
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anthony Portantino, Chair
2021 - 2022 Regular Session

AB 2314 (Petrie-Norris) - Small businesses: funds: task force: report

Version: June 29, 2022

Urgency: No

Hearing Date: August 1, 2022

Policy Vote: B., P. & E.D. 14 - 0

Mandate: No

Consultant: Robert Ingenito

Bill Summary: AB 2314 would require the Infrastructure and Economic Development Bank (IBank) to work with the California Pollution Control Financing Authority (CPCFA) to establish a task force, as specified.

Fiscal Impact: This bill would result in new administrative costs to IBank and CPCFA, likely in the low millions of dollars over 2022-23 and 2023-24, to establish and support the task force. The bill does not specify a fund source. Cost drivers would include administrative, technical and legal staff, as well as office space, information technology and potential travel costs. Staff notes that the bill does not provide detail regarding task force participants, compensation, or how it would be supported by IBank and CPCFA, respectively.

CPCFA indicates that it does not have the in-house expertise in the bill's subject matter, and would have to contract with outside experts to perform the workload. Other recent studies required of entities within the State Treasurer's Office (STO) have cost in excess of \$1 million. The Governor's Office of Business and Economic Development (GO-Biz) notes that hiring staff and providing office space would be challenging within a two-year timeline.

Background: The State has had various economic development departments through the decades. Prior to 2003, the majority of the State's economic development programs were housed within the Technology, Trade, and Commerce Agency. The 2003-04 Budget Act abolished both the agency and state funding for many of its programs designed to encourage economic development.

GO-Biz was established statutorily in 2011 to be the lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, and economic growth. GO-Biz staff provide a wide range of advisory and coordinating roles across the administration related to economic development. Several units of GO-Biz serve as points of contact for businesses considering relocating to or expanding in California. For example, the California Office of the Small Business Advocate (CalOSBA) provides resources for small businesses and financial assistance for small business advisory centers. Other units assist international investors, help businesses obtain information about business permits, administer the California Competes Tax Credit Program, and administer the Cannabis Local Equity Grant Program. Additionally, the California Film Commission, Travel and Tourism Commission, and IBank have been assigned for oversight purposes to GO-Biz.

According to its website, IBank "was created in 1994 to finance public infrastructure and private development that promote a healthy climate for jobs, contribute to a strong

economy and improve the quality of life in California communities. IBank has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage State and Federal funds. IBank's current programs include the Infrastructure State Revolving Fund (ISRF) Loan Program, California Lending for Energy and Environmental Needs (CLEEN) Center, the Climate Catalyst Revolving Loan fund, Small Business Finance Center and the Bond Financing Program."

IBank's Small Business Finance Center (SBFC) features the Small Business Loan Guarantee program that assists small businesses that experience capital access barriers. According to IBank's internet site, "Originally known as the Small Business Loan Guarantee Program (SBLGP), SBFC received seed money in 1968 in an effort to reduce unemployment by supporting entrepreneurship and small businesses. SBFC promotes statewide economic development by increasing opportunities for entrepreneurs, the self-employed, microbusiness and small business owners to have better access to capital and other technical resources.

The Small Business Loan Guarantee program helps businesses create and retain jobs, and encourages investment in low- to moderate-income communities. The Small Business Loan Guarantee program is available to small businesses throughout the state of California and serves hundreds of small businesses each year."

The California Capital Access Program (CalCAP) was created in 1994, and is run by the CPCFA, within STO. The program encourages banks and other financial institutions to make loans to small businesses that have difficulty obtaining financing. CalCAP also provides for specialty financing programs targeted toward helping at-risk small businesses comply with requirement of the federal Americans with Disabilities Act, assisting small businesses and property owners finance the costs to seismically retrofit existing buildings and homes, and enabling small fleet owners to purchase trucks that comply with the California's engine emission standards.

Small businesses generally have fewer channels available to access credit and low-cost loans than larger, more established companies; minority-owned and women-owned businesses are especially disadvantaged. The federal State Small Business Credit Initiative (SSBCI) allocated \$168 million to California in 2010 to help address inequities in commercial lending; the funds were split equally between IBank's SBFC and CPCFA CalCAP programs:

- I-Bank's SBFC SBLGP works with seven financial development corporations to guarantee up to 80 percent of qualified loans, up to \$2.5 million, ensuring the lender is paid the portion of an outstanding balance in case the small business borrower defaults. As of March 2022, 121 lenders participate in the program, and in 2019-20, 470 loans were guaranteed, totaling \$24 million.
- CPCFA's CalCAP provides up to 100% coverage to participating lenders on losses resulting from certain kinds of small business loan defaults, insured through a loan loss reserve fund. As of March 2022, 20 lenders participate in the program, and in 2020, 5,312 loans were made, totaling \$362 million.

The federal American Rescue Plan Act of 2021 includes an additional \$10 billion (SSBCI 2.0) to support state programs that facilitate small business financing, and California is slated to receive roughly \$1 billion, again shared between IBank and CPCFA.

Proposed Law: This bill would do the following:

- Require IBank to work in collaboration with CPCFA to establish a task force that examines the regulations, statutes, directives, and other requirements related to the Small Business Expansion Fund and CalCAP for purposes of determining whether the administration of those funds allows for the full participation of financial institutions and financial products that support small businesses, while preventing financial institutions and financial products from utilizing these funds if their practices or features do not support the long-term health of small businesses.
- Set forth the composition and duties of the task force, and require the task force to submit, by June 15, 2024, a report with findings relating to loans and programs made from the funds.

Related Legislation: AB 2400 (Cervantes) would modify CalCAP, as specified. The bill is currently in the Assembly Appropriations Committee.

Staff Comments: As noted previously, CPCFA indicates that it does not have the requisite in-house expertise required to carry out the bill's requirements concerning the determination of "...whether the administration of those funds allows for the full participation of financial institutions and financial products that support small businesses, while preventing financial institutions and financial products from utilizing these funds if their practices or features do not support the long-term health of small business."

Staff notes that included in the requirements for SSBCI 2.0 are certain borrower protections, three of which are similar to protections contained in an earlier version of AB 2314, including (1) a ban on requiring borrowers to sign a confession of judgement, (2) limits on refinancing charges for existing loans, and (3) transparent disclosure of fees.

Additionally, as part of SSBCI 2.0, the State must submit to the U.S. Treasury a quarterly report containing two categories of information: (1) basic program information and (2) program-level information on the use of SSBCI funds. This information will be available to the Legislature as well.

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