Hearing held by:

Assembly Committee on
Jobs, Economic Development, and the Economy
And
Assembly Budget Subcommittee No. 4 on State Administration

# California's Economic Development Programs: Meeting the Challenges of Today's Economy

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And
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Tuesday, March 27, 2007

Report Prepared by: Assembly Committee on Jobs, Economic Development, and the Economy

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# California's Economic Development Programs: Meeting the Challenges of Today's Economy

The Assembly Jobs, Economic Development, and the Economy Committee (JEDE) and the Assembly Budget Subcommittee No. 4 on State Administration are the policy and fiscal committees within the California State Assembly responsible for providing oversight of the state's economic development programs and services.

## Part I

This Part provides an overview of the paper and frames the key issues to be examined during legislative hearings.

### Section I – Introduction

The purpose of this paper is to provide background and identify trends to assist Assembly Members during their ongoing discussions on business and workforce development in California. The Committees view economic and workforce development in the broadest context to include policies, programs and services that relate to debt and equity financing for business development; the development, expansion, and rehabilitation of infrastructure that supports research, education, manufacturing, and goods movement; the education and training of entrepreneurs, inventors, professionals, and other workers essential to the California economy; the attraction of private foreign and domestic investment; and, the expansion of markets locally, regionally, and globally.

On March 27, 2007, these two Committees will convene a joint hearing to examine the state's economic and workforce development policies, programs, and services, and their ability to meet three challenges facing California's economy today and into the next decade, including:

1. How to retain California's global competitiveness in technology related industries, including cleantech;

2. How to increase private investment in emerging domestic markets; and,

3. How changes in the global manufacturing supply chain may affect California's economy.

It is anticipated that additional hearings will be necessary to fully examine these complex issues. This paper will be updated periodically to reflect the Committees' deliberations, along with research conducted by, and presentations submitted to, the Committees.

## Definition of Economic Development and Workforce Development

There are varying definitions of "economic development." One of the most common definitions is any activity that improves productive output through policies that enhance factors affecting economic conditions. Those factors may include, for example, improved mobility and access to land, education for a trained and adequate workforce, or tax incentives that attract business investment. Further, economic development may be viewed as public investments that induce actions that have a positive effect on the level of business activity, employment, income generation and distribution, and the fiscal solvency of the state.

The term "workforce development" also has a relatively wide range of associated activities, policies, and programs. One perspective is that the term simply represents a way of describing career and technical education. A more expansive view of workforce development includes the entire learning-for-work enterprise, encompassing the skills, knowledge and behaviors that are needed by the workforce to deliver services both now and in the future, as well as how they will be delivered.

## Possible Issues for Consideration

During the course of these hearings, Committee members may wish to examine the following issues:

- Does the state have the optimal mix of policies, programs, and services to meet the current and near-future economic challenges facing California?
- Does the state have the optimal mix of policies, programs, and services to attract the private sector investment to achieve state economic development objectives?
- Is the current administrative structure for providing programs and services conducive to the growth and sustainability of California’s economy?
- Does the current administrative, fiscal, and programmatic structure proactively support emerging technologies and innovative processes?
- Do the current policies, programs, and services strengthen historically weak regional or local economies, and thereby reduce future public costs for public assistance, law enforcement, and public health?

The Committees may also wish to assign research topics for consideration at future hearings or request that other policy or fiscal committees participate in the discussion.

## Organization of this Paper

This paper is organized into five parts: Part I, Section One, provides an overview of the paper and frames the key issues to be examined during legislative hearings. Part II, containing Sections Two and Three, provides background on the role of the state's economic development activities within a regional, state, national, and global context, and outlines the three economic trends being discussed at the March 27, 2007 hearing.

Part III, containing Sections Four through Eight, provides a catalog of the state's policies, programs, and services relating to economic and workforce development. Not all of the programs and services reviewed in these sections fall within the specific jurisdiction of the Committees; however, any review of the state's overall economic and workforce development strategy would be incomplete without reflecting on the purposes of these programs.

Part IV, containing Sections Nine and Ten, provides background on economic and workforce development-related programs offered in other states and by the federal government. Part V, containing the final section of the paper, summarizes key findings and proposes future actions for consideration by the Committees.

Summaries of key information have also been included in the appendices for easier reference, including:

- Appendix A: A list of "fast facts" on the California Economy;
- Appendix B: A summary of key legislation;
- Appendix C: Background on the California Business Portal; and,
- Appendix D: An expanded list of federal programs available to small business and microenterprises.

Updates of this paper will include hearing agendas, summaries of significant issues addressed at each hearing, and materials submitted for the Committees' consideration.

# Part II

This Part includes Sections Two and Three of the paper, which provide background on the role of the state's economic development activities within a regional, state, national, and global context, and outlines the three economic and workforce development themes being discussed at the March 27, 2007 hearing.

## Section II – The Role of Economic Development in the California Economy

This section provides general background on the California economy, including information on the total value of the California economy, key industries, and regional profiles.

### The California Economy

California is the eighth largest economy in the world, with a gross state product of over $1.7 trillion. The state's significance in the global marketplace results from a variety of factors, including: its strategic west coast location, providing direct access to the growing markets in Asia; its diverse regional economies; its large, ethnically diverse population, representing both a ready workforce and significant consumer base; its access to a wide variety of venture and other private capital; its broad base of small- and medium-sized businesses; and, its culture of innovation and entrepreneurship, particularly in the area of high technology.

The state's economy is not dominated by a single industry; rather it is comprised of a variety of industry clusters throughout the state. California's largest industry sectors are trade, transportation, and utilities, which encompass major retail outlets, import-export businesses, transportation, and warehousing. The state leads the nation in export-related jobs. Other major nongovernmental industries include professional and business services, educational and health services, and manufacturing.

While Agriculture is no longer among the top three industry sectors in California, it is still a significant component of the state's economy. In 2004, direct sales from California agriculture were approximately $32 billion, an increase of 10% from the previous year. California has some of the most productive agricultural regions in the world. Nearly 30% of California's agricultural production is exported.

### Small Business is the Foundation of the California Economy

Small businesses form the core of California's $1.7 trillion economy, comprising more than 90% of all businesses, and responsible for employing more than 50% of all workers in the state. California's 2.6 million microenterprises (88% of all businesses) are responsible for creating jobs, generating taxes and revitalizing communities. Microenterprises employed over 19% of all workers in California in 2003. In 2002, the most recent data available, microenterprises generated $238 billion in taxable revenues.

During the nation's economic downturn from 1999 to 2003, microenterprises created 318,183 new jobs (77% of all employment growth), while larger businesses with more than 50 employees lost over 444,000 jobs. From 2000 to 2001, microenterprises created 62,731 jobs in the state, accounting for nearly 64% of all new employment growth.

Common types of microenterprises include engineering, computer system design, housekeeping, construction, landscaping, and personnel services.

## Changing Demographics in the Workplace

California's business owners and workers are very diverse. A 2000 report by the Milken Institute's Center for Emerging Domestic Markets, in collaboration with the United States (U.S.) Department of Commerce, found that minority-owned firms are surpassing the growth of all U.S. businesses, growing at a rate of 17% per year, six times the growth rate of all other firms. Minority firms' sales are growing 34% per year—more than twice the rate of all other firms.

These findings should be expected as the general population of the U.S. and California, in particular, is becoming substantially more diverse. The 2000 census reported California as being a state with no single majority ethnic group. It is expected that when the 2010 census is undertaken, the Latino population will be reported to have grown to over 50% of the general population of California.

The Milken Institute's report also found that of the estimated $95 billion in the private equity market in 1999 (nationwide), only $2 billion is managed by companies whose focus is supplying capital to entrepreneurs from traditionally underserved markets. Despite advances in venture capital, mezzanine debt, and asset-backed securitization, the vast majority of minority firms do not have access to the types of financing available to larger companies.

These demographic shifts will likely have significant impact on California's economy. Aggressive new policies may be needed to enhance minority and women business owner's access to credit and other types of business assistance.

## Economic Development in California's Regional Economies

California is not only one of the largest economies in the world, it is also one of the most economically diverse. The state's economy is not dominated by a single industry; rather it is comprised of a variety of industry clusters throughout the state. Microenterprises exist in almost every industry cluster. In many industry clusters, these firms are essential partners for larger firms, performing specialized services and functions.

To gain a better understanding of the state's multifaceted economy, the California Economic Strategy Panel (ESP), working in collaboration with the Employment Development Department, established the California Regional Economies Project (Regional Economies Project) in 2003. As a first step, the Regional Economies Project undertook an analysis to determine the state's primary economic regions. From this analysis, ESP prepared regional economic profiles, which have become a basic building block for groups undertaking their own community development activities.

As an example, the California Partnership for the San Joaquin Valley, a group established by Governor's executive order in 2005, used its regional profile as a foundation for the development of an economic development action plan. Policymakers also use these profiles for developing and analyzing legislation, initiatives, and other community development activities.

Below is a listing of the state's nine economic regions, with some basic information from the Regional Economies Project on small businesses, microenterprise, current and emerging industries, and employment characteristics.

It is interesting to note that for each region, the greatest number of net new business establishments occurred in private homes. This is a testament to the fact that small business, and in particular microenterprises, remain a key component of the state's economic development profile. Furthermore, this fact is very indicative of the high level of entrepreneurship that underlies the state's regional economies.

Every one of the nine economic regions has a significant number of residents who are typically investing their own savings to start homegrown businesses. These large numbers of entrepreneurial, home-based microenterprises have significant implications for issues concerning access to capital, goods movement, workforce requirements, labor law enforcement, participation in state and local government procurement programs, streamlining licensing, permitting and regulatory requirements, and for new business incubator programs.

Northern California

The Northern California region consists of 11 counties along the north coast, Oregon border, and northeastern Sierra Nevada. These counties are heavily dependent on natural resources, with the majority of the land consisting of public and privately owned forest and grazing lands. The region as a whole is sparsely populated and underdeveloped.

Businesses with fewer than 50 employees comprise 97% of total employers. Businesses with four or fewer employees represent 76.8% of all businesses and employ 10.6% of all employees. Industry clusters with the greatest economic opportunity (1990-2002) include: government, retail trade, and health care and assistance.

During the period from 2001-2004, the Northern California Region reported a net increase of over 900 private industry establishments. Most of these were classified as Private

Households, Residential Building Construction, and Specialty Trade Contractors. Construction accounted for the largest number of new jobs.

Other key industry clusters which comprise the region's economic base are: the Food Chain; Retail Trade; Professional, Scientific and Management Services; Health Services and Health Sciences; Entertainment and Tourism; Other Services; and, Government. Businesses within the region's economic base accounted for 80% of total employment.

Northern Sacramento Valley

This region consists of the counties of Shasta, Tehama, Glenn, Butte, and Colusa. These counties are primarily agriculture-based, with forestry and farm-related manufacturing centered in Shasta County. This region differs significantly from its neighboring regions in land ownership and industrial composition.

Businesses with fewer than 50 employees comprise 96.2% of total employers. Businesses with four or fewer employees represent 65.1% of all businesses and employ 8.4% of all employees. Industry clusters with the greatest economic opportunity (1990-2002) include: government, health care and assistance, and retail trade.

Private Households, Ambulatory Health Care Services, Residential Building Construction, and Specialty Trade Contractors accounted for the majority of the 3000 net new private industry business establishments that were created between 2001 and 2004. Once again, construction accounted for the largest number of new jobs.

Other industry clusters rounding out the region's economic base include: the Food Chain; Construction; Retail Trade; the Manufacturing Value Chain; Administrative Support & Waste Management Services; Health Sciences and Services; Entertainment and Tourism; Other Services; and, Government. Businesses within these clusters contained over 85% of the region's total employment.

Greater Sacramento

This region consists of six counties, which are becoming increasingly interdependent: Sacramento, Yolo, Placer, El Dorado, Sutter, and Yuba. Although eastern Placer and El Dorado counties are currently more closely aligned with the greater Lake Tahoe area, most of the new growth in those counties is occurring in the western portions. As a result, the economic base is increasingly shifting towards the Sacramento area. Parts of Sutter and Yuba counties are currently more closely aligned with the Northern Sacramento Valley agricultural areas, but much of the new growth is occurring along Highways 65, 70, and 99 in the direction of Sacramento County.

Businesses with fewer than 50 employees comprise 95.1% of total employers. Businesses with four or fewer employees represent 61.9% of all businesses and employ 6.1% of all employees. Industry clusters with the greatest economic opportunity (1990-2002) include: health and biomedical, visitor services, and construction.

From 2001 through 2004, the Greater Sacramento region reported a net increase of almost 9900 private industry establishments. The industry sectors reporting the largest increase in the number of establishments include: Private Households; Professional, Scientific and Technical Services; and, Specialty Trade Contractors. Construction provided the greatest job growth in the region.

Other industries which figure prominently in the region's economic base are: the Food Chain; Construction; the Manufacturing Value Chain; Wholesale Trade; Health Sciences and Services; Basic Information Services; Professional, Scientific, Technical & Management Services; Entertainment and Tourism; and, Government. These clusters held almost 68% of the region's total jobs.

<u>Bay Area</u>

Traditionally, the nine counties that border the San Francisco Bay have comprised the Bay Area region. However, Santa Cruz County has now become more dependent upon the Bay Area region than on the Central Coast region and is now considered part of the Bay Area regional economy.

Businesses with fewer than 50 employees comprise 95.2% of total employers. Businesses with four or fewer employees represent 63.7% of all businesses and employ 6.3% of all employees. Industry clusters with the greatest economic opportunity (1990-2002) include: biomedical and health; management, creative, and business services; and, computer, semiconductor, and electronic manufacturing.

During the period 2001-2004, the Bay Area reported a net increase of 15,800 private industry establishments. While the number of establishments grew steadily in this period, there still were significant job losses in all industry sectors comprising the region's economic base, except for Health Sciences and Services.

The industry clusters adding the largest number of new establishments include: Private Households; Food Services & Drinking Places; and Ambulatory Health Care Services. Other industry clusters comprising the region's economic base are: the Food Chain; Construction; the Manufacturing Value Chain; Wholesale Trade; Health Sciences & Services; Professional, Scientific, Technical & Management Services; Entertainment and Tourism; and Government. Collectively, industries within the region's economic base accounted for 69% of the total jobs.

<u>San Joaquin Valley</u>

The San Joaquin Valley region is composed of eight counties that line the southern Central Valley, and have economies based upon agriculture and related industries. Sixty percent of the region consists of privately-owned farmland.

Businesses with fewer than 50 employees comprise 94.6% of total employers. Businesses with four or fewer employees represent 62.8% of all businesses and employ 5.5% of all employees. Industry clusters with the greatest economic opportunity (1990-2002) include, government, retail trade, and manufacturing.

In the period from 2001 through 2004, the region experienced a net increase of 9100 private industry establishments. The industry sectors reporting the greatest increase in the number of establishments were: Private Households; Ambulatory Health Care Services; and, Specialty Trade Contractors. The largest number of job gains occurred in the Construction sector.

Other industries figuring prominently in the region's economic base are: the Food Chain; Construction; the Manufacturing Value Chain; Retail Trade; Administrative, Support & Waste Management Services; Health Sciences and Services; Professional, Scientific, Technical and Management services; Entertainment and Tourism; Other Services; and Government. This region's economic base accounts for 96% of total jobs.

<u>Central Sierra</u>

The seven southeastern counties of the Sierra Nevada represent a distinct geographic and economic region. The region is largely government owned, sparsely populated, and composes a small share of state economic activity. As a result, the region requires a different economic development strategy than neighboring regions

Businesses with fewer than 50 employees comprise 96.7% of total employers. Businesses with four or fewer employees represent 61.1% of all businesses and employ 9.4% of all employees. Industry clusters with the greatest economic opportunity (1990-2002) include: government, accommodation and food services, and retail trade.

During the period 2001 to 2004, the Central Sierra region had a net increase of almost 300 private establishments. Private Households, Residential Building Construction, and Specialty Trade Contractors were the sectors accounting for the largest increase in businesses. The Government and the Professional, Science, Technical and Management sectors provided the largest increase in the region's jobs.

Other industry sectors rounding out the region's economic base included: Construction; Retail Trade, Administrative, Support, & Waste Management Services; Health Sciences and Services; Real Estate; Professional, Scientific, Technical and Management Services, Entertainment & Tourism; Other Services; and, Government. The region's economic base industries accounted for 88% of total employment.

<u>Central Coast</u>

This region includes three counties – Monterey, San Luis Obispo, and Santa Barbara. The region contains 3% of the state's jobs and a similar percentage of the state's population.

Businesses with fewer than 50 employees comprise 94.8% of total employers. Businesses with four or fewer employees represent 58.9.7% of all businesses and employ 6.4% of all employees. Industry clusters with the greatest economic opportunity (1990-2002) include: government, retail trade, agriculture, forestry, fishing, and hunting.

The Central Coast region saw a net increase of 2500 private business establishments between 2001 and 2004. The largest increases occurred in: Private Households; Professional, Scientific, and Technical Services; Ambulatory Health Care Services (led by physicians); Residential Building Construction; Specialty Trade Contractors; Real Estate; and, Food Services & Drinking Places. Businesses within the Food Chain cluster provided the greatest number of job gains in the region.

Wholesale Trade, Retail Trade, Administrative, Support and Waste Management Services, Health Sciences & Services, Entertainment and Tourism, and Government also figure prominently in the region's economic base. All told, the industries in the economic base for this region provided 82.5% of the total number of jobs.

Southern California

The counties of Los Angeles, Ventura, Orange, San Bernardino, and Riverside comprise an economic interdependent region. Orange County is different from its northern and eastern neighbors, but not to the extent that a separate region is required. The economic linkages between Orange County and its neighbors, particularly Los Angeles County, are fairly strong.

Businesses with fewer than 50 employees comprise 95.4% of total employers. Businesses with four or fewer employees represent 67.7% of all businesses and employ 6.5% of all employees. Industry clusters with the greatest economic opportunity (1990-2002) include: production manufacturing, health and biomedical, and professional and business services.

The Southern California region reported a net increase of more than 132,000 private business establishments from 2001 to 2004. Private Households, Professional, Scientific & Technical Services, and Ambulatory Health Care Establishments led the way with the largest increase in the number or new establishments. The greatest job gains came from the Entertainment and Tourism sector.

Among other key industries in the region's economic base are: the Food Chain; Construction; the Manufacturing Value Chain; Wholesale Trade; Health Sciences and Services; Basic Information Services; and, Government. Collectively, the region's economic base accounted for 66% of total jobs.

Southern Border Region

This two-county region that borders Mexico is the smallest, but most diverse economic region in the state. However, according to the Regional Economies Project, the similarities are important for state strategic planning, and therefore necessitates putting both counties in the same region.

Businesses with fewer than 50 employees comprise 94.9% of total employers. Businesses with four or fewer employees represent 62.9% of all businesses and employ 5.9% of all employees. Industry clusters with the greatest economic opportunity (1990-2002) include: construction and real estate, biomedical and health services, and information technology.

From 2001 through 2004, the Southern Border region added a net increase of almost 12,700 private industry establishments. The leading sectors were Private Households, Professional, Scientific, and Technical Services, and Real Estate. The Construction sector provided the greatest increase in employment.

Other key industries sectors in the region's economic base include: the Food Chain; the Manufacturing Value Chain; Wholesale Trade; Health Sciences and Services; Entertainment and Tourism; and Government. The region's economic base industries accounted for 66% of total jobs.

## Section III - Significant Trends Affecting the California Economy

Several current and emerging economic and workforce development trends are discussed in this Section. Later sections provide greater detail on the policies, programs, and services potentially available to the state for addressing these issues.

### The Emergence of the Cleantech Industry Cluster

This Subsection provides information on the emerging area of cleantech and its growing importance within the California economy.

#### What is Cleantech?

Cleantech is a relatively new and emerging industry cluster that encompasses a broad range of products and services, from alternative energy generation to wastewater treatment to environmentally friendly consumer products. Although some of these industries are very different, they all use new, innovative technologies, and products and services which have ancillary environmental benefits.

The growth of the cleantech industry is the result of two disparate factors converging to create a new market. First, recent advances in new technologies, research methods, manufacturing, and communications have lowered the cost of environmentally sensitive technologies. Second, an increasing number of consumers and businesses are looking for ways to reduce energy costs, increase clean water supply, and meet new environmental regulatory requirements at the local, state, and global levels. Governments, in turn, have adopted new regulatory frameworks to require greater use of recyclable materials, increased use of renewable energy, and lower air pollution and greenhouse gas emissions.

Nationally, investor interest in cleantech has surged in the past few years. Venture capital investment alone increased to $1.6 billion in 2005, representing a 35% increase over 2004. Through the first half of 2006, cleantech investment has reached $1.4 billion. Cleantech now represents the third largest investment category in the U.S. behind biotechnology and software.

Several states have launched various cleantech initiatives, which are discussed later in the paper. Cleantech industry clusters are evolving, bringing forward commercially viable clean technologies, new company formation, expanding intellectual property challenges, and needs for differently skilled workers.

Maintaining California's Cleantech Advantage

In general, California is well positioned to take advantage of the new cleantech market based on the following factors:

- Thriving technology base;
- Existing entrepreneurial and management talent;
- Access to a full range of capital; and,
- Proactive environmental policies.

Other states and even foreign countries; however, are also vying for domination of this new emerging industry. As one example, in 2003, California received 63% of all venture capital invested in the U.S. semiconductor industry, more than 50% of venture capital invested in computers and medical devices, and 43% of all venture capital in the country. Yet the state only received 31% of U.S. cleantech investment – only 29% of all venture capital cleantech investment in North America.

Connecticut, Massachusetts, Texas, New Mexico, New York, New Jersey, Florida, and Pennsylvania all have proactive cleantech economic policies. Collectively, the Northeast, alone, received 25% of North American cleantech venture capital in 2003.

Europe and Asia are also successfully building cleantech clusters. Germany and Japan have already usurped California's once leading position in solar and wind energy through targeted policies and initiatives.

California already contains 180,000 jobs in the cleantech industry. Nationally, the cleantech industry, a very new economic sector, supports 850,000 jobs. Comparing that number to the 1.4 million jobs supported by a mature sector such as mining and electricity generation, reveals the potential the cleantech sector has for economic development and job creation.

State investment in this industry will assist in attracting a greater market share of venture capital to increase the manufacturing and distribution of cleantech products and allow California to take advantage of its potential.

The Market Makers

In the 1970's, individuals held 80% of U.S. equities; however, in the 1990's this investment trend reversed. By 2002, institutional investors held over 55% of U.S. equities.

According to the Center on Fiduciary Capitalism at St. Mary's College, a fundamental characteristic of these large institutional investors is that they care not only about the performance of the individual companies that comprise their investment portfolio, but they also care about the performance of the economy as a whole. Rather than selecting a few good stocks like an individual investor may, large institutional investors manage their portfolios consistent with modern portfolio theory, diversifying their investments over multiple asset classes to seek long term risk-adjusted returns. These large institutional investors are sometimes called "universal owners" in recognition of the size and diversity of their investment portfolio.

California is the home of two of the largest universal owners in the world – the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS). Combined, these two universal owners hold investment portfolios of over $350 billion. By observing the research and investment activities of these universal owners, public policy makers can gain insight into private sector investment preferences and new economic trends.

In 2004, both CalPERS and CalSTRS began examining the investment opportunities in environmental technologies and greener-managed companies ultimately leading to investment initiatives at these funds totaling over $1 billion. CalPERS' earliest investment analyses stated that the market was currently small, but the cleantech market was evolving. As there were several risks to consider, staff recommended that CalPERS take a cautious approach and take time to select the most qualified partners and to find the very best investment opportunities.

While institutional investors are still cautious relative to the total amount committed to cleantech-related investments, the scope of investors in cleantech venture capital firms has been expanding. Some investors have even stated concerns that there may be too much private capital seeking too few solid deals. If there are too many early losses in cleantech, universal owners and even high wealth individuals may begin to back out of the market. Publicly-financed programs and services related to cleantech should focus on supporting the establishment and growth of robust, healthy companies as part of highly integrated cleantech clusters.

Climate Change and Greenhouse Gas Emission Reductions

As discussed above, a significant driver of the cleantech market are the regulatory changes related to climate change.  In 2004, every industrialized nation in the world outside of the U.S. and Australia signed onto the Kyoto Protocol.  Implementation of the Kyoto greenhouse gas emission reductions and growing concerns over "peak oil" and energy independence sent a growing market signal for the need for cleaner and more energy efficient operating processes, equipment, and business models.

In June 2005, the Governor issued an Executive Order to reduce greenhouse gas (GHG) emissions to 2000 levels by 2010 and to 1990 levels in 15 years.  In order to implement his objective, the Governor included $2 billion in air quality improvements in the Strategic Growth Plan.

The following year, the Legislature moved the GHG discussion to a statutory mandate level, when the Governor signed AB 32 (Nuñez), Chapter 488, Statutes of 2006, which provided a framework for implementing a comprehensive climate action plan.  To date, the discussions regarding market mechanisms have been somewhat limited to the design of a cap and trade system.  Success in meeting the GHG reduction targets will also be dependent on a much broader market approach, including encouraging more California-based research and development, and expanding the state's cleantech manufacturing capabilities.

On March 19, 2007, more than 60 leading investors, asset managers and companies, representing over $4 trillion in assets, called on U.S. lawmakers to more aggressively address global climate change including a call for:

- A mandatory national policy to contain and reduce national greenhouse gas emissions economy-wide.

- The realignment of incentives and other national policies to achieve climate objectives, including a range of energy and transportation policy measures to encourage deployment of new and existing technologies at the necessary scale.

- Guidance from the Securities and Exchange Commission and other financial regulatory bodies to businesses and investors on what material issues related to climate change that companies should disclose in their regular financial reporting, so that investors can assess more accurately the effects of climate risk and opportunity in their portfolios.

It is expected that this type of growing advocacy for federal intervention on GHG regulation will only improve the cleantech market for the coming decades.

**Private Sector Investments in Emerging Domestic Markets**

This Subsection discusses how historically underserved areas in California, also known as emerging domestic markets (EDMs), are becoming investment opportunities for knowledgeable investors.

Defining Emerging Markets

The term EDM refers to people, places, or business enterprises with growth potential that face capital constraints due to systemic undervaluation as a result of imperfect market information. Originally coined by the World Bank to describe economies with low-to-middle per capita income, as in emerging foreign markets, the term emerging domestic markets has lately been used to describe "investment ready" communities and businesses in the U.S.

These markets include ethnic- and women-owned firms, urban and rural communities, companies that serve low-to-moderate-income populations, and other small- and medium-sized businesses. Current demographic shifts in California and the U.S. are creating fundamental changes in how private investment looks at historically underserved communities and businesses.

Examining Emerging Domestic Markets

Minority purchasing power currently accounts for 33% of the total purchasing power in California and 20% of the nation. Purchasing power of minority consumers in the U.S. is expected to triple from $1.3 trillion in 2000 to over $4 trillion in 2045, representing over 70% of the total growth in U.S. purchasing power.

If minority purchasing power were counted as a single economy, the purchasing power of U.S. minority groups would constitute the 6$^{th}$ largest economy in the world. Companies focused on meeting the needs and wants of these high growth EDM markets should have positive economic futures.

California is well positioned to meet the demands of the growing minority marketplace. More than 34% of the nation's minority-owned firms are based in California and, as discussed earlier, minority-owned firms are surpassing the growth of all U.S. businesses. However, while the growth of minority businesses is greater than majority owned firms in number and revenue, they remain severely restrained by a lack of access to capital according to a Milken Institute report. Further exacerbating the problem, Milken Institute reports that Latinos and African Americans are turned down for business loans at three times the rate of whites with equivalent credit characteristics.

For the past several years, the California Hispanic Chambers of Commerce has focused its efforts upon improving the opportunities for minority and women-owned firms to acquire venture capital. At the national level, The New America Alliance, has been a leader in developing strategies for pension fund managers to invest in women and minority owned firms.

Emerging Managers

Universal owners, as well as other investors, count on asset managers and other financial professionals to manage their portfolios. Like most other professions, minority representation at the highest levels has been very low. As the economic opportunities in minority owned businesses and historically underserved neighborhoods grows, investors are also looking to diversify their internal and external management teams to better reflect the investments they seek.

Several California-based pension funds have taken direct actions to improve the diversity of their asset managers by either adopting formal emerging manager programs or investing in emerging private equity funds within their general investment programs including: CalPERS, CalSTRS, Los Angeles City Employees Retirement System, Los Angeles Police and Fire, and Los Angeles County Employees.

The selection criteria for private equity funds are particularly strict and provides a good example of the challenges facing aspiring financial professionals regardless of race and ethnicity. The selection of private equity asset mangers is generally based on five criteria:

- Past performance of the senior members of the firm;
- Alignment of interest, also known as "skin in the game;"
- Continuity of and history of the management team;
- Investment strategy; and,
- Strategic fit within the broader portfolio.

The top three criteria - past performance, skin in the game, and continuity of the management team - can be particularly difficult for groups who have not historically had the same access to higher education, connections within the existing investment community, and the ability to put up their own money in order to ensure proper alignment of financial interests.

However, changing demographics in the workplace and marketplace are causing large institutional investors to proactively address these challenges. Types of diversity activities include: offering paid internship programs for MBA students, developing extensive data bases of minority financial professionals, and implementing formal emerging manager programs that sometimes include mentoring and other technical assistance. The central mission of these programs is to increase the diversity of the financial professionals assisting institutional investors and thereby provide better access to the growing minority owned business sector that has the highest likelihood of serving the rapidly expanding minority marketplace.

Institutional Investor Money in Emerging Domestic Markets

The CalPERS California Urban Real Estate (CURE) Program officially began in 2000; however McFarland Partners (Ervin "Magic" Johnson and Victor MacFarlane) and CalPERS came together in February of 1997 and formed the California Urban Investment Partners to invest in inner city real estate projects. This initial bell weather investment has grown into several new EDM investment initiatives across the country. Today, CalPERS has allocated over $3 billion to the CURE Program, which invests in urban residential and commercial projects. Approximately 77% of investments are in California ($2.6 billion). Since its inception, the CURE portfolio pro-forma IRR based on invested equity is 20.2% (3/31/05).

CalPERS and CalSTRS have each established a goal of investing 2% of their systems' assets from all asset categories (public equities, fixed income, private equity, and real estate) in the emerging portions of the state. In working toward this goal, CalSTRS still requires all investments be made on an opportunistic basis (only make investments if they are deemed beneficial) and that all investments meet appropriate risk-adjusted returns to the system. As of December 31, 2006, CalSTRS' exposure in California's underserved and emerging markets was $2.3 billion (or 1.6% of the fund). This is a $364 million (18%) increase over the previous year.

The ability of minority owned venture capital firms, and firms specializing in EDM communities, depends on the ability of these firms to attract capital from institutional investors. As institutional investors' manage their portfolios under a strict set of fiduciary rules that require investment decisions be made for the exclusive and primary benefit of its members, strategies for attracting institutional investors must reflect the institutional investors' need to meet its fiduciary responsibilities in both the short- and long-term.

CalPERS, CalSTRS, and several LA-based pension funds have made some inroads in expanding access to capital for emerging domestic markets, but challenges remain. To date, large institutional investors lack the ability to make small individual investments to small and medium size business – the fastest growing segment of the U.S. market. Even fund-to-fund arrangements, where investors provide money to a fund like Bank of America's Capital Access Fund that in turn invests in smaller community development funds, has not allowed investors with multi-billion portfolios to fully access a broad range of market opportunities available in EDMs.

The Committees may wish to consider how the state can assist small businesses increase equity and debt investments as a means to realign this fundamental mismatch between the sources of job creation and access to capital.

## Changes in the Manufacturing Value Chain

This Subsection provides an overview of changes that have been occurring in one of California's most important industries – manufacturing. The information presented is largely derived from a 2005 report by the California Regional Economies Project on Logistics and Manufacturing Value Chains, with data updated for 2006.

Changes in California's Manufacturing Sector

The nature of manufacturing in California has undergone a fundamental change in the last decade. Perhaps most notably, manufacturers have followed the trend in agriculture whereby more products are made with fewer inputs of labor than ever before. Modern technology and new philosophies in the manufacturing process, such as just-in-time resource supply, have had a tempering effect on labor demand for manufacturing activity. Between 2001 and 2004, California manufacturing lost nearly 250,000 jobs, or 15% of the state's total number of production employment.

While the total number of production jobs has dropped in recent years, the context of manufacturing has changed from one of simple production, to one of design support, production and logistics. Manufacturing is neither a single industry, nor a single function. Rather, manufacturing has become an important part of a global value chain of interdependent business functions.

While production jobs as a percent of the state's manufacturing value chain have dropped from 76% in 1990 to 66% in 2004, design support jobs have increased from 11% in 1990 to 16% in 2004, and logistics jobs have increased to nearly 5% (from 13% to 18%) in that same period.

Manufacturing remains an important source of employment for the state and most of its regions. In fact, it still comprises the second largest component of the state's economic base. But, as the statistics show, jobs in the design support and logistics sectors have been steadily growing. Moreover, many of those jobs are outsourced by manufacturers to other companies, and have shown employment increases in most of the state's regions.

The Manufacturing Value Chain Cluster

The manufacturing value chain cluster is a group of interrelated industries that are tied together in terms of their physical and economic activities. In some regions of the state, this cluster is geographically concentrated, as well.

Design support has figured prominently in streamlining the manufacturing process and developing more efficient means of production. This component of the manufacturing value chain also includes management/consulting services. Design support has brought the world of high technology to the factory floor. Moreover, design support activities, which are largely computer aided themselves, represent a valuable source of export activity for California as well as a growing integral component of California manufacturing.

Design support jobs are relatively higher paying positions and significantly help to bolster the state's wage rate for the entire cluster. In 2004, the cluster's statewide average annual wage was over $54,000, up almost 9% from 2001. However, when design support jobs are separated out, their average annual wage is more than $62,000. This is a critical figure, because manufacturing jobs, alone, have always been seen as a relatively high wage source of employment.

Logistics includes the following activities:

- Transportation services – the physical movement of goods from place to place by truck, air, water, and rail freight. In 2003, transportation services accounted for 67% of all logistics jobs in this state;

- Logistics support – activities supporting transportation services including higher skilled positions in air traffic control, navigational services to ships and freight transportation arrangement. This component of logistics comprised about 16% of jobs as of 2003;

- Warehousing and storage – activities storing goods and general merchandise. About 14% of all logistics employment is comprised of this activity in 2003; and,

- Supply chain management – businesses offering advice and assistance in productivity improvement, inventory management, and production planning, quality assurance and materials handling. In 2003, this activity accounted for 17% of logistics related jobs.

The logistics component of the manufacturing value chain generally pays a lower wage than does manufacturing itself, or design support activities. Nonetheless, logistics related jobs still pay at the state average wage rate of approximately $42,500.

Perhaps the more important aspect of an increase in logistics activities is the fact that they provide a kind of experiential (on the job) training for employees similar to what manufacturing jobs provide. Employees learn new skills when entering the logistics business, as do factory workers, providing them with career paths to higher paying jobs. This is important in terms of continuing to grow a skilled, higher wage, work force in California, notwithstanding the downturn in manufacturing employment.

Today, the manufacturing value chain provides almost 15% in the state's economic base, and 14% of all jobs in the state. Over half of all manufacturing value chain jobs are found in Southern California. This is due, in part, to the sheer physical size of the region. But it also is a function of the geographical location of activities that have developed near the concentration of port and rail freight trans-shipment facilities that exist in that part of the state.

As California manufacturers compete with foreign-based companies, they have strived to squeeze inefficiencies out of the system, which directly connect customers to production and shipping activities. This has transformed the California economy from one of mass production to one of lean production, and now mass customization to meet customer needs in the most efficient, timely manner.

Design support, efficient manufacturing, and logistics have become the key to creating a "real time economy." Furthermore, with a global penetration of an advanced telecommunications network, the individual sectors of the manufacturing value chain can be spatially separated within this state and around the world. California-based companies that are part of the manufacturing value chain are part of a global economic network. As our national and state economies have become globally integrated, California's unique assets, such as its ports and concentration of technological development, have created permanent ties with Pacific Rim and other world trading partners. As this integration continues, global economic conditions will have increasingly greater impacts on industries in California's manufacturing value chain.

These circumstances also have significant implications for regional economic development within our state. For example, manufacturing businesses may be found in older, highly urbanized regions of the state, while design support companies may be located in a high technology business cluster located hundreds of miles away in another region. The distribution center servicing the products that are designed and manufactured in these different regions may be located on the fringes of urban and rural areas in a third region where there is sufficient land to build large warehouse facilities.

At the same time, design support businesses in Silicon Valley may be integrally tied to manufacturing in China, with logistics being done from Texas. Whatever the geographic distribution of entities may be, the manufacturing value chain is still an industry cluster where the jobs of one business in the cluster relies on the success of other related businesses in the chain. The evolution of the high technology nature of the manufacturing value chain is both confirming and challenging what we know about industry clusters.

More information on the manufacturing value chain cluster can be found at: [www.labor.ca.gov/panel/logmanufvalue.pdf](www.labor.ca.gov/panel/logmanufvalue.pdf).

# Part III

This Part contains Sections Four through Eight and provides a catalog of the state's policies, programs, and services relating to economic and workforce development.

## Section IV – Business, Transportation and Housing Agency

This Section examines policies, programs, and services provided under the auspices of the Business, Transportation and Housing Agency (BT&H).

BT&H oversees and coordinates the activities of various departments, offices, and economic development programs, with responsibility for maintaining the strength and efficiency of California's infrastructure and financial markets. These programs provide financial and programmatic regulation important to the economic marketplace and community development, and the safe and efficient flow of commerce.

Chart #1 includes budget information on BT&H.

| **Chart #1 - Business, Transportation, and Housing Agency** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | (in thousands) | (in thousands) |
| 2005/06 | 57.8 | $26,005 | $3,092 | $6,577 |
| Δ | 2.8 | $697 | $100 | $350 |
| 2006/07 | 60.6 | $25,308 | $3,192 | $6,927 |
| Δ | 3.0 | $2,439 | $180 | $2,500 |
| 2007/08 | 63.6 | $27,747 | $3,372 | $4,427 |

Among the key economic development programs overseen by BT&H are:

- The Small Business Board;
- The Small Business Expansion Fund and the loan and bond guarantee programs that are operated from that fund;
- The California Infrastructure and Economic Development Bank;
- The California Economic Development Partnership;
- The California Small Business Loan Guarantee Program;
- Technology related programs;

- The California Welcome Centers;
- The California International Trade Promotion;
- The Office of Military and Aerospace Support;
- Community Development Block Grant Program;
- Geographically-Targeted Economic Development Area Programs.

BT&H also oversees the California Department of Transportation which has responsibility for implementing the recently completed Goods Movement Action Plan, and the Office of Civil Rights which plays a major role meeting state small business participation goals in state construction work.

The subsections below provide an overview of the BT&H's business development programs and resources. More information on BT&H may also be found at: http://www.bth.ca.gov .

**Small Business Board and Small Business Loan Programs**

The ten member California Small Business Board was created to advise the Governor, the Director of the Small Business Expansion Fund, and the state's Small Business Advocate regarding issues and programs affecting California's small business community. This includes, but is not limited to, issues concerning: business innovation and expansion; export financing; state procurement, management, and technical assistance; venture capital; and, financial assistance.

The California Small Business Board is also responsible for overseeing the operation of the State Small Business Expansion Fund (Fund). State monies deposited in the Fund are used to provide financing for several loan and surety bond guarantee programs described below. The California Small Business Board is also designated to approve loan or surety bond guarantees made from programs financed through the Fund, and to approve Financial Development Corporations (FDCs) which partner with the state to administer monies in the Fund. The specific loan and bond guarantees financed by the Fund are:

- The Small Business Loan Guarantee Program;
- The Small Business Disaster Assistance Loan Guarantee Program;
- The Small Business Surety Guarantee Program; and,
- The Small Business Direct Farm Loan Program.

Each of these programs is briefly described in the following pages. Additional information on the Small Business Board and Loan Programs is also available at the Web sites listed below:

The Small Business Development Board: www.leginfo.ca.gov/cgi-bin/displaycode?section=corp&group=14001-15000&file=14020-14024.

The Small Business Expansion Fund: www.leginfo.ca.gov/cgi-bin/displaycode?section=corp&group=14001-15000&file=14030-14043.

The Small Business Loan Guarantee Program: www.leginfo.ca.gov/cgi-bin/displaycode?section=corp&group=14001-15000&file=14055-14060.6.

The Small Business Direct Farm Loan Program: www.leginfo.ca.gov/cgi-bin/displaycode?section=corp&group=14001-15000&file=14070-14076

Small Business Loan Guarantee Program

The Small Business Loan Guarantee Program enables a small business to obtain a term loan or line of credit when it cannot otherwise qualify for a loan on its own. The State, working through eleven FDCs, guarantees that a qualifying small business borrower's loan is guaranteed in the event the borrower defaults. Loan terms and interest rates are negotiated between the borrower and the lender.

The program allows a business to not only obtain a loan, but to establish credit with a lender. The business then is able to obtain additional financing on its own. Also, proceeds must be used primarily in California, and for any standard business purpose applicable to the applicants' business. Applicants must meet the definition of a small business (100 or fewer employees). The loan guarantee program provides loan guarantees covering up to 90% of the loan, but not exceeding $500,000.

The Small Business Loan Guarantee Program and the Small Business Direct Farm Loan Program (see below) are funded through the same account.

Direct Farm Loan Program

The Direct Farm Loan Program provides loans to family farms for crop production, harvest loans, farm ownership, farm improvements or equipment acquisition. The loans must be eligible for guarantee by the U.S. Department of Agriculture’s Farm Services Agency.

Chart #2 shows recent proposed budget information for the Small Business Loan Guarantee and Small Business Direct Farm Loan Programs.

| Chart #2 - Small Business Loan Guarantee and Small Business Direct Farm Loan Programs | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | (in thousands) |
| 2005/06 | N/A | $4,552 | N/A | $4,552 |
| Δ | | | | |
| 2006/07 | N/A | $5,404 | N/A | $5,404 |
| Δ | | | | |
| 2007/08 | N/A | $5,600 | N/A | $5,600 |

Whereas small business loan guarantees are made with the approval of the Financial Development Corporation's Board of directors, loans made in the Direct Farm Loan Program must receive approval from the Farm Services Agency prior to the Financial Development Corporation's approval.

Small Business Disaster Assistance Loan Guarantee Program

The Small Business Disaster Loan Guarantee Program helps agriculture-related enterprises and other small businesses obtain financing needed to recover from losses caused by natural disasters in areas declared to be in a State of Emergency by the Governor.

For farm enterprises, an applicant must be engaged in the production of food or fiber; ranching and raising livestock; nurseries engaged in the wholesale or retail selling of plants; or agriculture related enterprises such as packing shed co-ops, feed yards, cotton gins, and food processors.

An applicant must have suffered physical damage or economic injury as a result of the disaster. "Physical damage" means real or personal property damaged or lost, including structural losses. "Economic injury" means an economic loss resulting in the inability of a business to meet its obligations and to pay its ordinary and necessary operating expenses, including production losses. In addition, the applicant must not be able to obtain credit on his or her own.

Chart #3 shows recent proposed budget information for the Small Business Disaster Assistance Loan Guarantee Program.

| Chart #3 - Small Business Disaster Assistance Loan Guarantee Program | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | (in thousands) | (in thousands) |
| 2005/06 | N/A | $150 | N/A | $150 (23 expended) |
| Δ | | | | |
| 2006/07 | N/A | $150 | N/A | $150 ($15 expended to date) |
| Δ | | | | |
| 2007/08 | N/A | $150 | N/A | $150 |

For non-agricultural small businesses, an applicant must qualify and apply for disaster assistance from the United States Small Business Administration (SBA). Assistance through the Small Business Disaster Assistance Loan Guarantee Program is in the form of a “bridge” loan guarantee to provide the borrower with working capital until its SBA financing is approved.

Small Business Surety Guarantee Program

The Small Business Loan Guarantee Program’s bond component can help increase access to surety bond resources and allow greater participation by small contractors in public works projects. Under this program, a Financial Development Corporation (FDC) can issue Bond Guarantees, Bond Lines, and Irrevocable Letters of Credit. A Bond Guarantee supports a performance and payment bond issued by a surety for a specific contract.

For a Bond Line, the contractor is not required to identify specific contracts up-front. During the time that the Bond Line agreement is in effect, the contractor can enter into contracts up to the specified amount, and the FDC is obligated to guarantee bonds issued for those contracts. An Irrevocable Letter of Credit is similar to a standby letter of credit issued by a business lender except that the beneficiary, or the surety, makes demands on an FDC rather than the lender.

Although not currently active with regard to bond guarantees, the Small Business Loan Guarantee Program’s bond guarantee authority is being proposed for use under AB 1695 (Bass), which would provide funding from the State Highway Account to back loan guarantees for small businesses participating in transportation projects. There is currently no separate account for Small Business Surety Guarantee Program.

## The California Infrastructure and Economic Development Bank

The California Infrastructure and Economic Development Bank (I-Bank) was created to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California. The I-Bank has the authority to issue tax-exempt and taxable revenue bonds. (For a discussion of tax-exempt bonds see Section VII – Office of the State Treasurer.)

The I-Bank also provides funding to private agencies, provides credit enhancements, acquires or leases facilities, and leverages state and federal funds. The I-Bank is financed through the California Infrastructure and Economic Development Bank Fund, into which fees, interest income and other revenues are deposited and from which I-Bank expenses are paid.. All insurance premiums received by the I-Bank for insurance, guarantees, or enhancements are deposited in the Trust Fund.

The I-Bank has several programs that it uses to carry out its mission. These programs include: the Infrastructure State Revolving Fund Program; the Industrial Development

Revenue Bond Program; the Infrastructure & Community 501(c)(3) Revenue Bond Program; and, the Exempt Facility Revenue Bond Program. Chart #4 shows recent and proposed budget information for the I-Bank.

| **Chart #4 - Infrastructure and Economic Development Bank** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | (in thousands) |
| 2005/06 | 20 | $9,321 | | $6,577 |
| Δ | | | | |
| 2006/07 | 20 | $5,374 | | $2,177 |
| Δ | | | | |
| 2007/08 | 20 | $5,360 | | $2,177 |

More information on the I-Bank may be found at:
www.dof.ca.gov/html/calstars/funds/0649.doc.

Infrastructure State Revolving Fund Program

The Infrastructure State Revolving Fund (ISRF) program provides low-cost financing to public agencies for a wide variety of infrastructure projects. Program funding amounts range from $250,000 to $10 million, with loan terms up to 30 years. Eligible applicants include any subdivision of local government, including: cities, counties, redevelopment agencies, special districts, assessment districts, joint powers authorities, and non-profit corporations formed on behalf of a local government.

Eligible project categories include: streets, highways, drainage, water supply and flood control, educational facilities, environmental mitigation measures, parks and recreation facilities, port facilities, public transit, sewage collection and treatment, solid waste collection and disposal, water treatment and distribution, defense conversion, public safety, and power and communication facilities.

Eligible costs include: construction, renovation, and acquisition of land; real and personal property; licenses and franchises; demolition; machinery and equipment, working capital for a period of time after project completion, including reserves for principle and interest, and more. Projects must facilitate effective and efficient use of existing and future public resources so as to promote economic development and conservation of natural resources. Additionally, the project must develop and enhance public infrastructure in a manner that will attract, create, and sustain long-term employment opportunities.

Projects must be consistent with the applicable general plans. All projects must be eligible for tax-exempt financing under federal law, without an allocation of the state's private activity bond volume cap. For more information go to: www.ibank.ca.gov and follow the links to the State Revolving Fund Program.

Industrial Development Revenue Bond Program

Industrial Development revenue bonds (IDBs) are tax-exempt securities which are issued by a governmental entity to provide money for the acquisition, construction, rehabilitation and equipping of manufacturing and processing facilities for private companies. IDBs can be issued by the I-Bank, local Industrial Development Authorities, or by Joint Powers Authorities.

Projects must be for manufacturing facilities involved in the production or processing of tangible property. Up to 25% of the bond money can be used for ancillary office and warehouse use. Up to 25% can be used for land acquisition. The remainder must be used on building and equipment. Bond money can also be used to acquire an existing facility if 15% of the bond revenue is used to renovate that facility.

All bonds issued by the I-Bank must be credit enhanced with a commercial bank letter of credit or bond issuance, or they may be privately placed. No state I-Bank funds are utilized or are at risk in the issuance of bonds by the I-Bank. All funding comes from the capital markets

Generally, bond financing is limited to a maximum of $20 million per issue, but is typically no greater than $10 million per issue, with an aggregate limitation of $40 million. The project must meet certain public benefit criteria set by the California Debt Limit Allocation Committee (see discussion in Section VII – Office of the State Treasurer). IDB financing is generally 20% to 30% below comparable commercial alternatives, with terms often lasting up to 30 years. Bonds are assumable and comprehensive in that they include land acquisition, construction and equipment. For more information please refer to: www.ibank.ca.gov and follow the links to the Industrial Development Revenue Bond Program.

Infrastructure and Community 501(c)(3) Revenue Bond Program

501(c)(3) revenue bonds are a low-cost, tax-exempt financing resource for capital improvement projects of qualified nonprofit corporations. In order for a non-profit corporation to access tax-exempt financing, it must have received an Internal Revenue Service determination that it qualifies as a 501(c)(3) organization. Examples of qualifying organizations include cultural facilities such as museums, libraries, aquariums, and historic preservation sites. Recreational facilities such as community centers, local sports facilities, and research institutes may also qualify.

Eligible uses of 501(c)(3) bonds include capital expenditures, refinancing of prior debt, working capital, and costs of bond issuance and other bond related costs. Proceeds of the bonds must create public benefits in the community where the project is located by enhancing the economic, social, or cultural quality of life for local residents. Projects must be in California and must be consistent with a local general plan or a comprehensive regional plan.

As with IDBs, 501(c)(3) bonds provide for low cost, long term project financing, with very flexible terms. They also allow the borrower to retain endowments and other accumulated funds. For more information please refer to: www.ibank.ca.gov and follow the links to the Infrastructure and Community 501(c)(3) Revenue Bond Program.

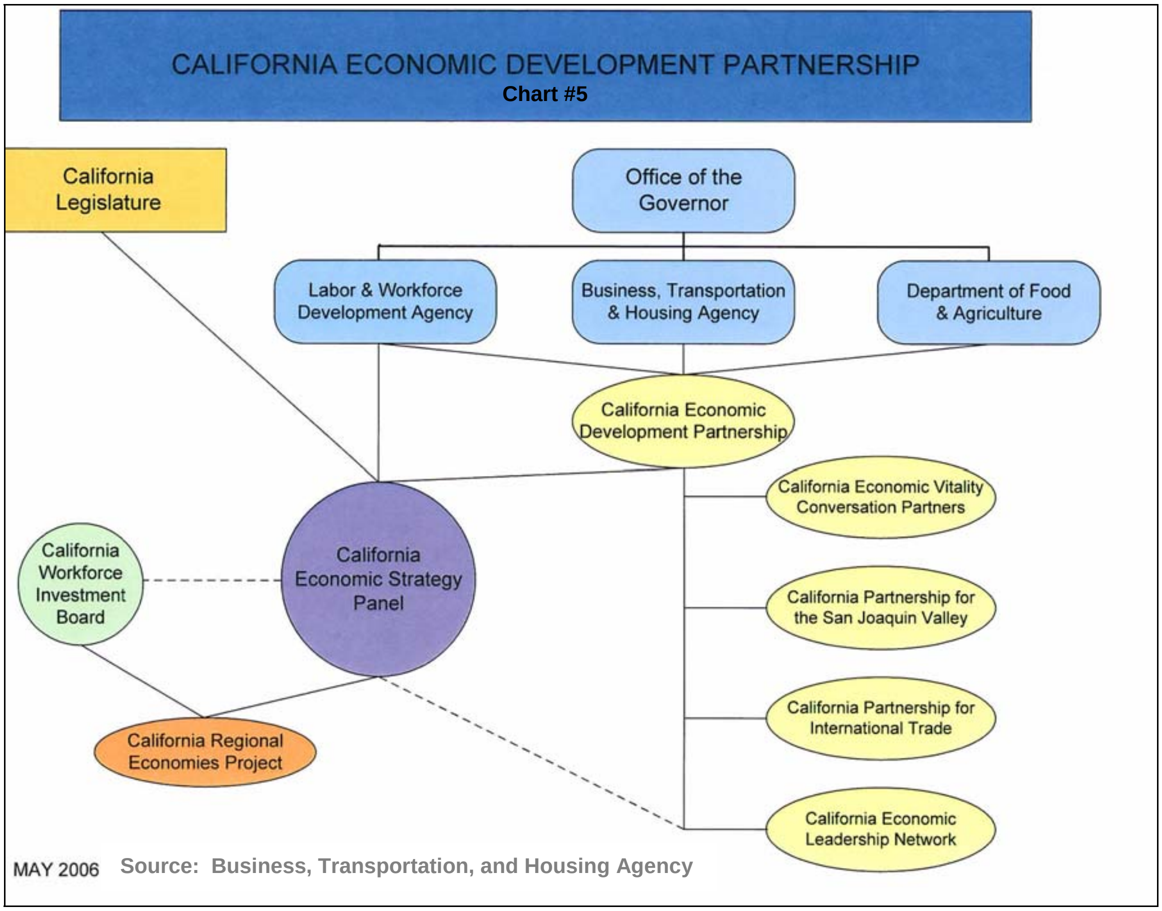
Exempt Facility Revenue Bond Program

The Exempt Facility Revenue Bond Program provides tax-exempt financing for projects that are government-owned or consist of private improvements within publicly-owned facilities. Exempt facility bonds typically involve projects having to do with ports and airports, such as private airline improvements at publicly-owned airports. In these cases, a publicly-owned airport will build a facility, such as a terminal or cargo building, which are leased or made available on a long-term contractual basis to an air carrier or shipper, for passengers or freight. For more information please refer to: www.ibank.ca.gov and follow the links to the Exempt Facility Revenue Bond Program.

## California Economic Development Partnership

Established in 2005, the Economic Development Partnership (Partnership) is an interagency team of the Governor's Cabinet. Its purpose is to coordinate all of the state economic development activities.

The Partnership brings together state administration resources in collaboration with regional and local economic development organizations, and other public and private expert resources to retain, expand, and attract jobs in California. The schematic diagram below, Chart #5, shows the interactive relationships among the participating parties in the Partnership.




The Secretaries of BT&H and the Labor and Workforce Development Agency (LWDA), along with the Department of Food and Agriculture, take the lead in Partnership activities. The Partnership's specific activities are:

- Operating the California Business Portal as a one-stop resource for starting, growing, financing, expanding or relocating a business to California;
- Mobilizing Action Teams to coordinate state, regional, and local resources to actively assist with business expansion, retention and job attraction;
- Ensuring that the California Economic Strategy Panel's strategic initiatives are merged with existing state economic development programs, along with information developed by the California Regional Economies Project; and,
- Developing specific international trade promotion strategies with the California International Trade Partnership Council.

For more information please refer to: www.labor.ca.gov/cedp/default.htm.

California Business Portal

The California Business Portal is a Web site operated by the Economic Development Partnership, which provides a portal to a number of resources business can use to start, grow, finance, expand, or relocate a business in California. The California Business Portal draws together numerous resources from state and federal agencies and from local private non-profit organizations. The California Business Portal seeks to simplify access to useful information and resources for businesses.

Among the information items that the California Business Portal can place a business in touch with are: California business laws and regulations; tax information; workforce programs; financial assistance programs; goods movement; export-import requirements; and other useful data to help both small and large businesses operate effectively in this state. Appendix C includes a representation of the contexts of the California Business Portal. For more information please refer to: www.calbusiness.ca.gov/.

Action Teams (A-Teams)

A-Teams are mobilized on a case by case basis to address extraordinary economic development opportunities. The A-Teams are made up of state, regional and local resources that evaluate opportunities to ensure they are in alignment with California's competitive advantage industry clusters and major development sectors that will, in turn, help to retain, grow, or locate new business in California. California Business Investment Services (see Section V Labor and Workforce Development Agency), works with other Cabinet level agencies to organize the A-Teams, and oversee their activities. For more information please refer to: www.labor.ca.gov/cedp/cedpaction.htm.

California International Trade Council

The California International Trade Council (Council) is a collaboration of public and private sector organizations that are involved with global trade activities. The mission of the Council is to foster growth of the California economy and generate jobs by promoting the export of goods and by attracting foreign investment in California business.

The Council is intended to work closely with the Commission on Jobs and Economic Growth, which was established by the Governor in 2004 to assist in keeping jobs in California and attracting new business to the state. The Commission is a non-profit, voluntary group of leaders in business and academia, and is served by a volunteer staff.

Implementation of SB 1513 (Romero), Chapter 663, Statutes of 2006, directs the Secretary of BT&H to develop a state international trade policy and strategy based, in part, on the recommendations from a statewide business partnership. Rather than establishing a new public-private partnership, the California International Trade Council has been selected by the Secretary of BT&H to serve as the official advisory body on the development of the international trade strategy.

More information on the International Trade Council may be found at: www.labor.ca.gov/cedp/cedpcainter.htm.

## Information Technology Programs and Grants

California offers several programs intended to promote technological development and technology sharing among California businesses, and non-profit organizations, particularly in the area of manufacturing. Most of these programs and grants are unfunded in the current and proposed budgets. For the last few years, members of the Legislature have attempted, with mixed degrees of success, to bring a more comprehensive approach to the operation of technology planning and development efforts in state government. What is apparent from the following review is the fact that more may need to be done in this area if California is to remain a leader in the area of technological innovation.

The following programs fall within this program category: the Regional Technology Alliance Program, the Manufacturing Technology Program, the Technology Development and Transfer Program, the Challenge Grant Program, and the Technology Planning Program. Details on these programs are provided below.

### Regional Technology Alliance Program

The Regional Technology Alliance (RTA) Program was intended to deliver services and resources, programs, and activities for technology development, commercialization, application, and competitiveness at the regional level. RTAs are public-private partnerships whose mission is to encourage the development of technology based businesses. According to their RTA enabling statute, RTAs are supposed to receive a portion of their funding from the State. However, there is no funding currently budgeted for their activities.

RTAs were originally established to help the process of defense conversion by assisting defense contractors seeking to transition to commercial markets. Over time however, as California's economy continued to grow and diversify, RTAs have broadened their mission to supporting and encouraging technology based economic development. Originally RTAs focused on traditional technology transfer services such as helping businesses identify and access technology from universities, federal laboratories, and other research organizations. Today, RTAs help entrepreneurs and emerging businesses get access to capital, markets, management services, and timely information that they need to develop technology based products.

Chart #6 presents recent and proposed budget information regarding the Regional Technology Alliance Program.

| Chart #6 - Regional Technology Alliance Program | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2006/07 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2007/08 | None Proposed | None Proposed | N/A | None Proposed |

The statutory enabling authority for RTAs permits their operation in the San Francisco Bay Area, Los Angeles, and San Diego. However, it should be noted that only the Los Angeles RTA (LARTA) is active, and its role has evolved substantially. Among some of the more important statutory activities of RTAs are:

- Raising public and private funding to support technology development;
- Improving communications, exchange of information, and best practices among small, technology based companies. RTAs seek to link client companies with potential investors, service providers, customers and business partners;
- Assisting businesses in accessing federal research and development programs;
- Managing the California Technology in Partnership Program, California Technology In Partnership (CalTIP), program, awarding grants through a competitive process, and monitor grantees' performance;
- Assisting firms in gaining access to private capital;
- Connecting emerging, technology based businesses to sources of management and business assistance services;
- Conducting community outreach, informing businesses of the services and information available through the RTA program;
- Providing support to industry clusters located in a region; and,
- Providing networking opportunities for firms within industry clusters.

LARTA has also begun to service federal Small Business Innovation Research (SBIR) Program grants which fund first and second stage technological research and development. LARTA acts as a manager and intermediary for these research and development grants, ensuring that the grantee performs under the terms of the grant and then links the research activity with entities that are willing to undertake technological development of the research product, as well as find or create a market for that technology. More information on LARTA can be found at: www.larta.org.

Financial Development Corporations, described earlier, are required by statute to give priority to a small business which has received an SBIR grant.

An RTA is a 501(c)(3) non-profit organization governed by a board of directors. The State has ex-officio membership on the boards. However, any state funding appropriated to an RTA must be matched on a 2 to 1 basis. Matching funds can occur in-kind or in hard dollars.

For more general information on RTAs please refer to: www.commerce.ca.gov/state/ttca/ttca_homepage.jsp.

California Technology In Partnership

The California Technology In Partnership (CalTIP) Program provides grants to small and medium sized California companies to match federal funding for research and development. The grant awards enable companies to accelerate the commercialization of new products and services based on technological innovation.

Chart #7 shows recent and proposed budget information regarding CalTIP.

**Chart #7 - California Partnership in Technology**

| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
|---|---|---|---|---|
| | | | | |
| 2005/06 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2006/07 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2007/08 | None Proposed | None Proposed | N/A | None Proposed |

CalTIP grants, subject to legislative appropriation of funds, provide up to $250,000 in matching funds to California companies that receive competitively awarded federal research and development grants. RTAs oversee CalTIP and provide support services directly and through others such as venture investors, academic partners and economic development organizations.

Eligible activities include commercialization of any technology based innovation such as life science, homeland defense, telecommunications, information processing, environmental management, transportation, and aerospace. For more information please refer to: www.commerce.ca.gov/state/ttca/ttca_homepage.jsp.

Manufacturing Technology Program

The Manufacturing Technology Program (MTP) works to improve the competitiveness of California's small and medium sized manufacturing firms through regional non-profit service providers. Chart #8 shows recent and proposed budget information for the MTP.

| **Chart #8 - Manufacturing Technology Program** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2006/07 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2007/08 | None Proposed | None Proposed | N/A | None Proposed |

Operating in partnership with the National Institute of Standards and Technology's Manufacturing Extension Partnership Program, MTP provides small and medium manufacturers with access to a wide range of inexpensive high quality business assistance including technical consulting services, work force training, and professional development.

When funds are appropriated by the Legislature, the MTP provides matching grants to non-profit organizations, and public agencies to perform one or more of the following functions:

- Establish and fund a California manufacturers' excellence program;
- Develop and disseminate inventory or resources available to assist manufacturers;
- Implement a strategy for addressing needs identified in the statewide California Manufacturing Program Plan; and
- Promote projects resulting in consortia partnership or alliance for manufacturing technology.

For more information please refer to: www.commerce.ca.gov and follow the links to the MTP.

Technology Development and Transfer Program

The Technology Development and Transfer Program (TDTP) was created to help increase California's overall technology-based economic growth, with an emphasis on improving collaborative industry/university research and development, while attracting additional investment.

Chart #9 shows recent and proposed budget information for the TDTP.

| **Chart #9 - Technology Development and Transfer Program** |
|---|

| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
|---|---|---|---|---|
| | | | | |
| 2005/06 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2006/07 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2007/08 | None Proposed | None Proposed | N/A | None Proposed |

The TDTP partners with the state's technology leaders dedicated to enhancing California's global leadership in research, development, and commercialization of emerging technologies and services. The TDTP intends to provide public and private entities with opportunities to increase the flow of innovation from California's technology-based industry sectors to the global marketplace. Among the undertakings of the TDTP are:

- Improving research opportunities between technology companies and academia;
- Linking administration officials with technology stakeholders; and,

.

- Enabling the deployment of broadband telecommunications.

More information on TDTP may be found at: www.bth.ca.gov/programsinitiatives/tdtp.asp.

Challenge Grant Program

The Challenge Grant Program consists of technology transfer grants and defense industry conversion and diversification grants. Challenge Grant projects include, but are not limited to: defense industry conversion and diversification; access to ongoing research, and research findings; exchange or transfer of personnel; research support services, including capital outlay; consortia development; and, collaborative research. This program is subject to appropriation.

Chart #10 shows recent and proposed budget information regarding the Challenge Grant Program.

| **Chart #10 - Challenge Grant Program** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2006/07 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2007/08 | None Proposed | None Proposed | N/A | None Proposed |

Eligible projects must take place in California. A project is eligible for a grant up to 25% of total project costs and must have private sector or foundation matching funding. To receive a technology transfer grant, the project sponsor must demonstrate that there is a likelihood of commercialization of a product, service, or process; that there is a beneficial impact on the California economy; that there is involvement of small businesses and minority and women owned businesses; and that there is a possibility of producing a prototype at the end of the grant period.

Technology Planning Program

The Technology Planning Program provides grants and technical assistance to California nonprofit organizations and public entities working within specific industries to identify defense conversion or defense related technology expansion projects which are carried out by federal laboratories, universities, and companies in close geographical proximity.

Chart #11 shows recent and proposed budget information for the Technology Planning Program.

| **Chart #11 - Technology Planning Program** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2006/07 | 0 | 0 | 0 | 0 |
| Δ | | | | |
| 2007/08 | None Proposed | None Proposed | N/A | None Proposed |
| | | | | |

Grants may be awarded in the areas of strategic planning alliances. Grants are made on a competitive basis according to how well they meet the program's goals. The Technology Planning Program is intended to focus on joint efforts to develop and commercialize defense-related technologies by federal laboratories, universities, and companies in close geographical proximity.

## California Welcome Centers

California has a network of Welcome Centers, which were established to encourage the economic development of tourism in California.

Chart #12 shows recent and proposed budget information for the California Welcome Centers.

| Chart #12 - California Welcome Centers | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | |
| 2005/06 | | $56 | | |
| Δ | | | | |
| 2006/07 | | $56 | | |
| Δ | | | | |
| 2007/08 | | $78 | | |

The Welcome Centers are operated by convention and visitor bureaus, chambers of commerce, local governments, state government, or private entities. Oversight is located in the California Office of Tourism, which sits within BT&H. If a non-state entity is going to operate a Welcome Center they must do so according to a written agreement with the Office of Tourism.

Welcome Centers offer information and services to people visiting California, and are located in proximity to major tourist attractions. There are currently 13 Welcome Centers in the state, stretching from Arcata to Barstow. For more information please refer to: www.visitcwc.com.

## California International Trade Promotion

This subsection examines current trade programs and services available to California companies seeking to conduct business in California. This discussion focuses on state-level programs, because it is these programs over which the Legislature has the most influence.

Each of California's trade programs has a stated mission of improving the state's business climate and promoting California companies. In general, trade programs provide market research, technical assistance, opportunities to meet potential investors and business contacts, and other services, including financial and logistics assistance.

Legislation enacted in 2006, SB 1513 (Romero), Chapter 663, Statutes of 2006, initiated the development of a comprehensive state foreign trade policy and program. Previous to the enactment of this bill BT&H had no official authority to implement any international trade program. As part of the elimination of the state Technology, Trade, and Commerce Agency in 2003, specific authority for the state to conduct foreign trade and investment activities was eliminated. Questions had even arisen as to whether the Governor was authorized to engage in direct advocacy for California business in foreign countries.

In 2006, the Assembly Committee on Jobs, Economic Development, and the Economy, and the Senate Committee on Business, Professions and Economic Development held a joint hearing on the question of state administration of an international trade program. The Committees produced a white paper on the subject which can be found at www.assembly.ca.gov/acs/newcomframeset.asp?committee=131, under the topic of "International Trade."

The enactment of SB 1513, which followed the hearing, represents a compromise between the Senate and the Assembly committees, and a majority of members who were authoring international trade related legislation in 2006. The parties drafting the bill believed it was important to set forth a path for the state to develop an international trade policy without presupposing the role of the state in advancing California's economic interests in the global marketplace.

The importance of international trade and investment to California is evidenced by the following facts:

- Nearly 94% of all exporters in California are small or medium sized firms, and small business comprises nearly 90% of all of California's businesses, employing more than 50% of the California workforce.

- Exporters pay higher wages than other kinds of businesses.

- The adequacy of the state's infrastructure, workforce, research facilities, manufacturing and service industries, and access to capital form the foundation of California's global market related economy.

- U.S. subsidiaries of foreign companies in California employed 561,000 California workers in 2005, increasing 15% from the 2000 level.

- One in seven California jobs is related to international trade activities.

SB 1513 created the California International Trade and Investment Act. It specified that BT&H would be the primary state agency responsible for international trade and investment activities in California. This bill required the Secretary of BT&H to develop an international trade and investment policy, complete a study on the potential role of the state in global markets, and develop an international trade and investment office strategy for the state.

Chart #13 shows proposed funding for the International Trade and Promotion activities.

**Chart #13 - California International Trade and Promotion Study**

| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
|---|---|---|---|---|
| | | | | |
| 2005/06 | | | | N/A |
| Δ | | | | |
| 2006/07 | | | | N/A |
| Δ | | | | |
| 2007/08 | | | | N/A |

BT&H is authorized to do the following:

- Attract employment producing foreign investment to the state;

- Cooperate in international public infrastructure projects;

- Provide support for California business in accessing international markets, including, but not limited to, export assistance; and,

- Engage in other trade or foreign investment related activities specifically assigned by the Governor.

The following is a summary of the significant statutory requirements that were enacted by SB 1513 related to international trade and investment:

<u>California International Trade and Foreign Investment Policy</u>

The Secretary of BT&H is required to develop an international trade and investment policy, which is to be consistent with the economic development strategic plan, developed by the California Economic Strategy Panel. It is intended to provide guidance to strategies and plans from other agencies and departments related to workforce and infrastructure development. The policy is to be developed in consideration of current and emerging market conditions and the needs of investors, businesses, and workers, to be competitive in global markets.

<u>California International Trade and Foreign Investment Study and Strategy</u>

By October 1, 2007, BT&H is to complete a study on the potential roles of the state in global markets. Among the issues to be addressed in this study are:

- The relationship between the state's economy and global markets;

- Gaps in public and private programs and services which serve or could serve businesses in opening up foreign markets for their products and attracting foreign investment in their businesses;

- The strengths and weaknesses of the state's physical and human infrastructure related to foreign trade and investment markets, and what role the state government can take to address identified weaknesses;

- Businesses' needs and priorities related to foreign trade and investment;

- Coordination and leveraging government programs and services related to international trade and foreign investment; and

- Opportunities and challenges in developing businesses and attracting investment along the border and in underserved urban and rural areas.

The study is required to include recommendations that cover the next 3-year, 7-year and longer-term periods on the following:

- Infrastructure, workforce training, business incentives and the need for international trade and investment offices, in relation to international trade and investment needs of the state;

- Oversight and administration of foreign trade missions that may be recommended by the study;

- Priorities for state activities and funding related to international trade and investment; and

- The organizational structure for international trade and investment policies and programs in state government.

By February 1, 2008, the Secretary of BT&H is required to make recommendations on a strategy for international trade and investment that covers the following items:

- Measurable goals and timelines for achieving each of the policies, goals and objectives;

- Identification of impediments to achieving the policies and objectives set forth in the strategy;

- Identification of stakeholder partnerships that will be used in implementing the strategy;

- Identification of options to fund the strategy recommendations; and,

- Identification of an organizational structure for the state administration of international trade and investment policies, programs, and services.

<u>California International Trade Office Strategy</u>

Under the provisions of this statute, the Secretary of BT&H is prohibited from establishing any international trade and investment offices until the following conditions are met:

- The Secretary determines that based on the study and recommendations outlined above, it is appropriate to consider establishing foreign trade and investment offices;

- The Secretary prepares a separate international trade and investment office strategy, which receives statutory authorization for implementation;

- The Secretary submits a business plan for opening trade offices; and,

- The Secretary develops a strategy for selecting, opening, and managing international trade and investment offices.

The international trade office strategy must meet the following requirements:

- It shall be based on California's foreign trade and investment needs;
- It shall be consistent with the Secretary's recommendations on a foreign trade and investment strategy;
- It shall define goals, objectives and timelines for each recommended office. Goals and objectives should be targeted to primarily assist small and medium sized businesses;
- It shall outline the Agency's management and oversight responsibilities, and funding levels;
- It shall define the method for selecting trade office locations, the number of offices, longevity of each office, and other operational characteristics that each office shall encompass;
- It shall define funding sources for each office;
- It shall define staffing levels and how staff requirements will be determined; and
- It shall include a conflict of interest and gift policy for staff.

The international trade and investment office strategy must be updated at least every five years. The strategy requires legislative authorization for its implementation. The statute requires that each office shall be under the direction of a manager of international trade and investment offices within the Agency.

California Representative on International Affairs

The United States Constitution grants the federal government the power to enter into treaties and trade agreements, and provides that these treaties and agreements are laws of the U.S., and as such, are supreme over the laws of states. By Executive Order, the United States Trade Representative (USTR) is created as an agency within the Executive Office of the President of the United States, and is responsible for international trade negotiations.

Under "Fast Track," also called "presidential trade promotion authority," the President is authorized (through the office of the USTR) to negotiate trade agreements. These agreements are then submitted to Congress, which only has the authority to approve or reject the agreements – no changes can be made to the submitted trade agreement. Fast Track severely limits Congressional and public input in the negotiation process. In response to these concerns, several Industry Trade Advisory Committees (ITACs) have been established to make recommendations to the USTR and to help ensure trade negotiation objectives adequately reflect U.S. commercial and economic interests.

By Congressional directive, the USTR is required to secure advice from states on trade negotiations through the Intergovernmental Policy Advisory Committee (IGPAC), comprised entirely of state and local officials. Despite repeated requests, no Members of the California State Legislature have been appointed to IGPAC. The USTR also maintains a State Point of Contact system in which the governor of each state designates a single point of contact within the state, which is responsible for transmitting information to the USTR, and to disseminate information from the USTR to state officials.

SB 1513, as declaratory of existing law, stated that the Governor is the primary state officer representing California's interest in international affairs, and is the principal point of contact with the USTR. The Governor has appointed Garrett Ashley in the BT&H Agency to fill this role. Under the provisions of SB 1513, this appointment must do all of the following:

- Promptly disseminate correspondence or information from the USTR to the appropriate state agencies and departments and legislative committees;

- Work with the appropriate state agencies and departments, and the Legislature to review the effects on the California environment, and California businesses, workers and general lawmaking authority, of any proposed or enacted trade agreement or provisions, and communicate concerns to the USTR; and

- Serve as liaison to the Legislature on matters of trade policy oversight.

SB 1513 also requires the Governor's Office of Planning and Research to maintain and update a full and comprehensive list of all state agreements made with foreign governments.

<u>Foreign Trade Zones</u>

Foreign Trade Zones (FTZs), are areas where goods may be imported without submitting to all U.S. Customs rules or tariffs, and are intended to promote U.S. participation in trade and retain domestic employment that might otherwise go to foreign countries. These zones are established by the federal government with companion state statute authorization.

California has 17 general purpose FTZs out of 234 zones in the U.S. California's FTZs are located in the following areas:

- Butte County
- Eureka
- Long Beach
- Los Angeles
- Merced, Madera and Fresno Counties
- Oakland
- Palm Springs
- Palmdale
- Port Hueneme
- Riverside County
- San Diego
- San Francisco
- San Jose
- Santa Maria

- Stockton
- Victorville
- West Sacramento

More information may be found at: www.labor.ca.gov/calBIS/cbforeigntradezones.pdf and www.cbp.gov/xp/cgov/import/cargo_control/ftz/.

Economic Development and Trade Promotion Account

The Economic Development and Trade Promotion Account was established for the Secretary of BT&H to deposit donations made to the state for the purpose of promoting international trade and investment.

Chart #14, on the Economic Development and Trade Promotion account, provides data on funds in the Account.

| **Chart #14 - Economic Development and Trade Promotion Account** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | | | | |
| Δ | | | | |
| 2006/07 | | | | |
| Δ | | | | |
| 2007/08 | | | | |

Donations cannot exceed $10,000 per donor, per quarter. Donors may specify the international trade and investment office or international trade and investment event for which the donation can be used. The Secretary of BT&H may also use monies deposited in the Economic Development and Trade Promotion Account for expenses incurred to promote international trade and investment that will directly benefit California business.

## Office of Military and Aerospace Support

The Office of Military and Aerospace Support (OMAS) provides a central clearinghouse for all defense retention, conversion, and base reuse activities in the state. It serves as the primary state liaison with the Department of Defense, and supports existing aerospace initiatives. Department of Defense accounts for roughly $42 billion of the state's $1.7 trillion economy.

Chart #15 shows budgetary information for the Office of Military and Aerospace Support:

| Chart #15 - Office of Military and Aerospace Support | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | |
| 2005/06 | | $444 | | |
| Δ | | $122 | | |
| 2006/07 | | $533 | | |
| Δ | | $15 | | |
| 2007/08 | | $551 | | |

OMAS assists local communities throughout California to make the best possible case to the Department of Defense for the retention of military facilities during rounds of base closures. OMAS also provides leadership on statewide issues relating to military base retention and the aerospace industry.

OMAS helps implement both conversion and retention grant programs in support of communities adjacent to bases. It helps maximize defense and aerospace industry contracts and jobs of benefit to California. It facilitates Department of Defense partnerships involving federal, state, local, and private sector members, and promotes energy co-generation projects as well as public-private ventures and privatization of base services. More information can be found at: http://134.186.46.107/about/.

Space Enterprise Development Act

The Space Enterprise Development Act authorizes the BT&H Agency to implement a space enterprise development program, subject to an appropriation of funds. The intent of this program is to foster activities that increase the competitiveness of space enterprise in California, including the commercial use of space, space vehicle launches, space launch infrastructure, manufacturing, applied research, technology development, economic diversification, and business development.

BT&H can contract with other state or private agencies, non-profit corporations, universities, firms, or individuals for work related to the space enterprise program. BT&H contracts with a non-profit organization to operate the California Spaceport Authority (CSA). In turn, the CSA does the following:

- Identifies science and technology trends significant to space enterprise and acts as a clearinghouse for space enterprise issues and information;

- Develops and implements a state strategy for applying and commercializing technology to create jobs, respond to industry changes, and foster innovation and competitiveness in space enterprise in California;

- Provides information to the Secretary of BT&H, regarding the development of laws, regulations, decisions, or determinations affecting the economic and employment impacts of space enterprise in California;

- Makes recommendations on funding to promote the development of space enterprise in California, including education, and workforce development;

- Reviews applications for and promotes the California Space Enterprise Competitive Grant Program; and,

- Pursues federal or private grants.

More information can be found at: [www.californiaspaceauthority.org/html/spaceport-authority.html](www.californiaspaceauthority.org/html/spaceport-authority.html).

California Space Enterprise Competitive Grant Program

The Space Enterprise Competitive Grant Program, located within BT&H, is intended to promote the development of space enterprises in California, including activities for the commercial use of space, space research, manufacturing, applied research, space launch infrastructure, and other activities related to space enterprise. The California Space Authority administers the program. Public, private, educational, commercial, and nonprofit entities that improve the competitiveness of space enterprise in California may apply to the Space Authority for grant funds.

Under this program, grant applications would be solicited annually by the California Space Authority. Grant proposals are evaluated based on the number of jobs created, cost sharing by other sources, the amount of project work which would take place in California, how intellectual property derived from the project would be shared, the impact on the state's economy, the project's cost effectiveness, demonstration of technical feasibility, and an assessment of risk.

## Department of Housing and Community Development

The Department of Housing and Community Development (HCD) is one of 13 departments within BT&H. HCD administers over 20 programs that award loans and grants for the development of affordable housing, infrastructure, and the development of jobs for lower income workers. Loans and grants are made to local public agencies, non-profit developers and not-for-profit service providers.

Chart #16 shows recent and proposed budget information for HCD.

| Chart #16 - Department of Housing and Community Development | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | (in thousands) | (in thousands) | (in thousands) | (in thousands) |
| 2005/06 | 491.0 | $551,545 | $50,875 | $500,670 |
| Δ | | | | |
| 2006/07 | 526.9 | $654,327 | $63,274 | $591,053 |
| Δ | | | | |
| 2007/08 | 597.2 | $968,620 | $67,765 | $900,855 |

Several of the Department of HCD's programs deal directly with community economic development. More information can be found at: www.hcd.ca.gov/. The following is a summary of some of HCD's key programs:

Community Development Block Grant Program

The Community Development Block Grant (CDBG) Program was established by federal law in 1974. Large and medium sized municipalities are provided with allocations from the federal Housing and Urban Development Department. States administer allocations for the CDBG program for smaller cities and counties on a competitive basis. California's small cities CDBG program is administered by HCD. This state program provides funding to counties with fewer than 200,000 residents in unincorporated areas and cities with fewer than 50,000 residents that are not participants in the federal CDBG Program.

Chart #17 presents recent proposed budget information for the state small cities CDBG Program.

| Chart #17 - Small Cities Community Development Block Grant | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | (in thousands) |
| 2005/06 | N/A | $57,834 | N/A | $54,869 |
| Δ | | | | |
| 2006/07 | N/A | $63,868 | N/A | $60,000 |
| Δ | | | | |
| 2007/08 | N/A | $64,219 | N/A | $60,000 |

The primary objective of the CDBG Program is the development of viable urban communities through providing decent housing and suitable living environments, and by expanding economic opportunities.

Pursuant to federal law, at least 51% of a CDBG project's beneficiaries must have incomes less than 80% of the area median income. This is known as the Targeted Income Group.

Each year the CDBG Program makes funds available to eligible jurisdictions through several allocations including: the General, Native American and Colonias; Economic Development – Over the Counter; Economic Development – Enterprise; and, Planning and Technical Assistance allocations.

General, Native American and Colonias Allocations

The General, Native American and Colonias Allocation is the largest component of the CDBG program. One and one quarter percent of state CDBG funds are awarded to projects serving Native Americans who do not belong to a federally recognized tribe or rancheria. Five percent is awarded to non-entitlement California communities (colonias) located within 150 miles of the California-Mexico border. Most of the funds in this allocation are spent for housing, community, and economic development projects serving lower-income households in small, typically rural communities.

Economic Development: Enterprise Fund

This allocation is intended to capitalize local businesses through grants and revolving loan funds that provide working capital or provide infrastructure assistance to businesses that create or preserve private sector jobs for low and very low income population. Grants and loans can be made up to $500,000. Loan terms and conditions can be tailored to meet the financial needs of each business.

Economic Development: Over the Counter

This allocation is intended to capitalize a local business loan or finance a public infrastructure project which will promote business expansion and result in the creation and/or retention of permanent private sector jobs. Eligible uses of funds include business loans and grants to cities and towns for purchase of land and existing improvements, construction and rehabilitation of buildings and leasehold improvements, purchase of equipment, inventory, furniture, fixtures, materials and supplies, and working capital. Grants can be made up to $500,000.

Planning and Technical Assistance

The grants made under this allocation are available for both general and economic development activities. The grants are intended to help communities move projects from concept to reality. A total of $70,000 is available annually to each eligible community -- $35,000 on the economic development side, and $35,000 for general development projects. Typical activities include: business development feasibility studies; business attraction and retention plans; housing needs studies; marketing studies; social service needs assessments; technical assistance for specific businesses; and infrastructure needs assessments.

More information on the Small Cities CDBG Program may be found at: www.hcd.ca.gov/fa/cdbg/Enterprise.html.

## Geographically-Targeted Economic Development Areas

The Enterprise Zone (EZ) Program and the other geographically-targeted economic development areas (G-TEDAs) are among the largest state economic development programs in California. The Department of Housing and Community Development (HCD), administers four G-TEDA programs including: EZs, Manufacturing Enhancement Areas (MEAs), Local Agency Military Base Realignment Areas (LAMBRAs), and one Targeted Tax Area (TTA).

The G-TEDA programs are based on the principle that targeting significant economic incentives to low-income communities allows these communities to more effectively compete for new businesses and retain existing businesses, resulting in increased tax revenues, less reliance on social services, and lower public safety costs. Residents and businesses also directly benefit from these more sustainable economic conditions through improved neighborhoods, business expansion, and job creation.

Under the G-TEDA programs, businesses and other entities located within targeted areas are eligible for a variety of local and state provided incentives. Local governments often write down the costs of development. They may also fund related infrastructure improvements, provide job training to prospective employees, or establish a streamlined process of obtaining permits. Additionally, the state offers a number of incentives, including: tax credits; special tax provisions; priority notification when selling state surplus lands; access to certain brownfield clean-up programs; and, preferential treatment for state contracts.

By far, the largest business incentive is the income tax credit given for hiring certain targeted employment populations. In 2003 (the most recent year information is available), corporate tax payers claimed $178 million in 3,199 credits attributable to EZs. Trade related businesses claimed $46 million, manufacturing enterprises claimed nearly $45 million in credits, and financial service related businesses claimed nearly $35 million. Of the 2,455 credits claimed by corporate filers, a significant majority of the value of the claims ($267.6 million based on 1,020 credits) came from businesses with gross revenues over $100 million, while businesses with gross revenues under $5 million claimed 900 credits, for a total value of $8 million. Of these credits granted to "known zones," 27% went to San Francisco, Long Beach, Oakland, and Santa Ana.

Chart #18 compares the state tax incentives offered to businesses located in a G-TEDA.

**Chart #18 - Comparison of State Tax Benefits by Targeted Area (2005)**

| | Hiring Credit | NOL Carry-Forward | Sales and Use Tax Credit | Accelerated Depreciation | Lender Interest Deduction |
|---|---|---|---|---|---|
| Enterprise Zone | X | X | X | X | X |
| Manufacturing Enhancement Zone | X | | | | |
| Targeted Tax Area | X | X | X | X | |
| Local Agency Military Base Realignment Area | X | X | X | X | |

Source: Legislative Analyst's Office

The Assembly Committee on Jobs, Economic Development, and the Economy (JEDE), and the Assembly Revenue and Taxation Committee (R&T) undertook a comprehensive, four-month examination of the EZ Program and other G-TEDAs during the 2005-06 Session. A summary of the hearings and the JEDE final list of recommendations can be found on the JEDE Web site at: www.assembly.ca.gov.

During the course of these hearings, the committees reviewed current and best practices related to designation, management and monitoring, and use of business incentives available through the G-TEDA programs with the objective of putting forth an overall evaluation of the state's return on its investment (ROI). While it was possible to estimate the cost of the business incentives, determining the value of the programs' broader impact upon individuals and communities could not be ascertained.

One of the primary impediments to determining ROI can be traced back to the establishment of the EZ Program over 20 years ago, when the state failed to establish benchmarks at either the state or local levels, develop metrics for measuring the ongoing success of the program, or place a single state agency firmly in charge of the EZ program.

As a result of these hearings, and in consultation with the Senate policy and fiscal committees, a compromise measure [AB 1550 (Arambula and Karnette), Chapter 718, Statutes of 2006] was developed that addressed many of the program management and oversight issues raised in the hearings. It is likely that additional legislation will be introduced this year addressing other areas examined during the hearings.

<u>Manufacturing Enhancement Areas</u>

The California Manufacturing Enhancement Areas (MEAs) were created in 1997 with SB 200 (Kelly),Chapter 609. Exiting law authorizes the designation of up to two MEAs for certain impoverished communities.

The purpose of the MEA is to stimulate job creation in areas experiencing triple the average of the state’s unemployment rate and located in a Border Environment Cooperation Commission Region. MEA benefits include, but are not limited to:

- Streamlined local regulatory controls;
- Reduced local permitting fees; and,
- Tax credits for hiring qualified employees.

Currently there are two MEAs, Calexico and Brawley, both of which are located in Imperial County. These MEAs will expire in 2012.

Local Agency Military Base Recovery Area

The Local Agency Military Base Recovery Areas (LAMBRAs) program came into existence in 1993 with AB 693, (Cannella), Chapter 1216. Local governments applied to the Trade and Commerce Agency for formation of LAMBRAs comprising of all or part of a military base closed pursuant to the various base closure acts. The purpose of the legislation was to adapt the EZ model to former military base areas. LAMBRA benefits include, but are not limited to:

- Up to 100% Net Operating Loss (NOL) carry-forward. NOL may be carried over for a period of 15 years.

- Firms can earn over $30,000 in state tax credits for each qualified employee hired, and up to $2,000,000 per firm, per year.

- Corporations can earn sales tax credits on purchases of $20,000,000 per year of qualified machinery and parts.

- Expensing of certain depreciable property capped at $40,000 annually.

- Unused tax credits may be allowed to be carried over to future tax years.

HCD is limited to designating only eight LAMBRAs in the state and one per geographic region. Each LAMBRA designation is valid for a period of eight years. All LAMBRAs are scheduled to expire between 2007 and 2012.

Targeted Tax Area

The California Targeted Tax Area (TTA) program came into existence in 1997, with AB 1217 (Bustamante), Chapter 602. The TTA legislation requires the Trade and Commerce Agency (currently the Department of Housing and Community Development) to designate at least one "TTA" that gives certain businesses various tax incentives. TTA benefits include, but are not limited to:

- Tax credits for sales and use taxes paid on certain machinery, parts, and equipment;

- Tax credits for hiring qualified employees;

- Fifteen year NOL carry-forward; and

- Accelerated expensing deduction.

The only current State TTA is located in Tulare and it is designated until 2013.

## Goods Movement Plan

BT&H and the California Environmental Protection Agency have released a Goods Movement Action Plan (GMAP) for the state. The GMAP is a comprehensive plan to address the various layers of the goods movement system, focusing on the state's four key transportation corridors – the Bay Area, Los Angeles/Inland Empire, San Diego border region, and the San Joaquin Valley. The GMAP was developed to promote economic growth, encourage the creation of new high paying jobs, and address the environmental challenges of the goods movement industry.

The most recently issued GMAP includes approximately 200 possible projects covering infrastructure, public health and environmental impact mitigation, community impact mitigation, homeland security, public safety, and workforce training.

The GMAP work done to date takes a macroscopic look at the goods movement industry serving California businesses and the infrastructural components of California's highway, rail and air transport systems which carry goods into, around, through and out of the state. This work done to date has been comprehensive in describing current goods movement characteristics, and problems and opportunities for improvement. However, there is little analysis of what is being moved in California, the industries that produce goods for shipment and how different industries employ different goods movement services and strategies to send and receive products efficiently.

More information on the State Goods Movement Plan may be found at: www.arb.ca.gov/gmp/gmp.htm.

# Section V – Labor and Workforce Development Agency

This Section provides an overview of the Labor and Workforce Development Agency (L&WD). The L&WD was established in 2002 to address issues concerning California's workers and employers. These issues breakdown into three key areas: labor law enforcement, workforce development, and benefit payment and adjudication. The following information will largely focus on the workforce development functions of the L&WD and programs that affect state and regional economic development, in recognition that a trained workforce and a vibrant economy mutually reinforce one another with job generation and a bountiful supply of needed labor.

The goals of the L&WD are to improve access to employment and training programs, and to ensure that California businesses and workers have a level playing field in which to compete and succeed. L&WD also oversees programs that play an important role in state and regional economic development.

Chart #19 summarizes key L&WD fiscal information for the budget year, current year, and previous year.

| Chart #19 - Labor and Workforce Development Agency | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | (in thousands) | (in thousands) |
| 2005/06 | 11.5 | $2,223 | $111 | $0 |
| Δ | 2.7 | $161 | | |
| 2006/07 | 14.2 | $2,384 | $119 | $0 |
| Δ | - | $135 | | |
| 2007/08 | 14.2 | $2,249 | $112 | $0 |

Among the key departments and economic development programs that L&WD is responsible for are the Employment Development Department, the Employment Training Panel, the California Workforce Investment Board, and the California Economic Strategies Panel. More information may be found at: www.labor.ca.gov/.

## Employment Development Department

Employment Development Department (EDD) offers numerous services to the state's workers, job seekers, and employers. EDD is one of the largest departments in state government with nearly 10,000 staff, and a budget of more than $11 billion.

Chart #20 summarizes key fiscal facts for EDD for next budget year, the current year, and the previous year.

| Chart #20 - Employment Development Department | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | (in thousands) |
| 2005/06 | 9,187.8 | $9,716,315 | $52,351 | $10,394,862 |
| Δ | 205.6 | $1,412,093 | $2,620 | |
| 2006/07 | 8,982.2 | $11,128,408 | $54,971 | $9,700,829 |
| Δ | 242.8 | $331,960 | $2,288 | |
| 2007/08 | 8,739.4 | $10,796,448 | $57,259 | $9,725,800 |

Among EDD's most important objectives are to provide a variety of services to facilitate a match between employers' needs and job seekers' skills and to ensure that California's workforce has the skills that employers need to manage their businesses. These services can generally be characterized as "workforce investment."

EDD's major programs for ensuring that workforce investment objectives are met include California One-Stop Career Centers, the California Jobs Service Program/CalJOBS, ETP, and the WIA Program.

Additionally, EDD oversees the work of the Economic Strategies Panel, and runs the California Business Investment Services, both of which are intended to foster state and regional economic development, which generates more employment opportunities for California's growing workforce.

The following sub-sections provide an overview of EDD's key workforce investment and economic development programs. More information about EDD may be found at: www.edd.ca.gov.

California One-Stop Career Centers

The One-Stop Career Center (One-Stop Center) system is a statewide network of centers that provide employment, education, and training services all in one location. The One-Stop Centers work with public and private non-profit partners to provide their services. Some One-Stop Centers have all of their partners on site, and some do not. However, all partners are community-based and easily accessible.

Chart #21 summarizes key fiscal facts for One-Stop Centers for the next budget year, the current year, and the previous year.

| **Chart #21 - One-Stop Career Centers** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | (in thousands) |
| 2005/06 | | $559,573 | | $342,399 |
| Δ | | | | |
| 2006/07 | | $545,150 | | $334,753 |
| Δ | | | | |
| 2007/08 | | $469,433 | | $316,368 |

The One-Stop Centers include programs such as Job Services, Unemployment Insurance (UI), Vocational Education, and Vocational Rehabilitation. The One-Stop Centers provide their services in English and Spanish, and are focused on meeting unique employment needs in each community. All but two of California's 58 counties have a One-Stop Center, with many counties having multiple one-stop locations. More information about One-Stop Career Centers can be found at: www.edd.ca.gov/one-stop/pic.htm.

Jobs Services Program and CalJOBS

EDD's Job Services Program is California's component of the federal/state public employment service system. Funded by an employer's payroll tax, under the Federal Unemployment Tax Act, the Program connects employers with qualified workers, at no cost.

The Jobs Services Program is one of the largest employment services programs in the world. It offers assistance at more than 400 service locations, in over 200 communities, serving more than 900,000 employers in this state. EDD plans and delivers job services in partnership with other employment and training organizations in the One-Stop Centers program. This partnership offers job search training workshops for job seekers that teach the skills needed to find and keep a job, and provide, referrals to partner agencies that provide other employment related services, including training.

The Jobs Services Program also provides California's employers with a variety of services to meet workforce needs, including:

- Re-employment services for dislocated workers;
- Labor market information for business expansion, relocation, and future hiring;
- Focused recruitment for new business ventures or facilities needing a large number of specialized workers, quickly; and,
- Locally coordinated workforce preparation services.

The Internet based CalJOBS allows job seekers to enter their resume into a database which can be accessed by employers to select qualified workers from the available worker pool. Job seekers can also use CalJOBS to search the job listing database.

The Governor's 2007-08 proposed budget would reduce the EDD Jobs Services Program by $27.1 million. Last year, the California Legislature approved one-time contingent funding to provide in-person job search services to Unemployment Insurance claimants. The proposed reduction is a non-renewal of that specific funding.

The Re-employment Program is a specialized process that selects new UI claimants to ensure that they understand and meet the UI work test requirements of being able and available for work, and actively seeking employment. This part of the Jobs Service Program may have to be terminated if the Governor's funding reduction proposal is implemented.

## Employment Training Panel

Established in 1983, the Employment Training Panel (ETP), is a business- and labor-supported state agency that funds job skills training to provide workers with jobs that have good pay potential and long-term usefulness. ETP is governed by a seven member panel, appointed by the Governor and Assembly and Senate Leadership.

ETP uses the Employment Training Fund for their training programs. Monies in the Fund are provided by one tenth of 1% of unemployment insurance wages paid by every private, for-profit employer in the state as well as some non-profits, amounting to no more than $7.00 per covered employee per year.

Chart #22, summarizes key ETP fiscal information for the budget year, current year, and previous year.

| Chart #22 - Employment Training Panel | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance* |
| | | (in thousands) | (in thousands) | (in thousands) |
| 2005/06 | 88 | $53,000 | $8,400 | $44,600 |
| Δ | | | | |
| 2006/07 | 88 | $67,400 | $9,000 | $58,400 |
| Δ | | | | |
| 2007/08 | 88 | $70,200 | $9,500 | $60,700 |
| *Includes training contracts both with individual employers and with training agencies and employer consortia serving multiple employers. | | | | |

ETP has paid more than $1 billion in training funds since its inception, and trained more than 660,000 California workers. In California, 60,000 businesses have been served, with 80% of companies having been small businesses with fewer than 250 employees per firm.

Other important aspects of the ETP Program are:

- Employers match training funds awarded by ETP for training existing workers, making these projects true public-private partnerships;

- ETP funds training for unemployed workers; and,

- ETP prioritizes small businesses and employers in areas with high unemployment.

The Small Business Program, administered by ETP, targets small businesses that do not have the resources or flexibility to train skilled workers on their own, and would like to contract with ETP for their services.

Research has shown that for every $1.00 invested in the ETP Program, $5.00 is returned in economic benefits. More information regarding the ETP may be found at: www.etp.ca.gov.

## California Workforce Investment Board

The California Workforce Investment Board (CWIB) was established under the auspices of L&WD, to assist the state in meeting the requirements of the federal Workforce Investment Act of 1998 (WIA).

Implementation of WIA required significant reforms to California's job training system. These reforms emphasized private sector involvement, improved customer service, better alignment of public sector resources, and the integration of education, workforce, and economic development programs in order to help both workers and employers compete and succeed in the global economy.

The members of CWIB are appointed by the Governor and the leadership of the Assembly and Senate, and represent business, labor, public education, economic development, youth activities, employment services, and training agencies. Resources used to carry out CWIB activities are derived from the Governor's 15% WIA Discretionary funds. CWIB has a staff of 22 authorized positions, including an Executive Director who is an integral part of the CWIB. The staff organization supports various committees on administration, high-wage/high growth jobs, advancing workers, and statewide worker shortages.

Chart #23 summarizes key CWIB fiscal information for the next budget year, the current year, and the previous year.

| **Chart #23 - California Workforce Investment Board** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | (in thousands) | |
| 2005/06 | 19.4 | $3,355 | $245 | $0 |
| Δ | 1.5 | $1,570 | | |
| 2006/07 | 20.9 | $4,925 | $345 | $0 |
| Δ | - | $428 | | |
| 2007/08 | 20.9 | $4,497 | $315 | $0 |

CWIB's Strategic Two-Year Plan for 2005 to 2007 states that its goals are to "achieve sustainable economic growth, meet the demands of global competition in the modern economy, and improve the quality of life for all Californians." To meet these goals, CWIB works with local workforce investment boards (WIBs) throughout the state and with stakeholder groups consisting of private businesses and public entities. CWIB and local WIB's mission focuses on providing employment training with strong job prospects and to connecting employers with job-seekers.

Among its many economic and workforce development activities, CWIB's Strategic Two-Year Plan cites specific efforts to assist and encourage small business in California, including developing the capacity of local One-Stop business services and linkages between One-Stop services and Rapid Response teams to address worker layoffs. More information on CWIB may be found at: www.calwia.org.

## California Economic Strategies Panel

The California Economic Strategy Panel (ESP) has the responsibility for continuously examining changes in the state's economic base and industry sectors to develop a statewide vision and strategic initiatives to guide policy decisions for economic growth and competitiveness. The ESP's current activities include:

- Completion of an Economic Development Strategy Plan, incorporating the findings and policy recommendations from outside reports and discussions regarding job and firm growth and movement; logistics, and manufacturing value chains, and economic opportunity in the state's rural economic regions;

- Development of an accountability system for use in the state budget process which measures the performance of state policies, programs, and tax expenditures intended to stimulate economic activity; and,

- Undertaking a California Regional Economies Project and incorporating the results of that Project into ESP's Economic Development Plan.

Chart #24 summarizes key fiscal facts for the ESP for the next budget year, the current year, and the previous year.

| **Chart #24 - California Economic Strategies Panel** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | (in thousands) | (in thousands) |
| 2005/06 | 2.25 | $306 | $15 | $0 |
| Δ | | | | |
| 2006/07 | 2.25 | $310 | $16 | $ |
| Δ | | | | |
| 2007/08 | 2.25 | $16 | $16 | $ |

The ESP is non-partisan, composed of eight appointees by the Governor, and leadership in the Assembly and Senate. The ESP looks at economic development factors affecting growth, such as: capital, infrastructure, taxes, and regulations; workforce development; and, research and development activity. The ESP then makes recommendations to the Legislature based on its findings.

ESP is composed of eight appointees by the Governor, two by the President pro Tempore of the Senate and the Assembly. The Secretary of L&WD serves as Chair of the CESP. A team of technical advisors provides research and analytic assistance, and facilitates discussions at ESP meetings and forums. More information on ESP can be found at: http://www.labor.ca.gov/panel/.

California Regional Economies Project

The Regional Economies Project provides the state's economic and workforce development system with data and information about changing regional economies and labor markets. This information provides a key resource in economic and workforce development planning, and a bridge connecting economic and workforce policies and programs at the state and regional levels. The Regional Economies Project is a joint effort of CWIB and ESP.

Economic research has provided ESP with information necessary to divide the state into nine economic activity regions as follows: Bay Area; Central Coast; Central Sierra; Greater Sacramento; Northern California; Northern Sacramento Valley; San Joaquin Valley;

Southern Border; and, Southern California. In addition to producing a statewide Economic Base Report, the Project has completed a Base Report for each of these regions. The information in these reports provides a comparative analysis of the state and regional economies from 2001 to 2004.

More information on numerous regional and issue-oriented reports on California's regional economies and the industry and workforce conditions and trends can be found at: www.labor.ca.gov/panel/espcrepindex.htm.

## California Business Investment Services

Contained within the L&WD, the California Business Investment Services (CalBIS) serves employers, corporate real estate executives, and site location consultants considering California for new business investment and expansion.

Chart #25 summarizes key CalBIS fiscal information for the next budget year, the current year, and the previous year.

**Chart #25 - California Business Investment Services**

| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
|---|---|---|---|---|
| | | | | |
| 2005/06 | 4.5 | $508 | $25 | $0 |
| Δ | | | | |
| 2006/07 | 4.5 | $546 | $27 | $0 |
| Δ | | | | |
| 2007/08 | 4.5 | $546 | $27 | $0 |

Among its services, CalBIS provides detailed information to current and prospective businesses with the following resources:

- California's Business Advantages, a resource detailing the many business-favorable reasons why someone should locate their business in California;
- California Site Selection Regions, a resource which gives key data about California's different economic regions;
- Site Selection Services, a no-fee service for businesses, real estate executives and site selection consultants to help businesses determine the most suitable location for their economic activity;
- Investment Incentives, a comprehensive report on various economic incentives offered by the state of California for locating certain type of economic activities in different Geographically-Targeted Economic Development Areas;

- Setting Up Business in California, A Guide for Investors, a report describing general procedures for establishing a business in California;

- Workforce Services, resources for connecting businesses with workforce training programs and other labor pool needs;

- International Business, a comprehensive compendium of resources for assisting businesses wanting to participate in international trade; and,

- Data and Statistics, a resource of labor market data and general economic statistics about California.

More information on the CalBIS programs can be found at: www.labor.ca.gov/calBIS/.

## Section VI – State and Consumer Services Agency

This Section provides an overview of the State and Consumer Services Agency (S&CS), and in particular, the Department of General Services which sits within the S&CS structure. Through programs operated by Department of General Services, the S&CS is responsible for the procurement of nearly $4 billion worth of goods and services. There are several key contracting programs that are operated by Department of General Services in conjunction with its procurement services which are designed to economically enhance certain groups. The S&CS, through Department of General Services, is also involved in several of the state Geographical Tax Enhancement Development Area programs which seek to revitalize economically depressed communities.

Chart #26 summarizes key S&CS information for the budget year, current year, and previous year.

| **Chart #26 - State and Consumer Services Agency** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | |
| 2005/06 | 8.2 | $1,364 | $0 | $0 |
| Δ | 0.6 | $59 | | |
| 2006/07 | 8.8 | $1,423 | $0 | $0 |
| Δ | 14.9 | $1,800 | | |
| 2007/08 | 23.7 | $3,223 | $0 | $0 |

The Agency is led by the Secretary of S&CS. In the current year, the S&CS has a budget of about $1.4 million for its internal operations and a staff of about nine. However, the Governor's 2007-08 budget proposes to more than double both figures, for a funding level of $3.2 million, and more than 23 staff positions.

## Department of General Services

The Department of General Services (DGS) provides centralized services to state agencies in a variety of areas and operates a number of programs. Chart #27 summarizes key DGS fiscal information for the budget year, current year, and previous year.

| Chart #27 - Department of General Services | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | |
| 2005/06 | 3,433.5 | $985,616 | | |
| Δ | 204.7 | $85,476 | | |
| 2006/07 | 3,638.2 | $1,071,092 | | |
| Δ | 64.8 | $111,258 | | |
| 2007/08 | 3,703.0 | $1,182,350 | | |

DGS is comprised of six divisions, 23 operational offices, 4,000 employees, and a budget in excess of a half billion dollars. Its diverse functions include e-commerce and telecommunications, acquisition, development, leasing, and procurement of supplies, among others. This report reviews the preference programs that are operated for small, minority, women, disadvantaged business, and disabled veterans enterprises, as well as bid preference programs for Enterprise Zones, Local Agency Military Base Recovery Areas, and Targeted Contract Preference Areas.

## Disabled Veterans and Small Business Certification Program

The Disabled Veterans Business Enterprise (DVBE) and Small Business Certification Programs were established to increase business opportunities for the DVBE and small business communities wanting to do business with the state of California. These programs are designed to help these businesses compete for state contracts with larger, better capitalized, and more established firms. Small businesses also include microenterprises, which are defined as businesses with fewer than 5 employees and less than $2.5 million in gross revenue.

DGS' Procurement Division, the Office of Small Business and DVBE Services (OSDS), is the state's certifying agency administering the two programs. In addition to conducting certifications, OSDS conducts outreach activities to recruit more of these businesses and provides guidance, resources, and support to these businesses in their efforts to do business with the state.

The state's DVBE program was established to acknowledge disabled veterans for their service in defending our state and nation and to encourage greater economic opportunities for these businesses. Each state department must establish its own method for achieving the 3% state participation goals for DVBEs. In order to help reach the participation goal, prime contractors must include DVBEs in doing at least 3% of their work, or demonstrate that they made a "good faith effort" in trying to achieve that.

Chart #28, summarizes key fiscal information for OSDS for the budget year, current year, and previous year.

| **Chart #28 - Office of Small Business and DVBE Services** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | | | | |
| Δ | | | | |
| 2006/07 | | | | |
| Δ | | | | |
| 2007/08 | | | | |

The primary difference between DVBE and small business certifications are the eligibility requirements. Small business certification is based on size standards (less than $10 million in gross revenue and fewer than 100 employees), while a DVBE is based on the veteran status of the owners and managers of the business (the owner must have a service-related injury and own at least 51% of the business).

Each program has state participation goals. The small business goal, which has been set by Executive Order S-02-06, is 25% of all contracts awarded by each department in state government. The DVBE participation goal, set by statute, is 3% of state department contracts. Each department in state government must annually report the level of small business and DVBE participation to the Legislature.

In addition to participation goals, certified small businesses which bid on state contracts and meet contract requirements are, by statute, awarded a 5% bidders' preference. Non-small business bidders that utilize certified small businesses can also qualify for the small bidder preference. DGS also has authority to adjust experience requirements for small business bidders, and reduce inventory requirements.

The maximum contract amount for the small bidder preference is $50,000. In order to increase small business participation, DGS can break larger contracts into smaller contracts in order to keep contracts under the cap and thereby increase the number of small business awards that can be made.

There are a number of other small business certification programs, in addition to the one operated by DGS, at the federal and local levels of government. Pursuant to AB 348 (Arambula and Bass), Chapter 185, statutes of 2005, OSDS administers a Certification Reciprocity Program which allows DGS to accept certification made by other agencies when those agency certification processes substantially comply with DGS certification standards. Reciprocity makes it easier for small businesses to participate in government contracting programs.

Certified small businesses are also entitled to prompt payment under the state Prompt Payment Act. The state must pay higher penalties and interest for late payment to these businesses. Other benefits for certified small businesses include: a streamlined contracting process for small contracts between $5,001 and $99,999; waiver of certain bidder fees; precedence allowances when bidding against non-small businesses doing business in geographically targeted areas; and, eligibility to participate in other non-state government contracting programs.

More information about the small business and DVBE certification program can be found at: [www.pd.dgs.ca.gov/dvbe/aboutcerts.htm](www.pd.dgs.ca.gov/dvbe/aboutcerts.htm).

## Minority and Women Owned Business Participation Goals

California has statutorily established contract participation goals for Minority Owned and Women Owned Business Enterprises (MBE and WBE), in an effort to assist these groups to effectively compete against larger and better capitalized businesses for state business.

The state statutory goal for MBEs is 15% of all contracts awarded by any state agency, department, officer, or other state governmental entity, while the WBE goal is 5%. An MBE or WBE is defined as a business which is at least 51% owned by a minority or a woman, respectively, or for which at least 51% of the stock ownership is by minorities or women.

State law also sets similar 15% and 5% goals for MBE and WBE participation in the award of contracts for bonds that the state issues. Participation goals for all goods and services subject to these statutes may be met by prime contractors who sub-contract with MBEs and WBEs. All contracts awarded to prime contractors must have conditions requiring primes to meet these participation goals in their bids, or at least to demonstrate good faith effort in trying to meet these goals.

While the statutes setting MBE and WBE participation goals remain in California Code, Proposition 209, approved by the voters in 1998, effective in 1999, has halted all race-conscious preference and participation programs in this state. State agencies can no longer develop recruitment programs for these specific groups for the purpose of increasing their participation in state contracts, nor can it collect information, on a mandatory basis, from contractors wanting to do business with the state on their minority and woman ownership status.

Departments like DGS and the California Department of Transportation have continued to reach out to these communities, however, under their small business enterprise programs. There is significant overlap between small business enterprises and MBEs and WBEs, particularly when dealing with emerging businesses. Thus, extensive outreach to the small business community is expected to yield results in recruiting minority and woman owned business enterprises.

## **U.S. and California Material Preferences**

California law requires state and local government bodies which let contracts to require that any contractor to whom a contract will be awarded, for the construction or repair of public works or for the purchasing of materials and supplies for public use, utilize, with certain exceptions, materials produced in the United States.

State law also requires a "buy California" provision in state contracts for the purchase of supplies for state or local government use that prefers supplies grown, manufactured, or produced in California. In carrying out the "buy California" preference, purchasers can utilize the preference when in-state products and supplies do not exceed more than 5% of the price of the lowest bid for goods and supplies manufactured out-of-state.

## **California Contractor Preferences**

California law establishes procedures for competitive bidding of certain contracts by public entities. Public agencies are required to give California companies preference on construction contracts against nonresident contractors.

The preference is equal to any preference that the nonresident contractor receives on public works contracts in its state of residency. For purposes of this preference, a "California company" is defined as one which has its principal place of business in a state in which there is a local contractor construction preference and the contractor has paid at least $5000 in sales and use taxes to California for each of the five years preceding the submission of a bid.

## **Target Area and Geographically-Targeted Economic Development Area Contract Preferences Act**

The purpose of the Target Area Contract Preference Act (TACPA) program is to promote economic development opportunities in designated "distressed areas," by offering bidding preferences in specified state contracts. "Distressed areas" are generally defined by characteristics concerning relative levels of per capita income, unemployment, education, female heads-of household with children, elderly residents in poverty, residential crowding, youth in poverty, non-white population, and persons of higher risk of being unemployed. The Governor's Office of Planning and Research is responsible for identifying these areas.

The DGS Procurement Division, Dispute Resolution and Preference Program administers the TACPA, which has been in effect since 1982. TACPA offers a 5% bid preference on service and commodity contracts valued at more than $100,000 for businesses which locate in or directly adjacent to a distressed area. Construction contracts are excluded from the bid preference.

Chart #29 summarizes key TACPA fiscal information for the budget year, current year, and previous year.

| Chart #29 - Target Area Contract Preferences Act | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | | | | |
| Δ | | | | |
| 2006/07 | | | | |
| Δ | | | | |
| 2007/08 | | | | |

TACPA allows state contracting preferences to be awarded when 50% of the labor required to perform commodity contract work, or 100% of the labor contract services work, is performed at the distressed area worksite. An additional preference of between 1% and 4% may be awarded for companies which commit to hiring a specified percentage of workers who are considered to be high-risk-unemployable people. To learn more about the TACPA bidders' preference go to: www.pd.dgs.ca.gov/edip/tacpa.htm.

Enterprise Zone Act

The purpose of this program is to promote employment growth and economic development in "Enterprise Zones (EZs)" by offering bidding preferences in specified state contracts. Last year, the Assembly Committee on Jobs, Economic Development, and the Economy held four hearings on the EZ Program, and produced a comprehensive report, "20 Years of California Enterprise Zones: A Review and Prospectus," (April 12, 2006), which provides a detailed description of EZs and the way the EZ program operates.

The DGS Procurement, Dispute Resolution and Preference Program acts as the review agency for the EZ bid preference program. Chart #30, summarizes key fiscal facts for the Enterprise Zone Act for the budget year, current year, and previous year.

| Chart #30 - Enterprise Zone Procurement Preference | | | |
|---|---|---|---|
| Fiscal Year | Total Funding | Total Number of Contracts | Total Value of Contracts |
| | | | |
| 2005/06 | | | |
| Δ | | | |
| 2006/07 | | | |
| Δ | | | |
| 2007/08 | | | |

As is the case in TACPA, a 5% state contract bid preference for commodities and services is awarded on contracts valued at more than $100,000, if the business is located in a designated EZ, and 50% of the labor on commodities contracts or 90% of the labor on services contracts is performed at the EZ worksite. An additional 1% to 4% preference is awarded for utilizing specified percentages of people from an EZ.

Small business bidders have precedence over non-small businesses, when the small business bidder is the lowest responsible bidder and has qualified for the 5% small business bidder preference. In no instance shall the cumulative preference exceed 15%. To learn more about EZ bidders' preference go to: http://www.pd.dgs.ca.gov/edip/eza.htm.

Local Agency Military Base Recovery Area Act

DGS provides a bid preference for state goods and services contracts, to promote employment growth and economic development in designated military base areas under the Local Agency Military Recovery Area (LAMBRA) Act. The Department of Housing and Community Development is responsible for designating LAMBRAs. Chart #31 summarizes the use of the LAMBRA Procurement Preference in the budget year, current year, and previous year.

| **Chart #31 - Local Agency Military Base Recovery Area Procurement Preference** | | | |
|---|---|---|---|
| Fiscal Year | Total Funding | Total Number of Contracts | Total Value of Contracts |
| | | | |
| 2005/06 | | | |
| Δ | | | |
| 2006/07 | | | |
| Δ | | | |
| 2007/08 | | | |

LAMBRAs provide for two bidding preferences for contracts that exceed $100,000 in value: worksite and workforce. The worksite preference is 5% for businesses, where 50% of the labor for contracted goods is on-site, and 90% of the labor for services is on-site. The worksite preference is an additional 1% to 4% for businesses which hire specified percentages of individuals living within a LAMBRA. Thus, the bidding preferences range from 1% to 9%.

Also, small business bidders have precedence over non-small businesses, when the small business bidder is the lowest responsible bidder and has qualified for the 5% small business bidder preference. In no case can the cumulative bidder preference exceed 15% for any business bidder in a LAMBRA. To learn more about the LAMBRA bidders' preference go to: www.pd.dgs.ca.gov/edip/lambra.htm.

## Small Business Council

The purpose of the Small Business Council is to provide a forum for representatives of the California small business community to provide input on policies and practices that impact small business participation in the state procurement and contracting processes. The Council assists DGS to develop solutions to the State's procurement and contracting concerns, to help DGS do outreach to small business communities.

Council membership represents a broad cross-section of California's small business community. The Council is ethnically diverse and geographically balanced. Areas of government procurement that the Council works with include: commodities; construction; Information Technology goods and services; personal services; and, outreach. For more information on the California Small Business Council go to: www.pd.dgs.ca.gov/smbus/sbcouncil.htm.

## Section VII – Office of the State Treasurer

This Section provides an overview of the California State Treasurer's (Treasurer) Office and the programs within the Treasurer's jurisdiction that relate to state and community economic development. Chart #32 gives an overview of the Treasurer's Office.

| **Chart #32 - State Treasurer** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | (in thousands) | (in thousands) |
| 2005/06 | 208.2 | $21,031 | $7,783 | 0 |
| Δ | | | | |
| 2006/07 | 222.8 | $23,877 | $8,077 | 0 |
| Δ | | | | |
| 2007/08 | 226.6 | $24,423 | $8,090 | 0 |

The Treasurer is the state's chief finance and investment officer. The Treasurer is responsible for the custody of all monies and securities belonging to, or held in trust by, the state; investment of temporarily idle state monies; administration of the sale of state bonds; and, payment of warrants. Among the Treasurer's most significant responsibilities are:

- Management of the State Pooled Money Investment Account, which contains more than $57 billion in taxpayer money from the state and over 2,600 local government entities;

- Serving on the CalPERS and CalSTRS Boards of Directors, which cumulatively manage and invest more than $350 billion in assets. Both entities constitute some of the largest investors in national and global economic activities;

- Financing a variety of important public works projects, including education facilities, transportation projects, parks, and environmental projects; and,

- Chairing a wide range of entities which provide financing for pollution clean-up, small businesses, health care facilities, housing, and economic development.

The Treasurer is chairman of 15 boards, authorities, and commissions, a number of which have direct bearing on state and local economic development. For more information on the State Treasurer go to: http://www.treasurer.ca.gov/

## California Debt Limit Allocation Committee

The California Debt Limit Allocation Committee (CDLAC) is intended to allocate tax exempt, private activity bond authority for the State, including bonds issued by the California Pollution Control Authority and the California IDB Authority. Private activity bonds, such as IDBs, may only be used by the private sector for projects and programs that provide a public benefit.

The federal government limits the amount of federal tax-exempt private activity bonds that can be used in a state on an annual basis. The limit for the year is calculated by multiplying $150 times the state's population, which currently authorizes more than $3.8 billion in federal tax exempt authority for California. The annual allocation limit is adjusted each year, indexed for inflation.

Chart #33, summarizes key CDLAC fiscal information for the budget year, current year, and previous year.

| **Chart #33 - Debt Limit Allocation Committee** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | |
| 2005/06 | N/A | $977 | N/A | 0 |
| Δ | | | | |
| 2006/07 | N/A | $1,186 | N/A | 0 |
| Δ | | | | |
| 2007/08 | N/A | $1,200 | N/A | 0 |

CDLAC's allocation activity affects the issuance of private activity bonds for local units of government as well as the state. Bonds are purchased and used by private entities and are not an obligation of the state. CDLAC is supported on a fee basis.

CDLAC operates six programs that are funded through the allocation and issuance of tax-exempt private activity bonds. Those programs include the Qualified Residential Rental Project Program, the Single Family Housing Program, the Extra Credit Home Purchase Program, the Industrial Development Bond Program (discussed above), the Exempt Facility Program, and the Student Loan Program.

In addition to setting the annual ceiling for tax exempt private activity bonds and allocating that annual amount, CDLAC is also authorized to prepare forms, establish procedures, set priorities, require performance deposits, assess fees, and perform other administrative duties as required. For more information, go to: www.treasurer.ca.gov/cdlac/.

## California Pollution Control Financing Authority

The California Pollution Control Financing Authority (CPCFA) is chaired by the State Treasurer, and includes the State Controller and the Director of Finance. The CPCFA provides California businesses with financing for pollution control facilities and fosters compliance with government-imposed environmental standards and requirements. The CPCFA's statutory mission is to maintain and improve environmental quality in this state while accommodating significant population growth through the adoption of policies and programs that promote new forms of sustainable development, infill development, and the revitalization of existing communities.

Chart #34 summarizes key CPCFA fiscal information for the budget year, current year, and previous year. [123]

| Chart #34 - Pollution Control Financing Authority | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding[1] | Administrative | Local Assistance[2] |
| | | (in thousands) | | (thousands) |
| 2005/06 | N/A | $6,822 | N/A | $4,853 |
| Δ | | | | |
| 2006/07 | N/A | $8,430 | N/A | $6,323 |
| Δ | | | | |
| 2007/08 | N/A | $3,076 | N/A | $906 [3] |

1 - Support costs are reflected on a fiscal year basis
2 - Dollar amounts are based on a calendar year basis
3 - Amounts through February 28, 2007

CPCFA programs assist certain industries in gaining access to capital, and to remediate contaminated sites that can be used for economic activity. These programs also assist economically distressed counties and cities develop and implement growth policies that reduce pollution hazards and promote sustainable development. More information on the CPCFA can be found at: www.treasurer.ca.gov/cpcfa/index.asp.

Tax Exempt Bond Financing program

This CPCFA program provides taxable and tax exempt bond financing to California businesses for the acquisition, construction, or installation of qualified pollution control, waste disposal, and waste recovery facilities, and the acquisition and installation of new equipment. Tax exempt bond financing provides qualified borrowers with lower interest costs than are available through conventional bond financing mechanisms.

Chart #35 summarizes key fiscal information for the tax exempt bond financing program for the budget year, current year, and previous year.

| Chart #35 - Tax Exempt Bond Financing Program | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance[1] |
| | | | | (in thousands) |
| 2005/06 | N/A | N/A | N/A | $1,586 |
| Δ | | | | |
| 2006/07 | N/A | N/A | N/A | $1,947 |
| Δ | | | | |
| 2007/08 | N/A | N/A | N/A | $500 [2] |

1 - Dollar amounts are based on a calendar year basis
2 - Amounts through February 28, 2007

The Tax Exempt Bond Financing Program provides funding to businesses irrespective of their company size. Within the Tax Exempt Bond Financing Program is the Small Business Assistance Fund (SBAF) to help pay the costs of issuance of tax exempt bonds on behalf of small businesses. The SBAF may be used to pay for costs such as letter of credit fees, transaction fees, and other costs associated with bond issuance. The assistance reduces the net cost of financing to small businesses.

Tax exempt bond financing can be used for land acquisition, construction of new facilities, rehabilitation or replacement of all or part of an existing facility, or acquisition and installation of new equipment. The types of projects which may qualify for tax exempt bond financing include:

- Curbside collection facilities;
- Recycling, composting, and materials recovery facilities;
- Transfer stations and landfills;
- Waste-to-energy projects;
- Qualified solid waste and hazardous waste disposal facilities; and,
- Waste recovery facilities.

Pursuant to federal law, the California Debt Limitation Allocation Committee (discussed below), must approve applications for bond authority in order to assure that the total amount of tax exempt bond financing does not exceed the amount allocated to the state by the federal government. More information on the Tax Exempt Bond Financing Program can be found at: www.treasurer.ca.gov/cpcfa/bondfinancing.asp.

California Capital Access Program

Administered by the California Pollution Control Financing Authority, the California Capital Access Program (CalCAP) is chaired by the State Treasurer. CalCAP encourages banks and other financial institutions to make loans to small businesses that fall just outside of most banks' conventional underwriting standards. Eligible businesses must be in one of the industries in the Standard Industry Classification codes list and meet specified standards for conducting business in California. The business activity resulting from the loan must be created and retained in California, and must meet federal Small Business Administration classification guidelines or have fewer than 500 employees.

Chart #36 summarizes key CalCAP fiscal information for the budget year, current year, and previous year.

**Chart #36 - California Capital Access Program**

| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance[1] |
|---|---|---|---|---|
| | | | | (in thousands) |
| 2005/06 | N/A | N/A | N/A | $2,280 |
| Δ | | | | |
| 2006/07 | N/A | N/A | N/A | $3,010 |
| Δ | | | | |
| 2007/08 | N/A | N/A | N/A | $281 [2] |

1 - Dollar amounts are based on a calendar year basis
2 - Amounts through February 28, 2007

In recent years, the State Treasurer has focused this program on assisting microenterprises, with nearly 60% of the loans granted in 2005 being microloans. CalCAP provides a form of loan portfolio insurance, providing up to 100% coverage on certain loan defaults.

CalCAP insures bank loans made to small businesses to assist them in growing their business. Loans can be used to finance the acquisition of land, construction, or renovation of buildings, the purchase of equipment, other capital projects, and working capital. The maximum loan amount is $2.5 million.

CalCAP assists small businesses obtain financing when it would be otherwise difficult to obtain such financing on their own. The program also provides additional loan loss resources for loan guarantees that are made by lenders to businesses located in Enterprise Zones. This enhances the prospect of lenders making capital available to businesses willing to set up shop in these economically challenged communities. More information about CalCAP can be found at: www.treasurer.ca.gov/cpdfa/calcap.htm.3.

California Recycle Underutilized Sites program

The California Recycle Underutilized Sites (CalReUSE) Program assists with the reuse and redevelopment of underutilized properties with real or perceived contamination issues, more commonly known as brownfield sites. CalReUSE addresses a funding and information gap in the development of brownfield sites to help bring them into productive use. The program funds projects that would not likely go forward on their own due to developer-perceived remediation costs for the site. Program funding helps generate factual data about the cleanup needs of the site, which allows developers to better know what resources they will have to bring to the remediation/redevelopment project. This certainty of information enhances the chances of projects going forward.

Chart #37 summarizes key Cal ReUSE fiscal information for the budget year, current year, and previous year.

| **Chart #37 – California Recycle Underutilized Sites Program** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance[1] |
| | | | | (in thousands) |
| 2005/06 | N/A | N/A | N/A | $349 |
| Δ | | | | |
| 2006/07 | N/A | N/A | N/A | $564 |
| Δ | | | | |
| 2007/08 | N/A | N/A | N/A | $125 [2] |
| 1 - Dollar amounts are based on a calendar year basis<br>2 - Amounts through February 28, 2007 | | | | |

The CPCFA works with selected local government partners to administer the program and select projects throughout the state. CalReUSE provides forgivable loans up to $125,000, with a 25% match, to fund brownfield site assessment and characterization, technical assistance, remedial action plans, and site access.

Eligible projects include sites with potential beneficial reuse that are not currently redeveloped due to lack of information about contamination, uncertainty about cleanup costs, or concerns regarding time frames and the regulatory process. Priority is given to projects in distressed neighborhoods with demonstrated community support. More information about CalReUSE can be found at:
http://www.treasurer.ca.gov/cpcfa/calreuse/annualreport/2005.pdf.

Sustainable Communities Grant and Loan program

The Sustainable Communities Grant and Loan Program is intended to assist cities and counties to develop and implement sustainable community growth policies, programs and projects. The Program has funded specific plans, alternative transportation studies, finance plans, redevelopment plans, engineering studies, public projects, and other efforts that promote sustainable development policies.

Chart #38 summarizes key Sustainable Communities Grant Program fiscal information for the budget year, current year, and previous year.

| Chart #38 – California Sustainable Communities Grant Program | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance[1] |
| | | | | (in thousands) |
| 2005/06 | N/A | N/A | N/A | $638 |
| Δ | | | | |
| 2006/07 | N/A | N/A | N/A | $802 |
| Δ | | | | |
| 2007/08 | N/A | N/A | N/A | 0 [2] |

1 - Dollar amounts are based on a calendar year basis
2 - Amounts through February 28, 2007

First priority for funding from the Sustainable Communities Grant Program is given to applicants that lack resources to develop and implement sustainable development growth policies, programs and projects. Maximum assistance is $500,000 per applicant, comprised of $350,000 in grant money and $150,000 for a loan.

Sustainable community projects must assist with development and implementation of policies, programs, and projects that reduce pollution hazards and the degradation of the environment within existing neighborhoods and communities; assist with revitalization and economic development of one or more economically distressed neighborhoods; and, promote infill development. Other goals of the Program are to promote a balance of jobs with new housing, encourage the development of communities around civic spaces, ensure higher-density use of land, and protect environmental resources. More information on the Sustainable Community Program can be found at: www.treasurer.ca.gov/cpcfa/scgl/summary.pdf.

## California Tax Credit Allocation Committee

The California Tax Credit Allocation Committee's (CTCAC) primarily administers federal and state low-income tax credit housing programs. Both programs are authorized to encourage private investment in affordable rental housing for households meeting certain income requirements. However, CTCAC also administers an economic development program known as the California Commercial Revitalization Deduction Program. This program allocates federally authorized Commercial Revitalization Program deductions to five federally qualified Renewal Communities in California.

Chart #39 summarizes key CTCAC fiscal information for the budget year, current year, and previous year.

| Chart #39 – California Commercial Revitalization Deduction Program | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | |
| 2005/06 | N/A | $15 | N/A | 0 |
| Δ | | | | |
| 2006/07 | N/A | $92 | N/A | 0 |
| Δ | | | | |
| 2007/08 | N/A | $82 | N/A | 0 |

The CTCAC has seven members, and the State Treasurer is Chair. The Governor or his designee, a city representative appointed by the Speaker of the Assembly, a county representative appointed by Senate Rules, the Executive Director of the California Housing Finance Agency, the Director of the Department of Housing and Community Development, and the State Controller make up the remainder of the Committee.

Commercial Revitalization Deduction Program

In 2002, CTCAC received authorization from Congress to administer the commercial Revitalization Deduction Program. This program is designed to stimulate job growth and economic development in designated Renewal Communities, of which there are five in California. These areas include portions of San Francisco, Los Angeles, San Diego, and the rural communities of Parlier and Orange Cove.

CTCAC can allocate up to $12 million in federal tax deductions to qualifying businesses in each of the Renewal Communities. These deductions are available to businesses that acquire and renovate property, rehabilitate existing structures, or build property for commercial use. Businesses can deduct half the qualified expenditures over a ten year period. More information on the Commercial Revitalization Deduction Program can be found at: www.treasurer.ca.gov/ctcac/.

## California Industrial Development Financing Advisory Commission

The California Industrial Development Financing Advisory Commission was established to advise local governments on the issuance of industrial development bonds (IDBS), to independently review IDB applications to ensure the use of the bonds would provide appropriate public benefits, and to approve the sale of IDBs by a local issuing authority.

IDBs may be issued by the state, as well as, other government agencies, authorities or development corporations. The proceeds from the sale of IDBs may be used to finance the construction of industrial plants or to purchase industrial equipment, and expand or relocate qualifying manufacturing facilities. Interest earned by investors who buy an IDB is usually tax exempt, thereby lowering bond costs to the borrower. In light of this tax exempt status, IDBs typically have an interest rate of 2% below conventional financing. Chart #40 summarizes key California Industrial Development Financing Advisory Commission fiscal information for the budget year, current year, and previous year.

| **Chart #40 – Industrial Development Financing Advisory Commission** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | |
| 2005/06 | N/A | $220 | N/A | 0 |
| Δ | | | | |
| 2006/07 | N/A | $150 | N/A | 0 |
| Δ | | | | |
| 2007/08 | N/A | $335 | N/A | 0 |

Eligible facilities for IDB financing include:

- Industrial projects for assembling, fabricating, manufacturing or processing a product for sale;
- Projects that manufacture or process recycled or reused products and materials; and,
- Agricultural projects that process raw products for resale.

More information on IDBs is available at: http://www.treasurer.ca.gov/cidfac

Empowerment Bonds

Federal tax law that authorizes the issuance of IDBs also authorizes Empowerment Zone Bonds (EZ Bonds), which are also within the jurisdiction of the California Industrial Development Financing Advisory Commission. The EZ Bond Program is intended to augment the benefits of the IDB Program by providing additional support for economic development to the most distressed communities in California. The EZ Bond Program expands the eligibility to manufacturers, retailers, and any service business that operates in a federal Empowerment Zone. There are currently four federal Empowerment Zones in California – Los Angeles, Santa Ana, San Diego, and an unincorporated section of Riverside County.

Federal Empowerment Zones are designated based on high unemployment and poverty rates. Thus, IDB bond funds become part of a larger economic development financing plan for the targeted low-income community.

The Equipment Only Purchase Program

Developed by CIDFAC, the Equipment Only Purchase Program is a streamlined financing program for the issuance of small IDBs to fund the purchase of equipment. These Equipment Only Purchase Bonds are generally $1 million to $2 million in size.

This program allows bonds to be sold without being marketed on an exchange, which allows for lower underwriting costs and can also allow for financing projects as small as $250,000.

Small Business Program

The Small Business Program was developed in response to concerns raised by small businesses about the amount of time it took to secure regular IDBs. To address these concerns, CIDFAC developed a streamlined process called a "one-stop-shop." The approval and allocation are received simultaneously at CIDFAC. This program permits small businesses to finance all their needs – land acquisition, construction or renovation, and the purchase of equipment.

The State Teachers Retirement System Letter of Credit Program

The State Teachers Retirement System (STRS) Letter of Credit Program uses the strong credit rating of STRS to allow small-and medium-sized business borrowers to retain their existing relationships with community and regional banks, which typically do not have investment credit rating. This kind of credit rating is necessary to issue IDBs in the public market.

By having the backing of a STRS letter of credit, these smaller regional banks can obtain a credit rating to sell the bonds, and the business borrowers can continue to work with the local financial institutions they are familiar with. The STRS letter of credit guarantees the regional bank's credit, not the borrower's.

The Energy Financing Program

The Energy Financing Program, developed by the California Power Financing Authority, provides IDB financing for California manufacturers for energy efficient, including renewable energy systems, and clean distributed power generation systems. The program also finances the manufacturing of renewable energy and clean distributed power generation systems that are used at the borrowers' plant. For more information on CIDFAC go to: www.treasurer.ca.gov/cidfac/idb.asp.

## California Industrial Development Authority

The California Industrial Development Financing Act enables each California city and county to establish, by ordinance, a public body called an Industrial Development Authority (IDA) for the purpose of issuing IDBs to assist with financing eligible projects, as discussed the previous sub-section. Most IDAs are formed to help finance projects associated with economic development and job creation.

Most of the larger counties in California have formed IDAs; however, most cities have not. There are also several Joint Powers Authorities that have been formed to issue IDBs.

Any IDB to be issued by an IDA must be approved by the California Industrial Development Financing Advisory Commission, chaired by the State Treasurer, to ensure that the cumulative amount of tax exempt private activity bonds does not exceed the state ceiling. The CIDFA authorizes issuance of bonds for the following purposes:

- Industrial projects, including, assembling, fabricating, manufacturing, processing, or warehousing products from agriculture, forestry, mining, or manufacturing;

- Projects for energy development, production or collection; and,

- Research and development facilities.

As mentioned under the section of this report concerning CIDFAC, a project is eligible for financing under CIDFA if the IDA and CIDFAC make findings that the project will either: (a) secure or increase employment or local payrolls; (b) reduce prices or increase quality of products to consumers; or, (c) result in savings or better utilization of energy or materials. CIDFA also specifies that a project cannot be eligible if it relocates jobs from one area of the state to another without an overriding justification.

CIDFA allows IDB funding to be used for the purchase of land and any interests on property: buildings, fixtures, machinery, equipment, and furnishings. Moreover, an eligible project can be either construction of a new plant, or expansion or rehabilitation of an existing facility. However, federal tax laws essentially do not permit the use of IDBs to acquire an existing facility.

## California Alternative Energy and Advanced Transportation Financing Authority

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) was originally established as the California Alternative Energy Source Financing Authority. It was established to promote the prompt and efficient development of renewable and efficient energy resources.

Chart #41 summarizes key fiscal information for CAEATFA for the budget year, current year, and previous year.

| **Chart #41 Alternative Energy and Advanced Transportation Financing Agency** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | (in thousands) | | |
| 2005/06 | N/A | $9 | N/A | 0 |
| Δ | | | | |
| 2006/07 | N/A | $199 | N/A | 0 |
| Δ | | | | |
| 2007/08 | N/A | $202 | N/A | 0 |

CAEATFA's enabling legislation detailed the importance of developing a secure energy future to protect the environment and ensure economic stability. The intent of CAEATFA was to promote energy sources designed to reduce the degradation of the environment. Later legislation added authorization to finance the development and commercialization of advanced transportation technologies.

## Revenue Bonds for Public Improvements including Border Infrastructure

Current law authorizes the governing boards of local agencies to issue revenue bonds for public improvements. These public improvements include the acquisition, construction, maintenance, operation, improvement and development of public golf courses, marinas and small craft harbors, and improvements in connection for the public convenience of such facilities. The State Treasurer must assess whether the local governing board has adequately provided for the security of these bonds.

While current law makes no requirement to assess whether these facilities provide for community economic development, it is assumed that such amenities make communities more attractive as places to do business and to live, which in turn contributes to an area's economic development.

### Infrastructure Financing Districts

Under current law, cities and counties can create Infrastructure Financing Districts (IFDs) to pay for regional scale public works. IFDs can divert property tax increment revenues for 30 years to finance highways, transit, water systems sewer projects, flood control, solid waste facilities, libraries, and parks. IFDs can also finance the purchase, construction, expansion, improvement, seismic retrofit, or rehabilitation of any real property. IFDs are intended to lessen the infrastructure financing burden on buyers of new homes when that infrastructure is necessary for economic development.

Unlike a redevelopment district, the property within an IFD does not have to be declared blighted. IFDs and redevelopment districts cannot overlap, and the legislature intended that IFDs usually not include developed land.

If a city or county forms an IFD, property, owners all contribute to the district's financing. IFDs require a two-thirds voter approval of voters in the proposed district, and another two-thirds voter approval to issue bonds.

IFD financed projects must be found to be of communitywide significance, providing significant benefits to an area larger than the area of the district, particularly in the areas of job creation and economic development and improved community tax revenue base.

Infrastructure Districts in Border Development Zone

Current law authorizes any governmental agency that levies a property tax in a Border Development Zone to create an IFD, in that zone, for the purposes of financing improvements. This authority provides local governments the financial capability to build the infrastructure necessary to foster industrial development, including high technology and biotechnology manufacturing in the region along the border.

The establishment of a Border Development Zone was, in part, a response to the positive impacts of the North American Free Trade Agreement, which had resulted in a dramatic increase in trade with Mexico. This increase in trade had quickly led to the deterioration of public infrastructure in the border zone, and without the ability to finance improvements to that infrastructure, California and border communities would not be able to take full advantage of the economic opportunities that enhanced trade with Mexico offers.

The Border Development Zone is defined as a strip of land three miles wide with Mexico on the south, the mean high tide of the Pacific Ocean on the west, and the border with the State of Arizona on the east.

## Section VIII – Other State Economic Development Programs

This Section provides background on important state economic development programs not reviewed in previous sections. Some of the policies, programs, and services discussed in this section are outside the specific jurisdiction of the Committees; however, this information is essential in understanding the policy environment and available government resources that combine to make California's overall economic development program. Where relevant to the operation of the program or service, a funding and staffing chart is displayed.

### The California Environmental Goals and Policy Report, Governor's Office of Planning and Research

The Environmental Goals and Policy Report (EGPR) is required to be prepared by the Governor every four years for the purpose of defining the state's 20 year growth and economic development strategy with particular attention to statewide land use policy. Since 1970, when the report was first established, it has been completed only three times: 1972 by Governor Reagan, 1978 by Governor Brown, and in 2003 by Governor Davis.

In 2001, the law was amended to include specific state planning priorities including the promotion of infill development, protection of resources, and encouragement of efficient development patterns. The goals, objectives, and recommended actions in the EGPR are required to be consistent with these planning priorities. Based on these planning priorities, the 2003 update became the first planning document issued by a Governor that advocated for sustainable development practices, i.e., policy and programmatic decisions that are equitable on an economic, social, and environmental basis.

Funding for EGPR is maintained within the overall budget of the Governor's Office. For the completion of the 2003 EGPR, staff were redirected from within the Governor's Office and other departments and agencies. An extended outreach strategy was implemented that leveraged the resources of trade associations and nonprofits involved in a variety of community and economic development activities.

The EGPR has a higher level of importance that many other state planning documents. Existing law requires that the EGPR serve as a guide for state expenditures and that the annual state budget include information on how the proposed budget helps to achieve the EGPR's goals and objectives. Existing law also requires all state agency functional plans be consistent with the state planning priorities, and that state agencies demonstrate this consistency to the Department of Finance when requesting projects for inclusion in the five-year infrastructure plan (Government Code 65042). Current law also requires that all individual agency and department functional plans are consistent with the EGPR, including the State Housing Plan and the State Transportation Plan. Enforcement of these consistency requirements is primarily through the courts; however, state planners are generally well aware of the EGPR and make appropriate accommodation within the documents they draft.

More information on the EGPR and the state planning priorities may be found in the California Government Code, Sections 65041-65049.

**The Five-Year Infrastructure Plan, Department of Finance**

The Governor is required to annually prepare a five-year infrastructure plan. This plan is required to be submitted at the time that the Governor submits the Budget for review by the Legislature. Among other requirements, the state five-year infrastructure plan is required to identify:

- New, rehabilitated, modernized, improved, or renovated infrastructure requested by state agencies;

- Aggregate funding for transportation as identified in the State Transportation Improvement Program Fund estimate;

- Infrastructure needs for public schools, kindergarten through grade 12, to accommodate increased enrollment, class size reduction, and school modernization; and,

- Instructional support facilities needs for the three higher education systems – University of California, California State University, and the California Community Colleges.

AA cost estimate must accompany the needs identified in the plan. According to statute, it is the intent of the Legislature that the proposed infrastructure plan be considered by the Legislature in conjunction with its consideration of the annual Budget Bill. More information on the five-year infrastructure plan may be found in the California Government Code, Sections 13100-13104.

## The Economic Report of the Governor

The Governor is required to present to the Legislature, no later than April 15 of each year, an economic report for the purpose of increasing employment, productivity, income, and purchasing power. The report is required to include the following:

- A review of the state's current economic development status, including employment, unemployment, income distribution, construction, and other major industry sectors.

- Forecasts of trends in employment, income, and investment for the coming year and trends in major economic sectors.

- Summaries of state policies and actions that foster and promote growth in employment, productivity, income, and purchasing power.

In conjunction with the economic report, the Governor is required to present an economic message reviewing significant economic achievements of the past year, outlining problem areas, and making recommendations to increase employment, income, and investment in the state. More information on the Governor's annual economic report may be found in the California Government Code, Sections 15900-15902.

## Small Business Advocate, Governor's Office of Planning and Research

The Office of the Small Business Advocate (OSBA) is administered through the Governor's Office of Policy and Research (OPR). The OSBA is supposed to facilitate and advocate for issues and programs serving small business including: participating in the consideration of legislation and regulations affecting small businesses; representing the interests of small businesses before state agencies; and, implementing strategies that encourage state agencies to meet or exceed the state's 25% small business participation goal in state procurement and construction contracts.

Funding for the OSBA is contained within the overall budget of the Governor's Office. Historically, staffing for the OSBA has relied on the redirection of staff from within the Governor's Office and from other state agencies and departments including the Economic Development Department.

Last session, the OSBA was directed to facilitate the implementation of several new projects, including initiatives to improve the small business certification process for public contracts, assess the impact of state regulations on small businesses, develop emergency preparedness materials for small businesses, and designate department-level small business liaisons. These bills are described in more detail below:

- AB 348 (Arambula and Bass) Chapter 185, Statutes of 2005 - Small Business Certification Reciprocity Program: This bill authorizes the Department of General Services (DGS) to accept certification of a small business made by a local agency if it determines that the local agency has applied similar certification criteria and review processes as those applied by DGS.

- AB 2330 (Arambula) Chapter 232, Statutes of 2006 - Impact of Regulations on Small Businesses: This bill requires the OSBA to have a study prepared by October 1, 2007, regarding the costs of state regulations on small businesses, as specified.

- AB 3058 (Assembly Committee on Jobs, Economic Development, and the Economy) Chapter 233, Statutes of 2006 - Small Business Disaster Preparedness: This bill requires the OSBA, in cooperation with the Office of Emergency Services (OES), to develop a web-based handbook for small businesses on emergency preparedness, emergency response, and recovery strategies. This bill also requires at least three meetings be held in different locations in the state to share best practices for disaster preparedness for small businesses.

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

There is currently no Director of the OSBA. OPR has stated they are committed to keeping projects moving, based on the scale of the new projects; however, it seems unlikely project deadlines can be met without the position being filled. More information on the OSBA can be found in the California Government Code, Sections 65054-65054.4.

**California Public Employees' Retirement System and the California State Teachers' Retirement System**

The California Public Employees' Retirement System (CalPERS) is the largest pubic pension fund in the United States (U.S.) with assets of over $230 billion. The California State Teachers' Retirement System (CalSTRS) is the largest teacher pension fund in the nation with over $157 billion in assets. Both systems are ranked in the top 10 public pension funds in the world.

Under the California Constitution, state law, and fiduciary standards, CalPERS and CalSTRS are required to administer the system for the sole and exclusive benefit of its active members, retired members, and their survivors and beneficiaries.

In implementing its duties, CalPERS and CalSTRS have been aggressive, yet prudent, investors in a range of asset categories including public equities, fixed income, and real estate and other private equities. Last year, CalPERS posted an annual investment return of 10.9%, and 13.32% over the past three years. CalSTRS posted an annual investment return of 13.2%.

Both funds manage investment initiatives that target investments in California, emerging domestic markets, and clean technologies. In all three categories, these funds are considered global leaders and have set investment policies that are regularly reviewed by institutional investors around the world.

These programs have been included within the Committees' background paper on California economic development programs, not because the Legislature has budgetary or oversight responsibilities, but rather because CalPERS and CalSTRS are market makers. To the extent that pubic policy makers can better understand how these large institutional investors make investment decisions, the better California can assist communities and businesses become investment ready and beneficiaries of private investment. Chart #42 compares several targeted initiatives related to the California economy:

| **Chart #42 - Targeted Initiatives Related to the California Economy** | | | | | | |
|---|---|---|---|---|---|---|
| | **California Investments** | | **Investments in Emerging Domestic Markets** | | **Green Investments** | |
| **CalPERS** | 11.7% | $27 billion | | | | |
| | | | | | | |
| **CalSTRS** | 12.4% | $17.6 billion | 1.6% | $2.3 billion | | |

In January of 2007, CalPERS and CalSTRS announced the completion of a global database with a listing of over 700 emerging asset managers and financial service providers. The objective of the database is to expose institutional investors to a new group of emerging managers that can boost investor returns by tapping into the changing demographics in California and across the nation. Almost half of the companies who responded to the survey establishing the database were from California and New York, 70% had fewer than 10 employees, 35% had been in business for less than two years, and 34% were companies owned by woman and minorities. Copies of this database have been posted of the CalPERS and CalSTRS Web sites and have been mailed to pension funds across the U.S. to encourage other investors to expand their historical pool of asset managers and financial service providers.

The CalSTRS Investment Committee has given its approval for a study on investment in infrastructure assets including, roads, bridges, airports, ports, water facilities, and wastewater facilities, and power generation. If an investment policy is approved by the CalSTRS Board, this could signal other large institutional investors to make infrastructure investment funds available.

More information on CalPERS and CalSTRS may be found at: www.calpers.ca.gov and www.calstrs.com.

## <u>Economic Development Related Business Incentives</u>

One of the primary ways in which states compete for businesses and industry is through their fiscal policies including income tax and sales and use tax based incentives. California's economic development related incentives include tax benefit programs that address the purchase and depreciation of equipment, the undertaking of research and development of new products and technologies, targeting of private investments, and special treatment for small businesses under the state's tax laws.

According to a 2002 study by the California Budget Project, 71%, of the state dollars devoted to economic development in 2000-01 were spent through the tax codes. From 1990 to 2000, more than 25 new tax expenditures were enacted. In 2000-01, the California Budget Project estimates that $5.5 billion in tax expenditures related to economic development were claimed.

Below is a list of a few of California's business incentives:

- Research and Development (R&D) Credit: This provision allows taxpayers to claim a credit for a portion of their incremental R&D expenses. Incremental expenses are calculated as increases in the ratio of a taxpayer's current-year R&D expenses to gross sales relative to a four-year base period. The credit is equal to 15% of "qualified," also known as applied, incremental R&D expenses, and 25% of qualified incremental "basic" R&D expenses. Basic R&D is research conducted at qualified universities or scientific research organizations.

- Water's Edge Election: This program allows unitary multinational corporations the option to compute income attributable to California on the basis of a water's-edge (domestic) combined report, as opposed to a worldwide combined report. Under the water's-edge provision, a business may elect to compute its California tax by reference to only the income and factors of a limited number of entities. In general, these entities include U.S. incorporated entities, U.S. activities of foreign incorporated entities, and the activities of various foreign entities that are included in the federal consolidated return. The election is generally for a seven-year period.

- Tax Credits for Qualified Hires: The largest tax incentive in the enterprise zone (EZ) program is the hiring credit. The hiring credit is offered to businesses that hire qualified individuals to work within the boundaries of the zone. There are a total of 14 categories of qualified employees.

  A qualified employee must retain employment for a minimum of 270 days in order for the employer to be eligible to claim the hiring credit. The value of the incentive for the hiring credit totals 50% of an employee's wages in the first year, 40% in the second year, and declines by 10% increments through the fifth year. The credit is depleted in the sixth year, and no credit can be claimed for this year.

  The maximum value per qualified employee hired is approximately $34,000 over the five-year term. Although workers can be paid more, the maximum value upon which an employer can claim a credit is 150% of minimum wage.

The credit is available to reduce net tax on income from EZ activities until exhausted.

- Enterprise Zone Income Tax Credit for Sales Tax Paid: A business operating in an enterprise zone is eligible to receive an income tax credit equal to the sales and use tax paid up to the first $1 million of machinery or parts purchased for use within the enterprise zone. The credit is available to reduce net tax on income from EZ activities until exhausted.

- Enterprise Zone Employees Tax Credit: Qualified employees from an enterprise zone business may claim a tax credit equal to 5% of qualified wages received from an EZ business in the taxable year, up to a maximum amount. The limitation, based upon 150% of wages subject to federal unemployment insurance currently is $525. The qualified employee may not be employed by the public sector and must perform 90% of his or her service for the enterprise zone business, with at least 50% of the services performed within the EZ.

- Accelerated Write-Off of Certain Machinery and Equipment Costs: A business may expense up to 40% of the costs of certain property (personal property, equipment, and furnishings) acquired for use exclusively in an EZ business.

More information on state tax exemptions may be found at: www.ftb.ca.gov/aboutftb/TaxExp06.pdf.

**California Government: On-Line to Desktops, California Environmental Protection Agency**

The California Environmental Protection Agency administers the California Government: On-Line to Desktops, also known as CalGOLD, an Internet portal developed to assist businesses access information on the state's environmental permitting requirements.

CalGOLD does not issue licenses or permits, but provides assistance for businesses in determining relevant permitting and licensing requirements, and provides contact information for the appropriate permitting or licensing agency. In addition, the web portal provides direct links to important business related agencies including the Secretary of State, the Franchise Tax Board, the Board of Equalization, the Employment Development Department, and the U.S. Treasury.

Concerns were raised last year regarding the lack of information on biotechnology firms and other technology based companies on the CalGOLD Web pages. Subsequently, legislation was enacted, AB 2582 (Mullin), Chapter 283, Statutes of 2006, to require the Web site to be periodically updated to include permitting and regulatory compliance information relevant to emerging and evolving industries.

Chart #43 displays three years of funding for the CalGOLD Program including staffing figures and local assistance:

| Chart #43 - California Government: On-Line to Desktops (CalGOLD) | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | | | | N/A |
| Δ | | | | |
| 2006/07 | | | | N/A |
| Δ | | | | |
| 2007/08 | | | | N/A |

More information on the CalGOLD Program can be found at: www.calgold.ca.gov.

## Emergency and Disaster Response for Business

The Director of OES is responsible for the coordination of the state's emergency response activities during all four phases of a disaster: preparedness, mitigation, response, and recovery. California's emergency plans are integrated with federal and local plans, and are incorporated into the State Emergency Plan. Local preparedness plans and the federal disaster response programs are integrated into the State Emergency Plan.

In exercising its duties, the Director of OES may also facilitate disaster preparedness, mitigation, response, and recovery programs with businesses and nonprofit organizations. Funding for many of these activities, however, is required to be paid by contributions into the Disaster Resistant Communities Account. Specifically, the funds in this account may be used to:

- Provide guidance on how to integrate private sector emergency preparedness measures into governmental disaster planning programs;
- Conduct outreach programs to encourage business to work with government and community associations to better prepare the community and their employees to survive and recover from disasters;
- Develop systems so that government, business, and employees can exchange information during disasters to protect themselves and their families; and,
- Develop programs so that businesses and government can work cooperatively to advance technology that will protect the public during disasters.

OES is also authorized to share disaster related facilities and systems with the private sector to the extent the costs are reimbursed by the private sector.

A related law, the Farr Economic Disaster Act, was established in 1984 for the purpose of enhancing the response of state agencies to the long term economic impact of a natural disaster on the business community.

The provisions of the Farr Economic Disaster Act are triggered when the estimated damage of the disaster exceeds $3 million or upon the order of the Governor. Specifically, the Farr Economic Disaster Act requires state agencies to establish appropriate economic recovery task forces or emergency teams comprised of federal, state, local governments, nonprofit, and private sector participants to develop integrated public and privatively supported strategies to address long term economic dislocation. No specific source of funding is provided for this program.

As discussed earlier in the paper, the OSBA is required to develop disaster related materials for use by small businesses and hold at least three technical assistance meetings to share best practices for disaster preparedness for small businesses.

More information on the state's disaster preparedness, mitigation, response, and recovery efforts related to businesses and the private sector can be found in the California Government Code, Sections 8585-8589.7 and 8565-8574.

## Office of California-Mexico Affairs and the California-Mexico Border Relations Council

The Office of California-Mexico Affairs was created within the Technology, Trade, and Commerce Agency (TTCA) in 1982 for the purpose of enhancing California's relationship with the bordering Mexican states and U.S. border states. When the TTCA was eliminated in 2003, most of its duties were transferred to B&TH. The Office of California-Mexico Affairs, however, was never fully re-instated leaving no state entity responsible for the coordination of the more than 100 programs, initiatives, projects, and partnerships that exist within state government related to California and Mexico relations.

Last year, the Governor signed AB 3021 (Nuñez), Chapter 621, that established a six-member California-Mexico Border Relations Council (Border Council) comprised of all Agency Secretaries and the Director of OES for the purpose of coordinating activities of state agencies. In addition to coordinating state agency activities, the Border Council will develop policies to coordinate the collection and sharing of data related to cross-border issues, and make recommendations to the Legislature that further the mission of the Border Council.

Chart #44 displays three years of funding for the Office of California-Mexico Affairs and the Border Council, including staffing figures and local assistance.

| Chart #44 - Office of California-Mexico Affairs and the Border Council | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | 0 | 0 | 0 | N/A |
| Δ | | | | |
| 2006/07 | 0 | 0 | 0 | N/A |
| Δ | | | | |
| 2007/08 | | | | N/A |

For more information on the Office of California and Mexico Affairs and the Border Council, please refer to the California Government Code, Sections 8700-8709 and 8710-8713, respectively.

## The California Commission on Industrial Innovation

The California Commission on Industrial Innovation (Industrial Commission), administered through OPR, was established to encourage the development of high technology industries, and to develop policies that maintain California's leadership in the national economy, as well as, retain the state's international competitive position. The work of the Industrial Commission is funded through private contributions and from funds available within the budget of the Office of the Governor.

The Industrial Commission is governed by a 25 member board, appointed for two-year terms by the Governor and leaders in the state Assembly and Senate including, but not limited to, the appointment of four members from academia, six members from labor, and 10 members selected from firms with specified technology-based characteristics.

The focus of the Industrial Commission is on technology-based companies such as those making or developing electronic components, computers and peripherals, instruments, communications equipment, robotics, biotechnology, photovoltaics, and aerospace equipment. Among its statutory duties, the Industrial Commission is required to:

- Advise on the establishment of programs in scientific and technical education and job training;
- Evaluate programs that improve productivity while maintaining worker involvement and satisfaction;
- Identify means by which industry and universities can cooperate on research and development projects for the establishment or expansion of cooperative research and development institutes;

- Identify means of financing the start-up and growth of technology-based companies including, but not limited to, investments by public and private pension funds and industrial development bonds; and,

- Identify shortcomings in state and local transportation, sewer, water, energy, and waste disposal systems that inhibit existing or future high technology firms.

The Industrial Commission was established in 1983 following the successful deployment of the California Commission on Industrial Innovation (Executive Order No. B-91-81). No new commissioners have been appointed in more than a decade. AB 2860 (Lieu), from last session, would have changed the name of the Industrial Commission to the California Commission on Manufacturing Competitiveness. AB 2860 was held in the Senate Government Organization Committee.

More information may be found in the California Government Code, Sections: 12095-12095.02, 12095.10-12095.14, 12095.20-12095.21, 12095.40, and 12095.50-12095.53.

## Economic Development Programs, California Energy Commission

The California Energy Commission administers a number of economic development related programs and services including:

- Commercializing New Technologies;
- Energy Export and Agricultural Business Opportunities (Technical Assistance and Financial Incentives Assistance);
- Streamlining and Permitting (Energy Facility Licensing and Environmental Balance);
- Infrastructure (Energy Infrastructure and Encouraging Competition); and,
- Strategic Planning (Analyzing Future Energy Needs)

The Energy Commission's Research and Development Division supports the research, technology development and demonstration of new technologies for the generation of electricity, electricity demand-side management, and natural gas. The division's activities include providing contracts and grants to academic institutions for research and development of energy technologies and related scientific activities. Key programs include the:

- Public Interest Energy Research (PIER) Program: The PIER Program supports energy research, development and demonstration (RD&D) projects that will help improve the quality of life in California by bringing environmentally safe, affordable and reliable energy services and products to the marketplace. The PIER Program annually awards up to $62 million to conduct the most promising public interest energy research by partnering with RD&D organizations, including individuals, businesses, utilities, and public or private research institutions.

- Public Interest Natural Gas Research Program: The research funded by this program improves natural gas energy efficiency and environmental quality, develops renewable technologies, and otherwise provides benefits to the public. This research program has an annual allocation authority of up to $12 million.

- Energy Innovations Small Grant (EISG) Program: The EISG Program provides up to $95,000 for hardware projects and $50,000 for modeling projects to small businesses, non-profits, individuals and academic institutions to conduct research that establishes the feasibility of new, innovative energy concepts. Research projects must target one of the six PIER program areas, address a California energy problem, and provide a potential benefit to California electric and natural gas ratepayers.

Another initiative of the California Energy Commission is the Global Energy Connection. Besides the program described below, the Global Energy Connection also assists foreign countries in formulating policies and laws that encourage private power development and improve the competitiveness of California energy firms.

- International Energy Fund: California-based small and medium-sized companies interested in doing business in international markets are eligible to compete for cash awards of up to $25,000 per proposal for pre-investment activities. This "seed" funding offsets some of the advantages available to Japanese and European competitors who are heavily financed by their governments.

- Trade Missions: The Energy Technology Export Program organizes trade missions for California-based companies to meet with energy officials and decision-makers of foreign governments. A typical trade mission consists of conferences, workshops, and energy site visits.

- Energy Market Analysis: The California Energy Commission works with the private industry to conduct trade and market analyses to assist California companies gain a better perspective of domestic and foreign markets. Occasionally, staff conducts scouting missions in other countries to evaluate sites for energy projects and to meet with energy government officials and industry representatives. Analyses of foreign markets are supplemented by the findings of financial institutions, energy experts, and international business consultants.

More information on the business related programs at the California Energy Commission can be found at: www.globalenergyconnection.ca.gov/tep/jsp/index.jsp and www.energy.ca.gov/contracts/index.html.

**Recycling Market Development Zones, Integrated Waste Management Board**

The Recycling Market Development Zone program, administered through the Integrated Waste Management Board, offers assistance to support new businesses, expand existing ones, create jobs, and divert waste from landfills.

Businesses located in a Recycling Market Development Zone that use materials in the waste stream to manufacture their products have a variety of assistance available, including low interest loans, technical assistance, and free product marketing. The zones (www.ciwmb.ca.gov/RMDZ/AllZones.asp) cover roughly 71,790 square miles of California from the Oregon border to San Diego.

One program, the Recycling Market Development Zones Loan Program, provides direct loans to businesses and nonprofits to promote market development for waste materials. The market's loan program can fund a maximum of 75% of the cost directly attributed to an eligible project up to a maximum of $2 million, whichever is less. The loan interest rate is equal to the prime rate, not to exceed 5%.

Eligible projects are those that increase diversion of nonhazardous solid waste from California landfills and also must incorporate one other public benefit including: (1) a meaningful net reduction in the amount of solid waste created from the production of a product; (2) production of a new product from a finished product that has served its useful life; or, (3) manufacture of a product with recycled materials or production of a recycled material that can be used as a raw material in manufacturing. Businesses and nonprofit organizations may use the funds for:

- Purchase of machinery and equipment;
- Working capital;
- Real estate purchase (maximum of $1 million);
- Real estate improvements;
- Refinancing of onerous debt (debt with high interest rates and/or short terms) that jeopardizes and causes a negative impact on the borrower's cash flow; or,
- Paying loan-closing points.

Chart #45 displays three years of funding for the Recycling Market Development Zones including staffing figures and local assistance:

| **Chart #45 – Recycling Market Development Zones, Integrated Waste Management Board** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | | | | |
| Δ | | | | |
| 2006/07 | | | | |
| Δ | | | | |
| 2007/08 | | | | |

More information on the Recycling Market Development Zones and the Recycling Market Development Zones Loan Program can be found at: http://www.ciwmb.ca.gov/RMDZ/.

**Innovative Clean Air Technologies Program, California Air Resources Board**

The Innovative Clean Air Technology Program (ICATP), administered by the California Air Resources Board, provides funds for projects that demonstrate innovative technologies that reduce air pollution. The primary purpose of the program is to advance technologies toward commercial application, and thereby reduce emissions while enhancing the economy of California.

The ICAT Program provides funding for mid-stage development of technologies that have left the laboratory and are ready for prototype creation, deployment, and field demonstrations of market-ready systems.

Approximately $1 million is budgeted each year for new ICAT projects. An individual project may receive up to $1 million; however, allocations are generally smaller to provide an opportunity for multiple projects to be funded. In 2006, three projects were funded, including an integrated combined heat and power project using ultra-low-NOx supplemental firing, an energy efficient lawn mower, and a reciprocating air pump that bolts on to a diesel engine.

More information about the Innovative Clean Air Technologies Program can be found at: www.arb.ca.gov/research/icat/icat.htm.

**Economic Development and Workforce Preparation, California Community College System**

The Economic Development and Workforce Preparation Division of the Community College Chancellor's Office has a variety of responsibilities related to workforce and economic development, including the implementation of the comprehensive California State Plan for Vocational and Technical Education and the delivery of industry-focused technical assistance initiatives. Collectively, these activities are considered the Community College's Economic and Workforce Development Program. In 1996, economic development became one of the primary missions of the California Community Colleges.

The purpose of the Economic Development Program is to advance the state's economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement, technology deployment and business development consistent with the state's regional economies. Under this program, the California Community Colleges work with employers, advisory committees, and agency partners to identify, on a region-by-region basis, workforce education and training needs, including the needs of small business. Key Economic Development Program initiatives include:

- Advanced Transportation Technologies & Energy;
- Applied Biological Technologies;
- Business & Workforce Performance Improvement;
- Environment, Health, Safety, and Homeland Security;
- Regional Health Occupations Resource;
- International Trade Development Centers (described in greater detail below);
- Multimedia & Entertainment Initiative;
- Small Business Development Centers (described in greater detail below); and,
- Workplace Learning.

Chart #46 displays three years of funding for the Economic Development and Workforce Preparation programs including staffing figures and local assistance.

| **Chart #46 - Economic Development & Workforce Preparation, California Community College System** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | | | | |
| Δ | | | | |
| 2006/07 | | | | |
| Δ | | | | |
| 2007/08 | | | | |

Legislation passed in 2005, SB 70 (Scott), Chapter 352, the Career-Technical Education Economic Development Initiative, provides funding for expanded vocational and career technical educational opportunities for middle school and high school students, and improved linkages between the career and technical curricula of the public schools and community colleges. The funds, $20 million of which became available January 1, 2006, will be used for several types of projects including:

- "Quick Start" Partnerships, which will enhance linkages and pathways between secondary schools and selected economic and workforce development initiatives in community colleges;
- Projects that will grow program capacity and infrastructure; and,
- Projects that will strengthen Career and Technical Education sectors at secondary school.

Under the provisions of this new program, the California Community Colleges, in collaboration with the California Department of Education, must prepare a report by July 1, 2007 on the capacity of high schools and community colleges to support integrated four-year programs and to improve articulation with baccalaureate degree-granting programs, and make recommendations on how to improve career-technical opportunities.

<u>Small Business Development Centers (Centers)</u>

The Small Business Development Center program is administered through a consortium between the California State Universities at Chico, Humboldt, and Fullerton, the University of California at Merced, Long Beach City College, Southwestern Community College, the California Community College's Economic and Workforce Development Programs and the U.S. Small Business Administration (SBA). The Small Business Development Centers program provides a variety of technical assistance to small businesses through a network of 36 Centers, 26 of which are located on Community College campuses.

Funding for the program is provided through federal and state grants on a one-for-one match basis.. Since the demise of the Technology, Trade, and Commerce Agency, the state match has only been providedprovided through the California Community College System. Attempts for additional appropriations through the Legislature's budget process have not been successful.

Chart #47 displays three years of funding for the Small Business Development Center programs including staffing figures and local assistance.

| **Chart #47 - Small Business Development Centers, California Community College System** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | | | | |
| Δ | | | | |
| 2006/07 | | | | |
| Δ | | | | |
| 2007/08 | | | | |

The Small Business Development Centers facilitate the creation, expansion and retention of businesses. Each center provides one-on-one counseling, workshops, advice and referrals to prospective and existing business owners. The Centers assist with business plans, marketing, finance questions and other business issues. Each Center has its own Web site, which highlights local workshops, business directories, and regionally significant initiatives, as well as, provides access to certain shared resources such as links to the federal SBA Web site and downloadable worksheet and books.

Centers for International Trade Development

The California Community College System administers the state's Centers for International Trade Development. These 14 Centers for International Trade Development, located in a majority of the urban areas of the state, offer technical assistance and consultation to firms doing business, or trying to do business, globally. The northern most areas of the state are serviced through offices in Community Colleges located in Chico and San Francisco.

Services provided through the Centers for International Trade Development include, but are not limited to: free or low cost import and export education programs, one-on-one counseling, access to international trade shows, opportunities to join trade missions, a "Help Desk" for advising on international business transaction challenges, and access to an award winning trade information database (www.citd.org/trade_info/index.cfm) on their Web site. The Centers for International Trade Development serve over 2,500 businesses and entrepreneurs in California each year.

Chart #48 displays three years of funding for the Centers for International Trade Development programs including staffing figures and local assistance.

| **Chart #48 - Centers for International Trade, California Community College System** | | | | |
|---|---|---|---|---|
| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
| | | | | |
| 2005/06 | | | | |
| Δ | | | | |
| 2006/07 | | | | |
| Δ | | | | |
| 2007/08 | | | | |

For those businesses not able to actually walk into a Center for International Trade Development, the Centers' Web site also features a number of useful and fully downloadable documents and web links, including a "CITD StartUp Kit" that includes a guide on exporting basics, access to an export internet Search Wizard, and an Export Readiness Assessment. The Web site recognizes over 500,000 unique user sessions per year.

## California Organized Investment Network, Department of Insurance

The California Department of Insurance administers the California Organized Investment Network (COIN). The program was established in 1996 as an alternative to a statutory community reinvestment-type mandate on insurers.

COIN serves as a liaison between insurers and community organizations, and provides a clearinghouse of community development investment information, including a listing of potential investment opportunities.

Community organizations seeking investment capital present prospective deals to COIN, who reviews the proposals to determine whether the prospective deal meets the social benefit criteria under COIN. Appropriate prospective deals are published in the "COIN Investment Opportunity Bulletin," which is then distributed through the Department's bulletin process and the COIN Web site to all insurers doing business in California. COIN's database can also be used to research community development-type investment activities of insurance companies. From 1996 to 2004, 736 COIN qualifying investments were made for a total of $1.6 billion.

COIN also allocates tax credits for certain investments in Community Development Financial Institutions (CDFI), which provide financial services to underserved communities, including assistance for microenterprise development. There are approximately 50 CDFIs in California, located mostly in urban areas. A CDFI could be a bank, credit union, or a non-regulated non-profit institution that provides private capital for community development or investing.

Under the credit, a tax payer may claim up to 20% of its investment in the form of a deposit or other interest-free loan, an equity investment, or an equity-like debt instrument that conforms to federal CDFI specifications. The maximum aggregate amount of credits that may be allocated in any year is $10 million. The Department of Insurance is allowed to limit the total value of each credit in order to remain below the $10 million annual cap.

Chart #49 displays three years of funding for the California Organized Investment Network programs including staffing figures and local assistance:

**Chart #49 - California Organized Investment Network (COIN)**

| Fiscal Year | Staffing (PYs) | Total Funding | Administrative | Local Assistance |
|---|---|---|---|---|
| | | | | |
| 2005/06 | | | | |
| Δ | | | | |
| 2006/07 | | | | |
| Δ | | | | |
| 2007/08 | | | | |

Pursuant to legislation passed last year, AB 2831 (Ridley-Thomas), Chapter 580, Statutes of 2006, the Legislative Analyst's Office is required to prepare a report on the use of the CDFI credit by December 31, 2010. The report will provide an analysis of the tax credit investments made, including the credits' fiscal impact and the resulting benefits to economically disadvantaged communities. More information may be found at: www.insurance.ca.gov/0250-insurers/0700-coin/.

**Commission for Economic Development, Office of the California Lieutenant Governor**

The Commission for Economic Development (ED Commission), chaired by the Lieutenant Governor, was established to serve as an advisory group to the Legislature and executive branch on issues related to economic development. The ED Commission is required to make an annual report to the Legislature by February 1 of each year.

The commission is comprised of 17 members appointed by the Governor and Legislature. The Governor is authorized to appoint 10 members, for four-year terms, after consulting with business, industry, and labor organizations. Six members are appointed from the Legislature (three members from each House) also constitute a joint investigating committee on economic development.

The ED Commission has a number of duties including, but not limited to:

- Undertaking assessments and making recommendations on how to address regional or local economic development problems;
- Reporting on secondary effects of economic development of programs including improvements in the social well-being of communities and improved business environment;
- Undertaking specialized studies at the request of the Governor or Legislature;
- Reviewing laws and programs from other states relating to economic development; and,
- Making recommendations concerning legislation affecting the economic development of the state.

The commission is also required to appoint advisory committees from outside its membership to represent the aerospace, manufacturing, maritime, tourism, and world trade segments of the state's economy. Other advisory committees may be established as the ED Commission deems necessary to meet its mission. More information may be found in the California Government Code, Sections 14999-14999.10.

**Registry of Potential Corporate Board Members, Secretary of State**

The Secretary of State is required to maintain a registry of "distinguished women and minorities" who are available to serve on corporate boards of directors. The registry is required to be searchable and available to corporations or executive recruiters looking to make new appointments to their boards of directors. The operation and maintenance of the registry is required to be fully off-set by fees charged to access the data base and for obtaining copies of registrants' transcripts. The development and maintenance of the registry may be done in cooperation with California Commission on the Status of Women, the

California Council to Promote Business Ownership by Women, the Senate Commission on Corporate Governance, Shareholder Rights, and Securities Transactions, women's organizations, minority organizations, business and professional organizations, and any other appropriate individuals.

Although the Secretary of State is authorized to publish the registry, no registry has been published since the registry requirements were enacted in 1994. The Secretary of State is required to report to the Legislature every three years on the extent to which the registry has helped women and minorities progress toward achieving parity in corporate board appointments or elections.

# Part IV

This Part contains Sections Nine and Ten of the paper, and provides background on economic and workforce development related programs offered in other states and by the federal government.

## Section IX: Economic Development Initiatives in Other States

This Section of the report is intended to provide background on economic development programs that are being pursued by other states. California's economic development activities are often crafted with an eye towards competing with other states for the purpose of retaining and expanding existing businesses, as well as attracting private equity investment and helping new businesses to locate in this state. Therefore, it is worthwhile to gain a sense of what other states are doing in this regard.

Most states have economic development programs of some sort. Many of the programs have similarities to programs offered in California – various tax incentives for research and development and job creation, economic development grants, community development programs, workforce training, university/private sector collaboration, and more. This section focuses on some recent initiatives undertaken by a number of states which, in part, attempt to capitalize on key economic trends.

By no means is this an exhaustive analysis of other state's economic initiatives. But it does provide an appreciation as to where states are putting their resources, and helps the California Legislature understand the competitive environment within which this state must form its economic development policies. Much of the information provided in this section was derived from a National Governor's Association issue brief -- Enhancing Competitiveness: A Review of Recent State Economic Development Initiatives – 2005.

### Industry Cluster Initiatives

Industry clusters are typically regional business clusters, which are geographically bound concentrations of similar, related, or complementary businesses, which have common opportunities or challenges. Industry clusters tend to form peer networks, and share transactions, information, and specialized infrastructure and labor markets.

Industry cluster-based initiatives try to align as many economic development tools as possible in a manner that helps each cluster. These tools may include, but are not limited to: institutes of higher learning; workforce training systems; and, regulatory and tax policies. States may also develop programs to enhance the availability of capital from venture funds, award research grants, provide infrastructure and assistance to start-up firms, and create business councils to inform government policy.

Based on information gathered for 2005, the following industry clusters appear to be receiving the greatest attention from other states:

Energy: At least 20 states initiated programs to expand or establish clean and renewable energy related businesses in their jurisdictions. Most state's pursued programs to encourage development of alternative fuels such as ethanol, wind, solar, and biomass.

Life Sciences: As many as 16 states took some action to foster growth and development in life science-related industry clusters. Many of these programs provide funding for public-private partnerships to promote research and development in areas such as biotechnology and biopharmaceuticals.

Nanotechnology: A growing number of states have begun programs that offer incentives for research, development, and utilization of nanotechnology. Innovation in nanotechnology, which is the science of working with extraordinarily small objects, holds great promise in improving manufacturing processes, reducing greenhouse gas and other harmful emissions, vastly increasing computer technology efficiency, advancing health care, developing aerospace science, and opening new opportunities in the defense industry.

The following is a summary of selected state strategies to promote economic activity in these and other industry clusters:

- Research and Development (R&D) Tax Credits – Idaho and Indiana enacted exemptions from sales and use taxes for broad based R&D activity. Maryland enacted legislation that provides tax credits for both personal and corporate filers and venture capital firms investing in qualified biotechnology companies.

- R&D seed capital – Connecticut established a $100 million fund to encourage stem cell research. Washington created a $1 Billion Life Sciences Discovery Fund, which will provide $35 million in seed capital per year. The fund will provide grants for university research in partnership with private sector ventures. Texas created a $200 million Emerging Technology Fund for start-up technology firms. Kentucky also established an Energy Research and Development Fund for R&D in alternative fuels.

- University centers for specific research – Georgia has created four centers for Life Science innovation to provide life sciences companies with resources, such as business incubation and securing research grants through a public-private research alliance. Delaware launched an Emerging Technology Center, which provides support for technology transfer and link entrepreneurs to a network of business expertise, services and investors.

## Workforce Training Initiatives

Most states play a large role in ensuring that training and education are aligned with the skills needed for emerging businesses in their areas. State governments offer the largest array of publicly-funded training and support services for new, recently displaced and low-income workers.

A number of state workforce development programs have been tailored to develop worker skills around industry clusters. They also focus on experiential learning opportunities, creating job centers and university programs. In 2005, the latest year for which data is available, many states emphasized training in science and engineering, nursing and other health-care professions, film, biotechnology, and information technology.

The following is a brief summary of various initiatives undertaken by select states in the area of workforce development:

- Grant funding – Illinois provided regional grants to expand academic and clinical teaching capacity in health care related fields. This included mentoring programs and programs to link hospital job opportunities to recruitment and training efforts. Michigan invested more than $17 million to accelerate health care training. New Mexico launched a workforce training program that distributed grants for workforce training in the film industry. North Carolina, Vermont, and several other states combined state funds with Federal Department of Labor grants for training in the areas of biotechnology and information technology. The initiatives focus on statewide training infrastructure, outreach, mentoring, and high school vocational activities.

- Training centers – North Carolina appropriated more than $33 million to establish a bio-manufacturing training and education center. It is designed to provide a hands-on, full scale training environment for current and future bio-manufacturing employees that will be used as an incentive to attract firms in this industry to the state. New Mexico is creating 18 career technical-vocational training centers on community college campuses. A number of other states are also investing in Community College based vocational training programs as well.

## Entrepreneurship and New Business Development Initiatives

Encouraging the creation of new home-grown businesses, as compared to luring existing businesses to either relocate or locate an expansion facility in a state, has taken on a greater emphasis.

Many states are beginning to offer services to entrepreneurs and new businesses, such as legal assistance for starting a new business enterprise and for access to "angel" investment. Angel investment focuses on higher risk, early stage companies, as compared to venture capital which invests in more mature companies. States are providing new business enterprises with technical assistance through small business development centers, economic development agencies, technology development corporations, and incubation centers. States also are trying to add efficiency to government services for business by consolidating and streamlining licensing and registration processes. Virginia has begun an online application for businesses to qualify for various preferences, such as small and emerging enterprises.

States have been establishing one-stop resource centers for entrepreneurs. The state of Wisconsin created the Wisconsin Entrepreneurs' Network, which is a partnership of higher education, foundations, and state government to provide counseling, educational workshops, executive level programs, peer learning, and strategies to assess technologies and provide access to capital. Illinois has established the Illinois Hispanic Entrepreneurship Center. This state funded program partners with the Illinois Hispanic Chamber of Commerce to offer financial awards and services to help emerging small- to medium-sized businesses become economically viable and provide sustainable benefits in underserved communities.

A number of states seek to harness and nurture entrepreneurship through formal education programs in public schools and institutions of higher learning. Eighteen states have enacted specific entrepreneurship programs for their high school and postsecondary education systems. Chart #50 summarizes the states with active programs.

**Chart #50 - Entrepreneurial Programs Around the United States**

| States | K-12 | Postsecondary Entrepreneurship | Entrepreneurial Education Center | Public/Private Cooperation | Opportunities for Handicapped Individuals |
|---|---|---|---|---|---|
| California | X | | | | |
| Connecticut | | | | | X |
| Florida | X | X | | X | |
| Illinois | X | X | X | X | |
| Iowa | X | X | | X | |
| Kentucky | | X | | X | |
| Massachusetts | | X | | | |
| Minnesota | X | | | X | |
| Mississippi | | X | | X | |
| Missouri | | X | | X | |
| Nebraska | X | X | | X | |
| New York | | X | | X | |
| North Dakota | | X | | X | |
| Oklahoma | | X | X | X | |
| Oregon | X | X | | X | |
| South Carolina | | X | | X | |
| Virginia | X | | | X | |
| West Virginia | X | X | | X | |

*Education Commission of the States* http://www.ecs.org/clearinghouse/73/08/7308.doc

The state of Iowa has provided state grants to establish business accelerators to attract high technology companies to the state. Recipients of grants include entrepreneurial development and venture capital centers.

States are also offering tax incentives for new entrepreneurial enterprises. Wisconsin, through its' Wisconsin Angel Network, allocates up to $3 million in tax credits through a program that links entrepreneurs with angel investors for early stage investment. Arizona and Louisiana have also recently enacted angel investment tax incentives for investments in start-up businesses. Credits, under the Arizona and Louisiana incentive programs, range from 30% to 50% of the investment value against income or corporate tax liability.

Some states are offering tax incentives to targeted industries. For example, Pennsylvania is offering financing and business location assistance to advanced energy companies. Similarly, South Dakota, has recently enacted several tax reduction measures for the construction of alternative energy facilities in that state. North Carolina, Georgia, and Maryland have recently enacted legislation providing tax credits and other financial incentives to promote the growth of film production in their states.

## Job Creation Initiatives

Several states have recently implemented economic development programs that emphasize and reward businesses for job creation. Georgia has begun a strategic industries tax credit whereby they offer a $500 per job tax credit bonus for each new full-time position created by existing businesses, other than retail establishments. Oklahoma enacted a high-wage incentive for existing companies to bring higher paying businesses to the state. The measure allows up to a 6% incentive payment on payroll for new direct jobs that exceed 150% of a company's average wage.

Massachusetts and New Hampshire are partnering with a private bank to create a $100 million loan program that will provide low-interest loans to businesses that agree to create at least one full-time job for each $40,000 in loans. Missouri's Quality Jobs Act allows the state to use a portion of withholding taxes from wages paid to employees in newly created jobs as an incentive for job creation. Employers retain up to 50% of withholding taxes paid to new employees, but the employee continues to receive full credit for all income taxes withheld.

## Rural Development Initiatives

Several states target their rural regions with certain economic development programs. Clearly, infrastructure improvements to roads, water systems, schools and other components of a region's physical infrastructure, constitute a major part of rural economic development activity. The extension of high speed broadband communications is considered to be one of the most important economic development investments states are making in rural regions. High speed communications capability has become an essential ingredient to encouraging business to establish facilities in rural communities.

Some states are providing tax incentives, loans, and grants for meeting rural needs. Minnesota launched a dairy modernization loan program to provide revolving funds for dairy producers to address, among other things, production facilities and dairy waste management. Under this program, when loans are repaid, local governments keep a portion of the repayment for further economic development investments.

Nebraska provides grants to rural communities for collaborative projects that address chronic economic distress, unemployment, and below average per capita income. Georgia has a program which enables counties in less developed areas of the state to offer business tax credits to help attract and retain new businesses. The state of Virginia launched a program with more than $20 million designed to promote the creation of new industry sectors and strengthen rural communities. It includes grants to regional consortia, a new training network and marketing programs for products made in rural areas.

## Other Types of Economic Development Initiatives

In addition to the major programs undertaken by states to promote economic development, discussed above, states pursue a variety of other efforts, including:

- Promotional campaigns to market the state as a tourist attraction;

- Quality of Life initiatives, developing and marketing urban and suburban amenities such as parks and cultural centers, which appeal to businesses that consider those factors in determining where to locate a business;

- Planning and smart growth initiatives, to provide coordinated land use development policies and environmental enhancements; and,

- International trade initiatives, developing specific marketing agreements with foreign governments.

## California Competitiveness

Without question, economic development initiatives are regularly pursued by other states in all regions of this nation. This discussion reveals that many states, like California, approach economic development in a multifaceted manner. Using tools such as direct grants, development loans, tax incentives, information sharing, training programs, and more, states are aggressively trying to expand existing businesses, lure new companies, and encourage the establishment of native businesses in their jurisdictions.

Like California, many states have begun to focus on emerging industries in alternative energy, biotechnology, health care, and life sciences. More public-private partnerships are being created through state programs, utilizing the research power of state university systems. Several states are also using economic incentives to develop and grow business which create jobs in economically distressed communities, as part of their overall economic development strategies.

It appears that California's economic development programs are in this state's best interest, not only to provide business and job opportunities for Californians, but to not lose ground to the economic development activities of other states.

# Section X – Federal Economic Development Programs

This Section provides information on several key federal agencies, which provide economic and workforce development programs and services, including the United States (U.S.) Department of Agriculture (USDA), the federal Small Business Administration (SBA), the federal Economic Development Agency (EDA), and the U.S. Treasury.

## Department of Agriculture, Rural Development

USDA Rural Development works to improve the economy and quality of life throughout rural America by helping rural individuals, communities, and businesses obtain the financial and technical assistance needed to address their diverse and unique needs. Their goal is to make sure that rural citizens can participate fully in the global economy.

USDA Rural Development has multiple programs to provide people with financial and technical assistance as well as promoting economic development. Financial programs support essential public facilities and services such as: water and sewer systems; housing; health clinics; emergency service facilities; and, electric and telephone service. USDA Rural Development promotes economic development by supporting loans to businesses through banks and community-managed lending pools. They provide technical assistance and information to help agricultural and other cooperatives get started and improve the effectiveness of their member services and help communities undertake community empowerment programs. They have an $86 billion dollar portfolio of loans and administer nearly $16 billion in program loans, loan guarantees, and grants through their programs. More information about USDA Rural Development can be found at: www.rurdev.usda.gov.

Below are various divisions and programs administered by USDA Rural Development:

### Community Facilities Loans/Guaranteed Loans/Grants

Community Programs, a division of the Housing and Community Facilities Programs, administers programs designed to develop essential community facilities for public use in rural areas. These facilities include: schools; libraries; childcare; hospitals; medical clinics; assisted living facilities; fire and rescue stations; police stations; community centers; public buildings; and, transportation. Through its Community Facilities Programs, USDA is striving to ensure that such facilities are readily available to all rural communities. Community Facilities Programs uses three financial programs to achieve this goal:

- The Community Facilities Guaranteed Loan Program
  Community Programs can make and guarantee loans to develop essential community facilities in rural areas and towns of up to 20,000 in population. Loans and guarantees are available to public entities such as municipalities, counties, and special-purpose districts, as well as to non-profit corporations and tribal governments.

- The Community Facilities Direct Loan Program
  Loan funds may be used to construct, enlarge, or improve community facilities for health care, public safety, and public services. This can include costs to acquire land needed for a facility, pay necessary professional fees, and purchase equipment required for its operation.

- The Community Facilities Grant Program
  The Community Facilities Grant Program is typically used to fund projects under special initiatives, such as Native American community development efforts; child care centers linked with the Federal government's Welfare-to-Work initiative; Federally-designated Enterprise and Champion Communities, and the Northwest Economic Adjustment Initiative area.

Empowerment Zone and Enterprise Community Program

Administered by the United States Department of Agriculture, the Empowerment Zone and Enterprise Community Program offers a compact between the federal government, local communities, and state and local governments in order to promote economic and community development. Each community in the Empowerment Zone and Enterprise Community Program tailors its own strategic plan to meet the needs of the community. There are four communities in California participating in the Empowerment Zone and Enterprise Community Program: the City of Watsonville in Santa Cruz County, the County of Imperial, the Westside Tulare region, including rural portions in Fresno and Tulare Counties, and Desert Communities in Riverside County. More information may be found at www.ezec.gov.

## Small Business Administration

The U.S. SBA is an independent agency of the Executive Branch of the Federal Government. It is charged with the responsibility of providing four primary areas of assistance to American Small Business: advocacy, management, procurement, and financial assistance. Financial assistance is delivered primarily through SBA's Investment programs, Business Loan Programs, Disaster Loan Programs, and Bonding for Contractors. A selection of SBA's financial assistance programs are described below. A complete list of SBA programs and services is available at: www.sba.gov/.

Minority and Women Prequalification Pilot Loan Program

The Minority Prequalification Loan Program and the Women's Prequalification Pilot Loan Program use intermediaries to assist prospective minority and women borrowers in developing viable loan application packages and securing loans. The Women's Program uses only non-profit organizations as intermediaries; the Minority Program uses for-profit intermediaries as well.

Eligibility requirements include: Businesses at least 51% owned, operated and managed by people of ethnic or racial minorities or by women; businesses with average annual sales for the preceding three years that do not exceed $5 million; and, businesses that employ fewer than 100 persons, including affiliates.

The maximum amount for loans under the Women's program is $250,000; under the Minority Program, it is generally the same, although some districts set other limits. The SBA will guarantee up to 80% of loans $100,000 and less and up to 75% of loans above $100,000 for both programs. The intermediary then helps the borrower locate a lender offering the most competitive rates.

<u>Microloan Program</u>

The Microloan Program provides very small loans (up to $35,000) to startup newly established, or growing, small businesses. These funds are made available to non-profit community based lenders that, in turn, make loans to borrowers. There are 12 participating lenders in California and these lenders must provide training and technical assistance to its microloan borrowers.

<u>International Trade Loans</u>

Under the International Trade Loans program, small businesses engaged in or ready to begin international trade – or adversely affected by competition from imports – may qualify for short or long term financing. The SBA can guarantee up to $1.25 million for a combination of fixed asset financing and Export Working Capital Program assistance.

Applicants must establish that the loan will assist businesses to: significantly expand or develop an export market; upgrade equipment or facilities to improve their competitive position; provide a business plan that reasonably projects export sales sufficient to cover the loan; or, help address adverse affects of import competition.

For International Trade Loans, SBA can guaranty up to 85% of loans of $150,000 and less, and up to 75% of loans above $150,000. The maximum guaranteed amount is $1,250,000.

<u>7(A) Loan Programs</u>

The most basic and most common type of loans offered by the SBA to American small businesses are 7(a) loans. All 7(a) loans are provided by lenders who are called participants because they participate with SBA in the 7(a) program. Not all lenders choose to participate, but most American banks do. There are also some non-bank lenders who participate with SBA in the 7(a) program which expands the availability of lenders making loans under SBA guidelines.

7(a) loans are only available on a guaranty basis, but SBA does not fully guaranty 7(a) loans. Both the lender and SBA share the risk that a borrower will not be able to repay the loan in full. The guaranty is a guaranty against payment default. It does not cover imprudent decisions by the lender or misrepresentation by the borrower. Under the guaranty concept, commercial lenders make and administer the loans. Some of SBA's lender programs include:

- The Certified Lenders Program (CLP) is designed to provide expeditious service on loan applications received from lenders who have a successful SBA lending track record and a thorough understanding of SBA policies and procedures. CLP lenders are expected to perform a complete analysis of the application and, in return, SBA promises a fast loan decision. SBA reviews the lender's credit analysis rather than conducts a second analysis. SBA still makes the final credit and eligibility decision but, by completing a credit review instead of an independently conducting analysis, SBA strives for 3 working day turn around in arriving at its decision.

  The key aspect of CLP is the greater utilization of the credit knowledge of the lender's loan officers to shorten SBA's loan processing time. SBA still makes an independent determination as to whether the applicant can repay the loan from the profits of the business, but under CLP, the lenders work is reviewed rather than completely double checked.

- The Preferred Lenders Program (PLP) is another step in SBA's process of streamlining the procedures necessary to provide financial assistance to the small business community. Under PLP, SBA delegates loan approval, closing, and most servicing and liquidation authority and responsibility to these carefully selected lenders. SBA will continue to check loan eligibility criteria under this program.

  PLP lenders are nominated based on their historical record with the Administration. They must have demonstrated a proficiency in processing and servicing SBA-guaranteed loans. The credit criteria for PLP loans is the same as that for the CLP and/or the Regular 7(a) program. In the event of payment default by the borrower and the need for enforced collections, the PLP lender agrees to liquidate all business assets before asking SBA to honor its guaranty.

FastTRAK Loan Program

The FastTRAK Loan Program is a 7(a) loan program that allows lenders to provide for smaller revolving loans needed for working capital. Lenders may approve unsecured lines of credit for up to $25,000 and the maximum loan amount of $150,000. Under the FastTRAK Program, a limited number of lenders have SBA-delegated authority to streamline loan approval, and primarily use their own paperwork. Loans may not exceed $250,000, and may be used for revolving credit or for a term loan. More information about the SBA FastTRAK program can be found at: www.sba.gov/financing/frfastrak.html.

CAPLines Loan Program

CAPLines is the 7(a) umbrella program under which the SBA helps small businesses meet their short-term and cyclical working-capital needs. SBA generally can guarantee up to $1 million, with a maximum interest rate for loans over $50,000 of prime + 2.25%. Total loan amounts may be as high as $2 million.  One of the five short-term working-capital loan programs for small businesses under the CAPLines umbrella is the Contract Line.

Export Working Capital Program

EWCP was designed to provide short-term working capital to exporters and supports export financing to small businesses when financing is not otherwise available.  This program encourages lenders to offer export working capital loans by guaranteeing repayment of up to $1.5 million or 90% of a loan amount, whichever is less.  A loan can support a single transaction or multiple sales on a revolving basis.

Designed to provide short-term working capital to exporters, EWCP is a combined effort of the SBA and the Export-Import Bank.  These two agencies have joined their working capital programs to offer a unified approach to the federal government's support of export financing.

Certified Development Company (504) Loan Program

Certified Development Companies (CDCs) are nonprofit corporations set up to contribute to the economic development of their communities.  CDC's partnering with SBA provide small businesses long-term, fixed-rate financing to acquire real estate, machinery and equipment for business expansion or to modernize facilities.  SBA guarantees funding CDC assistance up to $1 million, which may not exceed 40% of the project cost.  A SBA guarantee of up to $1.3 million is possible for loans which meet stated public policy goals.  Recipient small businesses must contribute a minimum of 10% equity as part of the loan package.  The private lender's portion of these loans is unlimited.  These loans are only available through CDCs and must create at least one job per every $35,000 loaned under SBA's guarantee.  For more information, go to:  www.sba.gov/financing, and click on "CDC – 504 Loans."

Small Business Development Centers Program

The Small Business Development Centers Program is administered by the U.S. Small Business Administration, with California sponsorship from California State University (CSU) Chico, CSU San Jose, CSU Fullerton, CUS Northridge, University of California Merced, Southwestern Community College, and the Chancellor's Office of the California Community Colleges Economic and Workforce Development Program.  The Small Business Development Centers assist small businesses "through business management counseling and training, resulting in the creation and retention of jobs, increased sales and profits, new business starts, and more."  More information on the Small Business Development Centers may be found at:  www.calbusiness.ca.gov/cedpgybsbdc.asp.

## Economic Development Administration

The Economic Development Administration (EDA) was established to generate jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas of the U.S. EDA assistance is available to rural and urban areas of the U.S. experiencing high unemployment, low income, or other severe economic distress.

EDA works to help distressed communities become empowered to develop and implement their own economic development and revitalization strategies. Based on these locally- and regionally-developed priorities, EDA works in partnership with state and local governments, regional economic development districts, public and private nonprofit organizations, and Indian tribes. EDA helps distressed communities address problems associated with long-term economic distress, as well as sudden and severe economic dislocations including recovering from the economic impacts of natural disasters, the closure of military installations and other Federal facilities, changing trade patterns, and the depletion of natural resources. More information on the EDA can be found at: http://www.eda.gov/.

Economic Adjustment Assistance Program

The Economic Adjustment Assistance Program provides a wide range of technical, planning and infrastructure assistance in regions experiencing adverse economic changes that may occur suddenly or over time. This program is designed to respond flexibly to pressing economic recovery issues and is well-suited to help address challenges faced by U.S. regions and communities. More information on this program can be found in the Catalog of Federal Domestic Assistance, No. 11.307.

Planning Programs for Economic Development Districts, Indian Tribes and Redevelopment Areas

The Planning Program helps support planning organizations, including District Organizations and Indian Tribes, in the development, implementation, revision or replacement of comprehensive economic development strategies (CEDS), and for related short-term planning investments. This program also helps state plans designed to create and retain higher-skill, higher-wage jobs, particularly for the unemployed and underemployed in the nation's most economically distressed regions. More information on this program can be found in the Catalog of Federal Domestic Assistance, No. 11.302.

Technical Assistance Programs – Local Technical Assistance

The Local Technical Assistance Program helps fill the knowledge and information gaps that may prevent leaders in the public and nonprofit sectors in economically distressed regions from making optimal decisions on local economic development issues. More information on this program can be found in the Catalog of Federal Domestic Assistance, No. 11.303.

Research and Evaluation Program and National Technical Assistance Programs

The Research and National Technical Assistance Program supports research of leading, world class economic development practices, and funds information dissemination efforts. More information on this program can be found in the Catalog of Federal Domestic Assistance, No. 11.303 and No. 11.312.

Community Development Block Grant Program

Administered by the United States Department of Housing and Urban Development, the Community Development Block Grant Program administers a number of community and economic development programs that provide grants, loans, tax incentives, and other assistance. In particular, the Rural Housing and Economic Development Program assists in the establishment of Community Development Financial Institutions, lines of credit, revolving loan funds, small business incubators, and microenterprises. More information can be found at: www.hud.gov/offices/cpd/communitydevelopment/programs.index.cfm.

Community Affairs Program

Administered by the Federal Reserve System, this program provides outreach, education, and technical assistance to address financial service issues affecting low- and moderate-income persons and communities. Working through programs at the twelve Federal Reserve Banks, this program provides information through training programs, workshops, forums, conferences, and trade fairs. More information on this program may be found at: www.federalreserve.gov/communityaffairs/national/default.htm.

**Department of Labor, Workforce Innovation in Regional Economic Development Activities**

The 13 original 2005 Workforce Innovation in Regional Economic Development (WIRED) awardees split a pool of $195 million; each 2nd Generation WIRED region will receive an award of $500,000, with the ability to access a $4.5 million balance contingent upon completion of a regional implementation blueprint. Each of the second generation WIRED regions already received $100,000 after the 2005 competition to prepare talent development strategies. California has received WIRED designations in both the 1st and 2nd Generations. The 1st Generation includes the California Innovation Corridor, while the 2nd Generation encompasses 18 counties in Northern California. More information can be found at: www.doleta.gov.

**New Markets Tax Credits, Department of Treasury**

The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities.

The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

Over the life of the NMTC Program, CDEs are authorized to issue up to $16 billion NMTCs, including $1 billion of special allocation authority to be used for the recovery and redevelopment of the Gulf Opportunity Zone.

To date, 233 awards have been made totaling $12.1 billion in allocation authority. More information can be found at: www.cdfifund.gov.

## Additional Information on Federal Programs

Appendix D includes an expanded list of federal microenterprise related development programs including Web links.

# Part V

This Part summarizes key findings and proposes future actions for consideration by the Assembly Committee on Jobs, Economic Development, and the Economy, and the Assembly Budget Subcommittee 4 on State Administration.

## Section XI – Recommendations for Future Actions

This Section provides recommendations the Assembly Committee on Jobs, Economic Development, and the Economy and the Budget Subcommittee 4 on State Administration may wish to consider when developing a follow up strategy to the hearing, *California's Economic Development Programs: Meeting the Challenges of Today's Economy.*

### General Principles

There is a need for the state to develop a comprehensive set of policies addressing three important issue areas: Small business and microenterprise development; manufacturing technology, innovation, and development; and emerging domestic markets.

Existing policies and programs are fragmented and program delivery is too often evaluated on criteria that does not adequately reflect the broader objective of making California an attractive place to start, grow, and relocate your businesses.

These fragmented policies and programs have resulted in local community developers, such as economic and community development corporations, having to package increasingly complex deals that blend multiple funding sources. Each additional source of funding adds new layers of regulation, reporting, and monitoring without necessarily adding value.

A more comprehensive, and streamlined, approach to economic and workforce development would also reduce unnecessary administrative burdens while increasing program dollars for project delivery.

### Recommendations Related to Small Business and Microenterprise

- Designate small business and microenterprise development as a core element to the *California Economic Development Plan* and include a comprehensive review of private investment tools for community revitalization.

- Invest in capacity building of organizations and systems supporting entrepreneurship development. Review key state economic development programs to identify impediments to microenterprise development organization participation.

- Enhance entrepreneurship training in California K-12 and community college systems.

- Advocate on the 2007 federal Farm Bill for rural development programs that assist microenterprise.

- Review the *Goods Movement Plan* and recommend changes to support the efficient transport of microenterprise-produced products.

- Establish state business incubators which coordinate state and local economic development resources to support a growing sector of entrepreneurial, home-based microenterprises.

- Coordinate state efforts to increase small business participation in state construction and procurement contracts with state workforce training and economic development programs.

- Streamline state regulatory, licensing, and permitting requirements for small business and microenterprise start-ups through on-line, one-stop application and assistance programs.

## Recommendations Related to Manufacturing Technology, Innovation, and Development

- Begin a dialogue with the private sector on how to encourage the development of products to meet the state's greenhouse gas emission reduction targets.

- Develop a state technology, innovation, and intellectual property policy and strategy, including the identification and elimination of obsolete programs, and the consolidation and refinement of other functioning programs and services.

- Evaluate the usefulness of contracting with regionally based intermediaries to oversee the progress of state technology research grants, and to assist grantees in linking their technological innovations to early stage product development companies.

- Develop an integrated strategy on the delivery of state and local workforce and economic development programs to provide skilled workers for emerging industries such as cleantech, and to meet the workforce demands of emerging economic trends such as the manufacturing value chain.

- Coordinate the pending state international trade policy and strategy developed by the Business, Transportation and Housing Agency with the international activities undertaken by the California Energy Commission.

- Integrate the transportation goods movement recommendations with the forth coming state international trade strategy.

**Recommendations Related to Emerging Domestic Markets**

- Develop a state policy and strategy for attracting private investment in California's emerging domestic markets. Ensure that this policy and strategy is integrated into the pending state international trade policy and strategy.

- Sponsor the development of new mechanisms for undertaking fund-to-fund investments to promote private equity investments in emerging domestic markets. Include "blended" investments from public pension funds with co-investment by private investors.

- Begin a dialogue with early stage investors on how to assist businesses become prepared for, and competitive in, obtaining early stage investment.

- Inventory existing economic and community services development programs, available in four economically underserved areas of the state, identify needs, gaps and opportunities. Each community would begin the process by identifying its targeted industry clusters, existing strategies, and regional interests in participating in the project.

At the close of the March 27, 2007 hearing, the Committees may wish to assign activities to be undertaken, topics for consideration at future hearings, or request that other policy or fiscal committees participate in future discussions on how to enhance the delivery of California's workforce and economic development programs to better meet today's global business challenges.

**Appendix A**

# Fast Facts about the California Economy

**Compiled by: Assembly Committee on Jobs, Economic Development, and the Economy**
**Juan Arambula, Chair**

California is one of the ten largest economies in the world with a gross state product of over \$1.6 trillion.

**California Economy**

- In 2005, California's total gross state product was \$1.62 trillion up from \$1.52 trillion in 2004, as compared to the United States with \$12.41 trillion up from \$11.66 trillion in 2004.
- California ranks 4th in the Nation as one of the most expensive states in which to do business.
- 7 of the 10 most expensive metropolitan areas in which to do business are located in California.
- California ranks as the 1st state where people would like to live apart from their own state.
- California is the largest producer and exporter of agricultural goods in the nation.

**California Budget**

- The Budget proposed by the governor on January 10, 2007, projected revenue of \$101.3 billion for the 2007-08 fiscal year. This is a projected increase of 7.26% over last year's revenues. Major changes in General Fund spending proposed include a: 47.5% decrease in programs under the Business, Transportation and Housing Agency; 33% increase in areas of General Government; 30.8% decrease in the area of Resources and Environmental Protection; and, 12.6% increase in Labor and Workforce Development.

**Energy Market**

- California produces about 15% of the natural gas it uses, 37.2% of the petroleum and 78.3% of the electricity. The remaining energy is imported and consists of electricity and natural gas purchases from Canada, Pacific Northwest, Rocky Mountain states and the Southwest; and crude oil imported from Alaska and foreign sources.
- Since the beginning of 2005, the price of crude oil has jumped more than \$29 dollars a barrel.
- This year's gas price increases are blamed on increasing demand from such burgeoning markets in China, India and the U.S., coupled with fear that instability in Iran, Nigeria, Venezuela and other oil-producing regions could once again limit supply. These crude oil price increases raise the price of gasoline and diesel not only in California but across the nation.

**Real Estate**

- California continues to experience very high rates of population growth and further tightening of its housing markets. As of July 1, 2006, California's population was over 37 million, increasing by over 462,000 people in 2005.

- Housing production has not kept pace with the State's housing needs, particularly in the coastal metropolitan areas. While the average need is projected at approximately 220,000 housing units, construction has lagged substantively below the need.
- As of the third quarter of 2006, only 24% of first-time buyers in California were able to afford a median-priced home, compared to 28% for the same period in 2005.
- From December 2005 through December 2006, sales of existing detached homes fell 15.3%. The median price for detached homes rose 3.7% during this time.

**Job Creation**

- California nonfarm businesses added 170,300 jobs since December 2005, an increase of 1.1%. Nationwide, nonfarm businesses added 1.84 million jobs over the last year, an increase of 1.4 %.
- The professional and business services sector saw the largest gains in the last year, with an increase of 45,000 jobs within the sector, representing an increase of 2.1% from the previous year.
- From December 2005 through December 2006, nonfarm payroll jobs rose in 9 of the 11 major industry sectors:
  - 45,000 in Professional and Business Services;
  - 39,100 in Government;
  - 33,400 in Leisure and Hospitality;
  - 33,300 in Educational and Health Services;
  - 11,400 in Trade, Transportation and Utilities
  - 10,100 in Financial Activities;
  - 7,600 in Information Services;
  - 6,400 in Other Services; and,
  - 1,200 in Natural Resources and Mining.
- Construction and manufacturing and were the only sectors to lose jobs over the last year, with losses totaling 15,900 and 1,300 respectively.

**Insourcing of Jobs**

- U.S. subsidiaries of foreign companies in California employ 547,000 California workers - an increase of 3% over five years.
- In comparison to other states, California has proven to be an attractive location for international employers, ranking 1st in the United States in the number of employees supported by U.S. subsidiaries. At the national level, U.S. subsidiaries employ 5.1 million Americans and support an annual payroll of $325 billion.

**Unemployment (December 2006)**

- Statewide: 4.6% (Down from 4.8% in 2005);
- Alameda County: 4.0% (Down from 4.2% in 2005);
- Contra Costa: 3.9% (Down from 4.0% in 2005);
- Fresno County: 8.3% (Unchanged from 2005);

- Imperial County: 14.5% (Up from 13.2% in 2005);
- Los Angeles County: 4.2% (Down from 5.0% in 2005);
- Sacramento County: 4.4% (Up from 4.1 % in 2005);
- San Bernardino: 4.2% (Unchanged from 2005);
- San Joaquin County: 7.3% (Up from 7.0% in 2005); and,
- Santa Clara County: 4.2% (Down from 4.4% in 2005).

**Trade Import/Export**

- International–related commerce accounts for approximately one-quarter of California's economy.
- California's top three trading partners are Mexico, Japan, and Canada.
- Computers and electronic products are California's top export, accounting for 36% of all the state's exports.
- California leads the nation in export-related jobs. Export-supported jobs account for an estimated 8.6% of California's total private sector employment. Nearly one-fifth of all manufacturing workers in California depend on exports for their jobs
- In 2005, California exports increased to over $116 billion, over the $110 billion from the previous year. Additionally, California maintained its position as a top exporting state. Exports from California accounted for more than 13% of total U.S. exports in 2005.

**Foreign Direct Investment**

- California receives more foreign direct investment than any other U.S. state. The California Chamber of Commerce estimates that the more than $100 billion invested in California provides 550,000 – 4% of all jobs in the state.
- As of 2003, 628,600 people worked in foreign-owned firms in California, more than in any other state.

## Appendix B

# Major Bills Affecting Economic Development

Below is a discussion of recent legislation affecting economic development in California. This summary does not attempt to list legislation affecting California's general business climate or business operation requirements.

### The California Economy and Emerging Domestic Markets

**AB 716 (Chan): Small Business Financial Development Corporations**
This bill eliminates the California Small Business Financial Development Loan Guarantee Account and makes clarifying and technical changes. ***Status***: Chaptered by the Secretary of State – Chapter 178, Statutes of 2003.

**AB 969 (Correa): California Tourism Expansion Act of 2003: Tourism Economic Development Zones**
As passed by the committee, this bill authorized the City of Anaheim and the City of Garden Grove to create a pilot project to be known as the Tourism Development Council. ***Status***: Chaptered by the Secretary of State - Chapter 470-Statutes of 2004.

**AB 1182 (Ridley-Thomas): Government Financing**
This bill creates new financing mechanisms for the California Debt and Investment Advisory Commission, and the California Industrial Development Financing Authority Commission. ***Status***: Chaptered by the Secretary of State – Chapter 7, Statutes of 2004.

**SB 1823 (Hollingsworth): Economic Development**
This bill changes all references in the enterprise zone statute from "agency" to "department" and transfers responsibilities regarding the Targeted Tax Area program and the Local Agency Military Base Recovery Act to the Department of Housing and Community Development. ***Status***: Chaptered by the Secretary of State – Chapter 145, Statutes of 2004.

**AB 1855 (Maze): California Infrastructure and Economic Development Bank: Financing**
This bill requires that the California Infrastructure and Economic Development Bank notify specified legislative and municipal entities when changes are made to the criteria for awards under the Infrastructure State Revolving Fund Program. In addition, this bill exempts the I-Bank from state hiring freezes for specified purposes. ***Status***: Chaptered by the Secretary of State – Chapter 189, Statutes of 2004.

**AB 2481 (Nuñez): California Infrastructure and Economic Development Bank: Board of Directors.**
This bill makes technical and clarifying changes to the membership of the California Infrastructure and Economic Development Bank Board of Directors. ***Status***: Chaptered by the Secretary of State – Chapter 48, Statutes of 2004.

**AB 2565 (Parra): Economic Development**
This bill requires an updated strategic plan to minimize California's loss of military bases and jobs in future rounds of Federal Base Realignment Act Closures. This bill is related to SB 926 (Knight). ***Status***: Chaptered by the Secretary of State - Chapter 763, Statutes of 2004.

**AB 2690 (Hancock): Public Works: Funds**
This bill exempts volunteers, as defined, from provisions in existing law requiring prevailing wage rate for all workers employed on public works projects of more than $1000. ***Status***: Chaptered by the Secretary of State – Chapter 330, Statutes of 2004.

**AB 2805 (Ridley-Thomas): Redevelopment Plans**
This bill grants authority to the Los Angeles City Council to revise the Hoover Redevelopment Plan in order to facilitate and promote continued redevelopment and economic development in the project area thereby stimulating the local economy and creating jobs. ***Status***: Chaptered by the Secretary of State - Chapter 954, Statutes of 2004.

**ACR 254 (Firebaugh): Asset Acquisition Disparity**
This measure makes legislative findings based on California Research Bureau reports that indicate the disparity in wealth and access to education between Latinos and non-Latinos. Encourages the Latino Legislative Caucus, the Hispanic Republican Caucus, and the Earned Assets Resource Network (EARN) in partnership with the Milken Institute to engage in targeted research to more accurately measure the economic impact of the disparities and report to the Governor and Legislature its findings by January 15, 2005. ***Status***: Chaptered by the Secretary of State - Chapter 199 - Statutes of 2004.

**SB 926 (Knight and Ashburn): Economic Development**
This bill establishes the Office of Military and Aerospace Support in the Business, Transportation, and Housing Agency, and sets forth its duties and authority with respect to state and local defense retention and conversion. ***Status***: Chaptered by the Secretary of State - Chapter 907, Statutes of 2004

**SB 973 (Machado): State Property**
This bill requires state agencies to overwrite, or render unrecoverable, any data that is contained on surplus data storage hardware prior to disposing of, auctioning, or transferring the hardware from state possession. ***Status***: Chaptered by the Secretary of State – Chapter 717, Statutes of 2003.

## Enterprise Zones and Other Geographically-Targeted Economic Development Areas (G-TEDA)

**AB 1550 (Arambula): G-TEDA Reforms**
This bill makes a number of significant changes to the management and oversight of the G-TEDA programs. This bill is the result of extensive oversight hearings by JEDE and R&T, and extended discussions with stakeholder groups. Key provisions include:

1) Authorizing cities and counties to apply for an EZ designation that includes noncontiguous boundaries, if HCD determines the area is needed to implement the applicant's economic development strategy and that areas between the noncontiguous areas were not excluded for discriminatory purposes. This authority is also provided for EZ and TTA boundary expansions.

2) Requiring Targeted Employment Area boundaries be updated within 180 days of new census data becoming available. Existing zones, which have not updated their boundaries using 2000 census data, are required to update those boundaries by July 1, 2007. EZs, which expire prior to December 31, 2008, are exempted from updating their boundaries.

3) Authorizing an expiring EZ that applies for a new designation, and receives a conditional designation letter from HCD, to offer all EZ benefits until such time as HCD makes a final designation or declines to designate the EZ. The effective date of a new EZ designation shall be the expiration date of the old EZ designation.

4) Requiring applications in response to EZ designation solicitations after January 1, 2007 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.

5) Adding a new audit element that requires the review of an EZ's administrative support and whether financial commitments made in the G-TEDA application and memorandum of understanding (MOU) have been kept.

6) Requiring G-TEDAs to biennially report to HCD on their progress in meeting the goals and objectives identified in their implementing MOU.

7) Requiring G-TEDAs designated prior to January 1, 2007, update their goals and objectives by April 15, 2008, and meet the annual reporting requirements by October 1, 2009.

***Status:*** Chaptered by the Secretary of State - Chapter 718, Statutes of 2006.

**AB 1856 (Maze): Targeted Tax Areas: Expansion**

This bill allows for the expansion of a targeted tax area (TTA) territory by up to 15% upon meeting specified criteria. Adds additional incentives to the TTA program. ***Status***: AB 1856 was held in the Assembly Committee on Revenue and Taxation, however, the language of AB 1856 was amended into AB 2398 (Maze). AB 2398 was chaptered by the Secretary of State – Chapter 423, Statutes of 2004.

**SB 763 (Lowenthal): Expansion of State Voucher Fee Authority**

This bill expands HCD's fee authority for the purpose of off-setting the cost of administering the geographically-targeted economic development area programs. ***Status:*** Chaptered by the Secretary of State - Chapter 634, Statutes of 2006.

## California's Technology Economy

**AB 2582 (Mullin): California Government Online to Desktops (CALGOLD) Program**

This bill requires the CALGOLD website to be updated periodically to include permitting and regulatory compliance information relevant to emerging and evolving industries. The author is particularly interested in adding online resources for the life sciences industry. ***Status:*** Chaptered by the Secretary of State - Chapter 283, Statutes of 2006.

**AB 1532 (Nakano): Economic Development: Technology Programs**

This bill transfers responsibility for the California Spaceport Authority, the Challenge Grant Program, and the Technology Planning Program from the California Technology, Trade, and Commerce Agency to California Business, Transportation and Housing Agency. ***Status***: Chaptered by the Secretary of State – Chapter 627, Statutes of 2003.

**AJR 86 (Lieber): Space exploration**

This measure requests Congress and the President of the United States to enact and fully fund the proposed budget for space exploration, as submitted to the Congress in the federal 2005 fiscal year budget, thus enabling the United States and California to remain leaders in the exploration and development of space. ***Status***: Chaptered by the Secretary of State – Chapter 154, Statutes of 2004.

**AB 1061 (Firebaugh): Unemployment Insurance: Employment Training Panel: Small Businesses**
This bill seeks to enhance small business access to Employment Training Panel programs and resources, and to assist the aerospace and defense supplier industries. ***Status***: Chaptered by the Secretary of State – Chapter 844, Statutes of 2003.

**AB 1532 (Nakano): Economic Development: Technology Programs**
This bill establishes the Regional Technology Alliances (RTAs) under the administration of the Business, Transportation and Housing Agency (BTH) and places the Challenge Grant Program and the Technology Planning Program within the RTA. Also establishes the California Spaceport Authority under the administration of the BTH and requires the Secretary of Labor Workforce Development to convene the California Economic Strategy Panel. ***Status***: Chaptered by the Secretary of State – Chapter 627, Statutes of 2003.

**HR 29 (Houston): Joint Bio-Energy Institute**
This resolution affirms the Assembly's support of the outstanding proposal developed by the national laboratory partnership of Sandia National Laboratories, Lawrence Livermore National Laboratory, and the Lawrence Berkeley National Laboratory to bring the Joint Bio-Energy Institute to California. ***Status:*** Approved by the Assembly, August 10, 2006.

**SB 1698 (Ashburn): Military and Aerospace Enterprise Development**
This bill extends the sunset on the Military and Aerospace Support Act from January 1, 2007, to January 1, 2009, and expands the duties of the Office of Military and Aerospace Support to include outreach to the aerospace industry for the purpose of fostering aerospace enterprises in California. ***Status:*** Chaptered by the Secretary of State – Chapter 681, Statutes of 2006.

## Small Business Development and Operations

**AB 348 (Arambula and Bass): Small Business Certification Reciprocity Program**
This bill authorizes the Department of General Services (DGS) to accept certification of a small business made by a local agency if it determines that the local agency has applied similar certification criteria and review processes as those applied by DGS. ***Status:*** Chaptered by the Secretary of State – Chapter 185, Statutes of 2005.

**AB 2330 (Arambula): Impact of Regulations on Small Businesses**
This bill requires the Office of the Small Business Advocate to have a study prepared by October 1, 2007, regarding the costs of state regulations on small businesses, as specified. ***Status:*** Chaptered by the Secretary of State – Chapter 232, Statutes of 2006.

**AB 3058 (Assembly Committee on Jobs, Economic Development, and the Economy): Small Business Disaster Preparedness**
This bill requires the Office of the Small Business Advocate, in cooperation with the Office of Emergency Services and the Department of Industrial Relations, to develop a web-based handbook for small businesses on emergency preparedness, emergency response, and recovery strategies. This bill also requires at least three meetings be held in different locations in the state to share best practices for disaster preparedness for small businesses. ***Status:*** Chaptered by the Secretary of State – Chapter 233, Statutes of 2006.

**SB 1156 (Alarcon): Microenterprise**
This bill states the intent for cities and counties to encourage access to microenterprise development. Additionally, this bill defines a microenterprise as a business of five or fewer employees, including the owner and defines a microenterprise development provider as a nonprofit or public agency that provides self-employment training, technical assistance, and access to microloans to individuals seeking to become self-employed or to expand their current business. ***Status***: Chaptered by the Secretary of State – Chapter 87, Statutes of 2004.

**SB 1436 (Figueroa): State Small Business Assistance**
This bill enhances the state's technical assistance to small businesses by improving the state's Internet information for small businesses and requiring the designation of agency-level small business liaisons. ***Status:*** Chaptered by the Secretary of State – Chapter 234, Statutes of 2006.

**SB 1558 (McPherson): Small Business Financial Development Corporations**
This bill makes various code maintenance changes to the California Small Business Financial Development Corporation Law to reflect certain duties assumed by the Business, Transportation, and Housing Agency as a result of the abolishment of the Technology, Trade, and Commerce Agency in 2003. ***Status***: Chaptered by the Secretary of State - Chapter 143, Statutes of 2004.

**AB 1643 (Ridley-Thomas): Employment**
This bill promotes small business by requiring the Employment Development Department (EDD) to study the impact of employee misclassification tax audits on micro-enterprises and directs EDD to provide education and outreach programs related to complicated tax regulations that impact small business and micro-enterprises. ***Status***: Chaptered by Secretary of State - Chapter 828, Statutes of 2004.

## Disabled Veteran Business Enterprises (DVBE) and Small Business Certification

**AB 669 (Cohn): Public Contracts: Disabled Veteran Business Enterprises**
This bill requires that a small business, microbusiness, and disabled veteran business enterprise must perform a commercially useful function, in relation to specified state contracts, and also imposes certain penalties for misrepresenting the performance of a commercially useful function. ***Status***: Chaptered by the Secretary of State – Chapter 623, Statutes of 2003.

**SB 115 (Florez): California Disabled Veteran Business Enterprise Program**
This bill makes various changes to the DVBE Program, including requiring DGS to establish a state agency wide mandatory DVBE participation incentive. This bill also requires the DGS small business advocate to provide specified services to small businesses and certified disabled veteran business enterprises. Additionally, this bill requires DGS to adopt a streamlined reporting procedure for state agencies to use in reporting their DVBE participation to the Department of Veterans Affairs. ***Status:*** Chaptered by the Secretary of State - Chapter 451, Statutes of 2005.

## International Trade

**AB 3021 (Nuñez): California-Mexico Relations**
This bill establishes the six-member California-Mexico Border Relations Council (Border Council) comprised of all Agency Secretaries and the Director of the Office of Emergency Services for the purpose of coordinating activities of state agencies involving California-Mexico relations. The Border Council is required to report to the Legislature on its activities annually. ***Status:*** Chaptered by the Secretary of State - Chapter 621, Statutes of 2006.

**SB 897 (Scott): International Trade and Investment Office in Yerevan, Armenia**
This bill extends the sunset date allowing for the creation and operation of an international trade and investment office, on a contractual basis, in Yerevan, Republic of Armenia, from January 1, 2006 to January 1, 2008, and extends the reporting deadline regarding the success of this office from March 1, 2005 to June 1, 2007. ***Status:*** Chaptered by the Secretary of State - Chapter 604, Statutes of 2005.

**SB 1513 (Romero): Final Compromise - California International Trade and Investment Act**
Provides new authority for the Business, Transportation, and Housing Agency (BT&H) to undertake international trade and investment activities, and as a condition of that new authority, directs the development of a comprehensive international trade and investment policy for California. This bill reflects extended bi-partisan discussions between the Senate

and the Assembly.  Based on these agreements, AB 2601 was dropped to allow a single consensus bill on international trade to be sent to the Governor.  More specifically, this bill:

1) Provides an organizational structure for California's foreign relations.

2) Requires BT&H develop an International Trade and Investment (ITI) strategy, by February 1, 2008, and submit it to the Legislature for public review.

3) Requires BT&H convene a statewide business partnership, no later than March 1, 2007, to advise the Secretary of BT&H on business needs and priorities for inclusion in the ITI strategy.

4) Prohibits the establishment of foreign trade and investment offices (Foreign Offices), unless certain conditions are met, including professional management of the Foreign Offices and extensive oversight by BT&H and the Legislature.  Failure to meet the reporting requirements will result in discontinuation of state funding to BT&H for international trade purposes.

5) Requires the Governor's Office of Planning and Research to maintain and update a comprehensive list of all state agreements made with foreign governments.

6) Requires all state employees, within 30 days of traveling outside of the U.S. on official state business, submit a memorandum to their respective administrative agencies with specified information on the purpose and outcomes of the trip.

***Status:***  Chaptered by the Secretary of State - Chapter 663, Statutes of 2006.

## Information Technology

### AB 2098 (Liu):  Electronic Payment System

This bill establishes the Electronic Funds Transfer Task Force (EFT Task Force) for the purpose of developing a plan to implement a new electronic payment dispersal system. The EFT Task Force will be comprised of one representative from state agencies with key responsibilities related to information technology and the oversight and management of state funds.  Additionally, this bill requires the EFT Task Force to submit a plan to the Legislature, by April 1, 2008, on how to implement a new payment dispersal system utilizing electronic funds transfer technology.  ***Status:***  Chaptered by the Secretary of State - Chapter 818, Statutes of 2006.

### SB 954 (Figueroa):  Information Technology (IT) Goods and Services Procurement

This bill requires DGS to establish policies and guidelines for the procurement of IT goods and services on or before January 1, 2007.  This bill also requires DGS to prepare an IT procurement checklist and establish a centralized entity responsible for IT procurement methods. Additionally, this bill requires the Governor to submit to the Legislature a proposal establishing a Chief Information Officer with specified duties. ***Status:*** Chaptered by the Secretary of State - Chapter 556, Statutes of 2005.

## Appendix C

# California Business Portal

Below is a copy of the California Business Portal, which was developed by the California Economic Strategy Panel in 2006. The portal brings together key state resources into a single location to assist businesses who want to locate, expand and thrive in California.

## CALIFORNIA BUSINESS PORTAL

Sponsored by the *California Economic Development Partnership*, this website provides a portal to a number of resources for starting, growing, financing, expanding or relocating a business in California. The portal seeks to simplify the path to the resources you need. These resources are provided by a myriad of public and private sources, from State and federal agencies to local private non-profit organizations, all of which are accessible to you here, simply by clicking through the portal's pages.

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**Establishing Your Business in California**

- Starting a Business
- Business Permits, Licensing and Registration
- Changes to Your Business
- Relocating or Expanding a Business
- California Business Laws and Regulations
- Tax Information

**Grow Your Business Here**

- Business Development, Consulting and Training
- Financial Assistance
- Meeting Workforce Needs
- Securities
- Trademarks, Trade Names, Patents, and Copyrights

**Exporting Your Goods and Services**

- Trade
- Moving Goods

**Foreign Investment in California**

- International Business
- Setting Up Business in California: A Guide for Investors
- International Business Relations Program
- Foreign Consulates in California
- Foreign Businesses Doing Business in the United States
- Foreign Direct Investment in the United States: New Investment in 2004
- More Information on Foreign Direct Investment in the United States

**Doing Business With State Government**

- Selling to the State
- State Contracting Opportunities
- Small Business/Disabled Veteran Business Enterprise Services

**Promoting Key Industries in California**

- Agriculture
- Biotechnology
- Film
- High Growth Industries
- Travel and Tourism

**Promoting California's Regions**

- California's Economic Regions
- The California Economic Strategy Panel
- The California Regional Economies Project
- Local Organizations by Region

**Other Resources and Information**

- More Facts and Figures on the Economy and the Workforce
- State Forms & Publications on Employment Issues and Taxes
- California Commission for Jobs and Economic Growth
- California Community College Initiatives
- California Association for Local Economic Development
- TeamCalifornia
- Additional Small Business Assistance
- E-Commerce

*Updated March 27, 2006*

## Appendix D

# Expanded List of Federal Microenterprise Development Related Programs

| Funding Program | Contact | Goal | Eligible Entities | Funding Available | Type * |
|---|---|---|---|---|---|
| *MicroLoan Program* | Small Business Administration (SBA), Office of Program Development; 1100 Vermont Ave., N.W.; Washington, DC 20005; SBA Main Office Number: (202) 606-4000 | To provide very small loans to start-up, newly established, or growing small business concerns; and To provide technical assistance to microentrepreneurs. | Private, nonprofit, intermediaries with at least one year of experience assisting microenterprise | FY 2006 $22 million for Loans to Intermediaries, $13 million for Technical Assistance grants | L & TA |
| *Program for Investment in Microentrepreneurs (PRIME)* | SBA, Office of Administration; Office of Procurement & Grants Mgmt; 409 3rd St., S.W., Suite 5000; Washington, DC 20416; Phone: (202) 205-7080; www.sba.gov/financing/sbapartner/prime.html | To strengthen the capacity of microenterprise programs to offer training and technical assistance to low- and very low income entrepreneurs, enabling them to start of expand businesses. Half of the funding must benefit individuals below 150% of poverty guideline. | 1) A microenterprise development organization or program; 2) an intermediary which has experience in delivering technical assistance to disadvantaged entrepreneurs; 3) a microenterprise development organization or program that is accountable to the local community; 4) an Indian tribe acting on its own; 5) applications only accepted from states with a three year average poverty rate of 13% or more | FY 2006 $2 million | TA |
| *Women's Business Centers* | SBA, Office of Women's Business Ownership; 409 Third St., S.W., 5th Floor, Washington, DC 20416; 1-800-U-ASK-SBA or 202-205-6673; www.onlinewbc.gov | To provide financial counseling and other management and technical assistance services to women. | Nonprofit agencies with experience training women entrepreneurs | FY 2006 $12.5 million | T & TA |
| *Community Development Financial Institutions (CDFI) Fund* | Treasury Department; 601 13th St., N.W., Suite 200 South; Washington, DC 20005; Phone: (202) 622 8662; www.cdfifund.gov and www.cdfi.org | To revitalize economies and develop communities through investments in CDFIs. (CDFI certification is available through the Treasury Dept.) | Certified non-profit CDFIs (private banks, loan funds, community credit unions, CDCs, MDOs, etc.) | FY 2006 $55 million | L & TA |

| Funding | Contact | Goal | Eligible Entities | Funding | Type |
|---|---|---|---|---|---|

| Program | | | | Available | * |
|---|---|---|---|---|---|
| *Community Development Block Grants (CDBG)* | Dept. of Housing & Urban Development (HUD): through City and State Development Agencies; Main Office - 451 7th St., S.W.; Washington, DC 20410; Phone: (202) 708-1112; www.hud.gov/offices/cpd/communitydevelopment/programs/index.cfm | To develop viable communities by providing decent housing and a suitable living environment, and by expanding economic opportunities for persons of low and moderate-income. | Entitlement Communities, States, Indian Tribes, Cities, Colonies | FY 2006 $3,748,400,000 | L & TA |
| *Economic Adjustment Program, and Technical Assistance* | Commerce Department, Economic Development Administration; 14th & Constitution; Washington, DC 20230; Phone: (202) 482 2309; www.eda.gov/AboutEDA/Programs.xml | To assist economically distressed state and local interests design and implement strategies to bring about change in the economy, focusing on strategic planning, project implementation and revolving loan funds, and help fill the knowledge and information gaps preventing making optimal decisions on local economic development issues. | An Indian tribe or consortium of political subdivisions; an Economic Development District, a city or other political subdivision of a state; an institution of higher education; a public or private nonprofit organization or association | FY 2006 $44,794,900 for Economic Adjustment Assistance, $8,322,000 for Technical Assistance | L & TA |
| *Intermediary Relending Program* | U.S. Dept. Of Agriculture (USDA) Rural Business-Cooperative Svc.; 1400 Independence Ave., S.W.; Room 5050, South Bldg.; Washington, DC 20250; Phone (202) 720-1400; www.rurdev.usda.gov/rbs/busp/irp.htm | To finance business facilities and community development projects in rural areas by making loans to intermediaries. | Non-profit corporations, public agencies, Indian Tribes, or cooperatives with legal authority to manage loans, and having a record of successfully assisting rural business. At least 51% of owners or members of both intermediaries and ultimate recipients must be US citizens or admitted for permanent residency. | FY 2006 $34,212,000 | L |

| Funding Program | Contact | Goal | Eligible Entities | Funding Available | Type * |
|---|---|---|---|---|---|
| *Job Opportunities for Low Income Individuals (JOLI)* | Dept. of Health & Human Services (DHHS), Office of Community Services; 370 L'Enfant Promenade, S.W.; Washington, DC 20447; Phone: 1-800-281-9519; http://www.acf.hhs.gov/programs/ocs/dcdp/joli/index.html | To create new employment and business opportunities for TANF recipients, and other low-income individuals. | Nonprofit organizations, including CDCs | FY 2006 $5 million | TA |
| *Office of Refugee Resettlement* | DHHS, Administration for Children & Families; Office of Refugee Resettlement; 370 L'Enfant Promenade, S.W.; 6th Floor/East; Washington, DC 20447; Phone: (202) 401 9246; http://www.acf.dhhs.gov/programs/orr/index.htm | For social service discretionary funds for refugee microenterprise development projects. | Public and private non-profit organizations and agencies of State governments that are responsible for refugee programs | FY 2006 $492,521,000 total ORR Funding | L & TA |
| *Rural Business Enterprise Grants (RBEG)* | USDA Rural Development, Room 5045-S Mail Stop 3201 1400 Independence Ave., SW;Washington, DC 20250 3201; Phone: (202) 690-4730 www.rurdev.usda.gov/rbs/busp/rbeg.htm | To finance and facilitate development of small emerging private business enterprises located in rural or small town areas. | Public bodies, private nonprofit corporations and Federally-recognized Indian Tribal groups | FY 2006 $40 million | L & TA |
| *Rural Business Opportunity Grants (RBOG)* | USDA Rural Development; Room 5045-S, Mail Stop 3201; 1400 Independence Ave., S.W.; Washington, DC 20250-3201; Phone: (202) 690-4730; www.rurdev.usda.gov/rbs/busp/rbog.htm | To promote sustainable economic development in rural communities with exceptional needs. Includes making grants for economic planning, technical assistance, or training for entrepreneurs in rural settings. | A public body, nonprofit corporation, Indian tribe, or cooperative with members that are primarily rural residents | FY 2006 $3 million | TA |

| Funding Program | Contact | Goal | Eligible Entities | Funding Available | Type * |
|---|---|---|---|---|---|
| *Rural Community Development Initiative (RCDI)* | USDA Rural Development; Room 5014-S, Mail Stop 0701; 1400 Independence Ave., S.W., Washington, DC 20250-0701; Phone: (202) 690-1533; www.rurdev.usda.gov/rhs/rcdi | To provide a program of technical assistance to recipients to develop or increase their capacity to undertake projects in the areas of housing, community facilities, and community and economic development in rural areas. | Private or public organization, including tribal, that has experience working with eligible recipients; nonprofit organizations, low-income communities, and tribes located in rural areas. | FY 2006 $6,350,000 | TA |
| *IDAs for Refugees* | DHHS, Administration for Children and Families; Office of Refugee Resettlement; 370 L'Enfant Promenade, S.W. 6th Floor /East; Washington, DC 20447; www.acf.hhs.gov/programs/orr/programs/individual.htm | To promote the participation of refugees in the financial institutions of this country; and To assist refugees in purchasing assets to promote their economic self-sufficiency. | Public and Private, non-profit agencies | FY 2006 $1,609,000 | IDA |
| *Community Economic Development Program* | DHHS, Administration for Children & Families; Office of Community Services; 370 L'Enfant Promenade, S.W.; Washington, DC 20447; Phone: (202) 401-3446; http://acf.hhs.gov/programs/ocs/dcdp/ced/index.html | The development of employment for low-income people and distressed communities. | Private, non-profit CDCs | FY 2006 $32,731,000 | L & TA |
| *Assets for Independence - Individual Development Accounts (IDAs)* | DHHS, Administration for Children and Families; Office of Community Services; http://www.acf.hhs.gov/assetbuilding/index.html | To find out if, and how, IDAs can best be used as a tool to help lower income working families accumulate assets; and to what extent such accumulation of assets will help stabilize and improve families and the community in which the families live. | One or more not-for-profit organizations, a State, local or Tribal government agency applying jointly with a nonprofit organization, or a CDFI or Low Income Credit Union | FY 2006 $24,699,000 | IDA |

L: Loans, TA: Technical Assistance, IDA: Individual Development Accounts

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