

Date of Hearing: April 27, 2021

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sabrina Cervantes, Chair

AB 1447 (Cooley and Bigelow) – As Introduced February 19, 2021

**SUBJECT:** The Rural California Infrastructure Act

**POLICY FRAME:** According to the California Department of Forestry and Fire Protections the 2020 Fire Season was among the most severe in the nation's history. The 2020 Fire Siege, alone, claimed the lives of 28 civilians and three firefighters, destroyed 9,248 structures and consumed 4.2 million acres. Watersheds were eradicated, communities decimated, and the quality of life for 40 million Californians temporarily diminished.

This all occurring at a time when rural community resources were strained under the need to provide enhanced services during the COVID-19 pandemic. AB 1447 establishes the Rural California Infrastructure Act which appropriates \$1 billion in funds for grants to special districts, independent fire districts, or local governments in counties with populations less than 300,000 for rural infrastructure projects, including fairground maintenance, disaster preparedness, highway or street repairs, and the rehabilitation of historic and cultural sites that serve as the foundation for local economic development activities.

AB 1447 was initially heard in the Assembly Committee on Emergency Management, where the policies related to emergency preparedness, response, and recovery were addressed. The policy analysis focuses on infrastructure finance and a recommendation to transfer the administration of the bill to the California Infrastructure and Economic Development Bank (IBank). There is no known opposition to the bill. Suggested amendments are outlined in Comment 5.

**SUMMARY:** AB 1447 establishes the Rural California Infrastructure Act for the purpose of awarding \$1 billion in grants to local agencies for rural infrastructure projects, including fairground maintenance, disaster preparedness, highway or street maintenance or repair, and historic or cultural preservation or repair. Specifically, **this bill:**

- 1) Establishes the seven-member Rural California Infrastructure Committee, who are appointed as follows:
  - a) One member appointed by the Governor.
  - b) One member appointed by the Speaker of the Assembly.
  - c) One member appointed by the Speaker Pro Tempore of the Senate.
  - d) Two members appointed by the California State Association of Counties who serve as representatives of that association. One member shall be a representative from Northern California and one member shall be a representative from Southern California.
  - e) Two members appointed by the League of California Cities who serve as representatives of that association. One member shall be a representative from northern California, and one member shall be a representative from southern California.

- 2) Specifies that every member of the Rural California Infrastructure Committee serves a two-year term, the appointing power has the authority to remove any member of the board from office for neglect of any duty required by law or for incompetency or unprofessional or dishonorable conduct.
- 3) Limits per diem and expenses to those that are necessary to carry out their duties on the committee.
- 4) Requires the Rural California Infrastructure Committee to establish, by July 1, 2022, an application process for local agencies to apply for grants to fund rural infrastructure projects.
  - a) Defines a “local agency” to mean a special district, independent fire district, or county, with a population of less than 300,000 individuals according to the 2020 census data.
  - b) Defines a “Rural infrastructure project” to mean a project in a local agency’s jurisdiction related to any of the following:
    - i) Fairground maintenance.
    - ii) Disaster preparedness, including creating or maintaining evacuation or shelter areas for emergency evacuations.
    - iii) Highway or street maintenance or repair.
    - iv) Historic or cultural preservation or repair.
- 5) Requires the Rural California Infrastructure Committee, beginning January 1, 2023, and every two years thereafter, to award grants to fund rural infrastructure projects to local agencies that complete the application process.
- 6) Requires the Rural California Infrastructure Committee to prioritize applications for projects that are considered shovel ready, as determined by the committee.
- 7) Authorizes local agencies that are awarded a grant to additionally leverage federal, private funding, or private-public partnerships to complete the rural infrastructure project the grant was awarded for.
- 8) Authorizes the Rural California Infrastructure Committee to adopt regulations necessary to carry out the purposes of this chapter in accordance with the Administrative Procedure Act, as specified.
- 9) Establishes at the State Treasury the Rural California Infrastructure Fund. Money in the fund is continuously appropriated without regard to fiscal years for purposes of this chapter. On January 1, 2022, the California State Controller is directed to transfer \$1 billion to the Rural California Infrastructure Fund.

#### **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 Infrastructure State Revolving Loan Fund (ISRF), oversight of the Small Business Finance Center, and the issuance of tax-exempt and taxable revenue bonds.
- 2) Authorizes the IBank to provide financing for economic development facilities by:

- a) Issuing taxable revenue bonds, as specified, to provide financing for economic development projects. Financed projects are required to be compatible with the public interest, which is defined as having the project be located in California, those seeking funds are capable of meeting obligations incurred under the agreement, and in the case of loans or bonds, the amount of the payments are adequate to pay the related expenses of the IBank.
  - b) Issuing taxable revenue bonds, as specified, to provide financing for the revolving loan funds and economic development projects of small business development corporations, local economic development corporations, community development corporations, and nonprofit organizations in which revolving loan funds and economic development projects shall be compatible with the public interest.
  - c) Issuing tax-exempt revenue bonds, as specified, to provide financing for economic development facilities as permissible under federal law and in accordance with applicable California law relating to the distribution of state allocations for private activity bonds. Financed projects are required to be compatible with the public interest, which is defined as having the project be located in California, those seeking funds being capable of meeting obligations incurred under the agreement, and in the case of loans or bonds, the amount of the payments are adequate to pay the related expenses of the IBank.
  - d) Issuing tax-exempt revenue bonds, as specified, for economic development facilities of public sector and nonprofit organizations qualifying for exemption under federal law.
- 3) 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.
  - 4) 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.
  - 5) Defines a “public development facility” for the purpose of IBank financing, including the ISRF, 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, land ports, water ports, rail ports, 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.
- p) Housing-related infrastructure including city streets; drainage, water supply, and flood control; environmental mitigation measures; power and communications; public transit improvement that directly supports transit-oriented housing; sewage collection and treatment; and water treatment and distribution.

**FISCAL EFFECT:** Unknown

**COMMENTS & CONTEXT:**

- 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 is essentially self-funded receiving minimal General Fund support. The IBank uses the fees, interest income and other revenues that derive from its public and private sector financing activities, as the foundation of its operations budget. State contracts to small business financial development corporations (FDCs) are supported through an annual General Fund appropriation of \$1 to \$2 million.

The IBank administers five core programs:

- The Infrastructure State Revolving Fund (ISRF), which provides direct low-cost financing for public infrastructure projects and economic development facilities.

- The Bond Financing Program, which provides tax-exempt and taxable bond financing for manufacturing companies, public benefit nonprofit organizations, public agencies and other eligible entities.
- The California Small Business Finance Center, which assists small businesses access private financing through loan guarantees, direct loans, and performance bond guarantees.
- The California Lending for Energy and Environmental Needs Center or CLEEN Center, which provides financing for environment-related projects to municipal governments, public universities, schools, and hospitals (MUSH).
- The Climate Catalyst Revolving Loan Fund, which is available to receive funds from non-state governmental entities and private sources for the purpose of financing climate catalyst projects that further the state's climate goals. Operationally, the Strategic Growth Council sets the non-financial program requirements and the IBank serves as the bank. Categories of projects are set by the Legislature in consultation with the Strategic Growth Council.

Since its inception, the IBank has loaned, financed, or participated in over \$40 billion in infrastructure and economic expansion projects, including \$434.8 million in industrial development bonds. This includes over \$822 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 \$8 billion in conduit revenue bonds have been issued by the IBank since 2015 including \$2 billion in green and clean water projects.

The IBank estimated that, since its inception, it has supported the creation and retention of over 462,000 jobs. This includes over 23,000 from the ISRF program, 41,000 from bond financing activities, and 398,000 through the Small Business Finance Center.

- 2) **Highlights from 2019-20 Annual Report:** In November 2020, the IBank issued its annual report for the 2019-20 fiscal year. Among other activities, the IBank issued more than \$880 million through 10 bonds, including two green bonds. Even working remotely due to COVID-19, the IBank was able to continue issuing bonds. The chart below summaries key aspects of the IBank's activities in 2019-20.

2019-20 IBank Activities						
IBank Program	Financing Approved	Financing Closed	Jobs(*)	Amount Approved	Amount Closed	Leverage
ISRF Loans	2	1	0	\$24,300,000	\$143,300,000	\$0
CLEEN Loans	0	0	0	\$0	\$0	\$0
Subtotals	2	1	0	\$24,300,000	\$14,300,000	0
Industrial Development Bonds	0	0	0	\$0	\$0	\$0
501(c) (3) Bonds	10	9	845	\$1,251,370,000	\$607,967,259	\$8,772,667
Public Agency Revenue Bonds	1	1	2,303	\$350,000,000	\$272,605,000	\$0
Exempt Facility Bonds	1	0	0	\$3,250,000,000	\$0	\$0
ISRF Program Bonds	0	0	0	\$0	\$0	\$0
Subtotals	12	10	3148	\$4,851,370,000	\$880,572,259	\$8,772,667
<b>Fiscal Year Totals</b>	<b>14</b>	<b>11</b>	<b>3148</b>	<b>4,875,670,000</b>	<b>\$894,872,259</b>	<b>\$8,772,667</b>
*Jobs include the total number full and part-time jobs, including construction, as reported by borrowers.						
<i>Source: IBank 2019-20 Annual Report</i>						

3) **Expanding Role of the IBank:** Given the flexibility of its financing capabilities, the IBank is playing an increasing role in the state's COVID-19 small business recovery efforts, and financier of an expanding range of clean and green infrastructure and economic development projects. In 2020, the Legislature approved several budget-related actions that will further expand the IBank's scope and capacity which include:

- ***Climate Catalyst Revolving Loan Fund:*** Establishes a Climate Catalyst Revolving Loan Fund at the IBank to receive funds from non-state governmental entities and private sources for the purpose of making loans for climate catalyst projects that further the state's climate goals. The money is available for expenditure upon appropriation by the Legislature. The Strategic Growth Council will advise the Legislature on categories to fund and a report on the projects funded would be prepared annually.
- ***Expanded and Flexible Debt Authority:*** Limits the total amount of rate reduction bonds and bonds issued to finance public development facilities that may be outstanding at any one time to \$15 billion. Currently, the limit for rate reductions bonds is \$10 billion, and the limit for bonds to finance public development is \$5 billion. This change does not increase the total authority, rather it combines the limits allowing for more flexibility between the categories.

These authorities are in addition to the funding for California Rebuilding Fund, recapitalization for the Small Business Loan Guarantee Program, and activation of the disaster loan guarantee program. In 2021-22, the Governor is proposing two additional programs, utilizing the newly authorized Climate Catalyst Loan Fund:

- ***Wildfire and Forest Resilience Package:*** The Governor is proposing \$47 million in 2020-21, and \$2 million in 2021-22 as a part of a comprehensive package to increase the pace and scale of forest health activities and reduce wildfire risk. This initiative is called Climate Catalyst Fund and Wood Production Innovation, and \$16 million was included in the \$536 million wildfire mitigation funding plan that legislative leadership and the Governor announced on April 8, 2021.
- ***Climate Smart Agriculture:*** The Governor is proposing \$50 million to support Climate Smart Agriculture loans to advance projects that may include but are not limited to: methane reduction, equipment replacement, water efficiency, healthy soils, circular economies, on-farm bioenergy, energy efficiency for food processing, and renewable energy systems and energy storage for agricultural operations.

At the federal level, the \$2 trillion Biden Infrastructure Plan is anticipated to provide substantial new infrastructure funds, including:

- \$621 billion on roads, bridges, public transit, rail, ports, waterways, airports, and electric vehicles to improve air quality, reduce congestion, and limit greenhouse gas emissions;
- \$400 billion to bolster caregiving for aging and disabled Americans;
- \$300 billion toward boosting manufacturing, specifically semiconductor, medical, and clean manufacturing;
- \$111 billion to rebuild water infrastructure and replace all of the nation's lead pipes and service lines; and

- \$100 billion in order to give every American access to affordable, reliable, and high-speed broadband.
- 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. The 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; educational, cultural and social facilities; industrial, utility and commercial facilities; military infrastructure and defense conversion; solid waste collection and disposal; water treatment and distribution; and public safety facilities.

The ISRF has provided more than \$720 billion in loans to state and local governmental entities to support the development of economic and public development facilities since 1999. Every year, the ISRF participates in a series of Funding Fairs with other state and federal infrastructure development programs. At these Funding Fairs, project sponsors are providing briefings of current funding opportunities and have an opportunity to meet one-on-one with participating programs to discuss their specific economic and public development facility projects. In addition, the IBank offers technical support throughout the application and approval process.

In 2019-20, The ISRF approved two projects for \$24.3 million in loans for infrastructure and economic expansion projects.

Here are examples from a busier year. In 2016-17, the ISRF financed \$86.6 million in projects, which were estimated to result in 1,600 new jobs- with 1,500 gained in the construction phase, and the ISRF leveraged an additional \$35.4 million in other funds. Among other projects financed during 2016-17, the IBank 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 leveraged \$6.9 million of other dollars.

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. The 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 (2004, 2005, 2008, 2014, 2015, 2016) totaling \$480,175,000. The ISRF bonds are repaid solely from repayments received from ISRF borrowers and are neither backed nor guaranteed by the state or other IBank funds.

- 5) **Proposed Amendments:** Below is a list of amendments the committee members may wish to review when considering the bill.
- a) Relocate the Program to the California Infrastructure and Economic Development Bank.
  - b) Authorize rather than require the establishment of the program. [All the IBank Programs are drafted this way]

- c) Condition the implementation of the program on the IBank receiving funds, and the IBank board adopting a resolution that there are sufficient funds to administer the program, including appropriate administrative costs.
  - d) Add further detail to the definition of “rural infrastructure” by adding definitions for an economic development facility, a public development facility, a disaster recovery project, and modifying the definition of a disaster preparedness project to include fairgrounds.
  - e) Require no less than 70% of the funds to be used for rural infrastructure projects that address disaster preparedness and recovery.
  - f) Modify the trigger date for beginning to accept applications from a specific date to it being within six months of receiving sufficient funds to operate the program.
  - g) Require the IBank to administer at least one funding round within both the first and second year of program implementation.
  - h) Authorize the IBank to utilize any IBank staff necessary to implement the program, as specified.
  - i) Authorize the IBank to administer the program through one of its other programs to the extent the requirements of this Article are met.
  - j) Require grants to be awarded in a manner that ensures geographic equity.
  - k) Prohibit grant funds from being released until the local agency can demonstrate that it has the capacity and the full funding to complete the project.
  - l) Allow the IBank to charge a fee to apply for a grant to cover some or all of its costs in administering the program. These fees would be reduced or eliminated to the extent that state funds are provided.
  - m) Add annual reporting requirements
- 6) **Related Legislation:** Below is a list of bills from the current and prior sessions.
- a) ***AB 78 (Assembly Budget Committee) 2020 IBank Budget Actions:*** This bill established a Climate Catalyst Revolving Loan Fund at the IBank to receive funds from non-state governmental entities and private sources for the purpose of making loans for climate catalyst projects that further the state’s climate goals, and these moneys are available for expenditure upon appropriation by the Legislature. Additionally, the bill set a \$15 billion cap on the total amount of rate reduction bonds and bonds issued to finance public development facilities that may be outstanding at any one time. This bill also authorized the IBank’s board to establish one or more programs administered by the bank directly, in conjunction with financial companies or financial institutions, in direct or indirect participation with special purpose entities established for small business finance or under contract with small business financial development corporations. Status: Signed by the Governor, Chapter 10, Statutes of 2020.
  - b) ***SB 45 (Portantino) Wildfire Prevention, Safe Drinking Water, Drought Preparation, and Flood Protection Bond Act of 2022:*** This bill enacts the Wildfire Prevention, Safe Drinking Water, Drought Preparation, and Flood Protection Bond Act of 2022, which places a \$5.595 billion general obligation bond before voters in the November, 2022, general election, for the purpose of financing projects for wildfire prevention, safe drinking water, drought preparation, and flood protection. Status: Pending in the Senate Committee on Appropriations.



- 7) **Double Referral:** The Assembly Committee on Rules has referred this measure to the Assembly Committee on Emergency Management (EM) and the Assembly Committee on Jobs, Economic Development, and the Economy. This measure passed EM on a 6 to 0 vote.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

California State Association of Counties

**Opposition**

None on File

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