

Date of Hearing: April 27, 2021

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sabrina Cervantes, Chair

AB 1036 (E. Garcia and Cervantes) – As Amended March 30, 2021

SUBJECT: California Manufacturing Emergency Preparedness Act of 2021

POLICY FRAME: California faces many hurdles in meeting the challenge of the coronavirus emergency. Extended global supply chains have hampered the state's ability to meet the basic needs of its health care system and food supply chain, and have fundamentally impaired the state's ability to develop and follow evidence-based policies. While California's disaster response capabilities are some of the best in the world, in the last few months the state has learned the serious downsides to global supply chains for crucial goods, such as the lack of personal protective gear and swabs for testing kits.

Manufacturing is so important to the US, the President has the authority to invoke the Defense Production Act (DPA) in order to expedite, assure, and expand the supply of resources to meet the nation's emergency needs. During the coronavirus emergency, the DPA has been used or threatened to be used several times. Most recently, President Biden used the DPA to ensure production of at least 61 million at-home or point-of-care coronavirus tests available by the summer 2021.

AB 1036 establishes a new loan and loan guarantee program to support manufacturing facilities in retooling, repurposing, and expanding. The analysis includes information on the California manufacturing economy, the manufacturing challenges of the COVID-19 emergency, and the California Infrastructure and Economic Development Bank (IBank). There is no known opposition to the bill.

SUMMARY: Enacts the California Manufacturing Emergency Preparedness Act of 2021 for purpose of addressing the financial requirements of businesses when retooling, repurposing, and expanding production and distributing products necessary to prevent shortages of essential goods. Specifically, **this bill:**

- 1) Authorizes the Governor to allocate moneys in the Disaster Assistance Fund to the California Manufacturing Disaster Loan Program Subaccount in the Manufacturing Program Account, which are established in this bill.
 - a) Specifies that these funds are to be used to implement the California Manufacturing Disaster Loan Program for the purpose of providing financing to enable the manufacturing and logistics sectors to support the emergency needs of Californians.
 - b) Expresses Legislature's intent that the Governor be provided with appropriate emergency powers to address the manufacturing production and distribution needs of the state to protect the health and safety of Californians.
 - c) Expresses the Legislature's intent that the Governor utilize this authority to provide direct loans, and to forgive those loans in appropriate circumstances, for purposes of addressing the financial requirements of businesses when retooling, repurposing, and expanding production and distributing products necessary to prevent shortages of essential goods.
- 2) Finds and declares all of the following:

- a) California is one of the largest and most diverse economies in the world, with a state gross domestic product of \$3.1 trillion in 2019. Based on figures from the Department of Finance, if California were an independent nation it would rank as the fifth largest economy in the world.
 - b) Historically, the state's significance in the global marketplace has resulted from a variety of factors, including, but not limited to:
 - i) Its strategic west coast location that provides direct access to the growing markets in Asia
 - ii) Its economically diverse regional economies and its large, ethnically diverse population, representing both a ready workforce and significant consumer base.
 - iii) Its access to a wide variety of venture and other private capital.
 - iv) Its broad base of small- and medium-sized businesses that support the global manufacturing supply chain.
 - v) Its culture of innovation and entrepreneurship, particularly in the area of high technology.
 - c) Historically, economic growth in California has outpaced the economic growth rate of the nation as a whole, and the state has led the nation in export-related jobs, business startups, and innovation. California leads the nation in the number of manufacturers.
 - d) California's manufacturing sector, however, faces many challenges in maintaining global and domestic disaster preparedness, accessing a qualified workforce, and updating equipment and processes to meet domestic production needs during and following a declared state of emergency.
 - e) A robust manufacturing sector offers many benefits to the state, including high-wage jobs, a basis for international trade, and one of the highest multiplier effects on other industries and businesses. It has been estimated that for every job created in manufacturing, 2.5 jobs are supported in other industry sectors. For instance, in the electronic computer manufacturing industry, that multiplier effect is 16 to 1.
 - f) As California faces the coronavirus emergency, its ability to protect the health and safety of its people has been impeded by the lack of access to certain essential manufactured products, including, but not limited to, personal protection equipment and ventilators. The current lack of domestic production and the need to pivot existing manufacturers to new and expanded lines of production requires the state to develop finance programs in advance of disasters, so they can be activated once a state of emergency is declared.
 - g) It is therefore the intent of the Legislature to strengthen the manufacturing capacity of California through the enactment and implementation of this article to provide the framework and focus to retool and expand California's manufacturing facilities, support a vibrant logistics network, and retain and create more quality jobs.
 - h) Loan forgiveness provided through this article produces two statewide benefits to the public by, first, supporting the state's manufacturing capacity to produce essential and scarce goods, and, second, by supporting struggling businesses and their employees in the manufacturing sector that, in turn, support the state's emergency response and recovery efforts.
 - i) It is therefore also the intent of the Legislature that the bank have the authority to forgive any loan provided through this article if forgiveness of the loan furthers the purposes of the program
- 3) Defines a number of terms to guide the development of the programs, including, but not limited to:

- a) “Applicant” means a company, or a participating financial institution on behalf of a company, that applies to the bank for a loan, loan forgiveness for a loan issued pursuant to this article, or a line of credit to finance a project undertaken or proposed to be undertaken pursuant to this article. “Applicant” may be comprised of more than a single entity.
 - b) “Company” means a person, partnership, corporation, whether for profit or not, limited liability company, trust, or other private enterprise of whatever legal form, for which a project is undertaken or proposed to be undertaken pursuant to this article. “Company” may include more than a single enterprise.
 - c) “Loan” means a loan, a portion of a loan, or a line of credit or portion of a line of credit made or extended by the bank, a participating financial institution on behalf of the bank, or by a participating financial institution pursuant to the bank’s program to a company for a project or for a portion of a project encompassing one or more of the activities or uses set forth in this article.
 - d) “Logistics” means a business that can assist in the collection and distribution of a product, as classified as transportation and warehousing under the 2017 North American Industry Codes 48 and 49.
 - e) “Manufacturer” means a business that is capable of manufacturing a product, as classified as manufacturing under the 2017 North American Industry Codes 31 to 33, inclusive.
- 4) **Creation of the Disaster Program:** Authorizes the IBank to establish the California Manufacturing Disaster Loan Program (Disaster Program) for the purpose of attracting, retaining, retooling, establishing, and expanding manufacturing and logistic capacity in the state.
- a) Authorizes the IBank, in undertaking this purpose, to provide loans to businesses in the manufacturing and logistics sectors to support state emergency response and recovery efforts. The IBank may forgive loans, upon making a finding that forgiveness of the loan would further the purposes of this program.
 - b) Prohibits commencement of the Disaster Program until the IBank has adopted a resolution finding that both of the following conditions are met:
 - i) There is sufficient money in the California Manufacturing Disaster Loan Program Subaccount, to cover the costs of implementing the program, including, but not limited to, appropriate oversight costs.
 - ii) The bank has sufficient direction from the Director of the Office of Emergency Services to set program parameters that address the specific needs of the disaster, including, but not limited to, whether the loans are to be secured, unsecured, priority, or subordinated debt.
 - c) Requires the IBank, upon the adoption of a specified resolution, to adopt directives and requirements for the implementation of this program, as specified.
- 5) **State of Emergency Required:** Limits the provision of emergency–related loans to only those businesses that meet one of the following requirements:
- a) The business is located in an area affected by a state of emergency that is in the state and that meets any of the following conditions:
 - i) The US President declares a state of emergency or disaster for the area.
 - ii) The US Small Business Administration designates the area as a disaster area or declares a disaster in the area.

- iii) The US Secretary of Agriculture designates the area as a disaster area or declares a disaster in the area.
 - iv) The Governor declares a state of emergency for the area.
- b) The business is located in the state and produces or distributes a product, component or resource necessary for the production of the product, that fulfills a need of the residents or businesses in an area affected by a state of emergency that is in the state and that meets any of the following conditions:
- i) The US President declares a state of emergency or disaster for the area.
 - ii) The US Small Business Administration designates the area as a disaster area or declares a disaster in the area.
 - iii) The US Secretary of Agriculture designates the area as a disaster area or declares a disaster in the area.
 - iv) The Governor declares a state of emergency for the area.
- 7) **Disaster Program Objectives:** Requires the Disaster Program to meet all of the following objectives:
- a) Protect and enhance the state's long-term manufacturing capacity.
 - b) Maintain jobs through the support of retooling, repurposing, establishing, and expanding manufacturing facilities during and immediately following a declaration of a state of emergency.
 - c) Support quality manufacturing jobs that provide high wages, including benefits.
 - d) Allow manufacturers to access funds under terms and conditions that would not otherwise be available in the private market.
 - e) Strengthen the supply chain of small businesses that support this state's manufacturing preparedness.
 - f) Assist manufacturers in cost effectively responding to the manufacturing needs of California during a state of emergency.
- 8) **Loan Requirements:** Requires, among other requirements, that the loans and lines of credit provided be subject to all of the following provisions:
- a) Applicants shall commit, as a condition of participating in the program, that all outstanding loans shall be paid in full six months before the relocation of a facility outside of California. If the loan included a subsidized amount, that amount shall also be repaid subject to a sliding scale adopted by the bank.
 - b) Applicants shall demonstrate where the facility, or facilities, where the money will be expended are located, and where the direct benefits of the assistance will be realized in the state.
 - c) Upon the request of the bank, each applicant shall agree to report to the bank in the year the funding was provided, the following years until the loan is repaid, and the total employment at all its locations in California. The applicant shall also estimate the number of jobs created or retained through the provision of this state assistance and provide other appropriate performance data, as determined by the bank.

- 9) **Administration Costs:** Requires each applicant to pay a nonrefundable application fee to cover the costs of administering the program, including a proportional share of the costs of developing the program, reviewing applications, and monitoring and overseeing the program.
- a) Requires all fee money to be deposited directly into the California Manufacturing Disaster Loan Program Subaccount, for the purpose of ensuring that funds are available to the state for the sole purpose of administration of the program.
 - b) Money transferred from the Disaster Assistance Account may also be used to cover the costs of developing the Disaster Program, reviewing applications, and monitoring and overseeing the program. If such money is used to cover these costs, the nonrefundable application fee shall be reduced accordingly.
- 10) **Managing the Disaster Program:** Specifies that the Disaster Programs may be administered directly by the bank, or in conjunction with financial companies or financial institutions, in direct or indirect participation with special purpose entities established for manufacturing finance, or under contract with financial development corporations. The IBank may also support the Disaster Program with the administrative support of the California Small Business Finance Center, as specified.
- 11) **Creation of the Competitiveness Program:** Authorizes the IBank to establish the California Manufacturing Competitiveness Loan Program (Competitiveness Program), as specifies, for the purpose of attracting, retaining, and expanding manufacturing facilities and other companies in the state. The IBank is prohibited from commencing operation of the Competitiveness Program before adopting a resolution finding that there is sufficient money in the California Manufacturing Competitiveness Loan Program Subaccount to cover the costs of implementing the program, including, but not limited to, appropriate oversight costs.
- 12) **Guidelines for the Competitiveness Program:** Authorizes the IBank to adopt directives and requirements for the implementation of the Competitiveness Program, as specified.
- a) Requires the design of the Competitiveness Program to meet all of the following objectives:
 - i) Encourage the development of the state's long-term manufacturing capacity.
 - ii) Create jobs through the support of retooling and expansion of manufacturing facilities.
 - iii) Support quality manufacturing jobs that provide high wages, including benefits.
 - iv) Allow manufacturers to access funds under terms and conditions that would not otherwise be available in the private market.
 - v) Strengthen the supply chain of small businesses that support this state's manufacturing competitiveness.
 - vi) Assist manufacturers in cost effectively responding to energy efficiency regulations and new technologies.
 - b) Requires the directives and requirements to address how to evaluate and approve applicants for loans or lines of credit, and to evaluate and certify the participating financial institutions that may make loans or extend lines of credit on its behalf, or directly to companies pursuant to the bank's program.

- i) Requires the evaluation and approval of applicants to include the assessment of the applicant's creditworthiness, and the valuation of guarantees and collateral to be posted by the applicant to secure payment of principal and interest on the loan or line of credit.
 - ii) Requires the evaluation and certification of participating financial institutions to include an assessment of the standards for due diligence for each loan or line of credit made on behalf of the bank or made directly to a company pursuant to the bank's program.
 - c) Requires the directives and requirements to provide for the development and administration of the application, review, and evaluation process for the program, including, but not limited to, defining the eligibility standards, rating and ranking criteria, and other appropriate policies and procedures for implementing and overseeing the program pursuant to this article.
 - d) Requires the directives and requirements to place certain restrictions on loans and line of credit including all of the following:
 - i) Requires all outstanding loans to be paid in full six months before the relocation of a facility outside of California. If the loan included a subsidized amount, that amount shall also be repaid subject to a sliding scale adopted by the bank.
 - ii) Requires applicants to demonstrate where the facility or facilities where the money will be expended are located, and where the direct benefits of the assistance will be realized in the state.
 - iii) Requires the wages paid to workers of the applicant, on average, be equal to, or more than, the average monthly wage rate for similar workers in the same industry subsector.
- 13) **Borrower Reporting:** Requires, upon the request of the bank, each applicant agree to report to the IBank in the year the funding was provided, and the following years, on total capital investments made by the company, the total employment at the project facility, and the wage levels by type of work. The applicant is also required to estimate the number of jobs created or retained through the provision of this state assistance, as well as provide other appropriate performance data, as determined by the bank.
- 14) **Technical Assistance:** Requires the IBank to provide technical assistance to participating financial institutions in order to increase utilization of the minimum documentation, underwriting, and servicing standards.
- 15) **Competitiveness Program Evaluation Criteria:** Requires the evaluation criteria for reviewing Competitiveness Program applications and determining financing approvals to include all of the following:
- a) Whether employment benefits arising out of the use of the financing secures the employment of existing employees or increases the overall number of full-time employees of the company.
 - b) Whether the company provides compensation for employees at the project facility that exceeds the average compensation for similar employment within the company's jurisdiction or within the state.
 - c) Whether the company provides health benefits to employees with employment at the project facility or contributions to employee retirement benefits.
 - d) Whether the project will provide energy, mineral or natural, or cultivated resource conservation benefits.

- e) Whether the project will include building certified environmentally beneficial facilities, bringing existing facilities up to certified environmentally beneficial status, implementing greenhouse gas reduction technologies, energy efficiency measures, and installing renewable energy equipment.
 - f) Whether the company purchases raw materials or other products from California-based companies.
- 16) **Administrative Costs:** Requires each application to pay a nonrefundable administrative fee to cover the costs of administering the program, including a proportional share of the costs of developing the program, reviewing applications, and monitoring and overseeing the program. Fee moneys are required to be deposited directly into the California Manufacturing Competitiveness Loan Program Subaccount, for the purpose of ensuring that funds are available to the state for the sole purpose of administration of the program.
- 17) **Creation of Accounts and Subaccounts:** Establishes the Manufacturing Program Account within the California Infrastructure and Economic Development Bank Fund. No money other than the moneys in the account may be used for direct loans issued pursuant to this Disaster Program and the Competitiveness Program.
- a) Authorizes the IBank to establish subaccounts, as necessary, to administer these programs, including, but not limited to the California Manufacturing Disaster Loan Program Subaccount.
 - b) Requires the Department of Finance (DOF), with the approval of the Governor, to transfer moneys allocated into California Manufacturing Disaster Loan Program Subaccount, as specified.
 - c) Requires all moneys received from the federal government, foundations, and other public or private funding sources, for the purpose of implementing the California Manufacturing Disaster Loan Program or California Manufacturing Competitiveness Loan Program, to be deposited in the appropriate subaccounts in the Manufacturing Program Account.
 - d) Requires all loan repayments, interest, and royalties shall be deposited back into the appropriate subaccounts in the Manufacturing Program Account.
 - e) Authorizes the IBank, with the approval of DOF, to transfer all or a portion of the funds in the account or subaccounts to a lending institution or financial company that will act as trustee of the funds.
- 18) **Funding First:** Prohibits the IBank from commencing implementation of either the California Manufacturing Disaster Loan Program or California Manufacturing Competitiveness Loan Program before adopting a resolution finding that there is sufficient money in the appropriate subaccount to cover the costs of implementing the specific program, including, but not limited to, appropriate oversight costs.
- 19) **Annual Report:** Requires the IBank to annually report, commencing on January 1, 2023, to the Governor and the Legislature on program activity in any fiscal year that the California Manufacturing Disaster Loan Program or California Manufacturing Competitiveness Loan Program receives funding or has active loans.
- a) Requires the report, at a minimum, to include all of the following:
 - i) The total amount of moneys in the Manufacturing Program Account and its subaccounts, at the beginning of the fiscal year and at the end of the fiscal year.

- ii) The number of projects funded and the number of manufacturers and other businesses assisted.
 - iii) The number of jobs created and the number of jobs retained through program assistance in each of the fiscal years.
 - iv) Information on publicly held companies shall be reported separately from other companies.
 - v) Information on the size of each business assisted based on number of employees. The information required by this paragraph shall be categorized as follows: Less than 49 employees; 50 to 99 employees; 100 to 499 employees; and 500 or more employees.
- b) Authorizes the IBank to include the required information in any annual report of the bank, in lieu of submitting a separate report.

- 20) **COVID-19 Application:** Authorizes the IBank to use the California Manufacturing Disaster Loan Program or California Manufacturing Competitiveness Loan Program to meet California's manufacturing and logistics needs in response to the March 4, 2020, proclamation of a state of emergency in response to the COVID-19 virus.
- 21) **Program Sunset:** Prohibits the IBank from entering into any loan or line of credit pursuant to the programs authorized in this bill on or after January 1, 2030.
- 22) **Urgency Clause:** Contains an urgency clause based on the need to immediately address the health and safety needs of persons at risk of being infected by the COVID-19 virus due to the lack of personal protective equipment, medical equipment, and materials and devices that will limit the spread of the virus, and due to the unreliability of existing suppliers in meeting these manufacturing and logistics needs, it is necessary that this act go into immediate effect.

EXISTING LAW establishes the IBank within the Governor's Office of Business and Economic Development (GO-Biz) and authorizes it to undertake a variety of infrastructure related financial activities including, but not limited to, the administration of the Infrastructure State Revolving Loan Fund (ISRF), oversight of the Small Business Finance Center, and the issuance of tax-exempt and taxable revenue bonds.

FISCAL EFFECT: Unknown

COMMENTS & CONTEXT:

- 1) **The Role of Manufacturing During the COVID-19 Pandemic:** California has and is facing many hurdles in meeting the challenges of the coronavirus emergency. Among these challenges has been access to key essential goods, including, access to sanitizing agents, personal protective gear, ventilators, and key component parts of essential products, such as swabs for testing kits. Extended global supply chains hampered the state's ability to meet the basic needs of its health care system. While California's disaster response capabilities have been demonstrated to be some of the best in the world, COVID-19 has also demonstrated the serious downsides to global supply chains for crucial goods.

With limited domestic capacity, public and private entities in California had to initially pursue contracts with out-of-state and foreign producers. This too often resulted in high cost, poor quality, and unreliable deliveries. In a rapid response to these unacceptable outcomes, the Governor's Office of Business and Economic Development partnered with state trade associations, like the California

Manufacturing and Technology Association (CMTA), and the state-and-federally-supported, small business assistance centers, including the California Manufacturing Technology Corporation (CMTC), who testified at the February 23, 2021, hearing.

Over a matter of weeks, these entities collectively and individually reached out to California's dynamic manufacturers to assess how these businesses could contribute to the state's emergency response efforts. Governor Newsom established a website (<https://covid19supplies.ca.gov/>), where businesses holding inventories of or with the capacity to produce health care-related products could directly connect with state contracting staff. Top priority products included ventilators, surgical masks, hand sanitizers, and hospital exam gowns. CMTA led in this effort by polling all its membership to identify current production and repurposing capacity. CMTA's manufacturer repurposing list can be found at:

https://cmta.net/multimedia/10th_list_of_mfg_repurposing_for_covid_19_cmta_w:o_contact_info_copy.pdf

The CMTC, working under repurposed funding from the GO-Biz Small Business Technical Assistance Expansion Program, worked one-on-one with small and medium-size manufacturers to shift their production to meet the state's top emergency supply needs. This pivot in manufacturing has required retooling of facilities, reworking of staffing, and establishing new supply sources, to name only a few of the required innovations. Below are examples how CMTC's clients evolved to meet California's COVID-19 challenge.

- ***Allett, National City***: Allett is a family-run slim wallet company established in 1995. By rethinking their production line, the company is transforming their warehouse in National City from making wallets to face masks. This project that began as a small one-time donation has become a business model. For anyone that purchases two masks, the company donates a mask. Most recently the company reported that it has donated over 3,500 masks, which has also allowed the small business to double its workforce.
- ***Armenco Truck Company, Chatsworth***: Since 1977, Armenco Truck, a family run company, has designed and delivered mobile trucks for food and other industries. For the COVID-19 pandemic, Armenco has the capabilities to supply mobile hand wash stations, mobile kitchens, and triage units for parks, homeless encampments, and other applications. Armenco is also supplying plastic partitions and guard stations, which are being installed between manufacturing equipment stations and office areas.
- ***Dermaesthetics, Inc., Anaheim***: Dermaesthetics is a global skincare company, primarily selling to beauty professionals for over 30 years. When the call for hand sanitizers came, the company pivoted its production line and shipped at no-charge to California clinics, hospitals, senior care centers, etc. In addition, Dermaesthetics is selling its FDA and WHO compliant product in various sizes to the companies and the general public.
- ***Able Industrial Products, Ontario***: Able Industrial Products is a second generation family owned business, which pivoted to manufacture face shields from manufacturing automotive and aerospace gaskets. The company now provides 2,500+ face shields daily to St. Jude Medical Center in Fullerton and other medical centers in Southern California.

The Assembly Committee on Jobs, Economic Development, and the Economy, worked on legislation to support the financing of California products, AB 3077 (Garcia and Cervantes) from the prior session, as well as sending a letter to the Governor calling the establishment of Manufacturing Response and Recovery Initiative. The purpose of the Manufacturing Response and Recovery

Initiative was to both jump-start California's economic recovery, as well as becoming better prepared to protect the health and safety of Californians in the future.

CMTA joined with the California Business Roundtable and similar business and industry groups in Oregon and Washington State to write an open letter to their Governors outlining a framework for reopening, which included the following goals:

- Business must help lead the recovery
- Expectations must be clear
- Employer concerns must be resolved
- Businesses– and individuals– should be allowed to return to work as soon as reasonable safety standards can be met
- Different sectors or regions may need different strategies and timelines
- The hardest hit industries should receive additional support and consideration
- Worker retraining should occur sooner rather than later
- Reviving our economy, and building strength for the long-term, must become a priority.

Both CMTA and CMTC supported these companies in pivoting their existing production capacity to contribute to the state's coronavirus pandemic response and sustain a portion of their workforce. If enacted, AB 1036 would provide a new funding mechanism to assist manufacturers in making these transitions.

2) **California's Manufacturing Strategy:** While manufacturing is considered the "Gold Standard" in business development, expansion and retention activities, the state has a limited number of programs that specifically meet the unique challenges of manufacturing. The JEDE Committee Chair and members most recently heard from Launce Hastings, President of the California Manufacturing and Technology Association, and James Watson, President of California Manufacturing Partnership, the state's technical assistance provider.

- **Partial Sales Tax Exemption on New Equipment:** Sales and Use Tax Exemption on the state portion of taxes for the first \$200 million of equipment purchases. Up to \$6,625,000 (3.3125%) million can awarded each year, with approvals provided on a first-come-first-serve basis. Each year the program is oversubscribed.
- **Full Sales Tax Exclusion on Equipment:** Sales and Use Tax Exclusion on both the local and state share of sales and use taxes. Up to \$100 may be annually awarded on a competitive basis. Over the last several years, the program has been oversubscribed.
- **Tax Credit for Expanding Businesses:** California Competes Tax Credit has authority to allocate up to \$200 annually to businesses, including manufacturers who are making significant new capital investments and hire additional employees.
- **Tax Credit to Retain Workers:** The Main Street Tax Credit was authorized in 2020 to allocate up to \$100 million in tax credits to certain qualified small businesses for the 2020 taxable year, equal to \$1,000 for each net increase in qualified employees, not to exceed \$100,000 per employer.
- **Technical Assistance:** The Small Business technical Assistance and Expansion Program competitively awards \$17 million annually, as part of a five-year agreement for the elimination of a \$50 million small business set aside in the California Competes Tax Credit.

Many years ago, the **Small Business Loan Guarantee Program**, administered through the Small Business Finance Center at the IBank, was guaranteeing loans for up to \$10 million, which provided a source of manufacturing capital. The program is currently limited to guarantees on loans up to \$1.5 million, making the program not very manufacturer-friendly.

The Small Business Finance Center also runs a **Jump Start Direct Loan Program**, which provides microloans to small businesses. The total initial capitalization was \$2 million, making the program very helpful to microenterprises but not very useful in providing capital to manufacturers.

AB 1036 authorizes the establishment of a Disaster Program and a Competitiveness Program to offer financial assistance not otherwise authorized under existing law. This includes a disaster direct loan program for manufacturers of all sizes and a direct loan and loan guarantee program for manufacturers who need growth capital coming out of the COVID-19 pandemic, but exceed current business size limitations or require larger size guarantees.

- 3) **Manufacturing and the California Economy:** Manufacturing plays an important role within the California economy, supporting international trade and small businesses within the global supply chain while providing high-paying jobs throughout. In 2017, California's 35,321 manufacturing establishments accounted for 14.2% of all manufacturing plants in the US, which produced 10.67% of state GDP.

In 2018, the California manufacturing sector contributed over \$316.7 billion to the state economy, which represented 10.7% of total output. Manufacturing employed 1.3 million workers in California in 2018, which accounted for 7.66% of the state's non-farm employment in 2019. Average annual income for a worker in manufacturing was \$109,875 as compared to \$59,149 for the nonfarm workers. Average hourly earnings in manufacturing were \$31.58 in January of 2018, as compared to \$30 for all private industry sectors and \$18.04 for leisure and hospitality jobs.

Manufacturers bear a disproportionate share of federal regulatory costs. According to a report by the National Association of Manufacturers, the average US company, manufacturer or otherwise, pays \$9,991 per employee per year to comply with federal regulations. The average manufacturer in the US pays \$19,564 per employee per year. For small manufacturers (fewer than 50 employees), the regulatory impact is \$34,671 per employee per year.

Manufacturing is California's most export-intensive activity, with \$154 billion in manufactured goods exported in 2018, which accounted for 86.6% of California's annual exports. Employment related to manufacturing has historically supported 25% of all manufacturing jobs. The growth in manufactured goods between 2010 and 2019 was 19.8%. California exported \$40.4 billion in exports to Mexico and Canada under the USMCA agreement in 2019. The two largest exports by aggregate dollar value in 2020 were computers and electronic products valued at \$37.6 billion (25.4% of all exports) and transportation equipment at (\$17.3 billion (10.8%).

Manufacturers comprise the largest sector of foreign-owned companies with US affiliates, employing 208.4 million workers in 2017. Also, manufacturing jobs have a large employment multiplier effect. According to the Milken Institute, each manufacturing job supports roughly 2.9 other jobs in the state's economy overall. In some specialized manufacturing sectors, such as electronics and computer manufacturing, the multiplier effect is as high as 16 to 1. One of the reasons for the large multiplier

effect is the extended supply chains that are needed to support manufacturing and the export of goods, which include many small businesses and logistic companies.

- 4) **Manufacturing in the Future:** Employment Development Department currently projects that, between 2016 and 2026, total employment in California will rise by 16.3%, with total employment in the manufacturing sector in California rising by only 0.1%, as shown in *Chart 2* below.

Chart 2 – Net Employment Growth in California				
	Annual Average Employment 2016	Estimated Employment in 2026	Numerical Change	Percent Change
Total Employment	18,089,600	20,022,700	1,933,100	10.7%
Manufacturing	1,311,200	1,312,500	1,300	0.1%

Source: "Projections of Employment by Industry and Occupation, Long-Term (Ten Years) Projections," EDD, 2018

While the aggregate employment growth is low, some subsectors are anticipated to have more significant increases, including motor vehicle manufacturing (103.1%) and industrial machinery manufacturing (12.6%). *Chart 3* provides a more detailed look at selected job growth in the manufacturing sector.

Chart 3 – Selected Net Job Growth in Manufacturing				
	Annual Average Employment 2016	Estimated Employment in 2026	Numerical Change	Percent Change
Manufacturing	1,311,200	1,312,500	1,300	0.1%
Durable Goods Manufacturing	820,800	829,500	8,700	1.1%
Wood Product Manufacturing	23,800	25,400	1,600	6.7%
Other Wood Product Manufacturing	16,800	18,000	1,200	7.1%
Primary Metal Manufacturing	17,300	15,200	-2,100	-12.1%
Fabricated Metal Product Manufacturing	130,500	126,500	-4,000	-3.1%
Machinery Manufacturing	74,200	75,000	800	1.1%
Motor Vehicle Manufacturing	9,600	19,500	9,900	103.1%
Aerospace Product and Parts Manufacturing	76,600	75,100	-1,500	-2.0%
Ship and Boat Building	9,400	8,000	-1,400	-14.9%
Furniture and Related Product Manufacturing	35,800	34,800	-1,000	-2.8%
Medical Equipment and Supplies Manufacturing	52,600	56,300	3,700	7.0%
Nondurable Goods Manufacturing	490,400	483,000	-7,400	-1.5%
Food Manufacturing	160,500	166,600	6,100	3.8%
Beverage and Tobacco Product Manufacturing	57,500	69,300	11,800	20.5%
Apparel Manufacturing	47,700	37,200	-10,500	-22.0%
Paper Manufacturing	22,000	20,400	-1,600	-7.3%
Petroleum and Coal Products Manufacturing	13,900	12,400	-1,500	-10.8%
Chemical Manufacturing	84,400	85,800	1,400	1.7%
Pharmaceutical and Medicine Manufacturing	51,400	54,000	2,600	5.1%
Plastics and Rubber Products Manufacturing	44,500	41,200	-3,300	-7.4%

- 5) **Background on the IBank:** The IBank was established in 1994 to finance public infrastructure and private development that promotes a healthy climate for jobs, contributes to a strong economy, and improves the quality of life in California communities. Housed within GO-Biz, it is governed by a five-member board of directors comprised of the Director of GO-Biz (chair), the State Treasurer, the Director of the Department of Finance, the Secretary of the Transportation Agency, and an appointee of the Governor. The day-to-day operations of the IBank are directed by the Executive Director who is an appointee of the Governor and is subject to confirmation by the California State Senate.

The IBank is essentially self-funded receiving minimal General Fund support. The IBank uses the fees, interest income and other revenues that derive from its public and private sector financing activities, as the foundation of its operations budget. State contracts to small business financial development corporations (FDCs) are supported through an annual General Fund appropriation of \$1 to \$2 million.

The IBank administers five core programs:

- The Infrastructure State Revolving Fund (ISRF), which provides direct low-cost financing for public infrastructure projects and economic development facilities.
- The Bond Financing Program, which provides tax-exempt and taxable bond financing for manufacturing companies, public benefit nonprofit organizations, public agencies and other eligible entities.
- The California Small Business Finance Center, which assists small businesses access private financing through loan guarantees, direct loans, and performance bond guarantees.
- The California Lending for Energy and Environmental Needs Center or CLEEN Center, which provides financing for environment-related projects to municipal governments, public universities, schools, and hospitals (MUSH).
- The Climate Catalyst Revolving Loan Fund, which is available to receive funds from non-state governmental entities and private sources for the purpose of financing climate catalyst projects that further the state's climate goals. Operationally, the Strategic Growth Council sets the non-financial program requirements and the IBank serves as the bank. Categories of projects are set by the Legislature in consultation with the Strategic Growth Council.

Since its inception, the IBank has loaned, financed, or participated in over \$40 billion in infrastructure and economic expansion projects, including \$434.8 million in industrial development bonds. This includes over \$822 million to local and state agencies, developing a high-level of expertise in the financing of public infrastructure.

The IBank also serves as the state's only general-purpose financing authority with broad statutory powers to issue revenue bonds, make loans, and provide guarantees. There is no pledge of IBank or state general funds for any of the conduit revenue bonds. Over \$8 billion in conduit revenue bonds have been issued by the IBank since 2015, including \$2 billion in green and clean water projects.

In November 2020, the IBank issued its annual report for the 2019-20 fiscal year. Among other activities, the IBank issued more than \$880 million through 10 bonds, including two green bonds. Even working remotely due to COVID-19, the IBank was able to continue issuing bonds. The chart below summarizes key aspects of the IBank's activities in 2019-20.

2019-20 IBank Activities						
IBank Program	Financing Approved	Financing Closed	Jobs(*)	Amount Approved	Amount Closed	Leverage
ISRF Loans	2	1	0	\$24,300,000	\$143,300,000	\$0
CLEEN Loans	0	0	0	\$0	\$0	\$0
Subtotals	2	1	0	\$24,300,000	\$14,300,000	0
Industrial Development Bonds	0	0	0	\$0	\$0	\$0
501(c) (3) Bonds	10	9	845	\$1,251,370,000	\$607,967,259	\$8,772,667
Public Agency Revenue Bonds	1	1	2,303	\$350,000,000	\$272,605,000	\$0
Exempt Facility Bonds	1	0	0	\$3,250,000,000	\$0	\$0
ISRF Program Bonds	0	0	0	\$0	\$0	\$0
Subtotals	12	10	3148	\$4,851,370,000	\$880,572,259	\$8,772,667
Fiscal Year Totals	14	11	3148	4,875,670,000	\$894,872,259	\$8,772,667
*Jobs include the total number full and part-time jobs, including constriction, as reported by borrowers.						
<i>Source: IBank 2019-20 Annual Report</i>						

The IBank estimated that, since its inception, it has supported the creation and retention of over 462,000 jobs. This includes over 23,000 from the ISRF program, 41,000 from bond financing activities, and 398,000 through the Small Business Finance Center.

- 6) **Related Legislation:** Below is a list of bills from the current and prior sessions.
- a) **AB 245 (Muratsuchi) California Aerospace and Aviation Commission:** This bill would have enacted the California Aerospace and Aviation Act of 2019, which establishes a 15-member California Aerospace and Aviation Commission (Commission) for the purpose of serving as a central point of contact for related industries and supporting the health and competitiveness of these industries in California. The Commission is placed within the administrative control of the Governor’s Office of Business and Economic Development. Authority for the operation of the Commission sunsets on January 1, 2025. Status: Held without action in in the Senate Committee on Governmental Organization, 2020.
 - b) **AB 538 (Muratsuchi) California Aerospace and Aviation Commission:** This bill enacts the California Aerospace Act of 2021, which establishes the California Aerospace and Aviation Commission (Commission) for the purpose of serving as a central point of contact for related industries and supporting the health and competitiveness of these industries in California. The Commission is placed within the administrative control of the Governor’s Office of Business and Economic Development. Authority for the operation of the Commission sunsets on January 1, 2026. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.
 - c) **AB 755 (E. Garcia) Capital Investment Incentive Program:** This bill extended the authorization for cities and counties to establish a Capital Investment Incentive Program from January 1, 2018, to January 1, 2019. Existing law authorized a local government to offer a partial property tax abatement incentive for qualified manufacturing facilities for assessed property taxes. In order to qualify for the partial tax abatement, the manufacturer is required to have made an investment of at least \$150 million. The incentive may only be offered after the proponent and the local government agree to a “Community Services Agreement” that requires the proponent to meet certain criteria, such as job creation numbers, wages paid at least to the state average weekly wage, and local fees. Should the manufacturer fail to meet these requirements, the local government is entitled to repayment of any amounts paid. Status: Signed by the Governor, Chapter 709, Statutes of 2017.

- d) **AB 894 (V. Manuel Pérez) California Manufacturing Competitiveness Act of 2011:** This bill would have authorized the establishment of a loan and loan guarantee program, administered through the California Industrial Development Financing Advisory Commission, for the purpose of financing the retooling and expansion of California's manufacturing facilities, enhancing the state's logistics network, and retaining and creating jobs. Status: Vetoed by the Governor, 2011. The veto message states: "*This bill creates the California Manufacturing Competitiveness Loan and Loan Guarantee Program to be administered by an advisory commission within the State Treasurer's office. The objectives of this bill are excellent. However, the loan programs it creates can be run by the state's Infrastructure Bank, which already has authority and experience lending directly to businesses.*"
- e) **AB 1027 (Burke) California Competes Tax Credit and Private Ownership Share Agreements:** This bill would have authorized a taxpayer to offer the state an ownership interest in the taxpayer's business as part of the California Competes Tax Credit application process, and allowed the Governor's Office of Business and Economic Development to consider the amount of ownership being offered in determining the amount of credit allocated to the taxpayer. If a court had found that the state's ownership interest in a taxpayer's business to be prohibited by the California Constitution, the credit would have been recaptured and unused carryover credit canceled. Status: Held in the Senate Committee on Appropriations, 2019.
- f) **AB 1259 (L. Rivas, Cervantes, E. Garcia) California New Markets Tax Credit:** This bill would have authorized a New Market Tax Credit for qualified business investments in low-income communities beginning in year 2020. The Governor's Office of Business and Economic Development would have been tasked to administer the program. The bill would have authorized \$100 million to be awarded annually. This was part of the JEDE Chair's four-bill package related to Opportunity Zones. Status: Held in the Assembly Committee on Appropriations, 2019.
- g) **AB 1479 (Cervantes) Opportunity Zone Credit Enhancement:** This bill would have established a credit enhancement program through the California Infrastructure and Economic Development Bank for projects located in an Opportunity Zone that met certain social, economic, and environmental criteria, including creating wealth and asset building within the local community. This was part of the JEDE Chair's four-bill package related to Opportunity Zones. Status: Held in the Assembly Committee on Appropriations, 2019.
- h) **AB 1716 (Committee on Jobs, Economic Development, and the Economy) California Competes Tax:** This bill would have extended the California Competes Tax Credit for five years. The Assembly Committee on Jobs, Economic Development, and the Economy was the sponsor of this bill. Budget actions supported by JEDE implemented similar provisions as part of the 2017-18 Budget. Status: Died in the Assembly Committee on Appropriations, 2018.
- i) **AB 1900 (Brough) Extension of the Capital Investment Incentive Programs:** This bill extends the Capital Investment Incentive Program (CIIP) from January 1, 2019, to January 1, 2024. Existing law authorized a local government to offer a partial property tax abatement incentive for qualified manufacturing facilities for assessed property taxes. In order to qualify for the partial tax abatement, the manufacturer is required to have made an investment of at least \$150 million. The incentive may only be offered after the proponent and the local government agree to a "Community Services Agreement" that requires the proponent to meet certain criteria, such as job creation numbers, wages paid at least to the state average weekly wage, and local fees. Should the manufacturer fail to meet these requirements, the local government is entitled to repayment of any amounts paid. Status: Signed by the Governor, Chapter 382, Statutes of 2018.

- j) **AB 2437 (V. Manuel Pérez) California Manufacturing Competitiveness Act of 2010:** This bill would have authorized the establishment of the California Manufacturing Competitiveness Act of 2010 for the purpose of supporting the retooling and expansion of California's manufacturing facilities, enhancing the state's logistics network, and retaining and creating jobs. Status: Vetoed by the Governor, 2010. The veto message states: "*While I am supportive of providing California's manufacturers with greater borrowing opportunities to make capital investments, I believe the proper location of this economic development program is in the Governor's Office of Economic Development. In addition, this bill would create new higher costs to employers as a result of the prevailing wage requirements on projects financed under this bill.*"
- k) **AB 3307 (E. Garcia and Cervantes) California Manufacturing Emergency Preparedness Act of 2020:** This bill would have expanded the business assistance tools available to the Governor under a state of emergency by establishing the California Manufacturing Disaster Loan and Loan Guarantee Program (Disaster Program) for the purpose of attracting, retaining, retooling, establishing, and expanding manufacturing and logistic capacity in the state. Status: Held in the Senate Appropriations Committee, 2020.
- l) **SB 1293 (Allen) Sea Level Rise Loan Program:** This bill would have created the Sea Level Rise Revolving Loan Program within the I-Bank to provide low-interest loans to local jurisdictions for the purchase of coastal properties in their jurisdictions identified as vulnerable coastal property. The bill would have required the California Coastal Commission, before January 1, 2022, in consultation with the California Coastal Commission, the State Lands Commission, and any other applicable state, federal, and local entities with relevant jurisdiction and expertise, to determine criteria and guidelines for the identification of vulnerable coastal properties eligible for participation in the program. Status: Held in the Senate Committee on Rules, 2020.

REGISTERED SUPPORT / OPPOSITION:

Support

California Edge Coalition
California Manufacturers and Technology Association

Opposition

None on File

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