

Date of Hearing: April 17, 2012

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
V. Manuel Pérez, Chair

AB 2671 (Jobs, Economic Development, and the Economy) – As Amended: March 26, 2012

SUBJECT: Small Business Financial Development Corporations

SUMMARY: Makes the 2007 program enhancements permanent by removing the sunset on the maximum allowable leverage of reserve funds under the Small Business Loan Guarantee Program (SBLGP). More specifically, this bill deletes the sections of the law that would become effective January 1, 2013 that set the maximum reserve of four dollars for every one dollar of loan guaranteed. The effect of this change is to make the five dollars for every one dollar guarantee the permanent maximum reserve. The Director of the SBLGP has the discretion to set a lesser leverage amount for the overall program and for any individual small business financial development corporation (FDC).

EXISTING LAW:

- 1) Establishes the SBLGP within the Business, Transportation and Housing Agency (BTH) 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.
- 2) Establishes the California Small Business Expansion Fund (Expansion Fund) for the purpose of retaining the moneys which separately capitalize the SBLGP and paying out defaulted loan guarantees issued under the SBLGP. Each account within the Expansion Fund is legally separate and is prohibited from securing loan guarantees or other obligations of another FDC. The state is not liable or obligated beyond the funds allocated and deposited in an individual trust fund account within the Expansion Fund.
- 3) Authorizes the Director of the SBLGP to:
 - a) Reallocate moneys between individual accounts based on which corporations most effectively use the guarantee funds; and
 - b) Recommend whether the Expansion Fund and individual FDC trust fund accounts are to be leveraged, and if so, how much the funds may be leveraged.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's purpose: According to the author, "AB 2671 will serve as the vehicle for the Assembly Jobs, Economic Development, and the Economy Committee omnibus bill on access to capital and economic development issues. The current provisions remove a sunset in order to retain existing law.

As California slowly moves out of the recession, maintaining financing options for small businesses is essential."

- 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, states 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 this current economic downturn, however, small business owners have 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 in 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 financing on its own.

In 2010-11, approximately \$5 million was made available for loan guarantees under the SBLGP, which leveraged \$13 million in small business loans. During this period, 99 guarantees were provided, creating and/or retaining 595 jobs. As noted in these numbers, 2010-11 was a slow year in

providing guarantees; in the current year (2011-12), however, the program has demonstrated higher volume with 38 guarantees within the first quarter.

As of the close of the first quarter of 2011-12, the outstanding loan portfolio was \$37 million in total reserves covering \$ 215 million in total loans, representing 1,548 in outstanding guarantees.

4) Reorganization: The Governor's 2012-13 proposed budget included a discussion on how the state would be better served if certain state programs, departments and agencies were reorganized. On March 30, 2012, the Governor submitted the reorganization plan that was outlined in his proposed budget to the Little Hoover Commission, which included a number of proposals of importance to the economic development community. According to the Governor's Office, the reorganization plan is far-reaching and represents his continued commitment to streamline state government. Among other items, the reorganization plan proposes:

- Dismantling BTH and the State and Consumer Services Agency (SCS) and moving programs to other existing and new agencies. Overall, the number of state agencies is reduced from 12 to 10; and
- Moving the following programs to the Governor's Office of Business and Economic Development:
 - 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.

The Little Hoover Commission has 30 days to analyze the reorganization plan and submit its recommendations to the Governor and Legislature. The Legislature then has 60 days to consider the plan. The plan goes into effect unless the Legislature takes an action to disapprove the plan with a majority of the Members in each house voting.

- 5) Amendments: Committee staff understands that the author will propose amendments to repeal Corporations Code Section 14069.6 that requires the now defunct Technology, Trade and Commerce Agency to prepare a 1998 report.
- 6) State Small Business Credit Initiative and future amendments: The State Small Business Credit Initiative (SSBCI) is one initiative of the 2010 federal Small Business Jobs Act. Funded at \$1.5 billion, the SSBCI is designed to strengthen existing and jump start new state small business finance programs. Nationally, these federal moneys are expected to leverage an addition \$11 billion in private sector investments.

California is eligible to receive up to \$168 million in federal funds, which the state has opted to provide through two programs - the California Capital Access Program (Cal Cap) and the SBLGP. Through this federal funding, the two programs have been able to leverage the following results for California small business:

- CalCap: Total lending \$54,397,000 = 912 loans / SSBCI contribution = \$1,825,000
- SBLGP: Total lending Over \$20 million / SSBCI contribution = \$6,500,000
- Total face value of loans = \$86.0 million = 1,022 loans

AB 2671 is a committee omnibus bill, which currently does not impact these moneys. The Committee is, however, closely monitoring the use of these funds and may propose programmatic modifications to how the state utilizes these moneys as the session progresses.

7) Related legislation: Below is a list of related legislation.

- a) AB 610 (Price) Extended Leverage of Program Dollars: This bill enhances the Small Business Loan Guarantee Program's ability to leverage existing program dollars increasing its ability to serve more small businesses' financial needs per year. Status: The bill was signed by the Governor, Chapter 601, Statutes of 2007.
- b) AB 1104 (Aghazarian) Allowable Investments of Program Dollars: This bill makes modifications to the Small Business Loan Guarantee Program relating to small business disaster guarantees and eligible investments of SBLGP funds. Status: The bill was signed by the Governor, Chapter 624, Statutes of 2007.
- c) AB 1431 (Arambula) Priority for Early Stage Businesses: This bill would have established the Early Stage Investment Guarantee Program, administered through the Small Business Loan Guarantee Program, for the purpose of assisting small businesses in attracting investors during the early years of their company's growth, as specified. Status: The bill was held in Assembly Appropriations Committee in 2008.

REGISTERED SUPPORT / OPPOSITION:

Support

Assembly Committee on Jobs, Economic Development, and the Economy (sponsor)
The Association of Financial Development Corporations

Opposition

None Received

Analysis Prepared by: Toni Symonds / J., E.D. & E. / (916) 319-2090