

Date of Hearing: April 9, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 311 (V. Manuel Pérez) – As Introduced: February 12, 2013

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 125 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 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.
- 4) 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 (NAFTA). 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 Committee on Jobs, Economic Development and the Economy (JEDE) held three 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 and third hearing, November 2011 and 2012, took a more focused look at 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. Examples of the high priority border infrastructure projects included the strategic development, upgrade, and expansion of air and land port of entry facilities, as well as the continued development of the region's geothermal, solar, and biomass capacity. 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 311 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 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 land ports, seaports, and airports have become critical factors in global trade.

Changes in U.S. and global trade patterns since the enactment of NAFTA have placed increased challenges on California's goods movement system. For California's border region, the increased tourism, as well as the expanded supply chains for manufacturing and product distribution have

resulted in significant delays at border crossings, decreased regional air quality, and border crossings that are difficult to secure.

U.S. firms with significant business passing through the Imperial and San Diego County port of entry report that their logistics-supply chains are 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 (as high as three to four hours) 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 for 2007. By 2011, the negative economic impact on California grew to \$620 million, according to the Southern California Association of Governments.

- 4) 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 are proactive bi-national economic development policies, which could 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 NAD Bank, another entity created through the enactment of 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 311 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.

- 5) 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, the California Public Employee's Retirement System (CalPERS)

currently has over \$525 million invested in a combination of physical infrastructure investments, infrastructure-targeted private equity funds, and credit enhancement for infrastructure bonds. This is addition to an outstanding \$800 million mandate for project finance including transportation, energy, natural resources, utilities, water, communications and other social support services.

The challenges facing the deployment of institutional capital was particularly highlighted at November 2012 hearing in Calexico when CalPERS discussed a study it had completed as part of its deployment of \$800 million in California infrastructure investments. Among other findings, their study found that increased information flow and greater consistency of deal structure is essential to greater public pension fund infrastructure investments. AB 311 was developed in response to testimony and research from all three of the JEDE hearings. The bill proposes to have the I-Bank use its expertise in infrastructure finance to facilitate public and private finance-ready infrastructure along the border region.

- 6) The I-Bank and Reorganization: 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 State and Consumer Services 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 24 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.

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

- 7) Reorganization: In March 2012, the Governor initiated a reorganization process to realign the state's administrative structure. Key changes were proposed and agreed to by the Legislature including the dismantling of BTH and the shifting of a number of key programs and services to GO-Biz including the I-Bank. In addition, the Secretary of BTH is replaced by the Director of GO-Biz as Chair of I-Bank and the newly established Secretary of Transportation replaces the Secretary of State and Consumer Services on the I-Bank board.

Programmatic approval of the reorganization was granted in July 2012 and will become effective July 2013. The necessary statutory changes are being made in AB 1317 (Frazier), which recently passed the Assembly Committee on Accountability and Administrative Review and is pending in Assembly Appropriations Committee.

8) 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: Vetoed by Governor in 2011.
- b) AB 893 (V. Manuel Pérez) Technical Assistance for Infrastructure Development: This bill would have authorized the I-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: Held on Suspense File of the Senate Committee on Appropriations in 2011.
- 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 I-Bank. Amendments were taken to remove the I-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 1545 (V. Manuel Perez) Bi-National Infrastructure and Economic Development Bank: This bill would have expanded 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. Status: Held in the Assembly Committee on Appropriations in 2012.

REGISTERED SUPPORT / OPPOSITION:

Support

County of Imperial  
California Asian Pacific Chamber of Commerce

Opposition

None received

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