

Date of Hearing: April 23, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 201 (Holden) – As Introduced: January 29, 2013

SUBJECT: Small Business Development Corporations

SUMMARY: Requires the names of the financial institutions and financing companies that make direct loans to small businesses to be posted on a prescribed agency website. Specifically, this bill:

- 1) Modifies the membership of the Small Business Board by replacing the Secretary of the Business, Transportation and Housing Agency (BTH) and with the Secretary of the soon to be established Business and Consumer Services Agency (BCS Agency).
- 2) Requires the director responsible for overseeing the small business financial development corporation administered programs to post the names of the financial institutions and financial companies making direct loans on the BCS Agency website.

EXISTING LAW:

- 1) Authorizes the approval of 11 FDCs by BTH for the purpose of administering a number of small business finance programs including the Small Business Loan Guarantee Program (SBLGP), direct loans, disaster assistance loans, and surety bond guarantees.
- 2) Establishes the SBLGP for the purpose of assisting small businesses in obtaining long-term loans or lines of credit from conventional financial institutions, which small businesses would not otherwise qualify for without the guarantee. Under this program, FDCs act as financial intermediaries between the state, the small business, and the financial institution.
- 3) Establishes the Small Business Board for the purpose of designating new FDCs, hearing appeals, and advising the Governor and Legislation on issues and programs affecting the small business community.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's Purpose: According to the author, "For the past 40 years, SBLGP has been instrumental in working with banks to guarantee loans to undercapitalized small businesses. Under the Small Business Act, the Obama administration has allotted \$78 million to SBLGP, and the state has appropriated another \$38 million. At a time when California is striving to rebound from a long recession, this program can play a pivotal role in making much needed capital more accessible to thousands of small businesses so they can expand, create new jobs, and save the jobs of existing employees. This bill would ensure that information about the SBLGP, including a list of participating lenders, is posted on the Governor's Office of Business and Economic Development's (GO-Biz) website for small businesses to explore this resource."

- 2) California Small Business: California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's \$1.9 trillion economy. Businesses with less than 100 employees comprise nearly 98% of all businesses, and are responsible for employing more than 37% of all workers in the state.

Among other advantages, small businesses are crucial to the state's international competitiveness and are an important means for dispersing the positive economic impacts of trade within the California economy. California small businesses comprised 96% of the state's 60,000 exporters in 2009, which accounted for over 44% of total exports in the state. Nationally, small businesses represented only 31.9% of total exports. These numbers include the export of only goods and not services.

Historically, small businesses have functioned as economic engines, especially in challenging economic times. During the nation's economic downturn from 1999 to 2003, microenterprises (businesses with fewer than five employees) created 318,183 new jobs or 77% of all employment growth, while larger businesses with more than 50 employees lost over 444,000 jobs. From 2000 to 2001, microenterprises created 62,731 jobs in the state, accounting for nearly 64% of all new employment growth. More recently, the federal Small Business Administration's Small Business Economy 2011 report stated that small businesses nationally outperformed large firms in net job creation nearly three out of four times from 1992 through 2010 when private-sector employment rose.

During the recent economic downturn, however, small business owners were been especially hard hit. Equifax has reported that bankruptcies in California rose by 81% in 2009, as compared to 44% nationally. This trend continued in 2010 where the Equifax report stated that while, general, bankruptcies were down across the nation including some regions in the west, small business bankruptcies in California accounted for almost 20% of all small business bankruptcies in the nation.

- 3) Small Business Loan Guarantee Program: The SBLGP enables a small business to obtain a term loan or line of credit when it cannot otherwise qualify for a loan on its own. The state, working through 11 FDCs, offers direct loans or loan guarantees that a qualifying small business borrower could not otherwise obtain.

Applicants must meet the definition of a small business (100 or fewer employees) with the specific market rate loan terms and interest rates being negotiated between the borrower and the lender. Proceeds of the loan must be used primarily in California for any standard business purpose applicable to the applicant's business. The guarantee program provides guarantees covering up to 90% of the loan, but not exceeding \$500,000. The guarantee program allows a business to not only obtain a loan but to also establish credit with a lender. The business is then more likely to obtain additional future financing on its own.

In 2011-12, approximately \$5.7 million was made available for loan guarantees under the state SBLGP, which leveraged \$9.9 million in small business loans from financial institutions. During this period 178 guarantees were provided, creating and/or retaining over 1,200 jobs. There are currently 1,046 loans being guaranteed under the state program.

- 4) Small Business Jobs Act and Federal Guarantee Program: In October 2010, Congress passed and the President signed the Small Business Jobs Act (Act). Among other things, the Act created the State Small Business Credit Initiative (SSBIC), which is authorized to expend up to \$1.5 billion for state sponsored small business finance programs. Over the life of the program, every federal dollar must be matched by \$10 private sector dollars. September 2017 is the deadline for using the funds. Funding

for the administration, outreach, and oversight of the program is primarily the responsibility of the state, given that no more than 5% of federal funds can go toward these activities.

Under the funding formula, California is eligible to receive up to \$167.7 million, which is the largest amount of any state. The next highest award is \$97 million for Florida, with every state that applies receiving a minimum of \$13.1 million. California uses its moneys to capitalize the SBLGP administered through BTH and a loss reserve program and collateral support program administered through the California Pollution Control Financing Authority at the state Treasurer's Office.

Funding is awarded to states in three tranches with participating jurisdictions allowed to apply for the next round of funding when 80% of their current funds are expended. Nine of the 57 participating jurisdictions have received second round funding and three states are into their third and final round.

Of the \$68 million California received in the first round, California has encumbered \$16.6 million, with approximately \$13.4 million set aside to cover loan guarantees under the federal portion of the SBLG Program. Over 18, 600 jobs have been created or retained by the close of 2012.

In 2011-12, approximately \$36.2 million in guarantees were made under the federal SBLGP, which leveraged \$58.2 million in small business loans from financial institutions. During this period, 203 guarantees were provided, creating or retaining 6,000 jobs through guarantee activities. There are currently 297 loans being guaranteed under the federal program, 85% have been to businesses in low- and moderate-income areas.

According to the FDCs, one impediment to getting the SBLGP portion out is the lack of state administrative support. Repeated budget actions have severally limited ongoing management funds and crippled the state portion of the program, which allowed greater programmatic flexibility in serving the needs of small businesses.

JEDE will hear three measures which are designed to enhance the program and help to facilitate the drawdown of additional federal dollars. AB 201 encourages greater private financial institution participation; AB 1247 (Medina) makes programmatic changes that streamline the program; and, AB 780 (Bocanegra) appropriates \$2 million for FDC administrative costs.

- 5) Program Transparency and Outreach: While the FDCs and the SBLGP have been operating for more than 30 years, very little public information is available to help small businesses understand the value of the program and to alert lenders to the state's largest credit enhancement program for small businesses. AB 201 requires that lenders be listed on the program website. The author may want to expand this information to include an explanation of the SBLGP, how it operates through the regional network of FDCs, and other financial programs offered through the FDCs including direct lending, surety bond guarantees, and disaster loans.
- 6) Governor's Office of Business and Economic Development: In April 2010, the Governor's Office of Economic Development was established to provide a One-Stop-Shop for serving the needs of businesses and economic developers. While initially established through Executive Order S-01-10, the office was later codified and renamed as GO-Biz, in AB 29, Chapter 475, Statutes of 2010. In 2012, GO-Biz directly assisted 5,308 companies, resulting in the creation and/or retention of 9,050 jobs and \$1.45 billion in investments.

Among other programs, GO-Biz provides permit and other business assistance for new and expanding businesses, as well as administering the California Innovation Hub Program under an initial partnership with the statewide network of SBDCs. GO-Biz also oversees the Office of the Small Business Advocate.

In March 2012, the Governor initiated a reorganization process (GRP 2) to realign the state's administrative structure. Key changes were proposed and agreed to by the Legislature including the dismantling of BTH and the shifting of a number of key programs and services to GO-Biz including:

- The Small Business Loan Guarantee Program;
- The California Travel and Tourism Commission;
- The California Film Commission;
- The Film California First Program; and
- The Infrastructure and Economic Development Bank (I-Bank).

In addition, the Governor called for the placement of the California SBDC Program within GO-Biz. Programmatic approval of the reorganization was granted in July 2012 and will become effective July 2013. However, legislation is also necessary to statutorily reflect the reorganization changes.

- 7) Technical Amendments: The measure includes several drafting errors relative to the placement of state programs and entities under the GRP #2. Staff recommends deleting sections one and two of the bill to address this technical concern.
- 8) Related Legislation: Below is a list of related legislation.
- a) AB 29 (John A. Pérez) Codification of GO-Biz: This bill establishes GO-Biz within the Governor's Office for the purpose of serving as the lead entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. The bill also transfers the Office of the Small Business Advocate from BTH to GO-Biz. Status: Signed by the Governor, Chapter 475, Statutes of 2011.
 - b) AB 1247 (Medina) Restructure of the FDC Programs: This bill repeals and recasts the provisions of the FDC small business financing programs from BTH to GO-Biz. Status: Pending in the Assembly Committee on Jobs, Economic Development and the Economy.
 - c) AB 780 (Bocanegra) FDC Administrative Funds: This bill appropriates \$2 million from the General Fund for the purpose of providing administrative funding to the FDCs. Each FDC is eligible to receive \$150,000. The bill also states that it is the Legislature's intent that the FDCs are to be under the jurisdiction of GO-Biz. Status: Pending in the Assembly Committee on Jobs, Economic Development and the Economy.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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