

Date of Hearing: April 22, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 2717 (Bonta and Skinner) – As Amended: April 9, 2014

SUBJECT: Small Business Development Centers

SUMMARY: Appropriates \$6 million from the General Fund to the California Economic Development Fund for the purpose of providing a cash match for the administrative lead centers that have contracts with the U.S. Small Business Administration (SBA) to administer the regional networks of Small Business Development Centers (SBDCs). An administrative lead center is required to provide written confirmation that state funds will be matched by the federal SBA. Implementation of this measure is dependent on the enactment of AB 2670 (Medina), which sets forth reporting and other requirements related to operation of SBDCs in California.

EXISTING LAW establishes the California Economic Development Fund for the purpose of receiving federal, state, local, and private economic development funds, and receiving repayment of loans or grant proceeds and interest on those loans or grants. Upon appropriation by the Legislature, moneys in the fund may be expended by the Governor's Office of Business and Economic Development (GO-Biz) to provide matching funds for loans or grants to public agencies, nonprofit organizations, and private entities.

FISCAL EFFECT: Appropriates \$6 million from the General Fund for the purpose of providing a federal match for SBDC program activities in California.

COMMENTS:

- 1) Author's Purpose: According to the author, "As our state's economy improves and our budget moves back into the black, it is past time for California to empower our small businesses and create more jobs.

The numbers are clear—small businesses are among California's key economic drivers, and from providing one-on-one consulting to increasing access to capital, no one is of more help to small businesses than California's federally funded Small Business Development Centers.

SBDCs exist throughout California and are measured on economic impact indicators including: jobs created and retained, providing access to capital, and increased company revenues.

It is truly shameful that California is among a handful of states not matching the federal Small Business Administration in support of our small businesses, but in 2014 we can and must do better.

That's why I joined Assemblymember Skinner in authoring AB 2717, which will appropriate \$6 million from the state's General Fund in order to provide critical matching funds to SBDCs so they can reach their full potential and access the \$12 million reserved for our state by the federal government. Finally, I would like to thank Assemblymember Medina for authoring AB 2670, which provides the framework for long term accountability and support of the SBDC program."

- 2) Framing the Policy Issue: This bill appropriates funds in order to assist SBDCs in California draw-down the maximum amount of federal moneys available to pay for one-on-one counseling and other technical assistance to small businesses. Without such assistance it is unlikely that California SBDCs

will have the necessary match to draw down all available moneys. Unused moneys from one state are reallocated to other states.

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.

- 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.

Business owners 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 a Lead Center that is designated by, and responsible to, the SBA. Each 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 offices.

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 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 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, the Speaker John A. Pérez negotiated \$6 million for the SBDCs as part of the final budget negotiations with the Governor.

- 5) Technical Amendments: In order to effectuate the purposes of this measure, the author will need to add an urgency clause.
- 6) 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 2670 (Medina) Small Business Development Centers*: This bill designates GO-Biz as the lead state entity for facilitating relationships with the SBDCs in California and codifies the existence and role of the SBDCs in providing technical assistance to small businesses throughout the state. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development, and the Economy on April 22, 2014.

- d) *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.

REGISTERED SUPPORT / OPPOSITION:

Support

Alameda County Small Business Development Center  
BirdDog Group  
California State University Monterey Bay Small Business Development Center  
Cathedral City Chamber of Commerce  
Center for Sustainable Suburban Development at University California, Riverside  
Central Coast Small Business Development Center at Cabrillo College  
Central Coast Small Business Development Center at Cabrillo College  
City of Murrieta  
City of Palm Springs  
Coachella Valley Economic Partnership  
College of the Desert  
Gelato Massimo Inc.  
Inland Empire Center for Entrepreneurship at California State University San Bernardino  
Lead Center for the Northern California Small Business Development Center  
Massage Envy Palm Desert, La Quinta, Palm Springs  
OCTANe  
Orange County/Inland Empire Small Business Development Center  
Rancho Santiago Community College District  
Small Business California  
The California Asian Pacific Chamber of Commerce

Opposition

None received

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