



CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

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Prepared Remarks
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Chairman Richard Neal, Ranking Member Pat Tiberi, and distinguished Members of the Subcommittee, my name is Stanton C. Hazelroth, and it is a privilege to testify before you today.

I serve as the Executive Director of the California Infrastructure and Economic Development Bank (California I-Bank). The California I-Bank was created by the California Legislature in 1994. The Legislation was approved by a vote of 67 to 1 in the Assembly and 30 to 3 in the State Senate illustrating the potential bi-partisan appeal of this concept. The mission of the California I-Bank is to finance public infrastructure and private development that promote economic growth that is the *sine qua non* for creating new jobs for Californians. I am here to tell you that a national I-Bank is not only feasible, but a *must* if our nation is going to rebuild the infrastructure that our economy relies upon to compete globally. While it cannot supplant our current systems of financing infrastructure, it can supplement them in a most powerful way.

The California I-Bank is the State of California's only general purpose financing authority and has extremely broad statutory powers to issue revenue bonds, make loans and provide credit enhancements for a wide variety of infrastructure and economic development projects. It received an initial one-time net appropriation of \$181 million in 1999. The California I-Bank does not receive annual appropriations from the State; its operations are funded solely from fees, interest earnings and loan repayments. The I-Bank began full operations in 1999. Over the last decade we have steadily grown from \$6.0 billion to approximately \$30 billion in debt financings with a staff of 25 positions.¹ Most of the projects financed by the California I-Bank also receive funding from additional sources, multiplying the impact of the I-Bank financing. Working with a National Infrastructure Bank as a member of the team would allow project proponents to piece together funding for even larger regional projects.

When considering a National I-Bank, it is helpful to understand how the California I-Bank is organized. It is similar to the many of the proposals currently before this Congress. Both Infrastructure Banks would be governed by a five-member board of directors. In California, the board consists of four Governor's appointees and the California State Treasurer. Three of the Governor's appointees sit as a result of their appointed positions with the Governor, like the Secretary of Business, Transportation and Housing, and one is directly appointed by the Governor.

* As of 5/1/2010

The Board is statutorily required to approve all financing by the California I-Bank. Staff is not free to make loans and investments on their own unless by specific delegations from the Board. The daily affairs are managed and conducted by an Executive Director, who is appointed by the Governor and confirmed by the Senate. The California I-Bank Executive Director and staff were responsible for developing the structure, departments and employees needed to carry out their mandate. The Congressional proposals commonly include a detailed and sophisticated “ready to go” organizational structure, taking many successful ideas from the European Infrastructure Bank.

Like the Congressional proposals, the California I-Bank can issue debt, make loans and loan guarantees, among other powers. Both the California I-Bank and the federal proposals require the development of objective selection criteria. After consultation with all interested parties and technical experts, a series of public hearings was held throughout the state to insure that criteria were developed leading to the selection of only the best projects. Due to the diversity required by the financing model, the projects over the last ten years in the direct loan program are fifty percent rural projects and fifty percent urban projects. The I-Bank statute requires special efforts to provide technical assistance to those in need and often those are rural projects.

The following table lists the cumulative totals by fiscal year in which the I-Bank has loaned, issued debt or played a significant role as a member of the financing team.

Fiscal Year	Cumulative Financing Totals
1997-1998	\$ 6,022,000,000
1998-1999	\$ 6,086,580,000
1999-2000	\$ 6,533,692,050
2000-2001	\$ 6,852,267,350
2001-2002	\$ 7,621,646,205
2002-2003 ²	\$11,550,160,105
2003-2004 ²	\$15,642,301,155
2004-2005	\$18,134,898,155
2005-2006 ³	\$23,146,452,663
2006-2007 ²	\$28,431,501,828
2007-2008	\$29,492,415,314
2008-2009	\$30,764,252,814
First Half 2009-2010	\$31,370,627,814

The diversity of the I-Bank’s programs has also expanded and now includes the following primary programs:

- *Infrastructure State Revolving Fund (ISRF) Program* (provides low-cost financing to local agencies for public infrastructure projects);
- *Industrial Development Revenue Bond (IDB) Program* (provides tax-exempt revenue bond financing for eligible small- to mid-size manufacturing companies);
- *501(c)(3) Revenue Bond Program* (provides tax-exempt revenue bond financing for certain nonprofit public benefit corporations);
- *State School Fund Apportionment Lease Revenue Bond Program* (provides tax-exempt revenue bond financing for school districts needing emergency apportionment loans);

- *Public Agency Revenue Bond Program* (provides tax-exempt revenue bond financing for governmental entities, including the I-Bank’s ISRF Program); and
- *Other Tax-Exempt Revenue Bonds* (this category captures I-Bank projects that don’t meet the criteria of any of the four bond programs listed above).

(The IDB Program, the 501(c)(3) Revenue Bond Program, the State School Fund Apportionment Lease Revenue Bond Program, the Public Agencies Revenue Bond Program and Other Tax-Exempt Revenue Bonds are collectively the Bond Financing Programs.)

The I-Bank statute has allowed a broad and creative range of economic development financings. Below is information on each of the programs.

INFRASTRUCTURE STATE REVOLVING FUND PROGRAM

The Infrastructure State Revolving Fund (ISRF) Program is a statewide program that provides low-cost loans⁴ up to \$10 million per project for the following sixteen statutorily designated categories⁵ of public infrastructure: (1) city streets; (2) county highways; (3) drainage, water supply and flood control; (4) educational facilities; (5) environmental mitigation measures; (6) parks and recreational facilities; (7) port facilities; (8) power and communications; (9) public transit; (10) sewage collection and treatment; (11) solid waste collection and disposal; (12) water treatment and distribution; (13) defense conversion; (14) public safety facilities; (15) state highways; and (16) military infrastructure. ISRF Program eligible applicants include local government entities such as cities, counties, redevelopment agencies, special districts, assessment districts and joint powers authorities. Since June 2000, the Board has approved ninety-five (95) ISRF Program loans totaling nearly \$417.6 million.⁶

While the appropriated funds have been committed to ISRF Program borrowers, additional ISRF Program financing is available because of an innovative “leveraged loan program” structure which involves the issuance of revenue bonds secured by the repayments from previously-approved loans. To date, the I-Bank has issued three series of revenue bonds totaling roughly \$153 million to provide additional funding for the ISRF Program (Program Bonds). The I-Bank recently received ratings upgrades from Standard & Poor’s (S&P) and Fitch Ratings, Inc. (Fitch) The Program Bonds are rated “AA+,” “Aa2,” and “AA+” by Fitch, Moody’s Investors Service (Moody’s) and S & P, respectively. Moody’s cited “strong management with rigorous and detailed credit reviews of new and existing borrowers” as a key consideration in their rating assessment. S & P cited, “[p]rogram oversight and loan screening provided by state infrastructure bank” staff as well as a key factor in the upgrade.

INDUSTRIAL DEVELOPMENT REVENUE BOND PROGRAM

The I-Bank is authorized to issue Industrial Development Bonds (IDBs), which are tax-exempt bonds issued by governmental entities to small- to mid-size, privately-owned manufacturing and processing businesses to provide low-cost financing of up to \$10 million for the acquisition, construction, rehabilitation, and equipping of the business. The purpose of IDBs is to promote economic development and job creation or retention. The I-Bank is a conduit issuer of IDBs. IDB bonds are payable solely from the revenues generated by the privately-owned business and

are neither backed nor guaranteed by either the State or the I-Bank, and do not involve the use of State funds. The eligibility requirements for IDBs are governed by provisions in the Internal Revenue Code and U.S. Treasury regulations. Since 1999, the I-Bank has issued forty-eight (48) IDBs totaling approximately \$235 million to businesses located throughout the State.

501(c)(3) REVENUE BOND PROGRAM

The I-Bank is authorized to issue 501(c)(3) bonds, which are tax-exempt bonds issued by governmental entities to federally approved tax-exempt nonprofit corporations to provide low-cost financing for capital improvement projects. Similar to IDBs, the eligibility requirements for 501(c)(3) bonds are governed by the Internal Revenue Code and U.S. Treasury regulations. The I-Bank serves as the conduit issuer of 501(c)(3) bonds, which are payable solely from the revenues of the nonprofit entity, are neither backed nor guaranteed by either the State or the I-Bank, and do not involve the use of State funds. As a result, the I-Bank typically issues bonds for the following types of nonprofits located throughout the State⁷: (1) research institutions (e.g., Scripps Research Institute, Gladstone Institute, RAND Corporation, and Buck Institute for Age Research); (2) cultural organizations (e.g., Asian Art Museum, San Francisco Ballet, California Academy of Sciences, and Getty Museum); (3) charitable⁷ organizations (e.g., Salvation Army and Goodwill Industries of Orange County); (4) recreational facilities (e.g., YMCA); and, (5) other unique nonprofits that provide a defined public benefit (e.g., Society for the Prevention of Cruelty to Animals, the Academy of Motion Picture Arts and Sciences and Learning With a Difference, Inc. d/b/a The Westmark School). Since 1999, the I-Bank has issued ninety-three (93) 501(c)(3) bonds totaling approximately \$5.8 billion.

STATE SCHOOL FUND APPORTIONMENT LEASE REVENUE BOND PROGRAM

Emergency Apportionment Lease Revenue Bonds. In December, 2005, the I-Bank issued \$97 million of State School Fund Apportionment Lease Revenue Bonds in three series. In April, 2010, the I-Bank issued an additional series totaling \$13 million for a fourth district. The bonds, which were initially authorized by Chapter 263, Statutes of 2004 (AB 1554), as amended, will reimburse the State's General Fund for long-term emergency loans made to four school districts experiencing severe financial distress. The bonds will be repaid through a direct intercept of State School Fund monies designated for apportionment to the four districts. To the extent any school district in the future obtains approval by the Legislature for an emergency loan, it is anticipated that the I-Bank will issue bonds to fund the loan using the model developed for the bonds issued in December 2005. This occurred as mentioned above, in April, 2010.

PUBLIC AGENCY REVENUE BOND PROGRAM

Because the I-Bank is the Governor's only general purpose financing authority and has extremely broad statutory powers to issue revenue bonds and act on the State's behalf in certain statutorily authorized circumstances, the I-Bank has been involved in the following financings and activities to support various State entities and programs.

Infrastructure State Revolving Fund Program. As mentioned above, on March 1, 2004, the I-Bank issued its initial series of ISRF Program revenue bonds, the Series 2004 ISRF Bonds, in the amount of \$51.37 million. On December 14, 2005, and September 24, 2008, I-Bank issued the

2005 and 2008 ISRF Bonds, totaling \$52.8 million and \$48.375 million, respectively, to provide additional funding for loans under the ISRF Program.

Energy Efficiency Bonds. In April 2003, the California Consumer Power and Conservation Financing Authority (CPA) issued \$28,005,000 of 2003A Energy Efficiency Bonds on behalf of the California Energy Commission (CEC). On October 25, 2004, the CPA assigned its rights and responsibilities for these bonds to the I-Bank when the CPA's operations were closed down as a result of budget elimination. In May 2005, the I-Bank issued a second series of revenue bonds in the amount of \$37 million to provide additional funding for the CEC's Energy Efficiency Financing (EEF) Program, which provides low-cost loans of up to \$3 million to schools, hospitals and local governments for the installation of energy-saving measures. The bonds are repaid from previously-approved EEF Program loans. Eligible projects include heating, ventilating, air conditioning, equipment control, small co-generation and photovoltaic systems.

California Insurance Guarantee Association Bonds. In August 2004, the I-Bank issued \$750 million of revenue bonds for the California Insurance Guarantee Association (CIGA) pursuant to authorization contained in Chapter 645, Statutes of 2003 (AB 227). CIGA is an organization created by the California Legislature in 1969 to pay claims of insolvent insurance carriers that are licensed to do business in the State of California. The proceeds of the bonds were used by CIGA to pay claims and related expenses that arose as a result of the insolvencies of insurance companies providing workers' compensation insurance. The bonds are repaid solely by special and regular premium assessments on worker's compensation premiums paid by insurance companies to CIGA.

Toll Bridge Seismic Retrofit Bonds. In August 2003, the I-Bank issued \$1.1 billion of long-term fixed rate revenue bonds for the California Department of Transportation (Caltrans) pursuant to authorization in Chapter 907, Statutes of 2001 (AB 1171). The bonds were rated in the "AA" category by all three rating agencies and were repaid solely from revenues and related interest earnings generated by the \$1 per vehicle seismic retrofit surcharge collected on the seven Bay Area State-owned toll bridges. Caltrans used the bond proceeds to fund a portion of the construction of the new East Span of the San Francisco-Oakland Bay Bridge (Bay Bridge), which is one of the largest public works projects in Northern California history. In March 2005, the I-Bank also authorized the issuance of up to \$400 million of commercial paper for the program, with Caltrans using the proceeds for the continued construction of the Bay Bridge. In March 2006, the Toll Bridge Seismic Retrofit Bonds were defeased by bonds issued by the Bay Area Toll Bridge Authority (BATA). BATA also paid off the related I-Bank commercial paper notes at that time. BATA was given the financial responsibility of continuing the Bay Bridge seismic upgrades and for the costs thereof pursuant to Chapter 71, Statutes of 2005 (AB 144), which also authorized BATA to collect the seismic surcharge revenue generated from tolls collected on the State-owned Bay Area toll bridges.

Clean Water State Revolving Fund (CWSRF) Bonds. In August 2002, the I-Bank issued \$300 million of fixed-rate revenue bonds to provide additional funding for the CWSRF Program. The CWSRF, which is administered by the State Water Resources Control Board (SWRCB), provides low-cost loans up to \$25 million per year to local agencies throughout the State for the construction of wastewater treatment and water recycling facilities. The bonds, which are repaid by 98 previously-approved CWSRF loans from 50 different borrowers, received natural "AAA"

ratings from all three rating agencies. The bond issue also represented the first time that the State had leveraged one of its federal Environmental Protection Agency-funded state revolving fund programs, and added California to the ranks of over 20 other states that have utilized this innovative financing technique to expand lending capacity.

In addition to the above programs, the I-Bank has also been involved in other unique financings listed below.

Tobacco Securitization Bonds. As part of the State's solution to provide funds to address the Fiscal Year 2002-2003 budget deficit, the Legislature and the Governor authorized the issuance of bonds secured solely by tobacco settlement revenues. Chapter 414, Statutes of 2002 (SB 1831) authorized a special purpose nonprofit corporation (Corporation) to serve as the issuer of the tobacco settlement bonds and authorized the I-Bank to sell for, and on behalf of, the State, all or any portion of the tobacco settlement revenues to the Corporation necessary to issue the bonds. In January 2003, September 2003, August 2005 and most recently in March 2007, the I-Bank sold the tobacco settlement revenues to the Corporation, and the Corporation issued bonds totaling over \$13 billion to be repaid from tobacco settlement revenues.

Recovery Zone Economic Development Bonds Pool Finance Program (RZEDBs). On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act), which contains a number of new financing tools valuable for counties and cities to achieve short-term economic stimulus and support long-term economic recovery. RZEDBs are taxable governmental bonds that must be issued before January 1, 2011, and are principally used in designated recovery zones after designation as such for qualified economic development purposes. RZEDBs can be used to pay costs associated with public infrastructure or facilities that promote development or other economic activity in a recovery zone, or for expenditures for job training and educational programs. RZEDBs provide either a 45% interest rate cash subsidy from the federal government to the bond issuer, or bondholders can receive a tax credit equal to 45% of each bond interest payment (unused credits may be carried forward to successive years).

As a conduit bond issuer, the I-Bank may sell RZEDBs, which are payable solely from the revenues of the participating eligible cities and counties, are neither backed nor guaranteed by either the State or the I-Bank, and do not involve the use of State funds. The I-Bank intends to offer a pooled bond program to aggregate RZEDB financings from several cities and counties into one large bond issuance to facilitate efficient and cost effective access to this new type of taxable bond with lower interest costs, lower bond issuance costs and a ready-assembled bond financing team.

Tribal Compact Asset Securitization Bonds. Chapter 91, Statutes of 2004 (AB 687) ratified amended State-tribal gaming compacts (Compacts) with five recognized Native American tribes (Tribes). Each Compact allows the Tribe to increase the authorized number of gaming devices it operates and also enhances the Tribe's exclusivity over gaming activities. In return, the State receives, among other things, two new income sources from the Tribes derived from the increased gaming devices (Compact Assets). AB 687 authorizes the I-Bank to sell for and on behalf of the State some or all of the Compact Assets to a special purpose trust created by the I-Bank as a not-for-profit corporation (Trust). The Trust is authorized to issue bonds, the

repayment of which is limited to the Compact Assets sold to the Trust by the I-Bank. The I-Bank works closely with the Department of Finance and the State Treasurer's Office to issue the bonds, with the bond proceeds intended to be used to fund transportation projects.

Imperial Irrigation District Preliminary Loan Guarantee. On April 29, 1998, the Imperial Irrigation District (IID) and the San Diego County Water Authority (SDCWA) entered into a 45-year water conservation and transfer agreement (Transfer Agreement) for the transfer of up to 200,000 acre-feet per year of water supply to SDCWA based upon IID water conservation. The Metropolitan Water District of Southern California (MWD) and the Coachella Valley Water District (CVWD) challenged the IID/SDCWA transfer, resulting in Key Terms of a Quantification Settlement Agreement (QSA), which outlined a series of agreements to settle disputes and allow the Transfer Agreement to proceed (QSA together with the Transfer Agreement, collectively the Agreements).

IID did not initially approve the QSA due to concerns about two early termination provisions contained therein and expected potential environmental mitigation costs associated with actions undertaken pursuant to the Agreements. Early termination would eliminate the contract revenues that IID and its landowners would rely upon to finance the capital investments enhancing water supply based upon IID water conservation. A preliminary loan guarantee, approved by the I-Bank Board on June 27, 2003, addressed the financial risks involved with early termination and enabled IID to issue sufficient revenue bonds to finance the water supply project. The Board of Directors of the IID approved the QSA on October 2, 2003.

On December 15, 2009, the I-Bank Board approved a one year extension of the 2003 Preliminary Commitment, subject to certain clarified terms and conditions and to further negotiations on a few remaining terms and conditions consistent with the 2003 Preliminary Commitment.

OTHER TAX-EXEMPT REVENUE BONDS

The I-Bank has issued bonds for projects that do not fall into any of the above categories of bonds. These include Rate Reduction Bonds, Exempt Facility Revenue Bonds, Enterprise Zone Facility Bonds and Economic Development Facility Bonds.

The I-Bank's activity related to rate reduction bonds (RRBs) involved the issuance and ongoing administration of \$6.046 billion of bonds by special purpose trusts in 1997 and 1998. The RRBs were related to the restructuring of the electric utility industry.

Exempt Facility Revenue Bonds are a category of bonds created by special provision of the Internal Revenue Code which allow private, for-profit companies, typically located at ports and airports, to utilize the proceeds of tax-exempt bonds to finance limited types of projects. California I-Bank is currently processing a bond to finance \$530 million for Poseidon, a desalinization plant to be located in Carlsbad, California. A National I-Bank could finance such projects, serving the driest regions in the states, making a huge positive impact on water supply.

Enterprise Zone Facility Bonds are issued for projects that meet the definition of 26 United States Code, Section 1394. An "Enterprise Zone" means any area within a city, county, or a city and county that is designated as an enterprise zone by the California Department of Housing and Community Development in accordance with the provisions of Section 7073 of the California

Government Code. Economic Development Facility Bonds are issued for projects that meet the definition of Economic Development Facilities as defined in the I-Bank's statutes.

NATIONAL I-BANK PROJECT EXAMPLE

Earlier this year, the Mayor of Los Angeles came to Washington with an unusual financing request. According to press reports, he was not looking for a grant or other handout. He simply needs a loan or loan guarantee. He has obtained local voters approval to collect funds for transportation. A one-half cent sales tax was passed by the voters in a recent election to be collected for thirty years. Some experts say the total amount that will be collected over thirty years is approximately \$40 billion.

The City also has a very detailed, shovel ready plan to use the money for transportation projects- mostly rail. If the City builds and finances the projects on a pay-as-you- go basis, it will take thirty years to put these critical transportation improvements in place. If it can borrow the money, secured by the ongoing payment of this tax, the City estimates that all of the projects can be complete within ten years. Think of the reduction in traffic, increases in air quality, and all the other massive environmental benefits that could take place in ten years: one-third of the time it would otherwise take.

The initial reaction to the Mayor's request was that such a program doesn't exist. That is exactly my point here today. A National Infrastructure Bank is designed to respond to just this kind of need. Los Angeles has a huge infrastructure and environmental need, as do many communities throughout the nation. We have the solution.

¹ Information technology, human resources and certain I-Bank accounting services are provided by other departments. In a few cases, a bond that was issued by the I-Bank and later defeased by the I-Bank are both shown as financing work by the I-Bank and counted in the overall total. Removing those few examples, the money that I-Bank has placed is approximately \$28 billion.

² Includes the sale of Tobacco Settlement Bonds for which the I-Bank was responsible for creating a special purpose trust, selling the tobacco assets to the special purpose trust and working with the Department of Finance to oversee the sale of the bonds.

³ On April 25, 2006, \$1,160,435,000 of Toll Bridge Seismic Retrofit Revenue Bonds issued by the I-Bank was defeased and \$80 million in related commercial paper was repaid.

⁴ "Loans" is generically used to mean loans, leases/leaseback agreements and installment sale agreements.

⁵ Each of the categories is further defined in Government Code Section 63010.

⁶ This number includes seven approved loans that were withdrawn by the borrower.

⁷ While the I-Bank has broad authority as a conduit bond issuer for nonprofit entities, it is statutorily prohibited from financing housing projects. Additionally, the I-Bank's board of directors has adopted a policy to not issue bonds for nonprofit health facilities or nonprofit higher educational facilities and other projects that are eligible for financing through other State financing authorities that were created specifically to finance those types of projects.
