

Date of Hearing: April 13, 2021

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sabrina Cervantes, Chair

AB 1297 (Holden) – As Amended March 30, 2021

SUBJECT: California Infrastructure and Economic Development Bank: housing

POLICY FRAME: The California Infrastructure and Economic Development Bank (IBank) was established in 1996 for the purpose of financing public improvements, economic development activities, and private job creation strategies that enhance the ability of California to compete in the global economy. To accomplish this task, the IBank was provided with an expansive set of financing tools, including the ability to issue bonds, provide guarantees, and leverage state and federal funds through techniques that target private investment to facilitate economic development.

One area of finance in which the IBank is prohibited from undertaking is housing finance. Over the years, there have been several discussions, including the introduction of at least two bills, proposing the expansion of IBank financing authority to include affordable housing. None of the bills moved forward with those provisions.

AB 1297 proposes the expansion of the IBank financing authority to include housing without restrictions on the type or affordability of that housing. The new authority does, however, have a few other restrictions. All housing financed is required to be necessary for the operation of the economic development or public development facility. In addition, the IBank is prohibited from financing housing through the issuance of tax-exempt bonds, which are subject to an allocation of state's private activity bond cap. This last limitation ensures the development of the IBank housing does not compete with other tax-exempt revenue bond issuers, such as the California Housing Finance Agency.

The policy questions before the Committee include:

- Does the state need another state department engaged in the financing of housing? Related to this question is the identification of what IBank financing can offer that other state or local agencies cannot.
- How would this additional authority impact the delivery of the IBank's other programs? Given the IBank's current role in providing financial resources to the small businesses economically impacted by COVID-19 and the possibility of a \$2+ trillion federal infrastructure package, would this measure dilute or measurably diminish the ability of the IBank to carry out those activities?
- Does increasing the number of state financing options help to provide more housing, or does it divert accountability as to which state entities are responsible for engaging the private sector in meeting the affordable housing needs of California's low- and middle-income households?

The analysis provides background on the IBank, its current business and infrastructure financing activities, related legislation, and an explanation of the "state allocation of private activity bond volume." There is no known opposition to this bill. Should this bill pass the Committee, the bill will be referred to the Assembly Committee on Housing and Community Development (HCD) for further policy consideration. Suggested amendments are included in Comment 9.

SUMMARY: AB 1297 expands the financing authority of the IBank to include housing projects, when that housing is necessary for the operation of the financed project. This new authority would apply to

economic development facilities and public development facilities financed through any of the IBank's financing programs or authorities, except tax-exempt bonds issued by the IBank, which are subject to a state allocation of private activity bond cap.

EXISTING LAW:

- 1) 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.
- 2) Authorizes the IBank to provide financing for economic development facilities by:
 - a) Issuing taxable revenue bonds, as specified, to provide financing for economic development projects. Financed projects are required to be compatible with the public interest, which is defined as having the project be located in California, those seeking funds are capable of meeting obligations incurred under the agreement, and in the case of loans or bonds, the amount of the payments are adequate to pay the related expenses of the IBank.
 - b) Issuing taxable revenue bonds, as specified, to provide financing for the revolving loan funds and economic development projects of small business development corporations, local economic development corporations, community development corporations, and nonprofit organizations in which revolving loan funds and economic development projects shall be compatible with the public interest.
 - c) Issuing tax-exempt revenue bonds, as specified, to provide financing for economic development facilities as permissible under federal law and in accordance with applicable California law relating to the distribution of state allocations for private activity bonds. Financed projects are required to be compatible with the public interest, which is defined as having the project be located in California, those seeking funds being capable of meeting obligations incurred under the agreement, and in the case of loans or bonds, the amount of the payments are adequate to pay the related expenses of the IBank.
 - d) Issuing tax-exempt revenue bonds, as specified, for economic development facilities of public sector and nonprofit organizations qualifying for exemption under federal law.
- 3) Defines an "economic development facility" to mean real and personal property, structures, buildings, equipment, and supporting components thereof that are used to provide industrial, recreational, research, commercial, utility, goods movement, or service enterprise facilities, community, educational, cultural, or social welfare facilities and any parts or combinations thereof, and all facilities or infrastructure necessary or desirable in connection therewith including provision for working capital, excluding housing.
- 4) Defines a "project" to mean designing, acquiring, planning, permitting, entitling, constructing, improving, extending, restoring, financing, and generally developing public development facilities or economic development facilities within the state. These projects may be funded through the ISRF. Projects for the purpose of financing transition costs or the acquisition of transition property, or both, may be funded through a financing order by the Public Utilities Commission, as specified.

- 5) Defines a “public development facility” to mean real and personal property, structures, conveyances, equipment, thoroughfares, buildings, and supporting components thereof, excluding any housing, that are directly related to providing the following:
- a) City streets, county highways, and state highways, as specified;
 - b) Drainage, water supply, and flood control, as specified;
 - c) Sewage collection and treatment, as specified;
 - d) Solid waste collection and disposal including, but not limited to, vehicles, transfer stations, recycling centers, sanitary landfills, and waste conversion facilities;
 - e) Water treatment and distribution; as specified;
 - f) Educational facilities including libraries, child care facilities, and employment training facilities;
 - g) Environmental mitigation measures, as specified;
 - h) Public safety facilities including, but not limited to, police stations, fire stations, court buildings, jails, juvenile halls, and juvenile detention facilities;
 - i) Parks and recreational facilities, as specified;
 - j) Port facilities including, but not limited to, airports, land ports, water ports, rail ports, docks, harbors, ports of entry, piers, ships, and marinas, as specified;
 - k) Power and communications including facilities for the transmission or distribution of electrical energy, natural gas, and telephone and telecommunications service.
 - l) Public transit, including, but not limited to, air and rail transport, airports, passenger stations, maintenance and storage yards, and related structures, as specified;
 - m) Defense conversion including, but not limited to, facilities necessary for successfully converting military bases consistent with an adopted base reuse plan;
 - n) Military infrastructure, including, but not limited to, facilities on or near a military installation, that enhance the military operations and mission of one or more military installations in this state; and
 - o) Goods movement-related infrastructure including, but not limited to, port facilities, roads, rail, and other facilities and projects that move goods, energy, and information.
 - p) Housing-related infrastructure including city streets; drainage, water supply, and flood control; environmental mitigation measures; power and communications; public transit improvement that directly supports transit-oriented housing; sewage collection and treatment; and water treatment and distribution.

FISCAL EFFECT: Unknown

COMMENTS & CONTEXT:

- 1) **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.

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.

- 2) **Broad Housing Finance Authority:** The IBank is currently authorized to finance housing-related infrastructure; moreover, this includes city streets; drainage, water supply, and flood control; environmental mitigation measures; power and communications; public transit improvements that directly support transit-oriented housing; sewage collection and treatment; water treatment and distribution, and other housing related public development facilities, as defined.

AB 1297 expands this authority to develop residential dwellings, including, but not limited to, for-sale and rental housing, employee housing, and student housing. The only limit on the scale of the residential development is that it must “be required for the operation” of the economic or public development facility, and it cannot be financed through tax-exempt revenue bonds, which are subject to the state’s private activity bond volume cap.

According to the IBank, who has no official position on the bill, in the last several years, several potentially worthy projects have had to be turned away due to the IBank’s current prohibition on the financing of housing. Two examples of real projects have been provided by the IBank to illustrate this point:

- **Economic Development Project:** There was a school remodel project in Los Angeles County, where on-site teacher housing was an intentional design choice to mitigate high rents in the surrounding neighborhoods. The IBank was the only tax-exempt issuer available to the school for this project location and type, but the IBank was unable to approve financing for the project due to the teacher “housing” element.
- **Public Development Project:** There was a park expansion proposal in Sacramento County. The to-be acquired land included existing houses that were to be temporarily leased before their ultimate destruction and removal. Because those houses were part of the financing, even though they were not part of the ultimate project outcome, it was ineligible for IBank assistance.

According to the IBank, there can be tangible benefits to having IBank financing. In some cases, financing costs may be lower, where their long-term experience in the market allows them to issue large, highly rated bonds. When projects are unable to access sufficient funds at reasonable rates, it can lead to projects being scaled back to conform with the financial limitations or postponement indefinitely.

- 3) **Highlights from 2019-20 Annual Report:** 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 summaries 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 construction, as reported by borrowers.						
<i>Source: IBank 2019-20 Annual Report</i>						

- 4) **The Small Business Finance Center:** The Small Business Finance Center was established in 2013 following the implementation of the Governor’s Reorganization Plan 2 (GRP2), which transferred the

IBank and the Small Business Loan Guarantee Program from the soon to be defunct Business, Transportation, and Housing Agency to the Governor's Office of Business and Economic Development.

That same year, AB 1247 modified the GRP2 proposal for the placement of the Small Business Loan Program and established the Small Business Finance Center within the IBank [*AB 1247 (Medina and Bocanegra), Chapter 537, Statutes of 2013*]. It was the authors' intent that the center become a multipurpose small business financing entity. To accomplish this objective, the statutory framework of the Small Business Finance Center was drafted to be different from those of many departments. While the Small Business Loan Guarantee Program was specifically codified within the administrative control of the Small Business Center, general statutory authority was also provided for the IBank board to approve and modify a range of financial products; moreover, this includes loans and other debt instruments, as well as loan guarantees and other credit enhancements.

During the COVID-19 pandemic, the flexibility and experience of the Small Business Finance Center was leveraged almost immediately. In April 2020, Governor Newsom transferred \$50 million of emergency response funds to the Small Business Finance Center and activated the Small Business Disaster Loan Guarantee Program. This is a program that uses state-designated FDCs, to assist small businesses in accessing capital through private for profit and nonprofit lenders. Initially intended to only guarantee microloans under \$50,000, program authority was later expanded to include loans up to \$1.5 million.

With more than \$1.9 billion from 20,500 loan guarantees since the early 2000s, the IBank's Small Business Finance Center has supported more than \$3.2 billion of loans for California entrepreneurs, including \$1 billion in loan guarantees alone since 2015.

In fiscal year 2019-20, there were 470 guarantees made on a total loan package of \$240 million with a loan guarantee amount of \$165 million. The leverage amount of moneys vary under the Small Business Loan Guarantee Program (SBLGP) based on the assessed risk in the loan portfolio. Borrowers reported that 15,403 jobs were created or retained during 2019-20. By law, the reserve amount could be as low as 10%, meaning \$10 is in reserve for every \$100 of loans guaranteed.

Recognizing the important role of the Small Business Finance Center, the 2021-22 Budget, included several program enhancements.

- \$100 million to support the IBank's loan guarantee program that provides financial assistance to small businesses.
- \$25 million for a First Loss Program, now known as the California Rebuilding Funds, which operates in conjunction with 13 participating nonprofit lenders. The FDCs help bring deals to the lenders and the 80+ small business centers who participate in the state Small Business Technical Assistance Expansion Program assist with outreach and education, in which they offer in over 30 languages. An additional \$12.5 million was transferred to the program in November 2020. As of March 31, 2021, over \$63 million has been loaned to 1,500 businesses who employ 7,627 people.
- The Small Business Finance Center statute was amended to provide even greater flexibility in order to allow the IBank board to undertake any and all programs that it determines necessary or desirable to directly or indirectly assist small businesses obtain capital.

On April 9, 2021, the US Treasury released the state formula allocations under the State Small Business Credit Initiative, a component of the American Rescue Plan. California has the opportunity to draw down more than \$894 million over the next five to seven years for the small business capital access programs. The IBank will play a central role in this process.

The SBLGP is over 30 years old and has historically maintained a low default rate, which is a testament to the diligence and skill of the small business financial development corporations who manage the program locally under a contract with the IBank. In 2019-20, the net loss reserve rate was 5.6% of the reserve account and 0.69% of the \$745.7 million in outstanding principle.

5) **Expanding Role of IBank:** Given the flexibility of its financing capabilities, the IBank is playing an increasing role in the state's COVID-19 small business recovery efforts, and financier of an expanding range of clean and green infrastructure and economic development projects. In 2020, the Legislature approved several budget-related actions that will further expand the IBank's scope and capacity which include:

- ***Climate Catalyst Revolving Loan Fund:*** Establishes a Climate Catalyst Revolving Loan Fund at the IBank to receive funds from non-state governmental entities and private sources for the purpose of making loans for climate catalyst projects that further the state's climate goals. These moneys are available for expenditure upon appropriation by the Legislature. The Strategic Growth Council will advise the Legislature on categories to fund and a report on the projects funded would be prepared annually.
- ***Expanded and Flexible Debt Authority:*** Limits the total amount of rate reduction bonds and bonds issued to finance public development facilities that may be outstanding at any one time to \$15 billion. Currently, the limit for rate reductions bonds is \$10 billion and the limit for bonds to finance public development is \$5 billion. This change does not increase the total authority, rather it combines the limits allowing for more flexibility between the categories.

These authorities are in addition to the funding for California Rebuilding Fund, recapitalization for the Small Business Loan Guarantee Program, and activation of the disaster loan guarantee program. In 2021-22, the Governor is proposing two additional programs, utilizing the newly authorized Climate Catalyst Loan Fund:

- ***Wildfire and Forest Resilience Package:*** The Governor is proposing \$47 million in 2020-21 and \$2 million in 2021-22 as a part of a comprehensive package to increase the pace and scale of forest health activities and reduce wildfire risk. This initiative is called Climate Catalyst Fund and Wood Production Innovation and \$16 million was include in the \$536 million wildfire mitigation funding plan that legislative leadership and the Governor announced on April 8, 2021.
- ***Climate Smart Agriculture:*** The Governor is proposing \$50 million to support Climate Smart Agriculture loans to advance projects that may include but are not limited to: methane reduction; equipment replacement; water efficiency; healthy soils; circular economies; on-farm bioenergy; energy efficiency for food processing; and renewable energy systems and energy storage for agricultural operations.

At the federal level, the \$2+ trillion Biden Infrastructure Plan is anticipated to provide substantial new infrastructure funds, including:

- \$621 billion on roads, bridges, public transit, rail, ports, waterways, airports, and electric vehicles to improve air quality, reduce congestion, and limit greenhouse gas emissions;
 - \$400 billion to bolster caregiving for aging and disabled Americans;
 - \$300 billion toward boosting manufacturing, specifically semiconductor, medical, and clean manufacturing;
 - \$111 billion to rebuild water infrastructure and replace all of the nation's lead pipes and service lines; and
 - \$100 billion in order to give every American access to affordable, reliable, and high-speed broadband.
- 6) **The Infrastructure State Revolving Fund:** The ISRF provides financing to public entities, nonprofit organizations, and private entities to assist in the development of a wide variety of infrastructure and economic development projects. The ISRF Program funding is available in amounts ranging from \$50,000 to \$25,000,000, with loan terms of up to 30 years.

Examples of eligible projects include, but are not limited to, drainage, water supply and flood control; libraries and other educational facilities; environmental mitigation measures; sewage collection and treatment; educational, cultural and social facilities; industrial, utility and commercial facilities; military infrastructure and defense conversion; solid waste collection and disposal; water treatment and distribution; and public safety facilities.

The ISRF has provided more than \$720 billion in loans to state and local governmental entities to support the development of economic and public development facilities since 1999. Every year, the ISRF participates in a series of Funding Fairs with other state and federal infrastructure development programs. At these Funding Fairs, project sponsors are providing briefings of current funding opportunities and have an opportunity to meet one-on-one with participating programs to discuss their specific economic and public development facility projects. In addition, the IBank offers technical support throughout the application and approval process.

In 2019-20, The ISRF approved two projects for \$24.3 million in loans for infrastructure and economic expansion projects.

Here are examples from a busier year. In 2016-17, the ISRF financed \$86.6 million in projects, which were estimated to result in 1,600 new jobs, with 1,500 gained in the construction phase and leveraged an additional \$35.4 million in other funds. Among other projects financed during 2016-17, the IBank assisted the City of Half Moon Bay with a \$5.6 million loan with a 3.44% interest rate to construct a new pump station, install new pipeline, and replace or renovate existing pipelines. The City of Santa Cruz received a \$25 million loan with a 3.24% interest rate to support the replacement and upgrade of its water treatment facilities, which leveraged \$6.9 million of other dollars.

The ISRF Program operates as a “leveraged loan program,” which means its funding is derived through the issuance of revenue bonds secured by the repayments received from approved ISRF Program Financings. The IBank has issued several series of tax-exempt revenue bonds to provide additional ISRF Program financing. Since inception, the IBank has issued six rounds of tax-exempt revenue bonds (2004, 2005, 2008, 2014, 2015, 2016) totaling \$480,175,000. The ISRF bonds are

repaid solely from repayments received from ISRF borrowers and are neither backed nor guaranteed by the state or other IBank funds.

- 7) **Conduit Bond Issuer:** The IBank has significant experience as a conduit bond issuer having issued over \$23 billion in bonds since 1996. As noted earlier, in 2019-20, the IBank issued \$880 million in bonds, including \$372.6 million in green bonds. The IBank is a conduit issuer of four types of bonds:
1. **Industrial Development Bonds:** Tax-exempt conduit revenue bond financing for eligible small to mid-size manufacturing companies up to \$10 million for the acquisition, construction, rehabilitation and equipping of manufacturing and processing facilities.
 2. **501(c)(3) Bonds:** Tax-exempt conduit revenue bonds provide low-cost financing for capital improvement projects for nonprofit public benefit corporations.
 3. **Public Agency Revenue Bonds:** Tax-exempt bond financing for government entities are for projects that enhance infrastructure, or the economic, social or cultural quality of life for residents in the community or state.
 4. **Exempt Facility Bonds:** Tax-exempt financing for projects that are government-owned or consist of privately used or leased facilities on public property, such as private airline improvements at publicly owned airports, ports, water facilities and other private enterprises that serve the general public.

Any of these bonds could be issued by the IBank as a green bond, to the extent that the borrower has obtained a green bond rating from an outside third party.

APPENDIX 3 -- Bonds Issued							
Borrower	Location	Bond Type	Interest Rate	Description	Jobs ¹	Amount Issued	Leverage ²
Equitable School Revolving Fund	Multiple	501(c)(3)	3.36%	Refinancing: Reimburse, finance, and refinance the cost of one or more loans to qualifying public charter schools	0	\$19,010,000	\$0
The Colburn School	Los Angeles	501(c)(3)	1.76%	Refunding: Refunding of Prior Debt / Financial Savings	0	\$66,060,000	\$1,345,155
J. David Gladstone Institutes	San Francisco	501(c)(3)	4.47%	Refunding: Refunding of Prior Debt / Facility improvements	90	\$164,230,000	\$0
California State Teachers' Retirement System	West Sacramento	PARB	3.20%	Infrastructure: Construction of CalSTRS Phase II headquarters	2,303	\$272,605,000	\$0
Seneca Family of Agencies	Multiple	501(c)(3)	3.00%	Refunding/Real Estate: Refunding of Prior Debt / Real estate purchase	30	\$23,000,000	\$2,890,595
Academy of Motion Picture Arts and Sciences	Los Angeles	501(c)(3)	1.18%	Infrastructure: Construction, renovation and retrofit to a portion of the Academy Museum	650	\$100,000,000	\$0
The J. Paul Getty Trust	Los Angeles	501(c)(3)	4.15% on \$116,755,000/ 1.11% on \$87,600,000	Refunding: Refunding of Prior Debt / Financial Savings	0	\$204,355,000	\$1,412,578
Foothill Family Service	Covina, Duarte	501(c)(3)	Variable	Refinancing: Refunding of Prior Debt / Real estate purchase	0	\$2,400,000	\$2,396,400
Marborough School	Los Angeles	501(c)(3)	1.90%	Refinancing: Refunding of Prior Debt / Financial Savings	75	\$10,000,000	\$133,999
Petersen Automotive Museum	Los Angeles	501(c)(3)	2.55%	Refinancing: Refunding of Prior Debt / Facility improvements	0	\$18,912,259	\$593,937
TOTALS					3148	\$880,572,259	\$8,772,664

NOTE: ¹Jobs are the total number of construction, full-time and part-time permanent jobs expected from a project, as reported by borrowers from bonds issued.
²Leverage is referring to additional sources of funding, including, but not limited to, the borrower's contribution, as reported by the borrower on bonds issued.

On the prior page is a summary chart from the IBank's annual report for 2019-20. Among other highlights is a \$272 million issue to finance a new facility for the California State Teachers Retirement Fund, which will be a net zero building and support the creation of over 2,300 jobs.

- 8) **“Subject to the State’s Private Activity Bond Volume Cap” – What does that Mean?** One of the central features of the proposed new housing finance authority is the prohibition on using tax-exempt bond financing, which is subject to the state’s private activity bond volume cap. As this may be a new financing tools for some Members, below is a short explanation adapted from materials provided by the California Debt Limit Allocation Committee (CDLAC), the entity responsible for allocating this tax-exempt authority.

The 1986 Federal Tax Reform Act imposed a limit on how much private activity bonds can be issued in a state each year. The limit is determined by a state’s population, multiplied by a specified dollar amount.

CDLAC was established to administer the allocation of this bond ceiling or "cap" and to make certain that the total amount of private activity bonds issued does not exceed the limits established under federal law. Through CDLAC’s administration, the State ensures that this limited resource is efficiently used to finance projects and programs that both provide a public benefit and contribute to the economic vitality of California.

In 2020, the state allocation is \$4,148,783,415, which is a \$4,706,310 decrease from the 2019 State Ceiling. Based on the annual state allocation, CDLAC establishes and announces the expected allocation to each of the State Ceiling Pools, based on prior year allocations, current state needs, and legislative priorities. Examples of State Ceiling Pools include a Single Family Housing Program Pool, Qualified Public Educational Facility Bond Pool, and a Student Loan Program Pool. Statute sets the following legislative priorities for tax-exempt authority.

- Promote housing for lower income families and individuals;
- Preserve and rehabilitate existing governmental assisted housing for lower income families and individuals; and
- Provide mortgage tax credits or reduced interest rate mortgages to assist teachers, principals, vice principals, assistant principals, and classified employees who are willing to serve in high priority schools to purchase a home.

Public and private entities interested in issuing a tax-exempt bond are required to apply for a portion of the state’s annual allocation. Eligible applicants include a state or local governmental agency; a joint powers authority applying for bond allocation for a project, as specified; a special district; a nonprofit public benefit corporation that issues only student loan bonds; and any other public agency that is empowered to issue debt.

In addition to other types of bonds, government agencies, such as the IBank, are authorized to issue tax-exempt bonds on behalf of private businesses. These bonds are known as "qualified private activity bonds", and they may be issued for a number of purposes, such as low-income multi-family housing, industrial development, redevelopment projects, and facilities that treat water, sewage, or hazardous materials. The lower borrowing costs associated with tax-exempt bonds facilitates the development of projects that may not otherwise be feasible if financed at market rates.

As the name suggests, the payment of principal and interest on private activity bonds is not the responsibility of the issuing government agency. The government agency acts as a conduit issuer of the bond, while the responsibility of repayment is assigned to the private business receiving the proceeds. Private activity bonds are a low-risk alternative for communities to finance projects.

- 9) **Proposed Amendments:** Below are amendments the committee members may wish to review when considering the bill. The amendments are intended to provide flexibility, but retain the IBank’s current focus on serving as a premiere conduit bond issuer, while still providing capital to small businesses and financing important economic development and infrastructure facilities.
- a) Exclude ISRF funds from being used to finance housing.
 - b) Require the housing to be incidental to the project, defined as 20% or less of the project cost.
- 10) **Related Legislation:** Below is a list of bills from the current and prior sessions.
- a) **AB 56 (Holden) IBank and Housing Infrastructure:** This bill expanded the statutory definition of public facility to include “Housing-related infrastructure” including city streets; drainage, water supply, and flood control; environmental mitigation measures; power and communications; public transit improvement that directly supports transit-oriented housing; sewage collection and treatment; and water treatment and distribution. Status: Signed by the Governor, Chapter 289, Statutes of 2017.
 - b) **AB 78 (Assembly Budget Committee) 2020 IBank Budget Actions:** This bill established a Climate Catalyst Revolving Loan Fund at the Infrastructure and Economic Development Bank (IBank) to receive funds from non-state governmental entities and private sources for the purpose of making loans for climate catalyst projects that further the state’s climate goals, and these moneys are available for expenditure upon appropriation by the Legislature. Additionally, the bill set a \$15 billion cap on the total amount of rate reduction bonds and bonds issued to finance public development facilities that may be outstanding at any one time. This bill also authorized the IBank’s board to establish one or more programs administered by the bank directly, in conjunction with financial companies or financial institutions, in direct or indirect participation with special purpose entities established for small business finance or under contract with small business financial development corporations. Status: Signed by the Governor, Chapter 10, Statutes of 2020.
 - c) **AB 2319 (Gordon) IBank and Housing:** This bill would have authorized the financing of an affordable housing project by the California Infrastructure and Economic Development Bank including financing through the Infrastructure State Revolving Fund. Status: Held in the Assembly Committee on Appropriations, 2016.
- 11) **Double Referral:** The Assembly Committee on Rules has referred this measure the Assembly Committee on Jobs, Economic Development, and the Economy and to the Assembly Committee on Housing and Community Development (HCD). Should this measure pass this committee, it will be referred to HCD for further policy consideration.

REGISTERED SUPPORT / OPPOSITION:

Support

California Apartment Association

Opposition
None on File

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