Date of Hearing: June 21, 2022

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY
Sabrina Cervantes, Chair
SB 625 (Caballero and Limón) – As Amended May 28, 2021

SENATE VOTE: 39-0

SUBJECT: Community development financial institutions: grant program

POLICY FRAME: Responding to the coronavirus pandemic has required the state to take extreme and rapid steps to protect the health and safety of Californians. Within one week in March 2020, the state went from open-for-business to implementing a strict stay-at-home order for everyone not directly engaged in what the government considered an essential and critical business activity. Since March 2020, 27.3 million unemployment insurance claims have been filed with the state's Employment Development Department, claims for initial and extended benefits included.

Even before the coronavirus emergency, however, when California enjoyed 120 straight months of financial growth, there were significant economic forces driving income inequality. Between 1979 and 2017, earnings for the top 0.1% of households increased by 343.2%, as compared to the earnings of the bottom 90% of households, which experienced an increase of only 22.2%. Given these divergent income outcomes, it is not a surprise that California ranks within the top tier of states relative to household poverty.

California's recovery from the economic consequences of the pandemic have surpassed those of every state in the US, with California almost consistently gaining 20% to 25% of all new jobs. Economic recovery, however has been very unequal and many areas of the state and groups of individuals remain impacted. Focusing on re-investment strategies that has shown to also address historic economic disparities should be a top priority. If the state does not, the economic inequality of pre-pandemic California will expand and drag down the overall recovery.

What is a CDFI?

All CDFIs have as a primary mission the serving low-income individuals and communities. How CDFIs accomplish their mission depends on the structure of the organization, which includes all the following:

- Banks—For-profit corporations providing capital to rebuild economically distressed communities through targeted lending and investments
- Credit Unions—Member-owned non-profit cooperatives promoting savings, affordable loans, and other financial services
- Loan Funds—Typically non-profit organizations providing financing and technical assistance to small businesses, microenterprises, affordable housing developers, and community service organizations
- Venture Capital Funds—Organizations providing equity and debt-with-equity services to businesses in distressed communities

In accordance with their mission, certified CDFIs also provide educational services like business planning, credit counseling, and homebuyer classes to help their borrowers use credit effectively

SB 625 proposes the establishment of a program to provide an ongoing source of revenues to community development financial institutions (CDFIs), which are community-based organizations that are certified by the US Treasury to meet the needs of individuals, businesses, and communities who are underserved by traditional financial institutions.

The Authors have secured conditional funding for the new program in SB 154 (Skinner), the 2022-23 budget bill, which was approved by the Legislature on June 13, 2022, includes $50 million for the CII Program, contingent on legislation being enacted to establish the program within the 2022–23 fiscal year.

The policy committee analysis includes information on the federal CDFI Fund, growing income inequality in California, and issues related to the transfer of the program to a new government entity. There is no known opposition to this bill. Suggested amendments are included in Comment 8.

SUMMARY: SB 625 establishes the California Investment and Innovation Program (CII Program), administered through the Infrastructure and Economic Development Bank (IBank), for the purpose of making grants to CDFIs. Specifically, **this bill**:

1) Makes findings and declarations:
   a) CDFIs are a critical partner in addressing California's short-term and long-term needs of low- and moderate-income communities in the areas of affordable housing, health care, small business lending, economic development, and more.
   b) As mission-driven lenders, grantors, and providers of technical assistance, CDFIs have proven time and again that they can play a valuable role in helping to deploy and leverage public investment quickly and efficiently.
   c) It is the intent of the Legislature in creating the California Investment and Innovation Program to establish a program that creates an ongoing partnership with CDFIs to assist the State of California in efficiently deploying resources to communities in need and establishing an equitable economic recovery that benefits low-income communities and communities of color that have been disproportionately impacted by the economic fallout of the COVID-19 pandemic and by historical and ongoing disinvestment.
   d) In addition to providing an economic jumpstart for those communities through immediate investment, it is the intent of the Legislature that the program created by this legislation will serve as a potential repository for current and future emergency or stimulus funding streams that would otherwise require the state to start up new programs, thereby slowing the delivery of these funds to those most in need. The program will be a permanent resource for community investment.

2) Establishes the CII Program, under the authority of the IBank, for the purpose of providing grants to eligible recipients.

3) Establishes the California Investment and Innovation Fund (CII Fund) in the State Treasury.
   a) Upon appropriation by the Legislature, the IBank is required to allocate moneys in the fund to eligible recipients, as specified.
   b) The CII Fund is authorized to receive any funds made available by the state, including, but not limited to, the federal government, philanthropic entities, entities, and financial intuitions.

4) Requires the IBank, unless otherwise prohibited by law, to use the available funding to do all of the following:
   a) Develop a competitive application process for awarding CII program grants.
   b) Require each eligible recipient to submit an application in the form and manner prescribed by the IBank.

c) Set aside at least 20% of any amount made available for purposes of the CII Program for eligible recipients that are small and emerging CDFIs, as defined.

d) Ensure that eligible recipients receiving grants pursuant to the program serve geographically diverse areas across this state.

5) Authorizes the Director of the IBank to establish an advisory committee for the purpose of reviewing and making recommendations on CII grant applications and providing recommendations to the IBank on the successful implementation of the program. If an advisory committee is formed, the bill requires the committee to consist of the IBank Director (or their designee) and one volunteer from each of the following groups:

a) A member of the public appointed by the Senate Committee on Rules.

b) A member of the public appointed by the Speaker of the Assembly.

c) A representative of a consumer advocacy group.

d) A member of the public with expertise in affordable housing development or finance.

e) A member of the public with expertise in community development.

f) A representative of a financial institution or a CDFI.

g) A member of the public with expertise in small business lending.

h) A representative of an organization representing the interests of low-income rural communities.

6) Requires grants to be made available in one or more funding rounds, not to exceed $25 million in total grants in any calendar year.

7) Requires the IBank to determine the maximum amount an eligible recipient may receive per calendar year. Notwithstanding this authority, no applicant may receive more than 5% of the total grant funds available in that calendar year.

8) Requires CII grants to be prioritized, to the extent permissible under state and federal equal protection laws, in accordance with the following criteria:

a) Providing access to capital for communities and businesses that have historically lacked access to capital, including, but not limited to, the following:

i) Businesses in which a majority of funded business is owned by women, minorities, persons of color, or veterans.

ii) Businesses in rural communities.

iii) Businesses in low-income communities.

b) Serving communities that are disadvantaged or have a disproportionately high rate of poverty or unemployment, low educational attainment, or other disadvantaging factors that limits access to capital and other resources.

c) Providing access to housing, health care, or education or financial services for households that are very low income, as defined.

9) Authorizes a CII grant recipient, unless otherwise prohibited by law, to use CII funds for the following purposes:

   a) Providing loans, grants, equity investments, or technical assistance within low-income communities or for purposes that have a direct and substantial benefit to lower income households.

   b) Serving investment areas or targeted populations, as defined, by developing or supporting any of the following:

      i) Commercial facilities that promote revitalization, community stability, or job creation or retention.

      ii) Businesses that either provide jobs in low-income communities or enhance the availability of products and services to lower income households.

      iii) Community facilities.

      iv) The provision of basic financial services.

      v) Housing that is principally affordable to lower income households. Assistance used to facilitate homeownership pursuant to this subparagraph shall be limited to services and lending products that serve lower income households that are either not provided by other lenders in the area or complement the services and lending products provided by other lenders that serve the investment area or target population.

      vi) Any other businesses or activities deemed appropriate by the bank and consistent with the purposes of the program.

10) Requires an eligible recipient that provides loans with grant funds awarded under the CII Program to provide those loans on a revolving basis.

11) Authorizes the IBank to adopt guidelines for the operation of the program, as specified.

12) Requires the IBank to establish time periods for performance and periodic reporting by grantees, including guidelines that address the following:

   a) Periodic financial and project reporting, record retention, and audit requirements for the duration of the grant to the grantee to ensure compliance with the limitations and requirements, as specified.

   b) Documentation on the use of funds, the number of persons or households served, the geographic distribution of funds, and other data as determined by the bank to assist the bank in assessing program outcomes.

13) Defines the following terms:

   a) "Community development financial institution" means any CDFI certified by the federal Community Development Financial Institutions Fund under Part 1805 (commencing with Section 1805.100) of Chapter XVIII of Title 12 of the Code of Federal Regulations.

   b) "Disadvantaged community" means an area, as defined by the IBank, as specified, in which the median household income is less than 80% of the statewide annual median household income level.

   c) "Eligible recipient" means a CDFI for which either of the following applies:

i) The CDFI has its headquarters in this state.

ii) The CDFI has a record of lending in this state based on either of the following:

(1) At least 25% of the CDFI’s loan portfolio provides financial assistance to persons or projects located in this state.

(2) The CDFI has provided financing assistance in this state totaling at least $5 million over the following time periods:

(a) If the CDFI is not a small and emerging community development financial institution, the three years preceding the date of its grant application.

(b) If the CDFI is a small and emerging CDFI, any time period.

d) “Small and emerging community development financial institution” means a CDFI with less than ten million dollars ($10,000,000) in assets.

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

2) Establishes the California Small Business Finance Center for the purpose of administering programs to assist businesses seeking new capital resources, including, but not limited to, the Small Business Loan Guarantee Program. The IBank is authorized to continue programs funded by the Small Business Expansion Fund or 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.

3) Defines a “low-income community” as a census tract with median household incomes at or below 80 percent of the statewide median income or with median household incomes at or below the threshold designated as low income by the Department of Housing and Community Development’s list of state income limits, as specified.

FISCAL EFFECT: The chart below, documenting the $50 million approved by the Legislature for this bill, is excerpted from SB 154 (Skinner), approved by both Houses of the Legislature on June 15, 2022.

<table>
<tr><th colspan="5">Chart 1 – Approved Funding for SB 625</th></tr>
<tr><td colspan="4">0509-102-0001—For local assistance, Governor’s Office of Business and Economic Development (Go-Biz)</td><td>50,000,000</td></tr>
<tr><td></td><td colspan="4">Schedule:</td></tr>
<tr><td></td><td>(1)</td><td>0235028-California Infrastructure and Economic Development Bank</td><td>50,000,000</td><td></td></tr>
<tr><td></td><td colspan="4">Provisions:</td></tr>
<tr><td></td><td>1.</td><td colspan="2">The amount appropriated in Schedule (1) shall be available for grants to community development financial institutions pursuant to legislation enacted in the 2022–23 legislative session.</td><td></td></tr>
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The budget passed by the Senate and Assembly includes an appropriation to the IBank of $50 million for grants to community development financial institutions. This budget, however, represents a placeholder pending further negotiations between the Legislature and the Governor. The authors of this bill propose that the program be administered by the California Pollution Control Financing Authority (CPCFA), which is chaired by the State Treasurer, due to the Treasurer's strong support of the proposed program and her willingness to implement the program through CPCFA. The final amount, if any, appropriated for this purpose and the state agency responsible for implementing the proposed grant program are subject to change as budget decisions are finalized.

COMMENTS:

1) **Federal CDFI Programs**: The federal CDFI Fund was established in 1994 by the US Treasury to administer programs that finance and advance economic and community development in low-income and distressed communities across the country.

In addition to providing programs, the federal CDFI Fund certifies CDFIs. As of June 14, 2022, there were 1,373 certified CDFIs in the US, with 108 identified as California-based. As explained in the sidebar, CDFIs can take many forms, including:

- Loan Fund (570)
- Credit Union (469)
- Bank or Thrift including (176)
- Depository Institution Holding Company (143)
- Venture Capital Fund (15)

CDFI's are annually certified by the US Treasury to ensure the financial, administrative, and program activity standards are maintained. Data from these reports is published, providing key insights into community development activity across the US. In 2020 (most recent report), 881 CDFIs reported with 52% of being loan funds, 25.4% credit unions, 12.4% banks/thrifts; 8.4% holding companies, and 1.1% venture capital funds. Key program findings include:

- Loan funds constitute the largest share of Certified CDFIs.
- Certified CDFIs are located in all 50 states as well as several US territories. California is among the top four states for headquartered CDFIs.
- Loans are the dominant Financial Product (in contrast to equity investments and loan guarantees) offered by Certified CDFIs by dollar amount and count.
- Consumer financing is the most reported type of financing provided in both count and dollar amounts.
- Financial education is the most popular Development Service used by clients of Certified CDFIs.
- Certified CDFI credit unions report the highest total assets amount and the most financing capital available.

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In accordance with their mission, certified CDFIs also provide educational services like business planning, credit counseling, and homebuyer classes to help their borrowers use credit effectively

Serving low-income communities is central to the mission of CDFIs. This includes helping to build community-based assets. During the most recent report period, 20% of Certified CDFIs were Minority Depository Institutions, and 6.7% were across all institution types were Native CDFIs.

The CDFI Fund oversees nine primary programs, as well as special initiatives like the Opportunity Zones. Below is a selection of these programs with descriptions provided by the CDFI Fund.

a) ***CDFI Bond Guarantee Program***: The CDFI Bond Guarantee Program is a source of long-term, patient capital for CDFIs.

b) ***CDFI Program***: The CDFI Program provides Financial and Technical Assistance awards to CDFIs.

c) ***CDFI Rapid Response Program***: The CDFI Rapid Response Program is designed to quickly deploy COVID-19 relief capital to Certified CDFIs.

d) ***Capacity Building Initiative***: The Capacity Building Initiative is a source of training and technical assistance for CDFIs.

e) ***Capital Magnet Fund***: The Capital Magnet Fund encourages the development of affordable housing in low-income communities.

f) ***Native Initiatives***: The Native Initiatives provides awards, training, and technical assistance to CDFIs serving Native Communities.

g) ***New Markets Tax Credit Program***: The New Markets Tax Credit encourages economic and community development in low-income communities.

h) ***Small Dollar Loan Program***: The Small Dollar Loan Program was created to help Certified CDFIs provide alternatives to high-cost small-dollar loans.

According to the sponsor, the California CDFI Coalition, one of the primary purposes of the CII Program is to provide an ongoing source of funding to draw down federal funds, which require nonfederal matching. Due to this matching requirement, California-based CDFIs have not received a fair share of federal dollars.

2) **Challenges to Accessing Capital**: Access to debt and equity financing is critical for promoting the efficient operation and expansion of small businesses. Small businesses rely on adequate short-term debt (working capital) and long-term debt as well as equity financing to purchase new equipment, replenish inventories, fund ongoing operations, and market their services long before those activities generate revenue. While financial institutions routinely provide financing to established, larger businesses, smaller businesses are often bypassed because they lack the collateral or establishment history, or need too small of a loan.

   The same dynamic occurs when small businesses attempt to access equity financing, with investment funds often bypassing smaller businesses because they lack the operating history and revenue generating track record of larger businesses. The situation often results in a “chicken or the egg” scenario whereby businesses are told they need to grow in order to access financing, while simultaneously being denied access to the financing they need to grow.

   For business owners of color, women, and located in historically undercapitalized areas, including rural, the challenges to accessing capital are even greater. In a May 2022 community development research brief from the Federal Reserve Bank of San Francisco, one of several key findings found that respire state programs to lower lenders' risk, lenders and investors continued to find raising capital for small business lending difficult. Further, meeting the financial needs of small businesses often required loan structures and conditions different than mainstream lending. However, holding a portfolio of non-standardized loans also created long-term liquidity issues for the financial institution.

SB 625 supports the development of new capital resources for businesses in low-income neighborhoods and by historically undercapitalized business owners. The CII Program provides important new capacity-building funding for experience community developers to enhance existing programs, serve more low-income communities, and address gaps in financing and technical assistance.

3) **California CDFI Small Business Lending**: CDFIs play a unique and vital role in supporting low-income and disadvantaged communities that exist throughout California. "In 2019, California CDFIs originated more than 772,000 loans and invested more than $21 billion nationwide. These loans and investments were used to help finance more than 51,300 affordable housing units and invest in more than 19,000 small businesses."

According to a letter submitted in support of the $50 million appropriation for CII Program by the California Credit Union League, California Bankers Association, and the California Community Banking Network:

> "We believe that this investment by the state will continue to strengthen economic recovery efforts and further encourage the important work of CDFIs. This one-time budget appropriation of $50 million will allow CDFIs to leverage additional private investment, quickly deploy resources, and fill in the funding gaps in underserved communities in areas of housing, infrastructure, health care, and small business development."

Upon request, the California Credit Union League submitted an example to the Committee of how CDFIs serve small business borrowers with inclusive financial products. Their example is from the Orange County Credit Union, which is a CDFI credit union and a low income designated credit union. The designation means that 50% or more of its members are low-income individuals.

The Orange County Credit Union uses CDFI grant funding to support credit union members by executing a financial inclusion strategy. Examples of key actions include:

- Inclusive product development, including the development of new checking products with low to no fees
- The use of loan loss reserves to expand lending and lowering lender risk - without charging high fees and interest rates

4) **The Challenge of Income Inequality during COVID-19**: While California's dominance in innovation-based industries is unquestionable, the divide between the middle- and lower-income households and the top-income earners is accelerating. Even when California's unemployment rate was at historic lows pre-pandemic, unemployment within certain geographic regions and population groups remained significantly higher, as did the number of people in the state who were not participating in the core economy.

The coronavirus has deepened California's income inequality, with the state's most vulnerable being at the greatest risk for poor health outcomes, having the least amount of savings to survive its economic impacts, and being most likely to work in low-paid and least protected essential businesses.

A closer look at disaggregated employment data reveals a bifurcated economic recovery. In March 2020, California reported an unemployment rate of 5.1% as compared to the US rate of 4.5%. From the employment side, this represents 18.1 million people in California, with 82.5% being employed in full-time work (*based on a 12-month moving average*). During this same period, three of California's 58 counties had unemployment, below 3.0%, with San Mateo County reporting the lowest at 2.5% (*based on not seasonally adjusted data*). Colusa County (21.4%) was reported as having the highest unemployment rate among counties in March 2020.

Two years later (March 2022), statewide unemployment is 4.9%, just slightly lower than 5.1% reported in March 2020. As noted in the prior comment, employment by industry sector is up in every sector, and three of the 11 sectors having recovered all jobs. However, the disparities have grown. ***Chart 2 – Selected Data on Unemployment*** shows geographic and demographic unemployment-related information for the year the World Health Organization announced that the COVID-19 was a global pandemic and the following two years.

Chart 2 - Selected Data on Unemployment (March 2020, 2021, and 2022)

Unemployment Rate (Not Seasonally Adjusted)					**Unemployment Rate** (Not Seasonally Adjusted) (12 month moving average)			
	March 2020	**March 2021**	**March 2022**			**March 2020**	**March 2021**	**March 2022**
California (comparable rate)	5.1%	8.2%	4.2%		**California** (comparable rate)	4.1%	11.1%	6.3%
Colusa County	21.4%	15.4%	12.5%		**Blacks**	5.2%	13.9%	10.5%
Imperial County	20.4%	15.7%	12.3%		**Hispanics**	4.7%	12.5%	6.9%
Los Angeles County	5.6%	10.9%	4.9%		**Whites**	4.0%	10.8%	5.9%
Orange County	4.19%	7.0%	3.1%		**16 to 19 years old**	15.1%	24.5%	13.6%
Riverside County	4.7%	7.7%	4.3%		**20 to 24 years old**	7.6%	17.5%	10.1%
Sacramento County	4.3%	7.4%	4.0%		**25 to 34 years old**	4.1%	11.7%	6.1%
San Bernardino County	4.4%	7.8%	4.3%		*The Employment Development Department reports a March 2021 (12-month moving average) Labor Participation Rate (LPR) of 61.8%. The LPR for veterans is 43.2% vs nonveterans LPR of 64.6%.			
San Francisco City & County	3.5%	6%	2.5%					
San Mateo County	2.5%	5.0%	2.3%					
Tulare County	13.2%	11.6%	8.4%					
								Source: www.edd.ca.gov

As illustrated in ***Chart 1***, the disparities among population groups continued, and most cases increased for certain areas of the state and individuals from certain demographics. For example, unemployment among Blacks in March 2020 was at a historic low of 5.2%, which was still above the state average of 4.1%. One year into COVID-19 and the disparity between the rate of Black unemployment and the statewide rate substantially increased (13.9% compared to 11.1%). Two years since the beginning of the pandemic, the unemployment rate for Blacks is reported as 10.5% versus 6.3% for the workforce as a whole. From the beginning of the pandemic to March 2022, the disparity between the unemployment rate for Blacks has grown from 1.1% in March 2020 to 2.8% in March 2021 to 4.2% in March 2022.

Reports on May 2022 unemployment continued along similar trends with overall state unemployment down 0.5% from March (4.6%) and 42,900 jobs being added. San Mateo had the lowest unemployment rate of 1.7% and Imperial County the highest at 11.0%. For Blacks, however, the unemployment was only down to 9.6% and 6.0% was reported for Hispanic workers. [*The comparable unemployment rate for demographic comparisons was 5.5%*.] Again, the highest unemployment was among 16-19 and 20-24 year olds.

The disparities shown in these charts are driven by and also influence a range of poor economic and societal outcomes, including, but not limited to, limited educational attainment, economic insecurity, poor health outcomes, negative engagements with law enforcement, and lack of a safety net for the elderly and individuals with special needs. COVID-19 magnified these effects, further putting strains on already struggling low-wage workers, particularly in the Black and Latinx communities.

The California Latino Economic Institute released a policy brief in December 2020, which provides further data on the disparate and growing negative impact of COVID-19 on Latinos in California. Among other findings, the briefing noted the following:

- Latinos are overrepresented among California's COVID-19 cases and deaths—59% of cases and 49% of the state's deaths.
- Latino overrepresentation in California's cases has increased since April 2020.
- Nearly 12% of California Latinos are currently uninsured—double the rate of other groups.
- Latino unemployment rates are double those from the same time last year.
- Nearly two-thirds of California Latinos report experiencing a loss of employment income since March 2020.
- Over 40% of Latinos currently report that it is somewhat or very difficult to pay their usual household expenses in the last seven days.
- Over three-quarters of California small business owners report that COVID-19 has had a moderate to large effect on their businesses.

This and other reports have highlighted the many of the contributing factors to these health disparities, including the impact of low household incomes and lack of employment security. During COVID, Latinos and Blacks have comprised a significant component of the state's essential workforce. While a majority of White workers held jobs that allow them to work from home and decrease potential COVID-19 exposure, Latinos and Blacks, more commonly held jobs in high-risk environments.

This increased exposure to COVID-19, combined with the socio-economic impacts on underlying health, resulted in a statistically higher number of cases and deaths compared to the group's percent of the population. ***Chart 3*** provides information from the California Department of Public Health relating to COVID-19 cases in California by race and ethnicity. Data is current as of June 13, 2022.

Chart 3 - COVID-19 Case Loads and Outcomes by Race and Ethnicity				
Race/Ethnicity	**Percent**	**No. Deaths**	**Percent**	**Percent CA**

	Cases		Deaths	population
Latino	46.4%	39,479	43.7%	38.9%
White	24.9%	31,392	34.7%	36.6%
Asian	9.6%	9,8173	10.9%	15.4%
African American	5.3%	6,308	7.0%	6.0%
Multi-Race	1.1%	1,436	1.6%	2.2%
American Indian or Alaska Native	0.4%	445	0.5%	0.5%
Native Hawaiian & other Pacific Islander	0.7%	581	0.6%	0.3%
Other	11.6%	972	1.1%	---
Total with data	100%	90,430	100%	100%
Source: California Department of Public Health, accessed June 9, 2022				

The chart above, *All Cases and Deaths Associated with COVID-19 by Race and Ethnicity*, represents data from 9,106,031 total cases, with 19% of those cases missing race/ethnicity. There are a total of 91,006 deaths, with approximately 1% of those deaths missing race/ethnicity.

5) **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 financing 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.

6) **California Pollution Control Financing Authority**: The CPCFA was established in 1975 for the purpose of providing an alternative method of financing the acquiring, enlarging, and installing of pollution control facilities. The authority is governed by a three-member board, comprised of the Director of Finance, the State Controller, and the State Treasurer who serves as the Chair.

Through the ensuing decades, the role and focus of the CPCFA have expanded to include pollution-related financial activities, such as brownfield remediation, and non-pollution control focused financing for small businesses, In the early stages of this mission expansion, CPCFA used “excess fees” raised from bond issuances to seed smaller community development grants. Today CPCFA utilizes many different sources of capital to administer a range of programs, including bond programs to fund pollution control facilities and equipment, the California Recycle Underutilized Sites (CALReUSE) Program, California Capital Access Program, and the Sustainable Communities Grant and Loan Program.

According to the CPCFA website, "CPCFA partners with sister state agencies to achieve the state’s environmental policy objectives by administering high-impact financing programs designed to assist regulated entities and other stakeholders with accessing private capital. As a government agency that issues tax-exempt private activity bonds, CPCFA can facilitate low-cost financing to qualified waste and recycling projects, and other projects to control pollution and improve water supply." As part of its bond-related activities, CPCFA is issuing Green Bonds for pollution control and other environmental projects meeting commonly accepted standards for climate investments.

Currently, the largest program administered by CPCFA is the California Capital Access Program (CalCAP). CalCAP for Small Business program was established 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 includes two credit enhancements to lower risk to small business lenders: a loss reserve and a collateral support.

The loss reserve 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 that ensures payment on a certain percentage of the defaulted loan [*80% in the guarantee program*], under the loss reserve fund model, the default payment amount 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, if sufficient moneys are 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.

Loans enrolled through CalCAP can be used for working capital and to finance land acquisition, construction or renovation of buildings, purchase of equipment, and other capital projects.

As noted earlier, CalCAP was one of the CPCFA programs 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. In 2022, CPCFA is anticipated to receive over $590 million from the federal State Small Business Credit Initiative (SSBCI).

In 2017, CPCFA established the Collateral Support Program using federal funding from the first SSBCI funding round. The CalCAP Collateral Support Program helps small businesses obtain private loans by making a cash deposit with a lender on behalf of a borrower. The lender holds the funds as partial collateral against potential loss. The program is quite capital intensive on a per-borrower basis, but funds not needed for defaults can be recycled for new borrowers every couple of years. In addition, CPCFA recaptures a portion of the cash deposit annually as the loan pays down. As of December 31, 2020, CPCFA had contributed a total of $87.9 million in cash deposits for 329 loans, utilizing moneys that were recaptured and recycled.

CPCFA also 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:

- CalCAP for Small Business since 1994 is 23,209.
- CalCAP/CARB since 2009 is 29,883.
- Collateral Support Program (CalCAP/CSP or CSP) since 2013 is 329.
- CalCAP Electric Vehicle Charging Station (EVCS) Financing Program (CalCAP/EVCS) since 2015 is three.
- California Seismic Safety Capital Access Loan Program (CalCAP/Seismic Safety) since 2016 is three.
- CalCAP American with Disabilities Act Program has not enrolled any loans to date.

7) **Transparency is Fundamental to Redressing Historic Underinvestment**: Proposed amendments call for the renaming of CPCFA as the “California Community Development Financing Authority”

and the public may wonder why a name could be so important. Simply put, it comes down intention and representation.

When CPCFA was established, inclusive economic development was not its mission. It was intended to provide a cost effective financing alternative for pollution control facilities. In 2022, things have evolved and CPCFA is now on the verge of receiving nearly a billion dollars in new financing dedicated to addressing historic underinvestment in low-income communities and diverse business-owners.

As noted in the analysis, CPCFA is scheduled to receive $590 million in federal funds to provide credit enhancements for small business borrowers. In deploying this capital, business owners from socially and economically disadvantaged groups and underserved communities will be prioritized. SB 777 is proposing that CPCFA take on a new role of allocating $300 million in tax credits to raise private capital that will be invested in undercapitalized low-income communities. And, SB 625 (Caballero and Lemón) is proposing that CPCFA allocate $50 million in General Fund money as grants to community development financial institutions (CDFI). These grants will serve an essential role in increasing the capacity of CDFIs to address key issues in lower income communities, including entrepreneurship and the development of affordable housing and health facilities. Each of these expanded and new programs will require additional staffing and new stakeholder partnerships to be formed.

The impact of the COVID-19 pandemic intensified and accelerated income disparities in California, making community development financing too important of a mission to be a sideline. People know things by their name and the renaming of the authority sets the clear intention that going forward CPCFA will be a fully committed partner in the entire enterprise of community development. The mantel of inclusive community development needs to placed front and center where programs and funding can be easily identified.

With the expansion of scale and variety of CPCFA's programs, it is imperative to look at the totality of CPCFA's responsibilities and rename the financing authority to better reflect the full scope of its resources. These significant new tools require the authority to make itself known as a primary driver of community development.

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

   a) Transfer the administration of the program from the IBank to CPCFA. Include related amendments to recast the provisions within a different set of Government Code sections.

   b) Change the name of the CPCFA to the California Community Development Financing Authority, effective January 1, 2024. Authorize the authority to continue to use the name California Pollution Control Financing Authority for the issuance of bonds, federal reporting, and the continuance of any contracts in force or under development on January 1, 2024.

   c) Authorize rather than require the establishment of the CII Program. Include related amendments that condition the establishment of the program on the receipt of sufficient money that has been appropriated by the Legislature.

d) Specify that the purpose of the CII Program is to enhance the capacity of CDFIs to provide technical assistance and capital access to economically disadvantaged communities in this state.

e) Add a definition of "administration expenses" and authorize the Authority to access moneys in the California Investment and Innovation Fund for administrative expenses.

f) Expand the definition of an "eligible applicant" to include:

   i. Have a current certification from the US Treasury.
   ii. Have a minimum net worth of $25,000 as indicated on its financial statements prepared in accordance with generally accepted accounting principles.
   iii. Have made a minimum of five loans in the twelve months prior to submitting its application.

g) Modify the definition of an eligible applicant as follows:

   i. The definition of a California-based CDFI is modified from being headquartered in the state to having a principle office in CA and the officers of the principle office are domiciled in CA.
   ii. The definition of an out-of-state CDFI is modified by increasing the minimum investment in CA from $5 million to $10 million within the prior three years.
   iii. Remove the authority for small and emerging out-of-state CDFI to participate in the CII Program.

h) Modify the definitions of "low-income household" and "lower income household" by requiring the comparable median income household to be either the county median income or the state median income, whichever is less.

i) Establish an award process for all eligible applicants to receive grants, as specified.

j) Define eligible uses of the capacity grants, allow grantees up to two years to use the funds, require any interest earned on the grants to be reinvested by the grantee into eligible activities.

k) Reduce the maximum amount of funds that may be allocated per year from $25 million to $15 million.

l) Modify and expand the reporting requirements for the grantees and authority to conform to the purpose of the grant.

m) Make other technical and conforming changes.

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

   a) ***AB 1572 (JEDE) State New Market Tax Credit***: This bill establishes the C-NMTC Program and authorizes the awarding of $100 million in tax credits annually for five years, beginning in the 2023 tax year. The purpose of the C-NMTC Program is to attract new private capital to very low-income neighborhoods in California. In general, the new state credit parallels the F-NMTC Program. Status: Held on Suspense in the Assembly Committee on Appropriations, 2022.

   b) ***SB 625 (Caballero and Limon) California Investment and Innovation Program***: This bill establishes the California Investment and Innovation Program (CII Program) for the purpose of making grants to CDFIs. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

c) ***SB 777 (Bradford) Jump Start Program***: This bill establishes the California Jumpstart Act, which directs the California Pollution Control Financing Authority to allocate up to $300 million in credits (similar to a C-NMTC) against the gross premiums tax to investors in relief funds. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

REGISTERED SUPPORT / OPPOSITION:

Support
California Coalition for Community Investment (sponsor)
Access Plus Capital
Accessity
Accion Opportunity Fund
California Bankers Association
California Coalition for Rural Housing
California Credit Union League
California Farmlink
California State Council of Laborers
California State Treasurer
Cameo - California Association for Micro Enterprise Opportunity
CDC Small Business Finance
Clearinghouse Cdfi
Corporation for Supportive Housing (CSH)
Habitat for Humanity California
Housing Trust Fund Ventura County
Housing Trust Silicon Valley
Lendistry
Neighborworks Capital
Pacific Coast Regional Small Business Development Corporation
Primary Care Development Corp.
Rural Community Assistance Corporation
Sacramento Housing Alliance
San Francisco Bay Area Planning and Urban Research Association (SPUR)
Self-help Federal Credit Union
Small Business Majority
Southern California Association of Non-profit Housing (SCANPH)
The San Francisco Housing Accelerator Fund
Worker-owned Recovery California (WORC)
Working Solutions

Opposition
None on file

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