

Date of Hearing: May 3, 2011

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE
ECONOMY

V. Manuel Pérez, Chair

AB 696 (Hueso) – As Introduced: February 17, 2011

SUBJECT: California Infrastructure and Economic Development Bank

SUMMARY: Requires projects selected for funding under the Infrastructure State Revolving Fund Program (ISRF) to only be funded if the project meets specified land use and economic development criteria. Specifically, this bill:

- 1) Adds a new eligibility threshold for ISRF applications by requiring the I-Bank to select projects that meet both of the following criteria:
 - a) The project has economic benefit, as defined; and
 - b) The project meets land use criteria, as determined by the I-Bank.
- 2) Defines economic development benefit to mean, in the determination of the California Infrastructure Bank (I-Bank), that the project would provide some quantitative level of economic benefit including, but not limited to, the creation or retention of jobs, growth of the property tax base, or growth of sales tax base.

EXISTING LAW:

- 1) Requires the Governor to prepare the Environmental Goals and Policy Report every four years for the purpose of defining the state's 20 year growth and economic development strategy with particular attention to statewide land use policy.
- 2) Creates the I-Bank, within the Business, Transportation and Housing Agency (BTH), to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California.
- 3) Authorizes the I-Bank to offer a variety of financial undertakings including, but not limited to, the issuance of tax-exempt and taxable revenue bonds to underwrite the cost of infrastructure development that meets a specified public purpose.
- 4) Requires a legislative body or sponsor seeking funding from the I-Bank to adopt a resolution making affirmative findings on each the following:
 - a) The project is consistent with the general plan of the relevant local government jurisdiction;
 - b) The proposed financing is appropriate for the specific project;
 - c) The project facilitates effective and efficient use of existing and future public resources so as to promote both economic development and conservation of natural resources.

Further, that the project develops and enhances public infrastructure in a manner that will attract, create, and sustain long-term employment opportunities; and

- d) The project is consistent with the criteria, priorities, and guidelines set forth by the I-Bank.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Structure and operation of BTH and the I-Bank: BTH is the state agency responsible for the oversight and coordination of the activities of various departments, offices, and economic development programs, with responsibility for maintaining the strength and efficiency of California's infrastructure and financial markets. These programs provide financial and programmatic regulation important to the economic marketplace, community development, and the safe and efficient flow of commerce. Among the key economic development programs overseen by BTH are:

- The Small Business Board;
- The Small Business Direct Loan and Guarantee Programs;
- The I-Bank;
- Technology-related programs;
- California International Trade Promotion Activities; and
- Community Development Block Grant Program.

The I-Bank was established in 1994 to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California. Among other duties, the I-Bank has the authority to issue tax-exempt and taxable revenue bonds.

I-Bank activities are governed by a five-member board of directors comprised of the BTH Secretary (chair), State Treasurer, Director Department of Finance, Secretary of the State and Consumer Services Agency, and a Governor's appointee. The day-to-day operations of the I-Bank are directed by the Executive Director who is an appointee of the Governor and is subject to confirmation by the California State Senate. Currently, the I-Bank has authority for 24 staff members.

The I-Bank is financed through the California Infrastructure and Economic Development Bank Fund (CIEDB Fund) and the California Infrastructure Guarantee Trust Fund, into which fees, interest income and other revenues are deposited and from which I-Bank expenses are paid. The cost of administering the programs of the I-Bank are off-set by these types of program income. Monies in these Funds are held within the California State Treasury or by the bond trustee for The Infrastructure State Revolving Fund (ISRF) bonds.

The I-Bank is operated on a revolving fund basis and thereby generates continuous funding for new project investments. The I-Bank does not receive any ongoing General Fund support for loan or bond financing, and according to its 2009-10 independent audit, its program continues to provide sufficient revenues to support all operating expenses.

The I-Bank administers two categories of programs: (1) The ISRF which provides direct low-cost financing to public agencies for a variety of public infrastructure projects; and (2) Bond Financed Programs which provide financing for manufacturing companies, nonprofit organizations, public agencies and other eligible entities. There is no commitment of I-Bank or state funds for any of the conduit revenue bonds. Even in the case of default, the state is not liable.

Since its creation in 1994, the I-Bank has loaned over \$400 million to local agencies and has developed a high-level of expertise in the implementation of public infrastructure and financing programs. In addition, over \$30 billion in conduit revenue bonds have been issued by the I-Bank since 2000.

- 2) Infrastructure State Revolving Fund: The ISRF Program provides low-cost financing to public agencies for a wide variety of infrastructure projects. The ISRF Program was established through an initial \$182 million capitalization, and it is maintained through the use of a leverage loan program, whereby bonds are issued to raise upfront program capital and the loan repayments are committed toward the repayment of bonds. Using the leverage loan program has allowed the I-Bank to maintain a somewhat steady flow of eight to 10 new loans each year. Rating agencies have consistently rated bonds issued for the leverage loan program as high quality debt of AA+.

ISRF Program funding is available in amounts ranging from \$250,000 to \$10 million, with loan terms of up to 30 years. According to the LAO, average loan amounts are generally in the range of \$3 to \$5 million. Interest rates are set on a monthly basis. Preliminary applications are continuously accepted. Since June of 2000, 81 ISRF Program loans have been issued totaling over \$400 million. Due to the separate capitalization of the ISRF, the number of loans is primarily limited by the stream of funds received by loan repayments.

Eligible applicants include local government entities, including cities, counties, redevelopment agencies, special districts, assessment districts, joint powers authorities and non-profit corporations formed on behalf of a local government.

Eligible project categories include city streets, county highways, state highways, drainage, water supply and flood control, educational facilities, environmental mitigation measures, parks and recreational facilities, port facilities, public transit, sewage collection and treatment, solid waste collection and disposal, water treatment and distribution, defense conversion, public safety facilities, and power and communications facilities.

Under the provisions of the program, potential applicants develop projects and prior to submitting applications contact the I-Bank for a preliminary review. Applicants then have an opportunity to adjust their projects to meet program requirements. Each application to the ISRF Program is accompanied by a resolution stating:

- The project is consistent with the general plan;
- The proposed financing is appropriate for the specific project;

- The project facilitates the effective and efficient use of existing and future public resources so as to promote both economic development and conservation of natural resources. Further, that the project develops and enhances public infrastructure in a manner that will attract, create, and sustain long-term employment opportunities; and
- The project is consistent with the criteria, priorities, and guidelines set forth by the I-Bank including the state Environmental Goals and Policy Report and, if the applicant is a state agency, the five-year infrastructure plan. [Descriptions of the EGPR and five-year infrastructure plan are provided in a separate comment.]

Applications are then scored based on the point system detailed in the chart below. Project applications that receive a minimum of 80 points are funded. This program is administered on a first-come-first-serve basis and applications are accepted at any time. This means that projects do not compete against each other; rather project applications which meet the 80 point threshold are funded, to the extent funding is available.

ISRF Program – Project Scoring Criteria		
Criteria Categories	Individual Maximum Points	Total Maximum Points
Economic Development Impact		50
Job Creation and Retention	30	
Economic Base Employers [measures whether a project will benefit employers that bring in revenues from outside the region]	10	
Community Economic Development Plan [measures the applicant's cooperativeness with local economic and job development programs]	10	
Community Economic Need		55
Unemployment Rate	20	
Median Family Income	15	
Change in Labor	10	
Poverty Rate	10	
Land Use, Environmental Protection, and Housing		40
Land Use [based on EGPR]	20	
Environmental Protection	10	
Housing Element	10	
Others		55
Quality of life/community amenities	30	
Leverage	15	
Project Readiness	10	
Total Possible Points		200

Effectively implementing a program using a point system can be challenging. Some projects may score high in one or two categories, which can offset low scores in the other areas. As an example, a water treatment facility serving a lower income area may be an important community amenity, leverage significant other dollars, be shovel ready, and allow for new industrial development. On the other hand, this same project may be sprawl inducing and provide little other land use benefit. AB 696 limits IRSF moneys to only those projects that

meet an I-Bank-defined economic and land use minimum criteria. This requirement could be met in several ways. One way would be to modify the scoring criteria to include a combination of minimum performance in the economic and land use categories, as well as the existing 80 points total performance threshold for awarding funds.

- 3) LAO Analysis: In its 2008-09 analysis of the state budget, the LAO raised concerns over the projects being funded under the ISRF Program. The LAO noted that while the purpose of the program was to provide low cost loans to local governments for infrastructure projects that promote economic development and improve land use, many of the loans did not, in its opinion, effectively meet these objectives.

More specifically, the LAO reported that two-thirds of all the ISRF projects received loan funds without scoring any points under the economic development benefit category. Relative to land use, the LAO opined that the amount of points awarded (maximum 20 points or only 10% of total score) seemed insufficient to have any significant effect on local land use decisions.

The LAO completed its comments by stating that as the ISRF Program offers lower than market rates for financing infrastructure, it believes that the program can do a better job in promoting the state's economic development and land use objectives. The LAO recommended that legislation be introduced to require all ISRF-funded projects demonstrate at least a minimum level of economic and land use benefit. Alternatively, the LAO recommends screening potential projects for economic development and land use benefits to ensure the state's objectives are met. AB 696 addresses the LAO's concerns by requiring all ISRF funded projects meet minimum economic development and land use requirements.

- 4) Environmental Goals and Policy Report (EGPR): California's community and economic development policy is driven by a number of statutory mandates, the first of which is the EGPR. The EGPR is the state's 20-year growth and economic development strategy. Prepared every four years, it is designed to serve as a guide for individual department plans and overall state expenditures.

The EGPR analyzes the current context of the state's environmental, economic and social setting; the driving forces behind growth and development; and the outside influences that affect many of the state's actions, policies, and programs. Based on this analysis of existing conditions and influences, the EGPR proposes cross-cutting and integrated goals and policies for the state that will allow it to achieve the overarching mission of sustainable development. The goals and policies are then required by statute to be included within key state programs and planning activities. As an example, the I-Bank is required use the recommendations in the EGPR to develop criteria, priorities, and guidelines for making ISRF awards.

The EGPR was last updated in 2003. A key focus of the 2003 EGPR was how to address the challenges the state faced in meeting the needs brought on by the state's population growth, the increasing interdependence between the state and global economy, and the scarcity and/or high cost of accessing resources. In proposing an implementation strategy, the 2003 update recommended a fundamental change in the way that state government conducts itself.

Rather than keeping agency responsibilities in policy area silos, the 2003 update made sustainability its foundational principle. The EGPR advanced the economic development

concept that California could not successfully move forward if the state did not address and operationalize how the core interrelationships between economic development, social justice and the environment work together. The EGPR advanced this principle by proposing a comprehensive implementation strategy that built upon the state's recently enacted planning priorities, AB 857 (Wiggins), Chapter 1016, Statutes of 2002:

- To promote infill development and equity by rehabilitating, maintaining, and improving existing infrastructure, particularly in underserved areas, and to preserve cultural and historic resources;
- To protect, preserve, and enhance environmental and agricultural resources, including working landscapes, natural lands, recreation lands, and other open spaces; and
- To encourage efficient development patterns by ensuring that new infrastructure supports development that uses land efficiently, is built adjacent to existing developed areas, is in an area planned for growth, is served by adequate transportation and other essential utilities and services, and minimizes ongoing costs to taxpayers.

No subsequent EGPR was prepared in 2007, and based on the statutory four-year cycle, the next EGPR is due in 2011. As a key policy document for guiding the state's economic growth and development, it is anticipated that the Governor will call for the update of the EGPR.

- 5) Five-year infrastructure plan: California's infrastructure development activities are directed through a number of plans and activities, the most important of which is the five-year infrastructure plan. The purpose of the plan is to identify state infrastructure needs and set out priorities for funding. Although the plan is not required to identify specific infrastructure projects to be funded, it is required to provide sufficient detail to provide a clear understanding of the type and amount of infrastructure to be funded and the programmatic objectives to be achieved by this funding.

The plan is intended to complement the existing state budget process for appropriating funds for infrastructure and is, therefore, required to be annually updated by the Governor. Several State programs, including the I-Bank, are directed to ensure infrastructure projects are consistent with the five-year plan. More specifically, existing law requires the I-Bank, in establishing goals and objectives for ISRF, to ensure that state sponsored projects are consistent with the five-year infrastructure plan.

Among other items, the five-year infrastructure plan is required to include the following information:

- Identification of new, rehabilitated, modernized, improved, or renovated infrastructure requested by state agencies;
- Aggregate funding for transportation as identified in the four-year State Transportation Improvement Program Fund Estimate;

- Infrastructure needs for Kindergarten through grade 12 public schools necessary to accommodate increased enrollment, class size reduction, and school modernization;
- The instructional and instructional support facilities needs for the University of California, the California State University, and the California Community Colleges; and
- The estimated cost of providing the identified infrastructure, as well as a proposal for funding the identified need.

In developing the plan, the selected infrastructure is required to be consistent with the state planning priorities, as discussed above. The Department of Finance is authorized to audit state agency compliance with the overall five-year infrastructure plan in proposing infrastructure projects to be funded.

No five-year infrastructure plan has been provided since 2008, however, some of the requirements are addressed through the 10-year Strategic Growth Plan.

- 6) Infrastructure and the post-recession economy: World class infrastructure plays a key role in business attraction, as multinational companies consistently rank the quality of infrastructure among their top four criteria in making investment decisions.

As California moves slowly toward economic recovery, growth in the post-recession economy will likely be more resource and capital constrained, placing even greater pressure on the state's infrastructure to support higher levels of service at a smaller per unit price. In addition, some analysts believe the global economy is experiencing a great "rebalancing of economic power," whereby the U.S.' dominant economic position will be challenged by other large economies like those in Japan, China and the European Union.

The Brookings Metropolitan Policy Program has published its own assessment of how this rebalancing will be experienced in the U.S. and has noted four key trends to watch in the post-recession economy. The first trend is that the economy will be more export oriented and second, it will be fueled by new, lower-carbon energy sources. The third trend identified is that the next economy will be based on a higher level of global innovation, which will require "a relentless pace of innovation, adaptation, and embracement of new markets and processes." The fourth key trend is that next economy will be led by major metropolitan areas – not nations and not states.

California's historical comparative advantage in innovation-based industries, networked global supply chains and strong regional economies should give instate businesses certain advantages in the post-recession economy. Other components of the California economy, including the quality of the state's infrastructure and the preparedness of its workforce, are not as strong and could limit the state's overall economic growth.

Research shows that as U.S. infrastructure has been in a decline, infrastructure in other countries is rapidly increasing. The 2010-11 Global Competitiveness Report by the World Economic Forum places U.S. infrastructure 23rd in the world, a drop from its rank of seventh in 2000.

The I-Bank has been monitoring these and other types of trends, and with funding from a Rockefeller Foundation grant, has been meeting with investors, builders and policy makers engaged in infrastructure development to discuss innovative financing techniques and ways in which to remove unnecessary impediments to infrastructure development.

- 7) Oversight hearing: With California workers and businesses facing some of the harshest economic conditions since the Great Depression, the Chairman of the Assembly Committee on Jobs, Economic Development and the Economy (JEDE) has focused the committee's efforts during the prior and current legislative sessions on engaging the public in the recovery dialogue. Through these activities JEDE has found that one of California's challenges in moving forward is the state's aging infrastructure and its inability to support the innovation economy that is fundamental to retaining the state's global competitiveness. In fact, research shows that California's historical position as a leader in innovation and technology is being challenged not only from abroad, but also by other states that are investing in a range of infrastructure and technology supporting activities.

On March 30, 2011, JEDE held an oversight hearing to examine how infrastructure development impacts local, state and federal economic recovery efforts, as well as the importance of infrastructure in the post-recession economy. During the course of the hearing, testimony was provided by senior staff of the I-Bank and key stakeholder groups. A white paper was prepared for the hearing and later revised to include information learned at the hearing, identification of follow-up actions and a summary of key program-level recommendations. The white paper is available through the JEDE Committee Office and will soon be hosted on the committee website at www.assembly.ca.gov.

At the May 3, 2011 hearing of JEDE, four bills will be presented related to the I-Bank, including legislation to: reorganize the I-Bank as an independent agency (AB 700 by Assemblymember Blumenfield); require public infrastructure moneys be awarded based on minimum economic and land use criteria (AB 696 by Assemblyman Hueso); expand the membership of the I-Bank board and functions to more broadly reflect its development and business creation potential (AB 893 by Assemblyman V. M. Pérez and AB 1094 by Speaker John Pérez). Amendments will be proposed by the Chairman reflecting the recommendations from the oversight hearing.

- 8) Proposed amendments: Staff understands the author will be offering amendments which do the following:
- a) Require coordination of ISRF outreach and financing activities with local Revolving Loan Funds (RLF) and networks of RLFs;
 - b) Authorize the I-Bank to establish one or more advisory groups of economic development and finance professionals to evaluate and make recommendations on long-term changes to the overall I-Bank program for the purpose of enhancing the state's economic competitiveness and job creation activities; and
 - c) Authorize the I-Bank to periodically host, in partnership with other public and private infrastructure and economic development financial and investment entities "Capital Ideas" roundtables to support the development of innovative financing ideas that can

result in new and enhanced funding opportunities for California communities and businesses.

9) Related legislation: Below is a list of related legislation.

a) Current Session:

- i) AB 700 (Blumenfield): This bill establishes a free-standing I-Bank outside the structure of BTH, including setting program objectives, accountability standards and oversight mechanisms. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development and the Economy on May 3, 2011.
- ii) AB 1094 (John A. Pérez): This bill expands the membership of the board of directors of the I-Bank from five to seven members. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development and the Economy on May 3, 2011.
- iii) AB 893 (V. Manuel Pérez): This bill modernizes the operations of the I-Bank, such as the inclusion of the economic development community on the Board, mandating outreach to communities, and adding new reporting requirements about the number of jobs created and retained, and the industries served. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development and the Economy on May 3, 2011.

b) Prior Sessions:

- i) AB 1047 (V. Manuel Pérez): This bill would have established a local assistance program, within the I-Bank, to assist small and rural communities obtain bond financing for infrastructure projects. Status: Held in the Assembly Committee on Appropriations in 2009.
- ii) AB 1380 (Bass): This bill would have expanded the membership of the board of directors of the I-Bank from five to seven members. Status: Held in the Senate Rules Committee in 2010.
- iii) AB 1272 (Arambula): This bill would have established a local assistance program, within the I-Bank, to assist small and rural communities obtain bond financing for infrastructure projects. Status: Held in the Assembly Committee on Appropriations in 2008.
- iv) AB 1410 (Bass): This bill would have authorized the I-Bank to use certain federal Community Development Block Grant moneys provided through the federal American Recovery and Reinvestment Act to create credit enhancements, loan guarantees, low-interest loans. Status: Remained with Assembly Committee on Jobs, Economic Development and the Economy in 2010.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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