

**Assembly Committee on Jobs, Economic
Development, and the Economy**

2013 End of Year Report
Including
A Summary of Legislation



Jose Medina, Chair
Allan R. Mansoor, Vice Chair

***Assembly Committee on Jobs, Economic
Development, and the Economy***

Office Phone: 916.319.2090

Office Fax: 916.319.2190

Committee Website: <http://ajed.assembly.ca.gov/>

Mailing Address:

*California State Capitol
Assembly Committee on Jobs,
Economic Development, and
the Economy
Sacramento, CA, 95814*

Office Location:

*Legislative Office Building
Assembly Committee on Jobs,
Economic Development, and
the Economy
1020 N Street, Room 359
Sacramento, California 95814*

Jobs, Economic Development, and the Economy

Jose Medina, Chair
Allan R. Mansoor, Vice Chair
Nora Campos
Tom Daly
Paul Fong
Steve Fox
Eric Linder
Melissa A. Melendez
V. Manuel Pérez

Committee Staff:

Toni Symonds, Chief Consultant
Natalee Vicencia, Committee Secretary
Ava Sanchez, Communications Director
Zach Hutsell, Legal Intern
Edith Gonzalez, Intern
Maya Polon, Intern

Assembly Republican Caucus, Office of Policy:

Julia King, Principal Consultant



December 5, 2013

Dear Interested Parties:

As Chair of the Assembly Committee on Jobs, Economic Development, and the Economy (JEDE), I am pleased to publish the Committee's 2013 End of the Year Report.

Among other things, this reference tool will provide you with a list of legislation that pertains to topics under JEDE's jurisdiction and summaries of key interest areas including: California's manufacturing and logistical networks, the state's clean technology economy, small business development, disabled veteran business enterprises, international trade, infrastructure, regulatory reform, and workforce development.

I hope you find this information useful.

If you have any questions or need further information, please do not hesitate to contact the JEDE Committee Office at 916.319.2090 or visit the JEDE Committee website at <http://ajed.assembly.ca.gov/>.

Sincerely,

A handwritten signature in black ink, consisting of a stylized initial 'J' followed by a horizontal line.

JOSE MEDINA
Chair
Assembly Committee on Jobs,
Economic Development, and the Economy

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Section I –The California Economy

California is one of the largest and most diversified economies in the world with a gross domestic product (GDP) of over \$2.0 trillion in 2012. If California were a country, its 2012 GDP would place it 8th among nations, ranking as follows: United States (\$15.7 trillion), China (\$8.2 trillion), Japan (\$6.0 trillion), Germany (\$3.4 trillion), France (\$2.6 trillion), United Kingdom (\$2.4 trillion), Brazil (\$2.3 trillion), Russian Federation (\$2.0 trillion), Italy (\$2.0 trillion), and California (\$2.0 trillion).

Historically, the state's significance in the global marketplace resulted from a variety of factors, including its strategic west coast location, its economically diverse regional economies, its skilled workforce, and its culture of innovation and entrepreneurship, particularly in the area of technology. California's 28.6 million working age individuals comprise the single largest workforce in the nation, are comparatively younger, and have an educational achievement level above the national average. As an example, over 32% of the working age population holds at least a bachelor's degree.

California's well diversified small business base also provides an economic advantage by meeting the niche needs of the state's dominant and emerging innovation-based industry sectors. **Chart 1**, developed by data provided by the California Employment Development Department, provides details on California's largest industry sectors based on employment.

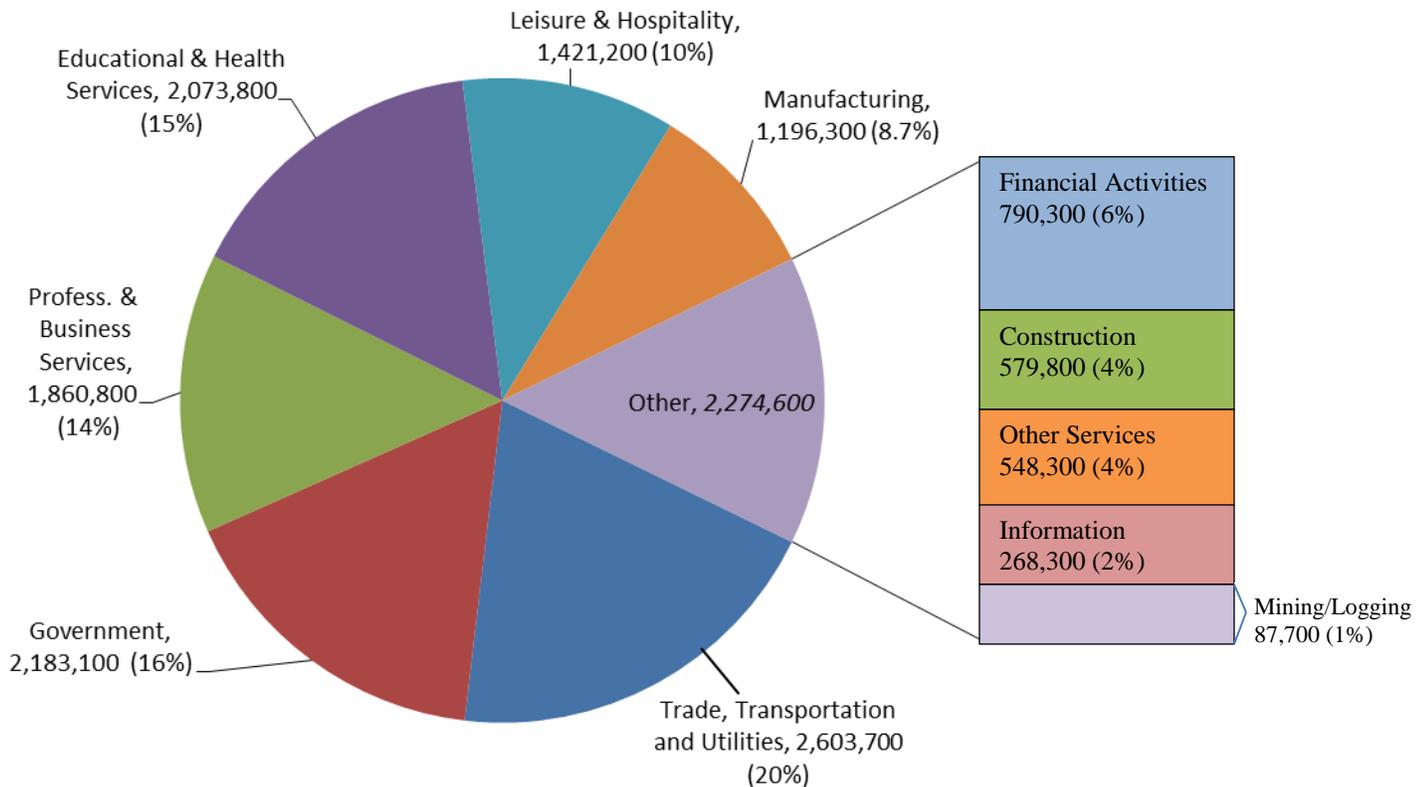


Chart 1 - Total Nonfarm Employment by Industry Sector August 2013 (percentages rounded)

Along with California's competitive advantages, the state also has economic challenges including its aging infrastructure, complex regulatory system, and a global economy that can increasingly offer goods and services previously only available in the U.S. and often best supplied by Californians.

Experts have noted that being successful in the second decade of the 21st Century will likely require governments, businesses and workers to transcend old economic and workforce development frameworks. Seven of the key trends that are redefining the U.S. and California economy are described in **Chart 2**.

Chart 2 - Key Economic Trends Affecting the California Economy
1 - Cities and regions will become more dominant economic players.
2 - Global networks will be supported through more advanced information and transportation technologies.
3 - The world's largest companies will increasingly be headquartered in emerging foreign markets.
4 - Global and more diversified markets will provide new opportunities for smaller sized companies.
5 - Scarcity and rising prices will increase pressure on the development and deployment of cleaner technologies.
6 - The retirement of Boomers will place an even greater need for new middle and high skilled workers.
7 - The available workforce will be smaller, more diversified, and have educational backgrounds that lag other industrial countries.

This emerging marketplace will demand deeper collaborations among businesses, workers, governments and educators. Education and training will also need to become more highly integrated within career pathways which are clearly articulated between the K-12, the state's higher education systems, and workforce training providers. Further, governments will be challenged to conceive of, approve, and help finance comprehensive infrastructure networks that support both the joint development, as well as the exchange of goods, services and ideas across rural and urban communities, state-to-state, and state-to-nations.

Re-defining California's Economic Development Paradigm

Success in this constantly evolving global economy will require California to implement a sustained and innovative economic development agenda that embraces entrepreneurship, creativity, diversity and the new models of business engagement, while also removing barriers to innovation and change. Beginning in 2010, Governor Brown initiated a restructuring of the state's role with business attraction, retention and growth. This restructuring resulted in the elimination of the California Community Redevelopment authority in 2010 and the elimination of the California Enterprise Zone Program and the Small Business Tax Credit in 2013. Rather than relying on community development or place-based models, the state's new economic engagement model focuses on leveraging high tech and other innovation-based firms including advanced manufacturing, biotech, and cleantech.

In accommodating this shift, the Administration and the Legislature worked together to codify the Governor's Office of Business and Economic Development (GO-Biz) [AB 29 (John A. Pérez), Chapter 475, Statutes of 2011, and AB 2012 (John A. Pérez), Chapter 294, Statutes of 2012], and then to realign the state's economic development resources within the purview of GO-Biz. Effective July 1, 2013, the following programs and services were transferred to GO-Biz:

- The 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 (I-Bank).

In addition, the Governor signed key legislation to establish a Small Business Finance Center within the I-Bank [AB 1247 (Medina), Chapter 537, Statutes of 2013], and codified the Innovation Hub (iHub) Program [AB 250 (Holden and V.Manuel Pérez), Chapter 530, Statutes of 2013]. In October of 2013, the Governor also added four new iHubs to the existing network of 12 including an Inland Empire and Los Angeles-based iHub that will focus on trade and foreign investment and a statewide iHub that will promote advanced manufacturing.

Approximately \$780 million was shifted from the California Enterprise Zone Program for use in a new California Competes Tax Credit, which will be awarded by GO-Biz; a broad-based state tax exclusion for equipment purchases by manufacturing and technology firms; and a more limited tax credit for the hire of new employees by businesses located in areas with high unemployment and poverty [AB 93 (Assembly Committee on Budget), Chapter 69, Statutes of 2013 and SB 90 (Galgiani and Cannella), Chapter 70, Statutes of 2013].

Workforce development initiatives have also been refocused during the same period. Funding for workforce training has been transformed from a straight per capita allocation to an incentive based allocation whereby high performing local workforce investment boards receive supplemental awards [SB 698 (Lieu), Chapter 497, Statutes of 2011]. Career Academies were established and then expanded to address the state's educational attainment gap and provide stronger links between public education and the workplace [SB 1070 (Steinberg), Chapter 433, Statutes of 2012]. Further, the needs of dominant and emerging industries, selected at the regional levels, will be used to refocus the work of the California Community College Workforce Development Division, [SB 1402 (Lieu), Chapter 361, Statutes of 2012] and the local workforce investment boards [SB 118 (Lieu), Chapter 562, Statutes of 2013]. The Governor has also committed to release a new five-year infrastructure plan and a 20-year growth and economic development plan, the Environmental Goals and Policy Report.

Taken together, these changes in programs, services, workforce, and infrastructure are designed to help California successfully compete in a more highly integrated and sophisticated global economy.

Legislation from 2013

Below is a summary of the legislation heard by, or of interest to, JEDE during 2013 relating to improving the state's economic development activities. Legislation not heard by JEDE are marked with an *. This is the most general designation category, which provides information on tax expenditures and other economic development programs and services. Other sections of the report provide more targeted information with a list of related legislation including sections on small business, enterprise zones, trade and foreign investment, infrastructure, workforce development and emerging domestic markets.

AB 9 (Holden) Qualified Employee Definition for Enterprise Zone Tax Credit: This bill modifies the enterprise zone hire credit conditions by requiring employees receive a qualified wage that exceeds an average monthly wage of \$2,000 and expands the definition of a qualified employee by expanding the dislocated worker requirements to reflect recent economic considerations. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 28 (V. Manuel Pérez) Enterprise Zone Restructuring: This bill makes six programmatic and fiscal improvements to the geographically-targeted economic development area programs, in relation to cost, transparency, and accountability. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 53 (John A. Pérez) California Economic Development Strategic Plan: This bill would have required GO-Biz to lead the preparation of the biennial California Economic Development Strategic Plan, as specified. In addition, the bill required a copy of the federally required Worker Adjustment and Retraining Notification Act notice be posted on the EDD website and be provided to GO-Biz. Status: Vetoed by the Governor, 2013. The veto message reads: "This bill requires the Governor's Office of Business and Economic Development (GO Biz) to prepare the California Economic Development Strategic Plan and a triennial report to the Legislature. GO Biz is now implementing the state's new economic development initiative that Speaker Pérez helped make possible earlier this year. In addition, thanks to legislation authored by Speaker Pérez, GO Biz is expanding direct foreign investment, promoting export of California products, removing unnecessary government barriers for businesses, and helping large and small businesses innovate, grow, and prosper in California. For all these reasons, I don't think a study and report will bring any additional focus to our efforts."

AB 86 (Assembly Committee on Budget) Education Omnibus Trailer Bill: Career Pathways Trust*: This bill, among other things, appropriates \$250 million for the Career Pathways Trust, which will fund competitive grants for high schools, community colleges and their business partners to create pathways for careers in high-need and high-growth economic sectors. Status: Signed by the Governor, Chapter 48, Statutes of 2013.

AB 93 (Assembly Committee on Budget) California Competes Tax Credit and State Sales and Use Tax Exemption*: This bill institutes three new tax programs, a Sales and Use Tax exemption for manufacturing and bio-tech equipment and similar purchases; a California Competes tax credit for attracting and retaining major employers; and a hiring credit under the Personal Income Tax and Corporation Tax for employment in specified geographic areas. Additionally, the bill results in the phasing-out and ending of certain tax provisions related Enterprise Zones and similar tax incentive areas, and ending the current Small Business New Jobs Credit tax incentive program. The bill also provides for allocating the California Competes tax credit through the Governor's Office of Business and Economic Development to assist in retaining existing and attracting new business activity in the state. Status: Signed by the Governor, Chapter 69, Statutes of 2013.

AB 106 (Assembly Committee on Budget) California Competes: Technical Changes 2 of 3*: This bill makes technical clarification to the Enterprise Zone Program that is set to expire on December 31, 2013, according to SB 90 and AB 93. Status: Signed by the Governor, Chapter 355, Statutes of 2013.

AB 250 (Holden and V. Manuel Pérez) Codification of California Innovation Hubs: This bill codifies and expands the California Innovation Hub Program at GO-Biz for the purpose of

stimulating economic development and job creation through the regional coordination of federal, state, and local innovation-supporting resources. Status: Signed by the Governor, Chapter 530, Statutes of 2013.

AB 305 (V. Manuel Pérez) New Markets Tax Credit: This bill would have created a \$200 million state New Markets Tax Credit Program for the purpose of stimulating economic development and hastening California's economic recovery. In general, the new state credit paralleled the federal New Markets Tax Credit. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AB 393 (Cooley) GO-Biz Website*: This bill requires the Director of GO-Biz to ensure that the GO-Biz website contains information on the fee requirements and fee schedules of state agencies. Status: Signed by the Governor, Chapter 124, Statutes of 2013.

AB 483 (Ting) Local Government Tax and Fee Definitions*: This bill defines “specific benefit” and “specific government service” for the purpose of determining whether a levy is a tax pursuant to Article XIIC of the California Constitution and Prop 26 (2010). Status: Signed by the Governor, Chapter 552, Statutes of 2013.

AB 574 (Lowenthal) Sustainable Communities Strategy*: This bill would have required the Air Resources Board (ARB), in consultation with the California Transportation Commission and the Strategic Growth Council, to establish standards for the use of moneys allocated from the Greenhouse Gas Reduction Fund for sustainable communities projects and to establish criteria for the development and implementation of regional grant programs. The bill would have required the California Transportation Commission, in consultation with ARB, to designate agencies to act as the regional granting authorities to administer regional grant programs. Status: Held on the Suspense File of the Assembly Committee on Appropriations.

AB 653 (V. Manuel Pérez) California Innovation and Jobs Act: This bill establishes the California Innovation and Jobs Act, which increases the maximum value of the research and development credit and codifies the California Innovation Hub Program. Status: Pending in the Assembly Committee on Appropriations.

AB 668 (Gray) Economic Disaster Area Priority: This bill requires the state to give priority consideration to areas declared an economic disaster area when expending certain state moneys. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 737 (Fox) Unmanned Aircraft Systems Test Sites: As passed by JEDE, this bill required GO-Biz to prepare and submit a proposal for an unmanned aircraft test site to the Federal Aviation Administration on or before May 6, 2013. Amendments taken in the Senate deleted the content of the bill and added language relating to space flight liability. Status: Pending in the Senate Committee on Judiciary.

AB 930 (Hall) Enterprise Zones: Energy Management Plans: This bill authorizes cities and counties to develop energy management plans with utility companies serving enterprise zones. Status: Pending in the Assembly Committee on Natural Resources.

AB 978 (Blumenfeld) Iran Financial Sanction Compliance: This bill requires state-chartered financial institutions to certify compliance with the federal Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010. Status: Signed by the Governor, Chapter 139, Statutes of 2013.

AB 1042 (Hall) Indian Gaming Special Distribution Fund*: This bill modifies the Department of Finance's calculation of the total revenue available from the Indian Gaming Special Distribution Fund to local government agencies impacted by tribal gaming, and appropriates \$13 million for the Special Distribution Fund for the 2013-14 fiscal year. Status: Signed by the Governor, Chapter 746, Statutes of 2013.

AB 1051 (Bocanegra) Sustainable Communities for All*: This bill would have created the Sustainable Communities for All Program, beginning in 2015, which would fund, upon appropriation by the Legislature, from the Greenhouse Gas Reduction Fund, sustainable transportation and housing improvements that benefit lower-income households. Status: Held on the Suspense File of the Assembly Committee on Appropriations.

AB 1247 (Medina and Bocanegra) Small Business Finance Center: This bill establishes the California Small Business Finance Center at the I-Bank, within GO-Biz, and transfers the authority to administer the small business loan guarantee program and other related programs to the I-Bank. Status: Signed by the Governor, Chapter 537, Statutes of 2013.

AB 1260 (Medina) California Family Owned Business*: This bill provides a statutory definition for California family owned business. Status: Pending in the Assembly Committee on Business, Professions & Consumer Protection.

AB 1399 (Medina and V. Manuel Pérez) New Markets Tax Credits: This bill creates a \$200 million state New Markets Tax Credit Program for the purpose of stimulating economic development and hastening California's economic recovery, generally paralleling the federal New Markets Tax Credit. Tax expenditure authority for this measure is provided through the reallocation of previously authorized expenditures from the California State Sales and Use Tax Exclusion Program. Status: Pending in the Senate Committee on Governance and Finance.

AB 1422 (Assembly Committee on Jobs, Economic Development and the Economy) California Alternative Energy and Advanced Transportation Financing Authority: This bill clarifies the definition of "participating party", used by the California Alternative Energy and Advanced Transportation Financing Authority (Authority) for their Sales and Use Tax Exclusion Program, to include out-of-state entities that demonstrably commit to opening a manufacturing facility within California. The bill also repeals a requirement that GO-Biz issue a report about advanced manufacturing and a report by the Authority on net benefits. Status: Signed by the Governor, Chapter 540, Statutes of 2013.

SB 73 (Senate Budget and Fiscal Review Committee) Proposition 39 Budget Trailer Bill*: This bill specifies the allocation of Prop 39 revenues available for K-12 local educational agencies and California Community College districts. This bill also appropriates \$3 million in Prop 39 revenues to the California Workforce Investment Board to develop and implement a grant program for community-based organizations and other training workforce organizations preparing disadvantaged youth or veterans for employment. Status: Signed by the Governor, Chapter 357, Statutes of 2013.

SB 90 (Galgiani) California Competes: Technical Changes 1 of 3*: This bill makes various technical changes related to the California Competes Tax Credit Program in AB 93. Status: Signed by the Governor, Chapter 70, Statutes of 2013.

SB 100 (Senate Committee on Budget and Finance) California Competes 3 of 3: Technical Changes*: This bill is a trailer bill that, among other things, makes various technical changes related to the California Competes Tax Credit Program in AB 93. Status: Signed by the Governor, Chapter 360, Statutes of 2013.

SB 118 (Lieu) Education and Workforce Investment Systems: This bill requires the California Workforce Investment Board to incorporate specific principles into the state's strategic plan that align the education and workforce investment systems of the state to the needs of the 21st century economy and promotes a well-educated and highly skilled workforce to meet the state's future workforce needs. Status: Signed by the Governor, Chapter 562, Statutes of 2013.

SB 133 (DeSaulnier) Redevelopment and Affordable Housing*: This bill makes various reforms to the activities of redevelopment agencies in fulfilling the requirements to increase, preserve and improve low- and moderate-income housing through additional reporting requirements and prescribing remedial measures for major audit violations. Status: Pending on the Senate Inactive File.

SB 470 (Wright) Community Development and Economic Opportunity*: This bill creates a process for a city, county, or city and county to sell or lease properties that are returned to them as part of the long-range property management plan of a former redevelopment agency, for an economic development purpose. Status: Signed by the Governor, Chapter 659, Statutes of 2013.

SB 752 (Roth) Commercial and Industrial Common Interest Developments*: This bill separates the laws governing commercial and industrial Common Interest Developments from the laws governing residential Common Interest Developments and generally makes the operational provisions of current law inapplicable to commercial and industrial Common Interest Developments. Status: Signed by the Governor, Chapter 605, Statutes of 2013.

SB 798 (De León) Green Infrastructure Bank*: This bill establishes the California Green Infrastructure Bank as a public corporation. The bill puts the bank under the direction of an executive director to be appointed by the Governor and subject to Senate confirmation. The bill authorizes the bank to issue loans and bonds that facilitate green economic development, and adds the bank to the list of investments eligible for funds from the Greenhouse Gas Reduction Fund. Status: Pending in the Senate Committee on Government & Finance.

SCR 62 (Jackson) Representation of Women in Corporations*: This resolution encourages gender diversity on corporate boards and urges publicly-held companies to have a specified minimum of women on their boards by the end of 2016. Status: Adopted, Chapter 127, Statutes of 2013.

SJR 15 (Hancock) Postal Service Protection Act of 2013: This resolution urges the United States Congress to pass legislation to promote the modernization and preservation of the United States Postal Service, as stated in the introduced version of the Postal Service Protection Act of 2013. Status: Adopted, Chapter 122, Statutes of 2013.

Section II – Manufacturing

Manufacturing plays an important role within the California economy, supporting international trade and small businesses within the global supply chain while providing high-paying jobs. In 2012, California's 39,852 manufacturing establishments accounted for 10.6% of California's GDP, representing \$213.3 billion in total manufacturing output.

Manufacturing employs 1.3 million workers in California, accounting for 7.8% of the state's non-farm employment (2011). Average annual compensation for manufacturing jobs is \$91,042, which is \$41,907 greater than the average annual compensation in private non-farm industry sectors in California (2011).

Manufacturing is California's most export-intensive activity, with \$140.2 billion in manufactured goods exported in 2012, accounting for 86.6% of California's annual exports. Exports of manufactured goods support 22.4% of California's manufacturing jobs. Total export-related manufacturing employment is estimated at 602,600 workers. Approximately 48% of manufacturing exports go to the U.S.'s top-five trade partners: Mexico (17.9%), Canada (10.3%), Japan (8.2%), China (7.1%), and South Korea (4.6%).

Also, manufacturing jobs have a large employment multiplier effect; according to the Milken Institute, each manufacturing job supports roughly 2.9 other jobs in the overall state's economy. In some specialized manufacturing sectors, such as electronics and computer manufacturing, the multiplier effect is as high as 16 to 1. One of the reasons for the large multiplier effect is the extended supply chains that are needed to support manufacturing and the export of goods.

There are 72,309 exporters (2011) in California, of which 96% are small businesses. These small businesses average more than \$975,000 in exports per firm, and account for 44.2% of the state's total manufacturing exports.

For the U.S. as a whole, manufacturing contributed \$1.87 trillion to the economy in 2012 (up from \$1.73 trillion in 2011), accounting for 11.9% of GDP. Manufacturing supports an estimated 17.2 million jobs, directly employing nearly 12 million workers (roughly 9% of the workforce). The average manufacturing worker earned \$77,060 annually, \$16,892 more than the U.S. average wage of \$60,168. U.S. manufacturing firms lead the nation in exports with \$1.3 trillion of manufactured goods shipped abroad, which was 86% of all U.S. goods exported in 2011.

Manufacturing Challenges

Although manufacturing is central to the U.S. economy, employment within the U.S. manufacturing sector has been in an unprecedented decline in the 21st Century. According to the Information Technology and Innovation Foundation, between 2000 and 2011, U.S. manufacturing lost 5.4 million jobs (31.4%). Manufacturing in California has suffered a similar decline. During the same period, California lost 613,000 jobs or 33% of its manufacturing base. The reasons for this decline are numerous, including an inability to secure skilled workers to support the changing needs of manufacturing, increasing costs due to inefficiencies within goods movement logistical networks, and maintaining cost-effective productivity in the face of lower safety and wage standards in emerging foreign markets.

Reasons for Failure of Manufacturing in California

According to a June 2010 report by the Milken Institute, "Manufacturing 2.0: A More Prosperous California," it was found that California's competitive position is losing ground to other states and nations based on its regulatory climate, tax burden and reputation as a difficult and costly place to do business. This has been largely confirmed by recent history: Site Selection Magazine, a trade paper for the business development community, reports that from 2007 to 2009, California had the slowest growth in manufacturing capacity among the nation's 25 most populous states. California gained only 3.7 new manufacturing facilities between 2007 to 2009. The national average was 28.7 new facilities over the same time period.

The 2012 Business Expansion & New Site Survey, published by the California Manufacturers & Technology Association, also investigated the reasons why manufacturers have not been considering California for site expansions. Many of the reasons given for not considering California were similar to those found in the Milken Institute report, and many of them are highly impacted by state policies, including the state's complicated tax system, a poor regulatory environment, high labor costs, and a lack of incentives and credits.

The 2012 survey found a general consensus among respondents that in order for California to attract business investment and become competitive, reform in multiple areas is needed. Overall, 82% of the companies that were surveyed stated that they did not consider California for a new or expanded manufacturing facility.

EDD currently projects that, between 2010 and 2020, total employment in California will rise by 16.3%, but total employment in the manufacturing sector in California will rise by only 0.4%, as shown in **chart 3** below.

Chart 3: Employment Growth in California				
	Annual Average Employment 2010	Estimated Employment 2020	Numerical Change	Percent Change
Total Employment	15,916,200	18,511,200	2,595,000	16.3%
Manufacturing	1,241,000	1,246,500	5,500	0.4%

Source: "Projections of Employment by Industry and Occupation, Long-term (Ten years) Projections," EDD, 2010

Overcoming the challenges of California's complex tax and regulatory system is important because these issues serve as early warning signs to the challenges that face the state's economy as a whole. In addressing these challenges, the Milken Institute report recommends the state develop a new and more cooperative relationship with manufacturing. In the current and prior sessions, the Legislature has taken important steps to address these issues. Last session the Legislature passed AB 617 (Calderon), Chapter 93, Statutes of 2011, which requires the adoption of a standardized process for conducting the regulatory impact analysis on regulations that exceed \$50 million in estimated economic impact. This new standard went into effect in November 2013.

This year, the JEDE passed and the Governor signed AB 250 (Holden and V. Manuel Pérez), Chapter 530, Statutes of 2013, which codifies the California Innovation Hub (iHub) Program and creates a

single point of contact for innovation centers, such as research labs and universities, to engage with entrepreneurs and cultivate advanced local industries.

Other steps have also been made to increase the attraction of new manufacturing facilities to California. The Governor proposed and the Legislature approved AB 93 (Assembly Committee on Budget), Chapter 69, Statutes of 2013, which establishes a statewide tax exemption for manufacturing equipment, a modified new hire credit, and the California Competes Tax Credit, all of which are intended to help attract and retain manufacturers.

Legislation from 2013

Below is a summary of the legislation heard by, or of interest to, JEDE during 2013 relating to California manufacturing and logistical systems. Legislation not heard by JEDE is marked by an *.

AB 93 (Assembly Committee on Budget) California Competes Tax Credit and State Sales and Use Tax Exemption*: This bill institutes three new tax programs, a Sales and Use Tax exemption for manufacturing and bio-tech equipment and similar purchases; a California Competes tax credit for attracting and retaining major employers; and a hiring credit under the Personal Income Tax and Corporation Tax for employment in specified geographic areas. Additionally, the bill results in the phasing-out and ending of certain tax provisions related to Enterprise Zones and similar tax incentive areas, and ending the current Small Business New Jobs Credit tax incentive program. The bill also provides for allocating the California Competes tax credit through the Governor's Office of Business and Economic Development to assist in retaining existing and attracting new business activity in the state. Status: Signed by the Governor, Chapter 69, Statutes of 2013.

AB 106 (Assembly Committee on Budget) California Competes: Technical Changes 2 of 3*: This bill makes technical clarification to the Enterprise Zone Program that is set to expire on December 31, 2013, according to SB 90 and AB 93. Status: Signed by the Governor, Chapter 355, Statutes of 2013.

AB 250 (Holden and V. Manuel Pérez) Codification of California Innovation Hubs: This bill codifies and expands the California Innovation Hub Program at GO-Biz for the purpose of stimulating economic development and job creation through the regional coordination of federal, state, and local innovation-supporting resources. Status: Signed by the Governor, Chapter 530, Statutes of 2013.

AB 305 (V. Manuel Pérez) New Markets Tax Credit: This bill would have created a \$200 million state New Markets Tax Credit Program for the purpose of stimulating economic development and hastening California's economic recovery. In general, the new state credit paralleled the federal New Markets Tax Credit. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AB 653 (V. Manuel Pérez) California Innovation and Jobs Act: This bill establishes the California Innovation and Jobs Act, which increases the maximum value of the research and development credit and codifies the California Innovation Hub Program. Status: Pending in the Assembly Committee on Appropriations.

AB 737 (Fox) Unmanned Aircraft Systems Test Sites: As passed by JEDE, this bill required GO-Biz to prepare and submit a proposal for an unmanned aircraft test site to the Federal Aviation Administration on or before May 6, 2013. Amendments taken in the Senate deleted the content of the bill and added language relating to space flight liability. Status: Pending in the Senate Committee on Judiciary.

AB 1399 (Medina and V. Manuel Pérez) New Markets Tax Credits: This bill creates a \$200 million state New Markets Tax Credit Program for the purpose of stimulating economic development and hastening California's economic recovery, generally paralleling the federal New Markets Tax Credit. Tax expenditure authority for this measure is provided through the reallocation of previously authorized expenditures from the California State Sales and Use Tax Exclusion Program. Status: Pending in the Senate Committee on Governance and Finance.

AB 1400 (Assembly Committee on Jobs, Economic Development, and the Economy) Export Document Certificates: This bill modifies the state's Export Document Program to accept requests electronically, expedite approval of existing labels, and extend the term of the export labels from 180 days to 365 days, in order to alleviate backlog of exports of food, drug, and medical devices. Status: Signed by the Governor, Chapter 539, Statutes of 2013.

AB 1422 (Assembly Committee on Jobs, Economic Development and the Economy) California Alternative Energy and Advanced Transportation Financing Authority: California Alternative Energy and Advanced Transportation Financing Authority: This bill clarifies the definition of "participating party", used by the California Alternative Energy and Advanced Transportation Financing Authority (Authority) for their Sales and Use Tax Exclusion Program, to include out-of-state entities that demonstrably commit to opening a manufacturing facility within California. The bill also repeals a requirement that GO-Biz issue a report about advanced manufacturing and a report by the Authority on net benefits. Status: Signed by the Governor, Chapter 540, Statutes of 2013.

SB 90 (Galgiani) California Competes: Technical Changes 1 of 3*: This bill makes various technical changes related to the California Competes Tax Credit Program in AB 93. Status: Signed by the Governor, Chapter 70, Statutes of 2013.

SB 100 (Senate Committee on Budget and Finance) California Competes 3 of 3: Technical Changes*: This bill is a trailer bill that, among other things, makes various technical changes related to the California Competes Tax Credit Program in AB 93. Status: Signed by the Governor, Chapter 360, Statutes of 2013.

Section III – California's Clean Technology Economy

California’s clean technology economy encompasses a broad range of products and services, touching upon multiple industry sectors. This includes clean technology such as alternative energy generation, wastewater treatment, and the production of environmentally-friendly consumer products. Although some of these industries are very different, they all use innovative technologies, products, and services that have environmental benefits.

Growth in the cleantech industry largely comes from the convergence of two disparate factors. One, recent advances in new technologies, research methods, manufacturing, and communications that lower the cost of environmentally sensitive technologies; and two, an increasing number of consumers and businesses that are looking for ways to reduce energy costs, increase clean water supply, and meet new environmental regulatory requirements at the local, state, and global levels. Governments, in turn, have adopted new regulatory frameworks that require greater use of recyclable materials, increased the use of renewable energy, and lowered air pollution and greenhouse gas (GHG) emissions.

Leading cleantech sectors include energy efficiency, transportation and biofuels. Investments in smart grid technologies were also growing in the past year. **Chart 4** (below), developed by Cleantech San Diego illustrates the wide range of industries engaged in the cleantech industry cluster.

Chart 4: Examples of Cleantech Industries	
Agriculture	Bio-based materials; farm efficiency technologies; micro-irrigation systems; bio-remediation; and non-toxic cleaners and natural pesticides.
Air & Environment	Air purification products and air filtration systems; energy efficient HVAC; universal gas detectors; multi-pollutant controls; and fuel additives to increase efficiency and reduce toxic emissions.
Materials	Biodegradable materials derived from seed proteins; micro-fluidics technology for conducting biochemical reactions; nano-materials; composite materials; thermal regulating fibers and fabrics; environmentally-friendly solvents; nano-technology components for electronics, sensor applications and energy storage; electro-chromic glass; and thermoelectric materials.
Energy	<p><u>Energy Efficiency</u>: Energy management systems; systems that improve output of power generating plants; intelligent metering; solid state micro refrigeration; control technology for HVAC systems; and automated energy conservation networks.</p> <p><u>Energy Generation</u>: Distributed and renewable energy and conversion, including wind, solar/photovoltaic (PV), hydro/marine, biofuels, fuel cells, gasification technologies for biomass, and flywheel power systems.</p> <p><u>Energy Infrastructure</u>: Wireless networks to utilities for advanced metering; power quality monitoring and outage management; integrated electronic systems for the management of distributed power; and demand response and energy management software.</p> <p><u>Energy Storage</u>: Batteries, e.g. thin film and rechargeable; power quality regulation; flywheels; and electro-textiles.</p>

Manufacturing and Industrial	Advanced packaging; natural chemistry; sensors; smart construction materials; business process and data flow mapping tools; precision manufacturing instruments & fault detectors; and chemical management services.
Recycling & Waste	Recycling technologies; waste treatment; internet marketplace for materials; hazardous waste remediation; and bio-mimetic technology for advance metals separation and extraction.
Transportation	Hybrid vehicle technology; lighter materials for cars; smart logistics software; car-sharing; and temperature pressure sensors to improve transportation fuel efficiency; telecommuting.
Water & Wastewater	Water recycling and ultra-filtration systems (e.g. UV membrane & ion exchange systems); sensors and automation systems; and water utility sub-metering technology; desalination equipment.
Source: Cleantech San Diego	

In general, California is well positioned to take advantage of the new cleantech market, based on the following factors:

- Thriving technology base;
- Existing entrepreneurial and management talent;
- Access to a full range of capital; and
- Historically progressive environmental laws.

Other states and even foreign countries, however, are also vying to dominate these new emerging technologies. Connecticut, Massachusetts, Texas, New Mexico, New York, New Jersey, Florida, and Pennsylvania all have proactive cleantech economic policies. Europe and Asia are also successfully building cleantech clusters. Germany and China have already usurped California's once leading position in solar and wind energy through targeted policies and initiatives.

Cooldown and Maturation in Cleantech Investing

California is the epicenter of the U.S.'s cleantech market. In 2012, California was home to 143 venture capital investment deals into cleantech, worth \$2.2 billion. Both of these figures are greater than the rest of the 49 states combined. The next closest state was Massachusetts, which was home to 40 venture capital deals for a total of \$504.7 million.

However, 2012 overall proved to be a difficult year for cleantech investors. Global investments in cleantech dropped to \$6.5 billion after reaching a record high of \$9.6 billion. U.S. based investments dropped to \$5.0 billion from a high of \$6.6 billion in 2011. Likewise, investment into California cleantech in 2012 (\$2.2 billion) was down from a previous high of \$3.5 billion in 2011. Also, high-profile bankruptcies in the U.S. cleantech sector, including Solyndra in California, damaged the previously safe investment reputation of cleantech industries.

A recent report published by Next10 that analyzes cleantech investing in California between 2003-2013 suggest that the high level of cleantech investment found in 2011 was likely due to an overheated market, but, despite the drop in 2012, cleantech investing is now settling into a more sustainable growth pattern due to an increase of risk-averse financing such as corporate investors and debt financing. Between 2008 and 2012, the percentage of capital coming from corporate investors

jumped from 27.2% to 41.4%, and the percentage of capital coming from debt financing jumped from 5.1% to 21.1%.

Proposition 39

Passed in 2012, Prop 39 will provide a total of \$2.5 billion to invest in energy efficiency and clean energy projects for California's K-12 schools as well as community colleges. It is estimated that funds from Prop 39, also known as the California Clean Energy Jobs Act, will reduce operating costs and improve health and safety conditions in over 9,000 school buildings in California through a wide variety of projects, such as the installation of solar panels and the installation of efficient heating/air-conditioning systems and lighting systems.

SB 73 (Senate Budget and Fiscal Review Committee), Chapter 357, Statutes of 2013, allocates roughly \$381 million to local education agencies and \$47 million to community colleges for Prop 39 implementation in 2013-2014. Approximately \$5 million will be provided to the California Conservation Corp for related workforce development such as energy auditing and weatherization training, and \$3 million will be provided to the California Workforce Investment Board for a competitive grant program for workforce training organizations to provide energy-related work experience and job training to disadvantaged youths and veterans.

AB 32 and the California Cap-and-Trade Program

2013 marked the first year of California's cap-and-trade market. As of December 2013, over \$1.4 billion has been collected from auction revenues for use on mitigating GHG emissions or the harms caused by GHG emissions.

Mandated by AB 32 (Nunez), Chapter 488, Statutes of 2006, the cap-and-trade program is the foundation of California's overall climate action plan. AB 32 requires California's biggest producers of GHG to either reduce their emissions or purchase GHG allowances to offset their yearly emissions. The total amount of allowances is capped each year, with the total amount available dropping each successive year. These allowances are then sold by the Air Resources Board (ARB) through quarterly auctions.

Despite initial uncertainty, 2013 has been a strong year for California's cap-and-trade auctions. All available 2013 allowances were sold, and sufficient demand existed among bidders as there were nearly two bids for every one available allowance. The market was also assisted by the dismissal of legal challenges regarding AB 32 brought by the California Chamber of Commerce and the Pacific Legal Foundation, ruling that cap-and-trade allowances are a regulatory fee and not an illegal tax.

Decisions are still pending in the Legislature regarding the implementation and usage of cap-and-trade auction revenues. Due to the auction revenues being classified as a fee, all revenues must be used to mitigate GHG emissions or the harms caused by greenhouse gas emissions. Multiple bills were introduced but none were sent to the Governor in 2013 regarding the spending of these revenues, including AB 26 (Bonilla), AB 416 (Gordon), AB 574 (Lowenthal), AB 1023 (Eggman), AB 1051 (Bocanegra), AB 1056 (Jones), AB 1375 (Chau), SB 64 (Corbett), SB 511 (Lieu), SB 605 (Lara), and SB 798 (De León). These bills are described below.

Legislation from 2013

Below is a summary of the legislation heard by, or of interest to, JEDE during 2013 which was designed to advance California's emerging cleantech economy. Legislation not heard by JEDE is marked by an *.

AB 26 (Bonilla) Greenhouse Gas Reduction Fund*: This bill specifies that moneys from the Greenhouse Gas Reduction Fund may only be made available for work at a refinery, if that work is related to complying with a market-based compliance mechanism to reduce greenhouse gas emissions. Status: Pending in the Senate Committee on Labor & Industrial Relations.

AB 416 (Gordon) Local Emission Reduction Program*: This bill would have created the Local Emission Reduction Program, which requires moneys to be available from the General Fund, upon appropriation by the Legislature, for the purposes of providing grants and financial assistance to cities, counties, metropolitan planning organizations, air quality control districts, and other local governments to develop and implement greenhouse gas reduction projects in the State. Status: Held on the Suspense File of the Assembly Committee on Appropriations.

AB 574 (Lowenthal) Sustainable Communities Strategy*: This bill would have required ARB, in consultation with the California Transportation Commission and the Strategic Growth Council, to establish standards for the use of moneys allocated from the Greenhouse Gas Reduction Fund for sustainable communities projects and to establish criteria for the development and implementation of regional grant programs. The bill would have required the California Transportation Commission, in consultation with ARB, to designate agencies to act as the regional granting authorities to administer regional grant programs. Status: Held on the Suspense File of the Assembly Committee on Appropriations.

AB 628 (Gorell and Hall) Energy Management Plans for Harbors and Port Districts: This bill authorizes a harbor or port district to prepare one or more energy management plans in order to reduce air emissions and promote economic development. Status: Signed by the Governor, Chapter 741, Statutes of 2013.

AB 653 (V. Manuel Pérez) California Innovation and Jobs Act: This bill establishes the California Innovation and Jobs Act, which increases the maximum value of the research and development credit and codifies the California Innovation Hub Program. Status: Pending in the Assembly Committee on Appropriations.

AB 701 (John A. Pérez) I-Bank Board Membership: As passed by JEDE, this bill would have authorized the I-Bank to serve as the primary state agency for applying to any federal infrastructure bank or financing authority which could have included green and energy related infrastructure. Further, the bill expanded the membership of the board of directors from five to seven members and specified that legislative members will be nonvoting members. Amendments taken in the Senate deleted the content of the bill and added language relating to property tax allocation in Orange County with Assemblymember Quirk-Silva as the author. Status: Signed by the Governor, Chapter 393, Statutes of 2013.

AB 930 (Hall) Enterprise Zones: Energy Management Plans*: This bill authorizes cities and counties to develop energy management plans with utility companies serving enterprise zones. Status: Pending in the Assembly Committee on Natural Resources.

AB 978 (Blumenfeld) Iran Financial Sanction Compliance*: This bill requires state-chartered financial institutions to certify compliance with the federal Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010. Status: Signed by the Governor, Chapter 139, Statutes of 2013.

AB 1023 (Eggman) Greenhouse Gas Emissions*: This bill would have required CalRecycle to implement a market development program for industries that reduce greenhouse gas emissions through waste reduction, recycling, and composting. Status: Held on the Suspense File of the Assembly Committee on Appropriations.

AB 1051 (Bocanegra) Sustainable Communities for All*: This bill would have created the Sustainable Communities for All Program, beginning in 2015, which would fund, upon appropriation by the Legislature, from the Greenhouse Gas Reduction Fund, sustainable transportation and housing improvements that benefit lower-income households. Status: Held on the Suspense File of the Assembly Committee on Appropriations.

AB 1056 (Jones) Allowance Auction Reports*: This bill requires ARB to provide quarterly reports on greenhouse gas allowance auctions to appropriate fiscal and policy committees of the Legislature. Status: Pending in the Assembly Committee on Natural Resources.

AB 1079 (Bradford) Energy Management Plans*: This bill would have authorized cities and counties to prepare energy management plans in order to reduce emissions and promote economic development. Status: Held on the Suspense File of the Senate Committee on Appropriations, 2013.

AB 1315 (John A. Pérez) California Green Collar Jobs Act*: This bill adds the Speaker of the Assembly and the President Pro Tempore of the Senate as members of the California Workforce Investment Board and the Green Collar Jobs Council. This bill also authorizes the Green Collar Jobs Council to include representatives from other states agencies and other interested parties as appropriate, and requires the development of a common framework to address workforce needs arising from changes in industries impacted by state policies to reduce greenhouse gas emissions. Status: Pending on the Assembly Inactive File.

AB 1375 (Chau) Clean Technology Investment Account*: This bill, which is substantially similar to SB 64 (Corbett), would have created the Clean Technology Investment Account within the Greenhouse Gas Reduction Fund, and requires the Legislature to annually appropriate moneys from the Greenhouse Gas Reduction Fund into the Clean Technology Investment Account. The bill requires ARB to develop guidelines and use these moneys for purposes of accelerating the development, demonstration, and deployment of clean technologies that will reduce greenhouse gas emissions. Status: Held on the Suspense File of the Assembly Committee on Appropriations.

SB 4 (Pavley and Gray) Oil and Gas: Well Stimulation*: This bill establishes a comprehensive regulatory program for oil and gas well stimulation treatments (e.g., hydraulic fracturing, acid well stimulation), which includes, among other things, a study, the development of regulations, a

permitting process, and public notification and disclosure. Statutes: Signed by the Governor, Chapter 313, Statutes of 2013.

SB 64 (Corbett) Clean Technology Investment Account*: This bill is substantially similar to AB 1375 (Chau). This bill creates the Clean Technology Investment Account within the Greenhouse Gas Reduction Fund, and requires the Legislature to annually appropriate moneys from the Greenhouse Gas Reduction Fund or other funds to the Clean Technology Investment Account in the Budget Act. The bill makes these monies available to ARB for the purposes of providing grants to nonprofit public benefit corporations and regional technology alliances to design and implement programs that accelerate the development, demonstration, and deployment by companies and entrepreneurs of transformative technologies that reduce greenhouse gas emissions. Status: Pending in the Assembly Committee on Natural Resources.

SB 73 (Senate Budget and Fiscal Review Committee) Proposition 39 Budget Trailer Bill*: This bill specifies the allocation of Prop 39 revenues available for K-12 local educational agencies and California Community College districts. This bill also appropriates \$3 million in Prop 39 revenues to the California Workforce Investment Board to develop and implement a grant program for community-based organizations and other training workforce organizations preparing disadvantaged youth or veterans for employment. Status: Signed by the Governor, Chapter 357, Statutes of 2013.

SB 418 (Jackson and Block) Nuclear Fission Powerplants*: This bill requires a detailed study of project needs and costs to be provided to the California Public Utilities Commission when requesting ratepayer funding for a nuclear power plant seeking relicensing from the U.S. Nuclear Regulatory Commission. Status: Pending in the Assembly Committee on Utilities and Commerce.

SB 511 (Lieu) Climate Change Grants*: This bill would have required the Secretary of the Natural Resources Agency, in coordination with ARB, to develop guidelines for awarding grants for projects that enhance greenhouse gas emissions avoidance and sequestration associated with natural resources. Status: Held on the Suspense File of the Senate Committee on Appropriations.

SB 605 (Lara) ARB Scoping Plan*: This bill would have required the Air Resources Board (ARB), when updating the Scoping Plan, to prioritize specified actions that create jobs in California, reduce co-pollutants within the State, implement regulations and actions to reduce short-lived climate pollutants by 2015, and limit the use of offset credits to those originating and achieved within California to the extent feasible. The bill would have required, as part of the Scoping Plan Update, that ARB include a plan to achieve the goals of AB 32 should any of the measures adopted by ARB not achieve their expected emissions reductions. The bill would have required ARB to submit the criteria required by this bill to the Joint Legislative Budget Committee, and states that if the Scoping Plan Update is completed prior to January 1, 2014, it must be revised to include the requirements of this bill. The bill also would have appropriated up to \$125 million from the Greenhouse Gas Reduction Fund to ARB for expenditure in Fiscal Year 2013-14 for the benefit of disadvantaged communities. Status: Held on the Suspense File of the Assembly Committee on Appropriations.

SB 798 (De León) Green Infrastructure Bank*: This bill establishes the California Green Infrastructure Bank as a public corporation. The bill puts the bank under the direction of an executive director to be appointed by the Governor and subject to Senate confirmation. The bill authorizes the bank to issue loans and bonds that facilitate green economic development, and adds the bank to the list of investments eligible for funds from the Greenhouse Gas Reduction Fund. Status: Pending in the Senate Committee on Government & Finance.

Section IV – Small Business Development and Operations

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. 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. 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 small employer firms create jobs, generate taxes, and revitalize communities. Common types of non-employer microenterprises include engineering, computer system design, housekeeping, construction, landscaping, and personnel services.

These smaller size businesses function as economic engines, especially in challenging economic times. 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. In this most recent recession the trend continued, with the number of nonemployer 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, based on federal tax returns. 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, and collaborative marketing opportunities can help many microenterprises overcome or at least minimize these difficulties.

Using Entrepreneurship to Address Income Disparity

In understanding how business ownership can shift the income disparity dynamic, it may be useful to consider a 2011 Congressional Budget Office (CBO) report on after-tax incomes of American households. The CBO found that 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 (**Chart 5**) illustrates the CBO's findings in more detail.

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. With the recession, this income disparity has 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 also suggest that policies that inhibit access to self-employment serve to reinforce the income disparities trend and that policies which result in greater access, especially to historically underserved populations, could begin to break the trend.

State Programs that Support Small Businesses

California currently provides several loan and loan guarantee programs including the Capital Access Program, administered through the State Treasurer's Office, and the Small Business Loan Guarantee Program (SBLGP), administered through the Small Business Finance Center at the I-Bank and a statewide network of small business financial development corporations.

In October 2010, Congress passed and the President signed the Small Business Jobs Act (Act). Among other things, the Act created the State Small Business Credit Initiative (SSBCI), which is authorized to expend up to \$1.5 billion for state sponsored small business finance programs. Over the life of the program, every federal dollar must be matched by 10 private sector dollars. September 2017 is the deadline for using the funds. Funding for the administration, outreach, and oversight of the program is primarily the responsibility of the state.

Under the funding formula, California is eligible to receive up to \$168 million, which is the largest amount of any state. California uses its moneys to capitalize the SBLGP administered through the I-Bank and a loss reserve program and collateral support program administered through the California Pollution Control Financing Authority at the state Treasurer's Office.

California has encumbered over \$40 million and created or retained more than 18,640 jobs. In November of 2013, the state applied for its second transfer of funding.

Legislation from 2013

Below is a summary of the legislation heard by, or of interest to, JEDE during 2013 relating to small business and microenterprise. Small business procurement legislation is separately listed in the following section, "Disabled Veteran Business Enterprises (DVBE) and Small Business Procurement." Legislation not heard by JEDE is marked with an *.

AB 9 (Holden) Qualified Employee Definition for Enterprise Zone Tax Credit: This bill modifies the enterprise zone hire credit conditions by requiring employees receive a qualified wage that exceeds an average monthly wage of \$2,000 and expands the definition of a qualified employee by expanding the dislocated worker requirements to reflect recent economic considerations. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 28 (V. Manuel Pérez) Enterprise Zone Restructuring: This bill makes six programmatic and fiscal improvements to the geographically-targeted economic development area programs, in relation to cost, transparency, and accountability. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 93 (Assembly Committee on Budget) California Competes Tax Credit and State Sales and Use Tax Exemption*: This bill institutes three new tax programs, a Sales and Use Tax exemption for manufacturing and bio-tech equipment and similar purchases; a California Competes tax credit for attracting and retaining major employers; and a hiring credit under the Personal Income Tax and Corporation Tax for employment in specified geographic areas. Additionally, the bill results in the phasing-out and ending of certain tax provisions related Enterprise Zones and similar tax incentive areas, and ending the current Small Business New Jobs Credit tax incentive program. The bill also provides for allocating the California Competes tax credit through the Governor's Office of Business and Economic Development to assist in retaining existing and attracting new business activity in the state. Status: Signed by the Governor, Chapter 69, Statutes of 2013.

AB 106 (Assembly Committee on Budget) California Competes: Technical Changes 2 of 3*: This bill makes technical clarification to the Enterprise Zone Program that is set to expire on December 31, 2013, according to SB 90 and AB 93. Status: Signed by the Governor, Chapter 355, Statutes of 2013.

AB 201 (Holden) Small Business Financial Development Corporations Notice: This bill requires the names of the financial institution and financing companies that make direct loans to small businesses to be posted on the Office of the Small Business Advocate website. Status: Signed by the Governor, Chapter 529, Statutes of 2013.

AB 250 (Holden and V. Manuel Pérez) Codification of California Innovation Hubs: This bill codifies and expands the California Innovation Hub Program at GO-Biz for the purpose of stimulating economic development and job creation through the regional coordination of federal, state, and local innovation-supporting resources. Status: Signed by the Governor, Chapter 530, Statutes of 2013.

AB 285 (Brown) Scope of Practice for the California Workforce Investment Board: This bill would have required the California Workforce Investment Board to make recommendations and provide technical assistance on entrepreneurial training opportunities that could be made available through local workforce investment boards. The bill would have also deleted certain required duties of the California Workforce Investment Board and made changes to the definition of microenterprise. Status: Vetoed by the Governor, 2013. "This bill, like SB 118, deals with the California Workforce Investment Board and various aspects of job training. Unlike SB 118, it is overly prescriptive in the way it directs the Board to provide technical assistance for entrepreneurial training and to make recommendations. I believe this unduly infringes on the Board's authority and discretion."

AB 305 (V. Manuel Pérez) New Markets Tax Credit: This bill would have created a \$200 million state New Markets Tax Credit Program for the purpose of stimulating economic development and hastening California's economic recovery. In general, the new state credit paralleled the federal New Markets Tax Credit. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AB 366 (Holden) Women, Minority, and Disabled Veteran Business Enterprises: This bill modifies the definitions for minority owned business, women owned business, and disabled veteran owned business enterprise to encourage contracting with publicly held companies. Status: Pending in the Assembly Committee on Appropriations.

AB 393 (Cooley) GO-Biz Website*: This bill requires the Director of GO-Biz to ensure that the GO-Biz website contains information on the fee requirements and fee schedules of state agencies. Status: Signed by the Governor, Chapter 124, Statutes of 2013.

AB 674 (Quirk-Silva) Microenterprise Definition: This bill expands the definition of microenterprise to include entities that have fewer than 10 employees, including the owner. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 780 (Bocanegra) Small Business Financial Development Corporation Funding: This bill would have appropriated \$2 million to provide administrative funding to the state's small business financial development corporations, specifying that each is eligible to receive \$150,000, and brings them under the jurisdiction of GO-Biz. Status: Held on the Suspense File of the Senate Committee on Appropriations, 2013.

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 Rules.

AB 1098 (Quirk-Silva) Small Business Regulation Report: As passed by JEDE, this bill would have directed the Office of Small Business Advocate within GO-Biz to commission a study of the costs of state regulations on small businesses every five years. Amendments taken in the Senate deleted the content of the bill and added language relating to legal documents provided over the internet with Assemblymember Gray as the author. Status: Pending in the Senate Committee on Judiciary.

AB 1247 (Medina and Bocanegra) Small Business Finance Center: This bill establishes the California Small Business Finance Center at the I-Bank, within GO-Biz, and transfers the authority to administer the small business loan guarantee program and other related programs to the I-Bank. Status: Signed by the Governor, Chapter 537, Statutes of 2013.

AB 1260 (Medina) California Family Owned Business: This bill provides a statutory definition for California family owned business. Status: Pending in the Assembly Committee on Business, Professions & Consumer Protection.

AB 1399 (Medina and V. Manuel Pérez) New Markets Tax Credits: This bill creates a \$200 million state New Markets Tax Credit Program for the purpose of stimulating economic development and hastening California's economic recovery, generally paralleling the federal New Markets Tax Credit. Tax expenditure authority for this measure is provided through the reallocation of previously authorized expenditures from the California State Sales and Use Tax Exclusion Program. Status: Pending in the Senate Committee on Governance and Finance.

ACR 48 (Allen) Start a Small Business Month: This resolution declares "May 2013" as "Start a Small Business Month," expresses the Legislature's support of the Governor's efforts in supporting small businesses, and declares that there are key actions that the Legislature should take to further the success of small businesses in California. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

HR 17 (Medina) Small Business Month: This resolution declares "June 2013" as "Small Business Month," and expresses the Legislature's support for small business and continuing commitment to key investments in infrastructure, new technologies, and an education system that makes California an even better place to do business. Status: Adopted, 2013.

SB 90 (Galgiani) California Competes: Technical Changes 1 of 3*: This bill makes various technical changes related to the California Competes Tax Credit Program in AB 93. This bill is only operative if AB 93 is chaptered and becomes operative. Status: Signed by the Governor, Chapter 70, Statutes of 2013.

SB 100 (Senate Committee on Budget and Finance) California Competes 3 of 3: Technical Changes*: This bill is a trailer bill that, among other things, makes various technical changes related to the California Competes Tax Credit Program in AB 93. Status: Signed by the Governor, Chapter 360, Statutes of 2013.

SB 176 (Galgiani) Outreach on Administrative Procedures*: This bill would have amended the Administrative Procedure Act by requiring state agencies to make a reasonable effort to outreach and provide notice to affected entities when developing regulations. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

SB 209 (Lieu) Qualified Small Business Stock Income Tax*: This bill partially reinstates tax exclusion and deferral allowances on income from the sale of qualified small business stock and waves all penalties and interest for taxes assessed as a result of the related statutes being found unconstitutional as a result of *Cutler v. Franchise Tax Board*. Status: Signed by the Governor, Chapter 543, Statutes of 2013.

Section V – Disabled Veteran Business Enterprises and Small Business Procurement

The Small Business Act, administered through the Department of General Services, was implemented more than 30 years ago to establish a small business preference within the state's procurement process that would increase the number of contracts between the state and small businesses. In 1998, a disabled veteran-owned business enterprise (DVBE) component was added to state procurement practices. Certification of small businesses, including microbusinesses, and DVBEs is generally undertaken by the Department of General Services.

The Small Business Act states that it is the policy of the State of California that the state aid the interests of small businesses in order to preserve free competitive enterprise and to ensure that a fair portion of the total purchases and contracts of the state be placed with these enterprises. The statute further states that DVBE participation is strongly encouraged to address the special needs of disabled veterans seeking rehabilitation and training through entrepreneurship and to recognize the sacrifices of Californians disabled during military service. Statute sets an annual 3% DVBE participation goal and a 25% goal for small and microbusinesses.

The state's success in obtaining the DVBE and small business participation has been inconsistent. Since 2001, when the first executive order set the 25% small business participation target, the state has met its goal only four times. In the most recent report on procurement, 2010-11, DGS reported that \$1.26 billion (22.12%) out of a total of \$5.72 billion of all state contracts were awarded to small businesses.

The state has three times achieved its 3% DVBE participation goal, that being in 2007-08, 2009-10, and 2010-11. In 2010-11, \$272 million out of a total of \$5.64 billion (4.82%) was awarded to DVBEs. The base amounts used to calculate the small business and DVBE goals vary among reporting periods because purchasing categories associated with inmates, such as inmate day labor and medical expenses, as reported by the Department of Corrections and Rehabilitation, are statutorily exempted from DVBE participation.

Over the years, the Department of General Services has cited a variety of reasons for state agencies failing to meet the procurement participation goals. One of the more significant reasons cited by DGS is the increasing number of mega contracts often exceeding \$1 million in value. While once only an issue in state highway construction contracts, in the past few years the practice of bundling small size contracts has increased.

Other issues limiting small business participation include:

- Meeting minimum liquidity requirements to cover the cost of materials and staffing until the state makes its payment for services often 30 to 60 days after the services are rendered;
- Qualifying for and/or affording surety bonds and liability insurance policies that are required for public works contracting; and
- Having access to a local workforce that is trained and qualified to undertake specialized work.

The Department of General Services has also noted that many state departments and agencies have only recently begun to track and report small business participation in state contracting procurement. For example, 2005-06 was only the second year that the California State University system monitored and reported on small business contracts. The University of California does not report.

Legislation from 2013

Below is a summary of the legislation heard by, or of interest to, JEDE during the 2013 Legislative Year relating to DVBEs and small business procurement. Legislation not heard by JEDE is marked with an *.

AB 172 (Weber) State Contracting Microbusiness: This bill would have increased the microbusiness procurement preference from 5% to 7% for state contracts to purchase goods, services, information technology, and construction of state facilities, and allowed the preference to be awarded to either a microbusiness bidder or a non-microbusiness bidder that uses a microbusiness subcontractor. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AB 366 (Holden) Women, Minority, and Disabled Veteran Business Enterprises: This bill modifies the definitions for minority owned business, women owned business, and disabled veteran owned business enterprise to encourage contracting with publicly held companies. Status: Pending in the Assembly Committee on Appropriations.

AB 550 (Brown) State Procurement Procedures for Small Businesses: This bill would have made key changes to state procurement procedures for the purpose of increasing small business, including microbusiness, and disabled veteran-owned business enterprise participation rates. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AB 668 (Gray) Economic Disaster Area Priority: This bill requires the state to give priority consideration to areas declared an economic disaster area when expending certain state moneys. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 674 (Quirk-Silva) Microenterprise Definition: This bill expands the definition of microenterprise to include entities that have fewer than 10 employees, including the owner. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

SB 297 (Roth) Public Contracts and Disabled Veterans: This bill increases the annual statewide participation goal for disabled veteran business enterprises applicable to certain state contracts, from 3% to 5%. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

SB 733 (Block) Disabled Veteran Business Enterprise Participation Goals: This bill deletes provisions of law allowing an awarding department to accept submission of a disabled veteran business enterprise utilization plan to meet the 3% statewide participation goal for awarded contracts. The bill authorizes, instead, a new review process for demonstrating a business's long-term commitment to using veteran-owned businesses. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

Section VI – International Trade

International trade is an important component of California's \$2.0 trillion economy supporting 4.4 million California jobs. The importance of trade to the California economy is increasing as a percentage of California jobs tied to trade more than doubled from 1992 to 2011, 10.6% v. 22.0%. If California were a country, its \$162 billion in exports would place the state as the 11th largest exporter in the world. Exports from California accounted for over 10.5% (\$162 billion) of total U.S. exports in goods, shipping to over 220 foreign destinations in 2012.

California's significance in the global marketplace results from a variety of factors, including: its strategic west coast location, providing direct access to the growing markets in Asia; its diverse regional economies; its large, ethnically diverse population, representing both a ready workforce and significant consumer base; its access to a wide variety of venture and other private capital; its broad base of small- and medium-sized businesses; and, its culture of innovation and entrepreneurship, particularly in the area of high technology.

California's largest industry sector by employment is Trade, Transportation, and Utilities, which encompasses everything from major retail outlets, to import-export businesses, to transportation and warehousing. California leads the nation in export-related jobs. The U.S. Department of Commerce estimates that for every one million dollars of increased trade activity, 11 new jobs are supported. Workers in trade-related jobs earn on average 13% to 28% higher wages than the national average.

Exports and Imports

Manufacturing is California's most export-intensive activity, contributing significantly to the value of California's \$162 billion in exports in 2012. Overall, manufacturing exports represent 9.4% (\$120 billion in goods) of California's GDP, and computers and electronic products constitute 27.6% of the state's total manufacturing exports. More than one-fifth (21.9%) of all manufacturing workers in California directly depend on exports for their jobs.

Besides the production and/or manufacturing of the product being exported, foreign trade results in numerous jobs related to port activity, wholesale trade, warehousing, and transportation. Small businesses played a key role in the state's export market by both exporting themselves and in selling goods and services to other companies that ultimately export. **Chart 6** includes information on the major goods California exported in 2012.

Chart 6 - 2012 Exports From California to the World		
Product	Value (\$ billions)	Percent
334 Computers & Electronic Prod.	44.5	27.6 %
333 Machinery (except electrical)	14.8	9.2 %
336 Transportation Equipment	16.1	10 %
325 Chemical Manufactures	12.7	7.9 %
339 Misc. Manufacture Commodities	13.8	8.6 %
111 Agricultural Products	11.9	7.4 %
All Others	27.2	29.3 %
Total	\$162 (rounded)	100 %

Source: Tradestates.com

In today's globally linked economy, manufacturing utilizes products from across the U.S., as well as from other nations. In 2012, 61% (\$1.3 trillion) of the products imported into the U.S. were inputs

and components used by American producers. In addition, U.S. imports often include components and required services provided by U.S. firms, including products designated and manufactured in California semiconductors and design.

Mexico is California's top trading partner, receiving \$26 billion (16%) in goods in 2012. The state's second and third largest trading partners are Canada and China with \$17.3 billion (11%) and \$14 billion (9%) in exports respectively. Other top-ranking export destinations include Japan, South Korea, Hong Kong, Taiwan, Germany, the Netherlands and the United Kingdom.

California imported \$376 billion in products in 2012 with China being the largest source of imports into California. The 2012 value of Chinese imports was \$128 billion. China is followed by Japan (\$41.5 billion); Mexico (\$36 billion); Canada (\$25.8 billion); and South Korea (\$12.3 billion). Other major sources of import into California include: Germany (\$12 billion); Taiwan (\$11.2 billion); Malaysia (\$10 billion); and Saudi Arabia (\$8.5 billion).

California's top five imports in 2012 were: Computer and Electronic Products (\$112 billion); Transportation Equipment (\$60 billion); Oil & Gas (\$32 billion); Miscellaneous Manufactured Commodities (\$19.4 billion); and Apparel Manufacturing Products (\$18.8 billion).

In January 2010, President Barack Obama announced the National Export Initiative (NEI) which proposes to double the country's total exports by the end of 2014. The initiative calls for improvements to the U.S. transportation and supply chain infrastructure to enable exporters to transport their goods to ports quickly and inexpensively. In 2012, U.S. exports hit an all-time record of \$2.2 trillion, a 40% increase from 2009, supporting 9.8 million U.S. jobs. Additionally, in 2012, California's export shipments of merchandise represented a 35% increase (\$162 billion) over 2009. So while the most recent data shows that U.S. exports significantly increased, exports in 2012 were below targets and will need to be very robust in order to meet the national goal by 2014. **Chart 7** includes additional information about the National Export Initiative.

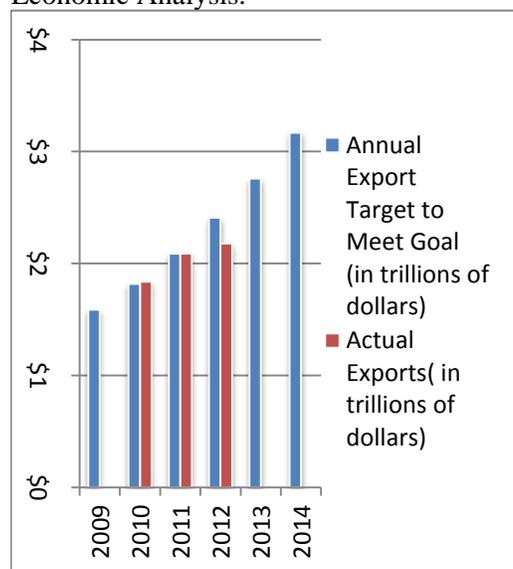
Chart 7: National Export Initiative

In January 2010, the President launched the National Export Initiative with the goal of doubling U.S. exports over 5 years.

The initiative is directed through a newly established Export Promotion Cabinet and an internal Trade Promotion Coordinating Committee which has been tasked to coordinate and align their export promotion activities including counseling, customer matchmaking services, and financing for exporters. Initiative priorities include:

- Exports by small and medium-sized businesses
- Federal export assistance
- Increased export credit
- Reduced barriers to trade
- Export promotion of services

The chart below illustrates the U.S. progress toward meeting the national export goal. The chart was developed using a GAO analysis based on data from the U.S. Bureau of Economic Analysis.



Moving these products requires a highly integrated infrastructure and logistical network that links raw materials with manufacturers and distribution systems.

Foreign Investment

Another important component of California's trade economy is foreign investment. California receives more foreign direct investment (FDI) than any other state in the U.S., which is significant since the U.S. is the largest receiver of FDI in the world. The California economy benefits from FDI in many ways, some of which include assisting in the creation of jobs, boosting worker wages, increasing exports, bringing in new technology and skills, and generally strengthening the state's manufacturing base.

The federal International Trade Administration estimates that over 567,000 California workers benefit from jobs with foreign-owned firms, which accounts for 5.1% of all private sector jobs in the state. Approximately 11% of all U.S. workers at foreign-owned firms are located in California, which has had the highest level of employment in foreign-owned firms since at least 1997.

According to the Business Roundtable, there are:

- 110,000 companies in California that are headquartered in Japan;
- 78,500 companies in California that are headquartered in the United Kingdom;
- 59,200 companies in California that are headquartered in France; and
- 58,900 companies in California that are headquartered in Switzerland.

Along with employment, foreign-owned firms own more property, plants, and equipment in California than in any other state.

Legislation from 2013

Below is a summary of the legislation heard by, or of interest to, JEDE during the 2013 Legislative Year relating to international trade and foreign investment in California. Legislation not heard by JEDE is marked with an *.

AB 14 (Lowenthal) State Freight Plans*: This bill requires the state's Transportation Agency to prepare a state freight plan and establish a freight advisory committee. Status: Signed by the Governor, Chapter 223, Statutes of 2013.

AB 53 (John A. Pérez) California Economic Development Strategic Plan: This bill would have required GO-Biz to lead the preparation of the biennial California Economic Development Strategic Plan, as specified. In addition, the bill required a copy of the federally required Worker Adjustment and Retraining Notification Act notice be posted on the EDD website and be provided to GO-Biz. Status: Vetoed by the Governor, 2013. The veto message reads: "This bill requires the Governor's Office of Business and Economic Development (GO Biz) to prepare the California Economic Development Strategic Plan and a triennial report to the Legislature. GO Biz is now implementing the state's new economic development initiative that Speaker Pérez helped make possible earlier this year. In addition, thanks to legislation authored by Speaker Pérez, GO Biz is expanding direct foreign investment, promoting export of California products, removing unnecessary government barriers for

businesses, and helping large and small businesses innovate, grow, and prosper in California. For all these reasons, I don't think a study and report will bring any additional focus to our efforts."

AB 311 (V. Manuel Pérez) I-Bank California-Mexico Border Assistance: This bill expands the role of the I-Bank to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Status: Pending in the Assembly Committee on Appropriations.

AB 337 (Allen) Port of Entry Evaluation: This bill requires an evaluation of the ports of entry to the state and their capacity for handling international trade, including industrial and postconsumer secondary materials, originated in or destined for other states, as part of California's international trade and investment strategy. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 412 (Allen) California International Trade Study: This bill would have required GO-Biz to undertake a study of the potential roles for the state in global markets. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AB 628 (Gorell and Hall) Energy Management Plans for Harbors and Port Districts: This bill authorizes a harbor or port district to prepare one or more energy management plans in order to reduce air emissions and promote economic development. Status: Signed by the Governor, Chapter 741, Statutes of 2013.

AB 886 (Allen and Ian Calderon) Importer-Exporter Tax Credit: This bill would have authorized a five-year \$500 million tax credit program for importers and exporters that increase cargo through in-state airports and seaports, hire additional staff, or incur capital costs at a California cargo facility. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AB 978 (Blumenfeld) Iran Financial Sanction Compliance: This bill requires state-chartered financial institutions to certify compliance with the federal Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010. Status: Signed by the Governor, Chapter 139, Statutes of 2013.

AB 1067 (Medina) EB-5 Immigration Oversight: This bill establishes the California Foreign Investment Program within GO-Biz to oversee the state's participation in the federal EB-5 foreign investment visa program. Among other things, this office will set the terms and conditions regarding the designation of targeted employment areas, as related to the EB-5 visas. Status: Signed by the Governor, Chapter 535, Statutes of 2013.

AB 1081 (Medina) Goods Movement-Related Infrastructure: This bill would have required the state's five-year infrastructure plan to include goods movement-related infrastructure. Status: Held on the Suspense File of the Senate Committee on Appropriations, 2013.

AB 1088 (Muratsuchi) GO-Biz Trade Office in Japan: This bill directs GO-Biz to establish a trade office in Tokyo, Japan by 2016. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 1166 (Blumenfeld) California Trade with Israel: This bill directs GO-Biz to develop an International Trade and Investment Program, and to formalize California- Israel economic relations. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 1400 (Assembly Committee on Jobs, Economic Development, and the Economy) Export Document Certificates: This bill modifies the state's Export Document Program to accept requests electronically, expedite approval of existing labels, and extend the term of the export labels from 180 days to 365 days, in order to alleviate backlog of exports of food, drug, and medical devices. Status: Signed by the Governor, Chapter 539, Statutes of 2013.

AB 1422 (Assembly Committee on Jobs, Economic Development and the Economy) California Alternative Energy and Advanced Transportation Financing Authority: This bill clarifies the definition of "participating party", used by the California Alternative Energy and Advanced Transportation Financing Authority (Authority) under their Sales and Use Tax Exclusion Program, to include out-of-state entities that demonstrably commit to opening a manufacturing facility within California. The bill also repeals a requirement that GO-Biz issue a report about advanced manufacturing and a report by the Authority on net benefits. Status: Signed by the Governor, Chapter 540, Statutes of 2013.

AJR 4 (Hueso and V. Manuel Pérez) United States-Mexico Border Infrastructure: This resolution states the Legislature's support for federal funding of necessary infrastructure improvements to the San Ysidro, Calexico, and Otay Mesa Ports of Entry. Status: Adopted, Chapter 24, Statutes of 2013.

AJR 12 (Gatto) Foreign Minimum Wage: This resolution states the Legislature's support for raising minimum wage in foreign countries when discussing international treaties and trade agreements. Status: Adopted, Chapter 152, Statutes of 2013.

SB 592 (Lieu) Trade Promotion of California Ports: This bill would have required GO-Biz to provide a port trade promotion strategy to the Legislature and convene a statewide business partnership for port trade promotion. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

SJR 16 (Emmerson) Transatlantic Trade and Investment Partnership: This resolution urges the President and United States Senate to negotiate and ratify, respectively, the Transatlantic Trade and Investment Partnership agreement with the European Union. Status: Pending in the Assembly Committee on Jobs, Economic Development and the Economy.

SR 20 (Emmerson, Berryhill, DeSaulnier, Liu, Steinberg, Walters, and Wright) Transatlantic Trade and Investment Partnership*: This resolution urges the President and United States Senate to negotiate and ratify, respectively, the Transatlantic Trade and Investment Partnership agreement with the European Union. Status: Approved, by the Senate, Statutes 2013.

Section VII – Infrastructure

World-class infrastructure plays a key role in business attraction, as multinational companies consistently rank the quality of infrastructure among their top four criteria in making investment decisions. U.S. global competitiveness has suffered as the nation's infrastructure has declined. In 2013, the U.S.' global ranking relative to quality of infrastructure continued to drop. The 2012-13 Global Competitiveness Report by the World Economic Forum places U.S. infrastructure 25th in the world, down from 23rd in 2010 and 7th in 2000.

A recent report by the American Society of Civil Engineers (ASCE), confirms that California's infrastructure is in a similar state. **Chart 8**, displays California's 2013 Infrastructure Report Card and an estimate by the ASCE of a \$97.9 billion investment gap in infrastructure over the next 20 years. The impact of this lack of investment is compounded by the substantial new infrastructure investments made in other states and nations, including the expansion of the Panama Canal.

Globalization, driven by advances in transportation and communication technologies, have shrunk the time and cost of trade and fostered the development of new business paradigms. While industry clusters remain important, their relationship to other clusters and individual companies is becoming increasingly significant. Even small businesses can now access foreign markets and participate within global supply chains. In order to remain competitive, regions must demonstrate their external connectivity to other centers of innovation and consumers around the world.

Unfortunately, this increased demand for quality and a highly networked infrastructure system is occurring at a time of constrained public budgets. Issuing more bonds or even simply adding capacity isn't a realistic answer. New approaches to infrastructure development and operation are being discussed by public and private stakeholders within the Legislature and by the Administration including new financial structures, more collaborative planning, and an enhanced use of technology.

Goods Movement Means Jobs

Goods movement supports employment, business profit, and state and local tax revenue. The state's logistics sector alone employs over 73,000 workers. California businesses depend on the state's air, sea, and land ports and their related transportation networks to move manufactured goods to both foreign and domestic markets. Firms also rely on fast, flexible, and reliable shipping to link national and global supply chains and bring products to the retail market. Transportation breakdowns and

Chart 8 - California's Infrastructure Report Card

According to the 2013 Report Card on America's Infrastructure, California's overall infrastructure scored a "C" in 2012, up from a "C-" in 2006. At a more granular level, California scored:

- B- in Ports (down from B+ in 2010)
- C+ in Aviation
- C- in Transportation
- D in Levees/Flood Control
- B- in Solid Waste (down from B in 2010)
- D+ In Urban Runoff
- C+ in Wastewater
- C in Water

California's infrastructure investment gap is estimated at \$97.9 billion over next 20 years. For comparison, the U.S. infrastructure received a D+ with an estimated \$3.6 trillion investment gap.

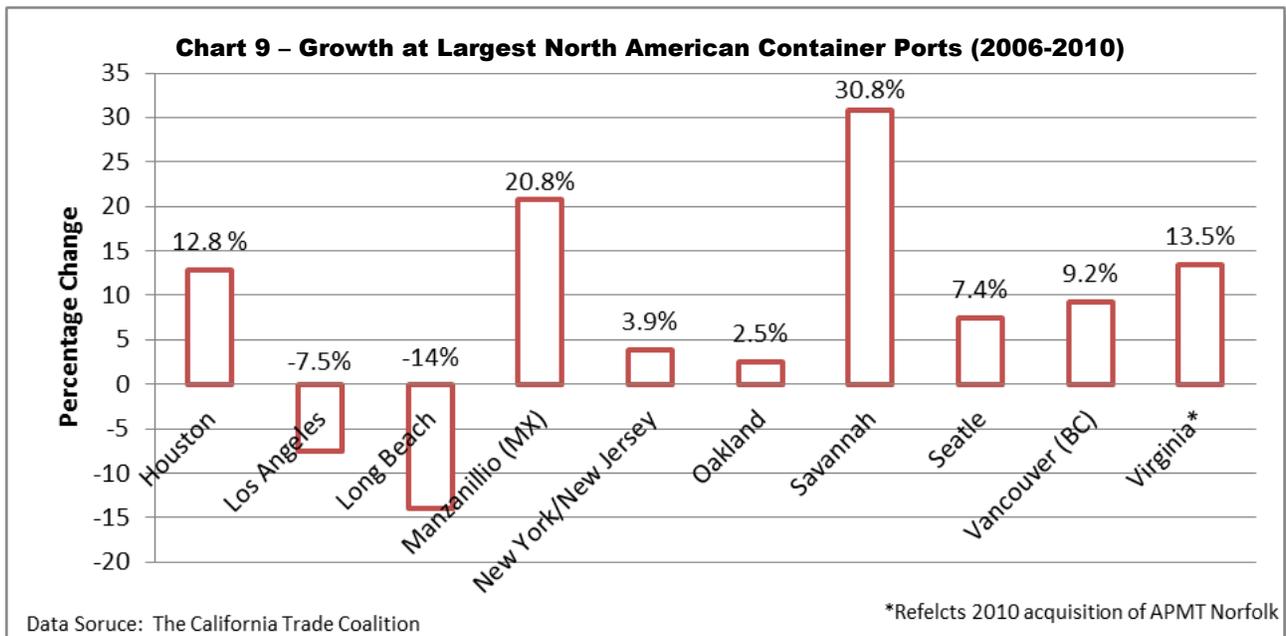
Source: American Society of Civil Engineers

congestion can idle entire global production networks. As a result, the capacity and efficiency of seaports, airports, and multimodal linkages have become critical business development factors.

Changes in U.S. and global trade patterns in the past 20 years have placed increasing challenges on California's good movement system. Between 1970 and 2002, for example, imports from Asia, as a share of U.S. trade, increased from 8% to 40%, thereby increasing the flow of imports through California's gateways. Over the same period, U.S. trade shifted toward lighter goods, which are more likely to be shipped by air. While the state may have limited ability to affect these larger patterns, there are actions that the state can take to help California's global gateways keep pace with the growing demand for shipping services.

Nationally, the Port of Los Angeles continued to hold the top rank in terms of two-way trade in 2010 (valued at \$237 billion). It is followed by JFK International Airport (\$162 billion) and the port of Chicago (\$135 billion). Data on California's other major ports are as follows: Long Beach (\$89 billion, ranked 9th); Los Angeles International Airport (\$77 billion, ranked 12th); San Francisco International Airport (\$50 billion, ranked 18th); Port of Oakland (\$40 billion, ranked 25th); Otay Mesa Station (\$31 billion); and Calexico-East (\$10 billion).

In terms of container activity, the Los Angeles-Long Beach container port ranked 6th globally, behind Shanghai, Singapore, Hong Kong, Shenzhen and Busan. Dollar value is just one way to look at goods movement in assessing trends; it is also important to look at growth. **Chart 9** – shows that California ports actually lost market share between 2006 and 2010.



Expanded supply chains for manufacturing and product distribution have also contributed to congested California ports. Cargo ships are often delayed for extended periods of time waiting to unload, and loads sometimes have to sit awaiting security clearance and connections to rail and trucks that have been delayed due to overburdened goods movement networks. At international airports, truck access is also a problem, and expansion of major airports is severely limited by urbanization, ground access, air quality impacts, and local opposition.

Another congestion challenge exists at the land-based border crossing between California and Mexico. There are six land crossings referred to as Points of Entry (POEs). The San Diego County-Tijuana/Tecate region is home to the San Ysidro-Puerta México, the Otay Mesa-Mesa de Otay, and the Tecate-Tecate POEs while the Imperial County-Mexicali region hosts the Calexico-Mexicali, Calexico East-Mexicali II, and Andrade-Los Algodones. Long wait times between California and Mexico ports of entry are estimated at a cost of \$436 million and 5,639 jobs.

Financing Infrastructure through Cash and Bonds

Between 2000-2010, California spent \$102 billion from state funds on infrastructure. The state uses two methods for paying for infrastructure development: Direct "pay-as-you-go" spending, where the state funds infrastructure upfront through appropriations from the General Fund or Special Funds accounts, and leverage, where the state finances infrastructure through the use of bonds.

Between 2000-2010, the state appropriated \$35.7 billion in pay-as-you-go financing, including \$1.9 billion from the General Fund (2% of all infrastructure spending) and \$33.8 billion from Special Funds (35% of all infrastructure spending). During the same period the state spent \$66.6 billion in bond financing, including \$59.1 billion from general obligation bonds (representing 58% of total infrastructure spending), \$5.5 billion from lease-revenue bonds (representing 5% of total infrastructure spending), and \$2 billion from traditional revenue bonds (representing 2% of infrastructure spending). The Legislative Analyst Office estimates General Fund costs for debt service on infrastructure bonds will be \$5.5 billion in 2011-12

Almost three-fifths of the state's total infrastructure spending over the last decade was distributed to and administered by local agencies. Transportation represented the largest infrastructure spending category at \$81 billion over the last decade, \$56 billion of which went to highway infrastructure.

Alternative Financing Models

In order to keep up on the state's need for world class goods movement infrastructure there is a need to consider alternative financing models. One such model is seeking infrastructure investment funding through the West Coast Infrastructure Exchange.

Launched in 2012 with the support of the California State Treasurer and the California Public Employees Retirement System (CalPERS), the West Coast Infrastructure Exchange was designed to overcome some of the challenges private investors were having in identifying good infrastructure projects. In the last decade, private investment and public pension fund investment have increasingly diversified their portfolios to include infrastructure investments. Kearsarge Global Advisors reported that as of 2010 over \$190 billion of global equity capital had been committed for infrastructure investment – up from only \$60 billion in 2007.

As an example, CalPERS currently has over \$525 million invested in a combination of physical infrastructure investments, infrastructure-targeted private equity funds, and credit enhancement for infrastructure bonds. This is addition to the \$800 million available for project finance including transportation, energy, natural resources, utilities, water, communications and other social support services.

Members of the West Coast Infrastructure Exchange include California, Oregon, Washington, and British Columbia. Several states in Mexico are considering joining. The West Coast Infrastructure Exchange is designed to both support financing innovations and to serve as a clearinghouse for investment ready projects. AB 1272 (Medina), which was held in the Assembly Appropriations Committee in 2013, would have authorized the California Infrastructure and Economic Development Bank to join the West Coast Exchange as a means to assist other state agencies list infrastructure projects on the Exchange.

Legislation from 2013

Below is a summary of the legislation heard by, or of interest to, JEDE during the 2013 Legislative Year relating to infrastructure in California. Legislation not heard by JEDE is marked with an *.

AB 14 (Lowenthal) State Freight Plans*: This bill requires the state's Transportation Agency to prepare a state freight plan and establish a freight advisory committee. Status: Signed by the Governor, Chapter 223, Statutes of 2013.

AB 250 (Holden and V. Manuel Pérez) Codification of California Innovation Hubs: This bill codifies and expands the California Innovation Hub Program at GO-Biz for the purpose of stimulating economic development and job creation through the regional coordination of federal, state, and local innovation-supporting resources. Status: Signed by the Governor, Chapter 530, Statutes of 2013.

AB 311 (V. Manuel Pérez) I-Bank California-Mexico Border Assistance: This bill expands the role of the I-Bank to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Status: Pending in the Assembly Committee on Appropriations.

AB 337 (Allen) Port of Entry Evaluation: This bill requires an evaluation of the ports of entry to the state and their capacity for handling international trade, including industrial and postconsumer secondary materials, originated in or destined for other states, as part of California's international trade and investment strategy. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 412 (Allen) California International Trade Study: This bill would have required GO-Biz to undertake a study of the potential roles for the state in global markets. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AB 416 (Gordon) Local Emission Reduction Program*: This bill would have created the Local Emission Reduction Program, which requires moneys to be available from the General Fund, upon appropriation by the Legislature, for the purposes of providing grants and financial assistance to cities, counties, metropolitan planning organizations, air quality control districts, and other local governments to develop and implement greenhouse gas reduction projects in the State. Status: Held on the Suspense File of the Assembly Committee on Appropriations.

AB 628 (Gorell and Hall) Energy Management Plans for Harbors and Port Districts: This bill authorizes a harbor or port district to prepare one or more energy management plans in order to

reduce air emissions and promote economic development. Status: Signed by the Governor, Chapter 741, Statutes of 2013.

AB 701 (John A. Pérez) I-Bank Board Membership: As passed by JEDE, this bill would have authorized the I-Bank to serve as the primary state agency for applying to any federal infrastructure bank or financing authority. Further, the bill expanded the membership of the board of directors from five to seven members and specified that legislative members will be nonvoting members. Amendments taken in the Senate deleted the content of the bill and added language relating to property tax allocation in Orange County with Assemblymember Quirk-Silva as the author. Status: Signed by the Governor, Chapter 393, Statutes of 2013.

AB 737 (Fox) Unmanned Aircraft Systems Test Sites: As passed by JEDE, this bill required GO-Biz to prepare and submit a proposal for an unmanned aircraft test site to the Federal Aviation Administration on or before May 6, 2013. Amendments taken in the Senate deleted the content of the bill and added language relating to space flight liability. Status: Pending in the Senate Committee on Judiciary.

AB 886 (Allen and Ian Calderon) Importer-Exporter Tax Credit: This bill would have authorized a five-year \$500 million tax credit program for importers and exporters that increase cargo through in-state airports and seaports, hire additional staff, or incur capital costs at a California cargo facility. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AB 930 (Hall) Enterprise Zones: Energy Management Plans: This bill authorizes cities and counties to develop energy management plans with utility companies serving enterprise zones. Status: Pending in the Assembly Committee on Natural Resources.

AB 1042 (Hall) Indian Gaming Special Distribution Fund*: This bill modifies the Department of Finance's calculation of the total revenue available from the Indian Gaming Special Distribution Fund to local government agencies impacted by tribal gaming, and appropriates \$13 million for the Special Distribution Fund for the 2013-14 fiscal year. Status: Signed by the Governor, Chapter 746, Statutes of 2013.

AB 1079 (Bradford) Energy Management Plans: This bill would have authorized cities and counties to prepare energy management plans in order to reduce emissions and promote economic development. Status: Held on the Suspense File of the Senate Committee on Appropriations, 2013.

AB 1081 (Medina) Goods Movement-Related Infrastructure: This bill would have required the state's five-year infrastructure plan to include goods movement-related infrastructure. Status: Held on the Suspense File of the Senate Committee on Appropriations, 2013.

AB 1272 (Medina) Infrastructure Financing Consortia: This bill would have authorized the I-Bank to join regional, state, national, or international organizations related to infrastructure financing in order to facilitate infrastructure financing projects in California. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AJR 4 (Hueso and V. Manuel Pérez) United States-Mexico Border Infrastructure: This resolution states the Legislature's support for federal funding of necessary infrastructure improvements to the San Ysidro, Calexico, and Otay Mesa Ports of Entry. Status: Adopted, Chapter 24, Statutes of 2013.

SB 4 (Pavley and Gray) Oil and Gas: Well Stimulation*: This bill establishes a comprehensive regulatory program for oil and gas well stimulation treatments (e.g., hydraulic fracturing, acid well stimulation), which includes, among other things, a study, the development of regulations, a permitting process, and public notification and disclosure. Statutes: Signed by the Governor, Chapter 313, Statutes of 2013.

SB 418 (Jackson and Block) Nuclear Fission Powerplants*: This bill requires a detailed study of project needs and costs to be provided to the California Public Utilities Commission when requesting ratepayer funding for a nuclear power plant seeking relicensing from the U.S. Nuclear Regulatory Commission. Status: Pending in the Assembly Committee on Utilities and Commerce.

SB 592 (Lieu) Trade Promotion of California Ports: This bill would have required GO-Biz to provide a port trade promotion strategy to the Legislature and convene a statewide business partnership for port trade promotion. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

SB 752 (Roth) Commercial and Industrial Common Interest Developments*: This bill separates the laws governing commercial and industrial Common Interest Developments from the laws governing residential Common Interest Developments and generally makes the operational provisions of current law inapplicable to commercial and industrial Common Interest Developments. Status: Signed by the Governor, Chapter 605, Statutes of 2013.

SB 798 (De León) Green Infrastructure Bank*: This bill establishes the California Green Infrastructure Bank as a public corporation. The bill puts the bank under the direction of an executive director to be appointed by the Governor and subject to Senate confirmation. The bill authorizes the bank to issue loans and bonds that facilitate green economic development, and adds the bank to the list of investments eligible for funds from the Greenhouse Gas Reduction Fund. Status: Pending in the Senate Committee on Government & Finance.

SJR 15 (Hancock) Postal Service Protection Act of 2013: This resolution urges the United States Congress to pass legislation to promote the modernization and preservation of the United States Postal Service, as stated in the introduced version of the Postal Service Protection Act of 2013. Status: Adopted, Chapter 122, Statutes of 2013.

Section VIII – Regulatory Reform

Small businesses form the core of California's \$2 trillion economy. Research shows that net new job creation is strongest among businesses with less than 20 employees, that they have historically led the state's local and regional economies out of recessions, and that small businesses are essential to the state's global competitiveness by meeting niche industry needs. Reflective of their important role, the JEDE Committee has repeatedly voted to support the importance of the state achieving a regulatory environment that allows small businesses to grow, while still maintaining public health and safety standards.

Cost of Regulations on Business

There are two major sources of data on the cost of regulatory compliance on businesses, the federal SBA and the Office of the Small Business Advocate (OSBA). For the last 10 years, the federal SBA has conducted a peer reviewed study that analyzes the cost of federal government regulations on different size businesses. This research shows that small businesses continue to bear a disproportionate share of the federal regulatory burden. On a per employee basis, it costs about \$2,400, or 45%, more for small firms to comply with federal regulations than their larger counterparts.

The first study on the impact of California regulations on small businesses was released by the OSBA in 2009. This first in-the-nation study found that the total cost of regulations to small businesses averaged about \$134,000 per business in 2007. Of course, no one would advocate that there should be no regulations in the state. The report, however, importantly identifies that the cost of regulations can provide a significant cost to the everyday operations of California businesses.

Regulatory costs are driven by a number of factors including multiple definitions of small business in state and federal law, the lack of e-commerce solutions to address outdated paperwork requirements, procurement requirements that favor larger size bidders, and lack of technical assistance to alleviate these obstacles that inhibit small business success.

State and Federal Advocacy for Regulatory Flexibility

In 1976, the federal government established the Office of Advocacy (FAO) within the federal Small Business Administration. The purpose of the FAO is to "protect, strengthen and effectively represent the nation's small businesses within the federal government's legislative and rule-making processes."

Among its duties, the FAO reviews federal regulations and makes recommendations on how to reduce the burden on small firms and maximize the benefits small businesses can receive from the federal government. In 2013, the FAO issued 19 letters to federal agencies requesting alternative implementation methods and encouraging better technical review of proposed regulations. In addition, the FAO develops a fact sheet summarizing key points in each FAO letter, which can be used in future regulatory flexibility discussions.

Another activity of the FAO is the convening of issue-specific Small Business Advocacy Review Panels. Utilizing the FAO as a facilitator has proven to be particularly useful in developing more detailed comments and making specific and technical recommendations to assist the rulemaking

entity in modifying a rule to lessen its impact on small businesses, without necessarily reducing its policy objective.

While California has an Office of the Small Business Advocate, the state advocate does not currently have the staff, nor the directed statutory mission, to formally comment on pending state regulations. On a case by case basis, the Governor's Office of Business and Economic Development is able to engage with other state agencies on state regulatory proposals through its Office of Permit Assistance, but again, state statutory direction is permissive and not mandatory.

Adoption of New Rules

Another important component of the federal small business framework is the Regulatory Flexibility Act of 1980, which is designed to provide a process for assessing and mitigating the potential impact of federal regulations on small businesses. The process includes the publication of a regulatory agenda, an initial and final regulatory flexibility analysis, and a mandatory periodic review of the rules. In 1996, a judicial review of regulations was added to the federal Small Business Regulatory Enforcement Fairness Act.

Adopted over a series of years, California law currently has several but not all of the key elements of the federal regulatory flexibility model. As an example, existing state law sets forth an extensive process for the development and adoption of regulations, including requiring the identification of potential adverse impacts on small businesses and individuals. California law further states that the purpose of the rulemaking process is to avoid the imposition of unreasonable and unnecessary regulations or compliance requirements. Businesses, however, have repeatedly testified before legislative committees that they believe that California's regulatory process is expensive, overly burdensome, and that agencies do not consistently apply state rulemaking laws. Perhaps most importantly, businesses have stated that the same policy objectives could be achieved in a less laborious manner.

Given these challenges, regulatory reform continues to be a major topic of Legislation. Last session (2011-12), Assembly and Senate leadership proposed SB 617 (Calderon), Chapter 496, Statutes of 2011, which requires an enhanced economic impact analysis for regulations anticipated to have an impact of \$50 million or more. The SB 617 process follows the federal regulatory model, however, the process is silent as to the assessment of costs based on size of business.

Legislation from 2013

The Legislature considered a number of bills related to regulatory reforms during this past legislative year. Below is a summary of the legislation heard by, or of interest to, JEDE during the 2013 Legislative Year relating to regulatory reform. Legislation not heard by JEDE is marked with an *.

AB 26 (Bonilla) Greenhouse Gas Reduction Fund*: This bill specifies that moneys from the Greenhouse Gas Reduction Fund may only be made available for work at a refinery, if that work is related to complying with a market-based compliance mechanism to reduce greenhouse gas emissions. Status: Pending in the Senate Committee on Labor & Industrial Relations.

AB 366 (Holden) Women, Minority, and Disabled Veteran Business Enterprises: This bill modifies the definitions for minority owned business, women owned business, and disabled veteran

owned business enterprise to encourage contracting with publicly held companies. Status: Pending in the Assembly Committee on Appropriations.

AB 393 (Cooley) GO-Biz Website*: This bill requires the Director of GO-Biz to ensure that the GO-Biz website contains information on the fee requirements and fee schedules of state agencies. Status: Signed by the Governor, Chapter 124, Statutes of 2013.

AB 412 (Allen) California International Trade Study: This bill would have required GO-Biz to undertake a study of the potential roles for the state in global markets. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AB 483 (Ting) Local Government Tax and Fee Definitions*: This bill defines “specific benefit” and “specific government service” for the purpose of determining whether a levy is a tax pursuant to Article XIIC of the California Constitution and Prop 26 (2010). Status: Signed by the Governor, Chapter 552, Statutes of 2013.

AB 550 (Brown) State Procurement Procedures for Small Businesses: This bill would have made key changes to state procurement procedures for the purpose of increasing small business, including microbusiness, and disabled veteran-owned business enterprise participation rates. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

AB 668 (Gray) Economic Disaster Area Priority: This bill requires the state to give priority consideration to areas declared an economic disaster area when expending certain state moneys. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 1098 (Quirk-Silva) Small Business Regulation Report: As passed by JEDE, this bill would have directed the Office of Small Business Advocate within GO-Biz to commission a study of the costs of state regulations on small businesses every five years. Amendments taken in the Senate deleted the content of the bill and added language relating to legal documents provided over the internet with Assemblymember Gray as the author. Status: Pending in the Senate Committee on Judiciary.

AB 1247 (Medina and Bocanegra) Small Business Finance Center: This bill establishes the California Small Business Center at the I-Bank, within GO-Biz, and transfers the authority to administer the small business loan guarantee program and other related programs to the I-Bank. Status: Signed by the Governor, Chapter 537, Statutes of 2013.

AB 1260 (Medina) California Family Owned Business: This bill provides a statutory definition for California family owned business. Status: Pending in the Assembly Committee on Business, Professions, and Consumer Protection.

AB 1400 (Assembly Committee on Jobs, Economic Development, and the Economy) Export Document Certificates: This bill modifies the state’s Export Document Program to accept requests electronically, expedite approval of existing labels, and extend the term of the export labels from 180 days to 365 days, in order to alleviate backlog of exports of food, drug, and medical devices. Status: Signed by the Governor, Chapter 539, Statutes of 2013.

AB 1422 (Assembly Committee on Jobs, Economic Development and the Economy) California Alternative Energy and Advanced Transportation Financing Authority: This bill clarifies the

definition of “participating party”, used by the California Alternative Energy and Advanced Transportation Financing Authority (Authority) for their Sales and Use Tax Exclusion Program, to include out-of-state entities that demonstrably commit to opening a manufacturing facility within California. The bill also repeals a requirement that GO-Biz issue a report about advanced manufacturing and a report by the Authority on net benefits. Status: Signed by the Governor, Chapter 540, Statutes of 2013.

SB 176 (Galgiani) Outreach on Administrative Procedures*: This bill would have amended the Administrative Procedure Act by requiring state agencies to make a reasonable effort to outreach and provide notice to affected entities when developing regulations. Statutes: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.

SB 209 (Lieu) Qualified Small Business Stock Income Tax*: This bill partially reinstates tax exclusion and deferral allowances on income from the sale of qualified small business stock and waves all penalties and interest for taxes assessed as a result of the related statutes being found unconstitutional as a result of *Cutler v. Franchise Tax Board*. Statutes: Signed by the Governor, Chapter 543, Statutes of 2013.

SB 470 (Wright) Community Development and Economic Opportunity*: This bill creates a process for a city, county, or city and county to sell or lease properties that are returned to them as part of the long-range property management plan of a former redevelopment agency, for an economic development purpose. Statutes: Signed by the Governor, Chapter 659, Statutes of 2013.

SB 752 (Roth) Commercial and Industrial Common Interest Developments*: This bill separates the laws governing commercial and industrial Common Interest Developments from the laws governing residential Common Interest Developments and generally makes the operational provisions of current law inapplicable to commercial and industrial Common Interest Developments. Status: Signed by the Governor, Chapter 605, Statutes of 2013.

Section IX – Workforce Development

As California continues to transition from the recession, businesses and workers face an economy that is comprised of more highly integrated industry sectors that are, also more geographically dispersed. Advances in technology and processes are occurring more rapidly. Competitiveness is increasingly defined in terms of speed, flexibility, specialization, and innovation. These changes are placing new challenges on California's training and workforce system.

As noted in Section 1, economists have identified seven key trends that will most influence the U.S. and California economies. Several of these trends will have significant impacts on workforce development, in particular. The rise of smaller businesses is one of these trends. Due to their ability to provide innovative technologies and help other businesses access global markets, small businesses, and the entrepreneurs that lead them are vital economic players. These small and adaptable businesses will have an inherent advantage in the post-recession economy, provided they are able to learn the skill sets necessary to run a successful business and have access to appropriately trained workers.

Another key economic trend is the rising importance of regional economies as the primary drivers of economic growth. The economic foundation of many strong regional economies are innovation-based industry clusters which have the ability to support high-paying jobs, lucrative career ladders, and longer term job stability. Economic researchers have shown that industry clusters rise in areas where local universities, research labs, and competing businesses within the same industry provide a critical mass of skilled workers in the same industry. Though the economic composition of regions may differ in California, each region has inherent strengths and weaknesses. The effective identification and cultivation of these industry strengths factors heavily in the future economic success of the region.

Advances in information technology and pressures to have more environmentally sensitive products that address consumer preferences will also influence the basic education and training needs of California workers. Even entry-level workers will be expected to have important soft skills, such as the ability to work in teams, actively listen, communicate effectively with co-workers and bosses, and be able to negotiate workplace needs in a positive manner. Unlike hard skills, which are about a person's ability to perform a certain task or activity, soft skills provide the tools necessary to learn and advance in the state's continually evolving workplace environment.

Many of these new market realities are already coming into fruition and, for now, California's workforce is underprepared to meet these demands. There are still numerous unemployed and underemployed workers in California, while, at the same time, there are industries that are unable to find qualified workers to fill empty positions. Strong early education programs, career technology pathways, accessible higher education, and effective and timely workforce development programs are key to equipping California workers with the skillsets that are in demand.

Current Employment Trends in California

Employment trends in California over the past year point to an improving economy that is growing at a rate exceeding the national average. As **Chart 10** illustrates, California has experienced a drop in

unemployment over the past year that exceeds the national average, and that, unlike the nation as a whole, California’s labor force experienced a net gain.

Chart 10: California and U.S. Labor Force Trends						
	California Labor Force Trends			U.S. Labor Force Trends		
	Oct 2012	Oct 2013	% Change	Oct 2012	Oct 2013	% Change
Population	29,455,000	29,779,000	1.1%	243,983,000	246,381,000	1.0%
Labor Force	18,518,000	18,606,000	0.5%	155,576,000	154,839,000	-0.5%
Employed	16,656,000	16,994,000	2.0%	143,328,000	143,568,000	0.2%
Unemployed	1,862,000	1,612,000	-13.4%	12,248,000	11,272,000	-8.0%

Source: “Labor Force Statistics,” U.S. Bureau of Labor Statistics, 2013

Among the 11 major industry sectors in California, nine experienced growth between October 2012 and October 2013: leisure & hospitality added 75,100 jobs; professional & business services added 46,600 jobs; education and health added 32,300 jobs; construction added 26,000 jobs; trade, transportation, & utilities added 21,400 jobs; financial activities added 7,000 jobs; information added 5,700 jobs; other services added 2,100 jobs, and Mining & Logging added 200 jobs. Two industry sectors experienced losses over the same period: Government experienced a loss of 3,300 jobs; and Manufacturing experienced a loss of 5,800 jobs.

EDD currently projects that the number of employed persons in California will reach 18,511,200 by 2020, an increase of about 11.2% from 2013. Roughly 70% of all projected nonfarm job growth is expected to be concentrated in four industry sectors: professional and business services; educational services, healthcare, and social assistance; leisure and hospitality; and retail trade. Many of these high growth industry subsectors require specialized training, such as employment related to nursing and residential care facilities, technical consulting services, and computer system designs.

Workforce Development and the California Workforce Investment Board

One of the main challenges California workers face is the increasing need for workers with specialized skillsets. Most research indicates that these middle-level skilled workers are not and will not be available unless significant changes are made in state and national education and training models. A 2011 report released by McKinsey & Company -- *Growth and Renewal in the United States: Retooling America’s Economic Engine* found that, over the next decade, the U.S. will face a shortfall of approximately 1.9 million technical and analytical workers. This shortfall is already being felt in California; despite relatively high unemployment, local manufacturers have expressed concerns about their inability to find workers with the necessary technical skills.

The government agency responsible for helping California conceptualize and address this shortfall is the California Workforce Investment Board (CWIB). The CWIB is provided funding by the federal Workforce Investment Act (WIA), enacted in 1998, which provides funding to states for job training and employment investment activities. Distribution of the funds is based on a set formula which includes specified economic and demographic data and flows to the state through three primary programs: Adult, Youth, and Dislocated Worker.

California's WIA allocation from the U.S. Department of Labor has declined over the years from a high of \$630 million in 2000-01 to \$411 million in 2012-13. Federal law dictates that 85% of Adult and Youth formula funds, and 60% of Dislocated Worker formula funds, are distributed to local

WIBs. Funding for the state's activities is derived from the 15% WIA discretionary funds. In 2012-13 local workforce investment boards (LWIBs) received \$348 million, while the state received about \$20 million in discretionary moneys.

California's WIA dollars are overseen by the 56-member CWIB, of which 61% of the members represent the private sector, as required by federal law. Among its primary duties, the CWIB provides guidance to the 49 LWIBs and is responsible for the development of a unified, strategic plan to coordinate various education, training, and employment programs that result in an integrated workforce development system that supports economic development. The plan is required to be updated at least every 5 years in order to address the state's changing economic, demographic, and workplace needs. The most recent plan was submitted to the federal Department of Labor in April 2013. Key among the policy enhancements in the current state and local plans are strengthened performance indicators to allow for ongoing monitoring of the plan's success.

According to their annual performance report, in 2011 the CWIB served 131,860 adults, 39,226 dislocated workers, and 29,811 youths. 29,266 adult clients received jobs, a rate of 55.9%, with average earnings of \$12,938 per year. 24,549 dislocated worker clients received jobs, a rate of 62.6%, with average earnings of \$17,146 per year. 11,420 youth clients were placed in either employment or education, a rate of 66.9%, and 7,706 youth clients attained their diploma or GED.

The CWIB provides a valuable tool to provide jobs for the currently unemployed; however, more robust workforce development tools are likely needed in order to address California's current and future industry needs and regional workforce deficiencies, including integrated and well-articulated pathways between K-12 education, higher education, and workforce training providers to ensure that those entering the workforce can fulfill the demands of the current and future economy.

In this past year, the Legislature has moved to increase the effectiveness of the CWIB and address regional industry needs. SB 118 (Lieu), Chapter 562, Statutes of 2013, expands and enhances the effectiveness of CWIB by setting guiding principles that better address California's current and future need for skilled workers in particular regions and industries. Additionally, AB 1315 (John A. Pérez) would, if enacted, require the Green Collar Jobs Council within the CWIB to develop an annually updated common framework that addresses the workforce needs that will arise from changes in energy, building and construction, transportation, and other industries impacted by state policies to reduce greenhouse gas emissions.

Also this year, the Legislature has responded to the need for better integration between education and employment by proposing the Career Pathways Trust. Supported by the Senate Pro Tempore, Darrell Steinberg, and enacted through AB 86 (Assembly Committee on Budget), Chapter 48, Statutes of 2013, the Career Pathways Trust appropriates \$250 million in order to fund competitive grants for high schools, community colleges and their business partners to create pathways for careers in high-need and high-growth economic sectors over the next 3 years.

Legislation from 2013

Below is a summary of the legislation heard by, or of interest to, JEDE during the 2013 Legislative Year relating to workforce development. Legislation not heard by JEDE is marked with an *.

AB 86 (Assembly Committee on Budget) Education Omnibus Trailer Bill: Career Pathways Trust*: This bill, among other things, appropriates \$250 million for the Career Pathways Trust, which will fund competitive grants for high schools, community colleges and their business partners to create pathways for careers in high-need and high-growth economic sectors. Status: Signed by the Governor, Chapter 48, Statutes of 2013.

AB 250 (Holden and V. Manuel Pérez) Codification of California Innovation Hubs: This bill codifies and expands the California Innovation Hub Program at GO-Biz for the purpose of stimulating economic development and job creation through the regional coordination of federal, state, and local innovation-supporting resources. Status: Signed by the Governor, Chapter 530, Statutes of 2013.

AB 285 (Brown) Scope of Practice for the California Workforce Investment Board: This bill would have required the California Workforce Investment Board to make recommendations and provide technical assistance on entrepreneurial training opportunities that could be made available through local workforce investment boards. The bill would have also deleted certain required duties of the California Workforce Investment Board and made changes to the definition of microenterprise. Status: Vetoed by the Governor, 2013. "This bill, like SB 118, deals with the California Workforce Investment Board and various aspects of job training. Unlike SB 118, it is overly prescriptive in the way it directs the Board to provide technical assistance for entrepreneurial training and to make recommendations. I believe this unduly infringes on the Board's authority and discretion."

AB 653 (V. Manuel Pérez) California Innovation and Jobs Act: This bill establishes the California Innovation and Jobs Act, which increases the maximum value of the research and development credit and codifies the California Innovation Hub Program. Status: Pending in the Assembly Committee on Appropriations.

AB 1067 (Medina) EB-5 Immigration Oversight: This bill establishes the California Foreign Investment Program within GO-Biz to oversee the state's participation in the federal EB-5 foreign investment visa program. Among other things, this office will set the terms and conditions regarding the designation of targeted employment areas, as related to the EB-5 visas. Status: Signed by the Governor, Chapter 535, Statutes of 2013.

AB 1315 (John A. Pérez) California Green Collar Jobs Act*: This bill adds the Speaker of the Assembly and the President Pro Tempore of the Senate as members of the California Workforce Investment Board and the Green Collar Jobs Council. This bill also authorizes the Green Collar Jobs Council to include representatives from other states agencies and other interested parties as appropriate, and requires the development of a common framework to address workforce needs arising from changes in industries impacted by state policies to reduce greenhouse gas emissions. Status: Pending on the Assembly Inactive File.

AJR 13 (Campos, Hueso, and Steinberg) Reopening of Job Corps Centers: This resolution states the Legislature's support for congressional action to end the nationwide freeze on Job Corps student enrollment. This freeze was implemented to alleviate budgetary pressures due to prior budget mismanagement. Status: Adopted, Chapter 49, Statutes of 2013.

SB 73 (Senate Budget and Fiscal Review Committee) Proposition 39 Budget Trailer Bill*: This bill specifies the allocation of Prop 39 revenues available for K-12 local educational agencies and

California Community College districts. This bill also appropriates \$3 million in Prop 39 revenues to the California Workforce Investment Board to develop and implement a grant program for community-based organizations and other training workforce organizations preparing disadvantaged youth or veterans for employment. Status: Signed by the Governor, Chapter 357, Statutes of 2013.

SB 118 (Lieu) Education and Workforce Investment Systems: This bill requires the California Workforce Investment Board to incorporate specific principles into the state's strategic plan that align the education and workforce investment systems of the state to the needs of the 21st century economy and promotes a well-educated and highly skilled workforce to meet the state's future workforce needs. Status: Signed by the Governor, Chapter 562, Statutes of 2013.

SJR 10 (Lieu) Reauthorization of Workforce Investment Act of 1998*: This resolution urges the U.S. Congress to reauthorize the federal Workforce Investment Act of 1998, and for Congress to include policies that provide adequate funding and encourage cooperation between state or local workforce investment boards and their clientele. Status: Adopted, Chapter 121, Statutes of 2013.

Section X – 2013 Legislative Hearings

During 2013, JEDE held two informational hearings on the state's economic development programs and participated in key economic development initiatives. The primary focus of the Committee's activities was on how the state could facilitate economic recovery with a special emphasis on the role of infrastructure, workforce development, and the capital needs of small businesses.

Short summaries of these activities are provided below. Additional information can be obtained through the JEDE website at <http://ajed.assembly.ca.gov/> or by contacting the JEDE Office at 916-319-2090.

Oversight Hearing on an Overview of the California Economy (February, 2013)

On Tuesday, February 5, 2013, the Assembly Committee on Jobs, Economic Development, and the Economy held the Committee's first informational hearing of the 2013-2014 Legislative Session. The objective of the hearing was to provide Members an overview of the California Economy which they would use later to oversee and evaluate state programs and legislative proposals for the upcoming legislative session.

During the course of the hearing, Members heard from financial and economic forecast experts, a federal government official, and a small business owner. Discussions between the Members and the speakers focused on:

- Better understanding the current economic trends shaping California's economy;
- The real-world needs of businesses and workers; and
- Recommendations for moving the state towards a more prosperous post-recession economy.

In addition, each speaker was asked to share their perspectives on California's economy today and their expectations for the near future.

Among other things, Members noted significant shifts have been occurring in finance, technology, and our economic social structure. These shifts are making California and the global economy a meaningfully different place to do business. Key trends discussed at the hearing include:

- Businesses will be more globally connected;
- Regional economies will serve as our next economic catalysts;
- Small size businesses will dominate;
- Entrepreneurs and our workforce will be more diverse; and
- New technology and innovation will be increasingly called upon to stimulate production.

Members will use testimony and the proposed recommendations from the hearing as a reference tool as they consider legislative actions for the 2013-2014 Legislative Session.

Oversight Hearing on the Role of Trade and Foreign Investment on the Inland Empire's Regional Economy (November, 2013)

On Wednesday, November 6, 2013, the Assembly Committee on Jobs, Economic Development and the Economy, held an oversight hearing in Riverside County for the purpose of examining the role foreign trade and investment play within the regional economy of the Inland Empire.

During the course of the hearing, Members had an opportunity to hear from economic development experts, business leaders, and other important regional stakeholders. Among other things, the presenters discussed the region's key strengths, including its:

- Strategic location as the hub of two international trade and goods movement corridors;
- Its growing strength as a regional power; and
- The important role that quality universities like U.C. Riverside and C.S.U. San Bernardino play within the region.

Presenters also discussed the region's economic challenges in leveraging those advantages for a better quality of life for Inland Empire residents, including:

- Infrastructure that hasn't kept pace with the region's significant growth and is insufficient to meet the structural needs of a modern goods movement network;
- Low educational attainment among the current and future workforce; and
- A changing and more competitive global business environment.

Chair Medina put forward four policy questions to help guide the hearing. First, what actions can the state take to minimize economic and workforce challenges in the Inland Empire? Second, how can the state support local and regional efforts to catalyze private investments? Third, what opportunities are available to enhance the Inland Empire's global competitiveness by leveraging its two major trade corridors to Southern California's air, land, and sea ports? And, fourth, what actions can the state take to facilitate cross-border commerce and reduce de facto barriers to foreign investment and the international movement of goods?

Members discussed with the presenters how expanding foreign trade and investment helps to create jobs, strengthen existing businesses, and attract new firms to the Inland Empire. However, it was also noted, that in order to realize these opportunities the region needs to work strategically and collaboratively to prepare residents, businesses, and communities to effectively compete in this increasingly connected global economy.

Members and the public were provided with a pre-hearing background report, which included information on the California and Inland Empire economies, California's role within U.S. trade policy, and goods movement and logistical networks. The pre-hearing report also included a list of recommendations presented under three response areas:

1. Advocating for the Inland Empire
2. Improving business fundamentals (such as, access to capital, workforce development, and marketing)
3. Enhancing the Inland Empire's infrastructure and linkages to global markets

Members will spend the fall considering the testimony, hearing recommendations, and other hearing briefing materials. When the Legislature reconvenes in January 2014, this information will be used to inform future legislative actions.

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SB 73	Senate Committee on Budget and Fiscal Review	Proposition 39 Budget Trailer Bill	Signed by the Governor, Chapter 357, Statutes of 2013.	6,18, and 46

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SB 100	Senate Committee on Budget and Finance	California Competes 3 of 3: Technical Changes	Signed by the Governor, Chapter 360, Statutes of 2013.	7, 12, and 23
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AB 93	Assembly Committee on Budget	California Competes Tax Credit and State Sales and Use Tax Exemption	Signed by the Governor, Chapter 69, Statutes of 2013.	4, 11, and 21
AB 106	Assembly Committee on Budget	California Competes: Technical Changes 2 of 3	Signed by the Governor, Chapter 355, Statutes of 2013.	4, 11, and 21

AB 250	Holden and V. Manuel Pérez	Codification of California Innovation Hubs	Signed by the Governor, Chapter 530, Statutes of 2013.	4, 11, 21, 36, and 46
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AB 1042	Hall	Indian Gaming Special Distribution Fund	Signed by the Governor, Chapter 746, Statutes of 2013.	6 and 37
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SB 752	Roth	Commercial and Industrial Common Interest Developments	Signed by the Governor, Chapter 605, Statutes of 2013.	7, 38, and 42
SB 798	De León	Green Infrastructure Bank	Pending in the Senate Committee on Government & Finance.	7, 18, and 38
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<u>Bill Number</u>	<u>Author</u>	<u>Title</u>	<u>Status</u>	<u>Page</u>
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AB 250	Holden and V. Manuel Pérez	Codification of California Innovation Hubs	Signed by the Governor, Chapter 530, Statutes of 2013.	4, 11, 21, 36, and 46
AB 311	(V. Manuel Pérez)	I-Bank California-Mexico Border Assistance	Pending in the Assembly Committee on Appropriations.	30 and 36
AB 337	Allen	Port of Entry Evaluation	Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.	30 and 36
AB 412	Allen	International Trade	Held on the Suspense File of the Assembly Committee on Appropriations, 2013.	30, 36, and 41
AB 416	Gordon	Local Emission Reduction Program	Held on the Suspense File of the Assembly Committee on Appropriations.	16 and 36
AB 628	Gorell and Hall	Energy Management Plans for Harbors and Port Districts	Signed by the Governor, Chapter 741, Statutes of 2013.	16, 30, and 36
AB 701	John A. Pérez	I-Bank Board Membership	Signed by the Governor, Chapter 393, Statutes of 2013	16 and 37

			(Related to different subject matter).	
AB 737	Fox	Unmanned Aircraft Systems Test Sites	Pending in the Senate Committee on Judiciary.	5, 12, and 37
AB 886	Allen and Ian Calderon	Importer-Exporter Tax Credit	Held on the Suspense File of the Assembly Committee on Appropriations, 2013.	30 and 37
AB 930	Hall	Enterprise Zones: Energy Management Plans	Pending in the Assembly Committee on Natural Resources.	5, 17, and 37
AB 1042	Hall	Indian Gaming Special Distribution Fund	Signed by the Governor, Chapter 746, Statutes of 2013.	6 and 37
AB 1079	Bradford	Energy Management Plans	Held on the Suspense File of the Senate Committee on Appropriations, 2013.	17 and 37
AB 1081	Medina	Goods Movement-Related Infrastructure	Held on the Suspense File of the Senate Committee on Appropriations, 2013.	30 and 37
AB 1272	I-Bank	Infrastructure Financing Consortiums	Held on the Suspense File of the Assembly Committee on Appropriations, 2013.	37
AJR 4	Hueso and V. Manuel Pérez	United States-Mexico Border Infrastructure	Adopted, Chapter 24, Statutes of 2013.	31 and 37
SB 4	Pavley and	Oil and Gas: Well	Signed by the	

	Leno	Stimulation	Governor, Chapter 313, Statutes of 2013.	17 and 37
SB 418	Jackson	Nuclear Fission Powerplants	Pending in the Assembly Committee on Utilities and Commerce.	18 and 38
SB 592	Lieu	Trade Promotion of California Ports	Held on the Suspense File of the Assembly Committee on Appropriations, 2013.	31 and 38
SB 752	Roth	Commercial and Industrial Common Interest Developments	Signed by the Governor, Chapter 605, Statutes of 2013.	7, 38, and 42
SB 798	De León	Green Infrastructure Bank	Pending in the Senate Committee on Government & Finance.	7, 18, and 38
SJR 15	Hancock	Postal Service Protection Act of 2013	Adopted, Chapter 122, Statutes of 2013.	7 and 38

Regulatory Reform

<u>Bill Number</u>	<u>Author</u>	<u>Title</u>	<u>Status</u>	<u>Page</u>
AB 26	Bonilla	Greenhouse Gas Reduction Fund	Pending in the Senate Committee on Labor & Industrial Relations.	16 and 40
AB 366	Holden	Women, Minority, and Disabled Veteran Business Enterprises	Pending in the Assembly Committee on Appropriations.	21, 26, and 40

AB 393	Cooley	GO-Biz Website	Signed by the Governor, Chapter 124, Statutes of 2013.	5, 22, and 41
AB 412	Allen	International Trade	Held on the Suspense File of the Assembly Committee on Appropriations, 2013.	30, 36, and 41
AB 483	Ting	Local Government Tax and Fee Definitions	Signed by the Governor, Chapter 552, Statutes of 2013.	5 and 41
AB 550	Brown	State Procurement Procedures for Small Businesses	Held on the Suspense File of the Assembly Committee on Appropriations, 2013.	26 and 41
AB 668	Gray	Economic Disaster Area Priority	Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.	5, 26, and 41
AB 1098	Quirk-Silva	Small Business Regulation Report	Pending in the Senate Committee on Judiciary.	22 and 41
AB 1247	Medina	Small Business Finance Center	Signed by the Governor, Chapter 537, Statutes of 2013.	6, 22, and 41
AB 1260	Medina	Family Owned Business Definitions	Pending in the Assembly Committee on Business, Professions & Consumer Protection.	6, 22, and 41
AB 1400	Jobs, Economic	Export Documents Certificates	Signed by the Governor,	12, 31, and

	Development, and the Economy Committee		Chapter 539, Statutes of 2013	41
AB 1422	Jobs, Economic Development, and the Economy Committee	California Alternative Energy and Advanced Transportation Financing Authority	Signed by the Governor, Chapter 540, Statutes of 2013.	6, 12, 31, and 41
SB 176	Galgiani	Outreach on Administrative Procedures	Held on the Suspense File of the Assembly Committee on Appropriations, 2013.	23 and 42
SB 209	Lieu	Qualified Small Business Stock Income Tax	Signed by the Governor, Chapter 543, Statutes of 2013.	23 and 42
SB 470	Wright	Community Development and Economic Opportunity	Signed by the Governor, Chapter 659, Statutes of 2013.	7 and 42
SB 752	Roth	Commercial and Industrial Common Interest Developments	Signed by the Governor, Chapter 605, Statutes of 2013.	7, 38, and 42

Workforce Development

<u>Bill Number</u>	<u>Author</u>	<u>Title</u>	<u>Status</u>	<u>Page</u>
AB 86	Assembly Committee on Budget	Education Omnibus Trailer Bill: Career Pathways Trust	Signed by the Governor, Chapter 48, Statutes of 2013.	4 and 46
AB 250	Holden and V. Manuel Pérez	Codification of California Innovation Hubs	Signed by the Governor, Chapter 530, Statutes of 2013.	4, 11, 21, 36, and 46

AB 285	Brown	Scope of Practice for the California Workforce Investment Board	Vetoed by the Governor, 2013.	21 and 46
AB 653	V. Manuel Pérez	California Innovation and Jobs Act	Pending in the Assembly Committee on Appropriations.	5, 11, 16, and 46
AB 1067	Medina	EB-5 Immigration Oversight	Signed by the Governor, Chapter 535, Statutes of 2013.	30 and 46
AB 1315	John A. Pérez	California Green Collar Jobs Act	Pending on the Assembly Inactive File.	17 and 46
AJR 13	Campos	Reopening of Job Corps Centers	Adopted, Chapter 49, Statutes of 2013	46
SB 73	Senate Committee on Budget and Fiscal Review	Proposition 39 Budget Trailer Bill	Signed by the Governor, Chapter 357, Statutes of 2013.	6,18, and 46
SB 118	Lieu	Education and Workforce Investment Systems	Signed by the Governor, Chapter 562, Statutes of 2013.	7 and 47
SJR 10	Lieu	Reauthorization of Workforce Investment Act of 1998	Adopted, Chapter 121, Statutes of 2013.	47

Glossary of Terms

Jobs, Economic Development and the Economy

Abbreviations

BTH: Business Transportation and Housing Agency.

CAEZ: California Association of Enterprise Zones.

CalBIS: California Business Investment Services.

CalED: California Association for Local Economic Development.

Cal EMA: California Emergency Management Agency.

CALGOLD: California Government Online to Desktops.

CALWORKS: The California Work Opportunity and Responsibility to Kids Program.

CDFI: Community Development Financial Institution.

CEDP: California Economic Development Partnership.

CWIB: California Workforce Investment Board.

DGS: Department of General Services.

DOL: Department of Labor.

DVBE: Disabled Veterans Business Enterprise.

EDC: Economic Development Corporation.

EDD: Employment Development Department.

ETP: Employment Training Panel.

EZ: Enterprise Zone.

FDI: Foreign Direct Investment.

GDP: Gross Domestic Product.

G-TEDA: Geographically-Targeted Economic Development Area.

GO-BIZ: Governor's Office of Business and Economic Development.

GOED: Governor’s Office of Economic Development.

HCD: Department of Housing and Community Development.

I-BANK: Infrastructure and Economic Development Bank.

IEEP: Inland Empire Economic Partnership.

IHUB: Innovation Hub Program.

IGPAC: Intergovernmental Policy Advisory Committee on Trade.

ITA: International Trade Administration.

JEDE: Jobs, Economic Development and the Economy Committee.

JTPA: Job Training Partnership Act.

LAMBRA: Local Agency Military Base Recovery Area.

LHC: Little Hoover Commission.

MASA: Military and Aerospace Support Act.

MEA: Manufacturing Enhancement Area.

MOU: Memorandum of Understanding.

MSA: Metropolitan Statistical Area.

NEI: National Export Initiative.

PACE: Property Assessed Clean Energy.

REAL: Regional Economic Association of Leaders Coalition.

ROI: Return on Investment.

SBA: Small Business Administration.

SBE: Small Business Enterprise.

SBLGP: Small Business Loan Guarantee Program.

SBDC: Small Business Development Center.

SPOC: State Point of Contact.

STEP: State Trade and Export Promotion Program.

TEA: Targeted Employment Area.

TPP: Trans-Pacific Partnership

TTA: Targeted Tax Area.

TTIP: Transatlantic Trade and Investment Partnership.

USTR: United States Trade Representative.

WIA: Workforce Investment Act.

WIB: Workforce Investment Board.

Definitions:

BUSINESS TRANSPORTATION AND HOUSING AGENCY (BTH): BTH oversees the activities of 14 departments consisting of more than 45,000 employees, a budget greater than \$18 billion, plus several economic development programs and commissions. Its operations address financial services, transportation, affordable housing, tourism, managed health care plans and public safety.

CALIFORNIA ASSOCIATION OF ENTERPRISE ZONES (CAEZ): Non-profit organization that lobbies on behalf of Enterprise Zones and works to foster economic development within those zones.

CALIFORNIA BUSINESS INVESTMENT SERVICES (CalBIS): Housed in the Governor's Office of Economic Development (GOED), CalBIS serves employers, corporate real estate executives, and site location consultants considering California for new business investment and expansion.

CALIFORNIA ASSOCIATION FOR LOCAL ECONOMIC DEVELOPMENT (CALED): CALED is a statewide professional economic development organization dedicated to advancing its members' ability to achieve excellence in delivering economic development services to their communities and business clients. CALED's membership consists of public and private organizations and individuals involved in economic development.

CALIFORNIA EMERGENCY MANAGEMENT AGENCY (Cal EMA): Cal EMA merged the duties and powers of the former Governor's Office of Emergency Services with those of the Governor's office of Homeland Security.

CALIFORNIA GOVERNMENT ONLINE TO DESKTOPS (CalGOLD): The CalGOLD database is housed on the Governor's Office of Economic Development website and provides links and contact information that direct businesses to agencies that administer and issue business permits, licenses and registration requirements from all levels of government. The CalGOLD listings include descriptions of the requirements, the names, addresses, and telephone numbers of the agencies that administer those requirements and issue the permits and licenses, and in most cases a direct link to the agencies' Internet web pages.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS PROGRAM (CALWORKS): Provides temporary financial assistance and employment focused services to families with minor children who have income and property below state maximum limits for their family size. Most able-bodied aided parents are also required to participate in the CALWORKS GAIN employment services program.

CALIFORNIA WORKFORCE INVESTMENT BOARD (CWIB): The California Workforce Investment Board is responsible for assisting the Governor in performing duties and responsibilities required by the federal Workforce Investment Act of 1998. All members of the Board are appointed by the Governor and represent the many facets of workforce development – business, labor, public education, higher education, economic development, youth activities, employment and training, as well as the Legislature.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI): Nationwide, over 1000 CDFIs serve economically distressed communities by providing credit, capital and financial services that are often unavailable from mainstream financial institutions. CDFIs have loaned and invested in distressed communities. Their loans and investments have leveraged billions more dollars from the private sector for development activities in low wealth communities across the nation. California offers tax credits for investments in CDFI's under the Insurance Tax Law, as well as under the Personal and Corporate Income Tax Laws.

CALIFORNIA ECONOMIC DEVELOPMENT PARTNERSHIP (CEDP): The CEDP was formed by Governor Schwarzenegger in 2005 as an interagency team to coordinate state government economic development activities. It seeks seamless coordination between the state, regional/local economic development organizations, and public/private resources for the retention, expansion and attraction of jobs in California.

DEPARTMENT OF GENERAL SERVICES (DGS): The department employs over 4,000 employees and has a budget in excess of one billion dollars. Its functions include e-commerce and telecommunications; siting, acquisition, development, leasing, disposal and management of state properties; architectural approval of local schools and other state-responsibility buildings; printing services provided by the second largest government printing plant in the U.S.; procurement of supplies needed by other state agencies; and maintenance of the vast fleet of state vehicles. The director serves on several state boards and commissions.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD):

HCD is one of many departments within BTH. As California's principal housing agency, the mission of HCD is to provide leadership, policies and programs to expand and preserve safe and affordable housing opportunities and promote strong communities for all Californians. HCD is responsible for oversight of California's G-TEDA programs.

DEPARTMENT OF LABOR (DOL): A U.S. government cabinet body responsible for standards in occupational safety, wages and number of hours worked, unemployment insurance benefits, re-employment services and a portion of the country's economic statistics.

DISABLED VETERAN BUSINESS ENTERPRISE (DVBE): Certified DVBE's that meet eligibility requirements are eligible to receive bid preferences on state contracts. DGS's Procurement Division certifies DVBEs and participates in the DVBE Council.

ECONOMIC DEVELOPMENT CORPORATION (EDC): Locally-based corporations whose mission is to promote investment and economic growth in their region.

ECONOMIC STRATEGY PANEL: The Economic Strategy Panel was established in 1993 to develop an overall economic vision and strategy to guide public policy. The Panel engages in an objective and collaborative biennial planning process that examines economic regions, industry clusters, and cross-regional economic issues. The California Regional Economies Project is currently the lead mechanism for these efforts.

EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD): EDD offers a wide variety of services under the Job Service, Unemployment Insurance, Disability Insurance, Workforce Investment, and Labor Market Information programs. As California's largest tax collection agency, EDD also handles the audit and collection of payroll taxes and maintains employment records for more than 16 million California workers.

EMPLOYMENT TRAINING PANEL (ETP): ETP is a California State agency that began in 1983 and is designed to fund training that meets the needs of employers for skilled workers and the need of workers for long-term jobs. The program funds the retraining of incumbent, frontline workers in companies challenged by out-of-state competition. ETP also funds training for unemployed workers, and prioritizes small businesses, and employers and workers in high unemployment areas of the State. ETP is funded by a tax on business.

ENTERPRISE ZONE (EZ): Geographically-based economic incentive areas in California that provide regulatory or tax benefits to businesses. There are 42 Enterprise Zones in California.

GROSS DOMESTIC PRODUCT (GDP): The monetary value of all the finished goods and services produced within a country's borders in a specific time period, usually calculated on an annual basis. It includes all of private and public consumption,

government outlays, investments and exports less imports that occur within a defined territory.

GEOGRAPHICALLY TARGETED ECONOMIC DEVELOPMENT AREA (G-TEDA): A generic term for all geographically-based economic incentive areas in California, including Targeted Tax Areas (TTAs), Local Agency Military Base Recovery Areas (LAMBRAs), Enterprise Zones (EZs), and Manufacturing Enhancement Areas (MEAs).

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT (GO-BIZ): GO-BIZ is a one-stop shop intended to help businesses to invest and expand in California.

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT (GOED): GOED is a one-stop shop intended to help businesses to invest and expand in California. It was established in 2010 by Executive Order S-05-10.

INNOVATION HUB PROGRAM (IHUB): The iHub Program improves the state's national and global competitiveness by stimulating partnerships, economic development, and job creation around specific research clusters through state-designated iHubs.

INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK): The I-Bank is a state financing authority that provides low-cost financing to public agencies, manufacturing companies, nonprofit organizations and other entities eligible for tax-exempt financing. Since January 1, 1999, the I-Bank has financed more than \$32 billion in tax-exempt bonds and loans for economic development and public infrastructure projects throughout the state, and various other financings.

INLAND EMPIRE ECONOMIC PARTNERSHIP (IEEP): The mission of the IEEP is to help create a voice for the two-county region of Riverside and San Bernardino Counties. The membership, a collection of important organizations in the private and public sector, give the organization the knowledge and perspective needed to advocate and provide a vibrant business living environment in the region.

INTERNATIONAL TRADE ADMINISTRATION (ITA): The International Trade Administration strengthens the competitiveness of U.S. industry, promotes trade and investment, and ensures fair trade through the rigorous enforcement of our trade laws and agreements. ITA works to improve the global business environment and helps U.S. organizations compete at home and abroad.

INTERGOVERNMENTAL POLICY ADVISORY COMMITTEE ON TRADE (IGPAC): A federal advisory committee that provides the United States Trade Representative advice on matters of international trade from the perspective of state and local governments. Current membership includes former State Senator/current Los Angeles City Councilmember Curren Price, and Carlos J. Valderrama of the Los Angeles Area Chamber of Commerce.

JOB TRAINING PARTNERSHIP ACT (JTPA): JTPA is a federal law that authorizes and funds a number of employment and training programs in California. JTPA's primary purpose is to establish programs to provide job training services for economically disadvantaged adults and youth, dislocated workers and others who face significant employment barriers. These programs help prepare individuals in California for participation in the state's workforce, increasing their employment and earnings potential, improving their educational and occupational skills and reducing their dependency on welfare.

LITTLE HOOVER COMMISSION (LHC): The Little Hoover Commission is an independent state oversight agency that was created in 1962. The Commission's creation and membership, purpose and duties, and powers are enumerated in statute. By statute, the Commission is a balanced bipartisan board composed of five citizen members appointed by the Governor, four citizen members appointed by the Legislature, two Senators and two Assemblymembers.

LOCAL AGENCY MILITARY BASE RECOVERY AREA (LAMBRA): A LAMBRA is an area located in California that is designated as such by the Business, Transportation and Housing Agency. LAMBRAs are established to stimulate growth and development in areas that experience military base closures. Taxpayers investing, operating, or located within a LAMBRA may qualify for special tax incentives. There are currently eight LAMBRAs: Southern California Logistics Airport, Castle Airport, Mare Island, San Bernardino International Airport, Alameda Point, Mather/McClellan, San Diego Naval Training Center, and Tustin Legacy.

MANUFACTURING ENHANCEMENT AREA (MEA): Incentives available to businesses located in an MEA are streamlining local regulatory controls, reduced local permitting fees and eligibility to earn \$29,234 or more in state tax credits for each qualified employee hired. All manufacturing businesses that are engaged in those lines of business described in Codes 2011 to 3999, inclusive, of the Standard Industrial Classification (SIC) and are located in the MEA are eligible for program benefits. There are 2 MEAs located in California. They are in the Cities of Brawley and Calexico. Each community is located in Imperial County. An MEA designation lasts until December 31, 2012.

MICROBUSINESS: A small business which, together with affiliates, have annual gross receipts of less than \$3,500,000 or is a manufacturer with 25 or fewer employees.

METROPOLITAN STATISTICAL AREA (MSA): In the United States a metropolitan statistical area is a geographical region with a relatively high population density at its core and close economic ties throughout the area.

NATIONAL EXPORT INITIATIVE (NEI): In January 2010, the President launched the National Export Initiative with the goal of doubling U.S. exports over 5 years. The initiative is directed through a newly established Export Promotion Cabinet and an internal Trade Promotion Coordinating Committee which has been tasked to coordinate

and align their export promotion activities including counseling, customer matchmaking services, and financing for exporters.

NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM (NAICS): The North American Industry Classification System (NAICS) has replaced the U.S. Standard Industrial Classification (SIC) system. NAICS was developed jointly by the U.S., Canada, and Mexico to provide new comparability in statistics about business activity across North America. The NAICS and SIC manuals provide code number for every industry. These codes are frequently used in legislation to identify industries, especially those benefiting from certain tax legislation like the Manufacturers Investment Credit (MIC).

PROPERTY ASSESSED CLEAN ENERGY (PACE): PACE Programs allow local government entities to offer sustainable energy project loans to eligible property owners. Through the creation of financing districts, property owners can finance renewable onsite generation installations and energy efficiency improvements through a voluntary assessment on their property tax bills.

SMALL BUSINESS ADMINISTRATION (SBA): Since its founding in 1976 the U.S. Small Business Administration has delivered about 20 million loans, loan guarantees, contracts, counseling sessions and other forms of assistance to small businesses.

SMALL BUSINESS DEVELOPMENT CENTERS (SBDC): The SBDC Program is the leader in providing small business owners and entrepreneurs with the tools and guidance needed to become successful in today's challenging economic climate. Each regional center offers comprehensive business guidance on business issues including, but not limited to; business plan development, startup basics, financing, regulatory compliance, international trade, and manufacturing assistance. Funding for the program is provided, in part, by the U.S. Small Business Administration and local partners.

SMALL BUSINESS ENTERPRISE (SBE): A business with 100 or fewer employees, and an average annual gross receipts of \$14 million or less over the previous three tax years, or a manufacturer with 100 or fewer employees. SBE's are eligible to receive a 5% bid preference on state contracts.

SMALL BUSINESS LOAN GUARANTEE PROGRAM (SBLGP): The state Small Business Loan Guarantee Program (SBLGP) provides guarantees on bank loans to small businesses that would otherwise not be made. A network of 11 Small Business Financial Development Corporations - working closely with small business borrowers and local community banks - issues the guarantees on behalf of the state.

SPECIAL FUND FOR ECONOMIC UNCERTAINTIES: A fund in the General Fund (a similar reserve is included in each special fund) authorized to be established by statutes and Budget Act control sections to provide for emergency situations. (GC 16418)

STATE POINT OF CONTACT (SPOC): Funding applications submitted to the federal government will often require the applicant to comply with the state's SPOC requirements. The SPOC is responsible for reviewing specific types of grants for federal funds, loans, or financial assistance.

STATE TRADE AND EXPORT PROMOTION PROGRAM (STEP): The STEP Program is a 3-year pilot trade and export initiative authorized by the Small Business Jobs Act of 2010. Funded by federal grants and matching funds from the states, the STEP Program is designed to help increase the number of small businesses that are exporting and to raise the value of exports for those small businesses that are currently exporting.

TARGETED EMPLOYMENT AREA (TEA): One of many options to voucher an employee, Targeted Employment Areas (TEA) allow residents of certain designated low-income areas to qualify Enterprise Zone employers for substantial hiring credits.

TARGETED TAX AREA (TTA): The TTA is a program very similar to Enterprise Zones. TTA offers incentives that are only available to companies located in Tulare County and are engaged in a trade or business within certain Standard Industrial Codes. State incentives include tax credits for sales and use taxes paid on certain machinery, machinery parts, and equipment; tax credits for hiring qualified employees; and a fifteen year net operating loss carry-forward.

TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP (TTIP): A proposed trade agreement between the two largest economies in the world: the U.S. and the European Union. If realized, the TTIP will create a free trade zone that encompasses 46% of the world's GDP.

TRANS-PACIFIC PARTNERSHIP (TPP): A proposed free trade agreement that includes economies from within the Pacific region. Negotiations began in 2010, and currently include 12 countries: Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the U.S., and Vietnam.

UNITED STATES TRADE REPRESENTATIVE (USTR): The USTR is an agency of more than 200 committed professionals with specialized experience in trade issues and regions of the world. The agency directly negotiates with foreign governments to create trade agreements, to resolve disputes, and to participate in global trade policy organizations.

WORKFORCE INVESTMENT ACT (WIA): The federal Workforce Investment Act (WIA), which superseded the Job Training Partnership Act, offers a comprehensive range of workforce development activities through statewide and local organizations. Available workforce development activities provided in local communities can benefit job seekers, laid off workers, youth, incumbent workers, new entrants to the workforce, veterans, persons with disabilities, and employers. The purpose of these activities is to

promote an increase in the employment, job retention, earnings, and occupational skills improvement by participants.

WORKFORCE INVESTMENT BOARD (WIB): The Governor has appointed a State Workforce Investment Board (WIB) consisting primarily of representatives from businesses, labor organizations, educational institutions, and community organizations. The State WIB assists the Governor in designing a statewide plan and establishing appropriate program policy.