

Date of Hearing: April 19, 2016

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Eduardo Garcia, Chair

AB 2900 (Committee on Jobs, Economic Development, and the Economy) – As Amended April 12, 2016

**SUBJECT:** State contracting with federal small business technical assistance centers

**SUMMARY:** Establishes reporting requirements for state contracts with federal small business technical assistance centers, including information on the number and types of businesses served. Specifically, **this bill:**

- 1) Requires a state department that awards state funds to a federal small business technical assistance center to report annually on the outcomes of the those contracts, including:
  - a) The purpose of the contract and contract metrics;
  - b) The amount of state funds awarded and expended during the report year; and
  - c) Specific information about the businesses served and the outcomes from that assistance. The information reported to the Legislature is required to be provided by the federal small business technical assistance center. The information includes:
    - i) The amount of federal funds drawn down as a result of funding through the state contract.
    - ii) The number of businesses assisted.
    - iii) The industry sectors of the businesses assisted, as reported by the business.
    - iv) The city, county, and small business technical assistance center jurisdiction in which the businesses are located. If the population of the county is less than 250,000, only the name of the county is required to be reported.
    - v) The number of total employees employed by those businesses at the time those businesses were assisted based on the following categories: no employees, five or less employees, 20 or less employees, under 50 employees, under 100 employees, and under 500 employees, as reported by the business.
    - vi) The number of jobs created and retained, as reported by the business.
    - vii) Other program outcomes related to the purpose of the program and contract metrics.
- 2) Defines an "awarding department" as a department, board, agency, or authority of the state, or an officer, agent, or other authorized representative of such a state entity awarding a contract for services, including technical assistance to small businesses.
- 3) Defines a "federal small business technical assistance center" to mean a Small Business Development Center, a Women's Business Center, a Veteran Business Outreach Center, a Service Corps of Retired Executives (SCORE) center, a Hollings Manufacturing Extension Partnership center, or a Procurement Technical Assistance Center operating in California under a federal contract. Each of these federal contractors is defined in the bill.

- 4) Requires the report to the Legislature be submitted in compliance with state reporting and that a copy of the report be posted on the Internet Web site of the awarding department.
- 5) Provides, that to the extent that any provision of this bill conflicts with a federal regulation or law, the provision in this bill will be inoperable.
- 6) Authorizes a department to include these reporting requirements as part of any other annual report as an alternative to submitting a separate report. If the agency chooses to include the information within a separate report, deadline for submission may be modified for up to three months.
- 7) Sunsets these reporting requirements on January 1, 2022.

**FISCAL EFFECT:** Unknown

### **POLICY ISSUE FRAME**

The federal small business technical assistance centers are an important resource for California entrepreneurs. A growing number of state agencies are contracting with these centers to provide valuable assistance in helping small businesses become ready to compete for state contracts and comply with new state laws. This measure ensures consistent reporting across agencies and greater transparency as to which areas are the state of being provided services.

The analysis includes background on each of the federal technical assistance programs and the reporting currently available without this bill.

### **COMMENTS:**

- 1) **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 \$2.3 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.

Nonemployer firms make up the single largest component of businesses in California, 2.9 million out of an estimated 3.6 million firms in 2012, representing over \$149 billion in revenues with the highest number of businesses in the professional, scientific, and technical services industry sector. As these non-employer businesses grow, they continue to serve as an important component of California's dynamic economy. Excluding nonemployer firms, businesses with less than 20 employees comprise nearly 90% of all businesses and employ approximately 18% of all workers. These non-employer and small employer firms create jobs, generate taxes, and revitalize communities.

In hard economic times, smaller size businesses often function as economic engines. In this most recent recession the trend continued, with the number of nonemployer firms increasing from 2.6 million firms (\$137 billion in revenues) for 2008 to 2.8 million firms (\$138 billion in revenues) for 2010. In the post-recession economy, small businesses are expected to become increasingly important due to their ability to be more flexible and better suited to meet niche market needs. Their small size,

however, results in certain challenges in meeting regulatory requirements, accessing capital, competing for large-size contracts and marketing their goods and services.

- 2) **Small Business Development Center Program:** The SBDC program is sponsored by the federal Small Business Administration (SBA) and functions as a cooperative effort of the private sector, the educational community, and federal, state, and local governments. In California, SBDCs are administered through a partnership between the California State Universities at Chico, Humboldt, and Fullerton; the University of California at Merced; Long Beach City College; and Southwestern Community College, Chula Vista.

Formal management of the partnership is provided through the six Administrative Lead Centers that are designated by, and responsible to, the SBA. Each Administrative Lead Center serves a specific geographic area comprised of several SBDCs. The California SBDC network serves businesses throughout California with over 40 permanent and satellite offices.

The SBDCs facilitate the creation, expansion, and retention of businesses. Each SBDC provides one-on-one counseling, workshops, advisory services, and referrals to prospective and existing business owners. The SBDCs assist with financing, government contracting, business planning and management, marketing, international trade, energy efficiency and sustainability, disaster preparedness, and other business issues. Each Administrative Lead Center has its own resources and maintains links with other public and private small business service providers in the region, such as financial institutions, local workforce investment boards, economic development corporations, and federal, state, and local government entities.

There are also SBDCs which specialize in assisting technology-based companies with advice and training on angel and venture capital presentation preparation, funding strategies, product positioning, market launch strategies, applications for federal grants, technology transfers with research universities, intellectual property issues, and strategic partnerships.

In 2014, the California SBDC network reported that they had advised more than 60,000 clients and helped these small businesses raise over \$500 million in capital through its core small business advising and training program, as well as through its array of specialty programs.

| <b>California SBDC Performance in 2015</b> |             |                        |                |
|--|-------------|------------------------|----------------|
| <b>Impact Category</b>                     | <b>2015</b> | <b>Impact Category</b> | <b>2015</b>    |
| Counseling Hours                           | 93,412      | Capital Infusion       | \$ 633,756,877 |
| Clients Counseled                          | 16,958      | -Debt Financing        | \$ 169,480,856 |
| Extended Engagement                        | 6,453       | -Equity Financing      | \$ 464,276,020 |
| Long Term Clients                          | 5,720       | Jobs Created           | 5,464          |
| Training Events                            | 1,893       | Jobs Retained          | 2,998          |
| Attendees Trained                          | 29,935      | Change in Sales        | \$ 271,781,435 |

|                   |       |  |  |
|-------------------|-------|--|--|
| Business Startups | 1,039 |  |  |
|-------------------|-------|--|--|

Funding for the program is provided through a federal SBA population-based grant. In order to draw down these funds, each Administrative Lead Center must provide a dollar-for-dollar match. The federal government sets aside approximately \$13 million for California SBDCs annually, which represents slightly more than 11% of the national program. Since the demise of the Technology, Trade, and Commerce Agency in 2003, California has only received the full amount of eligible federal funds once.

In 2010, Speaker John A. Pérez negotiated \$6 million for the SBDCs as part of the final budget negotiations with the Governor. *[AB 1632 (Assembly Budget Committee) Chapter 731, Statutes of 2010]* In 2010-11 federal fiscal year, the for-once fully funded California SBDCs consulted with 50,000 business including 50% women, 48% minorities, and 12% veterans. In addition, the SBDCs:

- Created and retained 7,944 jobs, which was a 38% increase over the prior year;
- Assisted in 740 business startups, which was a 23% increase over the prior year;
- Helped small business clients to increase sales by \$220,000, which was a 71% increase over the prior year; and
- Helped small business clients raise \$176 million in new capital, which was a 22% increase over the prior year.

The 2014-15 and the 2015-16 Budget Acts included \$2 million in General Fund assistance for contracts with the SBDCs to assist small businesses in accessing capital. Grant agreements were awarded to 34 SBDCs in September 2014, covering activities beginning October 1, 2014 through September 30, 2015. In the first year of the program, the Capital Infusion Program resulted in \$202,645,464 in documented capital infusion, exceeding the capital infusion goal for the program by more than 50%. The program served 9,702 small business owners across the state. The chart below shows information provided by GO-Biz at the special request of the JEDE Committee.

| <b>First Year Reported Outcomes from Capital Infusion Program</b> |                         |                         |                       |
|---|-------------------------|-------------------------|-----------------------|
| <b>Regional Administrative Lead Center</b>                        | <b>Funding Received</b> | <b>Capital Infusion</b> | <b>Clients Served</b> |
| Northern CA SBDC  | \$382,124               | \$30,128,694            | 2,312                 |
| Northeastern CA SBDC  | \$192,708               | \$17,731,645            | 569                   |
| UC Merced SBDC (Central CA)                                       | \$208,795               | \$12,536,699            | 1,141                 |
| Los Angeles SBDC  | \$540,000               | \$33,933,198            | 3,147                 |
| Orange County/Inland Empire SBDC                                  | \$393,665               | \$101,257,667           | 1,003                 |
| San Diego/Imperial Valley SBDC                                    | \$198,000               | \$4,304,862             | 1,051                 |
| Pasadena City College SBDC  | \$54,708                | \$2,477,700             | 344                   |
| University of La Verne SBDC                                       | \$30,000                | \$275,000               | 135                   |
| <b>Total</b>  | <b>\$2,000,000</b>      | <b>\$202,645,465</b>    | <b>9,702</b>          |
| GO-Biz, March 2016  |                         |                         |                       |

AB 2900 would require more in-depth reporting on geographic regions being served by the program. This would allow a Member of the Legislature and the public to see whether businesses in the City of Indio or the County of Ventura were being served under the state contract.

- 3) **Women's Business Center Program:** The Women's Business Center program is sponsored by the federal SBA and was established to provide in-depth, substantive, outcome-oriented business services

to women entrepreneurs, both nascent and established businesses, including a representative number of which are socially and economically disadvantaged.

The Women’s Business Center program is administered through a regional network of 11 nonprofit organizations who are required to assist businesses in making a substantial economic impact in their communities, as measured by successful business startups, job creation and retention, and increased company revenues.

California’s network of women’s business centers include: Anew America Women’s Business Center/Anew America Community Corporation (Berkeley); Mendocino Women’s Business Center West Company (Fort Bragg); Asian Pacific Islander Small Business Program WBC/LTSC Community Development Corp. (Los Angeles); PACE Women’s Business Center/Pacific Asian Consortium Employment (Los Angeles); University Enterprises Corporation at CSUSB (Coachella Valley); California Capital Financial Development Corporation (Sacramento); Inland Empire Women’s Business Center University Enterprise Corp. at California State University, San Bernardino (San Bernardino); Renaissance Entrepreneurship Center (San Francisco); Women Business Partners Program; Mission Community Services Corp. (San Luis Obispo); Women’s Economic Ventures (Santa Barbara); and Valley Economic Development Center (Sherman Oaks).

In federal fiscal year 2014, assistance from the Women's Business Centers resulted in the creation of 63 new jobs, and the retention of 80 retained jobs in California. The Women's Business Centers assisted 80 business start-ups, and helped clients access over \$1 million in capital, which included \$67, 625 in SBA loans, \$729,400 in non-SBA loans, and \$238,240 in equity.

- 4) **The Veteran Business Outreach Center program:** The Veteran Business Outreach Center program in California is one of only four in the U.S. The Veteran Business Outreach Center program is designed to play a significant role in meeting the unique needs of veterans in starting and operating businesses. The program is funded by the federal SBA. The Veteran Business Outreach Center program provides statewide small business consulting and workshops for veteran owners of small businesses, and veterans wishing to start a small business.

According to information on its website, the Veteran Business Outreach Center program offers outreach through its network of related nonprofit veteran service centers in the California Cities of Santa Rosa, Eureka, Menlo Park, and Redding, and in Reno, Nevada. Below are 2014 outcomes for all four Veteran Business Outreach Centers.

| Activities at all Veteran Business Outreach Centers        | 1/1/2014 to 12/31/2014 |
|--|------------------------|
| (1) <i>Number of Clients Counseled</i>                     | 2,395                  |
| (a) Small Businesses Counseled                             | 1,636                  |
| (b) Large Businesses Counseled                             | 759                    |
| (2) <i>Number of Initial/Follow-up Counseling Sessions</i> | 5,433                  |
| (a) Small Business Sessions                                | 3,482                  |
| (b) Large Business Sessions                                | 1,951                  |
| (3) <i>Number of Training Events</i>                       | 201                    |
| (a) Sponsored Training Events                              | 198                    |
| (b) Non-sponsored Training Events                          | 3                      |
| (4) <i>Number of Training Event Attendees</i>              | 10672                  |
| (a) Sponsored Training Event Attendees                     | 10656                  |

|  |             |
|--|-------------|
| (b) Non-sponsored Training Event Attendees                       | 16          |
| (5) <i>Number of Awards (Fed+DoD+State)</i>                      | 13          |
| (a) Small Business Awards (Fed+DoD+State)                        | 13          |
| (b) Large Business Awards (Fed+DoD+State)                        | 0           |
| (6) <i>Dollar Value of Awards (Fed+DoD+State)</i>                | \$38,782.69 |
| (a) Small Business Dollars (Fed+DoD+State)                       | \$38,782.69 |
| (b) Large Business Dollars (Fed+DoD+State)                       | \$0.00      |
| (7) <i>Number of Prime Contract Awards (Fed+DoD+State)</i>       | 11          |
| (a) Small Business Prime Contracts (Fed+DoD+State)               | 11          |
| (b) Large Business Prime Contracts (Fed+DoD+State)               | 0           |
| (8) <i>Dollar Value of Prime Contract Awards (Fed+DoD+State)</i> | \$22,455.00 |
| (a) Small Business Prime Contract Dollars (Fed+DoD+State)        | \$22,455.00 |
| (b) Large Business Prime Contract Dollars (Fed+DoD+State)        | \$0.00      |
| (9) <i>Number of Sub-Contract Awards (Fed+DoD+State)</i>         | 2           |
| (a) Small Business Sub-Contracts (Fed+DoD+State)                 | 2           |
| (b) Large Business Sub-Contracts (Fed+DoD+State)                 | 0           |
| (10) <i>Dollar Value of Sub-Contract Awards (Fed+DoD+State)</i>  | \$16,327.69 |
| (a) Small Business Sub-Contract Dollars (Fed+DoD+State)          | \$16,327.69 |
| (b) Large Business Sub-Contract Dollars (Fed+DoD+State)          | \$0.00      |
| Source: SBA tracking system, 2014                                |             |

- 5) **The Service Corps of Retired Executives (SCORE):** The Service Corps of Retired Executives (SCORE) is managed by the SCORE Association “Counselors to America’s Small Business” and is organized as a nonprofit association comprised of over 13,000 volunteer business counselors working in 348 SCORE chapters throughout the U.S. and its territories. SCORE members are trained to serve as counselors, advisors, and mentors to aspiring entrepreneurs and business owners. Services are offered at no fee, as a community service. SCORE was formed in 1964 and nearly 10 million Americans have utilized SCORE services.

SCORE is considered a resource partner with the SBA, which administers a congressional grant that provides SCORE funding. SCORE volunteers work with the Small Business Administration and small business development centers to provide small business mentoring and training to entrepreneurs through the Small Business Administration and small business development center offices. There are 19 SCORE offices in California, as well as a range of online services.

In federal fiscal year 2014, SCORE counseled 15,698 clients and provided a range of training workshops where 37,913 small business owners attended.

- 6) **The Procurement Technical Assistance Cooperative Agreement:** The Procurement Technical Assistance Cooperative Agreement program is administered by the Department of Defense for the purpose of helping small businesses access public contracts at the federal, state, and local levels. The program provides matching funds through cooperative agreements with state and local governments and nonprofit organizations for the establishment of procurement technical assistance centers

Some procurement technical assistance centers are administered directly by state governments; others partner with universities, community colleges, local economic development corporations, or other local institutions. Some procurement technical assistance centers operate within Bureau of Indian Affairs areas and serve exclusively Native American-owned businesses. Many are affiliated in some way with small business development centers and other small business programs.

Procurement technical assistance centers are staffed with counselors experienced in government contracting and provide a wide range of services including classes and seminars, individual counseling, and easy access to bid opportunities, contract specifications, procurement histories, and other information necessary to successfully compete for government contracts.

There are 98 procurement technical assistance centers in the U.S. including all 50 states, Washington D.C., Puerto Rico, and Guam. Total funding for the program was \$63.5 million in federal fiscal year 2014 (federal and nonfederal funds combined). California 6 centers operated under contract by California Capital CDFI (Sacramento), Los Angeles Office of Small Business (Los Angeles), Monterey County Business Council (Seaside), Northern California Small Business Development Center (Arcata), Riverside Community College District (Corona), and San Diego County (San Diego). The American Indian Chamber of Commerce has a contract that serves Native Americans throughout the state.

Centers are funded based on, among other things, the service areas level of distress including having a median income at or below 80% of the statewide average, an unemployment rate 1% higher than the national average for the most recent 24 months, or serving Native American Indian reservations. Proposed new annual reporting will include: number of clients served, number of new clients; amount of counseling time; and number events the procurement technical assistance center participated in during the report year.

- 7) **Accountability and Transparency:** Public accountability of state expenditures is very important, as is having clear strategic objectives and measurable outcomes. The reporting requirements in AB 2900 represent best practices and ensures, according to the author, that the state will receive key information on the impact of state funding, including data on the number of businesses assisted, jobs created/retained, and industry sectors served.

While top level oversight remains in Washington D.C. for these small business technical assistance programs, the six SBA district directors actively participate with the SBDC Lead Centers, SCORE, the Women's Business Centers, and the Veteran Outreach Center on both program and administrative issues. The federal programs are also independently reviewed to ensure management and accounting methods are accurate.

While prior legislation proposed to codify and make the SBDC program a state program, AB 2900 takes a different approach. This bill establishes a method for tracking the state's activities through the federal small business technical assistance programs.

- 8) **Related Legislation:** Below is a list of the related bills.
- a) **AB 184 (E. Garcia) Small Business Technical Assistance Act of 2015:** This bill would have designated the Governor's Office of Business and Economic Development as the lead state entity for overseeing the state's participation and collaboration with the federal small business technical assistance programs. Status: Held on Suspense in the Assembly Committee on Appropriations, 2015.
  - b) **AB 837 (Campos) Economic Development Program Reporting:** As passed by JEDE, this bill would have required annual reporting to GO-Biz from the Small Business Development Center Leadership Council on its activities in any year that the state contributes funds. Amendments taken in the Senate deleted the content of the bill and added language relating to CalPERS with Assemblymember Wieckowski as the author. Status: Vetoed by the Governor, 2014. The veto

message reads: "This measure creates an exemption to the California Public Employees' Pension Reform Act of 2013. I am unwilling to begin chipping away at these reforms."

- c) **AB 1632 (Assembly Budget Committee) Financing and Technical Assistance Funds for Small Businesses:** This bill provided \$32.35 million in funds for small business finance and technical assistance, which leveraged \$174 million in federal and in-kind funding. The \$32.35 million was allocated as follows: \$20 million was appropriated for use within the state Small Business Loan Guarantee Program; \$6 million to provide a federal match for California SBDCs to draw-down federal dollars; \$6 million for the California Capital Access Program for loss reserve programs; and \$350,000 to the Federal Technology Program to draw-down federal dollars. Status: Signed by the Governor, Chapter 731, Statutes of 2010.
- d) **AB 2206 (Price) Small Business Development Centers:** This bill would have re-established the California Small Business Development Center Program through the auspices of the Business, Transportation, and Housing Agency. Status: Held in Assembly Committee on Appropriations, 2008.
- e) **AB 2670 (Medina) Small Business Technical Assistance Centers:** This bill would have designated the Governor's Office of Business and Economic Development as the lead state entity for overseeing the state's participation and collaboration with the federal small business technical assistance programs. Status: Held on the Suspense File in the Assembly Committee on Appropriations, 2014. As a result of this bill and AB 2717, \$2 million dollars was provided in the budget to the SBDCs for assisting small businesses access capital.
- f) **AB 2717 (Bonta) Funding for Small Business Development Centers:** This bill would have appropriated \$6 million for the purpose of assisting SBDC Administrative Lead Centers to provide the mandatory match to draw down federal funds. Status: Held on the Suspense File in the Assembly Committee on Appropriations, 2014. As a result of this bill and AB 2670, \$2 million dollars was provided in the budget to the SBDCs for assisting small businesses access capital.

#### **REGISTERED SUPPORT / OPPOSITION:**

**Support** – None Received

**Opposition** - None Received

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