Date of Hearing: April 26, 2022

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY
Sabrina Cervantes, Chair
AB 2400 (Cervantes) – As Amended April 19, 2022

**SUBJECT**: California Pollution Control Financing Authority Act: Capital Access Loan Program for Small Businesses

**POLICY FRAME**: Among the major recovery challenges facing California is how to address the uneven economic impacts of the pandemic on low-income communities, low-wage workers, and businesses owned by women and persons of color.

As part of the federal government's response to the pandemic, the American Rescue Plan Act of 2021 was enacted, which provides $10 billion for a second round of State Small Business Credit Initiative (SSBCI) allocations to states, Tribal Governments, and the US territories. Used wisely, these funds could serve as a catalyst for a more inclusive economic recovery. However, achieving a more inclusive economy will require addressing systemic barriers to entrepreneurship and upward mobility, as well as an openness to update programs and services to address current market needs.

On March 29, 2022, the Assembly Committee on Jobs, Economic Development, and the Economy (JEDE), held a joint hearing with the Assembly Budget Subcommittee 4 on State Administration (Budget Sub 4) to learn more about the state's use of the nearly $1.2 billion in SSBCI program dollars it would be receiving and to discuss how small business capital access programs could address the current economic inequities faced by certain small businesses. Under the application submitted by the California Infrastructure and Economic Development Bank (IBank) to the US Treasury, California's funds would be divided between programs administrated through the Small Business Finance Center at the IBank and the California Capital Access Program (CalCAP) administered by the California Pollution Control Financing Authority (CPCFA).

AB 2400 proposes changes to CalCAP, which tighten program targeting, create a more transparent program, and address the need for residual SSBCI funds (following the conclusion of the SSBCI program) be retained for meeting the needs of the state's most capital challenged small business owners. The analysis includes information on the SSBCI Program, CPCFA, CalCAP, and related legislation. There is no known opposition to this bill. Suggested amendments are included in Comment 12.

**SUMMARY**: AB 2400 tightens program and fiscal controls for SSBCI funds allocated to small business credit enhancement programs administered through CPCFA and CalCAP. **Specifically**, this bill:

1) Requires CPCFA to separately account for SSBCI funds, including any interest income and account withdrawals.

2) Prohibits the co-mingling of federal funds with other CalCAP funds. This includes, but is not limited to, SSBCI funds transferred to the CPCFA under the program agreement, as well as prohibiting fee revenues transferred from the loss reserve account of a financial institution from being co-mingled with any other public or quasi-public funds received by the authority.

3) Requires contracts with individual financial institutions to include:

   a) A termination date, which may include renewals, but can be for no later than July 1, 2032.

b) The terms under which the program will conclude, include, but not limited to, the distribution of funds within the account between CPCFA and the financial institution. No more than 50% of the deposits may remain with the financial institution upon dissolution of the account.

c) Provides that the changes made to the standard form of contract provisions shall not be construed or implemented in a manner that impairs a contractual right or obligation that existed before January 1, 2023.

4) Requires CPCFA to establish a separate loss reserve account with a financial institution or require separate accounting of all deposits for enrolled loans where the state funding is derived from SSBCI funds.

5) Requires CalCAP to transfer unused and available federal SSBCI funds to the IBank beginning on July 1, 2031, and by no later than December 1, 2032, as specified.

6) Limits the areas within the state that qualify as a "severely affected community" for the purposes of non-CPCFA bond revenues, including SSBCI and state General Funds.

   a) The bill deletes Enterprise Zones from the definition of a "severely affected community," as the program no longer exists and, instead, adds census tracts eligible for designation as an Opportunity Zone.

   b) The bill retains the authority for the executive director of CPCFA to identify other geographic areas as a "severely affected community" for funding that is generated from CPCFA's bond issuances.

7) Requires participating financial institutions to request, but not require, a customer who is the recipient of a qualified loan to disclose their gender, race, and ethnicity.

8) Removes the special statutory authority for CalCAP program guidelines to be adopted and amended using emergency procedures. CPCFA would still have general authority to make an appropriate finding of need and be able to adopt emergency regulations.

9) Requires CPCFA to separately account for and report on each of its alternate loan loss reserve programs. This includes prohibiting fee revenues transferred from loss reserve accounts of participating financial institutions from being co-mingled with any other public or quasi-public funds received by the authority, as specified.

10) Removes the authority for CPCFA to, "notwithstanding any other law," "establish and maintain loss reserves accounts with any financial institution under any policies the authority may adopt." Instead, the bill authorizes the authority to adopt policies to establish and maintain a loss reserve account with a financial institution.

**EXISTING STATE LAW**:

1) Establishes the CPCFA with specified powers and duties and authorizes it to approve financing for pollution control projects and facilities, administer a loss reserve program to serve the credit needs of small businesses, and provide grants and loans to remediate brownfields, among other activities.

2) Establishes CalCAP for the purpose of providing a small business loss reserve account program through participating financial institutions. In implementing the program, CPCFA is authorized to establish a loss reserve account for each financial institution with which the authority makes a contract. The loss reserve account shall consist of moneys paid as fees by borrowers and the financial institution, moneys transferred to the account from CPCFA's Small Business Assistance Fund, any matching federal moneys, and any other moneys provided by the authority or other source.

3) Establishes the Governor's Office of Business and Economic Development (GO-Biz) within the Governor's Office for the purpose of serving as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investments, and economic growth.

4) Establishes the IBank within 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 Fund (ISRF), the oversight of the Small Business Finance Center, and the issuance of tax-exempt and taxable revenue bonds.

5) Establishes the Small Business Finance Center within the IBank for the purpose of offering a range of financial capital to small businesses, including direct loans, loan guarantees, and bond insurance. Program delivery is provided through state-designated small business financial development corporations (FDCs).

**FISCAL EFFECT**: Unknown

**COMMENTS & CONTEXT**:

1) **Joint Hearing – Member Priorities**: On March 29, 2022, the Assembly Budget Subcommittee on State Administration and the Assembly Committee on Jobs, Economic Development, and the Economy, held a joint informational hearing on the state's implementation of SSBCI and its potential contribution to a more inclusive economic recovery from the COVID-19 pandemic.

   During the course of the hearing, the Members heard from the State Treasurer, the Legislative Analyst's Office, IBank, and CPCFA, as well as stakeholders with professional expertise on the needs of small businesses and the barriers they are currently facing to access capital.

   Among other issues and recommendations discussed, stakeholders emphasized the need to consider new ways of connecting with those small business owners who have been most impacted by the pandemic and have historically faced barriers to accessing traditional lending programs. In particular, Members noted the importance of SSBCI funded programs reaching undercapitalized small business owners in rural areas, women-business owners, and business-owners of color.

   The federal Payment Protection Program (PPP) was cited as an example of government intention, which was not backed up by program outcomes. While the US Congress intended that the US Small Business Administration takes steps to ensure PPP loans prioritized small businesses in "underserved" markets, a term that includes low-income communities, rural areas, and businesses owned by people of color, women and veterans," the delivery system and other program requirements which prioritized speed resulted in underserved markets received comparatively few loans.

"(P)(iv) Sense of the senate.--It is the sense of the Senate that the Administrator should issue guidance to lenders and agents to ensure that the processing and disbursement of covered loans prioritizes small business concerns and entities in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals (as defined in section 8(d)(3)(C)), women, and businesses in operation for less than 2 years." [*Section 1102, of Public Law 116-136*]

In response to the hearing, Members called for the establishment of a written outreach and technical assistance strategy, as well as making changes to existing small business lending programs to best meet the current needs of all California small businesses. This includes small business owners who face documented barriers to accessing capital, whether those barriers be geographically or demographically expressed.

2) **Who Pays for Administering the Program**: Just as the COVID-19 pandemic provided a bleak look at the mid-to-long-term consequences of income inequality, the SSBCI funding catalyzed policy discussions around what it means to provide for an inclusive economic recovery.

   Without clear prioritization of serving all California small businesses, including business-owners in areas of the state or from groups that have been historically underinvested, program policies intended to drive long-term resiliency and rapid capital deployment can unintentionally create systemic barriers to equitable program delivery.

   There is a clear tension between delivering programs that can through-off sufficient capital to pay administrative costs and providing capital to small business owners at the lowest cost to the business owners. Both the state's CalCAP and Small Business Loan Guarantee Program include provisions that can result in small business borrowers paying the state's program administration costs through added fees, which are financed through the loan. This is not, however, the only way to cover these costs. Some existing loan programs, including CalCAP for Heavy-Duty Vehicles, do not pass along the state's administrative costs.

   In addition to having the borrower finance the cost of administering the program, this paying method results in the state removing funds from a lender's loss reserve accounts, referred to as a recapture, which disincentives the lender to make loans with borrowers who appear to be of slightly higher risk.

3) **Reduced Lender Participation**: As the SSBCI Round I program began to wind down, CPCFA looked for new revenues to continue CalCAP. There were several public meetings hosted by CPCFA to identify options for continuing the program. Unfortunately, these discussions resulted in few new ideas, except one, which was to recapture funds from loss reserve accounts held by the private lenders, including CDFIs.

   The 2017 recapture proposal was very controversial, resulting in two bills being introduced in the Legislature (AB 474 (Reyes) in 2019 and SB 551 (Hueso) in 2017), and ultimately led to a significant reduction in the number of participating financial institutions in CalCAP.

   In 2016, 39 lenders participated in the CalCAP for Small Business program, and by the close of the 2017 report period, there were 20 participating lenders. In May 2018, there were 15 participating lenders in the program.
   In 2020, 19 lenders were approved to participate in CalCAP, of which only 11 enrolled loans. As CalCAP gears up to receive hundreds of millions of dollars through SSBCI, it is imperative that more

financial institutions agree to participate in CalCAP, which will likely require some modifications to make the program more lender-friendly.

4) **California's Use of Round One - Federal SSBCI Funds**: In 2011, California received a significant allocation of federal funds through the SSBCI, a program established under the federal Small Business Jobs Act of 2010. Under the initial federal Allocation Agreement, $168.4 million was divided equally between the CalCAP for Small Business program administered through CPCFA and the Small Business Loan Guarantee Program administered through the Business, Transportation, and Housing Agency (BTH) and later the IBank under the Governor's Reorganization Plan GRP2.

   Receipt of these funds was very timely as debt markets were frozen, and state resources were very limited for these two small business credit enhancement programs. In fact, both CPCFA and BTH were short on revenues to operate their programs and had received General Fund appropriations in 2010, with $6 million being approved for CalCAP and $20 million for the Small Business Loan Guarantee Program [*AB 1632 (Budget), Chapter 731, Statutes of 2010*]. Unfortunately for small business borrowers, BTH's $20 million budget augmentation was eliminated in the following year's budget.

   Due to federal accounting practices and slight variations in federal SSBCI loss reserve and guarantee program requirements, CPCFA and the IBank each established new reserve accounts and adopted new federal versions of their programs. Once CPCFA and the IBank received the federal funds, the program priorities for each of the programs were to use the federal funds first and leave the state funds for either non-conforming loans or use when the federal moneys had been exhausted.

   Over the course of the six program years (2011 to 2017), the state amended the federal Allocation Agreement several times. In the latter years, CPCFA sought authorization to administer a third credit enhancement program, a Collateral Support Program. CPCFA used the federal funds as follows: Loss Reserve Program ($20 million) and a Collateral Support Program ($65 million).

   According to the Legislative Analyst's Office (LAO), between 2010 and 2016, this SSBCI funding supported 10,286 new loans, and about 40% of the dollar amount of these loans was made to businesses in low-and-moderate-income communities.

   The federal Allocation Agreement expired in March 2017. Both CPCFA and the IBank report that all federal funds have been expended or allocated, meaning that as these moneys become unencumbered from their current loans, the moneys can be re-deployed. As an example, funds in the Collateral Support Program could be used to continue enrolling loans under the CalCAP for Small Business program or used to fill a different small business financing gap.

5) **California's Use of Round Two - Federal SSBCI Funds**: The American Rescue Plan Act of 2021 included $10 billion for the reauthorization of the State Small Business Credit Initiative. California anticipates receiving approximately $1.8 billion in federal SSBCI funding. ***Chart 1*** outlines California's anticipated federal SSBCI funding.

   Federal law required each application to include detailed information on how SSBCI funds will provide access to capital for small businesses in underserved communities and to business owners who are from groups who meet the definition of socially and economically disadvantaged individuals, also referred to as SEDI. According to the SSBCI Guidelines:

- A "Socially and economically disadvantaged individual" means an individual who is a socially disadvantaged individual or an economically disadvantaged individual, as defined in the Small Business Act.
- "Underserved communities" mean small businesses located in low- and moderate-income, minority, and other underserved communities, including women- and minority-owned small businesses.
- "Treasury encourages states to consider the following areas when including plans regarding 'other underserved communities' in their report: rural communities; communities undergoing economic transitions, including communities impacted by the shift towards a net-zero economy or deindustrialization; and communities surrounding Minority-Serving Institutions."

Under the SEDI incentive formula, California could receive up to $99.8 million for expending 48.87% of SSBCI Capital funds in SEDI eligible businesses during the first tranche of SSBCI deployment.

States and tribal governments will receive SSBCI funds from the US Treasury in three tranches. In order to access the next tranche of funding, the state or tribal government must demonstrate that at least 80% of the current tranche of funding has been encumbered and/or used. To facilitate the drawing down of federal funding, the IBank and CBCFA have stated that they will have an MOU in place to enhance their ability to transfer moneys between programs.

| **Chart 1 - California's Estimated SSBCI Funding*** | | |
|---|---|---|
| **Categories of Funding** | **Funding Available** | |
| Total Federal Funding Authorized | | $10,000,000,000 |
| Total CA SSBCI Allocation | | $1,181,997,613 |
| Subtotal CA Prorated SSBCI Allocation | | $894,973,879 |
| Subtotal CA SSBCI SEDI Allocation | | $187,189,392 |
| Subtotal CA SSBCI SEDI Performance Allocation | | $99,834,342 |
| | | |
| **Funding is Distributed in Three Tranches. States Must Encumber 80% of their Funds to Access Next Tranche of Funding** | **Funding in Tranche** | **80% Target** |
| Tranche 1 | $357,113,879 | $285,691,104 |
| Tranche 2 | $407,031,050 | $661,315,944 |
| Tranche 3 | $417,852,683 | |
| | | |
| *This is based on California's allocation as of January 2022. | | |
| Source: Document submitted to the Legislature by the IBank and CPCFA, January 7, 2022 | | |

California's application proposes to fund three existing small business capital programs and create at least one additional program. ***Chart 2*** provides details on California's proposed allocation plan.

| **Chart 2 - California's Proposed SSBCI Allocation Plan*** | |
|---|---|
| **Existing Programs Funded** | **Funding Allocated** |
| Small Business Loan Guarantee (IBank) | $390,998, 806 |
| California Capital Access Program (CPCFA) | $118,199,762 |
| California Capital Access – Collateral Support Program (CPCFA) | $472,799,045 |
| | |
| **New Program(s) Funded** | **Funding Allocated** |
| Venture Capital (IBank) | $200,000,000 |
| Loan Participation (CPCFA) – under consideration | |
| | |

| | |
|---|---|
| Total CA SSBCI Allocation | $1,181,997,613 |
| *This is based on California's allocation as of January 2022. | |
| Source: Document submitted to the Legislature by the IBank and CPCFA, January 7, 2022 | |

Another key aspect of SSBCI is the leverage ratios. At a minimum, $1 of public expenditure must result in $1 of new private investments. In the aggregate, the state's SSBCI programs are required to target an overall leverage ratio of at least $10 of new private investment for each $1 of public funds.

These leverage requirements, coupled with a drive to utilize SSBCI funds quickly in order to access the next tranche of funds, create tension between undertaking strategic actions to reach small business borrowers in underserved communities and SEDI-business owners. The Legislature, as the policy-making body, should send clear signals about how to approach these multifaceted and potentially conflicting goals.

6) **Potential Reduction in SSBCI Funds**: California's application is based on information provided by the US Treasury as of January 2022. Recent conversations at the federal level, including those involving the US Congress, propose reallocating some portion of SSBCI funding to pay for other COVID-19 expenses. Any change in SSBCI's overall program funds will likely impact California's allocation and possibly the mix of programs.

7) **California Capital Access Program for Small Businesses**: The CalCAP for Small Business program was established under the administrative control of the CPCFA through legislation enacted in 1994 for the purpose of incentivizing financial institutions to provide small businesses with the capital to maintain and grow their businesses.

The program uses a portfolio-based credit enhancement model, whereby a loss reserve account is established to offset losses incurred in connection with small business loans enrolled in the program. Funding in the loss reserve account consists of moneys paid by the participating borrower and financial institution, with CPCFA matching these contributions.

Unlike a loan guarantee, which ensures payment on a certain percentage of the defaulted loan [*80% to 90% in the guarantee program*], under the loss reserve fund model, the amount of the default payment is based on the amount of funds available in the reserve account. This means a lender could potentially recover 100% of the value of the defaulted loan to the extent that there are sufficient moneys in the account. The model encourages lenders to maintain good underwriting practices because utilization of the loss reserve too often can quickly draw-down the reserve, leaving little for other potential defaults of enrolled loans within the portfolio.

CalCAP loans can be used for working capital and to finance the acquisition of land, construction or renovation of buildings, purchase of equipment, and other capital projects. There are some limitations on real estate loans and loan refinancing. The maximum loan amount is $2.5 million. Lenders set the terms and conditions of the loans and decide which loans to enroll into CalCAP. Loan fees, which are used to capitalize the loss reserve account, are set by the lender and are in the range of 2% to 3.5% of the total loan amount. Loans can be short- or long-term, have fixed or variable rates, be secured or unsecured, and bear any type of amortization schedule.

CalCAP was initially funded through excess fees from the issuance of CPCFA pollution control tax-exempt bonds. The Legislature appropriated $6 million in 2010 to expand the program, and in 2011 CalCAP received approximately one-half of the state's $168 million SSBCI allocation based on a joint application to the US Treasury. Later, California amended its SSBCI application to re-direct $65 million to a collateral support program.

CPCFA contracts with several state agencies, including the California Air Resources Board and the California Energy Commission, to provide lenders with loan loss reserve accounts to finance new, cleaner-burning, heavy-duty, diesel trucks and buses and the acquisition of electric vehicle charging station equipment.

According to the 2020 Annual Report, through the end of December 2020, the total number of loans enrolled in each CalCAP program is as follows:

- 23,209 - CalCAP for Small Business since 1994 (*proposed to receive SSBCI funds*)
- 29,883 - CalCAP/CARB since 2009
- 329 - CalCAP Collateral Support Program since 2013 (*proposed to receive SSBCI funds*)
- 3 - CalCAP Electric Vehicle Charging Station Financing Program since 2015
- 3 - CalCAP Seismic Safety Program since 2016
- 0 - CalCAP American with Disabilities Act Program.

8) **Closer Look at 2020 Program Activity**: In 2020, participating lenders enrolled 860 small business loans, down from 2,271 small business loans in 2017. Program activity in 2020 was $23.9 million in total enrolled loan dollars. The average size of one of these loans in 2020 was $39,087. Of the 860 loans enrolled in CalCAP, 334 (38.8%) were located in a severely affected community. Overall enrolled loans came from businesses located in 41 of the state's 58 counties. In 2020, loans enrolled in CalCAP helped to create 960 new jobs and retain 3,279 existing jobs.

Of the 860 total loans made in 2020, 690 were microloans representing $10.9 million. These figures demonstrate the unique ability of loss reserve programs to serve the small-size financing needs of owner-operators and microbusinesses. In 2020, there 19 lenders participated in the CalCAP, with 11 of those lenders enrolling loans. The top three participating lenders in 2020 included Opportunity Fund, Murphy Bank, and Working Solutions CDFI. These top lenders (3 of the 11) enrolled approximately 81% of the total loan volume.

CPCFA processed and approved 286 claims for $4.2 million from lenders against their loss reserve accounts in 2020. This represents a 33.26% default rate in 2020. This is a substantially higher default rate than in prior years. The annual report provides charts illustrating this significant rise, including a chart on claims filed and defaulted loans over time. ***Chart 3*** displays 2020 CalCAP loan activities by industry sector.

**Chart 3 - 2020 CalCAP Small Business Program – All Funding Sources**

| NAICS Sector | Description | Number of Enrollments | Dollars Loaned | Dollars Enrolled |
|---|---|---|---|---|
| 11 | Agriculture, Forestry, Fishing, and Hunting | 6 | $464,520 | $341,212 |
| 21 | Mining, Quarrying, and Oil and Gas Extraction | 1 | $6,359 | $6,359 |
| 22 | Utilities | 0 | $ 0 | $ 0 |
| 23 | Construction | 45 | $2,179,525 | $1,619,341 |
| 31-33 | Manufacturing | 130 | $ 9,452,713 | $ 9,411,850 |
| 42 | Wholesale Trade | 18 | $474,083 | $436,029 |
| 44-45 | Retail Trade | 104 | $1,617,123 | $1,617,123 |

| | | | | |
|---|---|---|---|---|
| 48-49 | Transportation and Warehousing | 369 | $16,790,924 | $10,266,887 |
| 51 | Information | 12 | $282,772 | $279,654 |
| 52 | Finance and Insurance | 8 | $178,473 | $178,473 |
| 53 | Real Estate and Rental and Leasing | 15 | $367,094 | $367,094 |
| 54 | Professional, Scientific, and Technical Services | 59 | $1,423,394 | $1,417,884 |
| 55 | Management of Companies and Enterprises | 0 | $ 0 | $ 0 |
| 56 | Administrative Support and Waste Management and Remediation Services | 35 | $1,070,204 | $911,445 |
| 61 | Educational Services | 6 | $124,330 | $124,330 |
| 62 | Health Care and Social Assistance | 26 | $888,313 | $888,313 |
| 71 | Arts, Entertainment, and Recreation | 6 | $144,472 | $144,472 |
| 72 | Accommodation and Food Services | 82 | $3,091,427 | $3,091,427 |
| 81 | Other Services (except Public Administration) | 32 | $640,199 | $628,718 |
| 92 | Public Administration | 2 | $30,701 | $29,770 |
| | Grand Total | 860 | $33,614,511 | $23,950,601 |
| Source: California Pollution Control Financing Authority, 2020 Annual Report | | | | |

The annual report provides similar data for each of other CalCAP-related programs, including the CalCAP California Air Resources Board Heavy-Duty Vehicle Air Quality Loan Program; the Collateral Support Program; CalCAP Electric Vehicle Charging Station Financing Program; California Americans with Disabilities Act Small Business Capital Access Loan Program; and the California Seismic Safety Capital Access Loan Program.

9) **Collateral Support Program**: The Collateral Support Program was approved in January 2013 by the U.S. Treasury. As noted earlier, it comprises the largest component of federal SSBCI money being administered through CPCFA – $65 million of the approximately $85 million in total funds.

Under the collateral support model, a business that would otherwise be turned down by a lender due to insufficient collateral becomes eligible after a supplementary cash deposit is made with the lender. These supplementary funds serve as partial collateral against a potential loss. In the event the borrower defaults on the loan, the lender generally collects against the borrower's collateral first and then collects against the cash deposit for any remaining loss.

Under CPCFA's program, after making the initial deposit with the lender, CPCFA is later able to recapture a portion of these funds as the business pays down the loan. This is important because collateral support programs can require significantly more capital to operate than loan loss reserve programs. In 2020, approximately $5.4 million in funds were recaptured on 91 loans. Recaptured funds are recycled back into the Collateral Support Program. As of December 31, 2020, CPCFA contributed $87.9 million in cash deposits for 329 loans, utilizing the initial $65 million, plus recaptured and recycled funds.

Two examples of how the amount of collateral support may be determined by a lender, as explained in the SSBCI best practices report, are as follows: "When applied to working capital loans or lines of credit, the amount of collateral support can be determined as the difference between the proposed loan amount and the value the lender assigns to the working capital assets such as accounts receivable and inventory. For loans to finance fixed assets, collateral support can fill the financing gap between the borrower's equity contribution."

In 2020, CPCFA enrolled 41 loans for 39 borrowers with an average size loan of $522,668. These 41 loans required $7.1 million in cash deposits, which leveraged $21.4 million in lending.

This level of loan activity is fairly typical of the Collateral Support program since the conclusion of the SSBCI agreement in 2017. In 2017, CPCFA enrolled 38 loans to 37 individual businesses owners. The average loan size was $746,987 with the largest loan being $11.8 million. These loans were supported with $7 million in cash deposits.

One area that has changed is the number of loans in "severally disadvantaged areas." In 2020, 32 of the 41 loans were in these targeted areas as compare to 2017, when only 15 of the 38 loans were in "severally disadvantaged areas." According to CPCFA program staff, increasing the number of borrowers from severally disadvantaged areas is a CPCFA priority. Given the level of subsidy and limited number of borrowers which can be assisted each year, this CPCFA priority is very appropriate.

CPCFA estimates that the 2020 program activity created 120 new jobs and retained 655 existing jobs. ***Chart 4*** provides additional details on the types of businesses assisted by the Collateral Support Program.

**Chart 4 - 2020 Collateral Support Program – All Funding Sources**

| NAICS Sector | Description | Number of Enrollments | Loaned Dollars | Enrolled Dollars |
|---|---|---|---|---|
| 11 | Agriculture, Forestry, Fishing, and Hunting | 0 | $0 | $0 |
| 21 | Mining, Quarrying, and Oil and Gas Extraction | 0 | $0 | $0 |
| 22 | Utilities | 0 | $0 | $0 |
| 23 | Construction | 5 | $700,000 | $700,000 |
| 31-33 | Manufacturing | 9 | $9,766,178 | $9,766,178 |
| 42 | Wholesale Trade | 4 | $1,026,000 | $1,026,000 |
| 44-45 | Retail Trade | 3 | $3,875,000 | $3,875,000 |
| 48-49 | Transportation and Warehousing | 3 | $380,000 | $380,000 |
| 51 | Information | 0 | $0 | $0 |
| 52 | Finance and Insurance | 1 | $100,000 | $100,000 |
| 53 | Real Estate and Rental and Leasing | 1 | $150,000 | $150,000 |
| 54 | Professional, Scientific, and Technical Services | 5 | $1,055,030 | $1,055,030 |
| 55 | Management of Companies and Enterprises | 0 | $0 | $0 |
| 56 | Administrative Support and Waste Management and Remediation Services | 1 | $100,000 | $100,000 |
| 61 | Educational Services | 0 | $0 | $0 |
| 62 | Health Care and Social Assistance | 4 | $3,077,200 | $3,077,200 |
| 71 | Arts, Entertainment, and Recreation | 1 | $185,000 | $185,000 |
| 72 | Accommodation and Food Services | 2 | $545,000 | $545,000 |
| 81 | Other Services (except Public Administration) | 3 | $470,000 | $470,000 |
| 92 | Public Administration | 0 | $0 | $0 |
| | Total Number of Loans | 41 | $21,429,408 | $21,429,408 |

Source: California Pollution Control Financing Authority, 2020 Annual Report

Since its inception, 13 claims have been filed due to defaults with the first claim being filed in 2017. In 2020, four claims were filed for a total of $180,565. As of December 31, 2020, the balance available from the remaining recaptured moneys allocated to the State-funded CSP total approximately $36.9 million for FY 19-2020.

10) **The Small Business Finance Center**: The Small Business Finance Center was established in 2013 following the implementation of the Governor's Reorganization Plan GRP2, which transferred the IBank and the Small Business Loan Guarantee Program from the soon to be defunct Business, Transportation, and Housing Agency to GO-Biz.

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 becomes a multipurpose small business financing entity. To accomplish this objective, the statutory framework of the Small Business Finance Center was drafted to reflect existing programs, as well as the potential need for new financial products. As an example, the Small Business Loan Guarantee Program was specifically codified within the administrative control of the Small Business Center and general statutory authority was also provided for the IBank board to approve and modify a range of financial products, including loans and other debt instruments, as well as loan guarantees and other credit enhancements.

According to information on the IBank website (2/24/2022):

- More than 20,000 loan guarantees have been issued under this program since the early 2000s.
- IBank loan guarantees have helped to create or retain 412,000 jobs.
- During 2019-20, the Small Business Finance Center guaranteed 470 loans, resulting in $165 million in loan guarantees that supported $240 million in small business loans.

The IBank and the California Small Business Finance Center have very broad statutory authority to meet the evolving needs of small businesses. In addition to the general loan guarantee program, the Governor has the authority to activate a disaster-specific loan guarantee program. During the early months of the COVID-19 pandemic, the Disaster Loan Guarantee Program was activated for microloans, as well as new financing initiative launched, the California Rebuilding Fund.

11) **The Role of Small Businesses within the California Economy**: California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's $3.1 trillion economy. Two separate studies, one by the US Census Bureau and another by the Kaufman Foundation, found that net job growth was strongest among businesses with less than 20 employees. Among other advantages, small businesses are crucial in the state's international competitiveness, and they are an important means for dispersing the economic positive impacts of trade within the California economy.

- In 2018 (most recent full set of data), of the 4.4 million firms in California, there were 3.4 million nonemployer firms as compared to 954,632 employer firms.
- Total revenues for nonemployer sole proprietorships, across all industry sectors, were $189 billion in receipts in 2017.
- Businesses with less than five employees are classified as microenterprises. In 2017, there were 473,641 microenterprises that had one or more employees.

- Microenterprises, including both nonemployer and up-to-5-employee businesses, comprise the single largest segment of the California business community, representing 89.0% (3.9 million) of all businesses in the state.

Microenterprises have many unique features and provide important benefits to local communities, according to a recent study from the Microenterprise Fund for Innovation, Effectiveness, Learning, and Dissemination (FIELD) at the Aspen Institute. These benefits include:

- Providing products and services tailored to meet local and neighborhood needs.
- Stimulating an inflow of revenues to and within local communities.
- Serving as catalysts for neighborhood reengagement.
- Revitalizing neighborhoods that may otherwise have vacant storefronts.

Providing role models and support for future entrepreneurs.

Excluding sole proprietorships, businesses with less than 20 employees comprise over 88.6% of all businesses and employ approximately 17.4% of all workers. Businesses with less than 100 employees represent 97.3% of all businesses and employ 34.5% of the workforce.

***Chart 5*** displays 2018 data (*the most recent full set of data*) on California employer businesses, including payrolls, employment, and number of firms, which may comprise one or more establishments.

**Chart 5 - 2018 Business Profile by Size** ***(excludes nonemployer firms)***

| Area Description | Employment Size | Number of Firms | Percent of Firms | Employees | Percent of Jobs | Annual Payroll ($1,000) |
|---|---|---|---|---|---|---|
| United States | Total | 6,075,937 | | 130,881,471 | | $7,097,310,272 |
| California | Total | 779,825 | 12.8% U.S. Firms | 15,223,664 | 11.6% U.S. Jobs | $1,020,958,926 |
| | | | | | | |
| United States | 0-4 | 3,757,163 | 61.8% of U.S. Firms | 5,967,955 | 4.5% of U.S. Jobs | $287,379,518 |
| California | 0-4 | 485,387 | 62.2% of CA Firms | 746,240 | 4.9% of CA Jobs | $46,663,550 |
| | | | | | | |
| United States | <20 | 5,411,180 | 89.0% of U.S. Firms | 21,337,272 | 16.3% of U.S. Jobs | $898,874,051 |
| California | <20 | 692,139 | 88.7% of CA Firms | 2,650,204 | 17.4% of CA Jobs | $130,748,308 |
| | | | | | | |
| United States | 0-99 | 5,962,057 | 98.1% of U.S. Firms | 42,918,809 | 32.7% of U.S. Jobs | $1,859,572,577 |
| California | 0-99 | 759,654 | 97.4% of CA Firms | 5,214,752 | 34.2% of CA Jobs | $261,490,973 |
| | | | | | | |
| United States | <500 | 6,055,421 | 99.6% of U.S Firms | 61,244,031 | 46.7% of U.S. Jobs | $2,819,089,905 |
| California | <500 | 773,386 | 99.1% of CA Firms | 7,339,390 | 48.2% of CA Jobs | $395,286,015 |
| | | | | | | |
| United States | 500+ | 20,516 | 0.33% of U.S. Firms | 69,637,440 | 53.2% of U.S. Jobs | $4,278,220,367 |
| California | 500+ | 6,439 | 0.82% of CA Firms | 7,884,274 | 51.7% of CA Jobs | $625,672,911 |

Source: https://www.census.gov/data/tables/2018/econ/nonemployer-statistics/2018...

These nonemployer and small employer firms create jobs, generate taxes, support important industry sectors, and revitalize communities. While their small size allows them to be more flexible in meeting niche foreign and domestic market needs, it also results in certain market challenges.

These challenges include having difficulty meeting the procedural requirements of the state's complex regulatory structure and the traditional credit and collateral requirements of mainstream financial institutions. Specialized technical assistance, access to credit enhancements, and targeting of state procurement activities help many small businesses overcome or at least minimize these difficulties.

12) **Proposed Amendments**: Below is a list of amendments the committee members may wish to review when considering the bill.

  a) Authorize CPCFA to use an alternative regulation adoption process for regulations related to small business lending.

  b) Remove the requirement to automatically transfer available funds to the IBank following the conclusion of the federal SSBCI agreement and, instead, implement reporting and engagement requirements on the use of those funds. This is good faith language to support the author's continued discussions with the State Treasurer on this important matter.

  c) Make other technical and conforming changes.

13) **Related Legislation Current Session**: Below is a list of bills from the current session.

  a) ***AB 2314 (Petrie-Norris) Transparent and Ethical Financial Practices***: This bill sets fair and ethical lending standards for loans issued guarantees under the California Small Business Loan Guarantee Program and financial institutions who participate in the California Capital Access Program. These changes are especially timely as the state anticipates receiving nearly $1.2 billion in federal State Small Business Credit Initiative funds. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

  b) ***AB 2376 (Petrie-Norris) One-Stop Capital Shop***: This bill establishes an online platform, the One-Stop Capital Shop, in preparation for the state's receipt of nearly $1.2 billion in federal State Small Business Credit Initiative funds. The One-stop Capital Shop will assist small businesses in accessing safe funding opportunities and to reduce barriers in access to affordable capital. Among other objectives, the One-Stop Capital Shop platform is intended to serve as a loan marketplace that allows small businesses to compare and access public and private financing programs. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

  c) ***AB 2400 (Cervantes) California Capital Access Program***: This bill modifies California Capital Access Program in preparation for the state's receipt of nearly $1.2 billion in federal State Small Business Credit Initiative funds. Proposed changes reflect issues that arose during the first round of SSBCI funding. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

14) **Related Legislation from Prior Sessions**: Below is a list of bills from prior sessions.

  a) ***AB 474 (Reyes) Transfer to the IBank***: This bill transfers certain funding and loan portfolios from the California Pollution Control Financing Authority (CPCFA) to the Small Business Finance Center administered by the IBank. Status: Held in Assembly Appropriations Committee, 2019.

b) ***AB 796 (Blumenfield) Matching Funds***: This bill, as it related to the CPCFA, would have increased the maximum contribution by the financial institution to $200,000, if the matching contribution made by CPCFA were funded exclusively from funds made available pursuant to the federal Small Business Jobs Act of 2010. The bill would also have limited the amount of matching funds used for deposits exceeding $100,000 to not more than 50% of the available funds. Status: Vetoed by the Governor, 2012, for provisions unrelated to CPCFA.

c) ***AB 901 (V. Manuel Pérez) Expand Financial Partners and Reporting Requirements***: This bill expanded the CalCAP definition of financial institution and increased reporting requirements. CalCAP is one of the programs which received millions of dollars in federal and state funding for small businesses through the federal Small Business Jobs Act of 2010. Status: Signed by the Governor, Chapter 483, Statutes of 2011.

d) ***AB 964 (Calderon, Gonzalez Fletcher, Gomez, and Cervantes) California Affordable Clean Vehicle Program***: This bill would have changed the name of an article within the Health and Safety Code from "Capital Access Program for Small Business" to "Capital Access Program." Consistent with this change, the bill would have established the California Affordable Clean Vehicle Program within the Capitol Loan Access Program to assist low-income individuals in purchasing or leasing zero-emission vehicles or plug-in hybrid electric vehicles for personal or commercial use by providing affordable financing mechanisms. Status: Died in the Senate Committee on Appropriations, 2017.

e) ***AB 981 (Hueso) Expand Financial Partners***: This bill expands the CalCAP definition of a financial institution, authorizes the withdrawal of a lower portion of the interest or other income from a loss reserve account to cover program costs, and requires additional financial assistance to qualified businesses in severely affected communities, such as areas with high unemployment. CalCAP is one of the programs which received millions of dollars in federal and state funding for small businesses through the federal Small Business Jobs Act of 2010. Status: Signed by the Governor, Chapter 484, Statutes of 2011.

f) ***AB 1247 (Medina and Bocanegra) Small Business Finance Center***: This bill establishes the California Small Business Finance Center at the IBank within the Governor's Office of Business and Economic Development and transfers the authority to administer the small business loan guarantee program and other related programs to the California Small Business Finance Center. Status: Signed by the Governor, Chapter 537, Statutes of 2013.

g) ***AB 1547 (Quirk-Silva) Community Development Financing Reforms***: This bill modifies definitions, updates eligible activities to reflect market conditions, and streamlines processes of programs administered through the California Capital Access ADA Program, California Capital Access Program Seismic Safety Program, California Industrial Development Financing Advisory Commission, California Alternative Energy and Advanced Transportation Financing Authority, Sales & Use Tax Exclusion Program, and PACE Loss Reserve Program. Status: Pending in the Senate Committee on Business, Professions, and Economic Development.

h) ***AB 1553 (Cervantes) Direct Payments to Borrowers***: This bill authorizes the use of moneys in the California Americans with Disabilities Act Small Business Capital Access Loan Program (ADA program) fund for payments to participating financial institutions or borrowers to provide incentives to participate in the ADA program. The bill also allows small business assistance funds to include contributions and nonreimbursable payments made directly to borrowers or participating programs. Status: Signed by the Governor, Chapter 644, Statutes of 2017.

i) ***AB 1632 (Blumenfield) Small Business Capital Infusion***: This bill provides the necessary statutory changes in the area of job creation and small business development in order to implement the 2010 Budget Act. The bill transfers $32.4 million from the General Fund to support four small business and jobs programs that exist in current law. The funding appropriated in this bill went to the Small Business Loan Guarantee Program ($20 million); California Capital Access Fund ($6 million); Small Business Development Centers ($6 million); and the Federal Technology Centers ($350,000). Status: Signed by the Governor, Chapter 731, Statutes of 2010.

j) ***SB 225 (Simitian) Loss Reserve Accounts Tracking***: This bill authorizes the establishment of loss reserve accounts for the purposes of terminal rental adjustment clause leasing, if funds are available for contribution into the loss reserve account from any source other than the authority. Status: Signed by the Governor, Chapter 492, Statutes of 2011.

***k)*** ***SB 551 (Hueso) Transfer of Loan Loss Reserve Program***: This bill would have transferred certain funding and loan portfolios from the California Pollution Control Financing Authority to the Small Business Finance Center administered by the California Infrastructure and Economic Development Bank. Status: Held in the Assembly Committee on Appropriations, 2018.

l) ***SB 832 (Senate Committee on Environmental Quality) Code Maintenance***: This bill revises the Revenue and Tax Code definitions of “project” and “pollution control facility” to conform with those used by the California Pollution Control Financing Authority Act under its sales and use tax exclusion program and includes public agencies within the definition of a “participating party” that is eligible for financial assistance in connection with the projects designed to control or eliminate environmental pollution. Status: Signed by the Governor, Chapter 643, Statutes of 2009.

m) ***SB 1311 (Simitian) Changes in Deposits and Withdrawals***: This bill reduces the CalCAP monetary contribution of the CPCFA to an amount equal to the amount of fees paid by a participating financial institution. The bill also authorizes the withdrawal of interest or other income from the loss reserve accounts for the purpose of offsetting administrative costs and contributions. Status: Signed by the Governor, Chapter 401, Statutes of 2008.

**REGISTERED SUPPORT / OPPOSITION**:

**Support**

Coalition of Small and Disabled Veteran Businesses
Microenterprise Collaborative of Inland Southern California
National Small Business Advocacy Council
Riverside Community College District
San Gabriel Valley Economic Partnership

**Opposition**

None on File

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