

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 02/15)

Fiscal Year 16/17	Business Unit 0509	Department Governor's Office of Business & Economic Develop.	Priority No. 001
Budget Request Name 0509-400-BCP-DP-2016-MR		Program 0230-Small Business Advocate	Subprogram

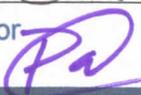
Budget Request Description
 California Small Business Development Center (SBDC) Program

Budget Request Summary

The Governor's Office of Business and Economic Development (GO-Biz) is requesting a one-time appropriation of \$1.5 million as a partial match of Federal Funds to support the SBDC Program.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR Project No. Date:		

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Tamiko Heim 	Date 5-9-16	Reviewed By Jenifer Henneke 	Date 5-6-16
Department Director Panorea Avdis 	Date 5/6/16	Agency Secretary	Date 5/6/16

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA 	Date submitted to the Legislature 5/13/16
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Analysis of Problem

A. Budget Request Summary

GO-Biz is requesting an appropriation of \$1.5 million which will be used as a match to draw down additional federal funds made available to the California SBDC network for efforts to expand small businesses in California. The \$1.5 million would be administered through a one-time competitive grant application process, where all 44 SBDC centers would have the opportunity to apply and only the top performing centers would be awarded funds. The awardees would be required to submit quarterly reports, in addition to a final report, on outcomes that were made possible due to the award.

B. Background/History

Created in California in 1974, the SBDC program is now the largest, most successful small business technical assistance program in the country, with over 900 centers across all 50 states and US territories.

SBDCs foster local and regional economic development by providing no-cost, extensive, one-on-one, long term professional business advising, low-cost training and other specialized services to small business owners. Advising topics range from financial packaging, development of business plans, manufacturing assistance, lending assistance, exporting and importing support, disaster recovery assistance, procurement and contracting aid and startup assistance. The SBDCs serve all populations including minorities, women, veterans (including reservists and active duty), disabled personnel, and those returning from deployment, personnel with disabilities, youth and senior entrepreneurs, as well as individuals in low and moderate income urban and rural areas.

The national impact of the SBDC program in 2013-14 is described below:

- SBDCs helped in-depth clients obtain an estimated \$4.85 billion in financing
- Every \$1 spent on the SBDC network enabled small businesses to access \$43.26 in new capital
- SBDCs touch approximately 1.6 million entrepreneurs every year
- SBDC services included business consulting for 196,330 clients, training sessions for 275,724 entrepreneurs and other forms of assistance for approximately 500,000 small businesses
- SBDC clients received more than 1.3 million hours of consulting services

*2013-14 National Statistics are from the U.S. Small Business Administration (SBA)

California's SBDC program received strong financial support through the California Technology, Trade and Commerce Agency (CTTCA) in the 1990s and early 2000s. State funding was provided to match federal funding, and the SBDC provided regular reports to the state and SBA. In June 2003, with the closure of the CTTCA, direct funding from the state to the SBDC program was terminated along with CTTCA. In response to this situation, the SBA took actions to regionalize California's SBDC program. Six host organizations became responsible for designated regions in the State and began direct relationships with the SBA.

No state General Funds were allocated to the SBDC program from fiscal-year 2004 to fiscal-year 2010. During that time the SBDCs had to leverage other funds (i.e. redevelopment) or small business assistant programs (i.e. California Community College's Business Entrepreneurship Center program) in order to match federal funding. Subsequent to that period, Chapter 731, Statutes of 2010 (AB 1632) provided a one-time allocation of \$6 million to the California SBDC network for 2011. The funds were distributed to the SBDCs according to a population-based formula. There were no state General Fund allocations to the SBDC program in 2012 and 2013. In 2014, \$2 million General Fund was allocated to the SBDC programs in part of Go-Biz's inaugural Capital Infusion Program, and another \$2 million funding was again provided for the 2015-16 fiscal-year.

Analysis of Problem

There are two funding areas which are no longer available to California's SBDC program: 1) California's Redevelopment program, which was dissolved in 2012, and 2) California Community Colleges, which ended the Business Entrepreneurship Center program in 2013. These two changes have resulted in a major reduction in the availability of funds to match federal funding.

C. State Level Considerations

The California SBDC network provides valuable services to small businesses, which comprise approximately 90 percent of businesses located in California. The following are the 2015 California statistics which were recently submitted by the California SBDC network to the SBA as part of the reporting requirements of the federal grant:

- SBDC clients created 5,422 new jobs attributed to SBDC assistance.
- SBDC clients retained 2,998 jobs that would otherwise have been lost.
- SBDC clients secured \$634 million in new capital through loans and venture capital activity as a result of working with the SBDC program.
- SBDC clients increased their sales by \$272 million.

GO-Biz currently has three positions supporting small business assistance programs. If SBDCs were eliminated or severely decimated, GO-Biz does not have the capacity to provide the needed services that are currently provided by the California SBDC network to small businesses.

The SBA provides up to \$13,051,214 of federal grant funds to the California SBDC network, if it can meet the required one-to-one match. If the SBDCs are not able to meet this one-to-one match, those funds are held by the SBA and not available to assist California's developing small businesses and entrepreneurs. The federal funds that the California SBDC program is unable to match are reallocated to other states. In addition, GO-Biz has partnered with the SBDC network in providing training for small businesses to understand and apply for the California Competes Tax Credit and the Made in California program. The SBDC network interfaces and assists thousands of businesses and entrepreneurs daily, which provides a critical link between GO-Biz programs and the California small business community. The success of both of these programs will be enhanced by the support of the SBDC network.

D. Justification

The GO-Biz's mission is to support business and economic development in California. Small businesses represent approximately 90 percent of all businesses in California, and the primary on-the-ground support for these small businesses is California's SBDC network. The network provides this support through training and one-on-one technical assistance to entrepreneurs, technology start-up firms, and small businesses throughout California. The GO-Biz does not have the personnel or budget to provide this support directly and therefore heavily relies on the California SBDC network for these vital services to small businesses.

The GO-Biz is requesting resources which will enable the SBDCs to focus on access to capital for small businesses. Access to capital involves both the understanding of credit readiness and the process of obtaining funding for business operations and growth.

Access to capital continues to be a significant challenge to California's small businesses. Since the recession, banks and other regulated lenders have had to shift to a more conservative lending model, which has had a disproportionate impact on small businesses. Many small businesses failed during the recession, and those that survived are struggling to expand in the recovery because the lending environment has become more restrictive. The GO-Biz has designed the SBDC competitive grant to focus on helping these small businesses and entrepreneurs understand and navigate the new environment, and successfully access the funding they need for their businesses. When small businesses are able to obtain the funding they need for operations and growth, jobs are created as well as other benefits to the community.

Analysis of Problem

The SBDC program was designed to facilitate federal funding to a state only if the local state/host organizations can provide local match funding. The federal government provides each state or US territory with funding based upon population. California has the largest population of any state and has been provided with \$13,051,214 in federal funding for the California SBDC program for 2016, if the California SBDC network can successfully meet the local match requirements. In order to draw down federal funds, up to 50 percent of the match can be in-kind match and the other 50 percent must be in the form of a local cash match.

The Go-Biz will administer the SBDC competitive grant which is designed to assist in providing some of the vital local cash match needed by local organizations. The \$1.5 million provided through the competitive grant program will enable \$1.5 million of the federal grant funds for California SBDCs. Although the SBDC competitive grant does not fulfill the entire cash match requirement, the SBDC activities related to the grant will potentially attract additional cash match to the SBDC network. For example, because the focus of the competitive grant is access to capital, the SBDCs will be in frequent contact with banks, credit unions and other small business funding sources which may also have an interest in directly funding the activities of SBDCs as part of their community investments. Historically, banks have been one of the sources for local cash match for the SBDC network, and this new competitive grant will increase the contact that the SBDCs have with these potential funders.

The SBDC network, because it spans the entire state, has the capacity to reach many of these small businesses and assist them to understand credit readiness and access the appropriate funding sources. The competitive structure of the SBDC grant will ensure that the most effective SBDCs will receive funding for this effort, thus increasing the impact on the small businesses and the economy in the State.

E. Outcomes and Accountability

The \$1.5 million SBDC competitive grant will focus on assistance to small businesses in the area of access to capital. Many small businesses struggle to secure the funds needed for start-up and/or expansion, which impacts their ability to successfully operate a small business and create jobs. This grant is designed to target the SBDC's technical assistance on small businesses that are struggling with understanding their credit readiness, and locating and securing appropriate funding resources for their business start-up and/or expansion. Applicants must ensure that any SBDC competitive grant funds awarded will be matched on a one-to-one basis by a federal cash match.

The SBDC competitive grant will require awardees to submit quarterly reports, in addition to an annual report, on program outcomes resulting from the grant award. Quarterly report outcomes will be compared to the milestones from the original grant application. Significant deviations from the original milestones will need to be addressed by the awardee through an action plan. In addition, 50 percent of the grant award will be held until the second quarterly report is submitted and approved by GO-Biz. If the awardee does not sufficiently address any significant deviations from the milestones in its grant agreement, GO-Biz may withhold the remaining grant funds. Should this occur, GO-Biz may either grant those remaining grant funds to a new awardee or to an existing awardee that has demonstrated success.

F. Analysis of All Feasible Alternatives

- 1) Approve request – Provide \$1.5 million GF to GO-Biz for the SBDC competitive grant program, which will result in \$1.5 million in federal match funds. These funds will be used by the SBDC network to assist small businesses to access the funding they need to start, expand and create jobs.
- 2) Do nothing Plan – Not providing funding for the SBDC program will result in the state having no input into the services provided by SBDCs, minimize GO-Biz access to small businesses throughout the state and potentially decimate the program.
- 3) Use existing GO-Biz resources – Taking \$1.5 million from the current GO-Biz budget would compromise the overall mission and operations of GO-Biz.
- 4) Provide less than \$1.5 million – Providing lower amounts will lessen the impact on small businesses throughout the state and result in unmatched grant funds being returned to SBA.

Analysis of Problem

G. Implementation Plan

The GO-Biz will distribute these new funds through a competitive process to the SBDCs with the best performance history and access to capital plan, thus ensuring that the limited funds are used most effectively. GO-Biz will have a grant agreement with each awardee which will identify the requirements and milestones which must be met over the course of the grant agreement. In addition, the quarterly reports will enable the GO-Biz to determine if the actual performance of the awardee is meeting the milestones of the grant agreement. At the 6-month stage, if these milestones have not been met and the action plan does not sufficiently address the performance issues, GO-Biz may redeploy the remaining 50 percent of the awardee's grant funds to another awardee that can successfully implement the goals of the grant.

H. Supplemental Information

None

I. Recommendation

Approve request for \$1.5 million General Fund which will be used as a match to draw down additional federal funds that will be made available to the SBDC Network for efforts to expand small businesses in California.