California SSBCI Summary
January 2022

The American Rescue Plan Act of 2021 included $10 billion for the reauthorization of the State Small Business Credit Initiative (SSBCI 2.0). SSBCI was originally created through federal legislation, the Small Business Jobs Act of 2010 (SSBCI 1.0). In 2010, SSBCI was funded with $1.5 billion to strengthen state programs that support financing of small businesses. California received $168 million of the $1.5 billion and the Infrastructure and Economic Development Bank (IBank) and the California Pollution Control Financing Authority (CPCFA) – an agency housed within the State Treasurer's Office (STO) split the funding equally between the two agencies. The allocation was utilized to assist small businesses gain access to capital and create jobs in California. More than 10,000 eligible small businesses in California received SSBCI fund support, which created or saved more than 90,000 jobs.

The $10 billion from the American Rescue Plan Act of 2021 was appropriated as follows:

- $5 billion available to states to be distributed by formula based on 2020 unemployment numbers (prorated funds)
- $1.5 billion for socially and economically disadvantaged businesses based on population residing in CDFI Investment Areas (SEDI funds)
- $1 billion incentive program to encourage investment in socially and economically disadvantaged businesses, to be allocated based on performance in tranches two and/or three (SEDI performance funds)
- $500 million for very small businesses (funds for small businesses with under 10 employees)
- $500 million for technical assistance such as legal, accounting, and financial advisory services for small businesses (technical assistance funds)
- $500 million for tribal governments (tribal funds)
- $1 billion to be retained by the U.S. Treasury for operations and to fill out other allocations as needed

In November 2021, the U.S. Treasury released a state-by-state allocation of the $10 billion appropriated, except the technical assistance funds, and California was allocated $1.182 billion. California's allocations are as follows: $829 million pro-rated funds, $66 million very small businesses funds, $187 million SEDI funds, and $100 million SEDI performance funds, which will be received in three separate tranches as funds are utilized.

The SEDI performance funds will be provided to states in tranches two and three and additional funds ($100 million nationally per tranche) may be available based on performance reaching the socially and economically disadvantaged individuals. The technical assistance funds will be distributed in a separate application process, which is due March 31, 2022. CalOSBA and/or STO may be best positioned to apply for those funds. The tribal funds are being provided directly to the tribes that choose to participate.

IBank and CPCFA have been meeting bi-weekly to prepare to put the new funding to work. The initial priority is to determine how much both IBank's and CPCFA's existing small business credit enhancement programs (Small Business Loan Guarantee Program, California Capital Access Program [CalCAP] for Small Business, and Collateral Support Program) need and can be utilized by California's small businesses. SSBCI 1.0 authorized two other programs (Venture Capital and Loan Participation) that California did not use the first time around. Both programs are currently under consideration for SSBCI 2.0 funds.

IBank and CPCFA have also been meeting with stakeholders to see what other needs may be addressed with the SSBCI funds. IBank and CPCFA have also participated in and requested feedback from many other events where SSBCI was publicized. IBank and CPCFA have each established dedicated SSBCI webpages and email addresses to keep the public informed and receive questions and comments.

From the feedback received so far, some of the themes that have emerged are:

- Better target underserved markets
- Provide further enhancements to encourage growth in underserved markets.
- Increase loan capital for Community Development Financial Institutions (CDFIs)
- Increase capacity and reduce administrative burden of our existing programs (e.g., increase guarantee cap for the Small Business Loan Guarantee Program, remove recapture rules and increase the matching contributions for CalCAP loans)
- Provide less cashflow-intensive capital options for small business, like equity or revenue-based financing

To receive SSBCI funds, a state match is not required. However, there must be at least a dollar-for-dollar match from the private sector and there is a cumulative leverage requirement of 10-to-1 between all SSBCI programs (i.e., $10 private sector: $1 SSBCI) over the life of the program, which is the same as the original program. That will be achieved by creating additional financing programs that generate private sector participation.

For example, in IBank's Small Business Loan Guarantee program, because IBank is effectively insuring the loans and not lending the cash, IBank can generate total loans (private sector lending) greater than five times the amount on deposit (the funds set aside for loans that default). Also, the funds recycle as loans pay off and recycled and reused funds count towards increasing the leverage calculation.

CPCFA's CalCAP leverage ratio is as high as 27-to-1, which counts towards the cumulative 10-to-1 leverage requirement. Leverage is an important consideration because financing programs targeting underserved markets tend to provide lower private sector leverage because of perceived increase in risk.

The table below reflects current estimates for the total allocation to California and allocation amounts to each program. Further is a brief description of each program and the associated funding.

California SSBCI Summary
January 2022

SSBCI Expenditure Plan		
Total CA Prorated SSBCI Allocation*	$ 894,973,879	
Total CA SSBCI SEDI Allocation	$ 187,189,392	
Total CA SSBCI SEDI Performance Allocation	$ 99,834,342	
Total CA SSBCI Allocation	$1,181,997,613	
Allocation per year**	$ 135,085,441	
		80% Target
Tranche 1	$ 357,113,879	$ 285,691,104
Tranche 2	$ 407,031,050	$ 611,315,944
Tranche 3	$ 417,852,683	
Total	$1,181,997,613	
		Grand Total
Total SSBCI Funds		$1,181,997,613
Existing Programs:		
Small Business Loan Guarantee Program		$ 390,998,806
California Capital Access for Small Businesses		$ 118,199,762
California Capital Access, Collateral Support		$ 472,799,045
Existing Program Total		$ 981,997,613
Remaining Funds after Existing Programs		$ 200,000,000
Other Programs:		
Venture Capital		$ 200,000,000
Other Programs Total		$ 200,000,000
Remaining Funds after Existing Programs		$ -
* Does not include allocations for small business technical assistance ($500m nationally) or tribal governments ($500m nationally), which we expect to be allocated to entities other than IBank.		

Small Business Loan Guarantee Program

The Small Business Loan Guarantee program was established in 1968 and was a recipient of SSBCI 1.0 funds. The program increases access to capital for small businesses by providing guarantees (effectively insurance) to bank loans in cases where banks might not otherwise make a loan, or only at a higher interest rate. $391 million will be allocated to this program based on the assumption the program can utilize $48.5

million annually between January 2022 and September 30, 2030. That estimate is premised on the program's 2018-19 historical activity, with a 30 percent inflator assuming improved economic conditions.

California's Financial Development Corporations (FDCs) were created in the California Corporations Code to help the Small Business Finance Center administer the Small Business Loan Guarantee Program throughout the state. Per statute, each FDC is a nonprofit corporation with general responsibilities for marketing and administering the program.

The following activity has occurred in anticipation of SSBCI:

- Increased guarantee cap from $1 million to $2.5 million (its level prior to 2019-20)
- Increasing lender participation, including identification of CDFIs and MDIs that are not current participants of the program
- Increased funding for FDCs from IBank in anticipation of increased administrative funds from SSBCI
- Considering a web-based portal to connect small businesses to lenders
- Developing a statewide rollout of the Climate Tech loan guarantee program, which is currently limited to the Bay Area
- Considering further program enhancements

California Capital Access Program for Small Business

The California Capital Access Program (CalCAP) for Small Business was established by legislation enacted in AB 253 (Chapter 1163, Statutes of 1994) and was created to be administered by CPCFA. CalCAP assists small businesses in obtaining loans through participating financial institutions (lenders). CalCAP is a loan loss reserve program that may provide up to 100% reimbursement on losses as a result of qualifying loan defaults. While each lender is entirely liable for its loan losses, those losses can be reimbursed from each lender's loan loss reserve account. The loss reserve accounts are built through fees paid by the borrower and lender and contributions made by CPCFA. With CalCAP portfolio support, a lender may be more comfortable underwriting small business loans. In 2020 alone, CalCAP's participating lenders enrolled 5,312 loans aggregating to approximately $362.4 million

The $118,199,762 million allocated to this program based on ratios achieved in SSBCI 1.0.

California Collateral Support Program

The CalCAP Collateral Support Program (CalCAP CSP) is a credit enhancement program that pledges cash to cover the collateral shortfall of loans of $50,000 or more made by participating lending institutions. CalCAP CSP was designed to enable financing that might otherwise not occur due to a collateral shortfall for small businesses in California. In January 2013, CalCAP CSP was approved by the U.S. Department of the Treasury as part of CPCFA's $85 million allocation under SSBCI 1.0. CPCFA provides a cash deposit to the lender to hold as partial collateral against potential loss. Loan proceeds can be used for a business' start-up costs, working capital, franchise fees, equipment, inventory, and the purchase, construction, renovation, or improvements of an eligible place of business. Under CalCAP CSP, CPCFA recaptures a portion of the cash deposit annually as the loan pays down according to a defined recapture schedule. Following the expiration of the Allocation Agreement with the U.S. Department of the Treasury on March 31, 2017, CPCFA established a State-funded CalCAP CSP utilizing the recaptured funds from cash deposits previously expended for loans enrolled under the federally approved program.

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.

The $472,799,045 million allocated to this program based on SSBCI 1.0 performance.

Venture Capital

With this new authorization of SSBCI, California plans to establish a Venture Capital program. 36 other states, American Samoa, Washington DC, and Puerto Rico have used SSBCI dollars to support venture capital programs in SSBCI 1.0.

California is in many ways the home of venture capital. Bay Area venture capitalists closed on more than $151 billion in funds raised over the past five years, more than the rest of the US combined. Silicon Valley remains the innovation ecosystem most envied and emulated by regions seeking to nurture entrepreneurial economic development.

And yet, venture capital often remains inaccessible even in California:

- The makeup of venture capitalists lacks diversity: according to Deloitte & NVCA's VC Human Capital Survey, 78% of investment partners are white, and 84% are male.
- Most entrepreneurs are not served by venture capitalists, even though they could deliver attractive returns. Only 0.5% of startups receive VC investment, and only 17% receive any institutional private capital.
- More than 90% of VC investments in California in the last decade occurred in companies based in the Bay Area (75%), Los Angeles (12%), and San Diego (5%).

California has a unique opportunity to catalyze a more inclusive venture capital eco-system.

In September 2021, IBank hired a Special Consultant to assess the market size and pool of candidates for each of the potential investment categories and provide initial concepts for a state-run venture capital program. Based on the results of this analysis and expected further funding allocations from US Treasury, IBank intends to proceed with an approximately $200 million venture capital program mainly focused on categories 1-4:

1. Supporting demographically underrepresented venture capital managers

2. Investing in underrepresented and underserved entrepreneurs and business owners

3. Investing in geographic areas that are socio-economically disadvantaged or that receive very limited venture capital funding

4. Seeking to promote climate equity and climate justice

While initially complex to establish, the venture capital program provides benefits other programs cannot. It can disburse large amounts of capital, and is expected to have a significantly higher private capital leverage ratio. It may also provide small businesses with non-debt capital which stakeholders noted as a small business need.