
SENATE COMMITTEE ON HOUSING
Senator Scott Wiener, Chair
2021 - 2022 Regular

Bill No:	AB 1297	Hearing Date:	7/8/2021
Author:	Holden		
Version:	5/20/2021		
Urgency:	No	Fiscal:	Yes
Consultant:	Alison Hughes		

SUBJECT: California Infrastructure and Economic Development Bank: public and economic development facilities: housing

DIGEST: This bill expands the financing authority of the California Infrastructure and Economic Bank (IBank) to include housing projects, when the housing is necessary for the operation of the financed project.

ANALYSIS:

Existing law:

- 1) Establishes the IBank within the Governor's Office of Business and Economic Development (GO-Biz) and authorizes it to undertake a variety of infrastructure related financial activities including, but not limited to, the administration of the Infrastructure State Revolving Loan Fund (ISRF), oversight of the Small Business Finance Center, and the issuance of tax-exempt and taxable revenue bonds.
- 2) Authorizes the IBank to provide financing for economic development facilities by:
 - a) Issuing taxable revenue bonds, as specified, to provide financing for economic development projects.
 - b) Issuing taxable revenue bonds, as specified, to provide financing for the revolving loan funds and economic development projects of small business development corporations, local economic development corporations, community development corporations, and nonprofit organizations in which revolving loan funds and economic development projects shall be compatible with the public interest;
 - c) Issuing tax-exempt revenue bonds, as specified, to provide financing for economic development facilities as permissible under federal law and in

- accordance with applicable California law relating to the distribution of state allocations for private activity bonds.
- d) Issuing tax-exempt revenue bonds, as specified, for economic development facilities of public sector and nonprofit organizations qualifying for exemption under federal law.
- 3) Defines an “economic development facility” to mean real and personal property, structures, buildings, equipment, and supporting components thereof that are used to provide industrial, recreational, research, commercial, utility, goods movement, or service enterprise facilities, community, educational, cultural, or social welfare facilities and any parts or combinations thereof, and all facilities or infrastructure necessary or desirable in connection therewith including provision for working capital, excluding housing.
- 4) Defines a “project” to mean designing, acquiring, planning, permitting, entitling, constructing, improving, extending, restoring, financing, and generally developing public development facilities or economic development facilities within the state. These projects may be funded through the ISRF. Projects for the purpose of financing transition costs or the acquisition of transition property, or both, may be funded through a financing order by the Public Utilities Commission, as specified.
- 5) Defines a “public development facility” to mean real and personal property, structures, conveyances, equipment, thoroughfares, buildings, and supporting components thereof, excluding any housing, that are directly related to providing the following:
- a) City streets, county highways, and state highways, as specified;
 - b) Drainage, water supply, flood control, sewage collection and treatment, solid waste collection and disposal including, but not limited to, vehicles, transfer stations, recycling centers, sanitary landfills, and waste conversion facilities;
 - c) Water treatment and distribution, as specified;
 - d) Educational facilities including libraries, child care facilities, and employment training facilities;
 - e) Environmental mitigation measures, as specified;
 - f) Public safety facilities including, but not limited to, police stations, fire stations, court buildings, jails, juvenile halls, and juvenile detention facilities;
 - g) Parks and recreational facilities, as specified;
 - h) Port facilities including, but not limited to, airports, land ports, water ports, rail ports, docks, harbors, ports of entry, piers, ships, and marinas, as specified;

- i) Power and communications including facilities for the transmission or distribution of electrical energy, natural gas, and telephone and telecommunications service;
- j) Public transit, including, but not limited to, air and rail transport, airports, passenger stations, maintenance and storage yards, and related structures, as specified;
- k) Defense conversion including, but not limited to, facilities necessary for successfully converting military bases consistent with an adopted base reuse plan;
- l) Military infrastructure, including, but not limited to, facilities on or near a military installation, that enhance the military operations and mission of one or more military installations in this state;
- m) Goods movement-related infrastructure including, but not limited to, port facilities, roads, rail, and other facilities and projects that move goods, energy, and information; and
- n) Housing-related infrastructure including city streets; drainage, water supply, and flood control; environmental mitigation measures; power and communications; public transit improvement that directly supports transit-oriented housing; sewage collection and treatment; and water treatment and distribution.

This bill:

- 1) Expands the financing authority of the IBank to include housing projects, when that housing is necessary for the operation of the financed project.
- 2) Prohibits any funds from the Infrastructure State Revolving Loan Program or any of the proceeds of any private activity bonds issued by the bank to be used to finance any housing component of any facility.
- 3) Requires any housing financed by the IBank to meet the following conditions:
 - a) Any tax-exempt revenue bonds issued by the bank under the state allocation of private activity bond volume cap shall not finance any housing component of a public development facility.
 - b) No funds from the ISRF Program shall be used to finance any housing.
 - c) Any housing financed is required for the operations of the facilities.
 - d) Any housing financed shall be incidental to the overall project and the cost of the housing component shall not represent more than 20% of the overall project costs financed by the IBank.

COMMENTS:

- 1) *Author's statement.* "AB 1297 will clarify that IBank may finance housing as part of an otherwise eligible project only when the housing element is required for the operation of the project. Additionally, no part of the housing element can be financed with tax exempt bonds to ensure there is no conflict with other state housing finance programs. Under current law, IBank is authorized to finance a wide variety of public and economic development projects but expressly excludes housing without defining the scope of that restriction or a clear indication of why. The absolute prohibition on housing in the IBank Act creates a 'financing gap' by excluding all projects that contain any elements of housing. For example, projects that have faculty housing for schools, groundskeeper's or operator's facilities, summer and youth camps, and treatment-related housing for social service organizations cannot be financed by IBank. Under AB 1297, these projects would be eligible. As a 'financer of last resort' for many projects, this bill will allow IBanks to add an important tool in the state's tool belt to increase more targeted and creative approaches to housing."
- 2) *IBank.* The IBank was established in 1994 to promote "economic revitalization, enable future development, and encourage a healthy climate for jobs in California." It is governed by a five-member board of directors comprised of the Director of GO-Biz (who serves as Chair), the State Treasurer, the Director of the Department of Finance, the Transportation Agency, and a Governor's appointee. With the exception of funds for programs to support the Small Business Loan Guarantee Program, which must be annually appropriated by the State Legislature, all IBank funds are continuously appropriated without regard to fiscal year. The IBank administers three programs: the ISRF, which provides direct low-cost financing to public agencies for a variety of public infrastructure projects; the Conduit Bond Program, which provides financing for manufacturing companies, public benefit nonprofit organizations, public agencies and other eligible entities; and the Small Business Finance Center, which helps small businesses access private financing through loan guarantees, direct loans, and performance bond guarantees. The IBank is financed through fees, interest income, and other revenues derived from its public and private sector financing activities. There is also no pledge of IBank or state general funds for any of the conduit revenue bonds.

Since its inception, the IBank has loaned, financed, or participated in over \$34.7 billion in infrastructure and economic expansion projects. This includes over \$400 million to local and state agencies, which helped the IBank develop a high-level of expertise in the financing of public infrastructure. The IBank also

serves as the state's only general purpose financing authority with broad statutory powers to issue revenue bonds, make loans, and provide guarantees. The IBank has issued over \$33 billion in conduit revenue bonds since 2000.

- 3) *The ISRF.* The ISRF provides financing to public entities, nonprofit organizations, and private entities to assist in the development of a wide variety of infrastructure and economic development projects. ISRF funding is available in amounts ranging from \$50,000 to \$25,000,000, with loan terms of up to 30 years. Examples of eligible projects include, but are not limited to: drainage, water supply and flood control; libraries and other educational facilities; environmental mitigation measures; sewage collection and treatment; solid waste collection and disposal; water treatment and distribution; and public safety facilities. The IBank recently approved \$56.3 million in loans to state and local governmental entities and local government-sponsored not-for-profit organizations for necessary infrastructure and economic expansion projects.
- 4) *Examples of Projects.* According to the IBank, over the last several years, it has to turn away several potentially worthy projects due to the current statutory prohibition on the financing of housing. Two examples include:
 - 1) A school remodel project in Los Angeles County where on-site teacher housing was an intentional design choice to mitigate high rents in the surrounding neighborhoods. The IBank was the only tax-exempt issuer available to the school for this project location and type, but it was unable to approve financing for the project due to the teacher housing element.
 - 2) A park expansion proposal in Sacramento County. The proposed site included existing houses that were to be temporarily leased before their ultimate destruction and removal. Because those houses were part of the financing, even though they were not part of the ultimate project outcome, it was ineligible for IBank assistance.

Because only a small proportion of these projects are dedicated to housing, it is unlikely that these projects would be eligible for funding dedicated to affordable housing projects through existing state programs. According to the IBank, there can be tangible benefits to securing IBank financing. In some cases, financing costs may be lower because the IBank's long-term experience in the market allows it to issue large, highly rated bonds. When projects are unable to access sufficient funds at reasonable rates, it can lead to projects being scaled back to conform with the financial limitations or postponement indefinitely.

This bill would clarify that the IBank may finance projects with a "housing"

element in them when a “housing” element is “required for the operation” of an economic or public development facility, and no part of the housing element is financed with tax-exempt bonds. Specifically, this bill would expand IBank’s authority to develop residential dwellings, including but not limited to rental housing, employee housing, and student housing.

5) *Incoming!* This bill passed out of the Senate Business and Professions Committee on June 30th, with a vote of 12-0.

RELATED LEGISLATION:

AB 56 (Holden, Chapter 289, Statutes of 2017) — clarified the definition of housing-related infrastructure for the purposes of programs administered through the IBank, including projects funded through the IRSF.

FISCAL EFFECT: Appropriation: Yes Fiscal Com.: Yes Local: No

POSITIONS: (Communicated to the committee before noon on Thursday, July 1, 2021.)

SUPPORT:

California Apartment Association

OPPOSITION:

None received

-- END --