

Date of Hearing: April 25, 2017

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY
Sharon Quirk-Silva, Chair
AB 56 (Holden) – As Amended April 19, 2017

SUBJECT: California Infrastructure and Economic Development Bank: housing

SUMMARY: Defines housing-related infrastructure for the purposes of programs administered through the California Infrastructure and Economic Development Bank (IBank), including projects funded through the Infrastructure State Revolving Fund (ISRF).

More specifically, the bill defines housing-related infrastructure to mean city streets; drainage, water supply, and flood control; environmental mitigation measures; power and communications; public transit improvement that directly support transit oriented housing; sewage collection and treatment; and water treatment and distribution.

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 clarifies the eligible housing-related infrastructure which can be financed through the IBank.

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.

COMMENTS:

- 1) **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. State contracts to small business financial development corporations are supported through an annual General Fund appropriation \$861,000.

The IBank administers four core programs: (1) the ISRF which provides direct low-cost financing for public infrastructure projects and economic development facilities; (2) the Revenue Bond Financing Program which provides tax exempt and taxable bond financing for manufacturing companies, public benefit nonprofit organizations, public agencies and other eligible entities; (3) the California Small Business Finance Center which assists small businesses access to private financing through loan guarantees, direct loans, and performance bond guarantees; and (4) the California Lending for Energy and Environmental Needs Center or CLEEN Center, which provides financing for municipal governments, public universities, schools, and hospitals (MUSH).

Since its inception through March 2017, the IBank has loaned, financed, or participated in over \$38 billion in infrastructure and economic expansion projects, including \$426.9 million in industrial development bonds. This includes over \$600 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. There is no pledge of IBank or state general funds for any of the conduit revenue bonds. Over \$38 billion in conduit revenue bonds have been issued by the IBank since 2000.

The IBank estimates that, since inception, it has supported the creation and retention of over 100,000 jobs, including over 22,000 from the ISRF program; 37,000 from bond financing activities; and 41,000 through the Small Business Finance Center.

- 2) **Highlights from 2015-16 Annual Report:** In November 2016, the I-Bank issued its annual report for the 2015-16 fiscal year. Among other activities, the IBank recapitalized the ISRF Program and adopted program guidelines for the new green infrastructure bank. Additional details on these projects and other highlights are provided below:
 - a) **Clean Energy Finance Center:** Established in 2014-15, the IBank approved criteria, priorities and guidelines for the selection of projects financed through the CLEEN Center. The goal of the CLEEN Center is to support the state in meeting its greenhouse gas emission reduction goals by providing low-cost financing to eligible state agency and MUSH entities. 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. The CLEEN Center currently operates the:
 - i) Statewide Energy Efficiency Program (SWEEP), which will provide low-cost financing to state and local governments for energy efficiency projects.

- ii) Light Emitting Diode (LED) Street Lighting Program, which finances the instillation of LED street lights

The first CLEEN Center project was approved in November 2016, a \$7.7 million loan to the City of Huntington Beach for the purchase of 11,000 high pressure sodium streetlights and the retrofit and instillation of LED lighting technology. Annual energy savings is expected to be about 3.5 million kilowatt-hours in the first year. Over the next 20-years, savings to the City's General Fund is anticipated to be as high as \$14 million.

- b) **Infrastructure Funds:** The IBank issued \$141.6 million in ISRF Bonds to recapitalize the revolving loan fund, which provides low-cost financing to local governments and nonprofits to build roads, city halls, fire stations, water treatment facilities, among other projects. The 2016 ISRF bonds received Moody's Investor Services' highest rating of "AAa". This strong rating resulted in the IBank selling these bonds at a premium and receiving \$171 million, nearly \$30 million above the bonds face value.
 - c) **Conduit Revenue Bonds:** The IBank issued \$502 million in conduit revenue bonds for qualified 501(c)(3) nonprofit entities and \$3.8 million for a Sacramento manufacturing company to create and retain jobs and enhance the local community.
 - d) **Green Bonds:** The IBank issued \$410.7 million of public agency revenue bonds (Green Bonds). The proceeds will be used to recapitalize the State Water Board's Clean Water State Revolving Fund Program.
- 3) **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.

In 2015-16, The ISRF approved seven projects for \$86.6 million in loans for infrastructure and economic expansion projects. These projects are expected to result in 1,600 new jobs, with 1,500 gained in the construction phase, and will leverage an additional \$35.4 million in other funds.

Among other projects financed during the fiscal year, the I-Bank assisted the City of Half Moon Bay with a \$5.6 million loan with a 3.44% interest rate to construct a new pump station, install new pipeline, and replace or renovate existing pipelines. The City of Santa Cruz received a \$25 million loan with a 3.24% interest rate to support the replacement and upgrade of its water treatment facilities, which leverage \$6.9 million of other dollars.

The total ISRF loan outstanding balance, as of March 1, 2017, was \$324 million. As of January 1, 2017, the IBank has financed over \$500 million in ISRF loans. The chart below shows the ISRF's 2015-16 project pipeline.

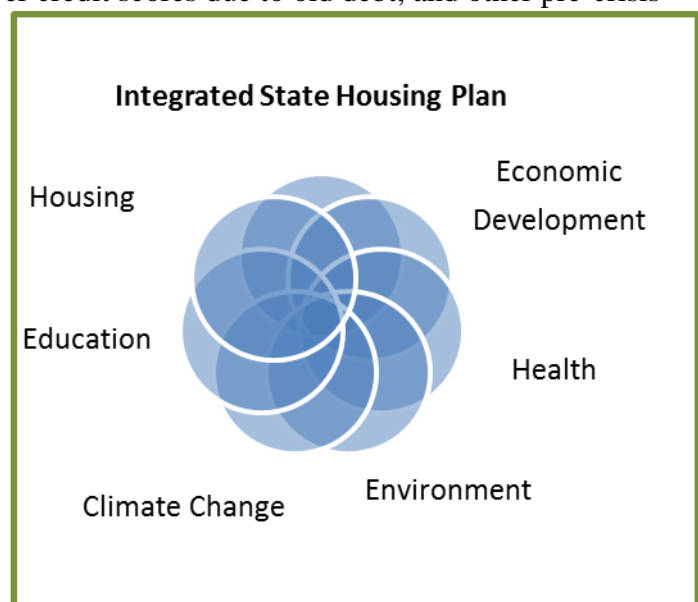
Infrastructure State Revolving Fund – April 10, 2017

State of Project Review	Number of Applications	Dollar Amounts
In Review	6	\$80,100,000
Pending Applications	12	\$88,626,000
In Underwriting	2	\$6,870,000
Source: California Infrastructure and Economic Development Bank, April 2017		

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 six rounds of tax exempt revenue bonds date (2004, 2005, 2008, 2014, 2015, 2016) total \$480,175,000. ISRF bonds are paid solely from repayments received from ISRF borrowers, and are neither backed nor guaranteed by the state or other IBank funds.

- 4) **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 are facing higher rents and potential homebuyers are having to contend with tightening lending standards;
 - Building starts continue 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.

AB 56 assists communities who are seeking to implement integrated housing strategies by clarifying which IBank funds can support affordable housing and which are available for economic development facilities and other public infrastructure purposes.

- 5) **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 thorough 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.

- 6) **Draft State Housing Plan:** In January 2017, HCD released its mandated update to the statewide housing assessment, which includes a 10-year assessment of housing needs and issues. According to the report, the state faces three key challenges:
- Challenge 1 – Housing supply continues to not keep pace with demand and the existing system of land-use planning and regulation creates barriers to development. During the 2003-14 planning cycle, housing production was inadequate in every region of the state.
 - Challenge 2 – High housing growth is expected in communities with environmental and socio-economic disparities. During the 2003-2014 planning cycle, counties with high job availability experienced lower housing production.
 - Challenge 3 – Unstable funding for affordable housing development is impeding the state's ability to meet housing needs, particularly for lower-income households.

Housing for renters is in the greatest need with two units being needed for every one unit of market rate. At the same time as affordable housing need is increasing, federal funding is declining. In 2003, California received \$729.5 million in federal Community Development Block Grant funds and \$351 million in Home moneys. In 2015, CDBG was down to \$356.8 million and \$120.5 million for Home funds.

While AB 56 does not produce funds to cover total housing development costs, the bill does identify an existing source of capital that can finance portions of those costs, including city streets; water supply and treatment; and public transit improvement that directly support transit oriented housing.

- 7) **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 56 passed HCD on a vote of 7 to 0.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

None on file

Analysis Prepared by: Toni Symonds / J., E.D., & E. /