

advantages in the post-recession economy. Other components of the California economy, including the quality of the state's infrastructure and the preparedness of its workforce, are not as strong and could limit the state's overall economic growth.

Research shows that as U.S. infrastructure has been in a decline, infrastructure in other countries is rapidly increasing. The 2010-11 Global Competitiveness Report by the World Economic Forum places U.S. infrastructure 23<sup>rd</sup> in the world, a drop from its rank of seventh in 2000.

The I-Bank has been monitoring these and other types of trends, and with funding from a Rockefeller Foundation grant, has been meeting with investors, builders and policy makers engaged in infrastructure development to discuss innovative financing techniques and ways in which to remove unnecessary impediments to infrastructure development

- 6) Oversight hearing: With California workers and businesses facing some of the harshest economic conditions since the Great Depression, the Chairman of the Assembly Committee on Jobs, Economic Development and the Economy (JEDE) has focused the committee's efforts during the prior and current legislative sessions on engaging the public in the recovery dialogue. Through these events JEDE has found that one of California's challenges in moving forward is the state's aging infrastructure and its inability to support the innovation economy that is fundamental to retaining the state's global competitiveness. In fact, research shows that California's historical position as a leader in innovation and technology is being challenged not only from abroad, but also by other states that are investing in a range of infrastructure and technology supporting activities.

On March 30, 2011, JEDE held an oversight hearing to examine how infrastructure development impacted local, state and federal economic recovery efforts and California's economic position in post-recession economy. During the course of the hearing, testimony was provided by senior staff of the I-Bank and key stakeholder groups. A white paper was prepared for the hearing and later revised to include information learned at the hearing, identification of follow-up actions and a summary of key program-level recommendations. The white paper is available through the JEDE Committee Office and will soon be hosted on the committee website at [www.assembly.ca.gov](http://www.assembly.ca.gov).

At the JEDE May 3, 2011 hearing, four bills will be presented related to the I-Bank, including legislation to reorganize the I-Bank as an independent agency (AB 700 by Assemblymember Blumenfield); to require public infrastructure moneys be awarded based on minimum economic and land use criteria (AB 696 by Assemblyman Hueso); to expand the membership of the I-Bank board and functions to more broadly reflect its development and business creation potential (AB 893 by Assemblyman V. M. Pérez and AB 1094 by Speaker John Pérez). Amendments will be proposed by the Chairman reflecting the recommendations from the oversight hearing.

- 7) Proposed Amendments: Staff understands that amendments will be offered to do the following:
  - a) Expand the membership of the Board to include a representative from labor appointed by the Governor;

- b) Establish MOUs with related infrastructure financing programs to expedite the joint use of funds;
  - c) Codify the state and federal California Finance Coordinating Committee;
  - d) Authorize predevelopment loans from ISRF;
  - e) Authorize, as part of an overall project, financing of brownfield cleanup including an immunity exemption, if the clean-up plan was approved;
  - f) Authorize the establishment of a letter of credit guarantee program;
  - g) Authorize tribal nations as eligible applicants for I-Bank programs; and
  - h) Make other technical changes.
- 8) Related legislation: Below is a list of related legislation.
- a) Current legislative session:
    - i) AB 696 (Hueso): This bill requires projects selected for funding under the Infrastructure State Revolving Fund Program (ISRF) to only be funded, if the project meets specified land use and economic development criteria. Status: Pending in Assembly Committee on Jobs, Economic Development and the Economy, May 3, 2011.
    - ii) AB 700 (Blumenfield): This bill establishes an independently administered I-Bank. Status: Pending in Assembly Committee on Jobs, Economic Development and the Economy, May 3, 2011.
    - iii) AB 750 (Hueso): This bill establishes the Investment Trust Blue Ribbon Task Force for the purpose of considering the viability of establishing the California Investment Trust. Status: Pending in the Assembly Committee on Banking and Finance.
    - iv) AB 1094 (John A. Pérez): This bill expands the membership of the board of directors of the I-Bank from five to seven members. Status: Pending in the Assembly Committee on Jobs, Economic Development and the Economy, May 3, 2011.
  - b) Prior legislative sessions:
    - i) AB 1047 (V. Manuel Pérez): This bill establishes a local assistance program, within the I-Bank, to assist small and rural communities obtain bond financing for infrastructure projects. Status: Held in the Assembly Committee on Appropriations, May 2009.
    - ii) AB 1380 (Bass): 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, August 2010.

- iii) AB 1272 (Arambula): This bill would have established a local assistance program, within the I-Bank, to assist small and rural communities obtain bond financing for infrastructure projects. Status: Held in the Assembly Committee on Appropriations, April 2008.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association for Local Economic Development  
California Small Business Development Center  
California Small Business Development Center U.C. Merced Regional Network  
CDC Small Business Finance  
Inland Empire Economic Partnership  
Yuba Sutter Economic Development Corporation

Opposition

None received

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