

Date of Hearing: April 23, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 837 (Campos) – As Introduced: February 21, 2013

SUBJECT: Economic development programs: reporting

SUMMARY: Requires annual reporting to the Governor's Office of Business and Economic Development (GO-Biz) on Small Business Development Center (SBDC) activities in any year that the state contributes funds. Specifically, this bill:

- 1) Declares, among other things, that:
 - a) The California Small Business Development Center Program (California Program) is part of the federal Small Business Development Center Program and plays a primary role in providing technical assistance with verified outcomes to the state's small businesses.
 - b) The California Program is administered through six administrative lead centers (Lead Centers) which are designated by the federal Small Business Administration (SBA) and affiliated with one of California's three systems of higher education.
 - c) The Lead Center supports a network for over 30 small business development centers, which provide assistance to existing businesses in the areas of financing, government contracting, business planning and management, marketing, international trade, energy efficiency and sustainability, and disaster preparedness. In providing assistance, the SBDCs work in collaboration with public and private partners including local workforce development boards and community colleges.
 - d) Lead Centers are responsible for securing required one-to-one matching funds to draw down federal appropriations and are required to submit regular performance reports to SBA that document measurable and verifiable outcomes.
 - e) The California SBDC Leadership Council is comprised of the directors of the six Lead Centers and is tasked with negotiating partnerships on behalf of the California Program, leveraging operational and technical assistance for best practices across the six regions, and working with the state government to maximize the economic impact of the federal program within the state.
- 2) Requires each Lead Center to report to GO-Biz on the activities and performance goals of the California Program within their region by August 30 of the following fiscal year in which state funding is provided. This reporting requirement is a condition of the funding.
- 3) Specifies that the report shall, at a minimum, include the number of: businesses assisted, people employed at those businesses, businesses served by industry sector; jobs created; jobs retained, tax dollars generated by assisted businesses, and the total amount of federal funds allocated in the region.
- 4) Requires GO-Biz to post each Lead Center's report on its website no later than 30 days following the transmittal of the report to the Governor and Legislature.

EXISTING LAW:

- 1) Establishes GO-Biz within the Governor's Office 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 (OSBA).
- 2) Establishes the OSBA for the purpose of advocating on the behalf of small businesses. Among other duties, the Office responds to complaints from small businesses concerning the actions of state agencies and the operative effects of state laws and regulations adversely affecting those businesses.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's Purpose: According to the author, "The California Small Business Development Center program (California Program) is the only comprehensive statewide small business assistance infrastructure and delivery system with centers in nearly every region of California and, providing services to more than 50,000 small businesses annually. The California Program is part of the national SBDC program operated by the US Small Business Administration. The SBDC in each state is required to match its federal funding allocation. In nearly all states, the state government provides the required matching funds or part of the required match. California currently does not provide matching funds to this program.

This bill would formally codify the California Program, providing a state point of contact and a conduit for compiling data on the impacts of statewide SBDC activity. This bill introduces accountability standards and reporting requirements if and when state appropriations are made to support the California Program. The California Program brings \$12 million in federal funding to California. This bill establishes a structure whereby California can provide matching funds and ensure that the maximum amount of federal dollars come to California in support of our 3.5 million small businesses. This bill would require the SBDC State Chair, in any year that state appropriations are made to support the program, to submit a report to the director of GO-Biz, and to the Legislature, with detailed information on the program's activities and performance. There would be no cost to the state."

- 2) Framing the Policy Issue: This measure establishes an accountability and reporting mechanism for instances when the state provides matching funds to draw down federal dollars. Each year California leaves federal moneys on the table, which could be funding locally-based small business technical assistance centers.

In making the case for this measure, the author cites the importance of small businesses to the California economy and key reporting standards set in this measure to track the use and results of state funds. The analysis includes information on California small businesses, the SBDC program, review key transparency and accountability standards, and related legislation. Comment 7 includes amendment recommendations.

- 3) The Role of Small Business 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 \$1.9 trillion economy. Among other advantages, small businesses are crucial to the state's international

competitiveness and are an important means for dispersing the positive economic impacts of trade within the California economy. California small businesses comprised 96% of the state's 60,000 exporters in 2009, which accounted for over 44% of total exports in the state. Nationally, small businesses represented only 31.9% of total exports. These numbers include the export of only goods and not services.

4)

Business owners, with no employees make up the single largest component of businesses in California, 2.8 million out of an estimated 3.5 million 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. Businesses with 99 or less employees comprise nearly 98% of all businesses and employee approximately 38% 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, also results in certain challenges in meeting regulatory requirements, accessing capital, and marketing their goods and services. California's network of SBDCs provide small size businesses, including business start-ups, with access to quality education, one-on-one counseling, and other business development resources.

- 5) Small Business Development Center Program: The SBDC program is sponsored by the federal 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.

Formal management of the partnership is provided through a Lead Center that is designated by, and responsible to, the SBA. Each Lead Center serves a specific geographic area comprised of several SBDCs. Networked, the six centers oversee the 30+ individual SBDCs in the state.

The SBDCs facilitate the creation, expansion, and retention of businesses. Each SBDC provides one-on-one counseling, workshops, advice, 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 Lead Center has its own resources, as well as maintaining links with other public and private small business service providers, 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.

Funding for the program is provided through a federal SBA population-based grant. In order to draw down these funds, each Lead Center must provide a dollar-for-dollar match. 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, the Speaker John A. Pérez negotiated \$6 million for the SBDCs as part of the final budget negotiations with the Governor.

- 6) Accountability and Transparency: Public accountability of state expenditures is very important, as is having clear strategic objectives and measurable outcomes. In 2001, the Joint Legislative Audit Committee requested the California Bureau of State Audits to conduct a performance review of the now defunct Technology, Trade and Commerce Agency (TTCA). At the time, the state served as the Lead Center for the SBDC program under a cooperative agreement with the SBA.

The state audit reported that many of the TTCA programs, including the SBDC program, lacked key components of sound strategic planning. Recommended improvements included setting more significant performance goals that would challenge programs and selecting goals that emphasized real outcomes rather than process inputs. Unlike the issues raised with TTCA's performance, the reporting requirements in AB 837 represent best practices and ensure GO-Biz will receive key information on the impact of state funding including data on the number of businesses assisted, jobs created/retained, and state tax dollars generated from assisted businesses.

California's prior administration of the SBDC program was also the subject of a 2001 audit by the federal SBA. This audit found that the state did not have adequate service center monitoring procedures and was out of compliance with a range of federal fiscal requirements. The state failed to respond to the SBA regarding the audit findings and was eventually required to return \$800,000 to the SBA, according to research by committee staff. When TTCA was dissolved, the SBA regionalized the administration of the SBDC program in California and entered into cooperative agreements with six Lead Centers – one for each of the SBA regions in California. While top level oversight remains in Washington D.C., the six SBA district directors actively participate with the Lead Centers on both program and administrative issues. The SBDCs are also independently reviewed to ensure management and accounting methods are accurate.

Funding provided by AB 837 does not trigger any administrative oversight responsibilities on the part of the state. Funding provided will be conditioned on receiving clear and accurate reporting on program outcomes. The committee may want to also consider giving GO-Biz access to a non-confidential version of the SBDC database in order to give GO-Biz the option of monitoring the operations during the funding year.

- 7) 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, in AB 29 (John A. Pérez), Chapter 475, Statutes of 2010. In 2012, GO-Biz directly assisted 5,308 companies, resulting in the creation and/or retention of 9,050 jobs and \$1.45 billion in investments.

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 under an initial partnership with the statewide network of SBDCs. GO-Biz also oversees the Office of the Small Business Advocate, who advocates for and provides key information to small businesses. Up until January 1, 2013, the California SBDC Program was co-located at GO-Biz.

In March 2012, the Governor initiated a reorganization process to realign the state's administrative structure. Key changes include dismantling of the Business, Transportation and Housing Agency (BTH) and the shifting of a number of key 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 Infrastructure and Economic Development Bank (I-Bank).

In addition, the Governor called for the placement of the California SBDC Program within GO-Biz. Programmatic approval of the reorganization was granted in July 2012 and will become effective July 2013. Legislation is, however, also necessary to statutorily reflect the reorganization changes. AB 837 would implement one of these changes.

- 8) Technical Amendments: The Committee may wish to consider the following technical amendments:
- a) What Performance Goals? The bill contains a requirement to report on performance goals, but does not specify how those goals are to be set or by what government entity.
 - b) Clarify Deadlines: The bill requires each Lead Center report to be posted on the GO-Biz website no later than 30 days of report being transmitted to the Governor and the Legislature. The Governor, however, is never required to receive a copy of the report and it is unclear how GO-Biz would know if the Lead Center transmitted a copy to the Legislature. Perhaps it would be helpful to have the Lead Center just report to GO-Biz and have GO-Biz transmit the report to the Legislature. Posting of the report could then be 30 days following report submittal to GO-Biz.
 - c) Deeper Data: The bill requires specific reporting of aggregate level outcomes. As SBDCs already maintain extensive individual business tracking, it may be appropriate to provide GO-Biz with review authority in any year that the state provides funding.
 - d) Consolidate Reporting: The bill has each Lead Center reporting separately to GO-Biz. As a statewide network, it may be more appropriate for the Lead Centers to consolidate their information into a single report.
- 9) Related Legislation: Below is a list of related legislation.
- a) AB 29 (John A. Pérez) Codification of GO-Biz: This bill established GO-Biz within the Governor's Office for the purpose of serving as the lead entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. Status: Signed by the Governor, Chapter 475, Statutes of 2011.
 - b) 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 in 2008.

- c) SB 1436 (Figueroa) Small Business Liaisons: This bill enhanced the state's technical assistance to small businesses by improving the state's Internet information for small businesses and requiring the designation of agency-level small business liaisons. Status: Signed by the Governor, Chapter 234, Statutes of 2006.

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REGISTERED SUPPORT / OPPOSITION:

Support

101MFG-California's Next Great Manufacturing Center
Advanced Beauty College
Alameda County Small Business Development Center (Oakland Metropolitan Chamber of Commerce)
Alameda County Small Business Development Center, Bay Area Development Company
Alameda County Small Development Center
Alliance Small Business Development Center
Ambryx Biotechnology
Associated Builders and Contractors of California
Bixel Exchange Small Business Development Center
Blueray Concepts
Bouchard Business Services
Brand Source Pacific Rim
California Asian Pacific Chamber of Commerce
California Association of Competitive Telecommunications Companies
California Association of Microenterprise Opportunity
California Chapter of American Fence Association
California Employers Association
California Hispanic Chamber of Commerce
California Metals Association Coalition
California State University Monterey Bay Small Business Development Center
California State University, Fullerton's Mihaylo College of Business and Economics (Orange County/Inland Empire Small Business Development Center)
Central Coast Small Business Development Center
Central Coast Small Business Development Center at Cabrillo College
Central Valley Business Incubator Small Business Development Center Tulare Kings
Coalition of Small and Disabled Veteran Businesses
Contra Costa Small Business Development Center
Economic Development Collaborative-Ventura County
El Camino College Small Business Development Center, El Camino
Engineering Contractors' Association
Flasher Barricade Association
Fresno Regional Workforce Investment Board

Fresno State Office of Community and Economic Development
Golden Gate Restaurant Association
Greater Sacramento/Sierra Small Business Development Center at Los Rios Community College District
Henry Buder's Landscape Restoration
Inland Empire Small Business Development Center
Inland Valley Business Alliance-Rancho Cucamonga
J Style at Home Inc.
Jamber
Jim Hilliard State Farm Insurance
King Knish Inc.
LaunchPad Small Business Development Center, OCTANE
Law Office of Blanca E. Zarazúa
Los Angeles Regional Small Business Development Center Network
Los Angeles Regional Small Business Development Center Network, Long Beach Community College District
Main Street Chamber-Rancho Cucamonga
Main Street Chamber-Upland
Marin Builders Association
Marysville Van & Storage Co.
Masako's Music Studio
Mendocino Small Business Development Center
Mendocino Small Business Development Center, West Company
MiraCosta College-North San Diego Small Business Development Center
Monterey County Business Council
National Association of Women Business Owners
National Federation of Independent Business
Newport Home Care Inc.
Northern California Independent Booksellers Association
North Coast SBDC
North Coast Small Business Development Center
North Coast Small Business Development Center, Arcata Economic Development Corporation
North Coast Small Business Development Center, The County of Humboldt Headwaters Fund
North Coast Small Business Development Corporation
North San Diego Small Business Development Center
Northeastern California Small Business Development Center, San Joaquin Delta College
Northern CA Small Business Development Center San Joaquin Delta College
Northern California Small Business Development Center
Oakland Metropolitan Chamber of Commerce
Optimum Zendejas Home Loans
Orange County Small Business Development Center
Pacific Coast Regional Small Business Development Center
Plumbing-Heating-Cooling Contractors Association of California
Real Property Management
Redwood Region Economic Development Commission
Saafara West African Herbal Teas
San Francisco Chamber of Commerce
San Francisco Council of District Merchants Associations
San Francisco Locally Owned Merchants Alliance
San Francisco Small Business Development Center

San Francisco Small Business Development Center
San Francisco Small Business Development Center, City College of San Francisco
Santa Monica College Small Business Development Center
Small Business California
Small Business Development Center
Small Business Majority
Small Manufacturers Association of California
SOBERLINK
Solano College Small Business Development Center
Sonoma and Napa Small Business Development Centers
Stanislaus Economic Development and Workforce Alliance-Alliance Small Business Development Center
The California State University, Los Angeles Small Business Development Center
The CPR Lady
The Dutch Gardener
The East Bay Green Corridor
Tim Wright Transportation Inc.
Times-Delta Media Group
TMC Development Working Solution
TriTech Small Business Development
UC Merced Small Business Development Center Regional Network
Ventura and Santa Barbara Counties Small Business Development Center
Vivas Banners & Signs

Opposition

None received

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