

Joint Legislative Hearing on The Role of Innovation in California's Post-Recession Economy

Legislative History: Major Bills related to Accessing Capital

Even as many areas of California are pulling out of the recession, businesses continue to report that they face challenges in accessing and retaining credit through traditional financial institutions. For their part, financial institutions report that stricter federal regulations have left them with little flexibility in applying underwriting criteria to a business community that has been hard hit during the recession. Other sources of businesses capital have also been impacted by the recession with estimates of billions of dollars of corporate and investment sitting and waiting for more certainty in the global, national and regional economies.

Accessing capital has been especially difficult for small businesses and early stage companies. Supporting solutions to the capital needs of these small size businesses is important to the state's immediate and long term economy. California has one of the largest, by total number and percentage of firms, in the US. Over 97% of businesses in California have less than 100 employees, which represents over 38% of all workers in the state. A 2011 study by the Kaufman Foundation further underscores their importance with its finding that 90% of all jobs created between 1997 and 2000 in the US came from small and early stage firms. Consistent with these findings, data from the U.S. Census Bureau shows that from 1990 to 2003 nearly 80% of jobs created in the US came from firms employing 20 or fewer employees. This link will help you access a Fast Facts on California's small businesses.

Many industry sectors are also highly reliant on small businesses to fill key roles in the development, production and deployment of new products and technologies. For decades, automobile plants have operated under a distributed production model whereby components, some partially assembled, are brought to the plant where the final assembly and quality controls are completed. Rather than small and large businesses competing they collaborate in order to produce higher value products. This distributed production model has been adapted and recreated and now is a prevalent method for undertaking a range of R&D and production activities. Information technology and more efficient transportation systems have also allowed small businesses from around the world become participants in the global supply chains.

Below is a selection of legislation from the last three sessions, which were designed to address the access to capital needs of dominant and emerging industry sectors within California's innovation-based economy. Some bills focus on manufacturing, others address challenges for small and start-up companies, and still others were introduced to help communities become more investment ready through the provision of business incentives.

AB 232 (Price) Economic Opportunity Initiative Program: This bill would have established a pilot project, the California Economic Opportunity Initiative Program, for the purpose of helping low-income communities become investment ready through the assistance of community development organizations. Status: The bill was held in the Assembly Committee on Jobs, Economic Development and the Economy, 2009.

AB 624 (John A. Pérez) - California Organized Investment Network: This bill extends the operation of the credits until January 1, 2017, and require the Insurance Commissioner to establish a California Organized Investment Network Advisory Board, as specified, to advise the California Organized Investment Network on the best methods of increasing insurance investments while providing fair returns to investors and social benefits to underserved communities. Status: Signed by the Governor, Chapter 436, Statutes of 2011.

AB 816 (Carter) Microenterprise Development Organizations: This bill would have established a \$5 million program at the Business, Transportation and Housing Agency for the purpose of making capacity-building grants to microenterprise development organizations. Status: The bill was held in the Assembly Committee on Jobs, Economic Development and the Economy, 2009.

AB 894 (V. Manuel Pérez) - California Manufacturing Competitiveness Act of 2011: This bill would have established a loan and loan guarantee program to enable the state to draw down federal dollars to support the retooling and expansion of manufacturing in California. Status: The bill was vetoed by the Governor, 2009.

AB 904 (V. Manuel Pérez) Local Authority for Manufacturing Incentives: This bill provides a tool to local municipalities to provide capital investment incentives to attract manufacturers of component parts for renewable energy generation to their regions. Status: The bill was signed by the Governor, Chapter 486, Statutes of 2009.

AB 910 (Mullin) Life Science Ombudsman: This bill would have established a Life Sciences Program and the position of Life Sciences Ombudsman within BT&H to serve as a liaison between the life sciences industry and the State. Status: The bill was held in the Assembly, 2006.

AB 1009 (V. Manuel Pérez) Economic Recovery Bonds: This bill initially authorized the establishment of a direct loan program for the purpose of providing loans to qualified businesses. Final amendments were taken to strike the language in the bill, and instead, made changes in state law in order to best leverage the \$2.3 billion in new bond authority provided to states under the federal American Economic Recovery and Reinvestment Act. Status: The bill was signed by the Governor, Chapter 648, Statutes of 2009.

AB 1106 (Fuentes) Clean Tech Small Business Loans and Guarantees: This bill authorizes the California Energy Commission to contract with small business financial development corporations to expend Alternative and Renewable Fuels and Vehicle Technology Program funds. Status: The bill was signed by the Governor, Chapter 356, Statutes of 2010.

AB 1124 (Skinner) Energy Efficiency and Job Creation: Directs the PUC to assess the extent to which electric and gas corporations comply with the key principles including: Achieving maximum energy savings; maximizing opportunities of leveraging private capital; and encouraging job creation and training opportunities, with an emphasis on skilled occupations necessary for installation of highly efficient energy savings measures. Status: Pending in the Senate Committee on Energy, Utility and Commerce.

AB 1137 (V. Manuel Pérez) Small Business Assistance and Attracting Private Investment:

This bill facilitates local economic development and job creation by assisting small business to access new export markets for their goods and services, updating the law relating to free trade zones, and authorizing the use of new federal funds under the Small Business Jobs Act of 2010. Status: The bill is pending in Senate Committee on Appropriations, August 2012.

AB 1379 (Bradford) Pension Investments in Emerging Domestic Markets: This bill would have required any state or local pension system with assets over \$4 billion to report annually to the Controller specified information on emerging domestic market investments, and authorizes the Controller to compile and publish the information on its Internet Web site. Status: The bill was vetoed by Governor, 2010.

AB 1418 (Arambula) Community Development: Banks and Credit Union. This bill would have improved the transparency on how financial institutions undertake community development and business development activities. The bill requires the Business Transportation and Housing Agency to track Community Reinvestment Act commitments over \$5 million made by state and federal-chartered banks. The bill also facilitates the exchange of information on how credit union leaders are using their existing resources, deployed under existing statute and regulation, to undertake community development activities and offer small business and microenterprise financing. Status: The bill was vetoed by the Governor, 2008.

AB 1431 (Arambula) Investment Guarantee Program: This bill would have established the Early Stage Investment Guarantee Program, administered through the Small Business Loan Guarantee Program, for the purpose of assisting small businesses in attracting investors during the early years of their companies growth, as specified. Status: The bill was held in Senate Appropriations, 2008.

AB 1527 (Arambula) California Cleantech Advantage Act: This bill would have established the California Cleantech Advantage Act of 2007 to provide enhanced research and development income tax credits to small businesses undertaking research related to clean technologies. One provision increases the value of the applied research and development credit from 15 to 20%. The other provision authorizes a 10% salable credit to help raise working capital. Both credits expire once the Air Resources Board implements its broader GHG emission reduction program in 2012. Status: The bill was held in _____, 2008.

AB 1550 (Arambula) G-TEDA Reforms: This bill made a number of significant changes to the management and oversight of the G-TEDA programs. This bill is the result of extensive oversight hearings and extended discussions with stakeholder groups. Some of the key provisions include:

- Requiring Targeted Employment Area boundaries be updated within 180 days of new census data becoming available.
- Requiring new enterprise zone applications be ranked based on their economic development strategy and implementation plan, including the extent the strategy: sets reasonable and

measurable benchmarks, goals, and objectives; identifies local resources, incentives, and programs; provides for the attraction of private investment; includes regional and community-based partnerships; and, addresses hiring and retention of unemployed or underemployed residents or low-income individuals.

- Adding a new audit element that requires the review of an enterprise zone's administrative support and whether financial commitments made in the G-TEDA application and memorandum of understanding have been kept.
- Requiring G-TEDAs to biennially report to HCD on their progress in meeting the goals and objectives identified in their implementing MOU.

Status: The bill was signed by the Governor - Chapter 718, Statutes of 2006.

AB 1651 (Arambula) Cleantech Credit on New Equipment: This bill would have authorized a 10% income tax credit for the purchase of cleantech equipment by small businesses. The credit expires once the Air Resources Board implements its broader GHG emission reduction program in 2012. Status: The bill was held in the Assembly Revenue and Taxation Committee, 2008.

AB 2052 (Haynes) California New Market Venture Capital Program: This bill would have created the California New Markets Venture Capital Program, which guarantees the debentures of certified companies to support investment in small enterprises located in low- or moderate-income geographic areas, and makes grants to community development corporations. Status: The bill was held in the Assembly Jobs, Economic Development, and the Economy Committee, 2006.

AB 2026 (Fuentes) Film Tax Credit - Extends the authority for the California Film Commission to allocate the film tax credit for an additional five years, from July 1, 2015 to July 1, 2020. Status: The bill pending the Assembly Committee on Appropriations.

AB 2037 (Davis and V. Manuel Pérez) New Markets Tax Credit - Establishes a state new Market Tax Credit Program that is applicable to environmental justice, as well as other economic development projects in lower income areas. Status: The bill is pending in the Assembly Committee on Appropriations.

AB 2506 (V. Manuel Pérez) Innovation and Job Creation Act of 2012 - Authorizes a comprehensive set of enhancements to tax incentive programs and administrative procedures including a manufacturing sales tax exemption, increased R&D credits and secondary education donation credits for the purpose of creating jobs and supporting innovation-based businesses. Status: The bill was held in the Assembly Business, Professions and Consumer Protection.

AB 2523 (Hueso) I-Bank and Participation Loan Agreements - Authorizes the I-Bank to enter into loan participation agreements with financial institutions for loans made to small businesses. Under a loan participation agreement, the I-Bank would purchase a portion of an outstanding small business loan. Status: the bill is pending in the Senate Appropriations Committee.

AB 2267 (Fuentes) California-Based Entities - Self-Generation Incentive Program: This bill requires the California Energy Commission to give priority to California-based entities in making awards under the Public Interest Energy Research program and provides a 20% additional incentive for California suppliers, as defined, that install eligible distributed generation resources for the Self-Generation Investment Program. Status: The bill was signed by the Governor, Chapter 537, Statutes of 2008.

AB 2437 (V. Manuel Pérez) California Manufacturing Competitiveness Act of 2010: This bill would have authorized the establishment of the California Manufacturing Competitiveness Act of 2010 for the purpose of financing the retooling and expansion of California's manufacturing facilities, support a vibrant logistics network and retain and create jobs. Status: The bill was vetoed by the Governor, September 2010.

AB 2502 (Arambula) Small Business Tax Credit Transfers: This bill would have authorized a taxpayer who does business within a geographically-targeted employment area with fewer than 50 employees to apply excess income tax credits toward other types of tax liabilities, i.e., sales tax. Status: The bill was held in the Assembly Revenue and Taxation Committee, 2006.

AB 2570 (Arambula) Community Reinvestment: This bill would have required the Secretary of BT&H establish a statewide partnership with business and industry sectors to develop a strategy to attract new private investment to the state. In addition, the bill requires public pension funds with assets over \$4 billion to annually report to the state on their investments in California and emerging domestic markets, i.e., historically underserved areas and groups in the state. Status: The bill was vetoed by the Governor, 2006.

AB 2589 (Sharon Runner) Transfer of Tax Incentives Across Zones: This bill would have authorized a business that operates in more than one EZ to apply the aggregate value of all EZ-related income tax credits earned toward its aggregate tax liability from all EZs. Additionally, the provisions of this bill apply to the sales and use credit and the hiring credit under the corporate tax and personal income tax. Status: The bill was held in the Assembly Revenue and Taxation Committee, 2006.

AB 2636 (Arambula) Emerging Domestic Market Data Consortium: This bill would have authorized the establishment of a public/private consortium for the creation and maintenance of a comprehensive database of financial and other related information on emerging domestic markets. Status: The bill was held under submission in the Assembly Committee on Appropriations, 2008.

SB 401 (Wolk/V. Manuel Pérez) Tax Conformity and ARRA Cash Grants for Renewable Energy: This bill brought several provisions within state tax law into conformity with federal rules. In particular, the bill provides tax relief to those who have gone through foreclosure or short sale on a primary residence. The bill changes state tax law so that forgiven mortgage debt is not treated as taxable income. Another provision in the bill supports green jobs in California by ensuring that renewable energy projects are not unduly taxed on federal ARRA-funded cash grants that are made in-lieu of renewable energy tax credits. This bill provides an exclusion

from taxation for these specified grants, bringing California in conformity with federal law, and helping drive the immediate creation of large scale solar projects in our State. Status: The bill was signed by the Governor, Chapter 14, Statutes of 2010.

SCR 53 (Corbett) Incentives to keep NUMMI Motors in Fremont, California: This bill memorializes the Legislature's priority to take swift and decisive action to protect California workers and industries including doing everything in its power to keep the New United Motor Manufacturing Inc. (NUMMI) facility open. Status: The resolution was adopted by the Senate and Assembly, Resolution Chapter 30, Statutes of 2009.