

Date of Hearing: April 19, 2016

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Eduardo Garcia, Chair

AB 2319 (Gordon) – As Introduced February 18, 2016

Committee	Votes	Ayes	Noes
Housing	6-1	Chiu, Steinorth, Burke, Chau, Lopez, Mullin	Beth Gaines

SUBJECT: California Infrastructure and Economic Development Bank

SUMMARY: Authorizes the financing of an affordable housing project by the California Infrastructure and Economic Development Bank (IBank), including financing through the Infrastructure State Revolving Fund (ISRF). Specifically, **this bill:**

- 1) Removes the prohibition on the development of housing from the definition of economic development facility.
- 2) Expands the definition of a project to include affordable housing.
- 3) Authorizes the issuance of bonds and the loaning of funds from ISRF for the financing of affordable housing.
- 4) Defines "affordable housing" to mean a dwelling available for purchase or lease by persons and families who qualify as low- or moderate-income, as defined, very low income households, as defined, or extremely low income households, as defined.

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 ISRF, oversight of the Small Business Finance Center, and the issuance of tax-exempt and taxable revenue bonds.
- 2) 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.
- 3) 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.

- 4) 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, landports, waterports, railports, 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.
- 5) Defines persons and families of low- or moderate-income to mean persons and families whose income does not exceed 120% of area median income, adjusted for family size and revised annually, as specified.
- 6) Defines “very low income households” to mean persons and families whose incomes do not exceed the 50% of area median income, adjusted for family size and revised annually, as specified.
- 7) Defines “extremely low income households” to mean persons and families whose incomes do not exceed 30% of area median income, adjusted for family size and revised annually, as specified. and revised annually.

FISCAL EFFECT: Unknown

POLICY ISSUE FRAME

California's rising housing costs have prompted the Legislature to seek additional funds and financing methods for affordable housing. This measure proposes to authorize the redirection of ISRF funds currently used for local infrastructure development, including sewer and water quality projects, for this purpose.

The analysis provides background on the IBank, the current uses for the ISRF funds, and the need for a comprehensive and balanced approach to addressing the state's affordable housing crisis. A range of amendments are discussed in Comment #8, including requiring that a separate funding source be identified should the Members wish to expand the financing authority of the IBank.

COMMENTS:

- 1) **Author Purpose:** According to the author, "California is in the middle of a housing crisis, and affordability is one of the biggest challenges. Over 2.2 million low-income households compete for only 664,000 affordable rental homes. This leaves over 1.5 million in the lowest-income population without access to affordable housing.

The elimination of redevelopment agencies together with the expiration of state housing bonds has left the state with fewer options to finance housing projects and leverage federal dollars. Uncertainty in financing creates obstacles to building and improving homes. Increased funding for affordable housing is critical to stimulating development, improving local economies, and creating new construction jobs.

The California Infrastructure and Economic Development Bank (I-Bank) was created to provide low-cost financing options to eligible borrowers for a wide range of projects. However, 'affordable housing' projects are not included in the list of those eligible to apply. The housing shortage coupled with significant cuts in state and federal funding for affordable housing has reduced the opportunities for state and local partnerships.

AB 2319 recognizes that the state requires regional development strategies to incorporate housing, transportation, land use, and anticipated growth into long-term planning. This bill would provide housing developers, agencies, and local governments with access to an existing funding tool by allowing the IBank to accept financing applications for affordable housing projects."

- 2) **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 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 IBank administers three core programs: (1) the ISRF which provides direct low-cost financing for public infrastructure projects and economic development facilities; (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 assists small businesses access to private financing through loan guarantees, direct loans, and performance bond guarantees. There is no pledge of IBank or state general funds for any of the conduit revenue bonds.

Since its inception, the IBank has loaned, financed, or participated in over \$34.7 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 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. Over \$33 billion in conduit revenue bonds have been issued by the IBank since 2000.

3) **Highlights from 2014-15 Annual Report:** In December 2015, the I-Bank issued its annual report for the 2014-15 fiscal year. Among other activities, the IBank recapitalized the ISRF Program and launched a new green infrastructure bank. Additional details on these projects and other highlights are provided below:

a) ***Clean Energy Finance Center:*** The IBank established the California Lending for Energy and Environmental Needs Center or CLEEN Center to support the state in meeting its greenhouse gas emission reduction goals. Among other clean energy and environmental projects, the new center will finance projects that support energy generation, distribution, transmission and storage of electrical energy, energy conservation measures, environmental mitigation measures, and water treatment and distribution. Its first program will be the Statewide Energy Efficiency Program (SWEET), which will provide low-cost financing to state and local governments for energy efficiency projects.

Funding: Governor is requesting funding through the Legislative Budget process. The issue was heard in the Assembly Budget Subcommittee 4 on March 28, 2016 and held open by the Subcommittee in order that it be considered with other requests for cap-and-trade auction revenues.

b) ***Infrastructure Funds:*** The IBank issued \$90 million in ISRF Bonds to recapitalize the revolving loan fund. A portion of bond proceeds were used to refund ISRF bonds which were issued in 2008, resulting in \$1,372,007 savings to the state. The 2015 ISRF bonds received high rating from the Standard and Poor's Rating Services (AAA rating), Fitch Ratings (AAA rating), and Moody's Investors Service (Aa1).

c) ***Conduit Revenue Bonds:*** The IBank issued \$270.3 million in conduit revenue bonds for qualified 501(c)(3) nonprofit entities and a California manufacturing company to create and retain jobs in the state, enhance the economic status of communities, facilitate research and cultural endeavors, and for other public purposes.

4) **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. 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; solid waste collection and disposal; water treatment and distribution; and public safety facilities.

The IBank recently approved \$56.3 million in loans to state and local governmental entities and local government-sponsored not-for-profit organizations for necessary infrastructure and economic expansion projects. The total ISRF loan outstanding balance, as of October 2015, was \$294 million. The chart below shows the ISRF's 2015-16 project pipeline.

Infrastructure State Revolving Fund – March 22, 2016		
State of Project Review	Number of Applications	Dollar Amounts
In Review	10	\$127,436,448
Pending Applications	4	\$36,400,000
In Underwriting	4	\$55,467,916

Source: California Infrastructure and Economic Development Bank, March 2016

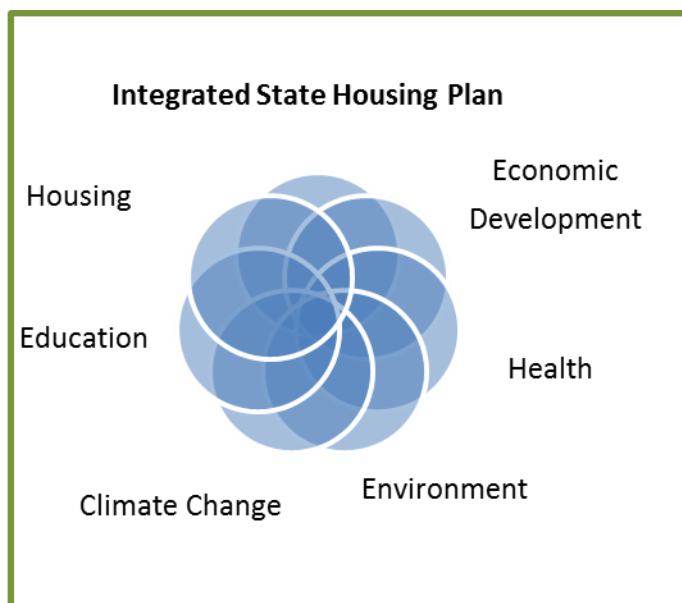
This past fiscal year, the I-Bank assisted the California Department of Public Health (CDPH) by making an ISRF short-term loan of \$17,904,020. This loan provided matching funds, which were required to drawdown a federal capitalization grant for the Safe Drinking Water State Revolving Fund (SDWSRF). The SDWSRF finances infrastructure improvements to water systems throughout California that are necessary to bring drinking water into compliance with applicable federal and state standards.

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. IBank has issued several series of tax-exempt revenue bonds to provide additional ISRF Program financing. Since inception, the IBank has issued five rounds of tax exempt revenue bonds for a total of \$338,575,000 million. ISRF bonds are paid solely from repayments received from ISRF borrowers, and are neither backed nor guaranteed by the state or other IBank funds.

- 5) **Unscheduled Update to the State Housing Plan:** In response to rapidly rising housing costs, especially in California's coastal areas, the Department of Housing and Community Development (HCD) issued an unscheduled update to the State Housing Plan in 2014. Among other concerns, HCD's update underscored the following:
- Lower income households were disproportionately being impacted by the worsening trend in housing affordability. As both employment gains and wages continued to lag, renters were facing higher rents and potential homebuyers are having to contend with tightening lending standards;
 - Building starts were continuing to be sluggish, even as storages in housing supply continued to increase in coastal areas;
 - Tens of thousands of affordable housing units were at-risk of converting to market rents within the next five years;
 - Aging baby boomers and young millennials were shifting traditional housing demands to meet their different lifestyle choices; and
 - The effects of the financial crisis were continuing to impact households, who never recovered losing their homes, loss of employment, lower credit scores due to old debt, and other pre-crisis lifestyle opportunities.

The update to the State Housing Plan also identified the impacts of the housing crisis on California renters, which included the overpayment for rent and increasingly overcrowded conditions. For prospective homeowners, prices were rising too quickly for households to rationally keep pace. While the financial crisis resulted in significant foreclosures, HCD's Housing Plan update noted that these units were not adequate to meet the housing need based on type, tenure, and location. In February 2014, the median sales price of a home was \$404,250, which was over 21% higher than in February 2013.

In its conclusion, the update to the State Housing Plan called for not only more housing, but noted that production was only one part of the solution. The state needed an integrated approach to housing development, a strategy that also considered such things as education, health, access to economic opportunity, and transportation. Further, that the interconnectivity between jobs, housing, health care, and infrastructure was particularly important to vulnerable populations.



6) **Not an Integrated Community**

Development Model: AB 2319 would, among other things, authorize the use of infrastructure funds for the purchase and lease of homes affordable to moderate- and low-income families. While there is a great need for affordable housing, there is also a significant unmet need for infrastructure to address deficiencies in public health, community facilities, and economic growth. As noted in the update to the State Housing Plan, California needs an integrated approach to community development.

7) **Legislative Analyst's Study on Housing Needs and Impact on the Poor:** In March 2015, the Legislative Analyst's Office (LAO) issued a report on the state's rising housing costs and impacts. The report shows that only Hawaii has higher housing prices than California. In fact, California housing costs are more than double that of the U.S average, \$437,000 v. \$179,000. The report also notes that housing costs vary within California, with the highest being in the coastal areas. Increasing housing costs, however, are not limited to the coastal counties.

Rising costs, the report notes, have been particularly challenging for lower income households who have been forced to spend a greater share of their income for shelter, live in crowded housing conditions, commute further to work, and, sometimes, having to change jobs. Higher housing costs also impair the ability of renters to save to purchase a home. California's homeownership rate (55.3%) is well below the national average of 64.9%.

Among other reasons, the LAO report identifies the lack of new construction one of the primary reasons housing costs are rising. Other contributing factors include higher land and building costs in coastal areas. While this analysis seems to provide a very straight forward market resolution through supply and demand, the LAO report also noted that the private market has not responded in a way that would historically have been expected. As other economists have looked at similar unusual patterns, there is a growing awareness that high levels of poverty and income inequality distort general market mechanisms.

The LAO report identifies further examples of traditional market breakdowns. Housing construction in Seattle was twice that of San Francisco and San Jose over the past two decades with construction in California's coastal metro areas remaining low by both national and historical standards, between 1980 and 2010. The report estimates if housing production in California had kept pace with the national average, the state would have added up to 100,000 additional units per year between 1980 and 2010. These units would have been predominantly in coastal areas, a higher percentage in inner cities, and have been considerably denser. The consequence of not producing more housing units is that shelter has become a greater burden on household finances. For low-income households, paying for housing costs require spending 67% of their income, which leaves very little left for food, health care, education, transportation, and emergencies.

In addition, the LAO report notes other significant housing challenges that inordinately impact certain areas of the state and groups of people, including: (1) facilitating housing options for the state's homeless individuals and families; (2) mitigating adverse health effects related to living in substandard housing or housing near sources of pollution; and (3) removing noneconomic barriers to housing, such as race, ethnicity, gender, and disability status.

- 8) **Balancing Needs and Setting Priorities:** Should the Committee wish to move forward on the measure, there are a range of options. The scope of the bill could be limited to the most vulnerable populations, including low- and very low-income. Alternatively or in addition to, homeownership could be excluded. Given the rise in housing prices in California, the new authority in AB 2319 could inadvertently become a moderate-income housing program. Without deep subsidies, which the ISRF does not provide, low-income households would have a difficult time qualifying for homeownership.

Another approach to addressing the policy challenges posed by the bill, would be to require separate capitalization of the affordable housing program. At some point, the IBank may be in a unique place to finance affordable housing relative to HCD or the California Housing Finance Agency. Currently, however, the ISRF is simply a loan program, which could be implemented at another state department.

By requiring separate capitalization, the new housing authority would be treated similarly to other new IBank programs. When the Small Business Loan Guarantee Program was transferred to the I-Bank in 2014, it came with its own money and statutory limitations on the funds that could be used to implement programs. More recently, the Governor's 2016-17 budget proposes the use of \$20 million in cap-and-trade auction revenues to be used to capitalize the new loan program at the CLEEN Energy Finance Center.

- 9) **Related Legislation:** There is no related legislation. The JEDE Committee records, going back to 2005, indicate that there has not been a bill to expand I-Bank financing authority to housing.
- 10) **Double Referral:** This measure has been double referred to the Assembly Committee on Housing and Community Development (HCD) and the Assembly Committee on Jobs, Economic Development, and the Economy. AB 2319 passed HCD on a vote of 6 to 1.

REGISTERED SUPPORT / OPPOSITION:

Support

American Planning Association, California Chapter

California Apartment Association

California Association of Realtors

California State association of Counties

City of Lakeport

City of Oakland

City of San Carlos

City of Sunnyvale

League of California Cities

Opposition

None Received

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