DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: August 15, 2011
POSITION: Oppose

BILL NUMBER: AB 901
AUTHOR: M. Perez
RELATED BILLS: AB 796, AB 981, SB 225

<u>BILL SUMMARY</u>: Economic Development: Small Bus. Dev. Centers

This bill would:

- Establish the California Small Business Development Center Program in statute for the purpose of supporting further development of the state's network of services to small businesses; identifying the duties of a Small Business Development Center (SBDC) and the lead centers; and directing the program to work collaboratively with other specified entities, to the extent feasible.
- Establish the Small Business Administration Account within the California Economic Development Fund for the sole purpose of providing state funds for SBDCs to match federal grants.
- Impose additional data reporting requirements on SBDCs and the Business, Transportation and Housing Agency.
- Authorize SBDCs to charge reasonable fees for training services provided.
- Expand the definition of a financial institution that may participate in the Capital Access Loan Program for Small Businesses (CalCAP), administered by the California Pollution Control Financing Authority (CPCFA), to include depository institutions, insured credit unions, and community development financial institutions.
- Require CPCFA to provide specified reporting in the annual report to the Governor and the Legislature for new loans.

FISCAL SUMMARY

While the bill does not appropriate funds for the SBDC matching costs, it would result in a General Fund pressure of up to $6.2 million to provide matching funds to SBDCs and fund Business Transportation and Housing Agency costs, consistent with the current program level.

This bill would have minor and absorbable fiscal impact for CPCFA.

COMMENTS

Finance is opposed to this bill for the following reasons:

- Establishing a new fund for the purpose of providing SBDCs with state matching funds would create a new General Fund pressure, since it is not in the current expenditure plan. While the Legislature has discretion to provide no funding or to only partially fund the match, in 2010 $6 million was needed to fund the current level of federal funds received by SBDCs. The SBDCs have done fund raising for the match in most years since 2002, so the SBDCs could continue to raise matching funds. Additionally, SBDCs are not state agencies and the bill does not provide for appropriate oversight or fiscal controls. This program was subject to federal audit findings when it was funded through the California Trade and Commerce Agency, which resulted in the state making an $861,000 General Fund refund to the federal Small Business Administration for disallowed expenditures.

Analyst/Principal	Date	Program Budget Manager	Date
(0741) P. Abahazi		Mark Hill	

Department Deputy Director	Date

Governor's Office:	By:	Date:	Position Approved_______
			Position Disapproved

AUTHOR	**AMENDMENT DATE**	**BILL NUMBER**
M. Perez	August 15, 2011	AB 901

- This bill is not necessary. SBDCs have been operating in California for a number of years. There are six regional centers and many local centers operating in California with considerable information available on the internet.

Finance has no concerns regarding the changes affecting CalCAP.

ANALYSIS

A. Programmatic Analysis

Small Business Development Centers

Under existing law, the California Small Business Development Centers (SBDC) are not state agencies and therefore not subject to state oversight.

This bill would establish the Small Business Development Center Program and define a Small Business Development Center (SBDC) as an entity that contracts with the federal Small Business Administration to administer the federal program funds. The bill defines a lead center as a center that provides oversight to a region, and requires a lead center to report to the Secretary of the Business, Transportation and Housing Agency (BTH) every year the state revenues are expended in the lead center's region. The bill requires the BTH to compile the regional reports and provide the information to the Governor and the Legislature, as well as to post the report on its website no more than three months after the end of reporting period.

The bill would also create the Small Business Administration Account within the California Economic Development Fund, which is administered by the BTH, for the sole purpose of providing state funds to match federal funds received by SBDCs under the Small Business Development Center Act.

Discussion:

The SBDC program existed under the California Trade and Commerce Agency (TTCA), but there was no successor state agency when TTCA was abolished in 2002. The SBDCs are formed as nonprofit entities funded through a combination of federal and private moneys which exist to assist entrepreneurs grow their businesses through direct consulting, workshops and seminars. There are lead centers for designated geographic regions which oversee a group of local service centers. While the SBDCs are required to provide matching funds to qualify for federal funds, state funding has not been provided since the TTCA was abolished, except in 2010 when the Legislature provided $6 million (General Fund) through an appropriation provided by Chapter 731, Statutes of 2010 (AB 1632/Perez). In other years, the SBDCs have had to put together matching funds from local entities, corporate sponsorships, competitive one-time grants, and contracts with state entities. The SBDCs contend that the raising matching funds would distract the centers from their core mission of providing services to small busnesses.

By establishing the Small Business Administration Account, the bill creates pressure to provide General Fund resources in the future. The SBDCs currently qualify for $12 million in federal funds, which requires $6 million other funds to match. Additionally, if the state provides matching funds, the federal Small Business Administration could view the state as having oversight over the SBDC program. Some of the SBDCs were subject to federal audit findings for the 2001 fiscal year when the program was within the TTCA. The audit findings found there was a lack of management control and oversight which resulted in a number of disallowed expenditures. As a result, the state was required to refund $861,000. This bill does not provide BTH with a defined oversight role when state funds are provided to SBDCs to ensure that the SBDCs have sufficient fiscal controls in place. While BTH could adopt regulations, it is unclear whether the bill provides sufficient authority for BTH to impose fiscal oversight.

Capital Access Loan Program

Existing law provides for the CPCFA to administer CalCAP for the purpose of encouraging financial institutions to make loans to small businesses (for projects to prevent or reduce environmental pollution) that are slightly outside of conventional underwriting standards. CalCAP provides a form of loan portfolio insurance that may cover up to 100% on certain loan defaults.

This bill would allow additional categories of financial institutions to participate in CalCAP and require additional information on new loans to be included in the annual report to the Legislature and Governor. Additionally, the bill would revise the classifying of businesses from the Standard Industrial Classification code to the North American Industry Classification System. Additionally it would expand the definition of financial institution to include insured depository institutions, insured credit unions, and for profit community development financial institutions.

Discussion:

Each lender is entirely liable for its loan losses; however, those losses can be reimbursed from each lender's loan loss reserve account. A loan loss reserve account is established for each participating lender with contributions made by the lender, the borrower, and CalCAP each time a loan is enrolled under CalCAP. For example, if the lender and the borrower each pay a 2% premium, CalCAP will typically pay 4%, thus totaling altogether 8% of the loan amount. As the lender enrolls more loans, the dollar value of the loss reserve account increases and often provides between 8% to 14% loss coverage for the portfolio of covered loans. When a borrower defaults on an enrolled loan, the lender has immediate coverage (up to 100%) of the loss. Any amount recovered from the borrower relating to the loan default, less the lender's expenses for recovery, is returned to the portfolio loss reserve account.

The latest version of the bill conforms the definition of financial institution to changes proposed in AB 981 (Hueso, 2011), which is sponsored by STO.

Related Legislation:

AB 796 (Blumenfield,) would increase the maximum contribution to a loan loss reserve account from $100,000 to $200,000, if the matching contribution made by CPCFA is funded exclusively from funds made available pursuant to the federal Small Business Jobs Act of 2010, as specified. The STO has no position on this bill.

AB 981 (Hueso, 2011) would allow CPCFA greater flexibility to contribute to loan loss reserve accounts related to loans provided in areas qualifying as "Severely Affected Communities" and make other non-substantial technical changes. This bill is sponsored by the STO.

SB 225 (Simitian, 2011) would allow certain truck leases to qualify for the CalCAP loan loss reserve contributions provided by the Air Resources Board, encouraging California fleets to purchase vehicles in compliance with recent regulation. This bill is supported by the STO.

B. Fiscal Analysis

Although funding would be provided by a future appropriation, the bill creates a General Fund pressure of up to $6 million to provide state funds to the SBDCs to match federal grants.

AUTHOR	**AMENDMENT DATE**	**BILL NUMBER**
M. Perez	August 15, 2011	AB 901

The implementation and administration of the program would require BTH to develop regulations, allocate the funds, and comply with reporting requirements. The BTH would need a Staff Services Manager II and an Associate Governmental Program Analyst at an annual cost of $196,000 (General Fund). However, the BTH would only be required to do these activities in years where an appropriation is provided. This program has only been funded once since 2002.

The fiscal impact for CPCFA would be minor and absorbable.

	SO	(Fiscal Impact by Fiscal Year)							
Code/Department	LA	(Dollars in Thousands)							
Agency or Revenue	CO	PROP							Fund
Type	RV	98	FC	2011-2012	FC	2012-2013	FC	2013-2014	Code
0520/Secty BT&H	SO	No	C	$98	C	$196	C	$196	0001
0520/Secty BT&H	LA	No	C	$0 - 6,000	C	$0 - 6,000	C	$0 - 6,000	0001