

Date of Hearing: April 9, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 285 (Brown) – As Introduced: February 11, 2013

SUBJECT: Microenterprises: economic development

SUMMARY: Requires the California Workforce Investment Board (CWIB) to make recommendations and provide technical assistance on entrepreneurial training opportunities that could be made available through local workforce investment boards (WIBs). The bill makes other related changes to the definition of microenterprise, as well as deleting requirements from the duties of the CWIB. Specifically, this bill:

- 1) Updates the definition of microenterprise and microenterprise development organizations to more accurately reflect industry practices.
- 2) Adds legislative intent relative to the importance of entrepreneurs and home-based businesses.
- 3) States that it is state policy, to the extent feasible, to provide unemployed individuals with the opportunity to learn skills needed to pursue self-employment and that self-employment is one means for providing a stable income for themselves and their families.
- 4) Requires, by January 1, 2015, the CWIB to develop guidelines and/or provide technical assistance to WIBs on how to implement entrepreneurial and self-employment training programs. The CWIB is directed to develop the guidelines in consultation with appropriate state agencies and small business-related organizations.
- 5) Recasts the requirements related to the CWIB developing guidelines for targeting resources to high-wage industry sectors.

EXISTING LAW:

- 1) Establishes the CWIB, comprised of members appointed by the Governor and the appropriate presiding officer(s) of each house of the Legislature, and specifies that the executive director of the CWIB report to the Secretary of the California Labor and Workforce Development Agency. The CWIB is responsible for assisting the state in meeting the requirements of the federal Workforce Investment Act of 1998 (WIA), as well as assisting the Governor in the development, oversight, and continuous improvement of California's workforce investment system.
- 2) Defines "microenterprise" as a sole proprietorship, partnership, or corporation with fewer than five employees, including the owner, and generally lacking access to conventional loans, equity, or other banking services.
- 3) Requires each WIB to establish at least one full service one-stop career center in the local workforce investment area. One-Stop career centers are required to include a specified group of job search related entities and provide jobseekers with integrated employment, education, training, and job search services. Employers can also be provided with access to career and labor market information, job placement assistance, and other such services as the businesses in the community may require.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's Purpose: According to the author, "currently, there are many job training programs, but limited entrepreneurial training for established businesses. AB 285 would require the state Workforce Investment Board to develop guidelines to ensure that entrepreneurial training and technical assistance are available through local workforce investment boards. The bill would amend the definition of a microenterprise to allow these firms to employ up to five employees instead of four.

There are over three million microenterprises in California that employ over four million people. Continuing the growth of California's smallest businesses is essential to solving the state's unemployment problem. The bill would require the State Workforce Investment Board to develop and distribute guidelines and technical assistance to local workforces investment boards by January 1, 2015."

- 2) Central Policy Question: This measure directs the CWIB to facilitate the establishment of self-employment training programs through local WIBs. By doing so, the bill links a currently underserved group of prospective entrepreneurs, the unemployed, with access to quality training and the entrepreneurial opportunities of the post-recession global economy.

In defining the issues related to full access to entrepreneurial training, the analysis discusses the advantages small and microbusinesses provide to the competitiveness of the California economy, the ability of local WIBs to construct effective self-employment programs, and how self-employment can help address the growing disparity between top 20% and the bottom 80% of Americans.

- 3) The role of Self-Employment within the California Economy: Business owners, with no employees make up the single largest component of the business in California, 2.8 million out of an estimated 3.5 firms in 2010. As these businesses grow, they continue to serve as an important component of California's dynamic \$1.9 trillion economy. Microenterprises, meaning businesses with less than five employees represent approximately 93% of all businesses in the state, or approximately 3.2 million of all businesses. These non-employer and small employer firms create jobs, generate taxes, and revitalize communities. Common types of microenterprises include engineering, computer system design, housekeeping, construction, landscaping, and personnel services.

These smaller size businesses function as economic engines, especially in challenging economic times. During the nation's economic downturn from 1999 to 2003, microenterprises 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. In this most recent recession the trend continued, with the number of nonemployer firms increasing from 2.6 million firms reporting \$137 billion in revenues for 2008 to 2.8 million firms reporting \$138 billion in revenues for 2010, based on federal tax returns. In the post-recession economy, these businesses are expected to become increasingly important due to their ability to be more flexible and better suited to meet niche market needs.

However, their small size also results in certain market challenges, including, but not limited to, having difficulty in meeting the traditional credit and collateral requirements of mainstream financial institutions. Specialized technical assistance, access to microloans, and collaborative marketing opportunities can help many microenterprises overcome or at least minimize these difficulties. AB 285

proposes that the CWIB assist local workforce investment boards better understand how to meet the sometimes unique needs of microenterprises.

- 4) Local workforce investment board and microenterprise development: In 2010, the U.S. Department of Labor released directives encouraging WIBs to integrate entrepreneurial training within their local workforce development strategies. This training, according to microenterprise advocates, has not been incorporated into the California WIB system in any significant way. AB 285 is designed to serve as a catalysts for the inclusion of self-employment programs within the broader WIB mission.

In implementing the intent of AB 285, WIB's already have access to in-house expertise through their mandated business and industry board representatives and many areas of the state have access to entrepreneurship training programs through microenterprise development organizations (MDO). CWIB guidance would most likely recommend using these local resources and entering into partnerships with MDOs, among others, for appropriate training and assisting the client to become connected to the broader public and private network of entrepreneur resources.

Based on a sampling of state microenterprise programs by the California Association for Microenterprise Development these programs, on average, serve approximately 165 clients a year, 76% of which are women, 45% of which are of ethnic minorities, and 61% are from low-income households.

- 5) Income Disparity: Addressing income disparity can take many forms including changes in tax and social policies. AB 285 proposes to facilitate unemployed individuals in becoming self-employed business owners, which is one strategy for reversing the growing disparity between the top 20% and the bottom 80%.

In understanding how business ownership can shift the income disparity dynamic, it may be useful to consider a 2011 Congressional Budget Office (CBO) report on after-tax incomes of American households. The CBO found that between 1979 and 2007, income for households at the higher end of the income scale rose much more rapidly than income for households in the middle and at the lower end of the income scale. Most significantly, by the end of the report period (2005 and 2007), the after-tax income received by the top 20% exceeded the after-tax income of the remaining 80%. The chart below illustrates the CBO's findings in more detail.

After-Tax Income Growth 1979 to 2007			
Income Bracket	Income Earners	Percentile	Percentage Growth
1	Top 1%	100th	275%
2	Next 20%	81 <sup>st</sup> to 99 <sup>th</sup>	65%
3	Next 60%	20 <sup>th</sup> to 80 <sup>th</sup>	40%
4	Bottom 20%	1 to 19 <sup>th</sup>	18%

Source: "Trends in the Distribution of House Income Between 1979 and 2007," Congressional Budget Office, 2011

The two primary reasons for the increase in income disparities were the uneven distribution in the sources of household income and the differing economic circumstances of those sources during the 28-year report period. Households in the higher income brackets (1 & 2) received a majority of their income through capital gains and business income, which as a share of total income increased in value, while individuals in the bottom two brackets (3 & 4) received a majority of their income from labor income and capital income, which decreased in value. With the recession, this income disparity has continued to increase, in part, because of the impact of long term unemployment on wages, a core component of labor income, and rental rates, a core component of capital income.

The findings in the report also suggest that policies that inhibit access to self-employment serve to reinforce the income disparities trend and that policies which result in greater access, especially to historically underserved populations, could begin to break the trend.

- 6) Heightened National Interest in Self-Employment: As part of the Middle Class Tax Relief and Job Creation Act of 2012 (PL112-96), the U.S. Department of Labor made \$35 million available for the development and promotion of self-employment assistance programs. Under the terms of the federal program, states are allowed to pay a self-employed benefit, instead of a regular unemployment insurance (UI) benefit. The unemployed individual can then spend their time establishing their business, rather than looking for work.

Five states (Delaware, Maine, New Jersey, New York and Oregon) are already operating self-employment programs using their existing UI benefits and other states have until June 30, 2013, to apply. California would be eligible for up to \$5.3 million. AB 152 (Yamada) is pending in Assembly Appropriations to make the statutory changes necessary for California to access this federal program.

- 7) California Workforce Investment Board: The federal Workforce Investment Act of 1998 provides funding for job training and employment investment activities and programs in which states may participate, including work incentive and employment training outreach programs.

Among its primary duties, the CWIB provides guidance to local WIBs and development of a unified, strategic plan to coordinate various education, training, and employment programs that result in an integrated workforce development system that supports economic development. This plan is required to be updated at least every 5 years in order to address the state's changing economic, demographic, and workplace needs. The CWIB has a staff of 16 authorized positions, including an executive director.

There are 49 LWIBs that plan for and oversee the workforce investment system at the local level. Each LWIB also has one or more One-Stop Centers, which provide access to career information, counseling, and funding for education, training and supportive services.

WIA funding is distributed to states based on a set formula which includes specified economic and demographic data and flows to the state through three primary programs: Adult, Youth and Dislocated Worker. California's WIA allocation from the U.S. Department of Labor has declined over the years from a high of \$630 million in 2000-01 to \$411 million in 2012-13. Federal law dictates that 85% of Adult and Youth formula funds, and 60% of Dislocated Worker formula funds, are distributed to local WIBs. Funding for the state's activities is derived from the 15% WIA discretionary funds. In 2012-13 LWIBs received \$348 million, while the state received about \$20 million in discretionary moneys.

- 8) Related legislation from previous sessions: In addition to AB 185 from this session, below is a list of related bills.
  - 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, 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 Appropriations Committee in 2009.

- b) AB 816 (Carter) Technical Assistance for Microenterprises: This bill would have established a \$5 million grant program to assist microenterprises development organizations offer capacity building services to microentrepreneurs. Status: Held in the Senate Appropriations Committee in 2007.
- c) AB 1209 (Yee) Technical Assistance for Microenterprises: This bill would have established a \$5 million grant program to assist microenterprise development organizations offer capacity building services to microentrepreneurs. Status: Held in the Senate Appropriations Committee in 2006.
- a) 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 Appropriations Committee in 2008.
- d) SB 446 (Yee) Technical Assistance for Microenterprises: This bill would have established a \$500,000 grant program to assist microenterprise development organization offer capacity building services to microentrepreneurs. Status: Held in the Senate in 2008.
- e) SB 293 (Ducheny) California Workforce Investment Act: This bill replaces the Family Economic Security Act in the California Unemployment Insurance Code with provisions that generally implement the Workforce Investment Act (WIA) of 1998 in California. Status: Signed by the Governor, Chapter 630, Statutes of 2006.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association for Micro Enterprise Opportunity (sponsor)  
Coalition of California Welfare Rights Organizations, Inc.  
Community Action Partnership of Sonoma County  
Renaissance Entrepreneurship Center

Opposition

None received

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