

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 08/06/2012
POSITION: Oppose

BILL NUMBER: AB 2523
AUTHOR: Hueso, Ben

BILL SUMMARY: Infrastructure and Economic Development Bank: participation loans.

This bill would authorize the Infrastructure and Economic Development Bank (I-Bank), upon appropriation by the Legislature, to enter into participation loan agreements or syndicated loan agreements with financial institutions for the purpose of the I-Bank purchasing interests in loans made or held by financial institutions to small businesses. The bill would also require the I-Bank to include a summary of the participation loan agreement program in its annual report

FISCAL SUMMARY

I-Bank staff states that to implement the program they would need a minimum of \$5 million of startup funding for loan activities, and \$300,000 in state operations to fund one manager and three loan officer positions. This would create a new General Fund pressure to capitalize the program.

COMMENTS

Finance is opposed to this bill because it would authorize the I-Bank to engage in activities with more financial risk and there is no source of funding to capitalize the new loan program.

The I-Bank's existing lending activities primarily finance public infrastructure and are funded with bonds securitized by repayment of prior infrastructure loans. These loans have been very secure as the source of repayment is generally the income generated by the financed infrastructure and the local government obtaining the loan must warrant that it would increase rates related to the infrastructure if necessary for loan repayments. The new program would significantly expand the I-Bank's lending activity by authorizing participation in loans made by private financial institutions to small businesses. This type of lending is inherently more risky, as changing economic conditions can affect the ability of the small business to repay outstanding loans. Additionally, the bill provides no funds to capitalize the new lending activity and the I-Bank cannot redirect income from its existing lending activities to this new program.

ANALYSIS

1. Programmatic Analysis

Existing law:

- Establishes the I-Bank within the Business, Transportation and Housing Agency (BTH) to finance public infrastructure and private development that promote economic development. The I-Bank has statutory powers to issue revenue bonds, make loans and provide credit enhancements for a wide variety of infrastructure and economic development projects and other government purposes.

Analyst/Principal P. Abahazi	Date	Program Budget Manager Kristin Shelton	Date
Department Deputy Director		Date	
Governor's Office:	By:	Date:	Position Approved _____ Position Disapproved _____
BILL ANALYSIS			Form DF-43 (Rev 03/95 Buff)

Hueso, Ben

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ANALYSIS (continued)**This bill would:**

- Allow the I-Bank to enter into participation loan agreements with financial institutions to purchase interests in loans made or held by financial institutions to small businesses. In participation loan agreements the bank would purchase portions of outstanding loans without servicing, managing, or administrating the underlying loan.
- Allow the I-Bank to enter into syndicated loan agreements with financial institutions for loans made or held by financial institutions to small businesses.
- Require the I-Bank to include a summary of the participation loan agreement in its yearly report to the Legislature, if this program is implemented.

Discussion: The I-Bank staff indicate, they would have to do their own underwriting of the purchased loans, to conform to the I-Bank practices that are more strict than the bank practices. The I-Bank staff is concerned that this bill will create an expectation that the I-Bank will implement the program, even though no funding is provided to capitalize the new activity.

According to the author's office, a direct and coordinated investment between the I-Bank and California's small businesses is an innovative and viable approach to address California's economic challenges. Providing small businesses with increased access to capital will revitalize communities and improve the quality of life for California's employees and small business owners.

Finance notes that California has received \$111 million in federal funds to increase capacity in the Small Business Loan Guarantee Program and the California Capital Access Program (CalCAP), both of which leverage private financing for small businesses. An additional \$56 million will be available if the state meets minimum participation goals.

Code/Department Agency or Revenue Type	SO LA CO RV	(Fiscal Impact by Fiscal Year)					Fund Code
		PROP 98	FC	2012-2013 FC	2013-2014 FC	2014-2015 Code	
0520/Secty BT&H	LA	No	A	5,000 A	-- A	-- 0001	
0520/Secty BT&H	SO	No	A	300 A	300 A	300 0649	
<u>Fund Code</u>	<u>Title</u>						
0001	General Fund						
0649	Infrastructure & Economic Devl Bank, Cal						