

Date of Hearing: April 22, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 2670 (Medina) – As Introduced: February 21, 2014

SUBJECT: Small Business Technical Assistance Act of 2014

SUMMARY: Recognizes the importance of the federal Small Business Development Center (SBDC) Program in California and designates the Governor's Office of Business and Economic Development (GO-Biz) as the lead state entity for overseeing the state's participation and collaboration with the federal program. Specifically, this bill:

- 1) Makes findings and declarations on, among other things, the importance of the SBDCs in expanding and supporting California small businesses.
- 2) Defines a number of terms, including, but not limited to:
 - a) The California Small Business Development Center Program as being comprised of the six regional networks of SBDCs which operate under a contract between each of the six Administrative Lead Centers and the U.S. Small Business Administration (SBA).
 - b) The Administrative Lead Center as the entity which the federal government contracts with and is directly accountable for all aspects of the California SBDC Program including staffing, program outreach, and securing the required federal match.
 - c) An SBDC is the individual physical location where a small business owner or an aspiring entrepreneur can receive free one-on-one consulting and low at-cost training on a variety of topics including starting, operating, and expanding a small business.
- 3) Codifies the existence of the federally designated SBDCs and grants them all rights and responsibilities as authorized under the federal Small Business Act of 1980.
- 4) Requires GO-Biz to serve as the lead state entity for overseeing the state's participation with the California SBDC Program. GO-Biz is authorized to collaborate and support the Administrative Lead Centers in the provision of technical assistance and other related services to small businesses.
- 5) Recognizes that SBDCs offer a range of services including, but not limited to, providing specialized counseling and technical assistance, offering expert start-up business advising, commercialism assistance, conducting workshops and seminars, and coordinating employee training and placement programs.
- 6) Authorizes GO-Biz and other state entities to contract with an Administrative Lead Center.
- 7) Requires the Administrative Lead Center(s) to report on any activities that are the result of state funds being contributed to the California SBDC Program, including, the number of businesses assisted, number of jobs created and retained as a result of assistance, estimated amount of tax dollars generated, increase in sales reported as a result of the assistance, the amount of capital infusion obtained by the assistance, and the amount of total federal funds allocated to each region. For general tracking purposes, the report is required

to also provide information on the businesses assisted including industry sector and size of the business based on employment.

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. GO-Biz also serves as the administrative oversight for the California Business Investment Service, the Office of the Small Business Advocate (OSBA), and the California Infrastructure and Economic Development Bank (I-Bank).
- 2) Establishes the OSBA for the purpose of advocating on the behalf of small businesses. Among other duties, the Office responds to complaints from small businesses concerning the actions of state agencies and the operative effects of state laws and regulations adversely affecting those businesses.
- 3) Establishes the Small Business Finance Center within GO-Biz under the direct administrative oversight of the I-Bank for the purpose of addressing the capital needs of California small businesses through a statewide network of small business financial development corporations.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's Purpose: According to the author, "AB 2670 designates the Governor's of Business and Economic Development as the lead state agency for overseeing the state's Small Business Development Centers. In addition, the state identifies the Small Business Development Centers as a federal program, operating in California, in order to promote and encourage California small businesses to take advantage of free counseling and services.

Small Business Development Centers in California have been leaders in providing small business owners and entrepreneurs with the tools and guidance needed to become successful in today's challenging economic climate. As of January 13, 2014, the California Small Business Development Centers has reported assisting a combined total of 64,000 small business clients through one-on-one consulting and training activities. As a result of this assistance, clients created 5,484 new jobs.

AB 2670 recognizes the important role Small Business Development Centers play with in the California economy."

- 2) Framing the Policy Issue: This bill recognizes the important role SBDCs play within the California economy and designates GO-Biz as the lead state entity for facilitating the state's engagement with these centers. The bill also recognizes the federal requirement that SBDCs must provide a financial match in order to draw down federal funds and sets reporting requirements for the use of any state moneys.

In deliberating the merits of the measure, Members may wish to consider the importance of small businesses to the California economy and jobs creation. The analysis includes information on California small businesses, the SBDCs, and related legislation. Comment 7 includes amendment recommendations.

- 3) The Role of Small Business within the California Economy: California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's \$2 trillion economy.

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.

Businesses with no employees make up the single largest component of businesses in California, 2.8 million out of an estimated 3.5 million firms in 2010. As these businesses grow, they continue to serve as an important component of California's dynamic \$2 trillion economy. Microenterprises, meaning businesses with less than five employees represent approximately 93% of all businesses in the state, or approximately 3.2 million of all businesses. Businesses with 99 or less employees comprise nearly 98% of all businesses and employ approximately 38% of all workers. These non-employer and small employer firms create jobs, generate taxes, and revitalize communities.

In hard economic times, smaller size businesses often function as economic engines. In this most recent recession the trend continued, with the number of nonemployer firms increasing from 2.6 million firms (\$137 billion in revenues) for 2008 to 2.8 million firms (\$138 billion in revenues) by 2010. In the post-recession economy, small businesses are expected to become increasingly important due to their ability to be more flexible and better suited to meet niche market needs.

Their small size, however, also results in certain challenges in meeting regulatory requirements, accessing capital, and marketing their goods and services. California's network of SBDCs provide small size businesses, including business start-ups, with access to quality education, one-on-one counseling, and other business development resources.

- 4) Small Business Development Center Program: The SBDC program is sponsored by the federal SBA and functions as a cooperative effort of the private sector, the educational community, and federal, state, and local governments. In California, SBDCs are administered through a partnership between the California State Universities at Chico, Humboldt, and Fullerton; the University of California at Merced; Long Beach City College; and Southwestern Community College.

Formal management of the partnership is provided through an Administrative Lead Center that is designated by, and responsible to, the SBA. Each Administrative Lead Center serves a specific geographic area comprised of several SBDCs. The California SBDC network serves businesses throughout California with over 30 permanent and satellite office.

The SBDCs facilitate the creation, expansion, and retention of businesses. Each SBDC provides one-on-one counseling, workshops, advice, and referrals to prospective and existing business owners. The SBDCs assist with financing, government contracting, business planning and management, marketing, international trade, energy efficiency and sustainability, disaster preparedness and other business issues. Each Administrative Lead Center has its own resources and maintains links with other public and private small business service providers, such as financial institutions, local workforce investment boards, economic development corporations, and federal, state, and local government entities.

There are also SBDCs which specialize in assisting technology based companies with advice and training on angel and venture capital presentation preparation, funding strategies, product positioning, market launch strategies, applications for federal grants, technology transfers with research universities, intellectual property issues, and strategic partnerships.

Last year the California SBDC network advised more than 65,000 clients through its core small business advising and training program, as well as through its wide array of specialty programs.

Funding for the program is provided through a federal SBA population-based grant. In order to draw down these funds, each Administrative Lead Center must provide a dollar-for-dollar match. The federal government sets aside approximately \$12 million for California SBDCs annually, which represents slightly more than 11% of the national program. Since the demise of the Technology, Trade, and Commerce Agency in 2003, California has only received the full amount of eligible federal funds once. In 2010, Speaker John A. Pérez negotiated \$6 million for the SBDCs as part of the final budget negotiations with the Governor. [*AB 1632 (Assembly Budget Committee) Chapter 731, Statutes of 2010*]

- 5) Accountability and Transparency: Public accountability of state expenditures is very important, as is having clear strategic objectives and measurable outcomes. In 2001, the Joint Legislative Audit Committee requested the California Bureau of State Audits to conduct a performance review of the now defunct Technology, Trade and Commerce Agency (TTCA). At the time, the state served as the Lead Center for the SBDC program under a cooperative agreement with the SBA.

The state audit reported that many of the TTCA programs, including the SBDC program, lacked key components of sound strategic planning. Recommended improvements included setting more significant performance goals that would challenge programs and selecting goals that emphasized real outcomes rather than process inputs. Unlike the issues raised with TTCA's performance, the reporting requirements in AB 2670 represent best practices and ensure GO-Biz will receive key information on the impact of any state funding provided including data on the number of businesses assisted, jobs created/retained, and state tax dollars generated from assisted businesses.

California's prior administration of the SBDC program was also the subject of a 2001 audit by the federal SBA. This audit found that the state did not have adequate service center monitoring procedures and was out of compliance with a range of federal fiscal requirements. The state failed to respond to the SBA regarding the audit findings and was eventually required to return \$800,000 to the SBA, according to research by committee staff. When TTCA was dissolved, the SBA regionalized the administration of the SBDC program in California and entered into cooperative agreements with six Lead Centers – one for each of the SBA regions in California. While top level oversight remains in Washington D.C., the six SBA district directors actively participate with the Lead Centers on both program and administrative issues. The SBDCs are also independently reviewed to ensure management and accounting methods are accurate.

While prior related bills proposed to codify and make the SBDC program a state program, AB 2670 takes a different approach. This bill establishes a state liaison for collaborating with the federal program and sets ground rules for state collaborative actions. Nothing in the bill would require the state to become responsible for individual SBDC or Lead Center actions.

- 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. [*AB 29 (John A. Pérez), Chapter 475, Statutes of 2010*] In 2012, GO-Biz assisted over 5,300 companies which resulted in the creation and/or retention of 9,050 jobs and \$1.45 billion in investments. GO-Biz directly assisted over 6,500 companies in 2013.

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 OSBA, who advocates for and provides key information to small businesses.

In March 2012, the Governor initiated a reorganization process to realign the state's administrative structure. Key changes included dismantling of the Business, Transportation and Housing Agency (BTH) and the shifting of a number of 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
- I-Bank.

AB 2670 codifies the state's relationship with the federal small business program within the specific responsibilities of the I-Bank and designating GO-Biz as the state lead entity for overseeing the state's participation and collaboration with the statewide network of California SBDC. In doing so, this would further GO-Biz' ability to serve as a strategic resource for start-ups, small businesses, and entrepreneurs in California.

- 7) Amendments: Staff understands that the author will offer amendments to expand the federal technical assistance programs covered under the bill to also include the Small Business Administration's Women's Business Center, SCORE, and Veteran Business Outreach Center programs and the U.S. Department of Defense's Procurement Technical Assistance Center program.
- 8) Related Legislation: Legislation related to this measure includes the following:
- a) *AB 837 (Campos) Economic Development Program Reporting*: As passed by JEDE, this bill would have required annual reporting to GO-Biz from the Small Business Development Center Leadership Council on its activities in any year that the state contributes funds. Amendments taken in the Senate deleted the content of the bill and added language relating to CalPERS with Assemblymember Wieckowski as the author. Status: Pending in the Senate Committee on Public Employment and Retirement.
 - b) *AB 1632 (Assembly Budget Committee) Financing and Technical Assistance Funds for Small Businesses*: This bill provided \$32.35 million in funds for small business finance and technical assistance, which leveraged \$174 million in federal and in-kind funding. The \$32.35 million was allocated as follows: \$20 million was appropriated for use within the state Small Business Loan Guarantee Program; \$6 million to provide a federal match for California SBDCs to draw-down federal dollars; \$6 million for the California Capital Access Program for a loss reserve programs; and \$350,000 to the Federal Technology Program to draw-down federal dollars. Status: Signed by the Governor, Chapter 731, Statutes of 2010.
 - c) *AB 2206 (Price) Small Business Development Centers*: This bill would have re-established the California Small Business Development Center Program through the auspices of the Business, Transportation, and Housing Agency. Status: Held in Assembly Committee on Appropriations, 2008.
 - d) *AB 2717 (Bonta) Funding for Small Business Development Centers*: This bill Appropriates \$6 million for the purpose of assisting SBDC Administrative Lead Centers provide the mandatory match to draw

down federal funds. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development, and the Economy on April 22, 2014.

REGISTERED SUPPORT / OPPOSITION:

Support

Small Business Development Centers

Alameda County Small Business Development Center
Alameda County Small Business Development Center (Oakland Metropolitan Chamber of Commerce)
Alliance Small Business Development Center
Cal Poly Small Business Development Center for Innovation
California State University Bakersfield Small Business Development Center
California State University Monterey Bay Small Business Development Center
Central Coast Small Business Development Center at Cabrillo College
LaunchPad Small Business Development Center, OCTANE
Los Angeles Regional Small Business Development Center Network
Marin Small Business Development Center
Mendocino Small Business Development Center
Merced Small Business Development Center Network
Napa and Sonoma Small Business Development Centers at Napa Valley College
Fresno State Small Business Development Center
Fresno State Small Business Development Center-Tulare Kings
Pacific Coast Regional Small Business Development Corporation
Lead Center for the Northern California Small Business Development Center
Marin Small Business Development Center
Orange County Small Business Development Center
Orange County/Inland Empire Small Business Development Center
Small Business Development Center at El Camino College

Chambers and Business Organizations

Black Chamber of Commerce of Orange County
CalAsian Chamber of Commerce
California Association for Micro Enterprise Opportunity
California Disabled Veteran Business Alliance
California Hispanic Chambers of Commerce
Coalition of Small and Disabled Veteran Businesses
Disabled Veteran Business Enterprise Alliance
Hesperia Chamber of Commerce
Hispanic Chamber of Commerce Silicon Valley
Los Angeles Chamber of Commerce
National Federation of Independent Business
Small Business California
Southwest California Legislative Council
Victor Valley Chamber of Commerce
Women's Business Momentum Center
Los Angeles County Business Technology Center
National Hispanic Business Women Association
Pasadena Chamber of Commerce
Metropolitan Chamber of Commerce
Vietnam American Chamber of Commerce
Yuba-Sutter Chamber of Commerce
Apple Valley Chamber of Commerce
Asian Business Association – Orange County
California Disabled Veteran Business Alliance

Cities and Local Elected

City of Long Beach
City of Merced
City of Rancho Cucamonga
City of Riverside
City of Torrance
Mayor of Long Beach

Higher Education

California Center for Rural Policy at Humboldt State University

California State University Bakersfield School of Business and Public Administration

California State University, Fullerton: Host of the Small Business Development Center Orange County/Inland Empire Regional Center

Fresno State - Office of Community and Economic Development

Glamistree

Inland Empire Center for Entrepreneurship at Cal State University San Bernardino

Rancho Santiago Community College District

Humboldt Area Foundation

Humboldt State University

Riverside Community College District Office of Economic Development

Workforce Investment

Fresno Regional Workforce Investment Board

Stanislaus Economic Development and Workforce

Alliance-Alliance Small Business Development Center

Innovation Centers & I-Hubs

Los Angeles Cleantech Incubator

The Lyles Center for Innovation and

Entrepreneurship at Fresno State

Economic Development Corporations

Redwood Region Economic Development Commission

San Gabriel Valley Economic Partnership

The Coachella Valley Economic Partnership

Opposition

None received

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Additional Support

Annam Biosciences, LLC.

Enterprise Foundation

Exquadrum, Inc.

Fire & Light Originals, LP

Gelato Massimo, Inc.

High Desert Opportunity

Intalatin

Intuit

Kona Ice

Los Angeles County Business Technology Center

Monster Technology, LLC

Planet Bouncy, LLC

Pur-A-Life Water Solutions

Renaissance Entrepreneurship Center

Soody Tronson Law Group, PC

Sub_Urban Riot

The Headwaters Fund - County of Humbolt

The Norcal Procurement Technical Assistance Center

West Company

Vabyon America Inc.

Gallium Lighting, LLC

Kitchen Wizard

Parcel Pending

Accion San Diego

All Temperature Air, Inc.

Ambryx Biotechnology Inc.

Amerisense, LLC

Combustion Associates, Inc.

Eco & Associates

California Manufacturing Technology Consulting