

Date of Hearing: January 5, 2009

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE
ECONOMY

V. Manuel Perez, Chair

AB 978 (V. Manuel Perez) – As Amended: May 7, 2009

SUBJECT: Internet-based one-stop permitting

SUMMARY: Requires the State Chief Information Officer (CIO), in collaboration with other relevant agencies, to develop an online master application for businesses to file for state permits and licenses. Specifically, this bill:

- 1) Makes several findings and declarations regarding the importance of small businesses and the unique burdens they face during these difficult economic times including, but not limited to:
 - a) Declares that California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's \$1.8 trillion economy;
 - b) Finds regulatory burdens and costs continue to be a major concern for small businesses;
 - c) Finds that while the specific financial impact of state regulations on small businesses is unknown, state agencies are required to consider the costs of adopting regulations on the California economy, in general, and on small businesses; and
 - d) Finds that given these difficult economic times for small businesses, it is fair and appropriate to expend resources to reduce the cost of obtaining state licenses and permits by developing an online master application.
- 2) Requires the CIO to develop an online master application for businesses to file for state permits and licenses. In undertaking this work, the CIO is directed to:
 - a) Establish the requirements for the initiation of the project;
 - b) Define the resource requirements and proposed technical solution that is in compliance with statewide strategies, policies and procedures; and
 - c) Consult with state agencies during the initial project planning to ensure that project proposals are based on well-defined programmatic needs, clearly identify programmatic benefits, and consider feasible alternatives to address the identified needs of businesses that apply for multiple state licenses and permits over a period of time.
- 3) Requires that the Secretary of State and the Secretary of Consumer Services work with the CIO to ensure that boards and commissions have the appropriate technical assistance to use and maintain an online application system.
- 4) Authorizes the CIO to delegate the development of the actual application to an appropriate agency.

EXISTING LAW established the Office of the State CIO in August 2007 with statutory authority over strategic vision and planning, enterprise architecture, information technology policy, and project approval and oversight.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Purpose: According to the author, small business owners face many challenges when they want to start or expand a business in California. They must navigate through many different agencies to obtain permits and licenses. The process is lengthy and is not conducive to a positive business climate.

According to the author, licensing and regulatory burdens continue to be a major concern for small businesses. In a recent survey by Small Business California, 85% of small businesses felt the state was heading in the wrong direction. Regulations placed among the top five issues identified by small businesses as needing to be immediately addressed by elected officials in Sacramento. Sixty-one percent of small business respondents ranked regulations as either their top priority or a high priority for state action.

The author states that given the current deficit budget environment, the state must, at a minimum find ways to control the rising costs of regulatory compliance. This bill is intended to provide a cost effective and streamlined licensing and permitting process, thus reducing the cost of doing business in California.

- 2) California small business: California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's \$1.8 trillion economy. Businesses with fewer than 100 employees comprise more than 99% of all businesses, and are responsible for employing more than 57% of all workers in the state.

As an example, small- and medium-sized businesses are crucial to the state's international competitiveness and are an important means for dispersing the positive economic impacts of trade within the California economy. Of the over 52,000 companies that exported goods from California in 2006, 95% were small- and medium-sized enterprises (SME) with fewer than 500 employees. These SMEs generated nearly half (44%) of California's exports in 2006. Nationally, SMEs generated only 29% of total exports.

Historically, small businesses have functioned as economic engines, especially in challenging economic times. During the nation's economic downturn from 1999 to 2003, microenterprises (businesses with less than five employees) created 318,183 new jobs or 77% of all employment growth, while larger businesses with more than 50 employees lost over 444,000 jobs. From 2000 to 2001, microenterprises created 62,731 jobs in the state, accounting for nearly 64% of all new employment growth. Unfortunately during the current recession, small business have been especially hard hit with small business bankruptcies up 81% for the 12 months ending September 2009, as compared to the same period in the previous year. Nationally, bankruptcy filings were up 44%, according to Equifax Inc.

Because of their importance in the state economy, small business issues have been a particular focus of the Assembly Committee on Jobs, Economic Development and the

Economy (JEDE) for the past several years. In March 2009, JEDE produced a state economic recovery strategy that included several key recommendations on the needs of small business, including helping small businesses meet their short term capital needs.

- 3) Small business studies: Beginning in March 2009 and through the summer, the Assembly Committee on Jobs, Economic Development and the Economy held several hearings specifically to hear from small businesses and manufacturing about their economic recovery needs. During these hearings small business prioritized two areas: increasing access to capital and reducing the costs associated with doing business in California, including costs related to business permits and licenses.

The cost of compliance with regulations has also been the subject several of peer reviewed studies at the federal and state levels. For the last 10 years, the federal Small Business Administration has conducted a study that analyzes the cost of federal government regulations on different sizes of 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.

In September 2009, Governor Schwarzenegger released the state's first assessment on the cost of state regulations on business. The study was requested by Assemblymember Juan Arambula in AB 2330 Statutes of 2006. Of note was the reports estimated total cost of regulations to the State of California, \$493 billion. Since small businesses constitute 99.2 % of all employer businesses in California and all of non-employer business, the regulatory cost, according to the report, is shouldered substantially by small business (averaging \$134,123.00 per small business in 2007).

How small business gain access to capital was the topic of another study, published in April 2009 by Bornstein and Song. The study found that more than 1.5 million Californians are now in immediate risk of losing their jobs, and more than 2.1 million California small business jobs may be lost in the second wave of foreclosures which began in 2009 and will likely see through 2012. A Toxic Mortgage is an Adjustable Rate Mortgage, Alt-A or a Sub prime loan. Unfortunately, 51.8 percent of California small business owners used toxic mortgages to fund their business expenses. California Hispanic small business owners were the hardest hit, with a toxic mortgage usage rate of 52.6%. This exceeds the national average of 31.9 percent by more than 20% points.

- 4) Related legislation: Below is a list of bills relating to streamlining the permitting and licensing process.
 - a) AB 485 (Arambula): This bill would have created a Master Business License Center within the State and Consumer Services Agency to receive and process all state licensing applications. The Center would have had responsibility to coordinate review and approve the application by all relevant regulatory agencies and a master license would have subsequently been issued to the applicant business. Status: Held in Senate Committee on transportation and Housing.
 - b) AB 2098 (Liu): 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.

- c) AB 2330 (Arambula): This bill requires the Office of the Small Business Advocate to commission a study on the cost 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 report 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
- d) SB 1436 (Figueroa): 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. The bill 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% small business participation goal. Status: Signed by the Governor, Chapter 234, Statutes of 2006.

REGISTERED SUPPORT / OPPOSITION:

Support

Assembly Committee on Jobs, Economic Development, and the Economy (Sponsor)

Opposition

None received

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