

Date of Hearing: April 22, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 1675 (Ian Calderon) – As Introduced: February 12, 2014

SUBJECT: Entrepreneur-in-Residence Act of 2014

SUMMARY: Establishes the entrepreneur-in-residence program (EIR Program) within the Governor's Office of Business and Economic Development (GO-Biz) for the purpose of improving outreach and strengthening coordination with the entrepreneur and small business community. Specifically, this bill:

- 1) Establishes the EIR Program within GO-Biz, which includes the annual appointment by the Director of GO-Biz of up to 10 entrepreneurs within state agencies, departments, and commissions.
- 2) Specifies the purpose of the program is to provide better outreach and strengthen the coordination and interaction between the state and private sector on issues relevant to entrepreneurs and small businesses. The program is also designed to make state programs simpler, easier to access, more efficient, and more responsive to the needs and concerns of small businesses and entrepreneurs.
- 3) Requires entrepreneurs selected for program participation to meet one of the following criteria:
 - a) The individual shall have demonstrated success in his or her field;
 - b) The individual shall have demonstrated success in working with small business concerns and entrepreneurs; or
 - c) The individual shall have successfully developed, invented, or created a product and brought the product to the marketplace.
- 4) Requires GO-Biz to appoint entrepreneurs to a variety of interested agencies. However, to the extent practicable, no more than two entrepreneurs can be appointed to serve in the same agency during the same year. An entrepreneur is prohibited from serving more than two years in the EIR Program.
- 5) Sets the following duties for an entrepreneur-in-residence:
 - a) Assist the agency in improving outreach to small business concerns and entrepreneurs;
 - b) Provide recommendations on inefficient or duplicative programs;
 - c) Provide recommendations on methods to improve program efficiency or establish new initiatives that may be instituted at the agency.
 - d) Facilitate meetings and forums to educate small businesses and entrepreneurs on programs or initiatives of the agency the entrepreneur-in-residence is serving.
 - e) Facilitate in-service sessions with employees of the agency the entrepreneur-in-residence is serving on issues of concern to entrepreneurs and small businesses.
 - f) Provide technical assistance or mentorship to small businesses and entrepreneurs in accessing programs at the agency the entrepreneur-in-residence is serving.
- 6) Requires participants of the EIR Program to serve as volunteers and dedicate at least 40 hours to the program, unless otherwise agreed upon.

- 7) Authorizes, at the discretion of the participating agency, the reimbursement of the actual and necessary expenses of the EIR participant for discharging his or her duties.
- 8) Requires EIR Program participants to report directly to both the Director of GO-Biz and the head of the participating agency.
- 9) Authorizes the Director of GO-Biz to establish an informal working group of EIR participants to discuss best practices, experiences, obstacles, opportunities, and recommendations.

EXISTING LAW:

- 1) Establishes GO-Biz within the Governor's Office for the purpose of serving as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. Among other programs, GO-Biz administers the Innovation Hub Program which designates regional clusters of innovation-based industries.
- 2) Finds and declares that it is in the public interest to aid, counsel, assist, and protect the interests of small business concerns in order to maintain a healthy state economy.
- 3) Finds and declares that there has been an unprecedented growth in the number of administrative regulations in recent years and that correcting the problems requires the direct involvement of the Legislature, as well as that of the executive branch of state government. Further, statute finds and declares that the complexity and lack of clarity in many regulations put small businesses, which do not have the resources to hire experts to assist them, at a distinct disadvantage.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's Purpose: According to the author, "AB 1675 will create the Entrepreneur-in-Residence Act of 2014. The bill will require the director of GO-Biz to appoint a maximum of 10 entrepreneurs each year to serve as an entrepreneur-in-residence for the purpose of encouraging interaction between small business and the state. These entrepreneurs will have previously navigated the financial, technical, and government challenges to launch a successful business in California.

Entrepreneurs are responsible for thousands of jobs in our economy and viewed as a key to the economic recovery of California. Still, entrepreneurs face many obstacles such as access to capital and access to markets but the biggest obstacle to success is often government itself.

The EIR program will place entrepreneurs in government for limited periods of time, at no cost to the state. Specifically entrepreneurs-in-residence will identify within government inefficient and duplicative programs that negatively impact entrepreneurs and recommend solutions to streamline procedures, serve as advocates and mentors within government, recommend ways to improve programs available to entrepreneurs, facilitate meetings and forums to educate entrepreneurs on programs and requirements, and participate in informal working groups of entrepreneurs from various agencies.

AB 1675 will bring new innovative thinking to agencies and departments and remove government as the biggest obstacle entrepreneurs face in California."

- 2) Framing the Issue: This bill establishes a process for imbedding entrepreneurs within state agencies so they can help facilitate change from within the government organization. It is a process that has been used by the private sector to create leaner administrative processes and is more recently being adopted by local, state, and federal governments.

The analysis includes information on the importance of innovation to a competitive economy and the cost of current regulations on U.S. and California businesses. In addition, the analysis provides a number of examples of EIR programs including an expanded discussion on San Francisco's recently launched program. Amendments related to implementation are provided in comment 7.

- 3) Innovation and California's Future Economy: For decades, California has been known as a place where innovation and creativity flourish. A 2007 study on California's global competitiveness identified eight key dominant and emerging industry clusters including high-tech manufacturing, biotech, and clean technologies. While the report found that the state was uniquely positioned to be a preferred global partner in the areas of innovation, science, and technology, the study also stated that California was facing significant challenges from a growing talent pool in other countries and the global redistribution of manufacturing abroad.

While the global recession may have slowed down growth, the newly emerging economies of China, India, and Singapore have already made significant investments in research and development. Emerging economies around the world have strived to become leaders in innovation and not merely "copycat" economies of the U.S. Many foreign countries are actively seeking ways to attract and support innovation-based industries.

While these dynamics pose challenges to current leading technology centers, they also offer California new opportunities for collaboration and cooperation. AB 1675 proposes to take the state's commitment to another level by establishing an EIR Program to bring entrepreneurs into state agencies to learn about the existing systems and make practical suggestions on how agencies can operate more efficiently and better address the needs of small businesses and entrepreneurs.

- 4) Cost of Regulations on Business: Small businesses form the core of California's \$2 trillion economy. Research shows that net new job creation is strongest among businesses with less than 20 employees, that they have historically led the state's local and regional economies out of recessions, and that small businesses are essential to the state's global competitiveness by meeting niche industry needs. Reflective of their important role, the JEDE Committee has repeatedly voted to support the importance of the state achieving a regulatory environment that allows small businesses to grow, while still maintaining public health and safety standards.

There are two major sources of data on the cost of regulatory compliance on businesses, the federal Small Business Administration (SBA) and the Office of the Small Business Advocate (OSBA). For the last 10 years, the federal SBA has conducted a peer reviewed study that analyzes the cost of federal government regulations on different size businesses. This research shows that small businesses continue to bear a disproportionate share of the federal regulatory burden. On a per employee basis, it costs about \$2,400, or 45%, more for small firms to comply with federal regulations than their larger counterparts.

The first study on the impact of California regulations on small businesses was released by the OSBA in 2009. This first in-the-nation study found that the total cost of regulations to small businesses

averaged about \$134,000 per business in 2007. Of course, no one would advocate that there should be no regulations in the state. The report, however, importantly identifies that the cost of regulations can provide a significant cost to the everyday operations of California businesses.

Regulatory costs are driven by a number of factors including multiple definitions of small business in state and federal law, the lack of e-commerce solutions to address outdated paperwork requirements, procurement requirements that favor larger size bidders, and lack of the technical assistance to alleviate these obstacles that inhibit small business success. AB 1675 would place entrepreneurs within state agencies in order to assist them in creating leaner and more effective policies and procedures.

- 5) Similar EIR Programs: EIR Programs are not necessarily a new idea and have been used in the investment and business world for decades. According to Dell, a supporter of the bill, the high tech sector began using the EIR model in the 1980's in order to bring experienced professionals into the startup process.

The use of EIR Programs to help government agencies is more recently gaining traction. As an example, in 2012, the Federal Drug Administration (FDA) established an EIR Program to attract seasoned entrepreneurs in the medical industry that had successfully navigated the FDA's regulatory process. The six to seven month program is designed to help the FDA and small businesses work together to introduce new products in the marketplace both quickly and safely. The FDA not only improved processes, FDA staff also gained a better understanding of the challenges small businesses face and how to better network with entrepreneurs in the future. The goal of one of first EIR placements deliver "transformational change by combining the best internal and external talent, applying the principles of lean engineering in rapidly testing, validating, and scaling new approaches." EIR Programs are a key component of President Obama's Strategy for American Innovation.

In another example, U.S. Citizenship and Immigration Services (USCIS) established an EIR initiative with the goal of recruiting a small "tactical team" of business experts to work with USCIS staff to help streamline operations and enhance pathways within existing immigration law to help immigrant entrepreneurs start and grow businesses in the U.S. This was a 90-day project, which also included the other entities within the Department of Homeland Security and was a component of the White House Startup America initiative.

In March 2014, Virginia enacted an EIR Program (HB 32, Chapter 63, Statutes of 2014) and several other states are reported to also be considering EIR Programs, including Texas. AB 1675 is patterned after the Texas and Virginia legislation.

- 6) EIR Case Study: San Francisco: In March 2014, San Francisco (SF) Mayor Edwin M. Lee announced that the City had selected six startup companies to participate in its new EIR Program. The start-up businesses were selected from nearly 200 applications to participate in the 16-week collaboration. Under the program, the selected businesses will meet with SF government offices for the purpose of exploring innovative solutions to civic challenges that can lower costs, increase revenue, and enhance productivity.

Applicants came from 25 cities and countries including businesses in such areas as education, healthcare, transportation, public utilities, public safety, infrastructure, and the environment. The diverse group of applicants ranged from seed-stage startups to later stage startups and across software, hardware, and services – including serial entrepreneurs, NASA engineers, employees of leading

technology companies, and several patent holders including some that have been granted more than 100 patents.

SF departments and agencies selected the finalists through a competitive process based on their needs and priorities. All businesses will be participating on a voluntary basis. SF believes that the six selected companies, "are at the forefront of developing innovative solutions to improve government efficiencies, enhance productivity, and provide better experiences to the public." Two examples of the six selected participants are:

- a) Synthicity (synthicity.com) will work with the San Francisco Planning Department on new simulation, planning, and urban development tools and technologies. Synthicity is a software startup that builds simulation tools and solutions for urban development and planning.
 - b) BuildingEye (buildingeye.com) will work with the San Francisco Municipal Transportation Agency to engage residents and communities. BuildingEye is a software startup that makes permit and noticing information easier to discover through a mapping interface.
- 7) Programmatic Issues: AB 1675 establishes a new program at GO-Biz, but lacks a few implementing processes which may be appropriate amendments to the measure including:
- a) Directing GO-Biz to establish procedures for receiving and reviewing applications;
 - b) Requiring the approval by the state agency where the entrepreneur will be placed;
 - c) Requiring that the entrepreneur enter into a written agreement with GO-Biz and the state agency where he or she will be placed which includes hours, duties, goals, expected outcomes, agency support, and GO-Biz participation;
 - d) Authorizing the use of state resources to support the entrepreneur during his or her time with the state including the use of an office, computer, and other services and equipment; and
 - e) Reporting activities and outcomes of the program.
- 8) Related Legislation: Below is a list of related legislation.
- a) *AB 29 (John A. Pérez, Feuer and V. Manuel Pérez) Office of Business and Economic Development*: This bill established GO-Biz to include a newly codified California Business Investment Services and the existing Office of the Small Business Advocate. Status: Signed by the Governor, Chapter 475, Statutes of 2011.
 - b) *AB 250 (Holden and V. Manuel Pérez) Codification of California Innovation Hubs*: This bill codifies and expands the California Innovation Hub Program at GO-Biz for the purpose of stimulating economic development and job creation through the regional coordination of federal, state, and local innovation-supporting resources. Status: Signed by the Governor, Chapter 530, Statutes of 2013.
 - c) *AB 2138 (Gatto) Innovation Awards*: This bill establishes a pilot project of state agencies to design and implement innovation contests that detail a procedure, design, or idea that contributes to the efficiency, economy, or other improvement in the operations of the agency. Three state agencies, designed by the Governor, are authorized to award \$75,000 in cash prizes. Status: Pending in the Assembly Appropriations Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

Dell
Small Business California

Opposition

None received

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