

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

ISSUE: Staff requests approval to transfer a portion of its State Small Business Credit Initiative (SSBCI) fund from the California Infrastructure and Economic Development Bank (IBank) to the California Pollution Control Financing Authority (CPCFA). The transfer will help facilitate the uninterrupted operation of the California Capital Access Program (CalCAP), Collateral Support Program and the State Small Business Loan Guarantee Program (SBLGP) to fulfill the State's obligation to fully use the SSBCI funds in at least one of the activities authorized under Annex 1 of the SSBCI Allocation Agreement (Allocation Agreement).

BACKGROUND: IBank is established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 et seq.) for the purpose of providing financial assistance to eligible entities in the State of California (State) through a variety of financing mechanisms, which include, among other things, guarantees for loans made to small businesses in the State.

IBank, under the Governor's Office of Business and Economic Development (GO-Biz), administers the Small Business Loan Guarantee Program, a State program established to provide guarantees of loans to small businesses that experience capital access barriers, under IBank's Small Business Finance Center (SBFC) as codified in Government Code Chapter 6 Section 63088-63089.98, the Small Business Finance Assistance Act of 2013.

The California Pollution Control Financing Authority (CPCFA), a State financing authority chaired by the California State Treasurer (STO), has been continuously administering its California Capital Access Program since 1994, to facilitate California small businesses' access to capital for start-up or expansion purposes.

In January 2011, the State applied to the United States Department of the Treasury (Treasury) for funding under the federal State Small Business Jobs Act of 2010 (Jobs Act) State Small Business Credit Initiative (SSBCI), and the State intended to divide equally any federal allocation under the Jobs Act between CalCAP and SBLGP.

In February 2011, the Treasury and the State entered into an SSBCI Allocation Agreement (Allocation Agreement), pursuant to which federal funding of \$168,623,821 (Allocated SSBCI Funds) was allocated under the Jobs Act and the SSBCI to operate the CalCAP and SBLGP Programs. Pursuant to the Jobs Act and the Allocation Agreement, the Allocated SSBCI Funds were disbursed to the State in three tranches, the first in 2011, the second in 2014 and the third in 2015.

In 2011, the SBLGP was a program within Business, Transportation, and Housing Agency (BT&H). The State evenly split the first tranche between CPCFA (to administer the CalCAP Program) and BT&H (to administer the SBLGP Program). CPCFA later created the Collateral Support Program as a qualified SSBCI Program. In 2013, the SBLGP was transferred to IBank as part of the Governor's Reorganization Plan 2 and the second and third tranches of Allocated SSBCI Funds were split evenly between CPCFA and IBank.

In August 2015 the Treasury disbursed the third federal disbursement of funds in the amount of \$56,891,530.00. This disbursement to CPCFA and IBank was a result of California meeting the federal requirement of utilizing at least 80% of the first and second disbursement of federal funds to California under the Allocation Agreement. The allocated portion for IBank was \$28,049,207.00; however, only \$27,609,000.00 was proposed in the 2014/2015 budget. The remainder of the fund, \$440,207.00 (Proposed Transfer), was not accounted for in the budget and the deadline for a budget amendment was missed. The degree of difficulty in obtaining the Proposed Transfer through the budget process has become increasingly challenging as time passes.

The State is required by the Allocation Agreement to use all of the Allocated SSBCI Funds to undertake the activities authorized under Annex 1 of the Allocation Agreement. The IBank SSBCI Funds may be used only if they are released to IBank's Small Business Expansion Fund (0918) or to CPCFA to be used in its CalCAP or Collateral Support Program. If IBank fails to use the SSBCI Funds in accordance with the Allocation Agreement, this may cause IBank and the STO to be in non-compliance with the Allocation Agreement. The Treasury views IBank and CPCFA together as the State. It is imperative that the State obtain and use all of the Allocated SSBCI Funds disbursed by the U.S. Treasury.

PROPOSAL: The Allocation Agreement provides that IBank and CPCFA may transfer between their respective programs up to ten percent of the Allocated SSBCI Funds without any approval from the Treasury. To facilitate the uninterrupted operation of the CalCAP, Collateral Support and SBLGP programs, and to fully use the Proposed Transfer in at least one of the activities authorized under Annex 1 of the Allocation Agreement, IBank proposes to enter into an agreement with CPCFA to transfer permanently the Proposed Transfer to CPCFA.

RECOMMENDATION: Staff recommends the approval of the permanent transfer of \$440,207 to CPCFA and directs the Executive Director of IBank to enter into one or more agreements with CPCFA, and to take all other actions necessary or desirable, to implement the Proposed Transfer.

Prepared by Nancee Trombley, Chief Deputy Executive Director February 15, 2017