

Date of Hearing: April 9, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 1272 (Medina) – As Introduced: February 22, 2013

SUBJECT: California Infrastructure and Economic Development Bank

SUMMARY: Authorizes the California Infrastructure and Economic Development Bank (I-Bank) to formally participate in regional, national and international organizations related to infrastructure financing. Specifically, this bill:

- 1) Modernizes I-Banks policy framework to reflect more current economic and logistic trends relative to goods movement.
- 2) Authorizes the I-Bank to join or formally participate in region, state, national or international organizations related to infrastructure finance.
- 3) Authorizes the I-Bank to facilitate the development of infrastructure projects regardless of whether the I-Bank is funding a portion of the project.
- 4) Expands and clarifies the types of goods movement related infrastructure necessary to more competitively place California within existing and future global and domestic supply chains.

EXISTING LAW:

- 1) Creates the I-Bank within Business, Transportation and Housing Agency (BTH), to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California.
- 2) Makes legislative findings that the state needs a financing entity structured with broad authority and have the technical ability to leverage state and federal funds to facilitate economic growth. The goal is producing more private sector jobs with less public sector moneys.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's purpose: According to the author, "AB 1272 authorizes the I-Bank to join the West Coast Infrastructure Exchange (Exchange) and directs the I-Bank to assist state agencies in placing projects on the Exchange for the purpose of obtaining investors. The aim of this bill is to close an investment gap, and fix a disconnect between investors that are willing to fund infrastructure projects in California and proposed projects. There is currently not a one-stop-shop for investors to look at proposed projects and it halts investment in California projects. AB 1272 fixes this problem by requiring the I-Bank to assist state agencies in posting projects on the Exchange which will attract investors and stimulate the economy."
- 2) Framing the Policy Issue: This measure elevates the role of the I-Bank as the state's lead in infrastructure development. Changes is global markets including the ability of emerging economies

around the world to research, design, and produce highly technical products and provide professional and specialized services places an increasingly greater importance on the quality of a locality's infrastructure.

In making the case to have the I-Bank proactively engage the infrastructure finance community, the author cites the current poor quality of California's infrastructure and its negative impact on the state's ability to compete in the new technology and logistical landscape. In addition, the author notes that the I-Bank's pre-existing private market expertise makes the I-Bank best prepared to help other state agencies place projects on the West Coast Infrastructure Exchange for possible private sector financing. The analysis examines the changing global economy, the role of infrastructure in attracting businesses, and the opportunities of the West Coast Infrastructure Exchange.

- 3) Oversight hearings and West Coast Infrastructure Exchange: The Assembly Jobs, Economic Development and the Economy (JEDE) Committee held three oversight hearings in the 2011-12 Session examining the relationship between infrastructure and the state's economic recovery. Each of the presenters emphasized the importance of modern logistical networks that have the capability to link manufacturers and businesses to global and domestic supply chains that could ultimately link to the worldwide consumer base. Financing these more complex infrastructure networks, however, requires greater coordination and collaboration among public and private stakeholders.

The issue was particularly highlighted at November 2012 hearing in Calexico when the California Public Employees Retirement System (CalPERS) discussed a study it had completed as part of its deployment of \$800 million in California infrastructure investments. Among other findings, their study found that the lack of a centralized exchange where public authorities could present projects to potential investors was a key financing impediment. Increased information flow and greater consistency of deal structure, CalPERS stated, is essential to greater public pension fund infrastructure investments. AB 1272 was developed in response to testimony and research from these hearings.

- 4) Infrastructure: A major challenge to California's competitiveness: World class infrastructure plays a key role in business attraction, as multinational companies consistently rank the quality of infrastructure among their top four criteria in making investment decisions. Research shows that as U.S. infrastructure has been in decline, infrastructure in other countries is rapidly increasing. The 2010-11 Global Competitiveness Report by the World Economic Forum places U.S. infrastructure 23rd in the world, a drop from its rank of 7th in 2000.

California's infrastructure is in a similar state, according to the American Society of Civil Engineer's report, California Infrastructure Report Card 2012, estimated a \$65 billion a year investment gap. The impact of this lack of investment is compounded by the substantial new investments made in other states and nations, including the expansion of the Panama Canal. With the logistics sector alone employing over 73,000 workers, failing to remain competitive will impact California jobs.

Previously, industry clusters were considered an innovative planning model for economic development. Industry clusters brought together multiple firms and organizations working in the same or similar fields resulting in highly focused and productive innovation centers with prodigious output. Within these industry clusters, firms and organizations drew on each other's discoveries, products, and in some cases workforce. Silicon Valley and Hollywood are archetypical examples, specializing in electronics and cinema, respectively.

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

Unfortunately, this increased demand for quality and highly networked infrastructure is occurring at time of constrained public budgets. Issuing more bonds or even simply adding capacity isn't a realistic answer. New approaches to infrastructure are necessary including new financial structures, more collaborative planning, and an enhanced use of technology.

- 5) West Coast Infrastructure Exchange: Institutional investors have responded to the U.S.'s infrastructure shortfall and the lack of sufficient public finance opportunities by adopting new investment mandates. Kearsarge Global Advisors reported that as of 2010 over \$190 billion of global equity capital had been committed for infrastructure investment – up from only \$60 billion in 2007.

As an example, CalPERS currently has over \$525 million invested in a combination of physical infrastructure investments, infrastructure-targeted private equity funds, and credit enhancement for infrastructure bonds. This is addition to the \$800 million available for project finance including transportation, energy, natural resources, utilities, water, communications and other social support services.

In 2012, CalPERS and the State Treasury helped launch the West Coast Infrastructure Exchange to overcome some of the challenges they were having in deploying infrastructure-focused investment capital. The Exchange currently includes California, Oregon, Washington, and British Columbia. Several states in Mexico are considering joining.

The West Coast Infrastructure Exchange is designed to both support financing innovations and to serve as a clearinghouse for investment ready projects. AB 1272 authorizes the I-Bank to join the West Coast Exchange, as well as other regional, national and global forums the bank determines appropriate for advancing policies and practices that help close California's infrastructure needs. In addition, the bill allows the I-Bank to assist other state entities place projects on the exchange for private sector financing.

- 6) The I-Bank: The I-Bank was established in 1994 to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California. Housed within BTH, it is governed by a five-member board of directors comprised of the BTH Secretary (Chair), State Treasurer, Director of the Department of Finance, Secretary of State and Consumer Services Agency, and a Governor's appointee.

The day-to-day operations of the I-Bank are directed by the Executive Director who is an appointee of the Governor and is subject to confirmation by the California State Senate. Currently, the I-Bank has authority for 24 staff members. The I-Bank does not receive any ongoing General Fund support, rather it is financed through fees, interest income and other revenues derived from its public and private sector financing activities.

The I-Bank administers two categories of programs: 1) The Infrastructure State Revolving Fund which provides direct low-cost financing to public agencies for a variety of public infrastructure projects; and 2) Bond Financed Programs which provide financing for manufacturing companies, nonprofit organizations, public agencies and other eligible entities. There is no commitment of I-Bank

or state funds for any of the category #2 conduit revenue bonds. Even in the case of default, the state is not liable.

Since its inception, the I-Bank has loaned over \$400 million to local agencies, developing a high-level of expertise in the financing of public infrastructure. The I-Bank also serves as the state's only general purpose financing authority with broad statutory powers to issue revenue bonds. Over \$30 billion in conduit revenue bonds have been issued by the I-Bank since 2000.

The seismic upgrade of the Bay Bridge is an example of how conduit revenue bonds can be used to raise capital for infrastructure projects without impacting the state General Fund. In this example, the repayment of the bonds was based on a \$1 per vehicle surcharge collected on seven Bay Area state-owned toll bridges. In addition to this type of bonding activity, the I-Bank has also been involved in other unique financings including Tobacco Securitization Bonds, Tribal Compact Asset Securitization Bonds, and Imperial Irrigation District Preliminary Loan Guarantees.

- 7) Reorganization: In March 2012, the Governor initiated a reorganization process to realign the state's administrative structure. Key changes were proposed and agreed to by the Legislature including the dismantling of the BTH and the shifting of a number of key programs and services to GO-Biz including the I-Bank. In addition, the Secretary of BTH is replaced by the Director of GO-Biz as Chair of I-Bank and the newly established Secretary of Transportation replaces the Secretary of State and Consumer Services on the I-Bank board.

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

- 8) Related legislation: Below is a list of related legislation.
- a) AB 311 (V. Manuel Perez) Bi-National Infrastructure and Economic Development Bank: This bill expands the role of the I-Bank to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development and the Economy on April 9, 2013.
 - b) AB 886 (Allen) Export and Import Credit: This bill establishes a capped and allocated tax credit for importers and exporters that increase cargo through California air and sea ports, hire additional staff, or incur capital costs at a California cargo facility. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development and the Economy on April 9, 2013.
 - c) AB 1545 (V. Manuel Perez) Bi-National Infrastructure and Economic Development Bank: This bill would have expanded the role of the I-Bank to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Status: Held in the Assembly Committee on Appropriations in 2012.
 - d) SB 822 (Evans) Five-Year Infrastructure Plan: Existing law would have required the Governor, in conjunction with the Governor's Budget, to submit annually to the Legislature a proposed 5-year infrastructure plan containing specified information concerning infrastructure needed by state agencies, public schools, and public postsecondary educational institutions and a proposal for

funding the needed infrastructure. This bill makes technical, nonsubstantive changes to this provision. Status: Held in the Assembly Committee on Budget in 2012.

- e) *SB 907 (Evans) 20-Year Infrastructure Master Plan*: This bill would have established an 11-member Master Plan for Infrastructure Financing and Development Commission. The Commission is required to submit to the Governor and Legislature, by December 1, 2013, a long-term plan and strategy for the state's infrastructure needs and a prioritized plan to meet those needs. The Commission would have been required to submit periodic progress reports. Status: Held in the Assembly Committee on Jobs, Economic Development and the Economy in 2012.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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