

# MINUTES OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

For the meeting held telephonically on  
Wednesday, August 26, 2020 at 2:00 p.m.

Due to the COVID-19 “Stay Home” order imposed in Sacramento County, IBank modified its Board meeting procedures in accordance with Governor Newsom’s Executive Order N-29-20 by waiving specified public access and notice requirements under the Bagley-Keene Open Meeting Act.

Consistent with the Executive Order, this meeting was conducted by publicly accessible electronic and telephonic means only. There was no physical meeting accessible to the public and none of the locations from which Board Members participated were open to the public.

Jaymie Lutz acted as the moderator of this call and Chair Chris Dombrowski, Acting Director of the Governor’s Office of Business and Economic Development, started by providing technical instructions to participants regarding participation and public comment.

Chair Dombrowski called the meeting of the California Infrastructure and Economic Development Bank (IBank) Board to order at approximately 2:01 p.m.

## 1. Call to Order and Roll Call

The following Board members attended by electronic means:

Chair, Chris Dombrowski, Acting Director of the Governor’s Office of Business and Economic Development,  
Augustin Jimenez for the Secretary of the California State Transportation Agency,  
Gayle Miller for the Department of Finance,  
Fiona Ma, the State Treasurer, and  
Marc Steinorth, Governor’s Appointee

IBank staff members attended by electronic means:

Scott Wu, Jaymie Lutz, William Pahland, Jr. and Stefan Spich

### Information Item

## 2. Executive Director’s Report

Mr. Scott Wu, IBank’s Executive Director, delivered the Executive Director’s Report. Mr. Wu noted a number of important anniversaries on today’s date: 100 years ago the 19th Amendment granted women the right to vote; 50 years ago the Women’s Strike for Equality took place in more than 90 cities across the nation, demonstrating that despite gaining the right to vote, equal rights were still elusive for too many; and 1 week ago today, a black, Indian American woman accepted the Vice Presidential nomination of a major party, breaking new ground in American political history. This is testament to the long arc of the moral universe bending toward justice and equality, but systemic injustices continue.

Today, IBank seeks to take a small step to ensure more equity in our financial system and enable fuller participation in our economy for business owners that have been perpetually

underbanked, underserved, and underrepresented. IBank will continue to seek solutions and work tirelessly to keep pressing the arc in the right direction.

Operationally, IBank has rolled out a new website, that is more user friendly, better organized, and more visually elegant and informative. IBank is also undertaking hiring searches for several key positions: Chief Credit Officer, the executive officer overseeing IBank's credit programs; Chief Deputy/Chief Operating Officer, to oversee day to day operations; and Chief External Affairs Officer. Mr. Wu referred interested applicants to the postings on our website and concluded by thanking the Board.

### **Consent Item**

#### **3. Approve minutes from the meeting held July 22, 2020**

Chair Dombrowski opened-up discussion of the previous meeting's minutes. Mr. Jimenez asked the Secretary to correct a statement regarding "recusal" to "abstention" to better reflect his intent. The Secretary confirmed Ms. Miller and Chair Dombrowski had the same intent and noted this change would be made. Ms. Miller moved to approve the minutes, as so amended, and Mr. Steinorth seconded the motion. After asking for and receiving no public comment, the Board unanimously approved the July 22, 2020 Meeting Minutes.

### **Action Items**

#### **4. Resolution No. 20-12 approving adoption of an inducement resolution for the benefit of DesertXpress Enterprises, LLC for a planned project located in San Bernardino County.**

Mr. John Belmont, Public Finance Specialist, introduced Resolution 20-12 which had been previously presented at July's meeting and did not receive enough votes for approval. He discussed the project phases: Phase 1 from Apple Valley to Las Vegas and Phase 2 from Apple Valley into Rancho Cucamonga. Mr. Belmont explained that Resolution 20-12 was an inducement resolution that allowed the reimbursement of costs related to Phase 2. He then introduced the DesertXpress Enterprises' representative: Husein Cumber, EVP, and, Jake Felman, AVP (DesertXpress), and John Wang, Bond Counsel (Orrick). Chair Dombrowski welcomed the representatives.

Mr. Cumber addressed the Board and thanked IBank for bringing this item back. He discussed recent project meetings with the Governor's Office, and interested State agencies, cities, counties and local agencies. He specifically noted meetings with the Mayor of Los Angeles, LA County Supervisors, and LA Metrolink to sign an MOU to work on integration of Metrolink rail to the DesertXpress high speed rail network. He concluded by noting that engineering efforts continued unabated and that they would be updating the San Bernardino County Transportation Agency on September 2<sup>nd</sup>. Chair Dombrowski thanked Mr. Cumber and opened the item up for Board discussion.

Ms. Ma noted her comfort with the proposal because it was designed to provide the project with financial flexibility and did not constitute an assurance or commitment to approve any subsequent action. As a matter of IRS compliance she was prepared to support the request.

Mr. Steinorth noted his continued enthusiastic support for the project and his full support for the request.

Ms. Miller noted that she would not be able to support the request. She stated that even though non-binding to a subsequent project vote, she viewed approval of this step as representing official state support. She was not prepared to provide this support while

certain questions and due diligence items of the Department of Finance, including related to rights of way and financing plans, remained outstanding. She concluded by noting how important rail projects were to the future of California and that DOF remained supportive, as evidenced by the substantial volume cap allocation, and would continue to work together.

Mr. Jimenez noted that he had abstained from the prior vote on this item. He concurred with conclusions of other Board members that this was a technical item that is consistent for projects of this magnitude and did not represent a commitment to undertake any subsequent action. On this basis, he noted it was appropriate to move forward.

Chair Dombrowski echoed the comments of the Board both regarding no commitment to undertake future action, and the understanding that work remained for the Project on many fronts.

Chair Dombrowski then asked for public comment. Hearing none, Ms. Ma moved for approval of the resolution and Mr. Steinorth seconded. Chair Dombrowski, Mr. Steinorth, Ms. Ma, and Mr. Jimenez voted for, and Ms. Miller voted against. The Board approved Resolution 20-12.

**5. Resolution No. 20-14 approving amendments to the Small Business Finance Center's Amended and Restated Directives and Requirements to modify certain existing Program requirements and to create a new Program under the Small Business Finance Center.**

Mr. Pahland, IBank's General Counsel, introduced Resolution 20-14. He began by noting it was functionally related to Resolution 20-15 and would make certain program changes to enable the Small Business Finance Center (SBFC) to undertake that effort. He continued that the current SBFC programs work to effectively deploy capital to small businesses in normal times and in emergencies with limited geographic scope, but in light of the COVID impact and related credit freeze on California small business a new and different financing vehicle was required. IBank was undertaking a three-step process to address this unprecedented need. IBank had started this process in April of this year.

The first step was legislation approved June 29<sup>th</sup> of this year that allowed for the Small Business Finance Center to undertake certain transactions in support of small business, including using a special purpose entity to work with banks to increase lending capacity.

Resolution 20-14 is the second step; to create a program to increase small business credit under the IBank Act with Board approval. Mr. Pahland then explained the program scope, including the use of a special purpose entity (SPE) to undertake a specific financing project and how IBank might work with an SPE under the proposed program.

Resolution 20-15 would be the third and final step in the process and would authorize use of IBank funds and resources for the SPE project. In operation, Resolution 20-14 would establish the operational framework which would then be used for the Resolution 20-15 financing.

Ms. Ma asked if the intent was to operate a loan loss reserve program. Mr. Pahland responded that Resolution 20-14 didn't seek to establish a program itself but would allow SBFC to partner with other lenders to increase small business lending capacity. This may involve a loan loss reserve component, but the operation would be different. Instead of blanket approval, each financing under this proposal would be submitted for Board approval. Mr. Wu confirmed the focus on increasing small business lending by offsetting potential losses of lending partners.

Mr. Jimenez noted that Resolution 20-14 provided three types of authority to the Executive Director to undertake these efforts. Mr. Jimenez asked what was intended by the authority to “provide capital” for project purposes and how that would operate.

Mr. Pahland responded there were a number of ways that authority could operate, including lending funds into an SPE, and that the SPE would then provide capital to make small business loans. The reason for using an SPE, rather than IBank directly making such loans, was that the SPE could aggregate funds from multiple public and private sources to create greater leverage and benefit from a multiplier effect. Mr. Pahland clarified that IBank would “provide capital” likely in the form of a loan to the SPE for which it would receive a promissory note. Mr. Wu agreed, noting that of the three new authorities now considered, providing capital to the SPE in this manner was the main intent of the effort. Mr. Pahland clarified the other authorities could be used when and if needed for subsequent efforts but would also require Board Approval at such time. Mr. Jimenez thanked Mr. Pahland and Mr. Wu for clarifying these points for the record.

Ms. Miller then noted her appreciation for bringing forward such an innovative idea, at such great speed, and to address such an important problem. She thanked IBank leadership and noted its engagement with private sector partners was a creative approach. Mr. Jimenez echoed this sentiment.

Chair Dombrowski also echoed these sentiments and then asked for public comment. Hearing none, Mr. Jimenez moved for approval of the resolution and Ms. Miller seconded. The Board voted unanimously to pass Resolution 20-14.

**6. Resolution No. 20-15 delegating authority to the Executive Director to enter into one or more agreements or instruments to lend up to \$25 Million for purposes of small business lending in California.**

Mr. Pahland then introduced Resolution 20-15. He noted this would be the end result of the IBank’s small business lending relief efforts and would allow IBank to participate in a financing structure designed to increase small business lending. IBank’s \$25 million loan would anchor this small business financing structure which would seek to deploy between \$250 million and \$500 million in small business credit.

The financing structure would allow for both public and private capital contributions, resulting in a multiplier effect. Under the currently planned financing structure, IBank would make a \$25 million Series C loan that would be subordinate to all other debt. Series B would be junior debt, and Series A would be the senior debt with the greatest priority. As the most junior lender IBank would face the greatest risk of loss and was likely to see no return on its capital. This commitment to absorb the first losses would both increase participation by private capital and reduce borrower costs.

The financing structure would operate by aggregating public and private capital and then working with community lenders in need of lending capital, including Community Development Financial Institutions (CDFIs). Money would be lent to the CDFIs, who would make direct loans to small business borrowers and then transfer 95% of each loan to a SPE. The SPE would hold 95% of each loan and the ownership interest in the SPE would be pledged as security for the Series A-C loans. Upon each transfer to the SPE, 95% of the associated loan to the CDFI would be forgiven. By retaining only 5% of each loan balance on their books, CDFIs would be able to overcome burdens on their lending capacity. It is hoped that this \$25 million investment by IBank could spur up to between \$250 million and \$500 million in total small business loans.

Mr. Pahland confirmed that the Series C debt position put IBank at a great risk of loss. He noted it was very possible, if not likely, IBank's loan could be wiped out with no repayment. This was a big risk but necessary to provide the greatest possible impact and benefit for California small business. IBank would measure the success of this effort through small business lending results and jobs preserved, instead of return on its loan. He concluded by noting that IBank's Series C loan would be made pursuant to the terms attached to Resolution 20-15 but that no agreement had yet been reached and the parties were still negotiating details. Chair Dombrowski thanked Mr. Pahland for the thorough presentation.

Chair Dombrowski then noted a few members of the volunteer team working on this effort were ready to present statements in support of Resolution 20-15 and its goals:

Adair Morse, Professor, UC Berkeley Haas School of Business, spoke as an impact finance expert and noted the need for a strong response to match the magnitude of the crisis. The good news was that many small businesses could be saved, but they required immediate and affordable access to capital to do so. She cited numerous academic studies that confirmed the importance of small business to California and warned of the need to avoid a death spiral where early small business closures caused a cascade of later closures. She noted outreach would be an essential part of the effort, but that a positive-growth spiral was still possible and should be the project's goal.

Susan H. Mac Cormac, Attorney, Morrison Foerster, updated the Board on the volunteer efforts of the California Small Enterprise Task Force (CASE) to assist small business in the current crisis. She noted that small business needed two things in a crisis; sound business advice, and financial resources. CASE created a small business guide on rent, taxes, employment and other legal issues that had been downloaded over 200,000 times. IBank and the SBFC could help provide the necessary financial resources and enable CDFIs respond to a historical level of need. She noted the proposed SPE structure leveraged existing resources, made use of established CDFI structures and relationships and would be able to deploy funds with the greatest speed and impact. CASE would continue to provide small business support going forward on a volunteer or at costs basis, as appropriate, and hoped this state-wide program could make an impact now and for many years into the future.

Beth Bafford, of Calvert Impact Capital discussed the important role of CDFIs and how they acted as financial first responders in an economic downturn. The current proposal aimed to provide CDFIs three essential tools; low cost capital, balance sheet flexibility and fee-based revenues. The proposed financing structure would use a single website portal to match small business with their local CDFI and provide clear and transparent lending terms. The CDFIs would also provide wrap around support for small business. Ms. Bafford noted a similar program was up and running in New York. She concluded that IBank brought three necessary components to this effort: trust, low cost capital, and expert support.

Mr. Wu responded that this was a unique solution that was tailored for these challenging times. SBFC understood it had to create new tools to address the current crisis and the only way to get to this level was to find strong partners. The Legislature had supported this vision and provided IBank with funding and authority. It was clear that \$25 million in State funds would not "solve" this crisis, but these funds could leverage the combined resources of philanthropy, government, and private capital to work together and make a real difference. Resolution 20-15 is just a starting point for these important efforts.

Ms. Ma noted her strong support for the concept. She noted her appreciation for the important role of CDFIs and was pleased to see IBank working with them through this effort.

Mr. Steinorth agreed and noted that as a 22-year veteran of small business, access to capital was everything, and that he strongly supported this effort.

Mr. Jimenez also voiced his support for the effort. He noted the importance of this financial help to California micro businesses and asked how outreach might be done to these smallest of enterprises. Mr. Wu noted the next steps would be to engage further capital partners and establish the aggregate size of the vehicle. Once these were completed, outreach to small and micro business was the next step. Ms. Bafford responded that the CDFIs are already embedded in their communities and would be responsible for much of the outreach. She also noted that outreach would occur beyond just the internet; through the provision of technical assistance to small business as well as through foreign language outreach and other grass roots efforts. Mr. Jimenez thanked Mr. Wu and Ms. Bafford. Ms. Miller noted her appreciation of this effort and thanked those involved for volunteering their time and helping to prove the viability of this important concept.

Chair Dombrowski then asked for public comment on the matter. A number of individuals then appeared electronically to provide comment as follows:

Bulbul Gupta, CEO of Pacific Community Ventures, spoke in support of the measure. She discussed the impact of these loans on a single small business: a restaurant specializing in empanadas. She noted how the business had expanded from a food truck to a brick and mortar facility, how COVID had impacted this expansion and how government assistance had helped stabilize the operation and allow it to keep operating. Ms. Gupta thanked the Board.

Carolina Martinez, CEO of California Association for Micro Enterprise Opportunity (CAMEO), spoke about the importance of capital access for small business. She supported the measure and thanked IBank staff.

David Nelson, Director of Public Policy for California Asian Chamber of Commerce, spoke in support of the measure. He noted his organization stood ready to assist with outreach efforts and that CDFIs represented a strong network for the fast deployment of capital.

Edwin Lombard, CEO of California Black Chamber of Commerce, spoke in support. He noted that access to capital was a serious challenge for his organization's members. He noted the long history of IBank supporting CDFIs and that increasing CDFI lending capacity would help small business avoid predatory lending.

Julian Canete, CEO of the California Hispanic Chamber of Commerce echoed the earlier comments and thanked the Board. He noted his firm, an umbrella organization with more than 90 members, stood ready to help with the outreach process. Mr. Canete noted this funding would also support wildfire recovery efforts, and that timeliness of the response was excellent.

Lucia Urrutia, CEO of Opportunity Fund, spoke in support of the measure. She agreed with others on this time of unprecedented need and said this effort was crucial to help small business not helped by the Federal CARES Act.

Mark Hebert, VP of Small Business Majority, echoed the earlier comments on the importance of outreach. He supported government efforts to support small business lending on affordable terms.

Chair Dombrowski thanked everyone for their comments and agreed with the sentiments expressed. He thanked all the actors who had collaborated to get to this point: IBank, Department of Finance, the State Treasurer, the Legislature, CASE, CDFIs, private

business partners and the Governor's Office of Business and Economic Development. Mr. Steinorth moved for approval of the resolution and Ms. Miller seconded. The Board voted unanimously to pass Resolution 20-15.

### **Reporting/Non-Action Business**

### **Public Comment and Adjournment**

Chair Dombrowski then asked for a final general public comment. Hearing none, Chair Dombrowski declared the meeting adjourned at approximately 3:41 p.m.