Date of Hearing: June 21, 2022

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY
Sabrina Cervantes, Chair
SB 777 (Bradford) – As Amended June 14, 2022

SENATE VOTE: 38-0

SUBJECT: Insurance taxation: credit: California Jumpstart Act

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.

While California's recovery from the economic consequences of the pandemic has surpassed those of every state in the US, the economic recovery has been unequal, and many areas of the state and groups of individuals remain significantly impacted. Focused financial interventions are urgently needed to readdress historic economic disparities and provide new capital to communities and businesses most impacted by the COVID-19 pandemic.

SB 777 proposes the establishment of a new method for raising community development capital in exchange for tax credits that may be applied against an insurance company's gross premium tax.

The policy committee analysis includes information on the growing income inequality in California, California's small business economy, and targeting of Relief Fund investments. This bill is assigned to two policy committees, and should it pass this committee, it will be referred to the Assembly Committee on Revenue and Taxation for further policy considerations. Opposition to the bill is described in Comment 2. Suggested amendments are included in Comment 7, which, if accepted, would need to be taken in a subsequent committee or on the Assembly Floor.

SUMMARY: SB 777 establishes the California Jumpstart Act, which authorizes the allocation of up to $300 million in tax credits to Relief Funds to provide for an inclusive long-term recovery by attracting private sector investment into historically overlooked and underinvested communities and small businesses. Taxpayers may apply the credits against gross premiums tax liability beginning January 1, 2025, and before January 1, 2030. Specifically, **this bill**:

1) Makes legislative findings and declarations, including, but not limited to, the following:

   a) California continues to face unprecedented challenges from the COVID-19 pandemic, and the realities are stark. Total small business revenue in California in November 2020 has decreased by

27.9% compared to January 2020, according to a new report from Opportunity Insights. The total unemployment benefits providing support for California workers and local economies have now hit $101 billion in just seven months. Almost $55 billion of that is regular state provided Unemployment Insurance benefits, which is more than double what was paid in the three worst years of the Great Recession combined, according to October 2020 data from the Employment Development Department.

b) Black men have recovered fewer than 40% of their jobs lost. This is the worst of any demographic group, other than Black women, while Hispanic men have recovered about 47% of their lost jobs, according to new research from the Washington Post.

c) The economic collapse sparked by the ongoing global pandemic is triggering the most unequal recession in modern US history. California's small businesses and workers are in a prolonged battle for survival and stability, a struggle with geographic, economic, and racial disparities.

d) Even before the COVID-19 crisis, many California small businesses, particularly those owned by people of color or located in economically disadvantaged and historically underserved areas of the state, still had not fully recovered from the Great Recession. Their economic condition has only grown direr amid the extended pandemic devastation.

e) Achieving a more equitable recovery begins with creating more equitable flows of capital. Comprehensive, targeted, and transparent economic policies with strong safeguards will catalyze small business growth and entrepreneurial activity as California rebuilds.

f) The COVID-19 pandemic's lessons are clear and simple. Policymakers' response to these deep, rapid revenue losses will have important consequences in the coming months and years. A targeted response that accounts for the investment gaps in disproportionately impacted businesses and communities, enables small business growth, and generates job creation that can minimize the harm and accelerate California's equitable economic recovery.

2) **New Tax Credit**: Authorizes a tax credit that may be applied against premium taxes for taxable years beginning on or after January 1, 2025, and before January 1, 2030, as specified.

   a) The aggregate amount of investment authority certified is $375 million dollars.

   b) The aggregate amount of allocated credits $300 million.

   c) The total amount of credits that may be claimed per year is $75 million during the taxable years containing the third through sixth anniversaries of the closing date.

   d) If requests for investment authority and credits exceed the limitations in (a) and/or (b), CPCFA shall proportionally reduce the investment authority and credits certified for each approved application as necessary to avoid exceeding the limit.

3) **Applying the Credit Against to Tax Liability**:

   a) ***Credit Certificate***: Requires the submittal of a copy of a specified tax credit certificate with the taxpayer's return for each taxable year for which the credit is claimed.

   b) ***Ongoing Limitation on Implementation***: Limits implementation of the Jump Start Act to only taxable years for which an appropriation is made for its purposes in the annual Budget Act or other statute.

c) ***Carry-Forward***: Allows any unused portion of the tax credit to be applied toward the taxpayer's tax liability in the succeeding five years, if necessary until the credit is exhausted. However, in no case may the credit be carried forward after the 2030 taxable year.

d) ***Nonrefundable and Nontransferable***: Specifies that the credit is not refundable and may not be sold, transferred, or allocated to an entity other than an affiliate, as specified.

4) **Applying for the Certification of the Relief Fund: Investment Authority which Establishes the Basis for the Credit**:

a) ***Application***: Requires CPCFA to begin accepting applications for certification of a relief fund within 90 days after the enactment of this bill. The bill requires the submitted application to include all of the following:

i) The dollar amount of relief investment authority sought by the applicant.

ii) Evidence, as specified, that the applicant meets all of the following criteria:

(1) The applicant, or an affiliate of the applicant, is a federally approved or licensed rural business investment company or a small business investment company, as specified.

(2) The approval or license is in effect when the application is submitted.

(3) At least one principal or similar officer of the applicant is, and has been for at least four years, an officer or employee of the applicant or an affiliate of the applicant.

(4) The applicant and its affiliates have invested more than $100 million in nonpublic companies organized under US laws, as specified. These invested companies are not required to have principal business operations in California.

iii) A signed certification, as specified, of the amount each investor commits to make in the relief fund. The total amount of these contributions are required to be an amount that is at least 80% of the total investment authority sought by the applicant.

iv) A nonrefundable application fee of ten thousand dollars ($10,000).

v) A detailed inclusive outreach plan intended to increase investment sourcing opportunities under the program in impact businesses.

vi) A signed certification from an executive officer of the applicant attesting that:
(1) No senior managers of the fund are under indictment.
(2) The information provided in the application is true and correct.

vii) The disclosure and description of any pending or resolved litigation in which an applicant or an affiliate of the applicant is a party, as well as any violations, citations, fines, or penalties relating to any violations of state labor law, employment law, or environmental law within the last 10 years.

viii) Evidence from the applicant's previous experience in undertaking all of the following:

(1) Improving economic outcomes and net job creation in low-income communities with high unemployment and poverty directly resulting from its investments in small businesses.

(2) Generating improved economic outcomes that would not have occurred but for its investments in small businesses.

   (3) Promoting high-quality jobs for workers, including, but not limited to, paying wages in excess of the minimum wage, and promoting full-time employment with health and retirement benefits.

b) ***Verification***: Authorizes CPCFA to request information from an applicant related to the information provided in the application prior to allocating investment authority to that applicant.

c) ***Evaluation of Applications***: Requires CPCFA to do all of the following:

   i) Issue application criteria consistent with the purposes of this act, and rank applicants based on those criteria.

   ii) Specifies that applications received by the CPCFA on the same day shall be deemed to have been received simultaneously.

   iii) Post the criteria, its rankings of applications, and the amount of tax credits allocated to each applicant on its internet website.

   iv) Deny an application submitted under this section if any of the following apply:
      (1) The application is incomplete.
      (2) The application fee is not paid in full.
      (3) The application does not satisfy all the threshold criteria, as specified.
      (4) The maximum amount of relief investment authority and relief contributions have been exceeded.
      (5) The applicant fails to submit affidavits equal to 80% of the relief investment authority sought.
      (6) The applicant did not supply evidence of its experience, as specified.

5) **Certifying the Relief Fund and Investment Authority**: Requires CPCFA to issue a written notice to selected applicants certifying all of the following:

   a) The applicant is a Relief Fund.

   b) The amount of the applicant's investment authority.

   c) The relief contributions required from each investor that submitted an affidavit with the application.

6) **Retrieving the Investment Commitments**: Requires the Relief Fund to do all of the following within 60 days after receiving certification, as specified:

   a) Collect relief contributions from an entity subject to insurance premium tax equal to the certified amount from each investor whose certification was included in the application.

   b) Collect additional investments of cash that, when added to the investor contributions, equal the full amount of Relief Fund's investment authority.

   c) Requires that at least 5% of the Relief Fund's investment authority shall consist of direct or indirect equity investments from affiliates of the Relief Fund, including employees, officers, and directors of the affiliates.

7) **Confirmation of Investments to CPCFA**: Requires the Relief Fund to provide documentation to CPCFA of the required investments within 65 days of receiving certification of the Relief Fund and investment authority, as specified.

8) **Revoking Certification**: Requires CPCFA to revoke the Relief Fund's investment authority certification if the Relief Fund fails to collect the required funds or submit the required documentation. CPCFA is required to provide written notice to the Relief Fund of the revocation.

9) **Issuance of Tax Credit with Conditions**: Requires CPCFA, upon receipt of required documentation to establish a process in consultation with the Department of Insurance to issue to each investor or affiliate a notice of the amount and utilization schedule of the tax credits allocated to that investor or affiliate as a result of its contribution to the Relief Fund, as specified

   a) CPCFA, in consultation with the Department of Insurance, is required to issue the tax credit certificate for one-fourth of the relief contributions made by the investor for each of the taxable years containing the third through sixth anniversaries of the closing date.

   b) CPCFA, in consultation with the Department of Insurance, is prohibited from issuing a tax credit certificate if the relief fund does not invest 70% of its investment authority in investments within one year of the closing date and 100% of its relief investment authority in relief investments within two years of the closing date. These investment requirements may also be met through a specified cure period process.

   c) Specifies that taxpayer receiving a credit for a qualified relief investment pursuant to this program is prohibited from being eligible for any other credit, as specified, with respect to that investment.

   d) CPCFA is required to notify the Department of Insurance of the name of any insurance company allocated tax credits under this article and the amount of those credits.

10) **Funding Ongoing Compliance**: Authorizes CPCFA to require additional information to ensure the Relief Fund's compliance with this article. In addition, the bill requires:

   a) The payment of an annual fee to CPCFA of $150,000 prorated amongst all relief funds that have not exited the program, as specified.

   b) The payment of the initial annual fee be paid to CPCFA within 60 days after receiving certification from the Relief Fund and investment authority.

   c) The payment of the annual fee before the anniversary date of the closing date.

   d) The application and annual fees paid are to be deposited in the Treasury Relief Investment Fund, which is established by this act.

11) **Credit Recovery and Revoked Certificates**:

   a) ***Conditions***: Requires CPCFA, in consultation with the Department of Insurance, to recover tax credits claimed and revoke tax credit certificates issued if CPCFA determines that any of the following occur:

      i) The Relief Fund fails to invest 100% of its investment authority in relief investments within two years of the closing date.

      ii) The Relief Fund fails to maintain that level of investment until the sixth anniversary of the closing date, as specified.

         (1) An investment is considered maintained even if the investment is sold or repaid as long as the Relief Fund reinvests an amount equal to the capital returned or recovered (exclusive of any profits realized) in other relief investments within one year of the receipt of such capital.

(2) Regularly scheduled principal payments on a loan that is a relief investment shall be deemed continuously invested in a relief investment if the amounts are reinvested in one or more relief instruments by the end of the following calendar year.

iii) The Relief Fund makes a distribution or payment that results in the fund having less than 100% of its relief investment authority invested in relief investments or in cash or marketable securities available for investment in relief investments.

iv) The Relief Fund makes a relief investment in a small business that directly or indirectly through an affiliate owns, has the right to acquire an ownership interest, makes a loan to, or makes an investment in the relief fund, an affiliate of the fund, or an investor in the relief fund, excluding investments in publicly traded securities by a small business or an owner or affiliate of a small business.

v) The Relief Fund makes an investment in a small business that is not a qualifying small business, as defined.

b) ***Due Process and Cure Period***: Requires CPCFA, in consultation with the Department of Insurance, to notify the Relief Fund of the reasons for the pending recovery and revocation prior to recovering tax credits or revoking a tax credit certificate.

i) Prohibits the recovery of tax credits or revoking the tax credit certificate:
(1) If the Relief Fund corrects the violations to the satisfaction of the CPCFA within 90 days.
(2) If the violation occurred after decertification, as specified.

c) ***Reallocation of Credit and Investment Authority***:

i) Excludes from the statutory limitations on the aggregate value of tax credits, investment authority, or investor contributions any amount of revoked or recovered tax credits, as well as the associated investment authority and investor contributions, as specified.

ii) Requires CPCFA to award reverted investment authority within 15 days of reversion to each Relief Fund that was awarded less than the requested investment authority for which it applied. The awards are to be distributed on a pro-rata basis. Any remaining investment authority may be allocated to new applicants before January 1, 2030.

12) **Small Business Investment Limitations**: Disqualifies, for the purpose of meeting the required amount of relief investments, any amount of investments over $7.5 million which are made by the same Relief Fund in the same small business, as specified.

13) **Exiting the Program**: Authorizes a Relief Fund to apply to exit the program and CPCFA's oversight on or after the sixth anniversary of the closing date, if the Relief Fund has invested 100% of its required relief investment authority in eligible relief investments.

a) Requires CPCFA to either approve or deny the application to exist the program within 30 days.

b) Prohibits the denial of an application unless there is a reasonable basis for the denial. The recovery of credits with respect to the decertifying of a Relief Fund is sufficient evidence to demonstrate eligibility for exiting the program.

c) Requires notice of CPCFA's determination with respect to decertification and reasons for denial, if applicable, to be sent to the Relief Fund requesting exit.

14) **Pre-Certification of Potential Qualified Investments**: Authorizes a Relief Fund to request a written opinion from CPCFA on whether a prospective business qualifies as a small business. In making the request, the Relief Fund is required to provide evidence that the business satisfies the definition of a small business and a certification by an executive officer of the business attesting that the business satisfies such definition. CPCFA is required to issue a written opinion to the fund within 15 business days of receiving the request.

15) **Annual Reporting by Relief Funds**: Requires each Relief Fund to submit a report to CPCFA on or before the 15th day of each April following the end of the calendar year that includes the certification closing date.

    a) Required that the report provide an itemization of the Relief Fund's relief investments and all of the following documents and information:

        i) Audited financial statements evidencing each relief fund's relief investments.

        ii) The name, location, and industry classification of each business that received a relief investment from the fund, evidence that the business qualified as a small business at the time the investment was made, as specified.

        iii) For each small business receiving a relief investment, the number of full-time employees, as defined, at each small business at the time the investment was made.

        iv) A certification executed by an executive officer of each business attesting the number of jobs created and job retained as a result of each relief investment.

        v) The number of relief investments made in impact businesses, disaggregated by classifications based on information voluntarily provided by businesses that identify as an impact business and in accordance with state law.

        vi) A certification that the relief fund has not violated any of the grounds for revocation and recovery of credits, as specified.

        vii) Any other information required by the CPCFA, as specified.

    b) Requires each fund shall to submit a report to CPCFA on or before the fifth business day after the first and second anniversaries of the closing date that provides documentation to prove that the fund has met the required investment thresholds and has not implicated any of the other recovery provisions, as specified.

16) **Outreach to Impact Businesses**: Requires CPCFA to undertake outreach activities to encourage investment in impact businesses, including, but not limited to, partnering with organizations representing persons and business enterprises from underrepresented groups, in a manner that will inform and educate members of these organizations on investment opportunities through the Jump Start Act.

17) **Treasury Relief Investment Fund**: Establishes the Treasury Relief Investment Fund (TRI Fund) in the State Treasury, which is administered by CPCFA for purposes of the Jump Start Act.

    a) Provides that all moneys in the TRI Fund are continuously appropriated.

    b) Requires all moneys accruing to the CPCFA pursuant to the Jump Start Act to be deposited into the TRI Fund.

c) Authorizes CPCFA to use the proceeds in the TRI Fund for purposes of administrative costs relating to the program.

d) Authorizes CPCFA to direct the Treasurer to invest moneys in the TRI Fund that are not required for its current needs, as specified.

e) Authorizes CPCFA to direct the Treasurer to deposit moneys in interest-bearing accounts in state or national banks or other financial institutions having principal offices located in the state. The CPCFA may alternatively require the transfer of moneys in the TRI Fund to the Surplus Money Investment Fund for investment.

f) Prohibits moneys in the TRI Fund from being subject to transfer to any other fund, excepting the Surplus Money Investment Fund.

18) **Adoption of Emergency Regulations**: Authorizes CPCFA to adopt regulations to implement the Jump Start Act using the state's emergency regulatory process thereby exempting the adoption, amendment, repeal, or re-adoption of said regulations using the regular State Administrative Procedures Act.

19) **Section 41 – Tax Credit Accountability**: Specifies, that for the purposes of complying with Section 41 of the Revenue and Taxation Code, the Legislature finds as follows:

a) The specific goals, purposes, and objectives of the credit, also known as the California Jumpstart Act, is to attract private sector investment into underinvested and underserved small businesses and communities in California and provide a long-term recovery solution.

b) The purpose of the credit is also to incentivize and mobilize rapid and scalable private sector investment that encourages economic growth beyond the initial relief provided under the federal small business stimulus programs, enabling small business growth, job creation, and relief for families in communities where such economic assistance is needed the most.

c) To measure whether the credit achieves its intended purpose, CPCFA shall, by June 30 of each year, submit an electronic report, to the Legislature containing all of the following performance indicators:

i) The name, location, and industry classification of each business that received a relief investment from the relief fund and notification that evidence was collected that the business qualified as a small business at the time the investment was made.

ii) The number of jobs created and retained as a result of each relief investment.

iii) The cumulative amount of relief investments made in each small business as a result of this credit.

iv) The number of relief investments made in impact businesses of interest, disaggregated by classifications based on information voluntarily provided by businesses that identify as an impact business and in accordance with state law.

v) Any recommendations for improving the effectiveness, transparency, and accountability of the California Jumpstart Act, or CPCFA's administration of the California Jumpstart Act.

vi) A list of any penalties imposed during the prior 12-month period against the Relief Fund.

vii) Data collection requirements include:
(1) The amount of tax credits issued in the year.

(2) The number of jobs created and retained as a result of qualified relief investments.
(3) The number of operating businesses located in a relief zone that receive qualified investments.
(4) The baseline measurements include:
  (a) The amount of tax credits issued in the year.
  (b) The unemployment rate of the area.
  (c) The poverty rate of the area.

d) Beginning on January 1, 2025, and in each annual report thereafter while the Jump Start Act is in effect, the CPCFA is required to include the following additional information in its annual electronic report submitted pursuant to this bill:

  i) An evaluation of the outcomes of the program on low-income communities with high unemployment and poverty directly resulting from investments in small businesses made under the California Jumpstart Act, including a description of the methodology used to make the evaluation.

  ii) An assessment of whether the economic outcomes resulting from investments in small businesses would have occurred but for the California Jumpstart Act.

  iii) Based on the CPCFA's calculations for actual unique jobs created and tax credits allocated, a calculation of the amount of foregone revenue in the form of tax credits allocated pursuant to the California Jumpstart Act per unique job created but for the California Jumpstart Act.

e) CPCFA may require a Relief Fund to provide information necessary in a format it prescribes to complete the report.

f) CPCFA is required to submit the electronic report required to the Senate Committee on Budget and Fiscal Review, the Assembly Committee on Budget, the Senate and Assembly Committees on Appropriations, the Senate Committee on Governance and Finance, the Assembly Committee on Revenue and Taxation, the California Legislative Black Caucus, the California Latino Legislative Caucus, the California Asian Pacific Islander Legislative Caucus, the California Legislative Women's Caucus, and the California Legislative LGBTQ Caucus.

20) **Definitions**: Defines terms used in the implementation of the Jump Start Act, including but not limited to the following:

a) "Affiliate" means an entity that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with another entity. For purposes of this subdivision, an entity is "controlled by" another entity if the controlling entity holds, directly or indirectly, the majority voting or ownership interest in the controlled entity or has control over the day-to-day operations of the controlled entity. For selling, transferring, and allocating a credit, an "affiliate" shall include taxpayers that satisfy this definition on the date the relief fund submitted its application only.

b) "Flexible term" means any of the following:

  i) Deferral of interest payments for at least one year.
  ii) Deferral of principal payments for at least one year.
  iii) Convertible into equity.

c) "Full-time employee" means an employee that works at least 30 hours per week throughout the year or meets the customary practices accepted by an industry as full-time. The number of a small business's full-time employees is determined by dividing the total hours for which the small business pays wages to all employees during the year by the number of employee work hours per year. The standard calculation for employee work hours per year is 2080: calculated by multiplying 52 weeks by 40 hours per week.

d) "Impact business" means a small business of more than 50% owned by minorities, women, disabled veterans, lesbian, gay, bisexual, or transgender persons.

e) "Jobs retained" means, employment positions that are located in this state, require at least 30 hours of work each week, and existed before the initial relief investment in the small business and would have been lost or moved out of this state had a relief investment in the small business not been made, as certified in writing by an executive officer of the small business. The number of jobs retained by a small business is calculated each year based on the monthly average of employment positions for that year. The monthly average of employment positions for a year is calculated by adding the number of employment positions existing on the last day of each month of the year and dividing that sum by 12.

f) "Principal business operations" means the location that meets either of the following requirements:

   i) At least 60% of the business's employees work at the location and at least 60% of the business's payroll are employees who work at the location.

   ii) A business that has agreed to use the proceeds of a relief investment to establish its principal business operations in the state shall be deemed to have its principal business operations in a relief zone within 180 days after receiving a relief investment, as specified.

g) "Relief contribution" means an investment of cash, by an entity subject to premium taxes in this state, in a relief fund that equals the amount specified on a notice of tax credit allocation issued by the CPCFA under subdivision (c) of Section 12267 and that is used to purchase an equity interest in the relief fund or to purchase, at par value or premium, a debt instrument issued by the fund that meets both of the following requirements:

   i) Has an original maturity date of at least five years after the date of issuance.

   ii) Has a repayment schedule that is not faster than a level of principal amortization over five years.

h) "Relief investment" means:

   i) Any capital or equity investment in a small business or any loan to a small business with a stated maturity of at least two years.

   ii) A senior secured loan is a relief investment only if it has an interest rate of less than 4 percent plus the effective federal funds rate on the date of the relief investment, as measured and published by the New York Federal Reserve Bank and has a flexible term.

   iii) Any other loan is a relief investment only if it has an interest rate of less than 9 percent plus the federal funds rate on the date of the relief investment and has a flexible term.

   iv) An equity investment is a relief investment only if the relief fund does not acquire a majority investment in the small business as an initial investment in the small business.

   v) Notwithstanding the above, a "relief investment" does not include any transaction that includes an origination fee.

i) "Relief zone" means any of the following locations in this state:

   i) A census tract in the state meeting either of the following requirements according to the 2020 United States Census:

      (1) The census tract has a poverty rate greater than 30%.
      (2) The census tract has a median family income that does not exceed the following:

         (a) If the census tract is not located in a metropolitan area, 60% of the county or statewide median family income, whichever is less.
         (b) If the census tract is located in a metropolitan area, 60% of the lesser of the statewide median family income and the metropolitan area median family income.

      (3) Relief investments made in a location described in this paragraph shall be verified by CPCFA using a federal New Markets Tax Credit mapping tool it designates that is accessible from its public internet website and is subject to the requirements of Section 11546.7 of the Government Code.

   ii) A census tract within the state that is determined by the Department of Finance to have a civilian unemployment rate that is within the top 25% of all census tracts within the state and has a poverty rate within the top 25% of all census tracts within the state, as specified.

   iii) Within a city, county, or city and county designated as a full or partial High Unemployment Area in the state as designated by the Employment Training Panel no more than 120 days before the date the relief investment is made.

j) "Small business" means any business that, at the time a relief fund initially invests in the business, meets all of the following requirements:

   i) The total number of employees the business employs does not exceed 250.

   ii) The business has gross receipts, less returns and allowances reportable to the state, of less than $10 million during the previous taxable year.

   iii) The business has its principal business operations in a relief zone in the state.

   iv) The business is engaged in North American Industry Classification System sector 11, 22, 23, 31, 32, 33, 42, 44, 45, 48, 49, 51, 54, 56, 62, 71, or 72, or if not engaged in those industries, the CPCFA determines that the investment will create desirable economic outcomes in line with the goals of this article.

   v) "Small business" shall not include any business whose operations violate state law.

21) Includes a crimes and infractions disclaimer.

EXISTING LAW:

1) Establishes the California Pollution Control Financing Authority for the purpose of:

   a) Providing an alternative method of financing in providing, acquiring, enlarging, or installing facilities for establishing pollution control, providing supplies of clean water, and producing energy from alternative or renewable sources, as specified.

b) Assisting economically distressed counties and cities to develop and implement growth policies and programs that reduce pollution hazards and the degradation of the environment or promote infill development.

c) Financing the costs of assessment, remedial planning and reporting, technical assistance, and the cleanup, remediation, or development of brownfield sites, or other similar or related costs.

2) Imposes on insurers admitted to transact insurance business in California a 2.35% gross premiums tax (GPT) (California Constitution, Article XIII, Section 28).

   a) Provides that the GPT tax takes the place of all other state and local taxes on insurance, with some exceptions.

   b) Measures the tax based on the amount of gross premiums received, less returned premiums.

   c) Provides that the Board of Equalization, the California Department of Tax and Fee Administration (CDTFA), the Department of Insurance (CDI) and the State Controller's Office jointly administer the tax.

FISCAL EFFECT: Unknown

COMMENTS:

1) **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.

   Tax credit programs like those proposed in SB 777 can help raise the type of flexible capital needed to meet the uneven economic recovery from COVID-19. SB 777-raised investments build on the economic principle that targeting significant incentives to lower-income communities will allow these communities to more effectively compete for new businesses and retain existing businesses that have remained open. These targeted investments in small businesses result in increased tax revenues, less reliance on social services, and lower public safety costs. Residents and businesses in these areas also directly benefit from these more sustainable economic conditions through improved neighborhoods, business expansion, and job creation.

2) **Opposition to SB 777**: The California Teachers Association (CTA) is opposed to SB 777 for the following reasons:

> "According to the Department of Finance, the state provided over $81 billion in General Fund tax expenditures in 2021-22, and this figure continues to grow each year. This revenue would have otherwise gone to the General Fund, of which approximately 40 percent would have been applied to Proposition 98 (Prop 98) for K-14 education. This means that approximately $32 billion is redirected away from schools and community colleges each year.
>
> "While we understand this bill is well intended, CTA does not support this approach, as it would reduce overall funding for education. Despite having the 5th largest economy in the nation, California continues to rank near the bottom of the states in the nation in per-pupil funding. According to the Education Law Center's Making the Grade report, California was ranked 30th in per-pupil expenditures, adjusted for regional cost differences for the 2019 fiscal year (the most recent data available). CTA believes that Prop 98 should be protected from reductions through the creation of new or expanding existing tax expenditures."

3) **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 1 – 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 1 - 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, 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 2*** 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 2 - COVID-19 Case Loads and Outcomes by Race and Ethnicity				
Race/Ethnicity	**Percent Cases**	**No. Deaths**	**Percent Deaths**	**Percent CA 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.

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

they are an important means for dispersing the economic positive impacts of trade within the California economy.

- In 2018 (most recent full set of data), of the 4.4 million firms in California, there were 3.4 million nonemployer firms as compared to 954,632 employer firms.
- Total revenues for nonemployer sole proprietorships, across all industry sectors, were $189 billion in receipts in 2017.
- Businesses with less than five employees are classified as microenterprises. In 2017, there were 473,641 microenterprises that had one or more employees.
- Microenterprises, including both nonemployer and up-to-5-employee businesses, comprise the single largest segment of the California business community, representing 89.0% (3.9 million) of all businesses in the state.

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

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

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

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

Chart 3 - 2018 Business Profile by Size *(excludes nonemployer firms)*

Area Description	Employment Size	Number of Firms	Percent of Firms	Employees	Percent of Jobs	Annual Payroll ($1,000)
United States	Total	6,075,937		130,881,471		$7,097,310,272
California	Total	779,825	12.8% U.S. Firms	15,223,664	11.6% U.S. Jobs	$1,020,958,926
United States	0-4	3,757,163	61.8% of U.S. Firms	5,967,955	4.5% of U.S. Jobs	$287,379,518
California	0-4	485,387	62.2% of CA Firms	746,240	4.9% of CA Jobs	$46,663,550
United States	<20	5,411,180	89.0% of U.S. Firms	21,337,272	16.3% of U.S. Jobs	$898,874,051
California	<20	692,139	88.7% of CA Firms	2,650,204	17.4% of CA Jobs	$130,748,308
United States	0-99	5,962,057	98.1% of U.S. Firms	42,918,809	32.7% of U.S. Jobs	$1,859,572,577

California	0-99	759,654	97.4% of CA Firms	5,214,752	34.2% of CA Jobs	$261,490,973
United States	<500	6,055,421	99.6% of U.S Firms	61,244,031	46.7% of U.S. Jobs	$2,819,089,905
California	<500	773,386	99.1% of CA Firms	7,339,390	48.2% of CA Jobs	$395,286,015
United States	500+	20,516	0.33% of U.S. Firms	69,637,440	53.2% of U.S. Jobs	$4,278,220,367
California	500+	6,439	0.82% of CA Firms	7,884,274	51.7% of CA Jobs	$625,672,911
Source: https://www.census.gov/data/tables/2018/econ/nonemployer-statistics/2018... l						

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

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

5) **Small Business Targeting Including Priority Industry Classifications**: Definitions of small businesses take many forms under state and federal laws. The federal Small Business Administration uses a general definition of having under 500 employees. As shown in the chart in the prior comment, this includes over 98% of all businesses in the US and 99% of all businesses in the state. For the purpose of state procurement, a certified small businesses has under 100 employees, although manufactures and businesses involved in public work projects may have more employees.

SB 777 defines a small business as a business with 250 or fewer employees, having gross receipts under $10 million, and having a principal business operation within a Relief Zone. Relief Zones include a number of geographic regions used by other community development programs. This stacking of incentives is vital to the success of place-based economic development strategies.

Relief Zones authorized in SB 777 include:

- A census tract with a poverty rate that is greater than 30%. (Federal New Market Tax Credit priority area)
- A census tract with a median family income that does not exceed 60% of the county or statewide median family income, whichever is less. (Federal New Market Tax Credit priority area)
- A census tract with an unemployment rate that is within the top 25% of all census tracts within the state and has a poverty rate within the top 25% of all census tracts within the state, as specified. (New Employment Credit and Target Area Contract Preference Area)
- An area within a city, county, or city and county designated as a full or partial High Unemployment Area by the Employment Training Panel

Finally, SB 777 targets investments in certain industry sectors, listed in ***Chart 4*** along with the total number of business in the industry in California. SB 777 limits investments to small businesses, as noted above. The bill does allow the Authority to add additional target industry sectors if CPCFA determines that the investment creates desirable economic outcomes in line with the goals of California Jump Start Act.

Chart 4 - Eligible Investment Industries by North American Industry Classification System *(2018)*		
Code	**Industry Title**	**Number of Total Employer Businesses in California**
11	Agriculture, Forestry, Fishing and Hunting	2,020
22	Utilities	1,285
23	Construction	77,548
31-33	Manufacturing	37,433
42	Wholesale Trade	58,226
44-45	Retail Trade	106,420
48-49	Transportation and Warehousing	26,004
51	Information	26,339
54	Professional, Scientific, and Technical Services	130,204
56	Administrative and Support and Waste Management and Remediation Services	45,650
62	Health Care and Social Assistance	115,242
71	Arts, Entertainment, and Recreation	28,167
72	Accommodation and Food Services	91,245
	Source: https://www.naics.com/search/	

6) **California Pollution Control Financing Authority**: The California Pollution Control Financing Authority is governed by a three-member board, including the Director of Finance, the State Controller, and the State Treasurer who serves as the Chair and appoints the Executive Director.

CPCFA administers 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 Annual Reports, and the Sustainable Communities Grant and Loan Program Annual Reports.

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 provides two credit enhancements: 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. CalCAP was initially funded through excess fees from the issuance of CPCFA pollution control tax-exempt bonds. The Legislature appropriated $6 million in 2010 to expand the program, and in 2011 CalCAP received approximately one-half of the state's $168 million SSBCI allocation based on a joint application to the US Treasury. Later, California amended its SSBCI application to re-direct $65 million to a collateral support program. In 2022, CPCFA is anticipated to receive over $590 million from the federal State Small Business Credit Initiative.

In 2017, CPCFA established the Collateral Support Program, which help 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.

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) Change the name of the Financing Authority 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.

   b) Delete the special authority to adopt and amend regulations using emergency regulatory authority. Retain the ability of the Authority to use the existing process for using emergency regulation authority.

   c) Modify the specific dates for the commencement of accepting applications and claiming of credits to, instead, be triggered upon the Legislature approving full funding. Require the Authority to notify the Department of Insurance when full funding is approved.

   d) Authorize a Relief Fund to request a modification of the credit usage schedule to the extent that the existing $75 million annual cap per Relief Fund is maintained.

   e) Require the Authority to prepare a written outreach plan to encourage investment in impact businesses. The mandate to undertake these activities is already in the bill, R&T Section 12275.

   f) Require as a condition of receiving investment authority that the Relief Fund ask small businesses to self-identify demographic data on business ownership. Specify that no business shall be excluded from an investment due to a failure to provide this information.

g) Expand the definition of "flexible terms" to include a requirement that all terms and conditions of a loan be fair, equitable, and transparent.

h) Require the dollar amount of the application fee, specified in Section 12266, and the annual fee, specified in Section 12269.5, to be set by the Authority based on actual costs. The application fee should not exceed the actual cost of developing and awarding investment authority. The annual maintenance fee should not exceed the actual cost of monitoring and overseeing the program.

i) Authorize a 15-business day cure period for minor, nonsubstance errors and omissions in the application.

j) Include the annual report, mandated pursuant to the bill's Section 41 provisions, to also be codified in the Revenue and Taxation Code and include the Assembly Committee on Jobs, Economic Development and the Economy as one of the entities that receive a copy of the annual report.

k) Update the legislative intent related to the impact of COVID-19 on Californians, in general, and individuals of color, specifically.

l) Clarify the 15-day time period for the reallocation of revoked or recovered investment authority to applicants who did not receive a full allocation means 15 business days.

9) **Related Legislation**: Below is a list of related bills proposing the establishment of a state New Market Tax Credit, which uses a similar tax credit model to SB 777.

a) ***AB 185 (E. Garcia and Medina) State New Markets Tax Credit***: This bill would have authorized the creation of a New Markets Tax Credit for qualified investments made in low-income communities beginning in the 2016 tax year. The NMTC Program would have been administered through the Governor's Office of Business and Economic Development. The bill would have authorized $40 million in tax credits over a five-year period for a total program of $200 million in credits. Total private investment raised was estimated at $512 million. Tax credit authority would have come from the reallocation of the unused portion of the State Sales and Use Tax Exclusion Program. Status: Returned to the Desk without action by the Assembly Committee on Appropriations, 2016.

b) ***AB 305 (V. Manuel Pérez) State New Markets Tax Credit***: This bill would have authorized the creation of a New Markets Tax Credit for qualified investments made in low-income communities which would have begun in the 2013 tax year. The NMTC Program would have been administered through the California Tax Credit Allocation Committee. The bill would have authorized $30 million in tax credits over a seven-year period for a total program of $200 million. Tax credit authority would have come through the elimination of the underutilized Small Business New Hire Credit. Status: Held in the Assembly Committee on Appropriations, 2013.

c) ***AB 643 (Davis and V. Manuel Pérez) California New Markets Tax Credit***: This bill would have created a New Markets Tax Credit for qualified investments made in low-income communities which would have begun in the 2012 tax year. The State Treasurer's Office would have administered the new credit program and allocated credits of up to $50 million per year for a total amount equal to $300 million over six years. Status: Held in the Assembly Committee on Appropriations, 2012.

d) ***AB 1259 (L. Rivas, Cervantes, and E. Garcia) New Market Tax Credit***: This bill would have authorized the creation of a New Markets Tax Credit for qualified investments made in low-income communities which would have begun in the 2020 tax year. The NMTC Program would have authorized $100 million in tax credits per year for five years. Status: Held in the Assembly Committee on Appropriations, 2019.

e) ***AB 1399 (Medina and V. Manuel Pérez) State New Markets Tax Credit***: This bill would have authorized the creation of a New Markets Tax Credit for qualified investments made in low-income communities which would have begun in the 2015 tax year. The NMTC Program would have been administered through the Governor's Office of Business and Economic Development. The bill would have authorized $40 million in tax credits over a five-year period for a total program of $200 million in credits. Total private investment raised was estimated at $512 million. Tax credit authority would have come from the reallocation of the unused portion of the State Sales and Use Tax Exclusion Program. Status: Vetoed by the Governor, 2013. The veto message states, "*This bill creates a New Markets tax credit that will cost – over time - $200 million. I certainly endorse programs that result in private investments to help low-income areas, but a bill to spend this much should be considered with other priorities during the annual budget.*"

f) ***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.

g) ***AB 1715 (JEDE Committee) California New Markets Tax Credit***: This bill would have authorized the creation of a New Markets Tax Credit for qualified investments made in low-income communities which would have begun in the 2018 tax year. Funding for the credit would have come from the renegotiation of the Governor's Economic Development Initiative (GEDI), an underperforming initiative which was created to replace the California Enterprise Zone Program. Status: Following discussions with Assembly Budget Subcommittee Four regarding the reworking of GEDI tax incentives, the bill was used for another purpose, 2017.

h) ***AB 2037 (Davis and V. Manuel Pérez) California New Markets Tax Credit***: This bill would have authorized the creation of a New Markets Tax Credit for qualified investments made in low-income communities which would have begun in the 2011 tax year. The NMTC Program would have been administered through the California Tax Credit Allocation Committee. Tax credit authority would have come through the elimination of the underutilized Small Business New Hire Credit. Status: Held in the Assembly Committee on Appropriations, 2011.

i) ***AB 2647 (E. Garcia and Medina) California New Markets Tax Credit***: This bill would have established a $40 million tax credit program for five years for the purpose of attracting new private capital to very low-income neighborhoods in California. In general, the new state credit would have paralleled the federal New Markets Tax Credit (F-NMTC) Program. Status: Held in the Assembly Committee on Appropriations, 2016.

j) ***AB 3101 (Blanca Rubio and Cervantes) New Markets Tax Credit***: This bill would have established the C-NMTC Program and authorizes the awarding of $50 million in tax credits annually for five years, which would have begun in the 2021 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 would have paralleled the F-NMTC Program. Status: Held in the Assembly Committee on Appropriations, 2020.

k) ***SB 1316 (Romero) California New Markets Tax Credit***: This bill would have authorized the creation of a New Markets Tax Credit for qualified investments made in low-income communities which would have begun in the 2011 calendar year. The State Treasurer's Office would have administered the new credit program and allocated credits in an amount equal to the estimated revenue gains that resulted from the temporary elimination of specified like-kind property exchanges. Status: Died on the Senate inactive file, 2010.

10) **Double Referral**: The Assembly Committee on Rules has referred this measure to the Assembly Committee on Jobs, Economic Development, and the Economy and to the Assembly Committee on Revenue and Taxation (R&T). Should this measure pass the committee, it will be referred to R&T for further policy consideration.

REGISTERED SUPPORT / OPPOSITION:

Support

California State Treasurer (sponsor)
Advantage Capital Partners
California African American Chamber of Commerce
California Asian Pacific Chamber of Commerce (CAPCC)
California Hispanic Chambers of Commerce
Enhanced Capital Partners
Los Angeles Urban League
National Association of Women Business Owners - California
National Federation of Independent Business - California
Small Business California
Stonehenge Capital Company, LLC

Opposition
California Teachers Association

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