Date of Hearing: April 23, 2012

ASSEMBLY COMMITTEE ON BANKING AND FINANCE
Mike Eng, Chair
AB 2619 (V. Manuel Perez) – As Amended: April 18, 2012

SUBJECT: Start-Up California Impact Investment Fund program.

SUMMARY: Creates the Start-Up California Impact Investment Fund Program within the California Infrastructure and Economic Development Bank (I-Bank) to provide startup equity funds to startup firms and small businesses. Specifically, this bill:

1) Allows the I-Bank to make expenditures from the startup equity fund account.

2) Requires the I-Bank to consult with the appropriate agencies and investors who impact investment policies that target businesses in lower income communities, emerging money managers, or emerging domestic markets.

3) Requires after the consultation that the I-Bank shall adopt an investment policy and establish criteria, priorities and guidelines for the selection of start-up firms and small businesses that receive start-up equity funds from the I-Bank.

4) Provides that the criteria, priorities, and guidelines shall, at a minimum, do all of the following:

   a) Encourage the establishment of startup firms and growth of early stage small businesses.

   b) Offer financial opportunities to emerging money managers.

   c) Encourage mentoring relationships of emerging money managers by equity asset managers with proven track records, including having been in business for more than 5 years and having raised three or more equity funds of five hundred million dollars or more. This may include the I-Bank partnering with investors, such as CalPERS and CalSTRS.

   d) Support business development in lower income areas of the state.

   e) Require reporting of the social and environmental impacts of the investments on an annual basis.

   f) Encourage business development that includes the export of products from California.

   g) Encourage businesses that are manufacturing overseas to bring production lines back to the United States and products to be made in California.

5) Allows the I-Bank to contract with professional equity fund managers who have demonstrated expertise in emerging domestic market investments and impact investment mandates to implement the Start-Up California Impact Investment Fund program.

6) Requires the I-Bank to adopt guidelines and policies for overseeing these contracts.

7) Defines "equity financing" as the shares of common or preferred stock issued by a startup firm or small business to the bank in exchange for capital.

8) Defines "Startup equity funds" as money and resources invested in startup firms and small businesses with exceptional growth potential. In exchange for this capital, the bank receives an equity stake in the firm or business represented by shares of common or preferred stock.

9) Defines "emerging domestic market" as business enterprises with grown potential, which, due to their geographic location, have historically faced capital constraints due to systemic undervaluation as a result of imperfect market information.

10) Defines "emerging money manager" as a money manager on his or her first or second fund iteration.

11) Defines "impact investments' as investments made in companies, organizations, and funds with the intention to generate financial risk adjusted returns, as well as measurable social and environmental impacts.

12) Establishes that Startup equity funds created by the I-Bank are legal investments for all trust funds, the funds for all insurance companies, banks, both commercial and savings, trust companies, executors, administrators, trustees, and other fiduciaries, for state and local pension funds.

13) Provides liability shall not be incurred by the I-Bank or the state as related to a startup equity fund beyond the money that is available for expenditure in the startup equity fund account.

14) Requires the I-Bank, before November 2 of each year, to submit to the Governor and the Joint Legislative Budget Committee a report that shall include all of the following:

    a) A summary of the investment firms that were awarded startup equity fund moneys, including their industry sector and geographic focus and a list of the investments made with the startup equity fund moneys by asset manager, including the size of each investment, and the type of firm, by industry sector and geographic location of headquarters that received an investment. The summary shall also include a description of the expected direct and indirect employment impact of the investments.

15) Makings various findings and declarations.

EXISTING LAW

1) Establishes the I-Bank, within Business Transportation and Housing (BTH). I-Bank is governed by a five-member Board of Directors. The I-Bank was created in 1994 to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California. The I-Bank operates pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act. The I-Bank has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage State and Federal funds. The I-Bank's current programs include the Infrastructure State Revolving Fund (ISRF) Program, 501(c)(3) Revenue Bond Program, Industrial Development

Revenue Bond Program, Exempt Facility Revenue Bond Program and Governmental Bond Program. [Government Code Section 63000 et seq.].

FISCAL EFFECT: Unknown.

COMMENTS:

The mission of the I-Bank is to finance public infrastructure and private development that promote economic development, revitalize communities and enhance quality of life for Californians. The I-Bank 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 and other government purposes.

The I-Bank oversees 5 programs:

1) Infrastructure State Revolving Fund Program
The Infrastructure State Revolving Fund (ISRF) Program provides low-cost financing to public agencies for a wide variety of infrastructure projects. ISRF Program funding is available in amounts ranging from $250,000 to $10,000,000, with terms of up to 30 years. Interest rates are fixed for the term of the financing.

2) 501(c) (3) Revenue Bond Program
The 501(c) (3) Revenue Bond Program provides tax-exempt financing to eligible nonprofit public benefit corporations for the acquisition and/or improvement of facilities and capital assets. Typical borrowers include cultural, charitable and recreational organizations, research institutes and other types of organizations that provide public benefits.

3) Industrial Development Revenue Bond Program
The Industrial Development Revenue Bond (IDB) Program provides tax-exempt financing up to $10 million for qualified manufacturing and processing companies for the construction or acquisition of facilities and equipment. IDBs allow private companies to borrow at low interest rates normally reserved for state and local governmental entities.

4) Exempt Facility Revenue Bond Program
The Exempt Facility Revenue Bond Program provides tax-exempt financing for projects that are government-owned or consist of private improvements within publicly-owned facilities, such as private airline improvements at publicly-owned airports.

5) Governmental Bond Program

The I-Bank is a self-supporting governmental entity that pays its cost of operations from service fees and interest earnings on loans and investments. The Infrastructure State Revolving Fund (ISRF) Program, a direct loan program, was originally funded with seed money from the State's General Fund in the late 1990's and early 2000's, and later funded with the proceeds of tax-exempt revenue bonds described below. The I-Bank issued approximately $150 million of tax-exempt revenue bonds secured by the ISRF Program repayment revenues that provided additional ISRF Program funding. The bank has leveraged the initial State General Fund infusion to finance approximately $400 million in infrastructure projects over the life of the program.

According to the Author, "The Kaufman Foundation recently published new research that shows more than 90% of all jobs created between 1977 and 2005 came from small and early state firms. Further, a lion's share of these jobs came from firms operating for few than five years. Recent analysis also shows that in the last two decades firms have remained significantly smaller than before and that this trend is expected to continue well into the post-recession economy. These new findings are cause for many states to recommit to supporting a broader range of financing programs, including direct loans, guarantees and credit enhancements in partnership with private lenders and equity financing in conjunction with experienced private sector financial asset managers."

FEDERAL LEVEL

On April 5, 2012, President Obama signed into law the Jumpstart Our Business Startups Act (JOBS Act) which represents the most significant relaxation of the initial public offering and public company reporting requirements to be enacted in recent times. The JOBS Act provides significant revisions to certain securities laws that affect private companies and to rules relating to access to capital in unregistered offerings. These revisions will likely increase capital flow to start-up companies that previously may have been reluctant to enter the public markets due to regulatory burdens. The JOBS ACT:

- creates a transitional “on-ramp” for emerging growth companies by reducing the disclosure requirements in their IPO registration statement and reduces compliance and disclosure requirements following the completion of an emerging growth company’s IPO;

- eases prohibitions on general solicitation and general advertising, allowing communication about an offering prior to any filings being made with the SEC;

- raises the threshold at which a private company must report with the SEC, from the current threshold of 500 shareholders of record to either (i) 2,000 shareholders of record or (ii) 500 shareholders of record who are not accredited investors, with higher thresholds for banks and bank holding companies;

- adopts exemptions for certain “crowdfunding” transactions, including preempting state securities laws by making securities offered under exempt offerings “covered securities;” and

- permits companies to conduct offerings to raise up to $50 million through a process similar to current Regulation A.

President Obama stated in his State of the Union Address on January 24, 2012, *"After all, innovation is what America has always been about. Most new jobs are created in start-ups and small businesses."* “Startup America” is a White House initiative to celebrate, inspire, and accelerate high-growth entrepreneurship throughout the nation. This coordinated public/private effort brings together an alliance of the country’s most innovative entrepreneurs, corporations, universities, foundations, and other leaders, working in concert with a wide range of federal agencies to dramatically increase the prevalence and success of America’s entrepreneurs.
This mission to promote entrepreneurship is a core component of President Obama’s national innovation strategy for achieving sustainable growth and quality jobs. The core goals of Startup America are to increase the number and scale of new high-growth firms that are creating economic growth, innovation, and quality jobs; celebrate and honor entrepreneurship as a core American value

and source of competitive advantage; and inspire and empower an ever-greater diversity of communities and individuals to build great American companies.

Overall, Startup America, through a full range of public and private initiatives, is aimed at:

- Expanding access to capital for high-growth startups throughout the country;
- Expanding entrepreneurship education and mentorship programs that empower more Americans not just to get a job, but to create jobs;
- Strengthening commercialization of the about $148 billion in annual federally-funded research and development, which can generate innovative startups and entirely new industries;
- Identifying and remove unnecessary barriers to high-growth startups; and,
- Expanding collaborations between large companies and startups.

AB 2619 seems to fall in line with recent action taken at the federal level to increase capital and equity to start ups and small businesses.

REORGANIZATION OF THE I-BANK: On March 30, 2012, the Governor proposed to dismantle BTH and move programs to other existing and new government entities. The I-Bank is proposed to be relocated to the Governor's Office of Business and Economic Development.

The Little Hoover Commission has 30 days to analyze the reorganization plan and submit its recommendations to the Governor and Legislature. The Legislature then has 60 days to consider the plan. The plan goes into effect unless the Legislature takes an action to disapprove the plan with a majority of the Members in each house voting.

REGISTERED SUPPORT / OPPOSITION:

Support

Calexico County Enterprise Zone
California Association for Micro Enterprise Opportunity (CAMEO)
Coachella Valley Economic Partnership (CVEP)
Coachella Valley Enterprise Zone Authority (CVEZA)
Imperial Valley Enterprise Zone
Sacramento Black Chamber of Commerce

Opposition

None on file.

Analysis Prepared by: Kathleen O'Malley / B. & F. / (916) 319-3081