

Date of Hearing: January 7, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 674 (Quirk-Silva) – As Amended: January 6, 2014

SUBJECT: Definition of a Microenterprise and a Microenterprise Development Organization

SUMMARY: Updates the definition of microenterprise and microenterprise development organization to more accurately reflect industry practices. Specifically, this bill:

- 1) Specifies that the owner of a microenterprise may be employed by another firm including full or part-time.
- 2) Adds a limited liability company to the list of legal structures under which a microenterprise may be organized.
- 3) Modifies the requirement that a microenterprise generally lacks access to capital by stating that the microenterprise lacks "sufficient" access to capital.
- 4) Removes the specific list of examples of microenterprises.
- 5) Makes technical and conforming changes to the definition of a microenterprise development organization.

EXISTING LAW defines "microenterprise" as a sole proprietorship, partnership, or corporation with fewer than five employees, including the owner, and generally lacking access to conventional loans, equity, or other banking services.

FISCAL EFFECT: None

COMMENTS:

- 1) The Role of Microenterprise within the California Economy: Business owners, with no employees make up the single largest component of California firms, 2.8 million out of an estimated 3.5 firms in 2010. 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. These non-employer and smallest size firms create jobs, generate taxes, and revitalize communities. Common types of microenterprises consist of business enterprises that provide both goods and services including engineering, computer system design, housekeeping, construction, landscaping, clothing production, and personnel services.

In challenging economic times, these smallest size businesses have functioned as economic engines. As an example, during the nation's economic downturn from 1999 to 2003, microenterprises 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. In this most recent recession the trend continued, with the number of non-employer firms increasing from 2.6 million firms reporting \$137 billion in revenues for 2008 to 2.8 million firms reporting \$138 billion in revenues for 2010. In

the post-recession economy, these businesses are expected to become increasingly important due to their ability to be more flexible and better suited to meet niche market needs.

However, their small size also results in certain market challenges, including, but not limited to, having difficulty in meeting the traditional credit and collateral requirements of mainstream financial institutions. Specialized technical assistance, access to microloans, regulatory flexibility, and collaborative marketing opportunities can help many microenterprises overcome or at least minimize these difficulties.

- 2) Microenterprise and Income Disparity: In the past several decades, the disparity between the most wealthy households in the U.S. and those with the least income have widened. A 2011 Congressional Budget Office (CBO) report on after-tax incomes of American households illustrates several key outcomes from shifts in public policy and changes in domestic and global markets.

First, the CBO report confirmed the disparity in income growth between certain households. Between 1979 and 2007, income for households at the higher end of the income scale rose much more rapidly than income for households in the middle and at the lower end of the income scale. Most significantly, by the end of the report period (2005 and 2007), the after-tax income received by the top 20% exceeded the after-tax income of the remaining 80%. The chart below illustrates the CBO's findings in more detail.

After-Tax Income Growth 1979 to 2007			
Income Bracket	Income Earners	Percentile	Percentage Growth
1	Top 1%	100th	275%
2	Next 20%	81 st to 99 th	65%
3	Next 60%	20 th to 80 th	40%
4	Bottom 20%	1 to 19 th	18%

Source: "Trends in the Distribution of House Income Between 1979 and 2007," Congressional Budget Office, 2011

The two primary reasons for the increase in income disparities were the uneven distribution in the sources of household income and the differing economic circumstances of those sources during the 28-year report period. Households in the higher income brackets (1 & 2) received a majority of their income through capital gains and business income, which as a share of total income increased in value, while individuals in the bottom two brackets (3 & 4) received a majority of their income from labor income and capital income, which decreased in value. In the recession, this income disparity continued to increase, in part, because of the impact of long term unemployment on wages, a core component of labor income, and rental rates, a core component of capital income.

The findings in the report suggest that policies that inhibit access to self-employment and microenterprise development reinforce the trend in income disparities and, conversely, policies which break down barriers and support greater access to capital and small business formation, especially to historically underserved populations, could begin to break the trend. AB 674 updates a key definition in this import policy discussion.

- 3) Related Legislation: Below is a list of related bills.
- a) AB 165 (Carter) Self-Employment Training: This bill would have required the California Workforce Investment Board to develop guidelines for entrepreneurial training by January 1, 2011. The bill would have also added legislative intent on the importance of all Californians

having access to training related to self-employment and entrepreneurship. Status: Held in the Senate Appropriations Committee, 2009.

- b) AB 285 (Brown) Technical Assistance for Microenterprises: This bill would have required the California Workforce Investment Board to develop guidelines for entrepreneurial training by January 1, 2015. The bill would have also added legislative intent on the importance of all Californians having access to training related to self-employment and entrepreneurship. Status: Vetoed by the Governor, 2013.
- c) AB 816 (Carter) Technical Assistance for Microenterprises: This bill would have established a \$5 million grant program to assist microenterprise development organizations offer capacity building services to microentrepreneurs. Status: Held in the Senate Appropriations Committee, 2007.
- d) AB 1209 (Yee) Technical Assistance for Microenterprises: This bill would have established a \$5 million grant program to assist microenterprise development organizations offer capacity building services to microentrepreneurs. Status: Held in the Senate Appropriations Committee, 2006.
- a) AB 2998 (Carter) Self-Employment Training: This bill would have required the California Workforce Investment Board to develop guidelines for entrepreneurial training by January 1, 2010. The bill would have also added legislative intent on the importance of all Californians having access to training related to self-employment and entrepreneurship. Status: Held in the Senate Appropriations Committee, 2008.
- e) SB 446 (Yee) Technical Assistance for Microenterprises: This bill would have established a \$500,000 grant program to assist microenterprise development organization offer capacity building services to microentrepreneurs. Status: Held in the Senate, 2008.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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