**CALIFORNIA INDUSTRIAL DEVELOPMENT**
**FINANCING ADVISORY COMMISSION**
**Meeting Date: September 24, 2008**

**Request Approval of CIDFAC's Revised September 2008 Strategic Plan**

**Prepared by:** *Eileen Marxen*

**Request**: CIDFAC staff requests the Commission's approval of the Revised September 2008 Strategic Plan. CIDFAC staff presented a draft Strategic Plan to the Commission at its June 23, 2008 meeting. Subsequently, staff posted the draft Strategic Plan on its website and emailed an electronic notice of such posting to all parties on its mailing list in an effort to solicit written comments from interested parties.

The deadline for the receipt of written comments was close-of-business July 31, 2008. Exhibit I is a compilation of all written comments received with CIDFAC staff's responses. Exhibit II is the Revised September 2008 Strategic Plan.

**Recommendation**: CIDFAC staff believes that it has fully responded to written comments received on the draft Strategic Plan, including those related to the expansion of CIDFAC's authority to issue Industrial Development Bonds (IDBs), and that neither the comments nor the responses require substantive revisions to the draft Strategic Plan. CIDFAC staff believes the Plan will further the Commission's mission by making CIDFAC a more important contributor to the state's economic development program. Staff remains committed to accomplishing the Plan's near-term and long-term objectives related to program, and marketing and outreach to benefit California's economy, businesses and environment.

CIDFAC staff recommends the Commission approve the Revised September 2008 Strategic Plan and instruct staff to take steps necessary, including those involving statutory or regulation changes, to implement the Plan. CIDFAC staff also recommends that the Commission direct staff to report on a quarterly basis (or more frequently when the Commission deems necessary) on the status of its efforts to implement the Plan.

**Exhibit I**

# CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION (CIDFAC)
# Strategic Plan Comments and Responses

## Industrial Development Authority of the City of Los Angeles

1. **Requests the opportunity to be included in future discussions impacting the future of tax-exempt bond issuances and allocations with regard to CIDFAC's position.**

See attached letter in response to this request (Attachment A).

## California Association for Local Economic Development (CALED)

2. **CALED and its economic development network support CIDFAC's efforts to streamline the IDB process, eliminate duplication, and adapt the current system to meet current market needs.**

Under its Strategic Plan, CIDFAC proposes three near-term actions to improve the process for the approval and issuance of Industrial Development Bonds (IDBs):

- Delegation of the IDB allocation pool by the California Debt Limit Allocation Committee (CDLAC) to CIDFAC to create a "one-stop shop" process. This procedure allows CIDFAC to approve the issuance of IDBs and award tax-exempt allocation at one meeting of the Commission.

- Documentation of CIDFAC's bond issuance requirements.

- Reevaluation and revision of the current CDLAC point system for IDBs.

CDLAC approved the allocation delegation this year, and staff anticipates CDLAC will do so again in 2009. Regarding documentation, staff expects to make headway at the end of 2008. With respect to the point system, staff has received preliminary comments from interested parties, has issued an outline of proposed revision to the CDLAC point scheme for IDBs, and has outlined a process to implement the revised point scheme in 2009 (see Attachment B).

3. **CALED was a major sponsor of the legislation that created the California Infrastructure and Economic Development Bank (I-Bank). We are not aware of any gaps or unmet needs that would create the need for additional state level IDB issuers. We are concerned that creating another statewide IDB issuer could be costly and duplicative.**

Staff offers the following responses:

**Exhibit I**

- CIDFAC was established by statute 14 years before the I-Bank came into existence. And from the beginning, CIDFAC has had the authority, albeit limited, to issue IDBs. The Strategic Plan would make CIDFAC a stronger issuer, not a new one.

- The proposal to expand CIDFAC's issuance authority is not based on the IDB world as it is, but as it hopefully will be. California is moving rapidly into a green, knowledge-based economy. Our state is trying to successfully implement landmark laws to fight climate change. IDBs should play a key role in helping the state meet its environmental goals, and helping families prosper in the new economy. With its singular mission, staff expertise and solid relationships with key players in the economic development and environmental arenas, CIDFAC is uniquely situated to make sure IDBs fulfill that role – without encroaching on anyone's turf.

- There will be plenty of work to go around for everyone. This year, the demand for IDB allocation is expected to match and possibly exceed the $120 million in the IDB pool. This demand is significantly greater compared to recent years.[1] In discussions with staff, practitioners indicate demand for IDB allocation will continue to be strong in 2009. And demand may further intensify due to the provision in the recently-enacted federal housing bill that allows Federal Home Loan Banks to provide credit enhancement for IDBs.. Additionally, more types of manufacturers may qualify for IDB financing if Congress approves proposed legislation to expand the federal tax law definition of manufacturing facility to include the knowledge-based sector. Given these factors, staff believes expanding CIDFAC's authority to issue IDBs will not eclipse the roles of other issuers.

- Expanding CIDFAC's issuance authority would cost taxpayers nothing. CIDFAC is a special fund agency and, as such, does not receive any money from the state's General Fund. Its only source of revenues is fees received for approving the issuance of IDBs and interest earnings on its fund. Additional expenditures for operations and personnel associated with an issuance program would be supported only to the extent CIDFAC earned issuer fees.

- With expanded authority as an issuer, CIDFAC would not duplicate the efforts or programs of any current IDB issuer, including the I-Bank, local issuers or joint powers authorities. (See response to #16 for more details on the duplication issue.) It would strengthen the state's IDB program and help California achieve long-term, broad-based economic development objectives. How? A stronger CIDFAC would bring to the endeavor its unique mission, statewide perspective and staff expertise.

- CIDFAC is well-positioned for reasons of history, mission and staff to assume more authority to issue IDBs and add value to the system. Following is some additional background.

[1] The following are the amounts of IDB allocation used in 2004, 2005, 2006, and 2007, respectively: $33,232,000, $25,250,000, $33,260,000, and $97,695,363.

**Exhibit I**

✓ ***History***

The California Industrial Development Financing Act of 1980 (the Act) allowed the issuance of IDBs in California for the first time in the state's history. The Act created CIDFAC to act as a statewide issuer and Industrial Development Authorities (IDAs) to act as local issuers. In passing the Act, the Legislature explicitly stated its finding that state has a specific role to play in advancing its economic development and the employment opportunities for its citizens.

In the Act, the Legislature delegated oversight of the state's IDB program to CIDFAC. The statute empowered CIDFAC to: provide advice to local governments concerning their industrial development programs; ensure proposed IDB issues meet the public benefit requirements of the Act (particularly those associated with job creation); approve the sale of IDBs by local agencies; ensure that IDBs are adequately secured and will not work a fraud on investors who buy them; coordinate the issuance of IDBs statewide to ensure that manufacturers do not relocate from one jurisdiction to another in a manner that causes economic hardship; and, issue IDBs when two or more issuers request that the Commission act as a pooling agent to issue bonds on a joint or composite basis for companies which have applied for financing to the participating issuers.[2]

So, CIDFAC was created specifically and solely to encourage IDB issuance, issue IDBs, and oversee the state's IDB program. It's the only government agency in the state to have this mission as its sole function. The proposal to expand CIDFAC's issuance authority is consistent with its history and purpose.

✓ ***Staff Expertise***

Because CIDFAC's mission is exclusively focused on IDBs CIDFAC staff provides a dedicated, expert resource on the state's IDB program. Staff's expertise is derived in part from the fact it actively participates in the issuance of IDBs statewide. Staff knows well, and has built relationships with bond counsel, financial advisors, local issuers, and others who put together IDB deals throughout the state. For example, to date in calendar 2008, staff has participated in nine IDB issues for various types of projects and using various finance structures, and it anticipates working on another six issues before the end of the year. Additionally, Staff serves on the board of CALED, the statewide economic development trade association, and CALED's national counterpart, the Council for Development Finance Agencies (CDFA). This dual membership provides staff with: a means of staying current with state and federal legislative initiatives that may affect California's IDB program; forums for the

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[2] The objective of pooling is to lower companies' costs of borrowing. However, largely due to the fact that such pooling transactions are difficult and time-consuming to structure, CIDFAC has never received a request to issue IDBs under this provision of the Act.

exchange of information and ideas that may benefit California's manufacturers; and platforms for advocating on behalf of California's IDB program.
Finally, staff has developed relationships with staff from other state and local economic development and employment programs to ensure that California's manufacturers have access to incentives. These relationships are detailed in the Strategic Plan.

All these staff attributes demonstrate why CIDFAC would make substantialcontributions to the state's IDB program if it obtained expanded issuance authority.

4. **While we strongly support efforts to enhance the access of newer technology industries to IDBs, we feel those efforts should accompany a broader, comprehensive analysis of the role of CIDFAC in the new economy. IDBs are the only category of private activity bonds that have an extra approval process. We believe revising or eliminating the CIDFAC review process would stimulate interest in the program and provide the incentive needed to assist green businesses targeted.**

CIDFAC's proposal that it become an issuer of IDBs is, in fact, an effort to stimulate interest in IDB financing as an option for California's manufacturers. CIDFAC in its current role as an approval agency, and in its future role as both an approval agency and an issuer, brings a statewide perspective to California's economic development and how IDB financing contributes to broader, statewide economic development goals. In creating the tax-exempt, private activity bond program, Congress recognized that certain categories of private projects provide specific public benefits.As outlined in #3 above, the Legislature entrusted CIDFAC with the responsibility of ensuring that IDBs meet the public benefit requirements of the Act, including those related to job creation. This responsibility is carried out through CIDFAC's review processes.

CIDFAC staff disagrees with the implication that, due to CIDFAC's role as an approval agency, IDBs are subject to greater scrutiny than other types of private activity bonds. Compared to IDBs, other categories of private activity bonds are subject to far more extensive requirements, reviews, and compliance monitoring by federal, state, and/or local agencies to ensure that they provide the public benefits associated with the projects. For example, to ensure Qualified Residential Rental Projects provide market rate and affordable rental housing for low and very-low income households, CDLAC imposes specific minimum income and rent restrictions on the project for at least 30 and up to 55 years.[3] Regulatory Agreements are recorded against the project properties to ensure that the restrictions remain in effect. These restrictions and other

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[3] For Qualified Residential Rental Projects, state and local governmental agencies and joint powers authorities can issue tax-exempt housing revenue bonds. These bonds assist developers of multifamily rental housing units to acquire land and construct new units or purchase and rehabilitate existing units. The tax-exempt bonds lower the interest rate paid by the developers. The developers in turn produce market rate and affordable rental housing for low and very low-income households by reducing rental rates to these individuals and families.

requirements are recorded in the CDLAC resolution awarding allocation, and all projects that receive such allocation are monitored for compliance with the restrictions and requirements.[4] Similarly, to ensure Single-Family Housing program projects provide access to housing to first-time homebuyers, including those with lower-than-median incomes, CDLAC monitors the programs on an annual basis. According to CDLAC's procedures, if it finds that a Single-Family Housing Program has not achieved the prescribed income requirements imposed on the projects, CDLAC can reduce the program's allocation the following calendar year.

Further, nonprofit public benefit corporations [including 501(c)3 entities] operating in California, including those which borrow through the issuance of private activity bonds, are actively monitored by the Internal Revenue Service and the California Attorney General's Office to ensure, in part, they function in accordance with their declared charitable purposes and thereby provide the public benefits associated with their charitable purposes.[5]

Finally, solid waste companies that can access tax-exempt financing through the exempt facility category of private activity bonds are highly regulated at the federal, state and local levels. In California, these companies provide public benefits associated with the management and disposal of municipal solid waste. The U.S. Environmental Protection Agency (largely through the Resource Conservation and Recovery Act), the California Integrated Waste Management Board, and county and city environmental health and solid waste management agencies permit these companies, monitor their operations, issue citations and take other actions when they

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[4] CDLAC procedures for compliance monitoring for Qualified Residential Rental Projects are as follows: All projects that receive an Allocation shall be monitored for compliance with the terms and conditions of the Committee Resolution by the Applicant. The Applicant shall submit a certification of compliance in the form provided in the Committee Resolution to the Committee annually that the project meets the terms and conditions of the Committee Resolution. The certification must be submitted by the Project Sponsor (on Project Sponsor letterhead) to the Applicant who will then forward it to the California Debt Limit Allocation Committee no later than March 1 of each year (or at such other time as requested by the Committee). The requirement shall be enforceable by the Committee through an action for specific performance or other available remedy. In addition to compliance monitoring by other entities, all projects that receive Allocation and an award of low income housing tax credit shall be monitored by the Committee or an entity acting on its behalf for compliance with the terms and conditions of the Committee Resolution, and shall be subject to the provisions of Section 10337 of Title 4 of the California Government Code of Regulations. To be eligible to be considered for an award of Allocation under these Procedures, Project Sponsor(s) and management companies must not have any significant outstanding noncompliance matters relating to the tenant files or physical conditions at any tax-exempt bond or low income housing tax credit financed property in California, and any Application involving a Project Sponsor or management company with significant outstanding noncompliance matters will not be considered until the Committee has received evidence satisfactory to it that those matters have been resolved.

[5] The following is excerpted from the California Attorney General, Registry of Charitable Trusts, website: "California law requires charities and commercial fundraisers to register with the Attorney General's Office and to file financial disclosure reports. All charities must file the Annual Registration Renewal Fee Report, and those with gross revenue or assets of $25,000 or more must file annual Form 990 financial reports with the Attorney General's Registry of Charitable Trusts. Since 1965 nonprofit schools, hospitals, and churches have been exempt from the law's reporting requirements. As the legal overseer of charities that do business in California, the Attorney General works to protect the interest of all public beneficiaries within his jurisdiction. The Attorney General may conduct investigations and bring legal actions to protect the assets of California charities and ensure the assets are used for their intended charitable purposes."

violate the terms of their permits or environmental laws, and continually enact laws and regulations to ensure the companies provide public benefits.

5. **CALED shares CIDFACs concern regarding the need to expand access to credit enhancements for small and medium sized manufacturers. We have been examining this issue with a group of experienced community development lenders, and offer our expertise and resources to address this issue.**

CIDFAC staff looks forward to an opportunity to participate in discussions concerning manufacturers' access to credit with CALED and lenders.

## California Enterprise Development Authority (CEDA)

6. **CEDA supports taking a comprehensive look at all aspects of CIDFACs role and delivery system. We support efforts to streamline the process, eliminate duplication and add value to the current system.**

See #2 above.

7. **California has already invested considerable effort in the creation of the I-Bank. The legislation creating the I-Bank gave it authority to issue IDBs, and thus has developed considerable expertise in this area. It could be duplicative and expensive to fund another state agency with the exact same powers.**

See #3 above.

8. **There is an established pool of experienced, qualified local government issuers (including joint powers authorities) who can and do work with the State to achieve its objectives. These Issuers work with their local manufacturers and hold local public TEFRA hearings to ensure local awareness and approval of these projects. We are concerned that this local involvement could be side-stepped by CIDFAC as a state-level Issuer.**

   As with any other statewide issuing authority, CIDFAC would be required to fulfill the noticing and hearing requirements under Tax Equity and Fiscal Responsibility Act (TEFRA). In addition, CIDFAC staff intend to develop its issuance program to specifically involve the local jurisdiction, i.e., require a request from an officer of the local jurisdiction that CIDFAC issue IDBs on behalf of the local manufacturer.

9. **We strongly support a re-evaluation of the original purpose of CIDFAC as the approval agency for the issuance of IDBs by local agencies to California manufacturers. IDBs receive the smallest allocation of private activity bonds and are the only category of private activity bond that is subject to this approval process and fee. CEDA recommends an analysis to assess whether the original intent of**

**CIDFAC "approval" has been met and may no longer be necessary for certain types of active issuers.**

See #4 above.

10. **We have concerns about CIDFACs proposal to make credit available to high risk, new businesses. In developing any credit enhancement product, we recommend that CIDFAC work with IDB practitioners, financial advisors, underwriters and banks so that any credit enhancements are of an acceptable risk and are workable.**

CIDFAC will operate under the same issuance and credit standards imposed on other state and local issuers of IDBs. In addition, CIDFAC will issue IDBs with a full contingent of well-established, seasoned practitioners. CIDFAC does not and will not make credit available to any businesses. That is the function of letter of credit banks, private placement investors, or corporate guarantors.

11. **Before adopting this strategic plan, we strongly urge CIDFAC and the State Treasurer's Office to involve business, local government, and economic development stakeholders in a meaningful dialogue outside Sacramento.**

Staff has solicited comments from interested parties and has provided a framework for a dialogue on the proposed strategic plan. Some action items of the strategic plan will require statutory and/or regulation changes to accomplish, which will provide additional opportunities for input from interested parties.

## California Infrastructure and Economic Development Bank (I-Bank)

12. **The I-Bank believes that it is important to develop a stream-lined processes to avoid unnecessary duplication of efforts between CIDFAC and CDLAC, and to avoid fees from two entities fort he provision of duplicative work associated with IDB allocations to eligible projects. The I-Bank supports one IDB allocation entity and the charging of one fee for the allocation and approval of IDBs.**

To streamline the approval process, CDLAC awarded CIDFAC with the authority to allocate from the IDB pool, which reduced a formerly two-step process to a one-step process. Both CDLAC and CIDFAC have statutory responsibilities, and therefore have statutory and/or regulatory authorization to charge certain fees, for IDB issues.

13. **The I-Bank supports CIDFAC's documentation of its bond issuance requirements, and is willing to participate in a working group along with other IDB practitioners to review and vet the requirements.**

See #2 above.

14. **The I-Bank agrees that the current point scheme needs re-evaluation in light of today's cost of manufacturing projects. The points scoring system should emanate from one entity administering the allocation and approval of IDBs. CIDFAC may wish to consider raising the minimum job per IDB allocation amount threshold from one job per $35,000 or less to one job per $50,000, or even consider a higher minimum threshold amount. We support efforts to recognize 'green' manufacturers, and/or projects that have 'green' components.**

See #2 above. CIDFAC staff agrees that the formula for awarding points under the Job Creation and Job Retention categories needs to be revised to reflect the fact that manufacturing is much less labor intensive today than in the past due to technological advances and that IDB project costs (e.g., land, building construction, and equipment) are much higher than when the current formula was developed.

15. **I-Bank supports all of CIDFAC's outreach and marketing proposals and offers to conduct joint marketing and outreach efforts to synergize marketing efforts of IDBs at the State level.**

CIDFAC staff appreciates the opportunity to work with the I-Bank and other state agencies and departments to conduct joint marketing and outreach efforts.

16. **I-Bank does not support CIDFAC's efforts to become an IDB Issuer, and believes that there is an inherent conflict of interest between an allocation entity that also has an issuance function and does not believe that there is a need for expansion of IDB issuers at the State level. In 1998, in an effort to avoid duplication and inefficiencies in State government, the former California Economic Development Financing Authority (CEDFA), a State Issuer of IDBs, was merged into the I-Bank to create a "one stop shop" for the issuance of IDBs at the State level. The creation of a new state-level financing authority would unnecessarily increase the size of government and contribute to administrative inefficiencies and result in duplicative cost to maintain two separate staffs to perform identical work. CIDFAC has not documented that there are any exigent circumstances that require or point to a need for more than one IDB issuer at the State level.**

See #2 and #3 above. Additionally, staff believes there are significant differences between the circumstances that led to CEDFA's demise and the situation that would be created if CIDFAC obtained expanded issuance authority. CEDFA was created in 1994, the same year the I-Bank was formed, and housed with the I-Bank under the Trade and Commerce Agency. CEDFA's statutory purpose was very similar to the I-Bank's, namely to promote and encourage the growth of commerce and industry and general infrastructure and economic development in the state. The enabling statute granted CEDFA basically the same powers as the I-Bank – to issue revenue bonds to finance public infrastructure and private economic development projects.

Staff understands that, under the auspices of the Trade and Commerce Agency, the overlapping functions of CEDFA and the I-Bank created administrative and programmatic inefficiencies.

There was no reason to have two entities under the same agency with the same purposes. Further, both entities had overlapping board makeup, and the I-Bank board had to approve the issuance of bonds by CEDFA after its board granted approval. This meant that, as soon as the CEDFA board approved a project and adjourned its meeting, the same board had to reconvene as the I-Bank and approve the same project. These are the problems that led the Legislature in 1998 to disband CEDFA as a separate entity and fold it into the I-Bank.

Based on its research, CIDFAC staff understands how the Trade and Commerce Agency and Legislature concluded the CEDFA/I-Bank structure produced "duplication and inefficiencies." That situation, however, is not analogous to the one that would be created if CIDFAC possessed expanded issuance authority. CIDFAC and the I-Bank are not in the same agency. CIDFAC has a different, narrower mission that the I-Bank. Unlike CEDFA, it existed before the I-Bank and had authority to issue IDBs before the I-Bank. As a more robust IDB issuer, CIDFAC would complement the I-Bank, not duplicate it.

On the conflict issue, staff believes the award of allocation through CDLAC's procedures and point system creates a level playing field on which all projects, no matter which agency is acting as issuer, are judged by the same criteria. Presumably, conflict concerns would arise in a "competitive" round of allocation issuance, when the total amount requested for projects exceeded the amount available in any given month. Staff believes such concerns could be addressed, if necessary, through Commission-adopted procedures for conducting an anticipated competitive round.

17. **As the sole State issuer of IDBs, the I-Bank supports grant-seeking efforts to explore programs that can provide financial assistance to manufacturing businesses to help cover certain costs of issuance or credit enhancement costs.**

No response.

18. **I-Bank supports CIDFAC working with CDFA to enact federal legislation to extend IDB financing to "knowledge-based" industries in California and offers to assist with legislative efforts.**

No response.

19. **We support efforts to encourage CalSTRS and/or CalPERS to provide first-line letters if credit for IDB transactions, and believes that such transactions will expand credit enhancement opportunities for small manufacturing businesses.**

No response.

20. **We support any federal legislation to expand the definition of manufacturing facilities to include knowledge-based industry associations, and believes such expansion of the federal legislation will aid economic development and job creation efforts throughout the State.**

No response.

Growth Capital Associates, Inc – Dan Bronfman

21. **CIDFAC staff should conduct at least one public workshop to solicit comments from interested parties on the proposed strategic plan. The plan covers a wide range of topics and issues that would be best addressed in a workshop format. Staff would benefit from having a discussion with the IDB community and receiving feedback based on collective experience that dates back over 20 years.**

See #11 above.

22. **The proposed marketing plan for CIDFAC should be further evaluated. In the past, CIDFAC pursued some of the elements in the plan with limited success and the efforts were abandoned.**

As CIDFAC staff moves forward with marketing efforts, it will solicit input from issuers, practitioners and borrowers about the best and most effective way for "getting the word out" about California's IDB program. CIDFAC staff will continue to monitor its successes and failures to ensure it is operating an efficient and successful marketing program.

23. **Giving CIDFAC the ability to issue IDBs seems unnecessary. IDB borrowers currently have access to a variety of local, JPA, and statewide issuers. I can't remember a situation where an appropriate issuer wasn't available for an IDB project.**

See #3 and #16 above.

24. **Targeting manufacturers in the emerging green, bio tech, clean tech, high tech, and venture capital funded sectors will not be productive for CIDFAC. There are numerous structural and strategic reasons why businesses in these sectors are not good candidates for IDB financing.**

Letter of credit banks, private placement investors, and investment grade corporate guarantors will not offer credit to any business seeking IDB financing that does not have a proven track record of revenues and operations. Just as with traditional manufacturers, green tech, and high tech and other knowledge-based enterprises generally must have their equity investment well in place before they seek to take on debt through the municipal market.

CIDFAC staff believes that, if efforts succeed to broaden the federal tax definition of manufacturing facility to include knowledge-based companies, IDB financing will provide a source of low-cost borrowing for these companies as they mature. That would allow them to thrive and expand in California. It's also worth noting that many, if not most, of these knowledge-based firms are small businesses that the IBD program is designed to assist.

CIDFAC staff believes it is important to the state's economic development, the creation of manufacturing jobs in California, and the health of the state's citizens and environment that low-cost, IDB financing is available to businesses in the green economy as they mature. According to a recent report issued by the Center for Energy Efficiency and Renewable Technologies (CEERT):

"…renewable energy resources offer superior economic benefits to fossil fuels, with the added bonus of presenting both environmental and national security advantages. Why is this so? Generally speaking, a larger share of total investment in new power supply is spent on manufacturing equipment, installation and maintenance with renewable energy technologies than with their fossil fuel counterparts…

"Further, most renewable energy technologies have zero fuel costs, so there is no need to import fuels, keeping more dollars circulating within the local, state and national economies…A 2006 analysis performed by the Renewable Energy Policy Project…looked at the employment gains throughout the U.S. to stabilize the greenhouse gas emissions that have been linked to global climate change…According to this report, California has the greatest potential of all 50 states to generate new manufacturing activity to meet this level of demand for clean energy. More than 5,400 existing companies in the state are active in the industrial sectors capable of providing the component parts for new solar, wind, geothermal and biomass projects."[6]

Staff also notes the Strategic Plan envisions providing help not just to manufacturers of green tech equipment, but also to other types of manufacturers who want to make their operations greener and more sustainable.

**25. I agree that the IDB project evaluation and point systems should be re-evaluated. It should begin with a workshop for interested parties.**

See #2 above. A workshop is scheduled for October 22, 2008.

**26. Any strategic plan adopted by CIDFAC should ensure that a "level playing field" is maintained between all IDB issuers in California, now and in the future. All issuers, borrowers, and finance teams should have access to volume-cap, funds to defray costs of issuance (if available) and an expeditious review and approval process.**

See #16 above.

[6] Asmus, Peter. "Harvesting California's Renewable Energy Resources: A Green Jobs Business Plan." Center for Energy Efficiency and Renewable Technologies. August 15, 2008.

STATE OF CALIFORNIA

**CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION**
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August 25, 2008

Mr. Joseph F. Montes, Chair
Industrial Development Authority
City of Los Angeles
1200 W. 7th Street, 6th Floor
Los Angeles, California 90017

Dear Mr. Montes:

Thank you for your August 1, 2008 letter regarding the California Industrial Development Financing Advisory Commission (CIDFAC) draft Strategic Plan. First and foremost, I want to ensure you that the City of Los Angeles Industrial Development Authority will be notified of any scheduled discussions or presentations regarding CIDFAC's Strategic Plan. I place great value on your participation and input.

The draft Strategic Plan was presented at the June 25, 2008 meeting of the Commission. On the same day, it was posted on CIDFAC's website for the purpose of soliciting written comments from interested parties. Also, on June 27, 2008, a request for comments was emailed to all parties on CIDFAC's mailing list, which includes the City of Los Angeles Industrial Development Authority. The deadline for comments was July 31, 2008. At the September 24, 2008 meeting of the Commission, CIDFAC staff will address all comments received from local issuers and practitioners and will present a final plan. Staff reports related to the plan, and the plan itself, will be posted on CIDFAC's website in advance of the September 24th meeting (http://www.treasurer.ca.gov/cidfac/).

The discussions with practitioners and issuers referred to in the draft Strategic Plan were informal discussions that arose in conjunction with staff's work on various Industrial Development Bond (IDB) transactions over the last several years. I assure you there were no formal discussions or scheduled meetings on CIDFAC's near- or long-term plans other than the June 25, 2008 Commission meeting.

Please do not hesitate to contact Eileen Marxen, Deputy Executive Director of CIDFAC, at (916) 653-9129, regarding any questions you may have about the draft Strategic Plan. Through CIDFAC, I look forward to working with you to strengthen the role of IDBs in California's future economic development.

Sincerely,

T.J. Dresslar

Tom Dresslar
Executive Director, CIDFAC

cc: Eileen Marxen, Deputy Executive Director, CIDFAC
Deanna Hamelin, CPCFA

State of California
California Industrial Development Advisory Commission

State Treasurer's Office

Date: August 21, 2008

To: Interested Parties

RE: Industrial Development Bond (IDB) Allocation Point System

California Industrial Development Financing Advisory Commission (CIDFAC) staff proposes a review and revision of the current system for scoring the public benefits of IDB projects for which tax-exempt allocation is requested.

The current point system was developed by California Debt Limit Allocation Committee (CDLAC) staff several years ago. CIDFAC staff believes the criteria for awarding points need to be updated to reflect the current state of manufacturing in California. In addition, staff proposes that the current point system be expanded to encourage IDB projects that contribute to the state's overall economic development, green the manufacturing sector and help the state curb climate change emissions.

Staff's goal is to have a revised point system in place for the 2009 calendar year. To accomplish this goal, staff has developed the following schedule for the revision process:

- September 30, 2008: Written comments will be due to CIDFAC on the proposed revision of the IDB point system.
- October 22, 2008: CIDFAC and CDLAC will conduct a workshop for interested parties on the proposed revised IDB point system. Staff anticipates the workshop will be conducted after the CIDFAC meeting scheduled for the same day.
- November 19, 2008: CIDFAC will present a proposed revised IDB point system to the Commission to request approval to submit the changes to CDLAC for its review and approval.
- Upon favorable action by CIDFAC, staff anticipates CDLAC will announce a 30-day comment period on the proposed changes at its December 3, 2008 meeting. Staff also anticipates that, following the 30-day comment period, CDLAC will present a revised IDB point system to the Committee for its approval at its January 2009 meeting. If CDLAC approves the revised point system at its January 2009 meeting, then staff anticipates the new point system, along with a revised IDB application that reflects the new point system, will be in effect starting with applications submitted to CIDFAC for approval and/or allocation at its March 2009 meeting.
- Dates may change as needed to accommodate the revision process. Any schedule changes will be announced in advance.

The following broadly outlines a proposed revision of the IDB point system. Staff intends to work with IDB issuers, practitioners, borrowers and other interested parties to: refine the point categories and subcategories; determine the overall points allowable for each category and subcategory; and develop a reasonable means to measure or determine qualification for points in particular categories.

**(1) JOBS:** Staff proposes to create a new JOBS category, designate JOB CREATION and JOB RETENTION as subcategories and revise how points are awarded for job creation.

- Under the JOB CREATION subcategory, staff believes the criteria for awarding points should reflect the fact that manufacturing today, thanks to technological advances, is much less labor intensive. Using the "jobs-per-bond-amount" criteria, staff proposes an increase in the "per bond" amount, i.e., begin the scale with one job per $50,000 in bond proceeds instead of the current one job per $35,000 in bond proceeds. An alternative approach to awarding points for job creation is a scale based on a percentage increase in the manufacturer's workforce. For example, a 5% - 10% increase in overall workforce would receive some number of points, a 10% - 20% increase would receive more points, and an increase exceeding 20% would receive the maximum number of points.

- For JOB RETENTION, staff proposes that the criteria for awarding points remain the retention of the manufacturer's current workforce in the face of economic pressures to (1) move out of California or (2) cease operations. Staff proposes that the standard of proof continue to include written confirmation from the local government that the company was contemplating moving or closing. However, staff proposes to add other standards of proof, e.g., written proof that the company, within the prior two years, either engaged a "site selector" to locate possible sites outside of California or formally analyzed the option to cease operations.

**(2) HEALTH, DENTAL & VISION BENEFITS and CHILD CARE BENEFITS:** Staff proposes to continue to require the same proof of health benefits. However, the health benefits worksheet would be reworked to make it more user- friendly.

**(3) AVERAGE HOURLY WAGE:** Staff proposes to continue awarding points in this category using current criteria. However, since the state Employment Development Department (EDD) is not longer providing the manufacturing wage data, staff proposes to use the production wage data available on the federal Bureau of Labor Statistics website (see <http://www.bls.gov/>).

**(4) COMMUNITY ECONOMIC NEED:** Staff proposes to continue awarding points in this category using current criteria.

**(5) WORKFORCE DEVELOPMENT:** Staff proposes to create a new WORKFORCE DEVELOPMENT category. The proposal responds to the concern voiced in literature, the media, government conferences, economic forums, etc., that California does not have a well-trained workforce. The concern is particularly strong regarding skills required in the emerging economy, including the green sector. WORKFORCE DEVELOPMENT would have the following subcategories:

- WELFARE TO WORK: Staff proposes to continue awarding points in this subcategory using current criteria.

- WORKFORCE TRAINING: There are several programs operated by the state's Employment Training Panel that help businesses train or re-train workers. In addition, there are programs operated at the local level on behalf of the state (e.g., Workforce Investment Act programs through the EDD and the Apprenticeship Program through the California Department of Industrial Relations) that offer employers access to specific types of training by certified training entities. Finally, there are workforce training programs offered by community colleges, universities, adult schools, Regional Occupational Programs, and private training agencies approved by the Bureau for Private Postsecondary and Vocational Education. Staff proposes to award points to IDB projects when the employers participate in such programs.

**(6) ECONOMIC DEVELOPMENT:** Staff proposes a new ECONOMIC DEVELOPMENT category. The objective is to recognize manufacturers' contributions to California's economy. ECONOMIC DEVELOPMENT would have the following subcategories:

- EXPORTS OUTSIDE CALIFORNIA: The purpose of this subcategory is to recognize the additional economic benefits that accrue to the state when manufacturers export some or all of their products to other states or countries. The literature consistently cites the "multiplier effect" created by manufacturers who export their products. The research-supported consensus is that when manufacturers export, they triple the economic benefits their operations provide to their home states.
- SOURCE MATERIALS MADE IN CALIFORNIA: The purpose of this subcategory is to recognize the economic benefits that accrue to the state when manufacturers purchase raw or source materials produced in California.
- EMPLOYER TRAINING: Some of the same agencies that offer workforce training also offer employer training. In general, employer training aims to make the business a better place to work, as well as a more successful operation. There also are programs aimed specifically at teaching manufacturers how to export their products overseas. For example, the California Community Colleges' 2006-07 annual report on its Economic and Workforce Development Program cites the successes of small businesses which participated in its Export Readiness Training program. One example is Aranda's Tortilla Factory in Stockton, which now exports its products to Korea. Staff proposes to award points to IDB projects when the employer participates in such programs.

**(7) ENVIRONMENTAL STEWARDSHIP:** Staff proposes a new ENVIRONMENTAL STEWARDSHIP category. The current LAND USE, ENERGY EFFICIENCY and PUBLIC TRANSPORTATION categories would become subcategories under the new category. CIDFAC staff proposes to expand the criteria for awarding points under ENERGY EFFICIENCY to include installation and use of renewable energy equipment to power the manufacturing process. In addition, CIDFAC staff believes the TRANSPORTATION subcategory can be improved by clarifying the criteria for awarding points to projects that are in proximity to public transit. Also under TRANSPORTATION, staff proposes awarding points to employers who subsidize public transportation for its employees. Finally, under the ENVIRONMENTAL STEWARDSHIP category, staff proposes the creation of two new subcategories:

- MANUFACTURER OF CERTIFIED ENVIRONMENTALLY SENSITIVE PRODUCTS: Points would be awarded to manufacturers who make LEED-certified products, or products certified by other nationally-recognized environmental organizations. (LEED stands for Leadership in Energy and Environmental Design.)
- LEED-CERTIFIED MANUFACTURING FACILITY: Points would be awarded to manufacturers who use bond proceeds to construct LEED-certified facilities. The number of points would be based on LEED's various levels of certification (i.e., platinum, gold, silver, etc.).

**(8) LEVERAGE:** Using the current scale, CIDFAC staff proposes to award points to IDB projects for which the borrower, in addition to tax-exempt bonds, will use taxable IDBs, a taxable loan, and/or private funds or equity to finance portions of the overall project.

**Attachment C**

# CIDFAC Executive Director's September 23, 2008 Email to Commission Members Containing Preliminary Staff Response to September 19, 2008 Email Regarding CIDFAC's Draft Strategic Plan

I offer the following response to an email communication you and other Commission representatives received late Friday night from Paula Connors, executive director of the California Enterprise Development Authority (CEDA).

Ms. Connors references an email sent the same night by Keith Sutton of the Alameda County Industrial Development Authority to Eileen Marxen, CIDFAC's deputy executive director. Mr. Sutton copied his email to numerous members of California's IDB community. What Ms. Connors describes as an "eloquent" missive contains misinformation about CIDFAC, its current program and the draft Strategic Plan. Further, it misrepresents the actions of CIDFAC staff and takes unwarranted, unconstructive potshots at staff. Contrary to the assertion made by Mr. Sutton and repeated by Ms. Connors, CIDFAC has not "disregarded" comments made by them, or anyone else, on the draft Strategic Plan.

The only comments CIDFAC staff received during the comment period came from CEDA, its sponsoring organization, the California Association for Local Economic Development (CALED), the I-Bank and Dan Bronfman of Growth Capital Associates. We reviewed, considered and responded to all comments. The comments (including a late one received from the City of Los Angeles Industrial Development Authority) and responses are in your packet for Wednesday's meeting. Friday's email is the first we've heard from Mr. Sutton.

Staff did disagree with some of the comments submitted by CEDA and CALED. That's far different than disregarding them. The view they expressed in their comments essentially boils down to this: CIDFAC shouldn't be an issuer, and it shouldn't be an approval agency. Yes, staff disagrees with that position, and for good reason. The Legislature created CIDFAC 28 years ago to provide State-level oversight of IDB issuance to ensure the public gets value in return for providing manufacturers access to low-cost, tax-exempt financing. That oversight is needed now more than ever, especially as it relates to issuance by JPAs, including CEDA. As came to light this year, these entities have been operating with little transparency or accountability to the public. They posted scant information about their meetings or actions on their web sites. They used ruses to avoid complying with full public notice requirements for their meetings. Some didn't adopt annual budgets, or comply with state laws related to financial audits. One thought its operational and marketing plans were none of the public's business. To address some of these problems, the Legislature this year passed SB 1293 (Negrete McLeod). But other problems persist. For example, in the case of two of these JPAs, private consultants staff the JPAs and make recommendations on approval of IDB projects. Because of the structure of their contracts with the JPAs, these private consultants have a direct financial interest in the decisions made by the JPAs. The more IDB projects are approved, the more money the consultants make. Now is not the time to reduce oversight of IDB issuance.

Mr. Sutton expresses concern with the direction CIDFAC seems to be heading. But California, thanks in large part to the leadership of Gov. Schwarzenegger, has adopted landmark laws and regulations to fight climate change. That endeavor will not succeed unless we make our economy greener and more sustainable. A primary objective of the Strategic Plan is to make sure the IDB program helps accomplish these intertwined environmental and economic objectives. Additionally, we're rapidly moving into a more knowledge-based economy, with different kinds of manufacturers, and a global economy for which our workers need to be trained to attain prosperity. The Strategic Plan, in its various elements, seeks to make the IDB program part of a broader effort to help the state meet these challenges and opportunities. The Strategic

Plan envisions CIDFAC as a vital member of the IDB partnership, working with others at the State and local levels to reach the goals we all share.

Contrary to Mr. Sutton's assertions, CIDFAC staff does not place itself above others in the IDB community, or think it can do everything itself. We have the utmost respect for everyone in the IDB community and believe the Strategic Plan cannot be implemented successfully unless we all work together. Mr. Sutton issues several complaints about the IDB process. As you are aware, staff has taken steps, with the Commission's approval, to streamline and improve the process, and the Strategic Plan proposes additional measures. We look forward to working with practitioners, issuers and others to make further improvements to the application process and other features of the program.

Given the late date on which Mr. Sutton's email was received, staff has not had sufficient time to prepare a detailed response. If the Commission desires, staff can draft a letter to Mr. Sutton that provides such a response.

On a related issue, some local issuers, including the Los Angeles IDA, have voiced concern that in expanding its issuance authority, as proposed in the draft Strategic Plan, CIDFAC would steal local folks' business. There is no intent to encroach one inch into local issuers' territory. Let me be absolutely clear: The only time CIDFAC would step into the shoes of a local issuer would be if the local issuer asked CIDFAC to do so, in writing. Staff will add such language to the Strategic Plan, if the Commission desires, and will make sure the "right of first refusal" is included in any legislation to expand CIDFAC's issuance authority. It's interesting, in light of concerns about potential poaching by CIDFAC, that staff received reports last week of an actual attempt to steal a project from the Alameda IDA.

Regards,

Tom

**From**: Paula Connors
**To**: Weinberger, Brian ; Brian McGowan ; Grutzius, Jennifer@BTH ; Klementich, Eloisa@BTH ; Steve Wallauch ; Mike LaPierre ; Tracy Arnold; Symonds, Toni ; Jack Stewart ; Yolanda Benson ; bredway@treasurer.ca.gov ; scoony@treasurer.ca.gov ; Dorothy Rothrock ; Cindy Aronberg ; Anne Sheehan
**Sent**: Fri Sep 19 23:20:45 2008
**Subject**: FW: CIDFAC Point System Proposal Response.docx

Hello all:

I wanted to share with you an eloquent email from a local IDB practitioner on the whole CIDFAC and State Treasurer Strategic Plan issue. As you can see, there are local participants who feel that their concerns and input are not being considered. Please see the also the attached responses of CIDFAC to the local input provided during the comment period on the proposed "Strategic Plan." ( http://www.treasurer.ca.gov/cidfac/staff/20080924/4d.pdf) as well as the City of Los Angeles letter to CIDFAC.

Paula

------ Forwarded Message
**From:** "Sutton, Keith - East Bay EDA" <keith@eastbayeda.org>
**Date:** Fri, 19 Sep 2008 21:31:06 -0700
**To:** "Marxen, Eileen" <Eileen.Marxen@treasurer.ca.gov>, "Hamelin, Deanna" <Deanna.Hamelin@treasurer.ca.gov>, "ERMAC, Theresa" <Theresa.Ermac@treasurer.ca.gov>
**Cc:** "Alexander, Andrew D" <Andrew.D.Alexander@bankofamerica.com>, "procap@jps.net" <procap@jps.net>, Daniel Bronfman <dan@gro-cap.com>, Paula Connors <pconnors@caled.org>, "Balisy, Sam S." <Sam.Balisy@KutakRock.com>, John P Stoecker <jstoecker@cmfa-ca.com>, "Tonomura, Lawrence N" <lawrence.n.tonomura@bankofamerica.com>, "James.Kordas@ge.com" <James.Kordas@ge.com>, James Hamill <jhamill@cacommunities.org>, Terrence Murphy <tmurphy@cacommunities.org>, May Smith <May.Smith@lacity.org>, "tdunn@ibank.ca.gov" <tdunn@ibank.ca.gov>, "Cristia-Plant, Roma" <RCristia-Plant@ibank.ca.gov>, William Lofton <blofton@loftonjennings.com>
**Subject:** CIDFAC Point System Proposal Response.docx

Hi Eileen

Here are my thoughts on the point system proposal, but since I didn't get my thoughts on the proposed strategic plan sent in, this includes a few references to that – though it is hard to separate the two.

As you will see I am really concerned about the direction the program is heading in, and I am even more concerned that the much of the comments and input of the people who have been working with this program for many years and understand it intimately, are being disregarded.

This program will not work without the support of local economic development professionals and the issuers and the team they work with - particularly since the applications have been made so complicated.

My team is about ready to mutiny and you will be able to tell from my comments that I am getting tired of having to find more and more "public benefits" for a program whose public benefit was established by congress when they created it (a comment you may find occasionally throughout the attachment).

Implementing all of the additional public benefit points identified in this proposal will substantially increase an application that already only a few professionals have the knowledge, experience, time and desire to complete - making CIDFAC an issuer will likely remove the remaining desire, at least on my part.

The staff recommendation to proceed with the latter despite the concerns and issues raised by everyone in the program apparently means that staff think they can do everything themselves (or with a few more staff people). While CIDFAC staff certainly have been able to present themselves as authorities in every part of the IDB application, approval, allocation, bond documentation and issuance process, it should be clear that those projects did not get to CIDFAC by themselves.

Without the local and other statewide issuers, the teams they have put together to make this program work, their marketing efforts and connections with the local economic development people to help identify projects and follow through, very few projects would find CIDFAC and be successful.

I say this from experience and because I and my team can and only will do so much.

Here's the experience part:
Despite extensive targeted marketing efforts locally to East Bay manufacturers over the last 12 years, many businesses still do not know of the program, fewer are in a position to make large equipment purchases on any given year, fewer are able to purchase a land and buildings during their operational lifetime and even fewer believe that a government program is actually there to help them. Out of a mailing to 600 targeted local manufacturers, 30 might respond and with luck, 3 or 4 might qualify. That

success rate is probably two to three times higher than many other areas experience because the marketing has been frequent and long-term; we have local, proven successes; we involve our county and cities; and we meet with the business at their place of business, within a day or two of their call. In smaller cities, the potential clients may only number ten. That type of marketing and follow up cannot be done from Sacramento.

Once a potential client is identified and their project size, use and business all appear ok, my team connects them with a bank that is rated A or better or a bond purchaser. There are only 3 or 4 banks that are rated A or better that are interested in the program and there are only a couple of people in each bank that will know what an IDB is. Further, banks are in it strictly for themselves and will charge as much as the market will bear, and that will be more if you don't know that the market is.

Next they need an Inducement Resolution and a TEFRA (the latter which should be held within the city or county the business project is located in), and that is not standard fare for most cities, counties or attorneys.

Then there is the IDB 2-3 inch application, which I won't bother to describe since you know it quite well. Suffice to say, no business would be able to complete it, only about a half dozen economic development professionals in the State could do so without a whole lot of help, and I would have a real problem with a lot of the things that are in it if I were a business.

Now the business is in the process of making a very large purchase that is needed by a specific time, and if it is not ready, the business could go under, so one of the first concerns is when. We know CIDFAC's schedule and used to be able to say in 90 days you will have your money. But CIDFAC decided that they needed more control and established a $20 million limit for each meeting date, so if one large $19 project and 2 small $3 million projects go before CIDFAC in the same month (and you of course won't know that until a month before the meeting) and your project is located in a community that has a slightly lower poverty rate than the other, you get bumped, and that can be a very expensive bump.

So now when we meet with a business and answer the when question, we in all honesty have to say it probably will be in 3 months, but it may be 4 or even 5 months, and there is a slight chance that it might be never - guess what most business's answer will be. And that monthly limit was established for the year that a little over half of the previous year's allocation (that also happened when points were established to rate projects, and it usually takes a number of years before the usage gets back up there again).

But we got the allocation, the State correctly issued all of the documents, the 3 inches of bond documents were prepared, the business spent half a day signing documents and the bonds were sold.

But that's not the end because the business still needs to build, renovate and/or install his equipment and may need help with permits, regulatory requirements and/or help accessing the other resources (like training for new employees or connections/linkages with export assistance to make the project successful and grow - course these things happened after the IDB application was submitted so we received no "points" for them).

Or 3 years down the road, the business needs to replace the LOC bank, have someone tell a new owner or family member why they are paying for a rating agency or a remarketing agent or how to sell the building with an assumable IDB.

Virtually none of those things can be done for East Bay businesses by a program based in Sacramento and all the flyers and program pamphlets won't help the business access those resources when they are needed.

Here's the too much (or too little) part:
Most importantly, if CIDFAC becomes an issuer and there no longer are local or statewide issuers available to do these things or don't have the local connections to make all of them happen, there just won't be very many IDB projects making it to CIDFAC and there won't be any reason for the program to continue.

California cannot afford this. California lost 7,400 manufacturing businesses (93% small businesses) between 2001 and 2005 and 434,300 manufacturing jobs (20%) lost between July 2000 to July 2008. Once a business is gone it no longer has the ability to add jobs and the businesses and jobs have not been replaced. Sure there are more service jobs now, but far fewer of them pay a living wage or benefits. So the loss is much greater than each business or job, also gone is the ability to buy a home, provide medical insurance for the family and they may even need public assistance.

That does not include the impact on other businesses that the failed one helped support, the products that may no longer be available locally for the industry cluster to be cost effective, or the restaurant down the street that fed the employees.

We need a bigger vision here, not for a bigger CIDFAC, but for how much more can be accomplished by working together, more efficiently and effectively to help keep our businesses, our agencies and our State successful and strong.

I'm sorry for saying so much, especially when it has not been all that positive, but I hope you understand that I care very much about this.

Keith

Keith Sutton

Industrial Development Bond Program Staff
Industrial Development Authority of Alameda County
1221 Oak Street, Suite 555
Oakland, CA 94612
Phone: 510 272-3885
Fax: 510 272-5007
Email:keith.Sutton@acgov.org

# CIDFAC 2008 Point System Proposal Comments

**By Keith Sutton**

**Staff to the IDA of Alameda County since 1991**

The Industrial Development Bond program was created to support all manufacturing business by providing “smaller” businesses access to money at interest rates and terms that large companies had. Congress designated that the “public benefit” criteria for a tax-exempt IDB bond was that that user would be a manufacturer (unlike other users of tax-exempt bonds like housing and health related programs and the federally required monitoring is done by the IRS, which carries the bigger enforcement stick, and which has worked very well for the past 21 years.

Therefore all manufacturers who meet the financial requirements of the LOC banks or direct placement bond purchasers qualify equally for an IDB and has survived the last 7 years deserves everything available, period. So I am very glad to see the inclusion of a goal to increase the number of businesses taking advantage of this program and making sure that the program has the allocation it needs.

There are a number of ways we can do the first part of this – but the most important would be a revision and simplification of the IDB application itself – as in the last 5 years, the IDB application process has been made so complex and difficult that there a business or an untrained economic development person cannot put one together. CIDFAC really needs to focus on the application so that it is less costly in time/money to put together, less complex, and has less “verification.”

What is not needed is for CIDFAC to become an issuer. One government and 2 statewide issuers already exist and another is certainly not needed, particularly when the new one would review every document and email, make staff reports and recommendations, develop the point systems and assign points to projects, as well as “verify” everything. This will not build the relationship CIDFAC needs with the other issuers who are most of the project generators and will end up hurting the program.

I appreciate the desire to reform the system used to grade projects, and the revision of the jobs point system is strongly supported, but any desire to “strengthen the quality of projects, and the public benefits provided by projects, or by grading or “greening” businesses (requiring “green” public benefits) almost surely would reduce the number of those small business project that we are going to increase and introduce yet another level of complexity and uncertainty into the IDB program.

Based upon what my experience with the IDB program and CIDFAC’s own mission statement, CIDFAC has two primary responsibilities: (1) ensure that projects which receive IDB financing provide certain public benefits which outweigh any public detriment (a mission already addressed by congress when it established the IDB tax-exempt program for manufacturers); and (2) ensure that IDBs are adequately secured, they will be repaid, and investors who buy the bonds will not be defrauded (which is addressed by ensuring that the bank Letter of Credit for publicly sold bonds is a bank rated A or better; or the purchaser of a directly placed bond is an eligible purchaser; and that the issuer is an eligible Industrial Development Authority and the appropriate resolutions and documents have been provided).

***(1) JOBS:*** *Staff proposes to create a new JOBS category, designate JOB CREATION and JOB RETENTION as subcategories and revise how points are awarded for job creation.*

*Under the JOB CREATION subcategory, staff believes the criteria for awarding points should reflect the fact that manufacturing today, thanks to technological advances, is much less labor intensive. Using the "jobs-per-bond-amount" criteria, staff proposes an increase in the "per bond" amount, i.e., begin the scale with one job per $50,000 in bond proceeds instead of the current one job per $35,000 in bond proceeds. An alternative approach to awarding points for job creation is a scale based on a percentage increase in the manufacturer's workforce. For example, a 5% - 10% increase in overall workforce would receive some number of points, a 10% - 20% increase would receive more points, and an increase exceeding 20% would receive the maximum number of points.*

*For JOB RETENTION, staff proposes that the criteria for awarding points remain the retention of the manufacturer's current workforce in the face of economic pressures to (1) move out of California or (2) cease operations. Staff proposes that the standard of proof continue to include written confirmation from the local government that the company was contemplating moving or closing. However, staff proposes to add other standards of proof, e.g., written proof that the company, within the prior two years, either engaged a "site selector" to locate possible sites outside of California or formally analyzed the option to cease operations.*

**I think the percentage increase would be a lot fairer and realistic, as long as it is based on realistic numbers. It would also award points for smaller increments. But please have an accounting firm(s) determine the levels – arbitrarily picking a number/ratio that has no relationship to reality could make the point level punitive instead of a reward.**

**The additional job retention requirements will make it almost impossible for a business to qualify for this category.**

1. (Site Selectors). Very few companies of this size could afford to or would want to engage a "site selector." The closest they might come to this is contacting a real estate broker. And if they were to go that far, they will almost certainly be gone and our "retention" efforts will have been in vain, again. We do not want to encourage businesses to consider or even look at out of state options because we are not competitive.

2. (Ceasing Operations): I will not ask an IDB prospect for documentation that a it has "formally analyzed the option to cease operations." I have been a loan officer and ran revolving loan funds for 8 years prior to taking this position, and the closest thing I can imagine The First of all, that is what a balance sheet and income statement says, Lets see, we want this business to use an IDB to obtain financing (which requires that the business qualify for a LOC a private placement), and they are not going to be creating very many jobs so we want documentation that a business is going out of business but it still has to qualify for bank financing?

3. (Business Retention) The reason why the job retention requirement was added in the first place was because manufacturing businesses in particular are having such a hard time; businesses often have to lay off employees to stay in business; and often when new equipment is purchased, the business will be able to operate more efficiently and in some cases may even lay off employees in the short term (doing what it needs to do to survive) and even in when businesses add new product lines, or increase their output with new piece of equipment, the number of employees needed in relation to the cost of the equipment is maybe 1 per $ 1 million due to computerization and mechanization.

From July 2000 to July 2008 in California, manufacturing lost 434,300 jobs (20% of the number of in 2000), and by far the most of any industry sector in the State. That includes a loss of almost 40,000 jobs in the last 12 months! Perhaps an even more important indicator statistic is that between 2001 and 2005, CA lost 7,400 manufacturing businesses, 6866 of which had less than 100 employees. These businesses no longer have the opportunity to add jobs when things get better because they are gone.

How many more thousands of jobs and businesses do we need to lose? Every business that has survived the last 7 years in CA has struggled with much higher operating costs for labor, lease or bldg. payments, electricity, tax rates, business licenses, Workmans Comp. etc. Retaining that business by helping to lower or fix its operating costs with an IDB and/or purchase equipment that will allow it to operate more efficiently is the least we can do.

4. (Retention documentation & enforcement) Why are borrower's job creation or retention representations even required or included in bond documents when it is not legally or realistically possible to make any the job creation/retention a reason to call the bonds? The bonds could not be sold if there was a potential that they would be called for such a reason. The business has to do whatever it deems necessary to stay in operation and expand and that really is what is most important. If the company were to hire more people than it could afford and went out of business, all public benefits will be lost. The representations made in CIDFAC's IDB applications are "good faith" projections that can be exceeded or not met due to circumstances beyond their control. Monitoring that growth or decline may be nice to know but it cannot impact the bond now or in the future. That a manufacturing business is willing to make a capital investment in California should be reward enough for a State that has done more than is reasonable to "Murder Manufacturing in the US".

**The answer: Give points just for job creation but do not make it a qualification factor.**

*WORKFORCE TRAINING: There are several programs operated by the state's Employment Training Panel that help businesses train or re-train workers. In addition, there are programs operated at the local level on behalf of the state (e.g., Workforce Investment Act programs through the EDD and the Apprenticeship Program through the California Department of Industrial Relations) that offer employers access to specific types of training by certified training entities. Finally, there are workforce training programs offered by community colleges, universities, adult schools, Regional Occupational Programs, and private training agencies approved by the Bureau for Private Postsecondary and Vocational Education. Staff proposes to award points to IDB projects when the employers participate in such programs.*

WHY? Businesses that "participate" in these programs will do so regardless of the IDB program – they'll do so if it makes economic sense to them and "points" will not influence that decision one way or the other nor can our "points" encourage a worker or student to utilize any of the education or training programs. We are agreed that our workforce needs training, but providing points in the IDB program is not an answer or even a small part of the solution.

What happens is at the local level, businesses are encouraged to participate in these programs and basic English language training is one of the most popular. What needs to happen for worker training has to happen at the grade school and high school levels, and we know the workers are going to have to continue their education (probably at community colleges) multiple times during their lifetime, but this program cannot address this and adding this to the point system just makes the application more complicated, more difficult and time consuming for the business and the people preparing the application, and it will quickly become too expensive and complicated for anyone to prepare.

**Providing points for additional "Workforce training programs", Economic Development, Exports and CA source materials will qualify hundreds of programs that has some "public benefit" to somebody, somewhere, sometime, that we could add to this list, and of course every program that is added has to be approved, measured, qualified, given a value and more documentation and verification will have to be established, making this the endless IDB application of 2009.**

The federal government decided that manufacturing use is what establishes the "public benefit" for these bonds (unlike other users of tax-exempt bonds like housing and health related programs) and the federally required monitoring is done by the IRS, which carries a far bigger enforcement stick than anything the State can do, and it has worked very well for the past 21 years.

***(6) ECONOMIC DEVELOPMENT:*** *Staff proposes a new ECONOMIC DEVELOPMENT category. The objective is to recognize manufacturers' contributions to California's economy. ECONOMIC DEVELOPMENT would have the following subcategories:*

EXPORTS OUTSIDE CALIFORNIA: The purpose of this subcategory is to recognize the additional economic benefits that accrue to the state when manufacturers export some or all of their products to other states or countries. The literature consistently cites the "multiplier effect" created by manufacturers who export their products. *The research-supported consensus is that when manufacturers export, they triple the economic benefits their operations provide to their home states.*

*SOURCE MATERIALS MADE IN CALIFORNIA: The purpose of this subcategory is to recognize the economic benefits that accrue to the state when manufacturers purchase raw or source materials produced in California.*

*EMPLOYER TRAINING: Some of the same agencies that offer workforce training also offer employer training. In general, employer training aims to make the business a better place to work, as well as a more successful operation. There also are programs aimed specifically at teaching* *manufacturers how to export their products overseas. For example, the California Community Colleges' 2006-07 annual report on its Economic and Workforce Development Program cites the successes of small businesses which participated in its Export Readiness Training program. One example is Aranda's Tortilla Factory in Stockton, which now exports its products to Korea. Staff proposes to award points to IDB projects when the employer participates in such programs.*

**The way we need to recognize a manufacturer's contribution to the economy is to enable every business that qualifies to get an IDB. Congress recognized their "public benefits" and established the IDB bond program. Congress does not require any more public benefits and assigning arbitrary "points" can be counter-productive. While the intent is laudable and reflects much of what we have been saying in making a case for more IDB allocation, if it makes it harder to complete the application and businesses have a harder time qualifying, then it is counter to the intent of congress.**

If we can provide an allocation to every business that qualifies, we do not need a point system and we have not needed a point system yet. It was developed and expanded for the 2 years in the last 7 in which the initial allocation level was reached, but additional allocation was obtained and all applicants were taken care of, so it was never necessary, yet every year and expansion of the point system has made the application process more difficult. There will be a tipping point at which the cost (to all the parties involved in an application) will exceed the benefit and the program will have no problem with allocation. We will be far short of last year's allocation need and next year will probably be even less.

So now we need to try and track where every bolt, steel, paper, glue etc that a business uses came from (and or course validate that) and we will give more points to a business that uses local clay to make bricks over one that builds medical equipment that utilizes steel from another state or country!?

We are going to track where and when all employees were trained/went to school, when training programs used by employees (before, during or after they began work for applicant?); or any programs the employer used 5 years ago, last year, is currently using, or us thinking about using? And verify that!

I strongly disagree that we should give an advantage to manufacturers that export (because it has been reported) and I have a real problem with the use of multipliers as I have seen a large variety used and in reality they vary so much with each community, each product and even each business, that they can only provide indications of potential and somewhat comparative benefit. We would need to know what is exported (are we going to place those who export recycled metal vs one that is exporting expensive, large &/or high-tech machinery or maybe carrots?); how much is exported (do 2 cases of wine or bolts count?); and even who actually exports it (the company, a local person, small business, trade program or is it sold to another company that exports it?); and where it is exported to are all significant variables.

**This could be a nightmare and result in regional battles (central valley ag based businesses vs silicon valley tech companies)! And it's totally unnecessary!**

CIDFAC cannot and should not try to become the State's economic development program, or try to use the IDB program to fix all of our economic development problems. The State of California desperately needs an Economic Development Agency that is at a level that is at least equal to the States' Agencies.

I have been in economic development for 25 years, in rural and metropolitan regions, and I don't know of anyone in the economic development community that felt that CIDFAC's role was "too limited". It just needs to do what it was established to do, as efficiently and effectively as possible.

IDBs have to be sold one on one to businesses, at the local level and the State as the issuer cannot effectively market the program at that level, they cannot provide the assistance local issuers do in getting the projects through the CIDFAC/CDLAC approval process, they cannot help make the local bank connections that are often the single most critical go/no-go factor in a project or negotiate the terms of the Letter of Credit, they cannot help a business prepare CIDFAC's application forms, they cannot help coordinate's the permit/regulatory, construction and accessing the other resources needed to make the project possible and successful, and they cannot be there to help a business with a replacement of the LOC, the transference of an IDB or to tell a new family member or owner who needs to know why they are paying for a rating agency or a remarketing agent two of five years down the road.

Without a local issuer available to do these things or make them all happen, you won't get very many IDB projects, as it is the fees an issuer receives for doing all this work that keeps it all going.

Conventional marketing by CIDFAC is not what will make the IDB program work because marketing also has to be done at the individual business and community level, and that is way too expensive to do from a State Agency. Nor can they handle the follow up of marketing, for only a very small percentage of all of the businesses who respond qualify. The previous CIDFAC Executive Director, Joanie Jones Kelley was often seen at CALED economic development and local & regional government events to market the program and that was an effective "marketing" program. Ms. Kelley also understood the program very well and had a good working relationship with local practitioners. But making CIDFAC an unfair competitor to local issuers is certainly not the way to establish partnerships with "government agencies, nonprofits and others" that actually do most of the effective marketing CIDFAC is talking about.

***(7) ENVIRONMENTAL STEWARDSHIP:*** *Staff proposes a new ENVIRONMENTAL STEWARDSHIP category. The current LAND USE, ENERGY EFFICIENCY and PUBLIC TRANSPORTATION categories would become subcategories under the new category. CIDFAC staff proposes to expand the criteria for awarding points under ENERGY EFFICIENCY to include installation and use of renewable energy equipment to power the manufacturing process. In addition, CIDFAC staff believes the TRANSPORTATION subcategory can be improved by clarifying the criteria for awarding points to projects that are in proximity to public transit. Also under TRANSPORTATION, staff proposes awarding points to employers who subsidize public transportation for its employees. Finally, under the ENVIRONMENTAL STEWARDSHIP category, staff proposes the creation of two new subcategories:*

*MANUFACTURER OF CERTIFIED ENVIRONMENTALLY SENSITIVE PRODUCTS: Points would be awarded to manufacturers who make LEED-certified products, or products certified by other nationally-recognized environmental organizations. (LEED stands for Leadership in Energy and Environmental Design.)*

*LEED-CERTIFIED MANUFACTURING FACILITY: Points would be awarded to manufacturers who use bond proceeds to construct LEED-certified facilities. The number of points would be based on LEED's various levels of certification (i.e., platinum, gold, silver, etc.).*

So here we go again – another large group of new or expanded points. This is a very arbitrary process – who decides how many points should be assigned a particular level, what the levels and points are, how is the level to be documented and what is the reason we are giving "points" to this category in the first place. This might work if CIDFAC would accept a statement by a company or even the local issuer as true, but the verification process can make something simple, quite complex, because nobody else reports on most of these things and it is easy to get into confidential data or be downright offensive to businesses.

Realistically, CIDFAC can never be "a driver California's green economy" and we cannot afford to prioritize by industry because we need every one we have and most depend upon other industries. But CIDFAC does have the potential to help California's economy by using the only real tool we have to retain and grow manufacturers (which includes a very few "green" companies). The big green boys will never qualify or need IDB financing, and the new businesses, the R&D and those beginning the manufacturing phase will not qualify financially. There is a reason for that – what has happened to the private financing industry should provide a good illustration of the risk involved. So we have the non-sexy, family owned machine shop that is still needed to manufacture parts for the currently hot product. Without those businesses, these new tech businesses could not "make" their products or would go overseas or out-of-state for those components.

A few years ago it was computers, then computer components, then bioscience, then cell phones and now its "solar cells." Chasing the currently popular or strong industry is not right or even possible. All businesses are equal in the federally designed IDB program and limiting the program or giving preference to "current", "quality" businesses and industries will have a negative impact that would be very, very harmful to the program and CA's remaining manufacturers. We have to look at the long term here.

In the last 5 years, the IDB application process has been made so complex and difficult that there is no way a business or an untrained economic development person can put one together. If CIDFAC really wants to improve the program, make it more accessible and increase the number of businesses participating instead of trying to make it more difficult for a business to qualify. It should focus on streamlining the application process instead of trying to make CIDFAC the new economic development leader in the State. Getting every business that qualifies to participate in the bond program can be the only goal.

# CITY OF LOS ANGELES

CALIFORNIA

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September 5, 2008

State Treasurer Bill Lockyer
Chair, California Industrial Development Financing Advisory Commission
915 Capitol Mall
Sacramento, CA 95814

Dear State Treasurer Lockyer:

The Industrial Development Authority (IDA) of the City of Los Angeles appreciates the opportunity to comment on the California Industrial Development Financing Advisory Commission's proposed "Stronger Stature, Greener Projects, Greater Public Benefit: A Strategic Plan" dated June 2008. We understand a Final Plan is scheduled for presentation at your September 24, 2008 meeting.

As a local government issuer of tax-exempt financings, the IDA has facilitated the issuance of ten industrial development bonds and six Empowerment Zone bonds within the City of Los Angeles since 1997, totaling $67.7 million and leading to the creation and retention of over 2,000 jobs. The IDA values the ability to work cooperatively with CIDFAC to make these opportunities available to California businesses, and looks forward to participating in any scheduled discussions or workshops concerning your proposal. The Industrial Development Authority in general supports the Major Elements of the Strategic Plan in its effort to reinvigorate itself as a leader of economic development in our State, with particular focus on the green economy which echoes our Mayor's directive.

Due to the relatively short notice between the introduction of the proposed Plan and the scheduled presentation of the Final Plan, we would like to ask for a continuance so that we can adequately consult with our bond team and the City family, or perhaps attend any workshop or discussion sessions that you may offer.

To the extent that a continuance is not feasible, the IDA offers the following preliminary feedback:

- The IDA supports efforts to analyze CIDFAC's role and delivery system, including efforts to streamline the process, eliminate duplication, and adapt the current system to current market needs. However, California has already invested considerable resources in the creation of the Infrastructure Bank (I-Bank) in 1998 for the specific purpose of streamlining and avoiding duplication at the State issuer level. We are perplexed at, and therefore oppose, the need for two identical Statewide IDB issuers.

- Local government issuers, including the IDA of the City of Los Angeles and joint powers authorities (JPAs) such as the California Statewide Communities Development Authority (CSCDA), Association of Bay Area Governments Finance Authority (ABAG) and California Municipal Finance Authority (CMFA), have a longstanding history of demonstrated success in working with the State to assist critical job-creating projects. These issuers work closely with local businesses and their jurisdictions to conduct the public Tax Equity Fiscal Responsibility Act (TEFRA) hearings that ensure awareness and support of these projects within the local community. Additionally, all of our projects and TEFRA requests from JPAs require a support letter from the Council District in which the projects are located. This affords the City family an opportunity to raise concerns that the IDA, as an issuer, may otherwise not have been aware of. Our City Council has also adopted a motion that would impose greater monitoring on bond issues by JPAs or other issuers that may by-pass valuable and necessary local participation in the vetting process.
- We believe that CIDFAC's emphasis on expanding its issuing authority of industrial development bonds as a standalone tool may not have taken into consideration the IDBs' role and significance as an integral part of a larger, coordinated effort to revitalize the community at the local, State and Federal levels. The IDA serves the interests of its local businesses by offering industrial development bond financing as one component in a powerful economic development toolbox. The IDA packages industrial development bonds in concert with numerous other incentives that arise from the City's designations of a Federal Empowerment Zone, a Federal Renewal Community and three (3) State Enterprise Zones. These Zones offer tremendous economic incentives ranging from employee hiring tax credits, local utility rate subsidies, waiver of City business tax, waiver of site plan review fee, reduced parking spaces ordinance, sales tax rebate, increased Section 179 expensing etc. over an extended period. It is our mission to work with our bond borrowers to identify sites that would maximize all economic benefits in their financial undertaking and expansion needs. Our close relationship with the City's Workforce Development unit assists our borrowers with targeting, training and hiring the employees, which would maximize the incentives while complying with the City's living wage and CIDFAC's public benefit overlay. Our role as the local issuer would coordinate and orchestrate a holistic and seamless delivery of our offerings.
- The IDA has in place an experienced internal and external bond team with adequate resources to support all bond issuances within our jurisdiction.
- We support a re-evaluation of the original purpose of CIDFAC as the approval agency for the issuance of industrial development bonds by local agencies. At 4%, industrial development bonds currently receive the smallest allocation for private activity bonds and are the only category subject to an extra approval process with an additional fee structure identical to the IDA's. We believe that revising or eliminating the CIDFAC review would stimulate increased interest in

the program and provide the cost savings and efficiency incentives needed to encourage businesses in targeted areas.

- The IDA shares concerns regarding a potential conflict of interest in California Economic Development Financing Authority's (CEDFA) role as both the approval entity as well as a competing issuer.
- The IDA, the City's Chief Legislative Analyst and City Council actively support legislations which impact the operation and future of IDBs, specifically in extending the Empowerment Zone designation sunset date, expanding the definition of manufacturing, increasing the IDB limit to $20 million, and the Federal Home Loan Bank letter of credit support for its member banks. The IDA considers CIDFAC our partner in these efforts.
- Should CIDFAC decide to proceed with, and is successful in, expanding legislation to become a statewide IDB issuer, we respectfully request that you/CEDFA afford the Industrial Development Authority of the City of Los Angeles a first right of refusal in projects that are located within our jurisdiction. Precedence has already been established by the I-Bank via their courtesy practice with the California Health Facilities Financing Authority (CHFFA) and California Educational Facilities Authority (CEFA). Furthermore, the IDA retains the same first right of refusal under its current JPA agreements with other issuers. We believe that incorporating a similar agreement in all future relationships will also ensure a level playing field among all of our partner issuers.

Again, we appreciate the opportunity to provide our comments, and look forward to participating in future discussions on how to best achieve our shared mission.

Sincerely,

Joseph F. Montes, Chair
Industrial Development Authority
City of Los Angeles

cc: Tom Dresslar, Executive Director
John Chiang, State Controller
Dale Bonner, Secretary, Business, Transportation and Housing Agency
Michael Genest, Department of Finance
Preston DuFauchard, Commissioner, California Department of Corporations
Stan Hazelroth, Infrastructure Bank

Agenda Item – 4.D.

**Exhibit II**

*CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING*

*ADVISORY COMMISSION*

# STRONGER STATURE, GREENER PROJECTS,

# GREATER PUBLIC BENEFIT

## A Strategic Plan

~~June~~Revised September -2008

**Exhibit II**

# PLAN OVERVIEW

This strategic plan provides a blueprint to reinvigorate CIDFAC, establish it as a leader of economic development in California, and make it an engine that helps power California's fast-growing green economy.

## Major Elements

- Empower CIDFAC by expanding its limited authority to issue industrial development bonds (IDBs).

- Bolster CIDFAC's stature and leadership role in statewide economic development – aggressive marketing, broad-based outreach, and partnerships with California Debt and Investment Advisory Commission, government agencies, nonprofits and others.

- Strengthen the quality of projects, and the public benefits provided by projects, by reforming the system used to grade projects.

- Green CIDFAC projects by injecting into the grading system a greater emphasis on environmental benefits.

- Position CIDFAC as a driver of California's green economy – use marketing, outreach and staff expertise to proactively seek out green and clean tech manufacturers and finance their development.

- Help solidify California's place at the forefront of high tech, biotech and other knowledge-based sectors by working to expand federal law so such companies can receive IDB financing.

**Exhibit II**

# BACKGROUND

**CIDFAC: Lost Relevance?**

The California Industrial Development Financing Act (Government Code section 91500 et seq.) was enacted in 1980. In passing the statute, the Legislature found that tax-exempt bond financing would "benefit economically distressed communities with concentrated unemployment … (and) which are making diligent efforts to maintain and provide services to existing companies and to prevent the loss of existing jobs."

The Legislature further found the financing method would help create jobs for persons living in economically distressed areas. The tax-exempt bond financing, the Act specified, was needed to help manufacturers buy, build or refurbish their facilities and, as a result, increase jobs. The Act established CIDFAC as the designated statewide entity to help achieve the Legislature's objectives.

Under its current statutory authority, however, CIDFAC simply acts as an "approval agency" for the issuance of IDBs by local agencies to California manufacturers. In this role, CIDFAC's two main responsibilities are to ensure that: (1) projects which receive IDB financing provide certain public benefits which outweigh any public detriment; and (2) IDBs are adequately secured, they will be repaid, and investors who buy the bonds will not be defrauded.

Some in the economic development community believe this role is too limited. They say CIDFAC has lost relevance over time or, worse, become virtually obsolete. This plan seeks to help CIDFAC attain the stature it warrants under the Act. More specifically, the plan proposes near-term and longer-term improvements to CIDFAC's existing program:

- Amend CIDFAC's statutory authority to significantly expand CIDFAC's ability to issue IDBs. Participants in California's IDB market indicate this probably is the most important step toward bolstering CIDFAC's relevance. Such legislation also would change CIDFAC's name to the California Economic Development Finance Authority (CEDFA).

- The new issuance program would focus on financing projects that: provide workers good-paying jobs and health care benefits; produce environmentally friendly or "green" products; or use environmentally sensitive, or "green" commodities or processes, in their production facilities.

- Use rule changes, and aggressive marketing and outreach, to establish CIDFAC as a driver of California's green economy. Partnerships with relevant governmental agencies, local economic development officials, nonprofit groups and others also would play a key role in this effort.

- Use robust marketing, as well as changes in rules and procedures, to make CIDFAC more user-friendly and important to issuers and manufacturers, and to help CIDFAC perform its duty under the Act to ensure projects provide public benefits.

**Why CIDFAC Matters to California's Economy**

California's manufacturing sector contributes to the state's economic prosperity by creating high-wage jobs, and by developing and commercializing products and processes that meet demand in national and world markets. CIDFAC serves these manufacturers.

The Milken Institute, in a 2002 report, found that manufacturing's importance to California's economy often gets overlooked relative to the more high-profile knowledge-based sector, including high tech. The report reads, in part:

"[I]t is erroneous to view manufacturing as obsolete. It too is an important driver for growth in our diverse economy … The driving forces of California's economy are industries that produce goods and services for sale outside the state. Manufacturing is California's most export-intensive activity. The income and employment that manufacturing generates circulates, multiplies and ripples throughout California's regions …"[1]

A 2005 report by the Bay Area Economic Forum stressed California cannot afford to overlook the contributions of its manufacturing sector. The report reads, in part:

"…California leads the nation in manufacturing jobs, and its base ranges from metal to beverage production to high tech … [H]igh tech goods – computers and electronics, semiconductors, medical devices and communications gear – account for a large portion of manufacturing employment (22%) … [A] full third of jobs (33%) are in so-called 'heavy manufacturing' – automobiles, fabricated and primary metals, and aerospace and defense equipment. Consumer perishable goods – food, apparel, and beverage and tobacco – make up another 18% of jobs … In 2003, manufacturers supported 1.5 million jobs, nearly 10% of state employment. Those figures translate into nearly $150 billion of

[1] DeVol, Ross C., Armen Bedroussian, Rob Koepp, and Perry Wong. Manufacturing Matters: California's Performance and Prospects. Milken Institute. August 2002. (The report uses the electronics manufacturing sector as an example of how the employment multiplier works. The electronics manufacturing industry has a multiplier of 3.3, meaning that for each job created in electronics, another 2.3 jobs are created in other sectors.)

value added … Based on a direct multiplier effect of 3.0 … manufacturing supports as many as 4.5 million jobs in California – 30% of its total."[2]

However, according to the report, California manufacturers face "… extreme cost-related pressures, with high wage and benefits rates, as well as high input costs such as electricity. They must also deal with regulatory challenges that are greater than in other states and are absent from many developing, low-cost countries…"[3]

The report argues that these cost and regulatory pressures may drive the state's manufacturers to other states or countries and that, "[w]hile not all jobs are at risk of moving (some, in food processing or defense, for example, are either linked to specific geography or can't move offshore), approximately 1 million California jobs are 'up for grabs'."[4]

The report suggests state government has a role in addressing these pressures and in ensuring that California retains these firms and the jobs they create. In terms of CIDFAC's mission, that's right in its wheelhouse.

## Going Green

It will take a team effort for California to successfully implement its groundbreaking climate change strategies and address other environmental concerns. Manufacturers will have to make a crucial contribution to that effort, and CIDFAC can help them.

By changing its system for evaluating and approving projects, CIDFAC can encourage use of environmentally sensitive chemicals and other industrial commodities, deployment of environmentally sound production processes and construction of "green" industrial facilities.

Businesses and other market players increasingly consider environmental sustainability a financial imperative. A 2007 advisory published by Deloitte Development LLC titled, "Creating the 'Wholly Sustainable Enterprise'," addresses the economic forces driving companies to "go green" and produce "green" products. The advisory reads, in part:

"Sustainability is rapidly emerging as a critical element of business strategy, driven by a convergence of factors – increasing regulation, changing customer expectations, competitor and technology advances, value chain partner requirements, brand equity protection, and global risk management…Companies must undertake sustainability-driven transformation efforts in order to improve financial, environmental and social performance. Sustainability, approached the right way, can be a significant driver of

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[2] One Million Jobs at Risk: The Future of Manufacturing in California. Bay Area Economic Forum. March 2005.
[3] Ibid.
[4] Ibid.

enterprise value and must generate economic value in order to evolve from an environmental specialty to a mainstream growth engine …”[5]

Further, a 2007 *Industry Week* article titled, “Green Manufacturing: An Inconvenient Reality,” reads:

“… [T]he noose around manufacturers’ necks to produce environmentally friendly products gets tighter and tighter. Need evidence? Consider this: In 2004 the business sector shouldered 65% of environmental regulatory costs, with manufacturers paying an average of $4,850 per employee, according to a 2005 U.S. Small Business Administration report … One way manufacturers can soften the regulatory blow, say industry experts, is by being more proactive in developing products with minimal environmental impact … Part of this beat-them-to-the-punch approach includes embracing green technology as a marketing advantage.” [6]

In addition to nurturing more sustainable manufacturing, CIDFAC can help the state’s green economy flourish by financing businesses which manufacture renewable energy products, energy efficiency products and other green tech products. CIDFAC can achieve this critical objective by favoring such enterprises in its project evaluation system and through targeted marketing activities.

California’s green economy is on the verge of a boom period that some say will produce the next big wave of job creation, economic growth and prosperity. According to Next 10[7], California has seen a 40-fold increase in venture capital (VC) investment in green energy enterprises since 1996, when just $20 million was available. VC investment in

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[5] Creating the “Wholly Sustainable Enterprise”: Driving Shareholder Value Through Enterprise Sustainability. Deloitte Development LLC. 2007.

[6] Katz, Jonathan. “Green Manufacturing: An Inconvenient Reality,” Industry Week, May 1, 2007. (In January, Industry Week reported that speakers for an April 2008 Sustainable Manufacturing Summit in Chicago include “sustainability experts” from such large corporations as GE, Dell, HP, Phillips, Honeywell, Subaru, Johnson Controls, Kimberly-Clark, Cadbury Schweppes, Sharp, Caterpillar, Frito Lay, GM, General Mills, and Duke Energy. The article states that, “[w]ith sessions focusing on climate-friendly product development, operational response, sustainable supply chains, and waste management, the Sustainable Manufacturing Summit covers carbon reduction at every stage of the manufacturing process.” This shows that “green manufacturing” as an economic objective is accepted by the mainstream manufacturing sector.)

[7] On its website, Next 10 describes itself as follows: “Next 10 is an independent, nonpartisan organization that educates, engages and empowers Californians to improve the state’s future…Next 10 is focused on innovation and the intersection between the economy, the environment, and quality of life issues for all Californians. We create tools and provide information that fosters a deeper understanding of the critical issues affecting all Californians. Through education and civic engagement, we hope Californians will become empowered to affect change. We call ourselves Next 10 because we are not here for the quick fix. Our sights are set on joining with others to improve the state over the next ten years, and the ten years after that. The decisions we make together will affect California’s economy, environment and quality of life for years to come. Together, we can create the brighter future we all want for ourselves and our children.”

clean tech in California exceeded $1 billion in 2006. That same year, Californians held almost 45 percent of the nation's patents in solar energy technology and roughly 37 percent of the wind energy patents. For small green entrepreneurs, the tax-exempt financing provided by CIDFAC can serve as an important supplement to venture capital.

The key word in the plan to green CIDFAC is "help." Implementation of this plan will *help* CIDFAC contribute substantially to the "greening" of California's economy by *helping* CIDFAC *help* the state's manufacturers *help* California achieve its environmental aspirations.

## The Knowledge-Based Sector: Untying CIDFAC's Hands

Our state stands at the forefront of the knowledge-based economy. Our leadership in creating jobs and economic growth in the biotech and high-tech fields is well-known. For example, California leads the country in the number of biotech firms. In 2005, according to Ernst & Young's 2007 report, "Beyond Borders: The Global Perspective," California was home to 375 of the nation's 1,415 biotech companies and 53,000 of the nation's 250,000 biotech workers.

But California also is positioning itself to be at the hub of activity in the lesser-known nanotech and geospatial tech sectors.

Under the President's High Growth Job Training Initiative, the National Nanotechnology Initiative recently received a $1.5 million grant to fund a California Nanotechnology Workforce Training Program under the auspices of the California Institute of Nanotechnology. In California, occupations identified as "geospatial technology-related" are expected to add roughly 100,000 new jobs across all industries by 2014.

Many of these firms are small businesses, which are the drivers of California's economy and the target recipients of IDB financing. About two-thirds of biotech firms employ 135 workers or fewer. And 80 percent of IT workers are employed by small companies. Providing tax-exempt bond financing for these firms will allow them to grow in California, create high-paying jobs, keep the state on the cutting edge of the new economy, and sharpen our state's competitive edge.

Unfortunately, under current federal tax law governing IDBs, knowledge-based firms do not qualify to receive financing. Recognizing the importance of this sector to California's economic future, this plan seeks to remove the federal restriction so these businesses can access low-cost financing and thrive in our state.

# THE PLAN

## ***Near-Term Program Actions***

Staff proposes the following immediate actions be taken to improve CIDFAC's existing program and establish a broader, more intensive marketing effort for the state's IDB program:

- ***Similar to the allocation process for CIDFAC's Small Business Program (SBP), the California Debt Limit Allocation Committee (CDLAC) may delegate all of the IDB pool allocation to CIDFAC for award to individual projects.*** With such delegation, CIDFAC will approve both the issuance of IDBs by local issuers and the allocation of IDBs to local issuers and the California Infrastructure and Economic Development Bank (I-Bank). This "one-stop shop" process will benefit the IDB community. It will allow the award of allocation on a monthly basis throughout the year and eliminate what is perceived by the community as an unnecessary duplication of effort by CIDFAC and CDLAC.

  **Status: In place for 2008.**

- CIDFAC staff recently has engaged in periodic conversations with IDB issuers about certain practices in the bond issuance process that CIDFAC finds objectionable, and about certain provisions in the bond documents CIDFAC requires based upon its statutory responsibilities. Practices that CIDFAC finds objectionable include those that could create conflicts for certain finance team members, i.e., permitting the Letter of Credit provider to act as trustee and permitting bond counsel to represent the borrower. Provisions that CIDFAC requires in bond documents based upon its statutory responsibilities include the borrower's job creation representations and the borrower's indemnification of the State and its officers. Although it is probably impossible to eliminate all such discussions, staff would like to keep them to a minimum because they can disrupt the bond issuance process and consume considerable time.

  ***CIDFAC staff proposes to work with STO counsel to document CIDFAC's bond issuance requirements. Staff further proposes to establish a working group of STO counsel, IDB practitioners and IDB issuers to review and vet the requirements, and then ensure the final documentation of the requirements is available to all practitioners, issuers and borrowers (e.g., through posting on CIDFAC's website, inclusion in the IDB applications, email to all on CIDFAC's mailing list, etc.).***

**Status: CIDFAC staff has had preliminary discussions regarding this proposal with STO counsel and with IDB practitioners. The response has been positive.**

- **CDLAC Point System**: ***Staff proposes CIDFAC work with the IDB community and CDLAC to reevaluate the current point scheme. Staff anticipates bringing a revised point scheme to the CDLAC and CIDFAC boards for approval at the end of 2008 for implementation in 2009.***

  CIDFAC staff believes the job creation formula needs to be changed, the job retention requirements need to be clarified, health care benefits should carry more weight, and an environmental benefits category needs to be added so points can be earned for green manufacturing.

  **Status: CIDFAC staff has received verbal and written comments from practitioners and issuers regarding the current CDLAC point system. Additionally, staff has conducted research on the current state of manufacturing in California. Working with interested parties and CDLAC, staff is developing a draft proposal for revising the point scheme.**

  **Status Update: CIDFAC staff has posted an outline of a revised CDLAC point system for IDBs on its website and has emailed the outline to all parties on its website. Written comments on the proposed revision are due on September 30, 2008, and CIDFAC in conjunction with CDLAC will conduct a public workshop on the proposed revision on October 22, 2008. Allowing time for CDLAC's approval process, staff~~it is~~ anticipates~~d~~ ~~that~~ a revised point system for IDBs will be in place for CIDFAC's March 2009 meeting.**

## ***Near-Term Marketing and Outreach Proposals***

- Recent discussions with representatives of California state and local governments and businesses have made clear these groups generally are unaware of economic development and business incentive programs available in the state, including those administered by state agencies. Typically, local government agencies and some State agencies are the first to be contacted when a manufacturer wants to locate or expand in the state.

  ***CIDFAC staff proposes the following near-term marketing and outreach initiatives to boost the visibility and viability of the state's IDB programs. These efforts will target state and local governments, economic development associations and other organizations which have direct dealings with California manufacturers:***

  - **State Government:** CIDFAC staff has made a number of contacts with economic development program representatives in state government, including the California Business Investment Services ("CalBIS"), a division of the California Labor and Workforce Agency, and the Governor's economic development staff. CIDFAC staff also has made contacts at the California Energy Commission and agencies under the CalEPA umbrella, including the Integrated Waste Management Board and the Air Resources Board, all of which offer incentive programs to certain targeted "green" businesses.

CIDFAC staff proposes to expand contacts with program representatives within these agencies by participating in their sponsored workshops and conferences.[8] In addition, CIDFAC staff proposes to expand its state-level contacts to include:

- ✓ **The Employment Training Panel (ETP)**: According to its website, the ETP is a business- and labor-supported agency that helps employers strengthen their competitive edge by providing funds to offset the costs of job skills training necessary to maintain high-performance workplaces. ETP lists the following program information on its website:
  The ETP program is performance-based, providing funds for trainees who successfully complete training and are retained in well-paying jobs for a specific period of time. The program is funded by the Employment Training Tax paid by California employers, and targets firms threatened by out-of-state and international competition.

  Since its inception in 1983, the ETP program has provided more than $1 billion to train more than 660,000 workers in more than 60,000 California companies. Employers match ETP-provided training funds. ETP also funds training for unemployed workers. The agency prioritizes small businesses and employers in high unemployment areas of the state. Many of the businesses to which ETP has granted training funds are manufacturers.

  With CIDFAC's emphasis on job creation and job retention, staff believes developing a working relationship with the ETP will provide manufacturers seeking IDB financing another means to help retain and expand their workforces.

  Particularly as CIDFAC seeks to promote access to the state's IDB program by green manufacturers, it will be important that these companies also have access to properly trained workers.

  At a recent summit on California's green economy, corporate and government leaders voiced concern over a shortage of qualified labor in the state. These leaders emphasized the green-tech industry needs not only

[8] Note that, over the last three years, CIDFAC staff has been a participant in the Integrated Waste Management Board's advisory committee on plastics recycling.

college-educated engineers and scientists, but also skilled laborers trained in construction and electrical work. They believe that "[i]f California schools don't start training young people for these jobs, the green-tech industry will either move elsewhere or import skilled workers from outside the state. And working-class Californians, who could fill many green jobs with the right preparation, will find themselves locked out of the new economy."[9]

- **Local Government:** CIDFAC staff believes some of the most important contacts at the local level are energy providers (e.g., PG&E, SoCal Edison, SMUD, etc.), industrial development authorities and economic development agencies. These contacts are crucial because: (1) manufacturers traditionally use substantial amounts of energy to run their production facilities, and energy costs are one of the largest contributors to their cost of doing business in California; and (2) local agencies have established relationships with businesses in their jurisdictions and generally are the first to work with manufacturers seeking to expand or locate in their communities.

  When seeking IDB financing, small manufacturers often inquire about energy and other incentive programs at the local level. To enhance the value of its IDB program, CIDFAC should be in a position to offer information on these programs and provide contact information.

  In its work on recent projects (e.g., Betts Springs), CIDFAC staff has made contacts at PG&E, SMUD and the California Public Utilities Commission regarding energy programs for small manufacturers. With respect to local government representatives, CIDFAC staff has longstanding relationships with the City of Los Angeles and Alameda County, which operate the state's two most active industrial development programs. To increase its local contacts, CIDFAC proposes to:

  ✓ Directly contact the small business representatives at Southern California energy providers to establish relationships.

  ✓ Directly contact local agencies involved with IDB projects that come before CIDFAC in order to establish working relationships.

  ✓ Participate in conferences, workshops and meetings sponsored by the League of California Cities and the California Association of Counties (CSAC). In particular, CSAC has an Economic Development Policy

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[9] Baker, David R. "State Has Serious Green-Collar Labor Shortage, Summit Attendees Say," San Francisco Chronicle, January 15, 2008. (It is noteworthy that Los Angeles' Mayor Villaraigosa recently announced an economic action plan that he says will create 100,000 jobs over the next two years. According to his announcement, the Mayor has used various training programs to provide the City with 36,000 jobs in various sectors. He plans to use similar training programs for his 100,000 goal, and he is targeting jobs in green industries.)

Committee that holds regular public meetings to discuss county issues and legislation related to local economic development.

✓ Expand CIDFAC's involvement with the national and local economic development associations to increase contacts with California-based economic development practitioners.

CIDFAC staff serves on the board of the national association, the Council for Development Finance Agencies (CDFA). This year, staff has been working closely with CDFA's executive director, its research and policy staff, and its Washington D.C.-based lobbyist on changes to federal legislation affecting IDBs. CIDFAC staff attended CDFA's annual conference in April.

CIDFAC staff has renewed its membership on the board of the California Association of Local Economic Development (CALED). Staff plans to regularly participate in CALED's workshops and conferences.

- **Environmental Organizations**: CIDFAC staff has established relationships with environmental advocacy organizations, including: the Sierra Club; the Natural Resources Defense Council; Californians Against Waste; the Union of Concerned Scientists; and the Center for Energy Efficiency and Renewable Technologies. Staff also has developed working relationships with academics working in fields related to environmental policy and technology. Staff proposes CIDFAC continue and expand such relationships.

  Additionally, staff proposes establishing and cultivating a close working relationship with the Apollo Alliance. One of the Alliance's primary missions is to help communities develop a solid job base in the green economy. IDB financing could help accomplish that mission.

  Staff also recommends making contacts with environmental organizations formed by industry. As a first step, staff recommends CIDFAC become a member of the Northern California chapter of the U.S. Green Building Council (USGBC). Such membership is inexpensive and, among other things, would provide contacts with leaders in the green building industry and access to resources and specialized training in green building and LEED certification.

  As mentioned above, green buildings and green building materials are an important component of green manufacturing. As CIDFAC targets green manufacturers for its IDB program, we will need to fully understand the LEED certification program and have access to expertise in the industry.

- **<u>Other Marketing Efforts</u>:** CIDFAC staff also proposes the following:[10]

  - ✓ Update and enhance CIDFAC's existing marketing materials for distribution to CIDFAC's mailing list, at conferences, meetings, seminars, and symposiums, and for posting on CIDFAC's website.

  - ✓ Work with the League of California Cities and CSAC to market CIDFAC's program in their publications and on their websites.

  - ✓ Make CIDFAC staff available to speak at targeted association, economic development and environmental conferences.

## ***<u>Longer-Term Program Actions</u>***

- **<u>State Legislation</u>:** ***Staff recommends the STO sponsor legislation to greatly expand CIDFAC's extremely limited authority to issue IDBs.*** Staff recommends such legislation take effect no later than January 1, 2010. This move would provide manufacturers more options when seeking low-cost, tax-exempt financing. Additionally, it would make CIDFAC a more important actor in the state's economic development theatre. By becoming an active issuer of IDBs, CIDFAC would offer local governments more options for financing the location or expansion of manufacturers in their jurisdictions.

  **Status: Staff has drafted a legislative proposal to expand CIDFAC's IDB issuance authority.**

- **<u>Issuance Costs:</u>** The cost of access to the municipal bond market – including the cost of issuance and, particularly, the cost of credit enhancement – can be substantial. For IDB issues (no more than $10 million in principal), certain issuance costs are somewhat "fixed" and do not necessarily fluctuate with the size of the issue. Consequently, these costs can be large relative to the principal amount. For small or new manufacturers, the cost of issuance and the cost of credit enhancement can make IDB financing less accessible.

  ***Staff proposes CIDFAC explore the possibility of obtaining federal or state grant funds to finance a pilot project under which CIDFAC would cover certain costs of issuance or certain credit enhancement costs for small manufacturers or specific***

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[10] It should be noted that some of the best marketing outcomes are the result of serendipity. For example, CIDFAC staff recently heard a business report on the local public radio station about a Sacramento plastics recycler that is looking for low cost financing for a new facility. CIDFAC staff contacted the company regarding the possibility of IDB financing and referred the company to CalBIS for assistance with other possible state and local incentive programs.

***types of manufacturing projects. The parameters of the pilot project largely would be driven by the grant requirements.***

**Status: CIDFAC staff has conducted preliminary research into federal and state grant programs [e.g., grant programs managed by the Small Business Administration, the U.S. Environmental Protection Agency (EPA), the California Department of Conservation, CalEPA, and the state Business, Transportation and Housing Agency].**

- **Federal Legislation**: ***CIDFAC staff has been working with CDFA in support of federal legislation to extend IDB financing to "knowledge-based" industries.*** Under current federal tax law relating to IDBs, "manufacturing facility" is defined as any facility which is used in the manufacturing or production of tangible property. CDFA proposes to expand this definition to include facilities which manufacture, create or produce both tangible and intangible property.

  CDFA believes the proposed definition would be sufficiently broad to cover patents, copyrights, formulas, processes, designs, patterns, know-how, format and other similar items.[11] CDFA argues that, although "the changing economy in the United States is providing new and exciting employment opportunities for [its] citizens, in the area[s] of software development and biotechnology…the tax-exempt bond finance programs operated by state and local development agencies do not extend to these important and growing sectors of our economy …

  "Congress should upgrade and modify the definition of manufacturing as it pertains to the small-issue [industrial development] bond program to allow accessibility for private businesses that are creating, and will continue to create, the jobs of tomorrow … Adding a category of private activity use allowing 'knowledge based' companies to be eligible to take advantage of tax-exempt financing would promote economic development in our local communities as well as nationwide."[12]

  [See Treasurer Lockyer's January 23, 2008 letter to California's U.S. senators and House delegation supporting CDFA's legislative proposal (Attachment A) and a list of discussion points regarding the proposal and how it would benefit California (Attachment B).]

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[11] CDFA's proposal refers to the definition of 'intangible property' contained in Internal Revenue Code Section 197(d)(1)(C)(iii). Note also that CDFA's proposal includes clarification of the definition of manufacturing facility so that there is differentiation between "functionally related and subordinate facilities" and "directly related and ancillary facilities." According to CDFA, this distinction is used for other types of private activity bonds, and it is important because there is no 25% limitation on "functionally related and subordinate facilities" (e.g., short-term warehousing facilities, testing labs, etc.) as there is on "directly related and ancillary facilities" (e.g., long-term warehousing facilities, sales offices, etc.).

[12] Excerpted from CDFA materials distributed to its members and posted on its website.

**Status: Bipartisan legislation was introduced April 17, 2008 in the U.S. Senate to make the definitional change. CIDFAC staff will work with CDFA and directly with members of the California Congressional delegation to garner support for the measure, as well as any companion bill introduced in the House of Representatives. The Treasurer supports this proposal and stands ready to assist the advocacy effort if needed.**

***CIDFAC staff has been working with CDFA in support of federal legislation that would allow community banks to partner with their Federal Home Loan Banks in issuing letters of credit to support tax-exempt IDBs.***

CDFA and many IDB practitioners believe that legislation that will allow Federal Home Loan Banks to support credit enhancement offered by community banks will make IDB financing a much more viable option for many small manufacturers.

Status: The federal Housing Bill passed and signed into law in July 2008 contains a provision that broadened the types of bonds, including IDBs, for which the Federal Home Loan Banks can provide credit enhancement. Staff is working with representatives from the San Francisco- and Pittsburgh-based Federal Home Loan Banks to organize workshops on the new credit enhancement program for California issuers and California-based practitioners. At this point in time, staff~~it is~~ anticipates~~d~~ ~~that~~ there will be two such workshops, one in Northern California and one in Southern California, sometime between November 2008 and February 2009.

- **Letter of Credit Support:** Currently, the California State Teachers' Retirement System (CalSTRS) offers letter of credit support ("wraps") for IDB borrowers whose letter of credit banks are local or regional banks which are not rated by the rating agencies. Borrowers often want to obtain letters of credit from the local or regional banks with which they have an existing business relationship. In these cases, CalSTRS provides a credit "wrap" to the bank's letter of credit, and the bond issue thereby carries CalSTRS' investment-grade rating.

  Obtaining cost-effective credit support is a substantial challenge for small manufacturers, especially those in emerging industries such as the knowledge-based or new green economy sectors. This problem is exacerbated when access to private credit is tight. If CalSTRS and/or CalPERS could provide another source of direct credit support, manufacturers would have another means to access affordable credit enhancement and the IDB market.

  ***Whether or not CIDFAC becomes an issuer, CIDFAC staff recommends initiating discussions with CalSTRS and the California Public Employees' Retirement System (CalPERS) about providing first-line letters of credit for IDB transactions, possibly at relatively low-cost, for certain targeted projects (e.g., green manufacturers).***

**Exhibit II**

## ***Longer-Term Marketing Proposals***

- **Marketing In Response to Legislative Changes:** If the proposed state legislation and federal legislation are enacted, CIDFAC would change its marketing plan as follows:

  ***Enactment of the state legislation to expand CIDFAC's role as an issuer would require that CIDFAC market its issuer programs directly to California cities and counties.*** Most of these local jurisdictions do not have active issuance programs, and CIDFAC can offer them a source of low-cost financing for manufacturers locating or expanding in their jurisdictions. In addition to marketing the issuance program through the associations noted above, CIDFAC would develop a strategy of contacting targeted cities and counties, and regional government associations, to inform them about the availability of the issuance program.

  ***Enactment of the federal legislation to expand the definition of manufacturing facilities would require CIDFAC to amend its marketing plan to include knowledge-based industry associations*** [e.g., the California Biotechnology Foundation, BayBio (a Northern California life sciences association) and the Northern California Nanotechnology Initiative)].

  Given the close ties between California universities, which are involved with the research and development of knowledge-based technologies, and the state's businesses, which commercialize the technologies, CIDFAC would need to assess the value of including the universities' research institutes in its marketing efforts.

# POSSIBLE IMPACTS OF STRATEGIC PLAN

## ***Increased Allocation for IDBs from State Debt Ceiling***

Effective implementation of this plan and its underlying objectives – strengthening CIDFAC, creating good-paying jobs, and spurring the state's green economy – will require changes in how the state allocates the tax-exempt, private activity bond cap received annually from the federal government. At least in recent history, IDBs have received just a sliver of the allocation pie. For this plan to be fully realized, IDBs will have to get a larger piece.

Consider 2008. California's tax-exempt debt ceiling from the federal government totaled $3.107 billion. The California Debt Limit Allocation Committee (CDLAC) approved the following allocations from that pot, and as in prior years, gave IDBs the smallest share:

- Housing projects -- $2.33 ~~m~~billion, or 75%
- Solid waste disposal and recycling projects -- $430 million, or 13.8%
- Student loans -- $225 million, or 7.2%
- IDBs -- $120 million, or 3.7%

Low demand, restrictions in federal law that further depressed demand and other factors help explain IDBs' low allocation stature. However, in the past two years changes in federal law have increased demand for IDB financing. In 2007, for example, IDBs received from CDLAC an initial allocation of $68 million. But by year's end, total IDB demand topped $98 million. IDBs' initial allocation for 2008 totaled $120 million. At the end of June, less than $40 million will remain available, indicating another year in which demand for IDB financing likely will exceed the initial allocation.

Key elements of this plan – aggressive marketing, fostering green manufacturing, making CIDFAC an issuer, and expanding federal IDB law to cover knowledge-based companies and allow Federal Home Loan Banks to extend credit enhancement to IDB issues – will further heighten demand. To make the plan work, then, IDBs will need to receive a bigger portion of California's annual private activity bond allocation.

## ***Increased Staffing Needs***

To fully implement all phases of this plan, additional staff will be required.  Staff is working with STO to assess the potential needs and develop a strategy to ensure adequate staff and resources for CIDFAC as the strategic plan unfolds over time.

**Agenda Item – 4.D.**

**Exhibit II**
**Attachment A**

BILL LOCKYER
TREASURER
STATE OF CALIFORNIA

January 23, 2008

The Honorable Xavier Becerra
U.S. House of Representatives
Longworth Building, #1119
Washington, DC 20515

Dear ~~Congressman~~ Xavier Becerra:

As Congress considers proposals to pump life into our lagging economy, I urge you to support efforts to include in any stimulus package a provision that will greatly benefit California businesses and working families.

Legislation sponsored by the nationwide Council of Development Finance Agencies (CDFA) would change the federal definition of "manufacturing facility" to ensure high-tech and biotech enterprises qualify to obtain tax-exempt, industrial development bond (IDB) financing. As California's State Treasurer and as Chairman of the California Industrial Development Financing Advisory Commission, I believe the amendment would help spur our state's recovery from economic doldrums caused by the housing downturn and other factors.

IDBs are tax-exempt financings that provide small- and mid-sized companies a low-cost alternative to traditional credit markets. Current federal law defines "manufacturing facility," for purposes of determining eligibility for IDB financing, as a facility which produces tangible property. The CDFA proposal would expand the definition to also include facilities which produce intangible property. The broader definition would apply to high-tech, biotech and other knowledge-based firms, enabling them to access low-cost financing to cover their capital investments. The result? Business and job expansion that would not occur with more expensive financing options.

California's businesses and workers stand to profit substantially from the proposed legislation. Our state is at the forefront of the knowledge-based economy. The state's leadership in the biotech and high tech fields is well-known, and California is positioned to become the hub of research and commercial activity in the emerging nanotech and geospatial tech sectors as well. Many of these knowledge-based firms are small businesses, which are the target recipients of IDB financing and are the drivers of California's economy. The following are a few examples of how this change would benefit California:

915 CAPITOL MALL, ROOM 110, SACRAMENTO, CALIFORNIA 95814 • (916) 653-2995 • FAX (916) 653-3125

**Exhibit II**
**Attachment A**



- California leads the country in the number of biotechnology firms. In 2005, according to Ernst & Young's 2007 report, "Beyond Borders: The Global Perspective," California was home to 375 of the nation's 1,415 biotech companies and 53,000 of the nation's 250,000 biotech workers. Roughly one in every three U.S. biotech firms is located within 35 miles of a UC campus. About two-thirds of biotechnology firms employ 135 workers or fewer.

- Nanotechnology is perhaps even more of an emerging field than biotechnology, and promises major breakthroughs in engineering, medicine and science. Under the President's High Growth Job Training Initiative, the National Nanotechnology Initiative recently received a $1.5 million grant to fund a California Nanotechnology Workforce Training Program under the auspices of the California Institute of Nanotechnology. According to the California Institute of Nanotechnology, the National Science Foundation deems nanotechnology to be one of the highest growth sectors in the United States, and estimates it will create more than one-million jobs by 2015.

- In California, occupations identified as "geospatial technology-related" are expected to grow much faster than average between 2004 and 2014, adding nearly 100,000 new jobs across all industries.

Providing access to low-cost, tax-exempt IDB financing will encourage the growth and expansion of these companies within the state and will create the potential for hundreds of new, high-paying jobs for California workers.

Your staff may contact Eileen Marxen, Deputy Executive Director of the California Industrial Development Financing Advisory Commission, at (916) 653-9129, for further information. Do not hesitate to call me directly. Your support will be crucial as Congress develops an economic stimulus package, and I would welcome the opportunity to talk with you about this important legislation for California.

Sincerely,

Bill

BILL LOCKYER
State Treasurer

cc: California Congressional Delegation
Mr. John McMickle, Council of Development Finance Agencies
Mr. Brian Anderson, Council of Development Finance Agencies

# Exhibit II
# Attachment B

## TAX-EXEMPT BOND FINANCING FOR BIOTECH/HIGH-TECH
## Proposal to Expand Definition of 'Manufacturing Facility'
## Talking Points

**PROPOSAL**

- ***Make high-tech, biotech and other knowledge-based firms eligible for tax-exempt industrial development bond financing by expanding the definition of "manufacturing facility" under federal law to cover intangible property.***
- Current law defines "manufacturing facility" as a facility used to produce tangible property. (Section 144 of the U.S.C).
- The change sponsored by the Council of Development Finance Authorities (CDFA) – the nationwide association of state and local economic development agencies – would broaden the definition to include facilities that manufacture, create or produce both tangible and **intangible** property.
- The objective is to bring IDB financing into the new and emerging economy, and give access to crucial capital to biotech, high-tech and other "knowledge-based" companies.
- The expanded definition would be sufficiently broad to cover software, patents, copyrights, formulas, processes, designs, patterns, know-how, format and similar intellectual property.
- The change would provide substantial economic benefits to California businesses, workers and their families.
- ***It would not cost the federal government any money; it just would expand the pool of companies eligible to receive tax-exempt bond financing.***

**HOW IT BENEFITS CALIFORNIA**

- Our state stands at the forefront of the knowledge-based economy. Our leadership in creating jobs and economic growth in the biotech and high-tech fields is well-known. But we're also positioning California to be at the hub of activity in the lesser-known nanotech and geospatial tech sectors.
- Many of these firms are small businesses, which are the drivers of California's economy and the target recipients of IDB financing.
- ***Providing tax-exempt bond financing for these firms will allow them to grow in California, create thousands of high-paying jobs, keep the state on the cutting edge of the new economy and sharpen our state's competitive edge.***

# Exhibit II
# Attachment B

## DATA POINTS AND BACKGROUND

- ***California leads the country in the number of biotech firms.*** In 2005, according to Ernst & Young's 2007 report, "Beyond Borders: The Global Perspective," California was home to 375 of the nation's 1,415 biotech companies and 53,000 of the nation's 250,000 biotech workers.

- ***About two-thirds of biotech firms employ 135 workers or fewer.***

- The war on terrorism means more money for the biotech industry. The federal government allocated $1.6 billion to the National Institutes of Health for biodefense research and development in fiscal year 2004. And there's more to come in the future. ***California's universities are on the forefront of "biodefense" research and development.***

- To date, the California Institute for Regenerative Medicine (CIRM) has approved 156 research grants totaling almost $260 million, making CIRM the largest source of funding for human embryonic stem cell research in the world. In the area of biotech, CIRM provides the crucial link between government- and university-sponsored research and development and commercialization of knowledge-based products.

- According to the California Employment Development Department, network systems and data communications analysts, computer software engineers and database administrators rank among the 10 fastest-growing occupations in the state. The majority of these occupations pay a high wage (more than $40 per hour).

- Nationwide, ***80 percent of IT workers are employed by small companies.***

- Nanotechnology is the creation and manufacture of mechanical devices and materials on an atomic and molecular level. It is perhaps even more of an emerging field than biotechnology, and promises major breakthroughs in engineering, medicine and science. Under the President's High Growth Job Training Initiative, the National Nanotechnology Initiative recently received a ***$1.5 million grant to fund a California Nanotechnology Workforce Training Program under the auspices of the California Institute of Nanotechnology.***

- According to the California Institute of Nanotechnology, the National Science Foundation deems ***nanotechnology to be one of the highest growth sectors in the United States, and estimates it will create more than one million jobs by 2015.***

- Geospatial technology occupations include cartographer, surveyor, remote sensing scientist, mechanical drafter, aerospace engineer, civil engineer, electrical engineer, soil conservationist and many others.

- California is home to the Environmental Systems Research Institute, the California Space Authority, defense and commercial aerospace companies, world-renowned oceanic research centers and other businesses with geospatial functions. These industries will provide a launching pad for the geospatial tech sector in California.

- ***In California, occupations identified as "geospatial technology-related" are expected to add roughly 100,000 new jobs across all industries by 2014.***