

Date of Hearing: January 6, 2010

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE
ECONOMY

V. Manuel Perez, Chair

AB 1556 (Economic Development Committee) – As Amended: January 4, 2010

SUBJECT: Community Development Block Grants

SUMMARY: Requires grantees of Community Development Block Grant (CDBG) funds for local revolving loan programs to contract with approved financial intermediaries. Specifically, this bill:

- 1) Makes several declarations of legislative intent and findings relating to small cities and counties receiving federal CDBG money. Gives a short description of criteria that Housing and Community Development (HCD) should consider when certifying an approved financial intermediary.
- 2) Defines "approved financial intermediary" to mean a nonprofit organization, government office, or a financial development corporation with direct lending experience and is certified by HCD to underwrite and administer a revolving loan fund for one or more eligible city or county jurisdictions. The financial intermediary may be an employee of the grantee, consultant, or economic development lending organization procured and contracted by the grantee.
- 3) Requires HCD to require cities and counties receiving funds to operate local revolving loan programs to contract with an approved financial intermediary to manage and/or administer these revolving loan fund moneys.
- 4) Requires HCD to maintain records of the approved financial intermediaries.

EXISTING LAW:

- 1) Designates HCD as the administrator of the small cities portion of the federal CDBG program.
- 2) Provides Legislative intent that funds be provided to small and rural counties to encourage new housing and meet local economic development and needs.
- 3) Requires HCD to allocate no less than 51% of CDBG funds for providing or improving housing opportunities to low or moderate income households.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Purpose: According to the author, this bill would provide flexibility to the small cities portion of the federal CDBG Program and would allow that CDBG grant money could be disbursed more quickly to local economic development projects. During these hard

economic times the ability to begin economic development projects more quickly will help put people back to work and revitalize the area sooner.

Concerns have been raised that small businesses have had to contend with extended due diligence periods as loans were sometimes underwritten at both the state and local level. HCD has stated that they have been concerned that some local jurisdictions did not have the technical capacity to review loans. This bill addresses both the small business need for faster loan processing and HCD's concern for having qualified individuals review loan proposals.

- 2) California Small Business: California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's \$1.8 trillion economy. Businesses with less than 100 employees comprise more than 99% of all businesses and are responsible for employing more than 57% of all workers in the state.

As an example, small- and medium-sized businesses are crucial to the state's international competitiveness and are an important means for dispersing the positive economic impacts of trade within the California economy. Of the over 52,000 companies that exported goods from California in 2006, 95% were small- and medium-sized enterprises (SME) with fewer than 500 employees. These SMEs generated nearly half (44%) of California's exports in 2006. Nationally, SMEs generated only 29% of total exports.

Historically, small businesses have functioned as economic engines, especially in challenging economic times. During the nation's economic downturn from 1999 to 2003, microenterprises (businesses with less than five employees) created 318,183 new jobs or 77% of all employment growth, while larger businesses with more than 50 employees lost over 444,000 jobs. From 2000 to 2001, microenterprises created 62,731 jobs in the state, accounting for nearly 64% of all new employment growth. Unfortunately during the current recession, small business have been especially hard hit with small business bankruptcies up 81% for the 12 months ending September 2009, as compared to the same period in the previous year. Nationally, bankruptcy filings were up 44%, according to Equifax Inc.

Because of their importance in the state economy, small business issues have been a particular focus of the Assembly Committee on Jobs, Economic Development and the Economy (JEDE) for the past several years. In March 2009, JEDE produced a state economic recovery strategy that included several key recommendations on the needs of small business, including helping small businesses meet their short term capital needs. In May 2009, JEDE held a special hearing to learn more about how the recession was impacting small businesses and in October, JEDE's review of the California Enterprise Zone Program included a panel on how the program related to needs of small business.

- 3) Community Development Block Grant Program: The CDBG Program was established by federal law in 1974. Large and medium sized municipalities are provided with allocations from the federal Housing and Urban Development Department. States administer allocations for the CDBG program for smaller cities and counties on a competitive basis. California's small cities CDBG program is administered by the Department of Housing and Community Development. This state program provides funding to counties with fewer than 200,000 residents in unincorporated areas and cities with fewer than 50,000 residents that are not participants in the federal CDBG Program.

The chart below presents recent proposed budget information for the state's small cities CDBG Program.

Small Cities Community Development Block Grant				
Fiscal Year	Staffing (PYs)	Total Funding (in thousands)	Administrative	Local Assistance (in thousands)
2005/06	N/A	\$57,834	N/A	\$54,869
Δ				
2006/07	N/A	\$63,868	N/A	\$60,000
Δ				
2007/08	N/A	\$64,219	N/A	\$60,000
2008/09	NA		NA	?
Federal Stimulus	NA		NA	

The primary objective of the CDBG Program is the development of viable communities through the provision of decent housing and suitable living environments, and by expanding economic opportunities. Pursuant to federal law, at least 51% of a CDBG project’s beneficiaries must have incomes less than 80% of the area median income. This is known as the Targeted Income Group.

Each year the CDBG Program makes funds available to eligible jurisdictions through several allocations, including: General, Native American and Colonias; Economic Development – Over the Counter; Economic Development – Enterprise; and Planning and Technical Assistance allocations.

General, Native American and Colonias Allocations: The General, Native American and Colonias allocation is the largest component of the CDBG program. One and one quarter percent of state CDBG Program funds are awarded to projects serving Native Americans who do not belong to a federally recognized tribe or rancheria. Five percent is awarded to non-entitlement California communities (colonias) located within 150 miles of the California-Mexico border. Most of the funds in this allocation are spent for housing, community, and economic development projects serving lower-income households in small, typically rural communities.

Economic Development - Enterprise Fund: This allocation is intended to capitalize local businesses through grants and revolving loan funds that provide working capital or provide infrastructure assistance to businesses that create or preserve private sector jobs for low and very low income population. Grants and loans can be made up to \$500,000. Loan terms and conditions can be tailored to meet the financial needs of each business.

Economic Development - Over the Counter: This allocation is intended to capitalize a local business loan or finance a public infrastructure project which will promote business expansion and result in the creation and/or retention of permanent private sector jobs. Eligible uses of funds include business loans and grants to cities and towns for purchase of land and existing improvements, construction and rehabilitation of buildings and leasehold

improvements, purchase of equipment, inventory, furniture, fixtures, materials and supplies, and working capital. Grants can be made up to \$500,000.

Planning and Technical Assistance: The grants made under this allocation are available for both general and economic development activities. The grants are intended to help communities move projects from concept to reality. A total of \$70,000 is available annually to each eligible community -- \$35,000 on the economic development side, and \$35,000 for general development projects. Typical activities include: business development feasibility studies; business attraction and retention plans; housing needs studies; marketing studies; social service needs assessments; technical assistance for specific businesses; and infrastructure needs assessments.

4) Related legislation: Below are bills related to CDBG revolving loan program.

a) AB 507 (Arambula): 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. Held in Assembly Committee on Appropriations.

b) AB 1410 (Bass): This bill authorizes the Infrastructure and Economic Development Bank to use certain federal CDBG Program moneys to create credit enhancements, loan guarantees, and low-interest loans, for the purpose of offsetting program administration costs or to supplement the State ISRF Program. In Assembly Committee on Jobs, Economic Development and the Economy.

5) Double Referral: The Assembly Rules Committee referred this bill to two policy committees. Should this measure pass the Assembly Committee on Jobs, Economic Development and the Economy, it will be referred to the Assembly Committee on Housing and Community Development.

REGISTERED SUPPORT / OPPOSITION:

Support

Assembly Committee on Jobs, Economic Development, and the Economy (Sponsor)
Association of Financial Development Corporations
California Association for Local Economic Development
Chabin Concepts & California Green Jobs Council Member
City of Colusa
City of Oroville
Economic Development Corporation of Shasta County
Economic Development and Financing Corporation
Glenn County Planning and Public Works Agency
Tehama Economic Development Corporation
Tri-County Economic Development Corporation
Yuba-Sutter Economic Development
3CORE

Opposition

None received

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