

# MINUTES OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

For the meeting held telephonically on  
Wednesday, April 28, 2021 at 2:00 p.m.

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

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

Mary Hoang acted as the moderator of this call and Chair Dee Dee Myers, Director of the Governor’s Office of Business and Economic Development, started by providing technical instructions to participants regarding participation and public comment.

Chair Myers called the meeting of the California Infrastructure and Economic Development Bank (IBank) Board to order at approximately 2:00 p.m.

## 1. Call to Order and Roll Call

The following Board members attended by electronic means:

Chair, Dee Dee Myers, Director of the Governor’s Office of Business and Economic Development,  
Gayle Miller for the Department of Finance,  
Augustin Jimenez and Carlos Quant for the State Transportation Agency,  
Matthew Saha for the State Treasurer, and  
Marc Steinorth, Governor’s Appointee

IBank staff members attended by electronic means:

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

### Information Item

## 2. Executive Director’s Report

Scott Wu, IBank’s Executive Director, delivered the Executive Director’s Report.

Mr. Wu began by reflecting on a discussion with Chair Myers about the unique Oscar’s ceremony on Sunday with themes reflecting these extraordinary times and highlighting stories of social injustice and economic insecurity. He noted watching *The United States vs. Billie Holiday*, a movie that opens by informing us that an anti-lynching bill failed to pass in the U.S. Congress in 1937 and closes by reminding us an anti-lynching bill is still stalled in Congress at this moment.

Mr. Wu expanded on this troublesome history that in 1871, 150 years ago, the single largest mass lynching event in American history occurred. A fight led to an angry mob numbering over 500 descending on a community, burning down their business district, and lead to 15 hangings and multiple additional deaths. Out of the mob, only 8 were convicted, and these convictions were overturned. Mr. Wu continued that 20 years later, in 1891, perhaps the

2nd largest lynching event took place when a mob of thousands surrounded a jailhouse holding the suspected shooter of a police chief. The city's future Mayor and state's future Governor both led the mobs that ultimately hung 11 members of the targeted group. None of the mob were punished.

Mr. Wu explained that the 1871 lynching happened in downtown Los Angeles and the victims were Chinese and that the 1891 lynching occurred in New Orleans and the victims were Italian-Americans. Mr. Wu noted the monument behind him on his screen was known as the National Lynching Memorial. It was opened 3 years ago this Monday to commemorate the nearly 5,000 lynchings that have taken place on our soil. He continued that while over 1,000 victims were Mexican, Native American, Chinese or other disfavored communities including whites, the vast majority of victims were black. Mr. Wu lamented that time transpires, but nativists views targeting groups of those viewed as different, lesser or alien continues to this day.

Mr. Wu then contrasted last week's George Floyd verdict and tomorrow's 29th anniversary of the Rodney King verdict and noted how little things have changed. He noted personal connections to the George Floyd case: that it was tried in the building where Mr. Wu's father worked, and that the murder itself occurred near the neighborhood where Mr. Wu lived when he first immigrated to this country only a few years after the effective end of the Chinese Exclusion Act and National Origins quotas.

Mr. Wu noted the verdict provided a sense of relief and rare justice and that the murder that had occurred a year ago next month, had led to one of the largest social justice movements in history - with protests in 2,000 cities across 60 countries. He cautioned that this verdict was by no means the culmination of the movement and that the end can only be recognized when no group is persecuted or systemically shut out of full participation in society and the economy.

Mr. Wu recounted how his family arrived in America with nothing but aspirations for a better life. He remembered the country welcoming his family with open arms, providing subsidized lunch at school, and a public health clinic when he was sick. On the other hand, in a community devoid of Asians at the time, Mr. Wu also remembered adapting to slurs and insults on a daily basis. He recalled being so unaware of the history of his ethnicity, that his first job as an adult was on the Iron Range - a member of a railroad crew, pounding spikes to lay rail. Recent violence targeting the Asian community has shed light that generations of silence and compliance does not buy acceptance.

Mr. Wu remembered his hometown to be a progressive haven, with a reputation for Minnesota nice, noting how it welcomed African Americans in the 50's, Vietnamese refugees in the 70's, and Somali refugees in the 90's. Mr. Wu sadly noted the nice face and good intent had recently been unmasked for systemic problems that rival the worst racial outcomes in the nation, according to data on disparities between black and white Minnesotans in education, income, housing, and police actions. He noted that standing up one disfavored group only to later target another will never lead to a more perfect union.

He explained that a pillar of Martin Luther King Jr.'s philosophy was that there can be no social justice without economic justice and in MLK's words, "the time is always right to do what's right." Mr. Wu explained that the resolution that will be considered today represents a key element of economic justice – fair access to the financial system, the lifeblood of our economy. The pandemic has exposed unacceptable outcomes of our financial ecosystem.

Mr. Wu cited The Federal Reserve report that minority-led firms had experienced substantially greater revenue declines and with less access to capital than white-owned firms.

- While 95% of small businesses surveyed reported negative affects from the crisis, 79% of Asian-owned, 77% of black-owned and 66% of Hispanic-owned businesses describe their financial condition as “poor” or “fair” compared to 57% of all.
- White-owned businesses were twice as likely to be approved for financing as minority-owned, with similar disparities found in the disbursement of PPP loans and ordinary bank loans.

Citing his work in all sectors of the global financial system since the 1980's, Mr. Wu maintained our financial system is amazing. But make no mistake, our financial system is not a public service – it is a for-profit juggernaut. Mr. Wu noted that for the well-to-do, the system offers incredible services, tax and estate advisory, access to complex, tailored instruments and offerings that could only be devised by society's best and brightest. Mr. Wu contrasted that for the growing marginalized communities, even access to a basic loan is often beyond reach, citing that pre-pandemic, 28% of minority business owners lacked even a business banking relationship. Mr. Wu stressed that it takes more effort, greater risk with lower profits to serve marginalized communities and that the financial system was not designed to address this issue.

Mr. Wu explained that a small but essential corner of this industry was working on this challenge and he provided a quick overview of some of the key players addressing this injustice.

He first discussed IBank's partnership with seven Financial Development Corporations across the state. FDC's were created by statute to aid our Small Business Finance Center in the administration of its programs and help remove barriers to capital access. He explained FDC's are non-profit, mission-based organizations that aim to support small business in underserved communities with finance programs and technical assistance. IBank's FDC network is staffed by 58% females and 72% minorities.

He then discussed the approximately 100 federally certified Community Development Financial Institutions in California. He noted CDFIs are private institutions dedicated to delivering affordable loans to low-income, low-wealth and disadvantaged communities. They are critical partners of ours and the boots on the ground to help the state achieve its goals of reaching the underserved - 39 of our 115 participating lending partners are CDFIs.

Mr. Wu then reintroduced the California Rebuilding Fund. He noted that in a crisis response there is an immediate need for substantial relief, such as food and shelter in a refugee situation or cash in an economic crisis. Mr. Wu noted the sad reality that this relief aid and attention also expires rapidly and what is required for a strong recovery is permanent, sustained infrastructure for the future.

Mr. Wu noted that crisis relief funds were now being disseminated with Federal PPP funds of nearly \$800B to affected small businesses, but that there was less than \$40B remaining. California had provided an additional \$2.6B of small business grant support, with the final round grant application period beginning today until next Tuesday. Mr. Wu stated this was insufficient on its own and that after the Great Recession of 2009, small business lending decreased substantially for more than 4 years beyond the recession. In California, small business lending stalled at 60% of pre-recession levels 10 years into the recovery. The recovery never fully reached the underserved communities. Mr. Wu warned we must not make that mistake again.

Mr. Wu affirmed now is the time to support the infrastructure for recovery and long-term rebuilding of our underserved small business community. He noted this effort could be aided by reinforcing the CDFI and FDC ecosystem and building up their permanent capacity. He stated the California Rebuilding Fund was another sustainable piece of the puzzle, designed to pick up after the relief aid runs out.

Mr. Wu warned there was no single silver bullet to recover from what we experienced last year, and certainly not to correct the historic systemic social and economic justice underpinnings. This is one small but crucial part of the solution, and Mr. Wu concluded that the time is always right to do what's right.

Mr. Wu then provided a few general announcements:

- At the Oscar's preshow, Tom Hanks provided an inside look at the new Academy Museum of Motion Pictures, built with bonds issued by IBank and slated to open this September.
- Today, in close collaboration with the Treasurer and her staff, IBank will submit the Notice of Intent to the U.S. Treasury for CA's allocation of SSBCI funding enacted in the American Rescue Plan. Of the \$10B designated for small business, CA was allocated \$895M – over 14% of the initial \$6B. The remaining \$4B will be awarded at a later time.
- On April 8th, the Governor and legislature announced \$16M of early action funding to IBank as part of the \$536M Wildfire and Forest Resilience Package.
- Today is denim day. As a board member of Callisto, a sexual assault platform for survivors, Mr. Wu joined with all of his Callisto colleagues in sporting denim today.
- Mr. Wu mourned last week's passing of Walter Mondale, a hometown hero of his and a persistent champion of civil rights and equal opportunity, and also Chair Myer's first boss.

Mr. Wu finished up by noting with sadness the departure of Augustin Jimenez, IBank's longest serving Board member. IBank congratulated him on his appointment as a Judge to the Sacramento County Superior Court. Mr. Wu noted that Mr. Jimenez was always a most diligent and thoughtful board member and IBank benefited tremendously from his wise counsel and probing questions. Mr. Wu relayed that it is a common refrain at IBank as we consider difficult issues and draft staff reports to ask, "What would AJ want to know?" Mr. Wu assured Mr. Jimenez IBank will continue asking this question long after his departure. Mr. Wu concluded to Mr. Jimenez, Your Honor, by expressing a deep seated thank you, and personally giving him a standing ovation. The Board and Staff joined in the ovation. Chair Myers also congratulated Mr. Jimenez and turned the floor over to him.

Mr. Jimenez thanked everyone for the kind words and noted his excitement to be appointed to the Sacramento County Superior Court. He noted he had worked with IBank for many years, and that his early years were often filled with mundane refinancing transactions. He commented IBank was now a much stronger platform. To illustrate his point, he discussed the City of San Gabriel's transportation project that addressed the City's need to improve its road network, and was financed by a pledge of Measure R sales tax revenues. This was a cutting-edge deal and the type of financing that California communities need. He noted IBank was supported by great staff and executives and thanked them for their efforts. Mr. Jimenez noted he would stay for approval of the March 24 Minutes but then would cede his seat to another Transportation Agency's designated representative, Mr. Carlos Quant. He noted Mr. Quant had extensive budget experience and his fiscal policy expertise would provide the Board with a strong replacement.

Chair Myers welcomed Mr. Quant. She then thanked Mr. Jimenez and noted his impact at IBank would continue. She expressed her thanks to Mr. Wu and Mr. Jimenez for continuing to reflect on the purpose of IBank's efforts and the real societal impact of its programs.

### **Consent Item**

### **3. Approve minutes from the meeting held March 24, 2021**

Chair Myers opened up discussion of the previous meeting's minutes. Mr. Jimenez noted a minor correction to his comments which the Secretary confirmed would be made to the approved version. Ms. Miller moved to approve the minutes, as amended, and Mr. Steinorth seconded the motion. After asking for and receiving no public comment, the remaining Board members unanimously approved the March 24, 2021, Meeting Minutes, as amended. Mr. Jimenez then yielded his chair to Mr. Quant and departed the meeting.

#### **Action Item**

**4. Resolution No. 21-08 approving IBank's entry into a financing agreement to loan up to \$37.5MM to the California Rebuilding Fund, LLC and/or its successors, assigns, or affiliates, for the purposes of making loans to small businesses in California.**

Fritz Pahland, IBank's General Counsel, introduced Resolution 21-08 and noted that he was presenting this matter due to the complex legal structure and not as an advocate. He remained serving in his capacity as General Counsel and was available for any Board questions.

Mr. Pahland explained this was the final approval of a now \$37.5MM loan to the California Rebuilding Fund, LLC that had first been discussed at the August 2020 Board meeting. He noted he would first discuss the history, then the transaction structure and then would answer any questions. Mr. Pahland then discussed the background of IBank's Small Business Finance Center (SBFC) and its broad authority to help small businesses including through the Small Business Loan Guarantee Program. The Board initially considered a loan to the Fund in August 2020 of up to \$25MM. At that meeting the Board authorized IBank to make a loan to the Fund consistent with the conditions in a term sheet attached to the Board's resolution. At the December 2020 Board meeting, this amount was increased to \$37.5MM on the same terms as the August 2020 approval. The current resolution seeks the approval of the same \$37.5MM amount, but on slightly different terms as discussed in detail in the Staff Report.

Discussing the revised transaction structure, Mr. Pahland noted IBank's Loan to the Fund was part of a multi-party transaction that would facilitate new small business loans in a novel way. IBank's loan would combine with loans from other entities to provide the Fund with a pool of money for small business loans. The loans to the Fund will be divided into three series, in descending order of priority. Series A would be senior loans made at a rate of 2%. Series B would be junior loans made at a higher rate of 2.5%. IBank's loan would be made at the Series C level, which would be subordinate to the Series A and B loans. IBank's loan would carry a 3% interest rate but due to its deeply subordinate position and the low interest rates in the underlying loan portfolio, any interest return to IBank would be extremely unlikely.

The Fund would lend the proceeds of these low-cost Series A-C loans to CDFI's who would use the proceeds of the Fund's loan (collectively, the "CDFI Loan") to originate small business loans at a rate of the prime rate + 1%, a rate for small business loans that is well below market. Once CDFI's have lent out CDFI Loan proceeds they would sell 95% of these small business loans back to the Fund's holding company in return for retirement of an equivalent amount of the CDFI Loan.

Mr. Pahland stated IBank's loan was the lynchpin to the entire structure; because IBank would take the first losses; private entities that benefit from this safety are more comfortable lending to the Fund at a very low rate. Mr. Pahland clearly stated that IBank would have a very high risk of losing its entire loan amount, but that this risk pays off in the ability to use a 30% IBank investment to incentivize a 70% private investment. The IBank's \$37.5MM becomes a total of \$125MM in small business lending capital.

Mr. Pahland then discussed the major changes in the term sheet for IBank's loan to the Fund since the December 2020 approval. The key change was the earlier term sheet required that the Fund obtain commitments for at least \$125MM in Series A-C before IBank would loan its \$37.5MM to the Fund. The updated final loan documents provides for a "rolling close" such that IBank can disburse \$.30 on every \$.70 of additional monies loaned to the Fund. Mr. Pahland then confirmed the focus of this effort was the longer-term economic recovery, post-stimulus when grant funds had been fully expended. Mr. Pahland noted he would be available for questions and that a few witnesses were prepared to address the Board.

Chair Myers asked if there was a minimum loan requirement, and Mr. Pahland responded there was not and a loan as low as \$500K would be feasible. Ms. Miller asked if that number represented the entire Fund or just IBank's contribution. Beth Bafford, Calvert Impact Capital, who works with the Fund, responded there was no floor on commitments, but the Fund would close private and IBank investments at the same time.

Ms. Miller expressed her concern that the core premise of the transaction was a \$125MM Fund for small business lending. She noted IBank had already increased its investment, so it was important to understand the status of the rest of the private investments. Ms. Bafford responded that this structure was a response to market forces, noting the impact of currently available grant funds on loan demand. She stated this structure would allow the Fund to be efficient with its capital: it could be available in the market now and draw monies gradually as loan demand increased due to PPP and other sources of capital fading out. Ms. Miller responded this was an important test case for public support of small business lending. The impact this model could have on other states meant it was important to get this right. Ms. Miller asked for interim reports on the Fund's progress. Ms. Bafford agreed and stated her goal was to match supply to the expected increase in small business capital demand as lending normalizes. Ms. Miller thanked Ms. Bafford.

Mr. Steinorth noted this was a good discussion for the Board and that flexibility was important. As a small business owner himself, Mr. Steinorth noted access to small business capital was essential and PPP itself was neither easy to obtain nor sufficient for the need.

A number of witnesses then addressed the Board:

- Bulbul Gupta, Pacific Community Ventures, noted small business's great need for capital and noted the Fund would help economically disadvantaged small businesses and so assist in the formation of an inclusive recovery.
- Karla De Leon, Main Street Launch (CDFI, Bay Area) spoke of the need to support small business resiliency for a longer-term recovery.
- Eli Cherner, Kiva, noted that his organization was the fund administrator, and that this unique collaboration could set a great national example for small business support. Funds would target truly small businesses and would improve their financing ecosystem over the longer term.
- Gwendy Brown, Accion Opportunity Fund, noted the Fund would be a great tool for California and an example for the nation.
- Julian Canete, California Hispanic Chamber of Commerce, noted the importance of outreach and helping small businesses to address re-opening costs.
- David Nelson, California Asian Chamber of Commerce, echoed Mr. Canete's comments and noted the Fund would become even more important over the longer term as other grants and financing started to dry up.
- Heidi Pickman, CAMEO, thanked the IBank Board for the small business help and the longer-term commitment to small business support.

- Vincent McCoy, CAMEO, noted the urgent need for small business capital and thanked the Board.
- Mark Herbert, Small Business Majority, noted he had worked to build out this concept and was happy to be able to help direct financing to economically distressed small businesses.

Chair Myers thanked the witnesses and then asked for any other public comment. Hearing none, Ms. Miller moved for approval of the resolution and Mr. Steinorth seconded. The Board voted unanimously to pass Resolution 21-08.

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

### **Public Comment and Adjournment**

Chair Myers then asked for a final general public comment. Hearing none, Chair Myers declared the meeting adjourned at approximately 3:02 p.m.