

Date of Hearing: April 25, 2012

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE
ECONOMY

V. Manuel Pérez, Chair

AB 2309 (Hill) – As Amended: March 29, 2012

SUBJECT: San Mateo Innovation Center Pilot Program

SUMMARY: Authorizes, until January 1, 2016, the San Mateo County Community College District to partner with the Economic Development and Growth Enterprise (EDGE) for the purpose of establishing the San Mateo Innovation Center Pilot Program. In addition, the bill specifies that the purpose of the Pilot Program is to:

- 1) Promote business development and job creation by helping early stage business ventures acquire new ideas to either find early stage funding or to reach the point of operating stability;
- 2) Leverage the underutilized infrastructure and nascent entrepreneurship programs of the community college system to sponsor programs that encourage and reward creativity, collaboration, and innovation; and
- 3) Recruit and coordinate businesses and investors from the local community to provide funding, sponsorships, and internships.

These provisions will only become operative upon appropriation of funds expressly for the purposes of this bill, or if sufficient private funding is received, whichever comes first.

EXISTING LAW:

- 1) Establishes the Governor's Office of Business and Economic Development (GO-Biz) for the purpose of serving as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. GO-Biz also serves as the administrative oversight for the California Business Investment Service and the Office of the Small Business Advocate.
- 2) Establishes the California Community Colleges Economic and Workforce Development (EWD) Program as a primary mission of the California Community Colleges (CCC). The EWD program is administered through the CCC Chancellor's Office for the purpose of advancing California's economic growth and global competitiveness through education, training, and services that contribute to continuous work force improvement, technology, deployment, and business development. CCCs work with employers, advisory committees, and agency partners to identify, on a region-by-region basis, workforce education and training needs, including the needs of small business.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's Purpose: This bill is the author's 2012 Constituent Bill Idea Contest Winner. According to the author, "It establishes the San Mateo Innovation Center Pilot Program within the San Mateo Community College District. The goal of the bill is to promote business development and job creation in San Mateo County by bringing together academia and the private sector.

Local groups like the Economic Development Growth Enterprise, which is a part of the San Mateo Chamber of Commerce, are interested in partnering with the San Mateo Community College District on programs that will expose students to regional industries such as high-tech, bio-tech, green-tech and venture capital. The bill clarifies that the pilot program will only take effect if private funding is obtained by the San Mateo Community College District."

- 2) Challenges to California's Competitiveness: Innovation has long been the cornerstone of California's competitive edge. Innovation, by its very nature, requires constant reassessment and, very often, reinvestment of public resources to maintain and enhance a creative environment where businesses and financial partnerships can constantly evolve.

In March 2008, JEDE undertook a survey of California's business climate. Overall, JEDE found that the state's businesses experience higher costs than in many other areas of the nation, consistently ranking California in the top 10 highest cost states. However, the survey also found that even with those costs certain regions of the state remain highly competitive within the national and global marketplace.

Since the release of the 2008 survey, JEDE policy staff has continued to track California competitiveness issues and report them as part of the monthly update of the Fast Facts. As an example, the 2007 index developed by the Milken Institute and Greenstreet Partners ranked four California metro areas in the top 25 areas that are best to create and sustain innovation-based jobs: Riverside-San Bernardino (3rd), Bakersfield (17th), Vallejo-Fairfield (22nd), and Sacramento-Arden-Arcade-Roseville (25th). In the 2010 index, however, only one California location was ranked in the top 25 communities, that being Hanford-Corcoran (24th).

Relative to the attraction of venture capital, California's top position is being challenged by other states. Among the top five U.S. receivers of venture capital, California was the only state to see a decline in venture capital investment; the state went from receiving \$997 billion in 2008 to \$845 billion in 2010. The State of Washington saw the largest increase in venture capital investment, having received \$79 billion in 2008 to \$256 billion in 2010.

Another historic California strength has been its academic-based research capacity with the University of California, Caltech and Stanford consistently ranking among the top research universities for technology transfers. California also ranks first among 50 states for patents issued in 2010, when 30,089 total patents were granted. While the state's world class research universities remain an advantage, recurring cuts to the University of California system and the proliferation of new global centers of innovation will likely require new collaborations and investments.

Other indices reviewed identified additional areas that threaten California's long-term economic strength. In particular, JEDE surveys found that the state will need to make long-

term investments in infrastructure, K-12 education, and workforce development. As an example, a 2008 Business, Transportation and Housing Agency (BTH) study found that any area where the state "cannot supply high-quality workers – at the right quantity – will tend to encourage industry to outsource, offshore, or move out of state." Further, California ranks only 5th among U.S. states in science and technology according to the Milken Institutes 2010 Science and Technology Index. If the state does not regain competitiveness in these areas, California's advantages in entrepreneurship, finance, and technology will further erode.

AB 2309 proposes a pilot project to evaluate a new model for partnering with community colleges and businesses leaders for the purpose of promoting business development and job creation among early stage business ventures. It is envisioned that the model will leverage underutilized infrastructure and activate nascent entrepreneurship programs at the local community college, as well as recruit businesses and investors from the local community.

- 3) Technology Commercialization Programs: California faces competition from other countries and states. While previously the state was the clear leader in global innovation and technology, the past decade has seen other regions make significant strides that can now support technology based industries. As an example, China and Germany have both surpassed California as the leaders in equity capital for solar. Below are two examples of programs from other states designed to support a vibrant and continually innovating business sector:
 - a) *The Utah Technology Commercialization & Innovation Program*: The purpose of the Technology Commercialization & Innovation Program (TCIP) is to accelerate the commercialization of promising technologies that have strategic value for Utah. The end goal of the TCIP Program is to help drive economic development and job creation. The program is a state funded grant program initially adopted by the Utah Legislature in 1986 and focuses on accelerating the process of taking university-developed cutting-edge technologies to market.
 - b) *The Massachusetts START Program*: In March 2012, the Massachusetts Technology Development Corporation announced the launch of a \$6 million initiative to help startups commercialize technologies developed under federal Small Business Innovation Research grants. As designed, the START program will provide financial support, as well as coaching, business planning and introductions to potential investors.
- 4) The EDGE: The EDGE is an economic development and growth initiative of the San Mateo Area Chamber of Commerce (Chamber) formed in 2010 "to drive the sustained vitality of the business community located on the San Francisco Bay Area Peninsula." In January 2011 the local office of the federal Small Business Development Center (SBDC) Program co-located at the EDGE facilities. The SBDC counselors offer individual advice and guidance to business owners concerning the formation and management, financing, and marketing of new and existing businesses. Counseling is offered at no cost to qualified business owners.

Another EDGE project is the San Mateo Innovation Center, which will serve as a pilot project for what the Chamber believes is a unique approach to accelerating job growth through public-private partnerships that focus on practical education opportunities driven by local business needs. The Innovation Center model will be designed to build communities of entrepreneurs, private investors, the community college system, and local businesses that

collaborate in the nurturing, launch, and growth of new businesses. The focus of the Innovation Center will be early-stage ventures whose target customer base extends beyond the local economy to the national or global level.

The San Mateo Area Chamber of Commerce believes that the region offers a compelling location to launch a pilot program that could ultimately be extended to the state's entire community college system.

- 5) Small Business Development Centers: The federal government currently provides block grants to states to undertake small business assistance programs that facilitate international trade and development. California law, however, does not provide guidance on how and when the state will jointly participate in these programs. In some cases, California is losing out on federal dollars and, in other cases, federal dollars are being poorly leveraged.

The SBDC Program is administered by the federal Small Business Administration through six California Administrative Lead Centers (regional centers) which are located at public institutions of higher education across the state. Each of the regional centers administers its own SBDC program and provides direction and mentoring to the other SBDCs within their region. There are a total of 38 SBDCs in California.

Pursuant to federal law, each of the six regional centers is required to demonstrate that it has a match for the federal funds, with at least 50% of the match being in the form of cash. Prior to the dissolution of the Technology Trade and Commerce Agency in 2003, the state regularly provided the required cash match. Since that time, the state's contributions have been intermittent. In 2010, the state appropriated \$6 million to the SBDC programs, leveraging another \$18 million in in-kind and federal funds. While the regional centers have been successful in obtaining in-kind contributions or funding for a specific event, unrestricted cash contributions has been challenging.

The SBDCs recently reported that the \$6 million expended by the state in the 2010/11 fiscal year resulted in 7,994 jobs being created and retained, 740 business start-ups, an increase in sales of \$220 million, and \$176 million in new debt and equity capital raised by SBDC assisted businesses.

The SBDC Program is currently co-located with GO-Biz and regularly participates in business and economic development discussions with federal and state policy makers. The Governor's reorganization plan, submitted to the Little Hoover Commission on March 30, 2012 references a Small Business Center Program, which is generally understood to mean the SBDC Program.

- 6) Related legislation: Below is a list of related legislation.
 - a) AB 2506 (V. Manuel Pérez) Innovation and Job Creation Act: This bill authorizes a comprehensive set of enhancements to tax incentive programs and administrative procedures including a manufacturing sales tax exemption, increased R&D credits and secondary education donation credits for the purpose of creating jobs and supporting innovation-based businesses. Status: The bill is pending in the Assembly Committee on Business, Professions and Consumer Protection.

- b) AB 2619 (V. Manuel Pérez) Start-Up California Impact Investment Fund: This bill authorizes the I-Bank to administer the Start-Up California Impact Investment Fund Program for the purpose of providing equity financing to start-ups and other small size businesses. Status: The bill pending in the Assembly Committee on Appropriations.
- c) AB 2711 (Portantino, Arambula, Price and Salas) State Technology and Innovation Strategy: This bill would have required the Secretary of the Business, Transportation and Housing Agency to develop a comprehensive state technology and innovation strategy to guide future state expenditures and activities. Status: The bill was held under submission in the Assembly Committee on Appropriations in 2008.
- d) SB 1070 (Steinberg) Career Technical Education Pathways: This bill extends the sunset date for the Career Technical Education Pathways Initiative component of the current EWD Program. Status: The bill is pending in the Senate Committee on Appropriations.
- e) SB 1401 (Lieu) Workforce Investment Board: This bill requires the state's Workforce Investment Board to assist the Governor in the alignment of the education and workforce investment systems; and creates a California Industry Sector Initiative that will accomplish specified tasks, including aligning and leveraging state and local Workforce Investment Act funding streams. Status: The bill is pending in the Senate Committee on Labor and Industrial Relations.
- f) SB 1402 (Lieu) Economic and Workforce Development Program: This bill recasts and revises provisions of the Education Code governing the EWD Program and extends the program's sunset date from January 1, 2013, to January 1, 2018. Status: The bill is pending in the Senate Committee on Appropriations.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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