

Date of Hearing: April 9, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 250 (Holden) – As Amended: March 4, 2013

SUBJECT: California Innovation Hub Program

SUMMARY: Codifies and expands the California Innovation Hub (iHub) Program at the Governor's Office of Business and Economic Development (GO-Biz) for the purpose of stimulating economic development and job creation through the coordination of federal, state and local innovation-supporting resources. Specifically, this bill:

- 1) Expresses legislative intent stating, among other things, that:
 - a) Innovation- and tech-driven business start-ups, supported by venture investments, create new employment opportunities and are important to California's economic competitiveness and should be supported.
 - b) IHubs are operated through a cooperative agreement between the Governor's Office of Business and Economic Development (GO-Biz) and 12 geographically distinct regions for the purpose of the success of entrepreneurial and small technology start-ups that can grow California's economy.
- 2) Establishes the California Innovation Hub Program within GO-Biz for the purpose of stimulating economic development and job creation by providing an innovation platform for startup businesses, economic development organizations, business groups, and venture capitalists. GO-Biz will oversee, coordinate, and provide assistance to each iHub in the program.
- 3) Defines "Applicant" as meaning a fully accredited institution of higher education, a private nonprofit corporation engaged in economic activities, a county or municipality in this state that has a preexisting economic development program, or an economic development institution.
- 4) Defines "iHub" as meaning a network of interrelated firms and industries that collectively drive economic growth within a defined geographic area.
- 5) Establishes proposal criteria for applicants to the California Innovation Hub Program. This criteria includes:
 - a) A statement of purpose, business plan, and list of goals and expectations for job development and business creation.
 - b) A statement of cooperation listing each entity involved with the partnership and a description of their role.
 - c) Designation of an iHub coordinator.
 - d) An explanation of the geographic boundaries of the proposed iHub.
- 6) Requires designated IHubs to include:

- a) At least one major university or research center or institute.
- b) At least one economic development organization.
- c) At least four of the following:
 - i) A business support organization, including workforce development or training organizations, incubators or business accelerators, a chamber of commerce, and networking organizations that supports innovation;
 - ii) An educational consortium that includes technology transfer representatives;
 - iii) A venture capital network including angel investors;
 - iv) A business foundation, science foundation, laboratory research institution, federal laboratory, or research and development facility;
 - v) A municipal economic division or department; and/or
 - vi) A federal government partner such as a national laboratory.
- 7) Prior to designation as an official iHub, the iHub is required to certify that it will comply with state nondiscrimination laws, and requires the iHub and its principals to be current in payment of all state and local taxes owed, barring an agreement, and full compliance with the agreement, with the respective taxing agency.
- 8) Specifies that iHubs may, among other things:
 - a) Provide counseling and technical assistance in business planning, management, financing, and marketing;
 - b) Provide advice on starting a business and accessing financing opportunities;
 - c) Conduct business workshops, seminars, and conferences with local partners; and
 - d) Facilitate partnerships between start-ups and research institutions with venture capitalists and financial institutions.
- 9) Requires the iHubs, to the extent feasible, to:
 - a) Work in close collaboration with the activities of GO-Biz as its primary statewide partner; and
 - b) Coordinate activities with the Employment Training Panel, the California Workforce Investment Board, the Office of the Chancellor of California Community Colleges, the University of California, the California State University, and other state economic and workforce development programs.
- 10) Authorizes GO-Biz, with the approval of the Department of General Services, to use unused or underused state owned or leased property for the purpose of, and not limited to, assisting iHubs, nonprofits, and businesses establish proof of concept centers, incubators, and demonstration sites. Further, the bill:

- a) Requires a formal agreement be entered into between GO-Biz and the nonprofit organization or business prior to the commencement of the demonstration program; and
- b) Specifies the content of the demonstration agreement, including, but not limited to, indemnification of the state against any liability or damages arising from the demonstration; cancelation of the project for falsified or the withholding material information; insurance to cover possible damage or cost to the state; certification that the demonstration project meets applicable regulations and that it can be safely demonstrated.
- c) Authorizes state property to be used as matching funds to meet federal funding requirements, as specified.

11) Establishes the iHub Accelerator Fund for all moneys collected from gifts, bequests, and donations to the California iHub Program. These moneys are to be continuously appropriated.

EXISTING LAW 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. GO-Biz also serves as the administrative oversight for the California Business Investment Service and the Office of the Small Business Advocate.

FISCAL EFFECT: Unknown

COMMENTS:

1) Author's Purpose: According to the author, "Job creation through rapid technology commercialization is a vital part of the state's economic well-being, as identified in a January 2012 symposium held by the Brookings Institute. AB 250 will serve as a catalyst to creating a network of intellectual and business development assets that can facilitate technology commercialization by establishing the Innovation Hub program into law and authorizing access to private sector capital for its operations. iHubs are built around the triple helix model of economic development: each iHub is operated by local consortiums comprised of government entities, community colleges and universities, and industry. With the addition of venture capital networks, the inputs necessary for the development of an innovation ecosystem are present.

Orange County's iHub, known as OCTane, has stimulated regional business through programs such as LaunchPad which accelerates entrepreneurs and start-ups through a comprehensive program that quickly identifies and connects innovators and capital. LaunchPad provides critical, individualized, and value-added support to early stage biomedical, technology and cleantech companies. Its business support prepares young companies for capital introductions, and has relationships with local, regional, and national venture capitalists and investors. As a result 23 companies have received more than \$70 million in capital. Over 500 companies have inquired into LaunchPad. These start-up companies have created more than 400 jobs in Orange County."

2) 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 the Governor's Office of Business and Economic Development (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 assistance for new and expanding businesses, as well as administering the iHUB program in partnership with the statewide network of economic development partners including the Small Business Development Centers. There are currently 12 regional iHUBs located throughout the state. The iHub Program is designed to improve the state's national and global competitiveness by stimulating partnerships, economic development, and job creation around specific research clusters. Key assets and partners of the initiative include technology incubators, research parks, universities, federal laboratories, economic development organizations, business groups, and venture capitalists.

GO-Biz is also sponsoring a permit streamlining pilot project, which will offer a One-Stop-Shop for state and local permits. The pilot, launched in partnership with the City and County of San Francisco, will allow a business owner to login to a single Web site (24x7) and apply for and pay all necessary city, county and state permits.

In 2012, the Governor initiated, and the Legislature allowed to move forward, a comprehensive reorganization of the state's administrative structure. Key changes included the dismantling of the Business, Transportation and Housing Agency (BTH) and further consolidating GO-Biz' position as the state's lead in economic development. Effective July 1, 2013, GO-Biz will have administrative authority for more economic development related programs and services including the Small Business Loan Guarantee Program and the Infrastructure and Economic Development Bank.

AB 250 codifies an existing program at GO-Biz and expands the authority for GO-Biz to implement a process for the private sector to apply for and gain access to state owned property and facilities as part of a proof of concept center or project demonstration site. The committee may want to consider whether the importance of innovation within the California economy warrants the establishment of an Office of Innovation at GO-Biz, which would house these two new programs. Similar offices have been statutorily created for the small businesses and international trade.

- 3) Drivers in California's Future Economy: For decades, California has been known as a place where innovation and creativity flourishes. 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 United States. As one Massachusetts Institute of Technology report states, "It is not out of the question that they may soon be able to 'leapfrog' developed centers of innovation with new innovations of their own."

While these dynamics pose challenges to current leading technology centers, they also offer California new opportunities for collaboration and cooperation. The state is already engaged in academic and research partnerships with Canada and Iceland on renewable energy and other technologies. The University of California at San Diego has a multi-year manufacturing initiative with Mexico, supporting economic growth on both sides of the border. AB 250 proposes to take the state's

commitment to another level by formally codifying the state's iHub Program and directly engaging with the business and nonprofit community in the testing and demonstration of new products, services and processes.

- 4) Case Study of Government as a Partner in Demonstrating New Technologies: In June 2008, the City of San Jose (City) adopted a framework for engaging in and evaluating public/private technology partnerships for the purpose of testing and demonstrating innovative products, services and processes. According to the City's website, these demonstration partnerships advance the community's goals related to obtaining a more robust and green economy, as well as making its ongoing operations more cost effective: "Through these partnerships, we hope to create new markets and new jobs or/and support existing local innovators; advance the City's Green Vision and Economic Development Strategy; and educate the public about innovative solutions."

Under the demonstration partnership agreements, the City allows businesses to temporarily utilize City owned land, facilities, equipment, rights-of-way and data in order to test innovative solutions at-scale. In some instances, the City provides financial assistance and/or absorbs some costs for project implementation. Another key program element is the ability for the business to request exemption from City policies.

Examples of the types of projects which the City has approved include street lighting, electrical charging stations and a range of energy efficiency pilots and demonstration projects. According to the City's demonstration program manager, the program has resulted in mutual benefits to both the companies who are able to demonstrate the efficacy of their technologies and the City. During the past few years, the manager reported that the City gained a better understanding of how technologies can be used to manage its operational costs, lower carbon emissions through its everyday activities, and more accurately gauge return on public investment.

One of the City's first demonstration projects provided for the installation of a Colomb electrical charging station across from City Hall. From this first station, installed in 2009, the company currently has stations in over 14 countries. This demonstration project also helped facilitate other key demonstration funding from the federal Department of Energy (approximately \$34 million) and the California Energy Commission (\$4 million) to help with the final installation of the equipment.

Other local governments in the Bay Area have adopted demonstration ordinances including the Town of Los Gatos, the County of Santa Clara and the City of Livermore. AB 250 would authorize a similar state program for helping businesses and nonprofit organizations test and otherwise demonstrate innovative products, solutions and processes at scale.

- 5) Technology Commercialization Programs: California faces competition from other countries and states. While previously the state was the clear leader in global innovation and technology, the past decade has seen other regions make significant strides that can now support technology based industries. As an example, China and Germany have both surpassed California as the leaders in equity capital for solar. Below are two examples of programs from other states designed to support a vibrant and continually innovating business sector:
- a) The Utah Technology Commercialization & Innovation Program: The purpose of the Technology Commercialization & Innovation Program (TCIP) is to accelerate the commercialization of promising technologies that have strategic value for Utah. The end goal of the TCIP Program is to help drive economic development and job creation. The program is a state funded grant program

initially adopted by the Utah Legislature in 1986 and focuses on accelerating the process of taking university-developed cutting-edge technologies to market.

- b) *The Massachusetts START Program*: In March 2012, the Massachusetts Technology-Development Corporation announced the launch of a \$6 million initiative to help startups commercialize technologies developed under federal Small Business Innovation Research grants. As designed, the START program will provide financial support, as well as coaching, business planning, and introductions to potential investors.
- 6) Programmatic Issues: AB 250 proposes the establishment of the iHub Program in order to facilitate an "innovation platform for startup businesses, economic development organizations, business groups, and venture capitalists. The author may wish consider the following amendments in order to further this purpose.
- a) *Joint applications*: The program is designed to encourage collaborative efforts among regions and the application requires a listing of all partners. The current definition of applicant, however, allows only a single entity to apply. Perhaps the eligible applicant definition should be expanded to allow for joint applications.
 - b) *Definition of iHubs*: The current definition of an iHub only includes private sector firms and industries. Other areas of the bill include academic institutions, economic development organizations, and local governments. Perhaps the definition should be expanded to include these other partners.
 - c) *Term of the designation*: The bill has not set a term for the designation of an iHub. With the nature of innovation being change, it may be appropriate to set a set term and also provide for a mechanism for the de-designation of an iHub.
 - d) *Overlapping iHubs*: With the ability of iHubs to focus on one or more particular industries or technologies, it may be appropriate to have a mechanism for recognizing more than one iHub in a region to the extent that their industry focus is different.
 - e) *Measuring success*: The bill clearly requires the setting of measureable goals, however, there is no mention on the reporting of those goals and outcomes to GO-Biz. Since GO-Biz will, in part, be evaluated on the iHubs individual progress, having clear statutory direction may help them access that information.
 - f) *Small Business Technical Assistance*: As designed, GO-Biz's role is to facilitate regional collaboration around specific tech-based activities. The measure includes several key stakeholder, but not two of the most significant technical assistance providers for small businesses, the Small Business Development Centers and the microenterprise development organizations.
- 7) Related legislation: This bill is substantially similar to the provisions in AB 653 (V. Manuel Pérez) California Innovation and Jobs Act. According to the authors' staff, the two offices are working collaboratively to codify the program. AB 653, which is sponsored by the California Hispanic Chambers of Commerce, provides additional provisions (described below) that are designed to promote California's innovation-based economy. The following is a list of bills related to this measure from the prior sessions.

- a) AB 29 (John A. Pérez) Codification of GO-Biz: This bill established 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. Status: Signed by the Governor, Chapter 475, Statutes of 2011.
- b) AB 653 (V. Manuel Pérez) California Innovation and Jobs Act: This bill requires significant regulation to be reviewed the Joint Rules Committee of the Legislature, codifies the iHub program, increases the state research and development tax credit, and establishes a new tax credit for businesses that contribute to a postsecondary educational institution for curriculum or research leading to job opportunities. Status: Pending in Assembly Rules Committee.
- c) AB 1646 (Campos) California Demonstration Program: This bill would have established the California Demonstration of Emerging Market Opportunities Program for the purpose of supporting the testing of innovative products, services and processes that have been developed by private for-profit and non-profit entities. Status: Held in the Senate Committee on Appropriations in 2012.
- d) AB 2506 (V. Manuel Pérez) Innovation and Job Creation Act: This bill would have authorized a comprehensive set of enhancements to tax incentive programs and administrative procedures including a manufacturing sales tax exemption, increased R&D credits and secondary education donation credits for the purpose of creating jobs and supporting innovation-based businesses. Status: Held in Assembly Committee on Business, Professions and Consumer Protection in 2012.
- e) AB 2711 (Portantino, Arambula, Price and Salas) State Technology and Innovation Strategy: This bill would have required the Secretary of the Business, Transportation and Housing Agency to develop a comprehensive state technology and innovation strategy to guide future state expenditures and activities. Status: Held in Assembly Committee on Appropriations in 2008.

REGISTERED SUPPORT / OPPOSITION:

Support

California Healthcare Institute
San Gabriel Valley Economic Partnership
San Diego iHub
BIOCOM
CleanTECH San Diego
CONNECT
San Diego Regional Economic Corporation

Opposition

None Received

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