

-Date of Hearing: April 21, 2025

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Avelino Valencia, Chair

AB 407 (Jackson) – As Introduced February 4, 2025

SUBJECT: California Pollution Control Financing Authority

SUMMARY: Makes various changes to state oversight of rate reduction bonds for local publicly-owned water utilities and the California Capital Access Fund (CalCAP Fund) administered by the California Pollution Control Financing Authority (CPCFA).

Specifically, **this bill:**

- 1) Repeals state oversight of rate reduction bonds for local publicly-owned water utilities.
- 2) Adds that a financial institution as defined for purposes of the CalCAP Fund shall meet any of the following conditions:
 - a) It is domiciled in this state.
 - b) It has its principal office in this state.
 - c) It is regulated by the Department of Financial Protection and Innovation.
- 3) Authorizes the California CalCAP Fund administered by the CPCFA to receive and accept any other private, state, or federal funding source not otherwise described in this article.
 - a) Directs the CPCFA to develop and adopt by resolution the terms and conditions describing the financial assistance to be provided with moneys from the funding source.
 - b) Requires all moneys in the CalCAP Fund to be continuously appropriated by CPCFA.
 - c) Authorizes the CPCFA to divide the fund into separate accounts.
 - d) All moneys accruing to CalCAP from any source shall be deposited into the CalCAP Fund.
- 4) Adds financial assistance to the list of program expenditures from the California Americans with Disabilities Act Small Business Capital Access Loan Program Fund and the California Seismic Safety Capital Access Loan Program. “Financial assistance” includes, but is not limited to, any of the following:
 - a) Loans.
 - b) Loan loss reserves.
 - c) Interest rate deductions.
 - d) Proceeds of bonds issued by the authority.

- e) Bond insurance.
- f) Loan participation payments.
- g) Credit enhancements.
- h) Liquidity facilities.
- i) Contributions of money.
- j) A combination of any of subparagraphs (a) to (i), inclusive.

EXISTING LAW:

- 1) Establishes the CPCFA within the Office of the Treasurer to provide low-cost financing to California businesses. (Health & Safety Code § 44500 - 44559.14)
- 2) Creates CalCAP to encourage banks and other financial institutions in California to make loans to small businesses that have difficulty obtaining financing (Gov Code § 63089.70)

FISCAL EFFECT: Unknown. This bill is keyed Fiscal by Legislative Counsel.

COMMENTS:

- 1) Purpose. According to the author:

AB 407 is critical for California's future, and I'm proud to champion it because it tackles urgent needs with practical solutions. Our local agencies, small businesses, and homeowners face growing challenges—aging infrastructure, economic pressures, and natural risks like earthquakes. This legislation is necessary to meet those challenges head-on and keep our state moving forward. This bill is necessary because delays and outdated rules hurt our communities. It's about giving people the tools they need to succeed and stay safe, right now. California thrives when we act boldly, and this legislation delivers that boldness with common-sense fixes.

- 2) California Pollution Control Financing Authority (CPCFA). Created in 1972, the CPCFA is under the State Treasurer's Office. It originally supported private activity bond financing for projects mitigating industrial air and water pollution. Over time, CPCFA's mission has expanded to align with evolving state and federal policy goals that foster sustainable development, support small businesses, and revitalize communities.

CPCFA's mission has expanded from supporting pollution control to promoting broader economic development through programs like the Small Business Assistance Fund (SBAF), the California Capital Access Program (CalCAP), and the California Investment & Innovation Program (Cal IIP), which supports certified community development financial institutions (CDFIs).¹

¹ <https://www.treasurer.ca.gov/cpcfa/calcap/annual/2023.pdf>

Members. The CPCFA consists of the State Treasurer (Chairperson), the State Controller, and the Director of the Department of Finance.

3) Programs²

- a) California Capital Access Program (CalCAP). CalCAP for Small Businesses was established in 1994. CalCAP provides credit enhancement to encourage financial institutions to lend to small businesses. CalCAP operates through two primary mechanisms: loan loss reserve and cash pledge, both of which reduce lender risk and expand access to capital. The program has evolved over the years to include multiple variants, including state and federally funded programs, as well as specialized initiatives in partnership with independent contributors.

In December 2024, Treasurer Ma announced receiving \$203.5 million for California small business programs. Specifically, the funds support the State Small Business Credit Initiative 2.0 (SSBCI 2.0) which is designed to increase small businesses' access to capital, including businesses in the manufacturing sector, businesses owned by socially and economically disadvantaged individuals (SEDI), and very small businesses (VSB) characterized as having fewer than ten employees. For every \$1 in SSBCI 2.0 funds pledged as collateral, \$10 in small business lending is enabled.³

- b) California Capital Access Program (CalCAP) Americans With Disabilities Act (ADA) Financing Program. The CalCAP/ADA program, established in 2015, helps very small businesses finance ADA-compliant tenant improvements by encouraging lenders to make qualifying loans. CPCFA was allocated \$10 million to administer the program using the CalCAP credit enhancement model. It also provides borrowers with a rebate to offset the cost of a Certified Access Specialist (CAS) Report.
 - c) California Seismic Safety Capital Access Loan Program (CalCAP Seismic). The California Seismic Safety Capital Access Loan Program, established in 2016 with a one-time \$10 million allocation, supports seismic retrofitting for small businesses and residential property owners by offering credit enhancements through loan loss reserve accounts for participating lenders.
- 4) **Rate Reduction Bonds.** AB 850 (Nazarian, Chapter 636, Statutes of 2013) allowed joint powers authority (JPAs) to issue rate reduction bonds to finance projects for publicly owned utilities (POUs) with at least 25,000 retail customers that provide water service. According the State Treasurer's Office no applications have been received and they do not have in-house subject matter expertise on bonds for publicly owned utilities. This section is the purview of the Assembly Local Government Committee who will hear this bill upon passage out of Assembly Banking.

Additionally, the application and report would contain information similar to that which would be required by a publicly owned utility's governance structure, by generally accepted accounting principles (GAAP), by the law firm acting as bond counsel to the issuance, and in

² <https://ebudget.ca.gov/2025-26/pdf/GovernorsBudget/0010.pdf>

³ <https://www.treasurer.ca.gov/news/releases/2024/49.pdf>

report to the California Debt Issuance and Advisory Committee (CDIAC). CPCFA's report would not grant or deny permission to the publicly owned utility to make the issuance. Costs of the consultant and administering the consultant contract would be paid by the applicant and thus would increase the costs of restructuring debt.

5) Policy Issues

- a) Banks. Existing law limits the types of lenders CalCAP can work with and restricts CalCAP to working only with lenders domiciled or principally located in California. According to the Treasurer's Office this restricts the sources of private capital, which would potentially be encouraged by the CalCAP programs to invest in loans to small businesses. The proposed change allows CPCFA to work with out-of-state banks regulated by the Department of Financial Protection and Innovation. It is unclear if CalCAP has been unable to secure investments from banks domiciled or principally located in California.
- b) Powers. The changes in Section 3 authorizes the CalCAP Fund to receive contributions from private, state, or federal sources; adopt terms for financial assistance by resolution; continuously appropriate all funds; divide the fund into separate accounts; and deposit all CalCAP revenues into the fund. The rationale for this change offered by the Treasurer's Office is this change is consistent with funding under the CalCAP/ADA and Seismic programs.

These changes remove any role for the Legislature. Funds provided to the CalCAP Fund are allocated through the annual budget process. The CPCFA members who would allocate the funds are the State Treasurer (Chairperson), the State Controller, and the Director of the Department of Finance. The CalCAP Fund would be acting as the primary account akin to the General Fund, with sole authority to allocate funds for all CalCAP programs, without any approval of the Legislature. By allowing for a continuous appropriation and allocation by CPCFA member, there would be no legislative oversight over the use of the funds. It is unclear why this change in authority is needed when no concern has been raised or any attempt has been made in the 30 years CalCAP has been established.

- c) Financial Assistance. This bill adds various types of financial assistance to an expenditure under from the California Americans with Disabilities Act Small Business Capital Access Loan Program Fund and the California Seismic Safety Capital Access Loan Program.

According to the Treasurer's Office, CalCAP ADA and CalCAP Seismic have seen little to no uptake since their launch in 2015 and 2016. While both programs use loan loss reserves to support construction-related loans, CalCAP Seismic was expanded to include residential and commercial properties needing seismic upgrades. However, restrictive eligibility rules and borrower concerns about repayment have discouraged lender participation, as credit enhancements alone do not address the broader financial barriers facing potential borrowers.

The proposed change allows CalCAP ADA and CalCAP Seismic to offer other types of assistance, such as interest rate deductions and contributions of money, using the one-

time general fund allocation which each program previously received.

6) Amendments.

- a) On page 16, strike lines 28-29.

Rationale: This retains the requirement to use financial institutions domiciled or have its principal office in this state.

- b) On page 18, strike lines 36-38.

Rationale: This removes the continuous appropriation.

- c) On page 20, line 9, strike “, but is not limited to,”

- d) On page 24, line 22, strike “, but is not limited to,”

Rationale: Ensures Legislative oversight of loan products offered to businesses.

REGISTERED SUPPORT / OPPOSITION:

Support

California State Treasurer (Sponsor)

Opposition

None on file.

Analysis Prepared by: Darci Sears / B. & F. / (916) 319-3081