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# MEMORANDUM

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**DATE:** August 6, 2010  
**TO:** Karen Bass, Speaker of the California State Assembly  
**FROM:** V. Manuel Pérez, Chair  
Assembly Committee on Jobs, Economic Development, and the Economy  
**RE:** Small Business Issues

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The Assembly Committee on Jobs, Economic Development, and the Economy (JEDE) has prepared this briefing memorandum to assist in the discussions with the People's Council on small business issues, including economic recovery.

This briefing memorandum is divided into five sections. The first section provides background on California small businesses, including women and minority-owned businesses and microenterprises. The second section includes key legislation enacted during the last several sessions, as well as bills moving during the current legislative session. The third section includes information on related oversight hearings held during the last three legislative sessions (2005-2010). The fourth section provides an update on proposed reforms to the California Enterprise Zone Program related to small businesses. The fifth section includes information on how to contact JEDE and access additional information on small businesses within the California economy.

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## I. Fast Facts on Small Business in California

This section provides basic information on small businesses and microenterprises. To the extent possible, the most recently available data from the U.S. Census and the U.S. Small Business Administration is used.

### Small Business

Small businesses are an integral part of the California economy, comprising more than 98 percent of all businesses in the state. More than 50 percent of all employees in California work for small businesses.

- There were an estimated 3.6 million small businesses<sup>1</sup> in California in 2006. Self-employment accounted for 2.3 million firms, an increase from 2.2 million firms in 2005.

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<sup>1</sup> Based on the federal definition of businesses with less than 500 employees

- More than 25 million people were employed by the 637,730 firms in California with less than 20 employees in 2006. These small size firms represent more than 88% of all firms.
- Approximately 115,000 new small businesses were formed and 149,000 small businesses closed their doors in 2006. Business bankruptcies in California totaled 2,098 in 2006, down from 4,236 in the previous year. Approximately 50 percent of all small businesses fail within seven years of opening.
- Small and medium-sized businesses represented 95 percent of all exporters in California in 2005, exporting 43 percent of all goods. Nationally, small and medium-size businesses represented only 29 percent of total exports.

### **Women-Owned Businesses**

While the number of women on corporate boards and in upper management of Fortune 500 companies significantly lags behind women's overall representation in the workforce, women-owned businesses are an increasingly important segment of the business community. Below are some additional facts on women-owned businesses (50 percent or more owned by women) from the Center for Women's Business Research (Center).

- As of 2004, there are an estimated 1,249,343 privately held, women-owned firms in California, accounting for 48.6 percent of all privately held firms in the state.
- The 1,249,343 privately held, women-owned firms in California generated more than \$406 billion in sales and employed 2,818,949 people in 2004.
- Between 1997 and 2004, the Center estimates that the number of privately held, women-owned firms in California increased by 7.1 percent, employment grew by 31.8 percent, and sales increased by 47.2 percent.
- Among the 50 states and Washington, D.C., California ranked first in the number of privately held, women-owned firms in 2004, first in employment, and first in sales.
- California ranked 47th in the growth of privately held, women-owned firms between 1997 and 2004, 19th in employment growth, and 24th in sales growth among the states and Washington, D.C.
- Woman-owned firms, particularly among ethnic women, increased at a rate five times greater than all firms. The rate of African-American, women-owned firms increased by 12 percent annually, as compared to 2 percent for all firms and just under 4 percent for all woman-owned firms.
- Although women own approximately 40 percent of all businesses in the U.S., they receive less than five percent of all venture capital.

### **Minority-Owned Businesses**

In 2000, the Milken Institute's Center on Emerging Domestic Markets, issued a report, in collaboration with the United States Department of Commerce, which found minority-owned firms

are surpassing the growth of all U.S. businesses, growing at a rate of 17 percent per year, six times the growth rate of all other firms. Minority firms' sales were growing 34 percent per year—more than twice the rate of all other firms. California has also seen an increase in minority-owned firms, including:

- In 2002, Latino-owned firms totaled 427,805—an increase of 27 percent from 1997.
- In 2002, Black-owned firms totaled 113,003—an increase of 43 percent from 1997.
- In 2002, Asian-owned firms totaled 372,221—an increase of 19 percent from 1997.
- In 2002, American Indian and Alaska Native-owned firms totaled 40,541—an increase of 52 percent from 1997.

However, even with this growth, minority-owned firms receive less than 2 percent of venture capital.

### **Microenterprise**

A small subset of "small business," are microenterprises. Businesses are generally considered a microenterprise if it has five or fewer employees.

- Estimates place the number of microenterprises in the U.S. at over 24 million businesses.
- In 2003, microenterprises comprised over 88 percent of the number of businesses in California, equaling 2,829,108 businesses.
- The 3.3 million microenterprises employed 19.2 percent of all workers in California in 2003.

## **II. Small Business Legislative Actions**

This section identifies legislative actions related to small business which were signed into law since 2005. Pending legislation is also listed for 2010.

Please note that small businesses may also be heavily impacted by changes in laws in many areas, including: bankruptcy, environmental standards, and land use.

### **Bills Signed into Law in Previous Sessions**

- **AB 31 (Price) – Streamlined Procurement Process:** This bill makes several key changes to state procurement procedures including increasing the maximum contract threshold amount for awards to a small business and Disabled Veteran Business Enterprise, under a specific streamlined procurement process, from \$100,000 to \$250,000. Further, the bill required contractors that made contract commitments to include small business or Disabled Veteran Business Enterprise participation to report the final percentage of the contract actually paid to these entities. **Status:** Signed by the Governor, Chapter 21, Statutes of 2009

- **AB 348 (Arambula and Bass) – Self Certification of Small Business Eligibility:** This bill authorizes a business to self certify, under penalty of perjury, that the business is an eligible small business to sell goods and provide services to state and local governments. Currently, a business must be certified by each government agency with which it wishes to do business even though the requirements for such certification are often duplicative. The multiple applications and lengthy review processes often act as a deterrent for small businesses from engaging in sales to state and local governments. **Status:** Signed by the Governor, Chapter 185, Statutes of 2005
- **AB 424 (Calderon) – Business Identity Theft:** This bill creates the crime of identity theft perpetrated against a business and gives businesses that are victims of identity theft the same rights as individuals. It allows businesses that are victims of identity theft to file a police report and to obtain fraudulent account information from a credit grantor who has provided credit to an identity thief. **Status:** Signed by the Governor, Chapter 10, Statutes of 2006
- **AB 610 (Price) – Leverage of the Small Business Expansion Fund:** This bill enhances the Small Business Loan Guarantee Program's ability to leverage existing program dollars, resulting in the ability to serve more small businesses' financial needs per year. **Status:** Signed by the Governor, Chapter 601, Statutes of 2007
- **AB 761 (Coto) – Small Business Preferences:** This bill requires each state agency awarding contracts that are financed with proceeds from the infrastructure bonds approved by voters in November, 2006, to establish a 25-percent small business participation goal for state infrastructure construction contracts and to provide specified assistance to small businesses bidding on state infrastructure bond-related contracts. **Status:** Signed by the Governor, Chapter 611, Statutes of 2007
- **AB 926 (Ruskin) – Fair Competition Rules:** This bill requires certain advertising of state contracting opportunities to include a specified statement relating to an existing prohibition against the use of "loss leaders." All businesses in California are prohibited from selling any product at less than the cost or give away any product for the purpose of injuring competitors or destroying competition. **Status:** Signed by the Governor, Chapter 490, Statutes of 2009
- **AB 1104 (Aghazarian) – Disaster Assistance and the Small Business Expansion Fund:** This bill makes modifications to the Small Business Loan Guarantee Program relating to small business disaster guarantees and eligible investments of the Small Business Loan Guarantee Program funds. **Status:** Signed by the Governor, Chapter 624, Statutes of 2007
- **AB 1550 (Arambula) – Economic Incentive Areas:** This bill provides meaningful improvements to the management, oversight, and transparency of the California Enterprise Zone Program and other Geographically-Targeted Economic Development Area programs. **Status:** Signed by the Governor, Chapter 718, Statutes of 2006
- **AB 2098 (Liu) – State-Government: Electronic Payment System:** This bill requires the Department of Technology Services to design and implement a comprehensive electronic payment system that will allow all state agencies to receive and make payments through electronic funds transfers, credit cards, debit cards, and automated clearinghouse debits and credits. **Status:** Signed by the Governor, Chapter 818, Statutes of 2006

- **AB 2330 (Arambula) – Small Business Costs Study:** This bill requires the Office of the Small Business Advocate to commission a study of the costs of state regulations on small businesses that is parallel to the study on the impact of regulatory costs on small firms conducted by the federal Small Business Administration. The Office is required to make recommendations on how to reduce the cost of existing and future regulations on small businesses while achieving the same policy and regulatory objectives. This bill also convenes a small business advisory committee to provide advice based on the study and recommendations. **Status:** Signed by the Governor, Chapter 232, Statutes of 2006
- **AB 2376 (Price) – Emerging Contractors Technical Assistance Program:** This bill establishes the Small and Emerging Contractors Technical Assistance Program, administered by the California Department of Transportation, to provide small contractors with technical assistance and training to improve their knowledge and skills necessary to obtain surety bond guarantees offered by the federal Small Business Administration. **Status:** Signed by the Governor, Chapter 458, Statutes of 2008
- **AB 2778 (Mendoza) – Definition of Small Manufacture:** Updates the definition of "manufacturer" under the Small Business Procurement and Contract Act by replacing the manufacturing code references in the Standard Industrial Classification Manual with the North American Industry Classification System codes. **Status:** Signed by the Governor, Chapter 102, Statutes of 2008
- **AB 3058 (JEDE) – Small Business Disaster Preparedness:** This bill reduces economic losses attributable to disasters, by providing technical assistance to small businesses on disaster preparedness. Specifically, the bill: (1) enhances the duties of the Office of the Small Business Advocate to include advocacy on disaster preparedness and recovery, including the provision of technical assistance; (2) requires the Small Business Advocate, in cooperation with the Office of Emergency Services, to develop a handbook for small businesses on emergency preparedness, responding in an emergency, and recovery strategies; and, (3) requires the Small Business Advocate, with the assistance of Office of Emergency Services, to hold at least three meetings, in different locations in California, to share best practices on disaster preparedness for small businesses. **Status:** Signed by the Governor, Chapter 233, Statutes of 2006
- **ACR 101 (Furutani) - Small Business Month:** This resolution recognizes the contributions of small businesses to California's economy and encourages the patronage of small businesses by declaring the month of May 2010 "Buy California Small Business First Month." **Status:** Signed by the Governor, Resolution Chapter 36, Statutes of 2010
- **SB 115 (Florez) – California Disabled Veteran Business Enterprise Program:** This bill sets up uniform processes for all state contracting that would provide Disabled Veteran Business Enterprise participation incentives to bidders. **Status:** Signed by the Governor, Chapter 451, Statutes of 2005
- **SB 1436 (Figueroa) – Small Business Regulatory Standards:** This bill requires the Department of Technology Services to create a link to state agency web sites at the State of California Internet Portal so small businesses can access information regarding startup requirements and regulatory compliance. It requires each state agency that significantly regulates or impacts small business, to designate at least one individual to serve as a small business liaison for the agency. It also requires each agency to ensure that the state's

procurement and contracting processes are administered in order to meet or exceed the 25-percent small business participation goal. **Status:** Signed by the Governor, Chapter 234, Statutes of 2006

- **SB 66 (Price) – Small Business Loan Guarantee Program:** This bill deletes the 2009 Budget Act provisions that shut down the Small Business Loan Guarantee Program and, instead, reverts \$8.3 million from the Small Business Expansion Fund to the General Fund for the purpose of meeting other financial obligations of the state. This is the Senate companion bill to AB 184 (Block and VM Pérez). **Status:** Signed by the Governor, Chapter 637, Statutes of 2009
- **SB 548 (Huff) – Payments to Disabled Veteran Owned Businesses:** Requires prime contractors who have stipulated that they would use a Disabled Veteran-Owned Business Enterprise (DVBE) as a subcontractor, to certify at the conclusion of the contract that all previously represented payments to the DVBE have been made. **Status:** Signed by the Governor, Chapter 595, Statutes of 2009

### Pending Bills from 2009-10 Legislative Session

- **AB 177 (Ruskin and V. Manuel Perez) - Penalties under the Small Business Act:** This bill increases and conforms penalties for persons who falsely engage in activities relating to the Small Business Procurement and Contract Act, including small businesses, microbusinesses, and disabled veteran-owned business enterprises. **Status:** The bill is pending on the Senate Floor
- **AB 184 (Block and V. Manuel Pérez) – Small Business Loan Guarantee Program:** This bill deletes the 2009 Budget Act provisions that shut down the Small Business Loan Guarantee Program and, instead, reverts \$8.3 million from the Small Business Expansion Fund to the General Fund for the purpose of meeting other financial obligations of the state. This bill is the Assembly companion bill to SB 66 (Price), Chapter 637, Statutes of 2009. **Status:** The bill is pending on the Senate Floor
- **AB 978 (V. Manuel Pérez) –Streamlining State Licensing:** This bill requires the State Chief Information Officer, to collaborate with the Department of Consumer Affairs to acquire a new integrated, enterprise-wide system that will replace the current licensing and monitoring system being used by the department. **Status:** The bill is pending on Suspense File of the Senate Appropriations Committee
- **AB 1106 (Fuentes) – Clean Tech Small Business Loans and Guarantees:** This bill authorizes the California Energy Commission to contract with small business financial development corporations to expend Alternative and Renewable Fuels and Vehicle Technology Program funds. **Status:** The bill is pending in Senate Appropriations Committee.
- **AB 1918 (Davis) -Public Utilities: Procurement: Minority-, Women-, Disabled Veteran-Owned Business Enterprises:** This bill would extend the minority, women-, and disabled veteran-owned business enterprises procurement requirements to wireless telecommunications service providers with gross annual revenues of more than \$25,000,000. **Status:** The bill is scheduled to be heard in Senate Appropriations Committee on August 2, 2010

- **AB 2249 (Ruskin) - State Government: Small Business Certification:** This bill requires the Department of General Services (DGS) to require a Disabled Veteran Business Enterprises (DVBEs) to file a completed form 4506-T from the federal Internal Revenue Service (IRS), also known as a Request for Transcript of Tax Return, in both of the following circumstances:

1. If DGS has received a complaint regarding the DVBE; or
2. If the DVBE is being audited by DGS.

**Status:** The bill is scheduled to be heard in Senate Appropriations Committee on August 2, 2010

- **AB 2529 (Fuentes) – State Auditor Cost Benefit Analysis:** This bill requires the State Auditor to conduct a specified cost benefit analysis of regulations. If a proposed regulation is approved that has an annual statewide economic cost of more than \$10 million or that the benefits of the regulation do not equal or exceed the costs of the regulation, the State Auditor is required to notify the Legislature and specified legislative committees are then required to conduct a public hearing to review the regulation. **Status:** The bill is pending in the Senate Business and Professions and Economic Development Committee.

- **SB 356 (Wright) – Cost of Regulation:** This bill would require any agency considering adopting, amending or repealing a regulation that is unable to consult with affect parties prior to the initiation of the regulatory action to inform the Small Business Advocate and the DOF of its failure to meet the existing consultation requirement and to provide the reasons the requirements were not met. The also removes language that narrows the scope of the overall business impact assessment on proposed regulations and requires the development of a small business impact assessment for all new proposed regulations. **Status:** The bill is pending in Assembly Rules Committee

- **SB 1108 (Price) – Small Business Participation in State Contracts:** This bill makes three enhancements to the Small Business Act including:
  1. Codifying the 25% small business procurement goal;
  2. Requiring the development of specific administrative procedures for implementing the small business preference; and
  3. Requiring the state to take a more active role in promoting certification of small businesses.

**Status:** The bill is scheduled to be heard in Assembly Appropriations Committee on August 4, 2010

**SB 1155 (Dutton) - Capital Access Companies:** This bill amends the Capital Access Company Law, by changing the definition of a small business and adding a definition for a smaller business, exempting Capital Access Companies from the Corporate Securities Law of 1968, exempting businesses from the Capital Access Company Law, if they are approved as Small Business Investment Companies by the federal Small Business Administration, replacing existing law conflict of interest provisions with conflict of interest provisions utilized by the federal Small Business Administration for its licensees, and making related changes, as specified. **Status:** The bill is scheduled to be heard in Assembly Appropriations Committee on August 4, 2010.

- **SB 1484 (Wright) – Bundled Public Contracts:** This bill prohibits the Department of General Services and other state agencies from entering into bundled contracts that exclude certified small businesses, microbusinesses or Disabled Veteran Business Enterprises, as defined. **Status:** The bill is scheduled to be heard in Assembly Appropriations Committee on August 4, 2010

- **SJR 29 (Wright) - Aerospace Industry: C-17 Production:** This measure urges the President of the United States, the U.S. Congress, and the Department of Defense to take immediate and necessary actions to protect national security by ensuring the continuation of C-17 production to meet future domestic and international airlift needs and to preserve the crown jewel of the American industrial base. **Status:** The resolution is pending on the Assembly Floor

### **III. Informational and Oversight Hearings**

During the last three legislative sessions, JEDE held a number of informational hearings on issues of concern to small business. Several of these hearings are described in this section. There is also information on the oversight hearings of the Assembly and Senate Select Committees' on Procurement.

#### **The Business Climate for Growth and Development of the California Economy (2005)**

On Wednesday, February 9, 2005, JEDE convened an informational hearing to examine California's current business climate and the competitiveness of business activities and investment in California.

The Chairman commenced the hearing by stating that the JEDE Committee meetings and activities should be used to foster better collaboration between business and government, including both Houses of the Legislature, both political parties, and the Executive branch. Collectively, this collaboration can help accelerate California's economic recovery. It was mentioned that through the hearing, it is hoped that further legislative reform will occur to help sustain the current economic recovery underway.

The purpose of the hearing was to assess California's competitive and regulatory issues as seen from a business perspective. The hearing participants, representing various business interests, examined California's competitiveness in retaining and attracting jobs, challenges to developing a skilled workforce, and future directions and choices California can make to expand its economy.

A number of suggestions were made on how California could improve the overall business climate. Among the suggestions that influenced future legislation were, supporting the existing network of economic developers by encouraging the contribution of more local resources, helping business retention efforts by promoting customer service training, and identifying state regulations that could be more efficient and less cumbersome to small businesses while achieving the same policy objectives.

The Chairman concluded the hearing by stating, "Collectively, we should be able to bring together the resources necessary to fast-track our economic recovery throughout the state by expanding business, developing new technologies and creating jobs – making California a safe and healthy place for everyone to live and work."

#### **Overview of Small Business and Microenterprise Development (2005)**

On Tuesday, April 5, 2005, JEDE convened a special order of business to examine small businesses and microenterprises.

Testimony during the special order demonstrated the importance of microenterprises and small businesses to the overall California economy. The hearing participants, representing both microenterprises and small businesses, discussed training programs that help provide a skilled California workforce, regulations imposed on smaller businesses, and projected needs of smaller businesses in order to remain competitive.

Information presented during the special order also shed light on the important link between larger companies and smaller businesses, which large companies contract for specialized work.

Participants noted that microenterprise businesses alone directly account for 19.2 percent of California's employment; 78-percent are women owned; and, coupled with small businesses, provide an invaluable catalyst for the California economy.

At the conclusion of the hearing members of JEDE were committed to continue to find ways to address the needs of small business through the legislation they reviewed.

### **Microenterprise: The Engine of Regional Economies (2006)**

On Tuesday, July 26, 2006, JEDE convened an informational hearing on the role of microenterprise in regional economies. At the conclusion of the hearing it was clear that there is a need for a more comprehensive, microentrepreneur-centered, community reinvestment model to better address the needs of businesses, underserved communities, and public and private investors.

Existing policies and programs are fragmented and appear to focus either on broad community development objectives, or individual worker development objectives. These fragmented policies and programs have resulted in local community developers, such as microenterprise development organizations, having to package increasingly complex deals that blend multiple funding sources. Each additional source of funding adds new layers of regulation, reporting, and monitoring without necessarily adding value. A more comprehensive approach to community development would also reduce unnecessary administrative burdens while increasing program dollars for project delivery.

A few of the recommendations from the hearing include:

- Designating microenterprise development as a core element to the California Economic Development Plan and including a comprehensive review of private investment tools for community revitalization. [Key private investment tools are being reviewed under an Arambula sponsored investor working group convened in conjunction with the California Latino Caucus and the California Hispanic Chambers of Commerce]
- Investing in capacity building of organizations and systems supporting entrepreneurship development. [Addressed in AB 816 (Carter), 2007-08 Session]
- Reviewing key state economic development programs to identify impediments to Microenterprise Development Organization participation.
- Calling for the inclusion of entrepreneurship training in California K-12 schools and community colleges systems.

- Encouraging more private investment in microenterprise, including an increase in the percentage of Community Development Financial Institutional microenterprise activities in California. [Addressed in an Arambula sponsored investor working group convened in conjunction with the California Latino Caucus and the California Hispanic Chambers of Commerce]
- Advocating on the 2007 federal Farm Bill for rural development programs that assist rural microenterprise. [Chairman Arambula testified at regional listening sessions on the 2007 federal Farm Bill]
- Reviewing the Goods Movement Plan and recommend changes to support the efficient transport of microenterprise-produced products. [Addressed in AB 1107 (Arambula) and AB 1606 (Arambula), 2007-08 Session]
- Developing a resource coordination function within state government to assist local jurisdictions, nonprofits, foundations, and financial institutions to identify resources and partner with the state for entrepreneur development. [Addressed in AB 1606 (Arambula), 2007-06 Session]
- Convening a microenterprise and community development roundtable to discuss possible new legislation for the 2007-08 Legislative Session.

**California's Economic Development Programs: Meeting the Challenges of Today's Economy (2007)**

On Tuesday, March 28, 2007, JEDE and the Assembly Budget Subcommittee 4 on State Administration held a joint hearing to examine the state's workforce investment and economic development programs. This hearing followed up on the findings and recommendations from the international trade and microenterprise hearings JEDE has held in the previous session, further focusing on the need for a more comprehensive and streamlined approach to economic and workforce development.

Recommendations from the hearing include, but are not limited to, the following actions:

- Develop a state policy and strategy for attracting private investment in California's Emerging Domestic Markets which is integrated into the State Economic Development Plan and the pending state international trade policy and strategy. [Addressed in AB 1606 (Arambula), 2007-08 Session]
- Coordinate state efforts to increase small business participation in state construction and procurement contracts with state workforce training and economic development programs. [Addressed in AB 761 (Coto) and AB 1491 (Arambula), 2007-08 Session]
- Streamline state regulatory, licensing, and permitting requirements for small business and microenterprise start-ups through on-line, one-stop application and assistance programs.
- Begin a dialogue with the private sector on how to encourage the development of products to meet the state's greenhouse gas emission reduction targets. [Addressed in an Arambula

sponsored investor working group in the fall of 2008, in conjunction with the California Latino Caucus and the California Hispanic Chambers of Commerce]

- Develop an integrated strategy on the delivery of state and local workforce and economic development programs to provide skilled workers for emerging industries, such as cleantech, and to meet the workforce demands of emerging economic trends, such as the manufacturing value chain. [Addressed in AB 1606 (Arambula), 2007-08 Session]

### **Hearings of the Assembly Select Committee on Procurement (2007 to 2009)**

Former Assemblyman Curren Price, as Chair of the Assembly Select Committee on Procurement (ASCP) convened a number of important hearings on small business procurement issues from 2007 to 2009 when he left the California State Assembly for the State Senate. The following are brief descriptions those hearings.

At its first hearing ASCP reviewed the progress being made in implementing the Governor's Executive Order S-02-06, which set a 25% annual small business participation goal for state contracts and encouraged state agencies to under take actions necessary to increase small business participation in procurement and contracting activities.

In its second hearing, ASCP reviewed the findings and recommendations of the Availability and Disparity Study commissioned by California Department of Transportation. These findings were important in supporting the Department's later decision to apply disadvantaged business enterprise goals on federally funded contracts.

At the ASCP's third hearing, the committee examined the controversial prime vendor contract for office supplies awarded by the Department of General Services to Office Depot, Inc. The ASCP continued to follow the contract which to date, has totaled in excess of \$45 million.

In its third oversight hearing, the committee reviewed state procurement policies and practices with a special focus on minority print media publications participation on state contracts.

### **California's Economic Development Programs: Meeting the Challenges of 2008 (2008)**

On Tuesday, March 4, 2008, JEDE held a hearing to review the progress being made in implementing legislation enacted in the current and previous sessions. During the course of the hearing, Members also had an opportunity to hear from senior-level Canadian officials on how Canada undertakes its foreign trade and investment programs.

This review of previously enacted legislation formed the foundation of the Committee's examination of the state's economic and workforce development policies, programs, and services, and their ability to meet three challenges facing California's economy today and into the next decade, including:

- How to retain California's global competitiveness in technology related industries, including cleantech;
- How to increase private investment in emerging domestic markets; and,

- How changes in the global manufacturing supply chain may affect California's economy.

While the specific purpose of the hearing is to oversee the implementation of previously enacted legislation, Members also examined larger and more over-arching economic development issues including, but not limited to:

- Whether or not the state has the optimal mix of policies, programs, and services to meet the current and near-future economic challenges facing California. [Addressed in AB 2711 (Portantino, Arambula, Salas, and Price) and AB 1916 (Portantino, Arambula, Salas, Price, and Caballero), 2007-08 Session]
- Whether or not the state has the optimal mix of policies, programs, and services to attract the private sector investment needed to achieve state economic development objectives. [Addressed in an Arambula sponsored investor working group convened in conjunction with the California Latino Caucus and the California Hispanic Chambers of Commerce]
- Whether or not the current administrative structure for providing programs and services is conducive to the growth and sustainability of California's economy. [Addressed in AB 3046 (JEDE) and AB 1916 (Portantino, Arambula, Salas, Price, and Caballero), 2007-08 Session]
- Whether or not the current administrative, fiscal, and programmatic structure proactively supports emerging technologies and innovative processes. [Addressed in AB 2711 (Portantino, Arambula, Salas, and Price) and AB 1916 (Portantino, Arambula, Salas, Price, and Caballero), 2007/08 Session]
- Whether or not the current policies, programs, and services strengthen historically weak regional or local economies, and thereby reduce future public costs for public assistance, law enforcement, and public health. [Addressed in AB 1606 (Arambula), 2007/08 Session]

**California's Proposed International Trade and Investment Strategy: Legislative Review by the Assembly Policy and Fiscal Committees (2008)**

On Tuesday, May 6, 2008, and June 10, 2008, JEDE held its statutorily required hearings on the preliminary California International Trade and Investment Strategy (Strategy), pursuant to Section 13996.55 of the Government Code.

During this review, Members had an opportunity to hear from the Business, Transportation, and Housing Agency on how the strategy was developed and their purpose in choosing certain actions to implement the goals and objectives. Members also heard from key stakeholder groups on how the priorities and recommended actions address how the state can best assist California businesses to be more competitive in the global economy. A special focus of the strategy is required to be of assistance to small and medium size businesses.

More specifically, the Members examined how the preliminary strategy addresses:

- The future competitiveness of California and California businesses within the global economy.
- The need for educating and attracting a quality workforce.

- California's current and future need to upgrade and modernize the state's transportation and goods movement system.
- The state's economic development needs and opportunities, particularly as they relate to innovation, research and development, and other technology commercialization areas.
- Import and export opportunities and challenges for California's businesses, in general, and small and medium- sized businesses, in particular.
- California business interests within the context of federal and international trade agreements.
- Attraction of private investment capital to California, in general, and to emerging domestic markets, in particular.

The complexity of the California economy and the changing global business environment makes the development of any strategy such as, this very challenging. These challenges also underline why having an effective and implementable Strategy is so important. JEDE introduced AB 3046 and sponsored AB 2711 (Portantino, Arambula, Salas, and Price) and AB 2711 (Portantino, Arambula, Salas, Price, and Caballero) to address many of the issues raised at this hearing.

**Developing an Economic Recovery Strategy for California: The initial hearing on the economic development components (2009)**

On Tuesday, March 17, 2009, JEDE held its initial hearing examining the \$787 billion federal economic recovery plan and its proposed funding to states, local governments, schools, businesses, and working families. The primary focus of the hearing was on the economic and workforce development portions of the federal plan and how those moneys can be used in California to address our immediate needs and to also serve as a catalyst for the longer-term economic prosperity of the state.

In preparation for this work, the Chairman called for the development of an initial draft of a California Economic Development Recovery Strategy (Economic Recovery Strategy) to assist the state in coming together around a comprehensive blueprint to guide the state's economic and workforce development actions.

The driving principle behind the Economic Recovery Strategy is that government does not create jobs, the private sector does. Further, given the state's current financial situation, the state's role should be that of a facilitator between public resources and local communities, workers, and businesses.

While monetary policy is set in Washington D.C., the federal government has a limited ability to make targeted investments in local communities. The state has the ability and the responsibility to serve in a facilitation role helping to "connect the dots" and maximize the impact of federal stimulus dollars.

In opening the hearing, the Chairman emphasized that this hearing was just one in a number of outreach activities that are being undertaken around the development of the Economic Recovery Strategy. Members of JEDE were encouraged to engage their communities on what the state can do to facilitate local economic and workforce activities.

The hearing included an opening presentation by the Legislative Analyst and two panels. The first panel provides insights on what is happening in local California communities and shares innovative solutions for leveraging existing state and federal programs to meet the immediate and long term needs of these communities. The second panel focused on the green economy and on green collar jobs in particular.

At the close of the hearing, Members had an opportunity to discuss next steps in our ongoing research on how the state can best facilitate the economic and workforce needs of local communities. A follow-up hearing was held on May 5, 2009.

### **Developing an Economic Recovery Strategy for California: A status report on small businesses (2009)**

On Tuesday, May 5, 2009, JEDE held a second hearing, in a series of hearings, examining the \$787 billion federal economic recovery plan and its proposed funding to address the immediate needs, as well as, the longer term needs of California businesses and working families. The primary focus of this hearing was on how the current economic recession was impacting California small businesses and the 50% of the state's workforce which they employ.

The hearing was divided in three parts: an overview and update on small business development in California, a more focused look at access to capital issues, and finally a discussion of the recovery tools available to small business and unemployed workers during this recession.

The first presentation was made by the Director of the Office of the Small Business Advocate, whose job it is to advocate for and to facilitate the resolution of issues of importance to the small business community. Currently, the Director participates on three economic stimulus working groups comprised of Administration staff.

Presentations during the second panel, addressed how small businesses face a triple challenge in accessing capital. First, small businesses' historical sources of start-up and working capital, such as home equity and credit cards, have disappeared. Second, consumer spending has severely constricted new revenues. Third, the flow of private equity, venture, and other sources of growth capital to small businesses has also slowed, which among other issues is potentially jeopardizing the state's green economy transformation. Presentations during the panel included both academic studies and real world experiences from a small business owner. Overall, panelists felt that the links between the housing crisis and the financial viability of the state's small businesses should be explored in greater detail.

In the final panel, Members heard how California communities are coming together to better define their local priorities and determine how to best use federal stimulus funds to meet local objectives. Final regional economic recovery strategies were expected to be filed with the Business, Transportation and Housing Agency in early June 2009. Key resources discussed during the panel included small business loan guarantees available through local financial development corporations, services through small business development centers and new funding through the home foreclosure programs at the U.S. Department of Treasury.

In addition to the issues discussed above, all panelists were asked to provide comments on JEDE's Economic Recovery Strategy, which was released in March 2009. In closing, JEDE Members

asked staff to follow-up on obtaining more information on how the impact of home foreclosures small businesses.

### **Defining a Successful Framework to Drive Economic Recovery and Jobs (2010)**

On Tuesday, February 17, 2010, JEDE continued its focus on economic recovery and job creation activities with the intent of defining a legislative framework for driving economic recovery and job creation.

Among other issues examined was the continuing impact of the recession on California small businesses, the challenges facing manufacturing facilities, and the effectiveness of the state's economic and workforce development programs in addressing the needs of businesses in historically underserved communities.

The hearing is divided into three parts. the first presenters provided an overview of the California economy and what could be expected to occur over the next 12 to 24 months. During the second set of presentations, the committee heard about the state's ongoing support for regional economic recovery efforts, including one from the Southern Border Region and another from the Sacramento Valley and Mid-Sierra Region.

During the third and final set of presentations, the committee examined specific job creation proposals put forth by the Governor and other key stakeholders including the California Labor Federation; California Manufacturer and Technology Association; the State Building & Construction Trades Council, AFL-CIO; California Hispanic Chamber of Commerce; and National Federation of Independent Businesses.

Outcomes from the hearing included a published update of the JEDE Economic Recovery Strategy and the beginning of an extended discussion with the Administration on economic recovery and job creation issues.

### **Hearings of the Senate Select Committee on Procurement (2010)**

Senator Curren Price, as Chair of the Senate Select Committee on Procurement recently convened a hearing to examine various business certification processes that are employed to verify the eligibility of small, minority, women and veteran owned businesses to collectively participate in procurement programs. Over the last few years, a growing number of businesses have fraudulently held themselves out as certified small businesses and veteran owned businesses in order to obtain the 5% procurement preferences.

## **IV. California Enterprise Zone Program and Small Business Participation**

During the 2009-10 legislative session, JEDE held a series of hearings reviewing California's Enterprise Zone Program. The hearings were meant to assess the extent to which the Enterprise Zone Program was meeting the needs of workers and businesses in the current California economy. From the hearings, JEDE produced a list of recommended reforms for the Enterprise Zone Program, including a number of recommendations that would increase the efficacy of the program for small businesses. Those recommendations include:

- Authorizing small businesses to transfer the value of the hiring credit against certain other state taxes owed, i.e. sales tax. Many small businesses have little use for an income tax credit, but could use credits against other state tax liabilities.
- Requiring enterprise zone managers to develop a directory of businesses located in each enterprise zone. Each zone marketing plan should include how existing local, state, and federal resources will be used to retain and grow these businesses, as well as attract new businesses. Too often, zone activities are almost exclusively focused on a few large companies relocating into the zone rather than serving the full range of businesses within the zone.
- Requiring enterprise zones to have "pre-certification" programs for eligible employees. This does not preclude employers from hiring non-"pre-certified" employees and still receive credits; however, identifying prospective employees who are eligible for hiring credit vouchers would make it be easier for small businesses to utilize vouchers.
- Begin a dialogue with the finance community on how to encourage investment in historically underserved communities, including businesses located in an Enterprise Zone.
- Develop a streamlined tax credit documentation process for smaller size businesses.

The white paper and agendas are available at Assembly Committee on Jobs web link that is available through [www.assembly.ca.gov](http://www.assembly.ca.gov)

## **V. Conclusion**

For more information on small business issues, please contact the Assembly Committee on Jobs, Economic Development, and the Economy. The Committee Office is located in the Legislative Office Building at 1020 N Street, Room 369 in Sacramento, California.

Other reports, fact sheets, and information may be found at the Committee's Web site, which is located under the name, Assembly Committee on Jobs, Economic Development, and the Economy, at: <http://www.assembly.ca.gov/acs/acsframeset8text.asp> .