

Date of Hearing: April 23, 2019

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sabrina Cervantes, Chair

AB 1577 (Burke) – As Amended April 10, 2019

SUBJECT: Microenterprise development: local partnerships

POLICY FRAME: Small businesses play an essential role within the California economy, contributing the most net new jobs, offering an alternative to un- and underemployment, and helping to disperse the financial advantages of the state's globally connected economy. Business ownership among minorities and especially women of color has also demonstrated to be an effective means toward upward mobility and economic security.

AB 1577 requires local public entities to seek advice from microenterprise development providers when developing local partnerships to address the workforce needs of microenterprises. The analysis includes information on the California small business economy, state rulemaking practices, and studies on the cost of regulations to small businesses. Suggested amendments are included in Comment 5.

SUMMARY: AB 1577 requires local public agencies, when promoting local workforce partnerships, to engage, to the extent feasible, microenterprise development providers for input on effective systems to support and effectively partner with microenterprises. In addition, this bill makes findings and declarations that state:

- 1) Microenterprises play a vital role in the prosperity of our state, representing over 90 percent of all business firms in the state.
- 2) Microenterprise development providers are essential to expanding prosperity equitably by serving women, minorities, and low- or medium-income individuals and assisting those individuals in building their own proprietary businesses.
- 3) Social enterprises further expand equitable prosperity by hiring vulnerable and hard-to-employ individuals in businesses focused on a social mission that often strive to bring self-sufficiency to these individuals through stable employment and the teaching of life skills.
- 4) Studies examining the impact of social enterprises highlight the positive gains to employees, noting, specifically, that employment among these populations increased from 18% to 51%, wage and salary income increased by 268%, and income from government benefits decreased from 71% to 24%.
- 5) Social enterprises foster economic activity by providing incomes to individuals who otherwise may not be able to find gainful employment; for every \$1 spent by a social enterprise, a \$2.23 return on investment for society was realized.

EXISTING LAW

- 1) Defines microenterprise as a sole proprietorship, partnership, limited liability company, or corporation that meets both of the following requirements:
 - a) Has five or fewer employees, including the owner, who may be part time or full time.

- b) Generally lacks sufficient access to loans, equity, or other financial capital.
- 2) Defines a microenterprise development provider as a nonprofit organization or public agency that provides self-employment training, technical assistance, and access to microloans to individuals seeking to become self-employed or to a microenterprise seeking to expand its current business.
 - 3) Encourages every city, county, and city and county to access microenterprise development in order to create new jobs and income opportunities for individuals of low and moderate income. In developing local economic strategies, municipal governments are encouraged to include microenterprise development. California communities and the public agencies that serve them, such as workforce investment boards, community colleges, and local economic development agencies, are encouraged to promote local partnerships that invest in microenterprise development.

FISCAL EFFECT: None

COMMENTS & CONTEXT:

- 1) **Defining Microenterprises:** There are varying definitions of microenterprise. One of the most common definitions is a business with fewer than five employees, including sole proprietorships. Many microenterprises start as part-time or home-based businesses. Common types of microenterprises include engineering, computer system design, housekeeping, construction, landscaping, and personnel services.

An Aspen Institute report estimates there are over 10 million microentrepreneurs in the U.S., offering services ranging from car repair to software design. California benefits from microenterprise on three different levels. First, microenterprise improves and stabilizes California's overall economy. Second, microenterprise creates jobs and supports local and neighborhood economic development objectives. Third, microenterprise creates wealth, thus alleviating poverty within lower income households.

- 2) **The Role of Small Businesses within the California Economy:** California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's \$2.7 trillion economy. Two separate studies, one by the U.S. Census Bureau and another by the Kaufman Foundation, found that net job growth was strongest among businesses with less than 20 employees. Among other advantages, small businesses are crucial in the state's international competitiveness and are an important means for dispersing the positive economic impacts of trade within the California economy.

- In 2016 (most recent data), of the 4.2 million establishments in California, there were 3.2 million **nonemployer establishments** as compared to 922,000 employer establishments.
- The top three industry sectors with the largest number of nonemployer sole proprietorships included professional, scientific, and technical services (507,000 establishments); transportation and warehousing (297,000); and real estate and rentals (271,000).
- Total establishments revenues for nonemployer sole proprietorships, across all industry sectors, were \$113 billion in receipts in 2016.

As these non-employer businesses grow, they continue to serve as an important component of California's dynamic economy.

Excluding sole proprietorships, businesses with less than 20 employees comprise over 88.3% of all businesses and employ approximately 18.2% of all workers. Businesses with less than 100 employees represent 97.3% of all businesses and employ 35.8% of the workforce. These non-employer and small employer firms create jobs, generate taxes, support important industry sectors, and revitalize communities. Since the recession, these businesses have become increasingly important because they are more flexible and well-suited to meet niche foreign and domestic market needs.

However, the small size of microenterprises and other small businesses also result in certain market challenges, including having difficulty in meeting the procedural requirements of the state's complex regulatory structure and the traditional credit and collateral requirements of mainstream financial institutions. Specialized technical assistance, access to credit enhancements, and targeting of state procurement activities help many small businesses overcome or at least minimize these difficulties.

- 3) **New Forms of Business:** Demographic and economic shifts are giving rise to new forms of business development and new types of working relationships between owners, employees, contractors, and other businesses. AB 1577 includes provisions related to social enterprises, which is a new form of both a microenterprise and a microenterprise development provider. The following is some preliminary research on this emerging form of "business."

Among other models, the social enterprise model combines entrepreneurial activity with a social purpose. Because they prioritize social impact over the need to maximize profit for owners or shareholders, a growing number of public entities are looking into how the model could be used in their communities to tackle what had previously been considered intractable problems.

To date, much of the work has been at the pilot level, but outcomes seem to be promising. One study by Mathematica, a U.S. based research firm, looked at the outcomes from seven social enterprise programs assisting 282 workers. As part of the same study, Mathematica also undertook a comparative analysis of workforce outcomes for 154 social enterprise workers and 37 eligible workers who were not hired at a social enterprise. According to the report, the results suggest that "social enterprises may help workers gain employment and move toward economic self-sufficiency and life stability; however, the impact-study results are inconclusive, in part because of the small samples."

Another recent study by Social Ventures in Australia found that social enterprises have demonstrated that they can create jobs for people excluded from the mainstream workforce, particularly the long-term unemployed, and showed that this equity outcome is also efficient, as government investment in the creation of businesses is returned via taxation revenue and savings in social security expenditure. These findings are similar to the Mathematica study, which also found that the percentage of total income from government transfers decreased from 71% to 24% and that total monthly income for the workers increased by 91%.

The European Union regularly measures the economic impact of this evolving area of businesses' development and reports that the "social economy" employs over 11 million people in the EU, accounting for 6% of total employment.

- 4) **The 2012 Survey of Business Owners:** In August 2015, the U.S. Department of Census published initial data from the 2012 Survey of Business Owners. The last survey was made in 2007. While the data significantly trails real-time, it is the most comprehensive source for tracking trends in entrepreneurship, including ownership by women and individuals of color.

The *Gender Differences in U.S. Businesses* chart (below) shows selected data from the 2012 Survey of Small Business Owners. Among other findings, the data shows a 27.5% increase in woman-owned businesses between 2007 and 2012, as compared to a 7.9% increase in businesses owned by men and a -45.8% decrease in firms owned equally by men and women. Woman-owned businesses also experienced the greatest increases in the number of people they employed and in wages paid.

| Gender Differences in U.S. Businesses: Percent Change Between 2007 and 2012 | | | |
|---|---|---|---|
| | Percent Change 2007-2012, Woman-Owned Firms | Percent Change 2007-2012, Man-and-Woman-Owned Firms | Percent Change 2007-2012, Man-Owned Firms |
| U.S. Firms | 27.5% | -45.8% | 7.9% |
| Receipts from all firms (employer and nonemployer) | 35.1% | 6.7% | 33.8% |
| Employer Firms | 15.7% | -25.8% | 5.3% |
| Receipts from Employer Firms | 35.4% | 13.2% | 34.9% |
| Employment | 19.4% | -11.9% | 11.5% |
| Payroll | 35.3% | -0.9% | 25.8% |

Source: National Women's Business Council

States with the highest percentage of woman-owned firms included the District of Columbia, Georgia, Maryland, New Mexico, and Florida. Delaware, Alaska, North Dakota, Maine, and New Jersey were the states where woman-owned firms collected the highest amount of receipts.

Women entrepreneurs, according to the Ewing Marion Kauffman Foundation, have unique skill sets, which set them apart from other business owners and set them up for success.

Among other advantages, the Kauffman Foundation states that women entrepreneurs have a more nuanced understanding of a business' risk/reward profile. Women are more comfortable with financial risks but more sensitive about risks that may seem foolhardy. The Kauffman Foundation also believes that there is a correlation between a rise in women entrepreneurs and increased business returns and payout ratios.

In California, business ownership by women was up 13.7%, which was the highest among states with the largest number of woman-owned businesses. In Texas, woman-owned businesses were up 8.7%; Florida, 8.18%; New York, 7.3%; and Illinois, 4.23%. California also had the highest number of Hispanic and Asian American woman-owned firms. For businesses owned by Black women, Georgia had the largest number of firms, and California had the fifth largest number.

| Comparison of Business Growth by Race, Ethnicity, and Veterans | |
|--|---|
| Business Ownership | Percent Change 2007-2012, Number of All Firms |
| Asian American Women | 44.3% |
| Asian American Men | 25.7% |
| Black Women | 67.5% |
| Black Men | 18.8% |
| Hispanic Women | 87.3% |
| Hispanic Men | 39.3% |
| White Women | 10.1% |
| Veteran Women | 29.6% |
| Veteran Men | 7.7% |

Source: 2012 Survey of Business Owners

The *Comparison of Business Growth by Race, Ethnicity, and Veterans* chart shows additional information from the 2012 Survey of Business Owners relative to race and ethnicity. The largest percentage changes in business ownership were by Hispanic women, where the number of firms grew by 87.3% between 2007 and 2012. As a comparison, male Hispanic-owned firms grew by 39.3%.

- 5) **Proposed Amendments:** Below is a list of amendments the committee members may wish to review when considering the bill.
- a) Strike “generally lacks sufficient access to loans, equity, or other financial capital” from the definition of microenterprise.
 - b) Relocate Part 4 of the Business and Professional Code to the Government Code.
- 6) **Related Legislation:** Below is a list of bills from the current and prior sessions.
- a) **AB 165 (Carter) Self-Employment Training:** This bill would have required the California Workforce Investment Board to develop guidelines for entrepreneurial training by January 1, 2011. The bill would have also added legislative intent on the importance of all Californians having access to training related to self-employment and entrepreneurship. Status: Held in the Senate Committee on Appropriations, 2009.
 - b) **AB 285 (Brown) Technical Assistance for Microenterprises:** This bill would have required the California Workforce Investment Board to develop guidelines for entrepreneurial training by January 1, 2015. The bill would have also added legislative intent on the importance of all Californians having access to training related to self-employment and entrepreneurship. Status: Vetoed by the Governor, 2013. The veto message stated: “*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.*”
 - c) **AB 415 (Chiu) Employment Social Enterprise:** This bill authorizes the California Department of Social Services to contract with employment social enterprises to provide CalFresh Employment and Training services. The bill also authorizes a county to contract with an employment social enterprise and designated intermediary to provide services to its CalFresh Employment and Training Program participants. Status: Signed by the Governor, Chapter 340, Statutes of 2017.
 - d) **AB 626 (E. Garcia) Microenterprise Home Kitchen:** This bill establishes “microenterprise home kitchens (MHKs)” as a new category of retail food facility that cities or counties would have discretion to authorize and permit to be operated by a resident in a private home, subject to specified requirements. This bill also limits MHKs to selling food directly to consumers but specifies that the sale of food through an Internet food service intermediary is considered a direct sale to consumers, and establishes requirements on these intermediaries. Status: Signed by the Governor, Chapter 470, Status of 2018.
 - e) **AB 674 (Quirk-Silva) Definition of Microenterprise:** This bill establishes definitions for microenterprise and microenterprise development providers. Status: Signed by the Governor, Chapter X, Statutes of 2014.
 - f) **AB 816 (Carter) Technical Assistance for Microenterprises:** This bill would have established a \$5 million grant program to assist microenterprise development organizations in offering capacity building services to microentrepreneurs. Status: Held in the Senate Committee on Appropriations, 2007.
 - g) **AB 1084 (Wesson) Small Businesses and Microbusinesses:** This bill establishes a subcategory of small businesses called microbusinesses and establishes a 5% small business preference for state and local agencies. The bill also allows for a non-small business to receive the preference when

subcontracting to small businesses, as specified. Status: Signed by the Governor, Chapter 882, Statutes of 2001.

- h) **AB 1209 (Yee) Technical Assistance for Microenterprises:** This bill would have established a \$5 million grant program to assist microenterprise development organizations in offering capacity building services to microentrepreneurs. Status: Held in the Senate Committee on Appropriations, 2006.
- i) **AB 2998 (Carter) Self-Employment Training:** This bill would have required the California Workforce Investment Board to develop guidelines for entrepreneurial training by January 1, 2010. The bill would have also added legislative intent on the importance of all Californians having access to training related to self-employment and entrepreneurship. Status: Held in the Senate Committee on Appropriations, 2008.
- j) **AB 2726 (Carrillo and Muratsuchi) Enhanced Local Procurement:** This bill increases the maximum value of a small business procurement preference used by a local agency when awarding a contract based on the lowest responsible bidder from 5% to 7% and sets a maximum financial value of \$150,000, as specified. In addition, the bill authorizes, effective January 1, 2019, through January 1, 2024, a specified local agency to establish a disabled veteran business preference and a social enterprise preference for use in a public contract awarded to the lowest responsible bidder. When more than one preference is applied to a bid package, the bill sets a maximum percentage value of multiple preferences at no more than 15% of the lowest responsible bidder and a maximum financial value of multiple preferences at no more than \$200,000. These provisions only apply to a public contract awarded by a local agency within Los Angeles County and the Bay Area, as specified. Status: Signed by the Governor, Chapter 654, Statutes of 2018.
- k) **SB 446 (Yee) Technical Assistance for Microenterprises:** This bill would have established a \$500,000 grant program to assist microenterprise development organizations in offering capacity building services to microentrepreneurs. Status: Held in the Senate, 2008.
- l) **SB 1219 (Hancock) Social Enterprise Preference:** This bill would have authorized a 5% employment social enterprise preference for bid packages applying for a state contract, including a contract with the California State University. This is an identical provision to the small business and microbusiness preference: a single preference which may not exceed \$50,000, or, when added to other preferences, the total value cannot exceed \$100,000. Status: Vetoed by the Governor, 2016. The veto message stated: “*SB 1219 establishes a new procurement preference for employment social enterprises. While the goal of these bills are well-intentioned, the implementation of these bills require an expensive modification to FISCAL at a time when the state must focus its resources on the project’s successful deployment.*”

REGISTERED SUPPORT / OPPOSITION:

Support

California Association for Micro Enterprise Opportunity
Small Business Majority

Opposition

None on File