

California State Assembly



Agenda

Subcommittee No. 5 on State Administration and Committee on Jobs, Economic Development and the Economy

Assemblymembers Sharon Quirk-Silva and Carlos Villapudua, Chairs

**Tuesday, February 13, 2024
1:30 P.M. – State Capitol, Room 447
Informational Hearing**

- I. Welcome, Introductions and Opening Statements**
- II. Overview of California's State Small Business Credit Initiative (SSBCI) Program**
 - Brian Uhler, Deputy Legislative Analyst, Legislative Analyst Office
 - Clint Kellum Chief Deputy Executive Director, California Infrastructure and Economic Development Bank (IBank)
 - Shela Tobias-Daniel, Executive Director, California Pollution Control Financing Authority (CPCFA)
 - Tara Lynn Gray, Director, California Office of the Small Business Advocate (Cal-OSBA)
- III. SSBCI Inclusive Economic Growth**
 - Sanford Livingston, CEO, Northern California Financial Development Corporation
 - Bianca Bloomquist, California Policy Director & Northern California Outreach Director, Small Business Majority
- IV. Public Comment**
- V. Adjournment**

**0509 Governor's Office of Business and Economic Development
0950 State Treasurer**

Issue 1: State Small Business Credit Initiative and SSBCI Technical Assistance for Capitol Readiness Program

This hearing will provide an update on the implementation of California's State Small Business Credit Initiative (SSBCI) 2.0 program and the California Office of Small Business Advocate plan for the Technical Assistance Capital Readiness Program.

Background

The SSBCI created in 2010 and administered by the U.S. Treasury, allocated \$1.5 billion to states to develop state lending assistance programs that address the small business credit needs specific to their states. This program provided significantly greater flexibility than the Small Business Administration (SBA) and other federally backed loan programs. States were required to develop a plan for increasing lending to underserved small businesses and underserved communities. California received \$168 million in SSBCI 1.0 funding.

The second round of SSBCI funding authorized through the federal American Rescue Plan Act provided \$10 billion, and of this amount, California received about \$1.2 billion. About half of this amount was allocated based on California's 2020 unemployment rate. Other funds are available to states that meet goals for funding to businesses owned and controlled by socially and economically disadvantaged individuals (SEDI). Other amounts are reserved for tribal government loan programs, technical assistance programs, and other administrative costs. California will receive funding in three separate tranches.

In California, SSBCI-funded programs are administered by both the California Infrastructure and Economic Development Bank (IBank), housed within the Governor's Office of Business and Economic Development, and the California Pollution Control Financing Authority (CPCFA), housed within the California State Treasurer's Office. Additionally, in August of 2023, the California Office of Small Business Advocate (CalOSBA) was awarded \$25.3 million for the SSBCI Technical Assistance (SSBCI TA) Program, for a period not to exceed five years, by the U.S. Department of Treasury. The SSBCI TA Program's primary purpose is to help socially and economically disadvantaged Individual (SEDI)-owned businesses, very small businesses (VSBs), and small manufacturing enterprises (SME) access and apply for capital funding from an SSBCI-supported program. The SSBCI TA Program will collaborate with the statewide network of small business technical assistance centers to reach and support small business and help entrepreneurs navigate the funding landscape and successfully access capital they need to start and/or grow their business in California.



IBank Programs

IBank SSBCI 2.0 funds support two types of small business financing programs, the Loan Guarantee and Venture Capital program.

IBank’s Small Business Finance Center (SBFC) features a loan guarantee program designed to assist small businesses that experience capital access barriers. The Small Business Loan Guarantee program encourages lenders to provide funds to small businesses to help them grow and prosper.

Originally known as the Small Business Loan Guarantee Program (SBLGP), the SBFC received seed money in 1968 in an effort to reduce unemployment by supporting entrepreneurship and small businesses. The Finance Center promotes statewide economic development by increasing opportunities for entrepreneurs, the self-employed, microbusiness and small business owners to have better access to capital and other technical resources.

The SBLGP helps businesses create and retain jobs, and encourages investment in low- to moderate-income communities. The SBLGP is available to small businesses throughout the state of California and serves hundreds of small businesses each year.

IBank’s Expanding Venture Capital Access program is designed to create a more inclusive venture capital ecosystem, by:

- Supporting underrepresented venture capital managers.
- Investing in underrepresented and underserved entrepreneurs and business owners.

- Investing in geographic areas that are socio-economically disadvantaged or that receive very limited venture capital funding.
- Promoting climate equity and climate justice.

CPCFA Programs

The California Pollution Control Financing Authority (CPCFA) SSBCI funds support two credit enhancement programs, the California Capital Access Program for Small Business (CalCAP SB) and the CalCAP Collateral Support program.

The CalCAP for Small Business provides a post-disbursement risk management tool for financial institutions when a small business presents a solid business plan but has underwriting challenges. It is available to participating financial institutions for loans and lines of credit up to \$5 million, for a wide range of business needs.

The CalCAP Collateral Support provides a risk management tool to financial institutions for use when a small business is in a strong position to obtain capital except for having too little collateral. It is available to participating financial institutions for loans from \$25,000 to \$20,000,000, for a wide array of business needs.

CalOSBA Technical Assistance

Through the SSBCI TA program, CalOSBA will partner with the statewide network of small business technical assistance centers that represent geographic and service diversity, including services in over thirty different languages, to further reach and support small business and entrepreneurs navigate the funding landscape and successfully access capital they need to start and/or grow their business in California. CalOSBA is committed to reducing barriers to resources and information and will prioritize outreach and engagement with socially and economically disadvantaged individually (SEDI) owned businesses and very small businesses (VSB). The technical assistance services will include tailored free one-on-one counseling and no- to low-cost training.

Additionally, new to SSBCI 2.0 is the Minority Business Development Agency's (MBDA's) Capital Readiness Program, with \$125 million in support, builds a nationwide network of 43 technical assistance providers. California's SSBCI Technical Assistance Program, highlighted by the CalOSBA, has been approved for up to \$25.3 million. CalOSBA's SSBCI Navigators Network Program aims to connect underserved businesses to a network of technical assistance providers, contributing to the overall success of the SSBCI initiative.

The anticipated impact of CalOSBA's efforts is significant, with expectations to reach 113,000 small businesses through the provision of financial services. The technical assistance award is projected to support 40,000 small business loans specifically targeting underserved and very

small businesses. This initiative reflects a concerted effort to foster economic growth and resilience, particularly in sectors vital to the nation's development.

Staff Comments

The impact that the SSBCI 2.0 funding could have for small businesses and particularly for minority-owned business is significant and crucial to California’s robust economy. California boasts an impressive over 4 million small businesses, with approximately 1.9 million being minority-owned. Minority-owned businesses constitute about 46% of all businesses in the state and contribute \$192.8 billion in economic output, which is more than the annual Gross Domestic Product of 18 US States, generating \$28.7 million in tax revenue, and supporting 2.56 million jobs. Beyond the economic and fiscal contributions, small businesses have a vital role in local capacity building, community engagement, empowering marginalized communities, supporting cultural diversity, creating a more inclusive environment and therefore contributing to a more

diverse and inclusive economy. Research shows entrepreneurship creates intergenerational wealth-building opportunities that is particularly strong for minority and women owned businesses. Despite the benefits and many contributions of minority and women owned businesses, according to the Legislative Analyst Office Overview of the State Small Business Credit Initiative, “research

CA Minority-Owned Small Business Overview by Race/Ethnicity

Racial/Ethnic Category	Number of Establishments (000s)
White	2,154.2
Hispanic Total	932.5
Asian	754.0
Black/African American	185.0
American Indian and Alaska Native	6.9

Source: US Census Bureau, American Business Survey.

Note: Census data sources used in this report are from 2019; this is the most recent data year for which all individual data points used in this report were available as of publication. Impact data was modeled using the latest 2021 IMPLAN system (implan.com). Establishments and employment include non-employer (sole proprietor) businesses. Nonemployer businesses account for roughly 83% of total establishments across California. Analysis by Beacon Economics.

shows that minority-owned and women-owned businesses face disproportionate challenges with lending—most recently in the processing of federal Paycheck Protection Program (PPP) loans in 2020. In some cases, this arises from lenders’ preferences for larger businesses and pre-existing relationships. Sometimes this occurs because lenders use factors like the applicant’s address to gauge creditworthiness. In other cases, a loan officer may discriminate against a small business owner based on the officer’s implicit or explicit biases.”

The Legislature has a vital role in supporting long-term statewide economic growth while also ensuring the gains from such growth are widespread throughout the entire State.

The Joint Committee may wish to consider the following questions:

- How will IBank, CPCFA, and CalOSBA measure the success of the program?
- Are there metrics that each entity is using to measure success? What data is the state collecting on the types of businesses accessing the loans and other self-reported data?
- What were the lessons learned from the PPP loans outreach, stakeholder partnerships and data collection? How can those lessons be utilized to strengthen California's entrepreneurial ecosystem, outreach, stakeholder partnerships and SSBCI TA data collection?
- Who is a part of the current entrepreneurial ecosystem? How do these entities (FDCs, CDFIs, SBDC, Small business centers) work together/complement each other with SSBCI and SSBCI technical assistance? How will this change? How does this support the current capacity of Technical Assistance?
- Who are the current SSBCI capital providers?
- How are small businesses identified to utilize the SSBCI program?
- How will business that are not eligible for SSBCI TA services be connected to other small business resources within the California's entrepreneurial ecosystem?
- For the initial completed business assessment that will be reviewed annually for each participating business in the TA program-will there be a mechanism to aggregate the data, track and identify economic trends, development, job growth and retention? Who will conduct these reviews and track the data?
- The SSBCI 1.0 program had a default rate of less than 1 percent? Has this changed in the 2.0 program? What is driving the lending community to take on the risk?
- How long does the state keep funds set aside for defaults? How are both IBank and CPCFA recycling funds from 1.0? How much funds are available? Do they still flow through the same programs?
- Can you please explain why it could take 1 to 3 years from the grant agreement to complete the technical assistance services?

Staff Recommendation: This items is presented for information only.