

Date of Hearing: June 21, 2022

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sabrina Cervantes, Chair

SB 1325 (Gonzalez) – As Amended May 19, 2022

SENATE VOTE:

SUBJECT: California Techquity Innovation Program

POLICY FRAME: Entrepreneurship offers one of the most effective means of helping individuals and families achieve financial security. Family-owned and other small businesses play essential roles in stabilizing neighborhoods and creating local job opportunities. In fact, research shows that net new job growth is highest among small businesses, especially those with 20 or fewer employees. For businesses in technology sectors, the economic rewards are particularly high for founders and workers.

While there are many advantages to having small businesses within our state, these same businesses face unique challenges in accessing capital. In 2022, California will begin receiving upwards of \$1.1 billion in federal funding to enhance financing programs and support the longer-term economic growth of the state's 4.1 million small businesses. However, money is not enough. Two of the largest challenges facing the deployment of these funds are how to help small businesses become finance-ready and connect these businesses with appropriate private lenders.

California currently operates a \$17 million grant program to fund nonprofit technical assistance providers, including Small Business Development Centers and chambers of commerce, among others. Last year \$35 million was included in the state budget for "boot camps" to facilitate business start-ups. Through these existing programs, small businesses may access a range of services, including one-on-one counseling, workshops, and help with government contracting. However, neither of these programs are especially focused, nor do they have the capacity to provide statewide coverage for business start-ups in the technology sectors. Beginning in 2021 and further advanced through proposals in the 2022-23 budget, the state regionalized its innovation/technology hub program to provide modest stipends to facilitators and coordinators of technology assets, business groups, and venture capitalists. The revamped innovation hub program, similar to the other state small business assistance programs, emphasize underserved geographic areas and undercapitalized business owners and entrepreneurs.

SB 1325 proposes to fill a key gap in the state's technical assistance network by funding small business technology accelerators and incubators for diverse business owners and supporting underrepresented venture capital managers to gain experience in the market.

The analysis includes information on current small business technical assistance programs, the unique needs of technology start-ups, and the California economy, including economic disparities among Californians. There is no known opposition to this bill. Comment 8 includes technical amendments.

SUMMARY: SB 1325 establishes the California Techquity Innovation Program, administered by GO-Biz, to provide grants and investments that advance equity in technology-based businesses, as specified. Specifically, **this bill:**

- 1) Requires GO-Biz to establish and administer the California Techquity Innovation Program, which provides grants or investments that advance equity in tech entrepreneurship in California, and support

underserved and underrepresented entrepreneurs, technology accelerators, incubators, fully accredited institutions of higher education, local governments, and public-private partnerships that support, advise, and uplift underrepresented entrepreneurs.

- 2) Requires GO-Biz to provide grants for the following purposes:
 - a) Financial grants for technology accelerators, incubators, fully accredited institutions of higher education, local governments, and public-private partnerships that support minority-led, women-led, and lesbian, gay, bisexual, or transgender persons-led technology businesses and technology businesses led by persons with disabilities.
 - b) Financial grants for underrepresented venture capital managers and underserved entrepreneurs developing economic opportunities based in California.
 - c) Financial grants to fund regional workforce development partnerships that advance equity in tech employment.
 - d) Financial grants to fund research to evaluate the effectiveness of investing in equity entrepreneurship and workforce, including establishing partnerships with local, fully accredited institutions of higher education to lead these studies.
- 3) Requires GO-Biz to provide priority to applicants that do all of the following:
 - a) Provide services, technical assistance, and support that is not currently or adequately provided by a regional Inclusive Innovation Hub to underrepresented entrepreneurs.
 - b) Demonstrate access to matching funds from local or federal programs, public-private partnerships, or venture capital managers who support underserved, equity-forward entrepreneurs.
- 4) Requires GO-Biz to establish guidelines in order to maintain oversight of the California Techquity Innovation Program, including, but not limited to, guidelines for grant approval, program operations, and reporting by grant recipients.
- 5) Establishes the California Techquity Innovation Fund in the State Treasury. Moneys in the fund are subject to appropriation Legislature.

EXISTING LAW:

- 1) Establishes the Governor's Office of Business and Economic Development (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 investments, and economic growth.
- 2) Establishes the Office of the Small Business Advocate within GO-Biz to serve as the principal advocate in the state on behalf of small businesses, including, but not limited to, advisory participation in the consideration of all legislation and administrative regulations that affect small businesses, and advocacy on state policy and programs related to small businesses.
- 3) Authorizes the Office of the Small Business Advocate to administer grant programs, including, but not limited to:

- a) The Small Business Technical Assistance Expansion Program to provide technical assistance to small businesses through partnership agreements with one or more small business technical assistance centers.
- b) The California Dream Fund to provide microgrants to individuals from underserved small business groups participating in intensive start-up business training programs
- c) The California Microbusiness COVID-19 Relief Grant Program to provide grants to microbusinesses (under five employees) through county and related nonprofit intermediaries.
- d) The California Small Business COVID-19 Relief Grant to provide grants to qualified small businesses affected by COVID-19 in order to support their continued operation.
- e) The California Venues Grant Program to provide grants to eligible independent live events that have been affected by COVID-19 in order to support their continued operation.
- f) The California Nonprofit Performing Arts to provide grants to eligible nonprofit performing arts organizations to encourage workforce development.
- g) The Capital Infusion Program to provide technical assistance to small businesses that are seeking capital through contracts with Small Business Development Centers.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) **Lack of Diversity Within the Tech Sector:** While the number of women and individuals of color who own and work in tech-based industries has increased, significant disparities remain. Given the importance of these industry sectors within the state's overall economy, the success of these businesses lies at the core of the state's economic prosperity and resiliency.

A 2021 study, [*Closing the Capital Gap – Fueling the Promise of Latino Owned Businesses*](#), found that if the full business potential of Latino-owned firms was unlocked and Latinos reached revenue parity with white-owned businesses, it would add an additional \$1.4 trillion to the US economy. In order to reach parity, diverse business owners must be able to access venture and other equity-type capital. The study also documented the significant disparities between Latino-owned and White-owned businesses, including:

- Mature Latino-owned businesses were less likely to have part of their business owned by mainstream tech-business investors, such as private equity, venture capital, or angel investors.
- This underrepresentation of mainstream tech-business investors existed, regardless of the funding and development stage of the Latino-owned business, including funding rounds for seed/angel capital, early stage capital, and late stage. The study found that less than 2% of investment funding rounds included Latino-owned businesses.
- Small Latino-owned businesses with less than \$1 million in revenue predominantly rely on personal and higher-cost sources of capital, including personal savings, home equity loans, friend and family, and payday loans.

These different investment paths have a direct impact on business valuations. According to Crunchbase data, “the average valuation of a Latino-owned business in 2020 was approximately \$572 million verses \$1.2 billion for a nondiverse-owned business.” Other findings from the 2020 report,

[Crunchbase Diversity Spotlight 2020: Funding to Black and Latinx founders](#), based on the experience of nearly 1,000 Black- and Latino-founded firms:

- So far in 2020, Black and Latinx founders have raised \$2.3 billion, representing 2.6% of total venture capital raised through Aug. 31, 2020.
- Since 2015, over \$15 billion has been raised by Black and Latinx founders, representing 2.4% of the total venture capital raised in that time.
- Funding to Black and Latinx founders surpassed \$1 billion in 2014, although that still represents a fraction of the funding raised by US-based startups. Funding to underrepresented founders peaked at \$4 billion in 2018—the same year funding to venture-backed startups peaked in the US at \$141 billion.
- The San Francisco Bay Area ranks first in investing in Black- and Latinx- founded companies, with \$4.6 billion since 2015. That represents 1.8% of the venture capital invested in the Bay Area from 2015 to August 2020.
- The Greater New York area has the second-highest investment in Black- and Latinx-founded companies at \$4.4 billion, representing 5.2% of its total venture funding.
- Greater Boston, Los Angeles, Seattle, and Atlanta round out the top six regions with the highest investment in Black and Latinx founders. The highest percentage by region is Greater Atlanta, with 5.5% of venture capital going to the area’s Black and Latinx founders.
- For Black- and Latinx-founded companies, 36% have a female founder, a much higher percentage than found more broadly in the US at 21% for companies with their first funding since 2015. The majority of these female founders are Black and Latinx.

According to the author, “these appalling and disparate realities demonstrate the need to equalize access to funding and open doors to opportunities for minority-led, LGBTQ-led, and women-led tech businesses. Immediate action by both the public and private sectors is needed to advance equity and support more inclusive tech ecosystems.

While some private entities, accelerators, and incubators are working on expanding equity in the tech space, there is still a substantial gap that requires intervention at the state and local levels. State investment in small businesses and diverse tech entrepreneurs will undoubtedly result in positive returns for our economy, boost our pandemic recovery, and benefit our communities and small businesses with the numerous advantages of a diverse workforce and business leadership.”

- 2) **The Challenge of Income Inequality during COVID-19:** While California’s dominance in innovation-based industries is unquestionable, the divide between the middle- and lower-income households and the top-income earners is accelerating. Even when California’s unemployment rate was at historic lows pre-pandemic, unemployment within certain geographic regions and population groups remained significantly higher, as did the number of people in the state who were not participating in the core economy.

The coronavirus has deepened California’s income inequality, with the state’s most vulnerable being at the greatest risk for poor health outcomes, having the least amount of savings to survive its economic impacts, and being most likely to work in low-paid and least protected essential businesses.

A closer look at disaggregated employment data reveals a bifurcated economic recovery. In March 2020, California reported an unemployment rate of 5.1% as compared to the US rate of 4.5%. From the employment side, this represents 18.1 million people in California, with 82.5% being employed in full-time work (*based on a 12-month moving average*). During this same period, three of California's 58 counties had unemployment, below 3.0%, with San Mateo County reporting the lowest at 2.5% (*based on not seasonally adjusted data*). Colusa County (21.4%) was reported as having the highest unemployment rate among counties in March 2020.

Two years later (March 2022), statewide unemployment is 4.9%, just slightly lower than 5.1% reported in March 2020. As noted in the prior comment, employment by industry sector is up in every sector, and three of the 11 sectors having recovered all jobs. However, the disparities have grown.

Chart 1 – Selected Data on Unemployment shows geographic and demographic unemployment-related information for the year the World Health Organization announced that the COVID-19 was a global pandemic and the following two years.

Chart 1 - Selected Data on Unemployment (March 2020, 2021, and 2022)							
Unemployment Rate (Not Seasonally Adjusted)				Unemployment Rate (Not Seasonally Adjusted) (12 month moving average)			
	March 2020	March 2021	March 2022		March 2020	March 2021	March 2022
California (comparable rate)	5.1%	8.2%	4.2%	California (comparable rate)	4.1%	11.1%	6.3%
Colusa County	21.4%	15.4%	12.5%	Blacks	5.2%	13.9%	10.5%
Imperial County	20.4%	15.7%	12.3%	Hispanics	4.7%	12.5%	6.9%
Los Angeles County	5.6%	10.9%	4.9%	Whites	4.0%	10.8%	5.9%
Orange County	4.19%	7.0%	3.1%	16 to 19 years old	15.1%	24.5%	13.6%
Riverside County	4.7%	7.7%	4.3%	20 to 24 years old	7.6%	17.5%	10.1%
Sacramento County	4.3%	7.4%	4.0%	25 to 34 years old	4.1%	11.7%	6.1%
San Bernardino County	4.4%	7.8%	4.3%	*The Employment Development Department reports a March 2021 (12-month moving average) Labor Participation Rate (LPR) of 61.8%. The LPR for veterans is 43.2% vs nonveterans LPR of 64.6%.			
San Francisco City & County	3.5%	6%	2.5%				
San Mateo County	2.5%	5.0%	2.3%				
Tulare County	13.2%	11.6%	8.4%				

Source: www.edd.ca.gov

As illustrated in **Chart 1**, the disparities among population groups continued, and most cases increased for certain areas of the state and individuals from certain demographics. For example, unemployment among Blacks in March 2020 was at a historic low of 5.2%, which was still above the state average of 4.1%. One year into COVID-19 and the disparity between the rate of Black unemployment and the statewide rate substantially increased (13.9% compared to 11.1%). Two years since the beginning of the pandemic, the unemployment rate for Blacks is reported as 10.5% versus 6.3% for the workforce as a whole. From the start of the pandemic to March 2022, the disparity between the unemployment rate for Blacks has grown from 1.1% in March 2020 to 2.8% in March 2021 to 4.2% in March 2022.

Reports on May 2022 unemployment continued along similar trends with overall state unemployment down 0.5% from March (4.6%) and 42,900 jobs being added. San Mateo had the lowest unemployment rate of 1.7% and Imperial County the highest at 11.0%. For Blacks, however, the unemployment was only down to 9.6% and 6.0% was reported for Hispanic workers. [*The comparable unemployment rate for demographic comparisons was 5.5%.*] Again, the highest unemployment was among 16-19 and 20-24 year olds.

The disparities shown in these charts are driven by and also influence a range of poor economic and societal outcomes, including, but not limited to, limited educational attainment, economic insecurity, poor health outcomes, negative engagements with law enforcement, and lack of a safety net for the elderly and individuals with special needs. COVID-19 magnified these effects, further putting strains on already struggling low-wage workers, particularly in the Black and Latinx communities.

The California Latino Economic Institute released a policy brief in December 2020, which provides further data on the disparate and growing negative impact of COVID-19 on Latinos in California. Among other findings, the briefing noted the following:

- Latinos are overrepresented among California’s COVID-19 cases and deaths—59% of cases and 49% of the state’s deaths.
- Latino overrepresentation in California’s cases has increased since April 2020.
- Nearly 12% of California Latinos are currently uninsured—double the rate of other groups.
- Latino unemployment rates are double those from the same time last year.
- Nearly two-thirds of California Latinos report experiencing a loss of employment income since March 2020.
- Over 40% of Latinos currently report that it is somewhat or very difficult to pay their usual household expenses in the last seven days.
- Over three-quarters of California small business owners report that COVID-19 has had a moderate to large effect on their businesses.

This and other reports have highlighted many contributing factors to these health disparities, including the impact of low household incomes and lack of employment security. During COVID, Latinos and Blacks have comprised a significant component of the state’s essential workforce. While a majority of White workers held jobs that allowed them to work from home and decrease potential COVID-19 exposure, Latinos and Blacks, more commonly held jobs in high-risk environments.

This increased exposure to COVID-19, combined with the socio-economic impacts on underlying health, resulted in a statistically higher number of cases and deaths compared to the group’s percent of the population. **Chart 2** provides information from the California Department of Public Health relating to COVID-19 cases in California by race and ethnicity. Data is current as of June 13, 2022.

Chart 2 - COVID-19 Case Loads and Outcomes by Race and Ethnicity				
Race/Ethnicity	Percent Cases	No. Deaths	Percent Deaths	Percent CA population
Latino	46.4%	39,479	43.7%	38.9%
White	24.9%	31,392	34.7%	36.6%
Asian	9.6%	9,8173	10.9%	15.4%
African American	5.3%	6,308	7.0%	6.0%

Multi-Race	1.1%	1,436	1.6%	2.2%
American Indian or Alaska Native	0.4%	445	0.5%	0.5%
Native Hawaiian & other Pacific Islander	0.7%	581	0.6%	0.3%
Other	11.6%	972	1.1%	---
Total with data	100%	90,430	100%	100%

Source: [California Department of Public Health](#), accessed June 9, 2022

The chart above, *All Cases and Deaths Associated with COVID-19 by Race and Ethnicity*, represents data from 9,106,031 total cases, with 19% of those cases missing race/ethnicity. There are a total of 91,006 deaths, with approximately 1% of those deaths are missing race/ethnicity classifications.

- 3) **California’s Use of Federal SSBCI Funds:** The American Rescue Plan Act of 2021 included \$10 billion for the reauthorization of the State Small Business Credit Initiative of 2010. California anticipates receiving approximately \$1.8 billion in federal SSBCI funding. *Chart 3* outlines California’s anticipated federal SSBCI funding.

Federal law required each application to include detailed information on how SSBCI funds will provide access to capital for small businesses in underserved communities and to business owners who are from groups who meet the definition of socially and economically disadvantaged individuals, also referred to as SEDI. According to the SSBCI Guidelines:

- A “Socially and economically disadvantaged individual” means an individual who is a socially disadvantaged individual or an economically disadvantaged individual, as defined in the Small Business Act.
- “Underserved communities” mean small businesses located in low- and moderate-income, minority, and other underserved communities, including women- and minority-owned small businesses.
- “Treasury encourages states to consider the following areas when including plans regarding ‘other underserved communities’ in their report: rural communities; communities undergoing economic transitions, including communities impacted by the shift towards a net-zero economy or deindustrialization; and communities surrounding Minority-Serving Institutions.”

Under the SEDI incentive formula, California could receive up to \$99.8 million for expending 48.87% of SSBCI Capital funds in SEDI eligible businesses during the first tranche of SSBCI deployment.

States and tribal governments will receive SSBCI funds from the US Treasury in three tranches. In order to access the next tranche of funding, the state or tribal government must demonstrate that at least 80% of the current tranche of funding has been encumbered and/or used. To facilitate the drawing down of federal funding, the IBank and CBCFA have stated that they will have an MOU in place to enhance their ability to transfer moneys between programs.

Categories of Funding	Funding Available	
Total Federal Funding Authorized		\$10,000,000,000
Total CA SSBCI Allocation		\$1,181,997,613
Subtotal CA Prorated SSBCI Allocation		\$894,973,879
Subtotal CA SSBCI SEDI Allocation		\$187,189,392
Subtotal CA SSBCI SEDI Performance Allocation		\$99,834,342
Funding is Distributed in Three Tranches. States	Funding in	80% Target

Must Encumber 80% of their Funds to Access Next Tranche of Funding	Tranche	
Tranche 1	\$357,113,879	\$285,691,104
Tranche 2	\$407,031,050	\$661,315,944
Tranche 3	\$417,852,683	
*This is based on California’s allocation as of January 2022.		
Source: Document submitted to the Legislature by the IBank and CPCFA, January 7, 2022		

California’s application proposes to fund three existing small business capital programs and create at least one additional program. **Chart 4** provides further details on California’s proposed allocation plan.

Chart 4 - California’s Proposed SSBCI Allocation Plan*	
Existing Programs Funded	Funding Allocated
Small Business Loan Guarantee (IBank)	\$390,998, 806
California Capital Access Program (CPCFA)	\$118,199,762
California Capital Access – Collateral Support Program (CPCFA)	\$472,799,045
New Program(s) Funded	Funding Allocated
Venture Capital (IBank)	\$200,000,000
Loan Participation (CPCFA) – under consideration	
Total CA SSBCI Allocation	\$1,181,997,613
*This is based on California’s allocation as of January 2022.	
Source: Document submitted to the Legislature by the IBank and CPCFA, January 7, 2022	

Another key aspect of SSBCI are the leverage ratios. At a minimum, \$1 of public expenditure must result in \$1 of new private investments. In the aggregate, the state’s SSBCI programs are required to target an overall leverage ratio of at least \$10 of new private investment for each \$1 of public funds. These leverage requirements, coupled with a drive to utilize SSBCI funds quickly in order to access the next tranche of funds, create tension between undertaking strategic actions to reach small business borrowers in underserved communities and from SEDI-eligible businesses. The Legislature, as the policy-making body, should send clear signals about how to approach these multifaceted goals.

The \$200 million proposed for the Venture Capital program administered through the IBank will play a crucial part in California reaching its private capital leverage requirements. Given the lack of diversity within the venture capital ecosystem, SB 1325 can play an important role in ensuring these funds go to more diverse founders and asset managers.

- 4) **The 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 GO-Biz. [AB 29 (John A. Pérez), Chapter 475, Statutes of 2010]

GO-Biz carries out its mission through multiple functional areas, including but not limited to the following units: California Business Investment Unit, Zero Emission Vehicles, the Office of Permit Assistance, the Office of the Small Business Advocate, International Affairs and Trade, the California Competes Tax Credit Program, the Community and Local Equity Grants Unit, and the Community-Based Solutions Unit. GO-Biz provides a range of programs and services that support business

development, including assisting small businesses in understanding and complying with state regulations, permitting assistance for new and expanding businesses, and assisting the state in building out its zero-emission vehicle infrastructure.

In 2021, GO-Biz published and has since updated the [California Business Come Back Guide](#) to assist businesses in identifying relevant new and existing state funding resources for recovery and success. State resources are listed by agency, as well as by program. A particularly useful chart within the guide includes information on total funds, maximum awards, eligibility, timing, and contact information.

GO-Biz has historically used a service delivery model that flows across and through different GO-Biz units, depending on the business' needs. For example, a foreign company planning to expand in California may initially become acquainted with GO-Biz through an in-bound trade mission hosted by the International Trade and Investment Office but may ultimately be further assisted by the California Business Investment Program and the Office of Permit Assistance.

- 5) **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 \$3.1 trillion economy. Two studies, one by the US 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 they are an important means for dispersing the economic positive impacts of trade within the California economy.
- In 2018 (most recent full set of data), of the 4.4 million firms in California, there were 3.4 million nonemployer firms as compared to 954,632 employer firms.
 - Total revenues for nonemployer sole proprietorships, across all industry sectors, were \$189 billion in receipts in 2017.
 - Businesses with less than five employees are classified as microenterprises. In 2017, there were 473,641 microenterprises that had one or more employees.
 - Microenterprises, including both nonemployer and up-to-5-employee businesses, comprise the single largest segment of the California business community, representing 89.0% (3.9 million) of all businesses in the state.

Microenterprises have many unique features and provide important benefits to local communities, according to a recent study from the Microenterprise Fund for Innovation, Effectiveness, Learning, and Dissemination (FIELD) at the Aspen Institute. These benefits include:

- Providing products and services tailored to meet local and neighborhood needs.
- Stimulating an inflow of revenues to and within local communities.
- Serving as catalysts for neighborhood reengagement.
- Revitalizing neighborhoods that may otherwise have vacant storefronts.
- Providing role models and support for future entrepreneurs.

Excluding sole proprietorships, businesses with less than 20 employees comprise over 88.6% of all businesses and employ approximately 17.4% of all workers. Businesses with less than 100 employees represent 97.3% of all businesses and employ 34.5% of the workforce.

The chart below displays 2018 data (the most recent full set of data) on California employer businesses, including payrolls, employment, and the number of firms, which may comprise one or more establishments.

2018 Business Profile by Size (excludes nonemployer firms)						
Area Description	Employment Size	Number of Firms	Percent of Firms	Employees	Percent of Jobs	Annual Payroll (\$1,000)
United States	Total	6,075,937		130,881,471		\$7,097,310,272
California	Total	779,825	12.8% U.S. Firms	15,223,664	11.6% U.S. Jobs	\$1,020,958,926
United States	0-4	3,757,163	61.8% of U.S. Firms	5,967,955	4.5% of U.S. Jobs	\$287,379,518
California	0-4	485,387	62.2% of CA Firms	746,240	4.9% of CA Jobs	\$46,663,550
United States	<20	5,411,180	89.0% of U.S. Firms	21,337,272	16.3% of U.S. Jobs	\$898,874,051
California	<20	692,139	88.7% of CA Firms	2,650,204	17.4% of CA Jobs	\$130,748,308
United States	0-99	5,962,057	98.1% of U.S. Firms	42,918,809	32.7% of U.S. Jobs	\$1,859,572,577
California	0-99	759,654	97.4% of CA Firms	5,214,752	34.2% of CA Jobs	\$261,490,973
United States	<500	6,055,421	99.6% of U.S. Firms	61,244,031	46.7% of U.S. Jobs	\$2,819,089,905
California	<500	773,386	99.1% of CA Firms	7,339,390	48.2% of CA Jobs	\$395,286,015
United States	500+	20,516	0.33% of U.S. Firms	69,637,440	53.2% of U.S. Jobs	\$4,278,220,367
California	500+	6,439	0.82% of CA Firms	7,884,274	51.7% of CA Jobs	\$625,672,911
Source: https://www.census.gov/data/tables/2018/econ/nonemployer-statistics/2018... 1						

These nonemployer and small employer firms create jobs, generate taxes, support important industry sectors, and revitalize communities. While their small size allows them to be more flexible in meeting niche foreign and domestic market needs, it also results in certain market challenges.

These challenges include having difficulty 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 state procurement activities help many small businesses overcome or at least minimize these difficulties.

- 6) **Related Budget Proposals:** The Governor's proposed budget for 2022-23 requests \$20 million to expand the number of Inclusive Innovation Hubs (iHub²) from 10 to 13 and regionalize the program into the same 13 regions used for the California Economic Resiliency Fund (CERF) Program.

The requested statutory changes would also rebrand the program as the Accelerate CA: Inclusive Innovation Hub program, require existing iHub² to apply to participate in the new program, and establish an Entrepreneurship Fund that offers five businesses from each Hub a \$100,000 grant. Below is a breakdown of the funding:

- \$13,000,000—Funding for each Hub at \$250,000 per year for four years.
- \$6,500,000—Entrepreneurship Fund, seed funding of up to \$100,000 per business for five small businesses incubated at each of Hubs.**
- \$500,000—Administrative costs for CalOSBA to administer, monitor, and report on the Entrepreneurship Fund and the Hubs.

The intent of the initial iHub Program was to “improve the state’s national and global competitiveness by stimulating partnerships, economic development, and job creation around specific research clusters throughout the state.” The first 5 iHubs operated through a cooperative agreement between GO-Biz, with each iHub focusing on a different technology-based industry sector, including advanced manufacturing and biopharma. The iHubs worked through a network of partners, including local government entities, public universities, research institutions, venture capital networks, and economic development organizations. No funding was provided by the state, but the industry-focused networks were allowed to brand themselves as an iHub and annually attend meetings at GO-Biz. The iHub agreement has a 2020 expiration date.

A proposal in the 2021-22 Budget provided \$2.5 million to revive and rebrand the iHub program as the iHub2 Program, shifted from an industry focus to a place-based service area program with a focus on serving business owners from historically undercapitalized groups, including women- and minority-owned businesses. The first round of iHub2 designations was announced in April 2022.

In the related 2022-23 Finance Letter, it states the “CalOSBA believes that each region identified on the CERF map should have an Inclusive Innovation Hub as an anchor for strong innovation and startup business activity incentivized to focus on diversity, equity and inclusion in the state’s tech and science-based startup ecosystem. CalOSBA will extend the competitive bid process to award grants to qualified place-based entities that can meet the program objectives as currently established, awarding a total of thirteen Hubs.”

**The operational mechanics of the \$100,000 grants to five incubated businesses per Hub created concerns among some analysts and Members. Ultimately, the Legislature rejected the \$100,000 entrepreneurship grants, but approval of the other components appears to be moving forward.

- 7) **IHubs vs. Techquity Funding:** The differences between the current iHub program and the funding proposed by Techquity can be organized around two issues: Focus and Structure.

While the initial iHub program maintained an industry focus with a network that operated as a formalized industry cluster, program changes in the 2021-22 Budget shifted to a service area model that includes business assistance to multiple industry sectors within a region.

What is similar is the focus on historically undercapitalized business owner groups, which makes sense as these are the same small businesses most impacted by COVID-19 and those that will require assistance in accessing the new SSBCI funding.

Structurally, the iHub² program and the Techquity program fund different things. The iHub program is funding a coordinator of an informal network of resources intended to meet the needs of multiple small businesses. The program proposed in SB 1325 funds individual members of a potential iHub network, namely the business incubators and accelerators. In fact, the existing alignment of their purposes should create a positive symbiotic relationship.

- 8) **Proposed Amendments:** Below is a list of amendments the committee members may wish to review when considering the bill.
- a) Make implementation contingent upon appropriation of funding
 - b) Transfer implementation of the program from GO-Biz to the Office of the Small Business Advocate, which is consistent with the current iHub program.
 - c) Require the first RFP being released within 120 days of funding being provided.
 - d) Provide additional key program elements, including:
 - i) Requiring applicants have prior experience in undertaking the grant activity and a fiscal agent that can accept nonfederal funds.
 - ii) Authorizing multiyear grants, limited administrative costs, and partner organizations to help demonstrate organizational capacity to deliver on the grant.
 - e) Require annual reporting to the Legislature and posting of the report on the Advocate's website.
- 9) **Related Legislation:** Below is a list of bills from the current and prior sessions.
- a) ***AB 29 (John A. Pérez, Feuer, and V. Manuel Pérez) Office of Business and Economic Development:*** This bill established GO-Biz to include the newly codified California Business Investment Services and the existing Office of the Small Business Advocate. Status: Signed by the Governor, Chapter 475, Statutes of 2011.
 - b) ***SB 294 (Price) CalPERS Emerging Manager:*** This bill requires the California Public Employees' Retirement System and California State Teachers Retirement Board to develop a five-year strategic plan for emerging investment manager participation across all asset classes and to report to the Legislature annually on the progress of the plan, as specified. Signed by the Governor, Chapter 701, Statutes of 2011.
 - c) ***AB 1072 (Reyes) Small Business Technical Assistance Expansion Program:*** This bill makes program improvements to the Small Business Technical Assistance Expansion Program and reinforces the ability of the DGS Office of Small Business and DVBE Services to work with awarding departments on procurement certification and targeted outreach. The bill also creates a more decisive programmatic relationship between the state's small business procurement advocates and the statewide network of 80+ small business technical assistance centers which participate in the Small Business Technical Assistance Expansion Program.

REGISTERED SUPPORT / OPPOSITION:

Support

Alliance for Social Innovation
 Biosciencela
 California Legislative Women's Caucus

California Life Sciences
Central City Association of Los Angeles
City of Long Beach
Fresno Metro Black Chamber of Commerce
National Women's Political Caucus of California
Pledgela
Small Business Majority
Starburst Accelerator
Technet-technology Network

Opposition

None on file

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