

Date of Hearing: April 21, 2009

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE  
ECONOMY

V. Manuel Pérez, Chair

AB 507 (Arambula) – As Introduced: February 24, 2009

SUBJECT: Infrastructure and Economic Development Bank: economic benefit

SUMMARY: 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. Specifically, this bill:

- 1) Adds new eligibility criteria for applicants for ISRF moneys by authorizing the bank to select projects that meet both of the following criteria:
  - a) The project has economic benefit, as defined; and
  - b) The project meets land use criteria, as determined by the bank.
- 2) Defines economic benefit to mean, in the determination of the California Infrastructure Bank (I-Bank), that the project would provide for the creation or retention of jobs, growth of the property tax base, or growth of sales tax base, as determined by the I-Bank.

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 healthy climate for jobs in California.
- 2) Authorizes the I-Bank to offer a variety of financial undertakings including, but not limited to, the issuance of tax-exempt and taxable revenue bonds to underwrite the cost of infrastructure development that meets a specified public purpose.
- 3) Requires projects funded by the ISRF comply with the criteria, priorities, and guidelines adopted by the I-Bank. At a minimum, those conditions need to be based on the state Environmental Goals and Policy Report and to the extent relevant, the state Capital and Infrastructure Project Planning Report.
- 4) Requires legislative bodies or sponsor seeking funding from the I-Bank to adopt a resolution making affirmative findings on each the following:
  - a) The project is consistent with the general plan of the relevant local government jurisdiction;
  - b) The proposed financing is appropriate for the specific project;
  - c) The project facilitates effective and efficient use of existing and future public resources so as to promote both economic development and conservation of natural resources.

Further, that the project develops and enhances public infrastructure in a manner that will attract, create, and sustain long-term employment opportunities; and

- d) The project is consistent with the criteria, priorities, and guidelines set forth by the I-Bank.
- 5) Requires the Governor to prepare the Environmental Goals and Policy Report every four years for the purpose of defining the state's 20 year growth and economic development strategy with particular attention to statewide land use policy.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Purpose: According to the author's office, the purpose of the bill is to implement a recommendation from the Legislative Analyst's Office to provide further direction to the I-Bank to ensure that loans from ISFR are made to projects that achieve statutorily mandated objectives for economic development and land use.

The author states that while the ISRF exists for the specific purpose of providing infrastructure financing that promotes economic development and improved land use, the LAO has found that the program was not meeting those objectives. More specific details on the LAO analysis is provided in Comment 4.

- 2) Structure and operation of the I-Bank: The I-Bank was established in 1994 to promote economic revitalization, facilitate future development, and encourage a healthy climate for job creation and retention. The I-Bank is organized within BTH and is managed by a five-member board of directors comprised of the BTH Secretary (chair), State Treasurer, Director Department of Finance, Secretary, State and Consumer Services Agency, and a Governor's appointee. The executive director serves at the will of the I-Bank Board and is responsible for the day-to-day operation of the organization.

The I-Bank has several programs that it uses to carry out its mission. These programs include: the ISRF Program; the Industrial Development Revenue Bond Program; the Infrastructure & Community 501(c)(3) Revenue Bond Program; and the Exempt Facility Revenue Bond Program. The chart below shows recent budget information for the I-Bank.

<b>Infrastructure and Economic Development Bank</b>				
Fiscal Year	Staffing (PYs)	Total Funding (in thousands)	Administrative	Local Assistance (in thousands)
2005/06	20	\$5,425	\$3,248	\$6,577
2006/07	20	\$5,244	\$3,067	\$2,177
2007/08	20	\$5,360	\$3,183	\$2,177
2008/09	25	\$6,267	\$4,090	\$2,177

2009/10	25	\$6,320	\$4,143	\$2,177
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\*All amounts are from adopted budgets.

\*\*\*Annually appropriated to BTH Agency for I-Bank administration expenditures

\*\*Continuously appropriated. Amounts used to fund ISRF Program loan Disbursements.

Actual disbursements amounts were higher than amounts shown in the budget

The I-Bank is financed through the California Infrastructure and Economic Development Bank Fund, which receives fees, interest income and other revenues. The cost of administering the programs of the I-Bank are off-set by these types of program income. The I-Bank is operated on a revolving fund basis and thereby generates continuous funding for new project investments.

Since its creation approximately a decade ago, the I-Bank has issued over \$300 million to local agencies in infrastructure related revenue bonds, and has developed a level of expertise in the implementation of successful local infrastructure programs.

- 3) Infrastructure State Revolving Fund: The Infrastructure State Revolving Fund (ISRF) Program provides low-cost financing to public agencies for a wide variety of infrastructure projects. Established through an initial \$182 million capitalization and maintained through the use of a leverage loan program, whereby bonds are issued to raise upfront program capital and the loan repayments are committed toward the repayment of bonds. Using the leverage loan program has allowed the I-Bank to maintain a somewhat steady flow of eight to 10 new loans each year. Rating agencies have consistently rated bonds issued for the leverage loan program as high quality debt of AA+.

ISRF Program funding is available in amounts ranging from \$250,000 to \$10 million, with loan terms of up to 30 years. According to the LAO, average loan amounts are generally in the range of \$3 to \$5 million. Interest rates are set on a monthly basis. Preliminary applications are continuously accepted. Since June of 2000, 81 ISRF Program loans have been issued totaling nearly \$377 million. Due to the separate capitalization of the ISRF, the number of loans is primarily limited by the stream of funds received by loan repayments.

Eligible applicants include local government entities, including cities, counties, redevelopment agencies, special districts, assessment districts, joint powers authorities and non-profit corporations formed on behalf of a local government.

Eligible project categories include city streets, county highways, state highways, drainage, water supply and flood control, educational facilities, environmental mitigation measures, parks and recreational facilities, port facilities, public transit, sewage collection and treatment, solid waste collection and disposal, water treatment and distribution, defense conversion, public safety facilities, and power and communications facilities.

Under the provisions of the program, potential applicants develop projects and prior to submitting applications contact the I-Bank for a preliminary review. Applicants then have an opportunity to adjust their projects to meet program requirements. Each application to the ISRF Program is accompanied by a resolution stating:

- a) The project is consistent with the general plan;
- b) The proposed financing is appropriate for the specific project;

- c) The project facilitates the effective and efficient use of existing and future public resources so as to promote both economic development and conservation of natural resources. Further, that the project develops and enhances public infrastructure in a manner that will attract, create, and sustain long-term employment opportunities; and
- d) The project is consistent with the criteria, priorities, and guidelines set forth by the I-Bank.

Applications are then scored based on the point system detailed in the chart below. Those project applications that meet a minimum of 80 points are funded. This program is administered on a first come first serve basis and applications can be accepted at any time. This means that projects don't compete against each other; rather project applications which meet the 80 point threshold are funded and for which funding is available.

<b>ISRF Program – Project Scoring Criteria</b>		
<b>Criteria Categories</b>	<b>Individual Maximum Points</b>	<b>Total Maximum Points</b>
<b>Economic Development Impact</b>		<b>50</b>
Job Creation and Retention	30	
Economic Base Employers [measures whether a project will benefit employers that bring in revenues from outside the region.]	10	
Community Economic Development Plan [measures the applicants cooperativeness with local economic and job development programs]	10	
<b>Community Economic Need</b>		<b>55</b>
Unemployment Rate	20	
Median Family Income	15	
Change in Labor	10	
Poverty Rate	10	
<b>Land Use, Environmental Protection, and Housing</b>		<b>40</b>
Land Use	20	
Environmental Protection	10	
Housing Element	10	
<b>Others</b>		<b>55</b>
Quality of life/community amenities	30	
Leverage	15	
Project Readiness	10	
<b>Total Possible Points</b>		<b>200</b>

Effectively implementing a program using a point system can be challenging. Some projects may score high in one or two categories, which can offset low scores in the other areas. As an example, a water treatment facility serving a lower income area may be an important community amenity, leverage significant other dollars, be shovel ready, and allow for new industrial development. On the other hand, this same project may be sprawl inducing and provide little other land use benefit. The author may want to consider statutory direction that would require the I-Bank to modify its scoring criteria to include a combination of minimum

performance in each category, as well as a total minimum performance threshold for awarding funds.

- 4) LAO Analysis: In its 2008-09 analysis of the state budget, the LAO raised concerns over the projects being funded under the ISRF Program. The LAO noted that while the purpose of the program was to provide low cost loans to local governments for infrastructure projects that promote economic development and improve land use, many of the loans did not, in their opinion, effectively meet these objectives.

More specifically, the LAO reported that two-thirds of all the ISRF projects received loan funds without scoring any points under the economic development benefit category. Relative to land use, the LOA opinioned that the amount of points awarded (maximum 20 points or only 10% of total score) seemed insufficient to have any significant effect on local land use decisions.

The LAO completes its comments by stating that as the ISRF Program offers lower than market rates for financing infrastructure they believe that the program can do a better job in promoting the state's economic development and land use objectives. The LAO recommends that legislation be introduced to require all ISRF-funded projects demonstrate at least a minimum level of economic and land use benefit. Alternatively, the LAO recommends screening potential projects for economic development and land use benefits to ensure the state's objectives are met. AB 507 implements the latter LAO recommendation.

In a related recommendation the LAO suggests expanding the I-Bank's statutory reporting requirements. Currently the I-Banks prepares a consolidated financial report which makes it difficult to see the individual activities of the direct programs including the IRSF. The LAO recommended that the I-Bank prepare an expanded report that would include program-level information and include:

- a) The amount and source of main categories of revenues by program;
- b) The amount and type of major categories of expenditures by program; and
- c) A summary of the number of preliminary applications that did not receive funding and the reasons the sponsor either did not go forward with a final application or was turned down.

The author may want to consider including this expanded reporting recommendation within the scope of the bill.

- 5) Shifting from self-certification to government determination: AB 507 proposes a fundamental statutory shift in the review of ISRF applications. Under current law, the applicant, usually a local government, demonstrates it meets the specified ISRF requirements through the adoption of a resolution. This bill would require the I-Bank to undertake an independent review of each project's economic development and land use impact.

Moving to this higher level of review could be more staff intensive and cause delays in approving ISRF funds. Further, the I-Bank reports that its board of directors has, on its own, begun to require staff to provide additional information on the impact of proposed

infrastructure. In light of the higher cost and already occurring administrative improvements, the author may wish to take an intermediary step and consider a change in statute that simply requires a change in the scoring system to achieve the bills objective.

- 6) Environmental Goals and Policy Report (EGPR): California's community and economic development policy is driven by a number of statutory mandates, the first of which is the EGPR. The EGPR is the state's 20-year growth and economic development strategy. Prepared every four years, it is designed to serve as a guide for individual department plans and overall state expenditures.

The EGPR analyzes the current context of the state's environmental, economic and social setting; the driving forces behind growth and development; and the outside influences that affect many of the state's actions, policies, and programs. Based on this analysis of existing conditions and influences, the EGPR proposes cross-cutting and integrated goals and policies for the state that will allow it to achieve the overarching mission of sustainable development. The goals and policies are then required by statute to be included within key state programs and planning activities. As an example, the I-Bank is required use the recommendations in the EGPR to develop criteria, priorities, and guidelines for making ISRF awards.

The ERPR was last updated in 2003. A key focus of the 2003 EGPR was how to address the challenges the state faced in meeting the needs brought on by the state's population growth, the increasing interdependence between the state and global economy, and the scarcity and/or high cost of accessing resources. In proposing an implementation strategy, the 2003 update recommended a fundamental change in the way that state government conducts itself.

Rather than keeping agency responsibilities in policy area silos, the 2003 update made sustainability its foundational principle. The ERPG advanced the economic development concept that California could not successfully move forward if the state did not address and operationalize how the core interrelationships between economic development, social justice and the environment work together. The ERPG advanced this principle by proposing a comprehensive implementation strategy that built upon the state's recently enacted planning priorities, AB 857 (Wiggins), Chapter 1016, Statutes of 2002:

- a) To promote infill development and equity by rehabilitating, maintaining, and improving existing infrastructure, particularly in underserved areas, and to preserve cultural and historic resources;
  - b) To protect, preserve, and enhance environmental and agricultural resources, including working landscapes, natural lands, recreation lands, and other open spaces; and
  - c) To encourage efficient development patterns by ensuring that new infrastructure supports development that uses land efficiently, is built adjacent to existing developed areas, is in an area planned for growth, is served by adequate transportation and other essential utilities and services, and minimizes ongoing costs to taxpayers.
- 7) Proposed amendments: The author may wish to offer the following amendments:
- a) Clarify that only projects that meet the new criteria qualify for ISRF funding.

b) Remove the specific requirement that the I-Bank independently re-check each finding in the resolution.

8) Related legislation: Below is a list of related legislation.

a) 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: Hearing scheduled in the Assembly Committee on Jobs, Economic Development, and the Economy on April 21, 2009.

b) AB 1380 (Bass): This bill expands the membership of the board of directors of the I-Bank from five to seven members. Status: Hearing scheduled in the Assembly Committee on Jobs, Economic Development, and the Economy on April 21, 2009.

c) AB 1272 (Arambula): This bill established a local assistance program, within the I-Bank, to assist small and rural communities obtain bond financing for infrastructure projects. Status: Died pursuant to Article IV, Sec. 10(c) of the California Constitution in 2008.

d) AB 1410 (Bass): This bill authorizes the I-Bank to use certain federal Community Development Block Grant moneys provided through the federal American Recovery and Reinvestment Act to create credit enhancements, loan guarantees, low-interest loans. Status: Hearing scheduled in the Assembly Committee on Jobs, Economic Development, and the Economy on April 29, 2009.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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