

Date of Hearing: January 13, 2016

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Eduardo Garcia, Chair

AB 1348 (Irwin) – As Amended March 26, 2015

SUBJECT: Governor's Office of Business and Economic Development

SUMMARY: Expands the authorities of the Governor's Office of Business and Economic Development (GO-Biz) to include the establishment of a federal grant administrator position. More specially, the bill:

- 1) Authorizes GO-Biz to establish the position of a federal grant administrator (Administrator), who will serve as a single point-of-contact for information on federal grants related to business development, private sector investment, economic growth, and local government. The Administrator is directed to coordinate state activities in a manner that maximizes federal grant opportunities within the state.
- 2) Specifies that the Administrator may, among other things:
 - a) Establish a statewide network of individuals who serve as a point-of-contact for federal grant opportunities in their specific state agencies, departments, local governments, institutions of higher education, and foundations.
 - b) Provide in-person and online training for individuals who serve as point-of-contact for the purpose of improving the pursuit of federal grant opportunities;
 - c) Identify employees within state government with expertise in federal grant management and knowledge of state government structure and responsibilities.
- 3) Authorizes the Administrator, beginning January 1, 2017, and annually thereafter, to post on the GO-Biz website a report that tracks federal grant funding to California that includes, at a minimum, all the following performance metrics:
 - a) Number of federal grants awarded to the state;
 - b) Number of completed applications;
 - c) Total dollars received by the state;
 - d) Total dollars received by the state by schools and local governments;
 - e) Number of training sessions hosted by the Administrator and the attendance at those events;
 - f) The extent to which individuals in the statewide network who serve as a point-of-contact have met and coordinated efforts.
- 4) Requires GO-Biz to maintain information on its website relating to federal grant information, including but not limited to, relevant information from the federal governments, www.grants.gov, or a successor internet website operated by the federal government, subgrants, local grants, and foundation grants.

EXISTING LAW:

- 1) Requires the Governor's Office of Planning and Research to:
 - a) Serve as the "State Single Point of Contact" for coordinating state and local review of applications for federal grants or loans under select state programs, pursuant to Presidential Executive Order 12372. In this capacity, the State Clearinghouse coordinates state and local reviews of federal financial assistance applications, federally required state plans, direct federal development activities, and federal environmental documents.
 - b) Requires the Governor's Office of Planning and Research to coordinate the development of policies and criteria to ensure the federal grants-in-aid administered or directly expended by state government advance statewide environmental goals and objectives.
- 2) Requires GO-Biz to serve as the lead entity for economic strategy and the marketing of California on issues related to business development, private sector investment, and economic growth. In this capacity, GO-Biz is authorized to coordinate the development of policies and criteria to ensure that federal grants administered or directly expended by state government advance statewide economic goals and objectives. GO-Biz is also authorized to work in partnership with federal public institutions to further its mission.
- 3) Establishes the Federal Trust Fund within the State Treasury in which all money received by the state from the federal government as to be deposited, as specified. The expenditure of moneys within the Federal Trust Fund are under the direction of the related state agency, pursuant to the any conditions the Director of Finance may prescribe. Moneys in the Federal Trust Fund are appropriated without regard to the fiscal year.
- 4) Requires the State Controller and all state agencies receiving money from the federal government to keep an accurate account of those moneys.

FISCAL EFFECT: Unknown

POLICY ISSUE FRAME:

Federal funding in the area of grants has more than doubled since the 1980s. The challenges in accessing and managing these funds is inspiring some states to take a new look at how they identify, apply, and oversee federal grants. Some states are creating one-stop shops for coordinating state activities and supporting applications from local governments and the private sector. Through the activities of these Federal Grants Offices, the states believe they are able to develop deep intergovernmental relationships, which result in more competitive applications, more responsive program delivery systems, and are better able meet federal governments compliance mandates.

AB 1348 proposes an initial step toward California taking a more proactive approach to federal grants by establishing the position of a Federal Grants Administrator within GO-Biz. The analysis includes background on the Federal grant Offices, California's current tracking of federal funding, and an extended summary of GO-Biz current activities that support the state in obtaining federal grants. Amendments are discussed in Comment #7.

COMMENTS:

- 1) **Author's Purpose:** According to the author, "AB 1348 would provide the coordinating functions necessary to manage and maximize federal grants opportunities for the state and local governments in California. As the most populous state in the country with the largest economy, it should be a priority to ensure that we are getting our share of the \$550 billion in federal grant dollars that are spent every year. The grant dollars California already receives represents roughly one-third of our state budget. Even small improvements in the cumbersome process of identifying, tracking, applying and competing, and spending federal grant dollars can mean large returns for Californians.

By establishing a point-of-contact network for federal grant funding in state agencies and departments, local government, universities, and foundations there will be an increase in applications and awarded grants that benefit California. This model has worked in other states and California's economy warrants a coordinating entity that allows it to compete strongly for federal tax dollars."

- 2) **State Grant Offices:** Grants and instituting special intergovernmental relationships are becoming an increasing part of the federal government's process for advancing important new federal policies. According to the federal Office of Management and Budget, federal outlays for grants to state and local governments increased from \$91 billion in 1980 (\$224 billion in constant dollars) to approximately \$546 billion in the 2013 federal fiscal year.

While historically, states have utilized their budget and fiscal offices to track and manage federal funds, a growing number of states are examining how to take a more proactive approach to this shift in federal program delivery. One model being considered is the establishment of a Federal Grant Offices, according to the testimony from the National Conference of State Legislatures (NCSL) before a March 2015 hearing of the Assembly Committee on Jobs, Economic Development, and the Economy (JEDE).

In addition to maximizing the state's federal grant opportunities, these offices are designed to:

- Provide a means to instill better oversight and management practices for state staff;
- Develop a dynamic network of grant professionals within the public and private sectors;
- Leverage government and nonprofits with a one-stop location for finding information on grant opportunities;
- Provide training to state department staff, as well as other government and nonprofit grant professionals;
- Serve as a key constituent referral point for state legislative and U.S. Congressional offices; and
- Review requests for letters of support from state agencies, other government entities, and the private sector;

According to research presented at the JEDE hearing, Arizona, Massachusetts, Maryland, Nevada, and Rhode Island have Federal Grant Offices and a range of other states are considering their adoption. For state's wanting to establish centralized grant offices, it is recommended that they begin by including three core components: a designated federal point of contact for the state; an annual report

to track federal funds; and a website to share critical information. AB 1348 has been drafted to help California make these first critical steps.

- 3) **California Grant Funding:** On a per capita basis, California ranks in the middle (24th) with \$1,719 per capita as compared to the national average of \$1,625. **Chart 1** displays federal grant spending for selected states, including California.

Chart 1 - FY 2014 Per Capita Federal Spending on Selected Grants						
Rank	State	Amount Per Capita		Rank	State	Amount Per Capita
1	District of Columbia	\$4,343		--	U.S. Average	\$1,625
4	New York	\$2,666		35	Arizona	\$1,513
8	Mississippi	\$2,157		36	Texas	\$1,509
11	Maine	\$1,852		45	Washington	\$1,233
18	Oregon	\$1,790		47	Florida	\$1,184
24	California	\$1,719		51	Nevada	\$1,069

Source: NCSL and the Federal Funds Information for States (February 28, 2014)

- 4) **The Governor's Office of Business and Economic Development:** In April 2010, the Governor's Office of Economic Development was established to provide a one-stop-shop for serving the needs of businesses and economic developers. While initially established through Executive Order S-01-10, the office was later codified and renamed as GO-Biz. [AB 29 (John A. Pérez), Chapter 475, Statutes of 2010] In 2014, GO-Biz assisted over 7,500 companies. This number includes assistance provided by the six GO-Biz service units: California Business Investment Services, Permit Assistance, the Office of the Small Business Advocate, International Affairs and Business Development, the California Competes Tax Credit Program, and the Innovation and Entrepreneurship Program.

Among other programs, GO-Biz provides permit and other business assistance for new and expanding businesses, as well as administering the California Innovation Hub Program and the state international trade investment program. GO-Biz also oversees the Office of the Small Business Advocate, who advocates for and provides key information to small businesses.

The Governor's 2012 reorganization plan (GRP2), further aligned the state's economic development-related administrative structure. Key changes included dismantling of the Business, Transportation and Housing Agency (BTH) and the shifting of a number of programs and services to GO-Biz including:

- The Small Business Loan Guarantee Program;
- The California Travel and Tourism Commission;
- The California Film Commission;
- The Film California First Program; and

- The California Infrastructure and Economic Development Bank (I-Bank).

In 2013, the Governor signed legislation to establish three new programs at GO-Biz and expand existing program authority in two other areas including the Made in California Program, the California Competes Tax Credit, the Small Business Finance Center, the Green Infrastructure Bank and the codification of the Innovation Hub Program. Each of these programs are described under Comment 8.

- 5) **GO-Biz' Current Federal Grant Activities:** According to GO-Biz, the Office already engages in a range of federal grant activities through several of its organizational units and programs. GO-Biz learns about federal programs through its own research and engagement with key stakeholders including cities, counties, and economic developers.

The Business Investment Services unit the most involved in staying up-to-date on federal incentive and business assistance programs. This information is used by the Business Services Unit in preparing client letters that outline the federal, state, and local resources available to meet the client's individual needs. GO-Biz also issues project support letters for economic development-related grant applications. According to GO-Biz, they do not pick winners and losers when helping federal grant applicants, which means that on occasion, GO-Biz provides support letters to multiple applicants applying for the same grant. While support letters are provided by whichever GO-Biz organizational unit that is most related, the Innovation and Entrepreneurship unit has been especially busy given the scale of new federal investments in innovation and new technology.

Committee staff requested and GO-Biz provided examples of federal competitive grants on which they have previously engaged. A selection of those programs, including a description of GO-Biz' participation, is provided below.

- ***Federal Aviation Administration*** - Drone Test Site and Center of Excellence competitions. Role: Held a Drone summit, acted as coalition builders and conveners, drafted support letter for Governor's signature;
- ***U.S. Department of Defense/Department of Energy*** - NNMI (National Network of Manufacturing Innovation Institutes). Role: GO-Biz served as a coalition builder, resource agency convener, and sent letter of support;
- ***U.S. Department of Energy*** - i6 Grants. Role: GO-Biz sent letters of support;
- ***U.S. Department of Commerce*** - IMCP (Invest in Manufacturing Communities Partnerships). Role: GO-Biz sent letters of support;
- ***U.S. Department of Defense*** - Office of Economic Adjustment Grants. Role: GO-Biz served an advisory role, a coalition builder, and sent letter of support;
- ***NIST (National Institute of Standards and Technology)***. Role: GO-Biz sent letters of support; and
- ***Small Business Administration*** - Federal and State Technology (FAST) Partnership Program. Role: GO-Biz sent letters of support.

In addition to business clients, GO-Biz reports that it serves a range of clients on issues relating to federal programs including service providers and other government jurisdictions. In some cases where the federal grant directly relates to GO-Biz' mission, the Office supports the work of another state agency. As an example, GO-Biz partnered with the California Community College Chancellor's Office on its preparation of the federal State Trade and Export Promotion application. GO-Biz both wrote entire sections and helped to edit the overall application.

As the state's leading economic development entity, GO-Biz also reports that it often engages with federal government program administrators, as well as California recipients of federal funds. Below are highlights provided by GO-Biz on some of these activities. GO-Biz has previously worked with:

- The statewide network of the Small Business Development Centers, which are primarily funded through the federal Small Business Administration;
- Coalitions across California on projects related to the National Network of Manufacturing Innovation Institutes;
- Several communities and businesses trying to identify and take advantage of federally designated Foreign Trade Zones;
- The U.S. Department of Agriculture in obtaining credit enhancements for farm loans offered through the Small Business Center at the I-Bank; and
- Several communities in federally designated Empowerment Zones.

In addition to all the activities discussed above, GO-Biz also has agency-level responsibility for ensuring that \$84 million in federal Small Business Jobs Act funds are properly administered through the I-Bank Board.

- 6) **California's Current Tracking of Federal Funds:** The state currently tracks the receipt and use of federal funds in a number of ways, none of which is particularly transparent to the public. Among other means, federal funds are required (pursuant to the State Administrative Manual) to be deposited in the Federal Trust Fund within the State Treasury, unless the receiving state department has specific statutory authority to hold its federal funds elsewhere. State agencies that anticipate the receipt of federal funds complete a State Controller's Office form in order to establish an account within the Federal Trust Fund. Once established, the federal funds can be tracked through initial receipt to final disbursement.

The State Controller also receives and reports annually on city and county financial transactions, including revenues from federal sources. All this information is available online, however, program descriptions may need to be added in order to make it more user friendly. **Chart 2**, on the following page, provides a sample of the type of information currently available through the State Controller's website.

Chart 2 - Selected Federal Revenues 2014

City	Community Development Block Grant Functional Revenues	Total Functional Revenues Intergovernmental - Federal	City	Community Development Block Grant Functional Revenues	Total Functional Revenues Intergovernmental - Federal
Alameda	0	\$2,170,944	Bell Gardens	646,531	\$1,009,954
Alhambra	\$112,660	\$1,492,073	Blythe	314,320	\$706,011
Anaheim	\$4,118,736	\$87,121,900	Brawley	0	\$323,021
Bakersfield	\$3,213,675	\$56,147,404	Los Angeles	\$41,976,501	\$394,850,757
Baldwin Park	\$1,350,717	\$6,308,056	Thousand Oaks	\$472,101	\$12,511,262

Source: State Controller's Office, Cities Raw Data

Federal Trust Fund moneys are also reflected in the Governor's Proposed Budget under "Reconciliation with Appropriations" and are displayed within the relevant department's budget. Existing law requires that the Budget Bill provide for the specific appropriation of federal funds received by the state and deposited in the State Treasury. Modification to the Legislature's current budget review and adoption process could be made that would make this information more accessible. One possible method would be to ask state departments to present on federal funds as part of their budget review by the Legislature, including posting information on their website. Alternatively, the Legislative Analyst Office could be asked to annually prepare a chart on federal funds.

As AB 1348 moves through the legislative process, the author may wish to add language that more clearly indicates existing federal grants data sources and replaces the requirement for an annual report to a grants web-portal.

- 7) **Changes in Federal Grant Management:** The increase in federal grants has come with growing concerns by the federal General Accounting Office (GAO) that more oversight and controls need to be added to ensure federal funds are being spent appropriately and result in the intended outcomes. In 2014, the federal government began a process of implementing a series of GAO recommendations including actions that would increase the transparency of grant spending; require deeper collaborations among intergovernmental participants and nonprofits; strengthen internal controls; and improve the single audit process. Implementation of these recommendations will require better training and sharing of best practices among federal grant recipients.

AB 1348 proposes to have the Federal Grants Administrator establish and support the professional development and community out-reach efforts of the statewide network of individuals who serve as a point-of-contact for federal grant opportunities. Given the already high degree of oversight required to oversee federal funds and the potential new reforms, taking a comprehensive approach to upgrading California may necessitate this bill.

- 8) **Author's Amendments:** Staff understands that the author will be presenting amendments that shift the federal grant center to the Governor's Office of Planning and Research. This is consistent with other duties of OPR, including its role in reviewing and tracking federal grants.
- 9) **Related Legislation:** In addition the 2012 reorganization, which added a number of new programs (discussed above) and authorities under GO-Biz' administrative oversight, the Governor signed other legislation to expand GO-Biz' activities. Below is a list of related legislation from current and past sessions.
- a) ***AB 93 (Assembly Committee on Budget) California Competes Tax Credit and State Sales and Use Tax Exemption****: This bill institutes three new tax programs, including a California Competes tax credit for attracting and retaining major employers; a Sales and Use Tax exemption for manufacturing and bio-tech equipment and similar purchases; 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.
 - b) ***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.
 - c) ***AB 1247 (Medina and Bocanegra) Small Business Finance Center***: This bill establishes the California Small Business Finance Center at the I-Bank, within the Governor's Office and Economic Development, 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.
 - d) ***SB 12 (Corbett) "Made in California" Labeling***: This bill establishes the "Made in California Program" within the Governor's Office of Business and Economic Development for the purpose of encouraging consumer product awareness and to foster the purchases of products manufactured in California. In order to qualify, the product must meet the state standard for being "Made in the U.S." and have at least 61% California components. Status: Signed by the Governor, Chapter 541, Statutes of 2013.
 - e) ***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: Signed by the Governor, Chapter 367, Statutes of 2014.

REGISTERED SUPPORT / OPPOSITION:

Support

None Received

Opposition

None Received

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