

Date of Hearing: April 17, 2012

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY  
V. Manuel Pérez, Chair  
AB 1545 (V. Manuel Pérez) – As Introduced: January 25, 2012

SUBJECT: Bi-National Development Bank

SUMMARY: Expands the role of the California Infrastructure and Economic Development Bank (I-Bank) to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Specifically, this bill:

- 1) Expresses legislative intent stating, among other things, that:
  - a) The lack of economic development along the border region with Mexico has caused economic challenges to the state and that the existence of an economic development authority that can address these challenges serves a public purpose.
  - b) That a fundamental purpose of the I-Bank should be to use its authority to facilitate private sector investment.
  - c) There is a need for the federal government to re-capitalize the North American Development Bank (NAD) Bank in order to be a more effective financing partner within the border region.
- 2) Authorizes the I-Bank to facilitate and finance infrastructure and economic development projects within the border region. The “border region” is defined as the area within 120 miles on each side of the California-Mexico border, including areas along the north-south and east-west transportation networks on both sides of the border.
- 3) Expands the definition of a "participating party" for the purpose of financing a project to include international entities.
- 4) Expands and clarifies the types of goods movement related infrastructure necessary to more competitively place California and the border region within existing and future supply chains.
- 5) Prohibits the use of General Fund moneys from being used to implement this measure. This is consistent with all I-Bank programs. Each program and activity is exclusively capitalized through the I-Bank.

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) Authorizes the I-Bank to contract for engineering, architectural, accounting, or other services that are necessary for the successful development of a project.
- 3) Authorizes the I-Bank to acquire, take title to, and sell lands, structures, real or personal property rights, rights-of-way, franchises, easements, and other interests in lands that are located within the state as the bank may deem necessary or convenient for the financing of the project.
- 4) Authorizes the I-Bank to receive subventions, grants, loans, advances, and contributions from any source of money, property, labor, or other things of value. The sources may include bond proceeds, dedicated taxes, federal appropriations, federal grant and loan funds and public and private sector retirement system funds.
- 5) Authorizes the I-Bank to make loans to any sponsor or participating party, either directly or by making a loan to a lending institution, in connection with the financing of a project, as specified.
- 6) Defines "project" to mean the designing, acquiring, planning, permitting, entitling, constructing, improving, extending, restoring, financing, and generally developing public development facilities or economic development facilities within the state.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's purpose: According to the author, "With Mexico being California's largest trading partner, the two economies are highly integrated with a substantial dependence on cross-border trade. One barrier to the expansion of trade and bi-national commerce is the deficit in border infrastructure, which has not kept pace with increases in trade and transit since ratification of the North American Free Trade Agreement. The long-term success of the bi-national region is dependent on attracting more private sector investment. Attracting private capital, however, will require innovative financing structures and a commitment to the border's economic success, which the I-Bank is qualified to undertake."
- 2) Oversight hearings: The Assembly Jobs, Economic Development and the Economy (JEDE) Committee held two oversight hearings examining the relationship between infrastructure and the state's economic recovery. The first hearing, March 2011, examined how the I-Bank could be better utilized as a tool for statewide economic development. The second hearing, November 2011, took a more focused look at the Imperial and Coachella Valleys and how infrastructure, trade and business development affected the economic prosperity of the border region. One of the key findings from these hearings related to the importance of modern logistical networks in linking rural border manufacturers and businesses to a global supply chain and consumer base. Financing these infrastructure linkages was reported to be challenging and that there was need for a quality facilitator to help put infrastructure financing packages together. AB 1545 was developed in response to testimony and research from these hearings.
- 3) Goods movement infrastructure: Goods movement supports employment, business profit, and state and local tax revenue. California businesses rely heavily on the state's air/sea ports and their related

transportation systems to move manufactured goods. Firms rely on fast, flexible, and reliable shipping to link national and global supply chains and bring products to the retail market. Transportation breakdowns and congestion can idle entire global production networks. As a result, the capacity and efficiency of seaports, airports, and multimodal linkages have become critical factors in global trade.

Changes in U.S. and global trade patterns in the past 20 years have placed increased challenges on California's goods movement system. Between 1970 and 2002, for example, imports from Asia (as a share of U.S. trade) increased from 8% to 40%, thereby increasing the flow of imports through California's gateways. Over the same period, U.S. trade shifted toward lighter goods, which are more likely to be shipped by air. While the state may have limited ability to affect these larger patterns, there are actions that the state can take to help California's global gateways keep pace with the growing demand for shipping services.

- 4) Coping with congested ports: For California, expanded supply chains for manufacturing and product distribution have resulted in congested seaports, where cargo ships are often delayed for extended periods of time waiting to unload. Truck access is often cited for the delays. At international airports, truck access is also a problem, and expansion of major airports is severely limited by urbanization, ground access, air quality impacts, and local opposition.

California's land-based border crossing with Mexico is particularly congested and inhibits trade and commerce within the region and its access to global markets. There are six land crossings referred to as Points of Entry (POEs). The San Diego County-Tijuana/Tecate region is home to the San Ysidro-Puerta México, the Otay Mesa-Mesa de Otay, and the Tecate-Tecate POEs while the Imperial County-Mexicali region hosts the Calexico-Mexicali, Calexico East-Mexicali II, and Andrade-Los Algodones POEs.

U.S. firms with significant business passing through the three Imperial Valley POEs report that their logistics-supply chain is highly time sensitive. Long wait times at border crossings result in delays in receiving intermediary goods and ultimately lead to problems in the manufacturing chain. Long wait times between Mexico and the U.S. along the Imperial County – Baja California border accounted for an estimated output loss of \$1.4 billion and 11,600 lost jobs nationally in 2007. In California losses were estimated at \$436 million and 5,639 jobs.

- 5) Bi-National economic development and migration: Outward migration from Mexico to the U.S. has historically been a complex and controversial issue. For a select group of workers in Mexico, coming to California appears as a good economic choice for them and their families given the sometimes limited alternatives where they live. While migration from Mexico has benefitted many economic sectors in California, the issue of immigration has consistently been on the state's public policy agenda.

One often overlooked and under-funded element to this discussion is bi-national economic development policies which can help to re-balance the drivers of immigration. The "maquiladoras," a by-product of NAFTA, are manufacturing and assembly facilities located in Northern Mexico, including Mexicali. With cross border supply chains, these facilities have become important players within extended and sometimes global supply chains.

The North American Development Bank, another entity created through the enactment of North American Free Trade Agreement (NAFTA), provides project financing and construction oversight for projects initiated through the U.S. Environmental Protection Agency's U.S.-Mexico Border Water Infrastructure Program. The program serves communities within 62 miles, north and south, of the border. By providing cleaner water and improved infrastructure, the quality of life is improved and jobs are created on both sides of the border. AB 1545 proposes the recapitalization of the NAD Bank and to expand the activities of the I-Bank to serve as a catalyst for improving infrastructure within the border region.

- 6) 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 Engineers, *California Infrastructure Report Card 2012*, with an estimated \$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.

Institutional investors have responded to the U.S.'s infrastructure shortfall and the lack of sufficient public finance opportunities by adopting new investment mandates to privately finance public infrastructure. As an example, in the fall of 2011, the California Public Employees' Retirement System (CalPERS) Board of Administration approved a motion that would allow up to \$800 million to be invested in California infrastructure over the next three years. Both public and private infrastructure facilities are eligible, including, but not limited to, transportation, energy, natural resources, utilities, water, communications and other social support services.

Currently, CalPERS has \$203 million invested in a combination of physical infrastructure investments and infrastructure-targeted private equity funds around the state. CalPERS has also provided credit enhancement to more than \$326 million in infrastructure bonds.

Successfully deploying private capital for public infrastructure can, however, be challenging. Large investors such as CalPERS can deploy capital anywhere in the world. AB 1545 proposes to have the I-Bank use its expertise in infrastructure finance to facilitate private sector-ready infrastructure along the border region.

- 7) Background on 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 the State and Consumer Services Agency, and a Governor's appointee. 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 financing activities.

The I-Bank administers two categories of programs: 1) The Infrastructure State Revolving Fund (ISRF) 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.

- 8) Reorganization of the I-Bank: On March 30, 2012, the Governor submitted a reorganization plan to the Little Hoover Commission, which proposes to dismantle BTH and move programs to other existing and new government entities. The I-Bank is proposed to be relocated to the Governor's Office of Business and Economic Development (GO-Biz), along with the Small Business Loan Guarantee Program; The California Travel and Tourism Commission; The California Film Commission; and the Film California First Program. The Secretary of BTH is replaced by the Director of GO-Biz as Chair of I-Bank. The newly established Secretary of Transportation replaces the Secretary of State and Consumer Services on the I-Bank board.

The Little Hoover Commission has 30 days to analyze the reorganization plan and submit its recommendations to the Governor and Legislature. The Legislature then has 60 days to consider the plan. The plan goes into effect unless the Legislature takes an action to disapprove the plan with a majority of the Members in each house voting.

A repositioned I-Bank within GO-Biz offers a range of cost effective and innovative options for advancing the state's economic position. AB 1545 is one of several bills being heard by JEDE in April 2012 that leverage existing programs and resources.

- 9) Related legislation: Below is a list of related bills.
- a) AB 696 (Hueso) – Economic Development Mandate for Infrastructure Projects: This bill would have required projects selected for funding under the Infrastructure State Revolving Fund Program, administered through the California Infrastructure and Economic Development Bank, to only be funded if the project meets specified land use and economic development criteria. Status: The bill was vetoed by the Governor in 2011.
- b) AB 893 (V. Manuel Pérez) – Technical Assistance for Infrastructure Development: This bill would have authorized the California Infrastructure and Economic Development Bank to provide technical assistance outreach to small and rural communities, and adding new reporting requirements to the appropriate fiscal and policy committees of the Legislature. Status: The bill was held on Suspense File of the Senate Committee on Appropriations in 2011.

- c) *SB 822 (Evans) – Five-Year Infrastructure Plan*: Existing law requires 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: The bill is pending in the Assembly Committee on Budget.
- d) *SB 907 (Evans) – 20-Year Infrastructure Master Plan*: This bill establishes 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 is also required to submit periodic progress reports. Status: Pending in JEDE.

REGISTERED SUPPORT / OPPOSITION:

Support

Assembly Committee on Jobs, Economic Development and the Economy (sponsor)  
California Association for Micro Enterprise Opportunity  
Calexico County Enterprise Zone  
City of Imperial  
Coachella Valley Economic Partnership  
County of Imperial

Opposition

None Received

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