

Date of Hearing: June 21, 2022

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sabrina Cervantes, Chair

SB 1407 (Becker) – As Amended June 14, 2022

SENATE VOTE: 39-0

SUBJECT: California Employee Ownership Act

POLICY FRAME: For the past decade, there has been an escalation in the number of baby boomer business owners seeking to sell their businesses and retire. Without an available buyer, these business owners will be forced to liquidate the assets of the business and close shop. At the same time, long-time workers may be out of jobs, years of building a career, and retirement through the business could be lost.

According to national surveys, 79% of business owners want to retire within 10 years, 60% in less than five years, and 33% in less than three years. However, only 15% of businesses successfully transition to the next generation in the family, and only 20% of commercial listings actually sell. Based on these figures, the author believes that “nearly 360,000 California businesses, employing 3.9 million workers, are at risk because their owners are nearing retirement.”

SB 1407 offers an alternative to closing shop or selling to large, out-of-state buyers by helping to develop a robust employee-owned business culture in California. The bill includes helping business owners and workers better under this option and supporting businesses as they transition to employee ownership. The author contends that the bill can serve to anchor essential production and services in communities, protect livelihoods, avert layoffs, and save the state money.

The analysis includes information on employee-owned businesses, the challenge of income inequality during COVID-19, the Office of the Small Business Advocate, and the California small business economy. There is no known opposition to this bill. Comment 6 includes suggested technical amendments.

SUMMARY: SB 1407, subject to appropriation, establishes the California Employee Ownership Program, within the Office of Small Business Advocate, for the purpose of working with internal and external stakeholders. Specifically, **this bill:**

- 1) Makes legislative findings and declarations:
 - a) California’s small businesses continue to contend with the pressures of the aging baby boomer business owners who are at or near retirement and desperately looking for an exit. According to national surveys, 79% of business owners want to retire within 10 years, 60% in less than five years, and 33% in less than three years. However, only 15% of businesses successfully transition to the next generation in the family, and only 20% of commercial listings actually sell. Nearly 360,000 California businesses, employing 3.9 million workers, are at risk because their owners are nearing retirement.
 - b) Rather than closing for good or selling to large, out-of-state buyers, small business owners can find willing buyers in the people who work alongside them every day. Doing so will anchor essential production and services in communities, protect livelihoods, avert layoffs, and save the state money.

- c) Employees becoming owners would create opportunities for wealth-building and community stability. It would also help California create a more inclusive, equitable, and stable economy, supported by the studies of employee-owned businesses and their success and resiliency during the Great Recession and the COVID-19 pandemic.
 - d) Fairness to employees is critical for the success of employee ownership transactions. Employee ownership should supplement, not supplant, fair wages, health insurance, retirement benefits, and the freedom to join a union. Employee ownership transactions should be structured to provide employees with a fair valuation of their ownership stake with an independent trustee as a best practice for the transaction.
- 2) Expresses the intent of the Legislature to establish a dedicated hub within the Office of Small Business Advocate that will help educate stakeholders about employee ownership, assist business owners and employees in navigating available resources, provide funding for education, outreach, and technical assistance, and streamline and reduce barriers to employee ownership.
- 3) Requires the Office of Small Business Advocate, upon appropriation by the Legislature, to establish the California Employee Ownership Program, which will be administered by an Employee Ownership Program Manager (Manager), which is appointed by the Small Business Advocate.
- 4) Authorizes the Manager to be responsible for the following duties:
- a) Manage the Employee Ownership Education and Outreach Grant Program and the Employee Ownership Conversion Technical Assistance Grant Program.
 - b) Work with all California state agencies whose regulations and programs affect employee-owned companies and businesses with the potential to become employee-owned, to enhance opportunities and reduce barriers.
 - c) Partner with grantee partners and other relevant private, nonprofit, and public organizations including, but not limited to, professional and trade associations, financial institutions, trade unions, work centers, Small Business Development Centers, economic and workforce development organizations, and nonprofit entities to promote employee ownership benefits and succession models.
 - d) Develop and make available materials regarding employee ownership benefits and succession models.
 - e) Provide a referral service to help business owners, labor unions, and worker centers find appropriate legal, financial, and technical employee ownership resources and services.
 - f) Work with the California Infrastructure and Economic Development Bank, the California Pollution Control Financing Authority, and related entities to shape and implement guidance on lending to broad-based employee ownership vehicles.
 - g) Issue an annual report on program activities, including recommendations for improvement.
 - h) Report employee ownership transition-related concerns and recommendations to the Small Business Advocate.
- 5) Requires, subject to appropriation, the establishment of the Employee Ownership Education and Outreach Grant Program for the purpose of funding education and outreach programs that increase awareness and understanding of employee ownership transitions.

- a) Requires funding to be awarded to nonprofit organizations to develop and implement outreach initiatives and education programs that increase awareness about business transitions to broad-based employee ownership vehicles.
- b) Requires grants to be used to perform qualified education and outreach services, as specified, including one grant to be awarded to a labor union and worker center for a specified marketing campaign.
- c) Requires grants to be awarded for an initial two-year term, beginning July 1, 2023, and ending June 1, 2025. Grantees may apply for renewal or extension of the initial two-year term, subject to approval and availability of funds through the 2026–27 fiscal year.
- d) Limits awards to no more than five qualified nonprofit organizations during any two-year term.
- e) Limits indirect costs to 15% of the total expenses of each grant.
- f) Specifies that qualified education and outreach services include the following:
 - i) Services designed to increase awareness of worker-ownership and transitions to broad-based employee ownership vehicles.
 - ii) Services designed primarily to reach a high volume of business owners through direct outreach, or through educational intermediaries, including the following:
 - (1) Capital providers.
 - (2) Professional service providers.
 - (3) Business technical assistance providers.
 - (4) Industry and business associations.
 - (5) Labor unions and worker centers.
 - (6) Local governmental entities.
 - iii) Development of a statewide coordinated marketing campaign to increase business owner and business service provider awareness of transitions to broad-based employee ownership vehicles and available Employee Ownership Program resources, including the Employee Ownership Conversion Technical Assistance Grant Program, as specified.
- g) Requires the grantee, when delivering qualified education and outreach services, to include information on all types of broad-based employee ownership vehicles and on the range of governance and management structures that are possible within them, including democratically governed business structures and employee participation in business decision-making and governance.
- h) Requires a nonprofit organization to satisfy the following to be eligible for a grant under the program:
 - i) Have demonstrated experience in providing outreach and education about worker ownership and business transitions to one or more broad-based employee ownership vehicles.
 - ii) Have demonstrated experience providing outreach and education services in California.
- i) Authorizes a labor union and worker center to be awarded grants in partnership with a qualified nonprofit organization to support education and outreach to businesses at risk of closure or succession.
- j) Requires the manager to prepare an annual report that includes the following:
 - i) The number of businesses reached.

- ii) Types and number of outreach activities.
 - iii) The information provided through these activities.
 - k) Requires the report to be submitted to the Director of the Governor's Office of Business and Economic Development, and posted on its internet website.
- 6) Requires, subject to appropriation, the establishment or the contracting with a third party or grant partner to administer, an Employee Ownership Technical Assistance Grant Program with the purpose of subsidizing the cost of conversion to employee ownership.
- a) Specifies that the purpose of the grant program is to partially subsidize conversion costs for qualified businesses transitioning to broad-based employee ownership vehicles, making these transitions more accessible to California businesses, ensuring these transitions benefit California workers, and creating wealth-building opportunities for Californians.
 - b) Requires the manager to preapprove grant applications to qualified service providers and disburse grant funds upon receipt of invoices or contracts for qualified conversion services rendered to one or more qualified businesses.
 - c) Prohibits grants from exceeding the lesser of 50% of the costs of qualified conversion services of a qualified business or \$50,000.
 - d) Requires qualified service providers to provide information about each qualified business receiving qualified conversion services, including the name, primary address, and business entity identifying number on file with the Secretary of State.
 - e) Defines the following terms for the purpose of this program:
 - i) "Qualified business" means a business that is considering or undergoing a transition to employee ownership, and that satisfies all of the following:
 - (1) Is headquartered in California.
 - (2) Has at least 10 employees.
 - (3) Has been in business for at least 10 years.The manager is authorized to make exceptions for businesses with as few as three employees, and businesses in operation less than 10 years.
 - ii) "Qualified conversion services" shall include, but not be limited to, the following:
 - (1) Prefeasibility assessments.
 - (2) Feasibility assessments.
 - (3) Accounting services.
 - (4) Legal services.
 - (5) Transition plans.
 - (6) Succession planning services.
 - (7) Training workers on employee ownership and democratic management and governance.
 - iii) "Qualified service provider" means a provider of qualified conversion services that satisfies all of the following:
 - (1) Has at least two years of experience working with businesses considering or undertaking a transition to employee ownership.
 - (2) In the case of a service provider that is providing feasibility studies, either has demonstrated experience in assessing debt capacity and conducting employee ownership feasibility studies, or is providing feasibility studies in collaboration with another business entity that has such demonstrated experience.

- (3) A qualified service provider may provide some or all of the qualified conversion services, as specified.
- f) Requires the manager to prepare an annual report that includes the following:
- i) Number of businesses served using funds awarded pursuant to this section.
 - ii) Types of services provided.
 - iii) Number of jobs created or saved.
- g) Requires the report to be submitted to the Director of the Governor's Office of Business and Economic Development, and posted on its internet website.
- 7) Specifies that nothing in this bill prevents employee-owned companies from participating in California capital programs, as specified.
- 8) Defines the following terms:
- a) "Broad-based employee ownership vehicle" means any of the following:
 - i) An employee-owned corporation that is a corporation under employee ownership. "Employee ownership" means, [pursuant to subdivision (c) of Section 91502.1] the majority ownership of a business in this state by a majority of its employees under either of the following methods:
 - (1) Establishment of an Employee Stock Ownership Plan (ESOP) pursuant to the federal Employee Retirement Income and Security Act. All stock initially issued at the time of formation of the employee-owned corporation shall be allocated to the employees and become fully vested within five years of the date the employee-owned corporation begins operation. Voting rights of the employees are established in accordance with Section 409A(e) of the Internal Revenue Code as effective on January 1, 1983.
 - (2) Establishment of a worker-owned cooperative.
 - ii) An eligible worker-owned cooperative or an eligible member-owned organization where the voting interest or stock is held by members, and the governing body is elected by the members on the basis of one vote per member.
 - iii) A business wherein the majority of stock is owned by an employee stock ownership plan.
 - b) "California capital programs" means state programs offering capital assistance to businesses, including, but not limited to, the Small Business Loan Guarantee Program, the State Small Business Credit Initiative, the California Rebuilding Fund, and the California Capital Access Program.
 - c) "Eligible worker-owned cooperative" has the same definition as that term is defined in a specified section of the [federal Internal Revenue Code](#), which states that an eligible worker-owned cooperative includes any of the following organizations:
 - i) An organization subject to the tax treatment of a cooperative, [as specified in the federal Internal Revenue Code](#).
 - ii) An organization where a majority of the membership is composed of employees of such organization.
 - iii) An organization where a majority of the voting stock is owned by members.
 - iv) An organization where a majority of the board of directors is elected by the members on the basis of 1 person 1 vote.

- v) An organization where a majority of the allocated earnings and losses of which are allocated to members on the basis of (1) patronage, (2) capital contributions, or (3) some combination of (1) and (3).
- d) “Employee stock ownership plan” or “ESOP” has the same definition as that term is defined in a [specified section of the federal Internal Revenue Code](#), which states that an “employee stock ownership plan” means a defined contribution plan which is either of the following:
 - i) A stock bonus plan which is qualified, or a stock bonus and a money purchase plan, both of which are qualified under section 401(a), and which are designed to invest primarily in qualifying employer securities.
 - ii) Otherwise defined in regulations prescribed by the Secretary.
- e) “Employee ownership transition” means the process by of business entering a broad-based employee ownership vehicle.
- f) “Feasibility assessment” means a financial assessment of a company’s debt capacity and other factors that will determine viable employee-ownership transition scenarios.
- g) “Independent ESOP trustee” means an ESOP trustee that is unrelated to the company, its officers, and its shareholders, and is in the business of serving as an ESOP fiduciary.
- h) “Manager” means the Employee Ownership Program Manager.

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) **Why Employee-Owned Businesses?** Employee-owned businesses can take several forms, including worker cooperatives and ownership established through an Employee Stock Ownership Plan (ESOP), which may take the form of stock grants or stock options. ESOPs are the most common form of employee ownership in the US. Both the worker cooperative model and the ESOP can serve as retirement plans for employees through the sale of their stock when they retire.

Employee-ownership has shown to have many advantages, especially during times of economic stress. [One study](#) conducted by Rutgers and funded by the Employee Ownership Foundation found that the majority of employee-owned companies with ESOPs outperformed non-employee-owned firms during the pandemic. More specifically, the study found that compared to other businesses, employee owned firms were:

- 3-4 times more likely to retain non-manager and manager employees.
- 3.2 times more likely to retain staff—even when other businesses received funding through the Paycheck Protection Program and the **employee owned firms did not**.
- Significantly less likely to reduce employees' hours or pay.
- More likely to send employees home to work during the pandemic—and did so earlier.
- More likely to provide employees with personal protective equipment, such as gloves and masks.

In a 2019 [nationwide survey](#) funded by the Employee Ownership Foundation and conducted by a research center at Rutgers University, they found that 72% of respondents would prefer to work for a company owned by the employees. Further, that employee turnover at employee-owned companies is three times lower than at conventionally owned businesses.

While there are many advantages of establishing an employee-owned company the transition to employee ownership should be undertaken with care and can be expensive. One estimate published in 2020 on the costs of establishing an ESOP in 2015, ranged from \$60,000 to hundreds of thousands of dollars. Among other considerations are the initial appraisal, a feasibility study, financial structuring, and the costs of designing the plan, filing government forms, negotiating with lenders, drawing up legal documents, and coordinating financial advisers who set up the classes of stocks.

SB 1407 takes a comprehensive approach to help educate stakeholders about employee ownership, assist business owners and workers in navigating available resources, provide funding for technical assistance, and streamline and reduce barriers to the existing business start-up and transition process. SB 1407 will increase resources for and reduce barriers to employee ownership by:

- Establishing the employee ownership resource center within the Office of the Small Business Advocate.

- Establishing a grant program to increase awareness of the fundamentals of employee ownership transitions and operations.
- Establishing a grant programs to partially subsidize the cost of feasibility assessments, legal fees, and other services that businesses need when transitioning to employee ownership.
- Leveraging the expertise of the resource center to streamline existing funding mechanisms to affirm that employee ownership transitions are an eligible use of funds.

The author has also made a \$20 million budget request to fund the bill related activities by the Office of the Small Business Advocate and the establishment of the outreach/education and conversation assistance programs.

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 beginning 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.

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 missing race/ethnicity.

- 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. Employee-owned businesses could play an important role in disbursing the benefits of SSBCI funding throughout the state and among historically undercapitalized business owners.

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.

| Chart 3 - California’s Estimated SSBCI Funding* | |
|--|--------------------------|
| 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 Must Encumber 80% of their Funds to Access Next Tranche of Funding | Funding in Tranche | 80% Target |
| 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.

One of the objectives of SB 1407 is to mainstream employee-owned businesses, including ensuring that they are finance-ready and eligible to participate in the state's small business financing programs. Given the challenges the state will face in fully deploying the SSBCI funds, providing education, technical assistance, and small grants to help businesses convert to employee-owned makes sense.

- 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 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 of state procurement activities help many small businesses overcome or at least minimize these difficulties.

- 6) **Proposed Amendments:** Below is a list of amendments the committee members may wish to review when considering the bill.
 - a) Revise the name of the overall activity to the creation of a “Hub” within the Office of the Small Business Advocate, rather than a “Program” to distinguish it from individual grant programs established by the bill.

- b) Consolidate the annual reporting requirements.
- c) Clarify the purpose and applicability of the provisions related to ESOP participation in California capital programs.
- d) Make other technical and conforming changes.

7) **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 establishes GO-Biz to include a newly codified California Business Investment Services Program and the existing Office of the Small Business Advocate. Status: Signed by the Governor, Chapter 475, Statutes of 2011.
- b) **AB 1247 (Medina and Bocanegra) Small Business Finance Center:** This bill establishes the California Small Business Finance Center at the IBank within the Governor's Office of Business and Economic Development and transfers the authority to administer the small business loan guarantee program and other related programs to the California Small Business Finance Center. Status: Signed by the Governor, Chapter 537, Statutes of 2013.
- c) **AB 2849 (M. Bonta) POWER Act:** This bill establishes the Promote Ownership by Workers for Economic Recovery (POWER) Act which requires the Secretary of the Labor and Workforce Development Agency (LWDA) to organize, and members to maintain, a corporation under the Nonprofit Mutual Benefit Corporation Law to function as a membership organization for cooperative labor contractors (CLCs), establish or grant membership to cooperative labor contractors, as defined, and provide management and other business services to its members. Status: Pending in Senate Committee on Labor, Public Employment and Retirement.

REGISTERED SUPPORT / OPPOSITION:

Support

Ownership America (co-sponsor)
 Worker-Owned Recovery California (WORC) Coalition (co-sponsor)
 Project Equity (co-sponsor)
 Alternative Technologies Cooperative
 American Sustainable Business Council
 California State Treasurer
 Cameo - California Association for Micro Enterprise Opportunity
 City of Los Angeles Councilmember Nithya Raman
 Consumer Federation of California
 Cooperacion Santa Ana
 Employee Ownership Expansion Network
 Jewish Vocational & Career Counseling Service
 LA Coop Lab
 Lift Economy
 Pavement Recycling Systems
 Pilipino Workers Center
 Policylink
 Public Counsel
 Redf

The Esop Association
The Foundation for Economic and Social Justice
U.S. Federation of Worker Cooperatives
United Taxi Workers of San Diego
Uptima Entrepreneur Cooperative
Ventures

Opposition

None on file

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