

Date of Hearing: April 22, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 2290 (John A. Pérez) – As Introduced: February 21, 2014

SUBJECT: California Infrastructure and Economic Development Bank

SUMMARY: Authorizes the California Infrastructure and Economic Development Bank (I-Bank) to serve as the primary state agency for applying to any federal infrastructure bank or financing authority. Further, the bill expands the membership of the board of directors from five to seven members and specifies that legislative members will be nonvoting members and may appoint a designee to serve in his or her place.

EXISTING LAW:

- 1) Establishes the I-Bank 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 a revolving loan fund and the issuance of tax-exempt and taxable revenue bonds.
- 2) Provides that the board of directors of the I-Bank is comprised of five specified people, defines a quorum at three people and specifies that an affirmative vote of three people is required on any action taken by the board.
- 3) Specifies that the I-Bank board of directors shall consist of the following:
  - a) The Director of the GO-Biz or a designee (chair);
  - b) The Director of Finance or a designee;
  - c) The Treasurer or a designee;
  - d) The Secretary of Transportation or a designee; and
  - e) A Governor's appointee.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's Purpose: According to the author, "This bill is intended to allow the Legislature to participate in critical decisions affecting the I-Bank. Given the I-Bank's integral role in issuing tax-exempt and taxable revenue bonds, providing financing to public agencies, and leveraging State and Federal funds, it is important that the Legislature have input on how those decisions are made. "
- 2) Framing the Policy Issue: This designates the I-Bank as the state's primary liaison with the federal government on issues related to a national infrastructure bank and adds legislative Members to the board of directors in order to more closely link its activities to the state's broader development activities.

In advocating for the heightened participation of the state in federal legislative and congressional activities, the author notes the importance of finding new sources of capital for upgrading California's

infrastructure and the continuing interest in a national bank model. Additional information on the role of infrastructure within the California economy, including the significant defects and funding gaps are discussed below.

- 3) Infrastructure and the Economy: 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 while, infrastructure in other countries is rapidly increasing. The 2012-13 Global Competitiveness Report by the World Economic Forum places U.S. infrastructure 25th in the world, down from 23rd in 2010 and 7th in 2000.

California's 2013 Infrastructure Report Card by the American Society for Civil Engineers estimates that California's annual unfunded infrastructure investment is \$65 billion. The impact of this lack of investment is compounded by the substantial new infrastructure investments made in other states and nations, including the expansion of the Panama Canal.

Since the 1980's infrastructure to support economic development activities has focused on supporting specific areas of "industry clusters" where multiple firms and organizations working in the same, or similar, fields draw on each other's discoveries, products, and in some cases workforces leading to a highly focused and productive innovation center with prodigious output. Silicon Valley and Hollywood are archetypical examples, specializing in electronics and cinema, respectively.

Globalization is changing the economic paradigm, which makes the linkages between regional economies more relevant and competitive advantage is increasingly based on the quality and efficiency of the technologies that link the location with other areas of the world. In the 2014 State of the Union Address, President Obama announced three new infrastructure initiatives including:

- A "fix-it-first" proposal to repair existing infrastructure before building new projects;
- A "Rebuild America Partnership" to bring private money off the sidelines through a new bond program; and
- A continued "modernization effort" to speed up permitting and construction.

The President's plan is to invest \$50 billion in the U.S. transportation infrastructure, with \$40 billion targeted to the most urgent upgrades, and focused on fixing our highways, bridges, transit systems, and airports most in need of repair.

- 4) National Infrastructure Bank: Spending on infrastructure by the federal government has been declining. According to the Congressional Budget Office, spending on transportation and water infrastructure as a share of U.S. GDP was 3.1% in 1959 and was only 2.4% in 2007.

The National Surface Transportation Infrastructure Financing Commission estimates that there is a highway and transit funding gap of \$2.3 trillion. The federal Environmental Protection Agency similarly finds there is great need to repair and upgrade water systems including a 2009-19 funding gap of \$122 billion for clean water and \$102 billion for drinking water. Not surprising, there has been a national call for renewed infrastructure investment to support manufacturing, goods movement, energy production, and broadband deployment, among other economic and community development purposes.

A National Infrastructure Reinvestment Bank was first proposed by U.S. Senators Christopher Dodd and Chuck Hagel in 2007. President Barack Obama supported the legislation in 2008 and again in 2010. More recently, in his 2013 State of the Union, President Obama emphasized the importance of fixing the nation's infrastructure as part of his "Plan for a Strong Middle Class and A Strong America" and proposed both a \$50 billion "Fix it First" program from peace dividends and a "Partnership to Rebuild America" initiative, which would use public policies to attract private investment in upgrading America's infrastructure. Various members of the U.S. Congress are also pursuing a national infrastructure bank model. U.S. Representative Rosa DeLauro (D-CT-3), as an example, introduced AB 2553 in 2013, which has 95 co-authors including 16 from California.

Models for a national infrastructure bank have varied and the state I-Bank has been asked to Washington D.C. several times to discuss differing models. In one instance, the federal government would use \$60 billion in seed money over 10 years with an expected return of \$500 billion in private investment. Given the significance of quality infrastructure within every state's global competitiveness, it would seem that engaging in the development of the national program would be within the state's interest. AB 2290 would specifically designate the state I-Bank as the primary state agency for applying to the federal infrastructure bank.

- 5) 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 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 Department of Finance, the Transportation 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 25 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. According to its Comprehensive Annual Financial Report for the fiscal year ended June 2013, its programs continued to provide revenues sufficient to cover operating expenses.

The I-Bank administers three programs: (1) the Infrastructure State Revolving Fund which provides direct low-cost financing to public agencies for a variety of public infrastructure projects; (2) the Conduit Bond Program which provides financing for manufacturing companies, public benefit nonprofit organizations, public agencies and other eligible entities; and (3) the Small Business Finance Center which helps small businesses access private financing through loan guarantees, direct loans, and performance bond guarantees. There is no commitment of I-Bank or state funds for any of the conduit revenue bonds. Even in the case of default, the state is not liable.

Since its creation in 1994, the I-Bank has loaned, financed, or participated in over \$344 billion in infrastructure and economic expansion projects. This includes over \$400 million to local and state 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, make loans, and provide guarantees. Over \$33 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.

- 6) **Board Structure:** The I-Bank's board of directors is currently comprised of five members, four of which are state public officials. Each of the public officials either has specific program-related expertise or has access to experts within their respected departments or agencies.

Under existing law, the Governor has the authority to appoint one public member to the board. This public member is not required to have any particular skill set or represent a particular stakeholder group other than the public-at-large. The chart – Board Structures from Selected Economic and Workforce Development Entities details, that there is no consistent board appointment structure.

<b>Board Structures from Selected Economic and Workforce Development Entities</b>					
	<b>Total Mem-bers</b>	<b>Gov Appts</b>	<b>Speaker Appts</b>	<b>Senate Rules Appts</b>	<b>Other Information</b>
<b>Waste Management Board and the Recycling Market Development Zones</b>	6	4	1	1	<u>Four Public Members:</u> Four members are appointed by the Governor, two of whom represent the public, one member with industry expertise, and one with expertise in the environmental field. One member is appointed by the Senate Committee on Rules and one is appointed by the Speaker of the Assembly to represent the public. <u>Reference: PRC 404001</u>
<b>Employment Training Panel</b>	7	3	2	2	<u>One Public Member:</u> The Speaker and President pro Tempore each appoint two members, one being a private sector labor representative and the other being a business representative. Governor appoints three members, one being a private sector labor representative, one being a business representative, and one public member. <u>Reference: UIC 10202.5</u>
<b>Workforce Investment Board</b>	No limit	No limit	2	2	<u>There is no statutory limit on the number of people</u> who may serve on the board. A majority of Gov appointments are from business, including small business. At least 15% of the Gov. appointments shall be from labor organizations nominated by state labor federations. In addition to these appointments the Governor may place an unlimited number of state officials and state government representatives. Legislature appoints two public members each. <u>Reference: UIC 14012</u>
<b>California Small Business Board</b>	11	7	2	2	<u>Two public members:</u> Secretary of BTH serves as chair. Governor appoints six members from small business community. Between the Assembly and the Senate one business and one agricultural representative is appointed. Plus, one Assembly Member and one Senator to serve on the board. <u>Reference: Corp 14021</u>

- 7) **Related legislation:** Below is a list of related legislation from current and previous legislative sessions:

- 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: Pending in Assembly Committee on Appropriations.

- b) *AB 701 (John A. Pérez) I-Bank Board Membership*: As passed by JEDE, this bill would have authorized the I-Bank to serve as the primary state agency for applying to any federal infrastructure bank or financing authority. Further, the bill would have expanded the membership of the board of directors from five to seven members and specified that legislative members will be nonvoting members. Amendments taken in the Senate deleted the content of the bill and added language relating to property tax allocation in Orange County with Assemblymember Quirk-Silva as the author. Status: Signed by the Governor, Chapter 393, Statutes of 2013.
- c) *AB 1094 (John A. Pérez) Board Membership of the California Infrastructure Bank*: This bill, as it was heard by JEDE, would have added a member of the Assembly and a member of the Senate as advisory members to the board of administration of the California Infrastructure and Economic Development Bank. Amendments were taken to remove the Bank provisions and the bill was related to a different topic and a different author at the time the bill was pulled into the Senate Committee on Rules. Status: Held in the Senate Committee on Rules in 2012.
- d) *AB 1272 (Medina) Infrastructure Financing Consortiums*: This bill would have authorized the I-Bank to join regional, state, national, or international organizations related to infrastructure financing in order to facilitate infrastructure financing projects in California. Status: Held on the Suspend File of the Assembly Committee on Appropriations, 2013.
- e) *AB 1380 (Bass) California Infrastructure and Economic Development Bank: Board of Directors*: This bill would have expanded the membership of the board of directors of the I-Bank from five to seven members. Status: Held in the Senate Rules Committee, 2010.

REGISTERED SUPPORT / OPPOSITION:

Support

The American Federation of State, County, and Municipal Employees

Opposition

None received

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