



GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

STATE OF CALIFORNIA • OFFICE OF GOVERNOR EDMUND G. BROWN JR.

Office of Small Business Advocate &
Made in California Program
Annual Report to the Governor and Legislature
October 2014 - September 2015

Pursuant to Section 12098.4(b) and 12098.10 (g) of the Government Code

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Overview

According to the U.S. Small Business Administration (SBA) report, “Small Business Profiles for the States and Territories” published in February 2015, California has more than 3.6 million small businesses, with Texas (2.4 million), Florida (2.2 million), New York (2.1 million) and Illinois (1.2 million) rounding the top five states with the highest numbers of small businesses¹. The SBA generally defines a small business as meeting the following criteria: 500 employees for most manufacturing and mining industries and \$7.5 million in average annual receipts for many nonmanufacturing industries². California leads the country in the following key areas for small business:

- Number of Small Business Employees (2012) – 6.5 million
- Most Small Businesses Among Exporting Firms (2012) – 95.9 percent
- Number of All-Self Employed Individuals (2013) – 2.5 million
- Number of Minority Self-Employed (2013) – 1.1 million
- Number of Veteran Self-Employed (2013) – 154,000
- Number of Female Self-Employed (2013) – 973,000
- Number of Male Self-Employed (2013) – 1.5 million

Other key findings from the report include that California’s small businesses employed half of the state’s private workforce in 2012 (6.5 million employees). According to the U.S. Census Bureau, small businesses made up 99.2 percent of all employers in the state for the same year.

In addition, the Ewing Marion Kauffman Foundation recently reported that small business activity is on the rise in 49 of the 50 U.S. states, including California, and 38 of the top 40 largest metropolitan areas this year. San Francisco is one of the top five metropolitan areas for small business activity as measured by the index, along with New York, Boston, Providence, and Portland³.

The Office of Small Business Advocate (OSBA) operates as a unit within the Governor’s Office of Business and Economic Development (GO-Biz). The roles and responsibilities for the office are described in Government Code Sections 12098-12098.9. OSBA serves as the lead office in providing small businesses in the State of California with the information and resources needed to survive in the marketplace and serves as the principal advocate in the state on behalf of small businesses. As stated in the statute:

(a) The Legislature finds and declares that it is in the public interest to aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprise and maintain a healthy state economy.

(b) In order to advocate the causes of small business and to provide small businesses with the information they need to survive in the marketplace, there is created within the Governor’s Office of Business and Economic Development the Office of Small Business Advocate.

¹ https://www.sba.gov/sites/default/files/advocacy/SB%20Profiles%202014-15_0.pdf

² <https://www.sba.gov/content/summary-size-standards-industry-sector>

³ <http://www.kauffman.org/microsites/kauffman-index/reports/main-street>

Annual reports are required to the Governor and the Legislature for both OSBA and Made in California Program, pursuant to Government Code Section 12098.4(b) and 12098.10(g) respectively. This combined report provides the following information:

- OSBA
 - Activities and recommendations of the office, including an evaluation of the efforts of state agencies and, where appropriate, specific departments, that significantly regulate small businesses to assist minority and other small business enterprises
 - Recommendations that may be appropriate to assist the development and strengthening of minority and other small business enterprises.
- Made in California
 - Expenditures, progress and ongoing priorities of the program.

This combined report describes progress and accomplishments for the period covering October 1, 2014 to September 30, 2015 and information on the strategic objectives for OSBA for 2015-2016.

OSBA Structure and Focus Areas

In May 2015, Governor Brown appointed Jesse Torres to the position of the state Small Business Advocate. Under the direction of the Small Business Advocate and within the parameters set by statute, the OSBA has four primary focus areas: Advocacy, Information Gathering/Dissemination, Agency Coordination, and Business Assistance. These focus align with the most commonly requested areas of assistance by business owners, which include; assistance in launching or growing a business, help in accessing capital, support in navigating the state procurement process, help in understanding new regulatory standards, and assistance with business permit issues.

2014-2015 Accomplishments

Significant activities based on the four focus areas of OSBA are described as follows:

Advocacy

OSBA values the opportunity to engage with policy makers, small business stakeholders and the small business community at large to understand small business concerns and explore potential solutions to small business issues. The Small Business Advocate regularly makes himself available to policy makers to discuss small business issues and potential solutions to business challenges.

This past year, OSBA re-launched the “Coffee with GO-Biz” event series. This event series partners the Small Business Advocate with stakeholders including members of the Legislature to provide information on key services and programs offered by GO-Biz to small business owners and to receive feedback and input from small business owners directly on issues that are impacting them in their region. During the reporting period, OSBA conducted events in Milpitas, Elk Grove, and Pleasant Hill. The series has continued and based on the success of the program, OSBA plans to increase the number of events in the new calendar year.

The Small Business Advocate also presented to the California Commission on Disability Access in June 2015 and at the Assembly Select Committee on Small Business in the Inland Empire in September 2015 with GO-Biz Director Panorea Avdis, where they presented on OSBA and responded to inquiries in regards to GO-Biz programs for small business.

Information Gathering/Dissemination

OSBA has a strong focus upon gathering and disseminating information that will help to advance the growth and prosperity of small business owners in California. In addition to maintaining a webpage on the main GO-Biz website and developing informative materials on the role and functions of both OSBA and GO-Biz at large, OSBA is very much engaged in presenting to small business owners directly and responding to their inquiries.

In total, OSBA presented at 20 events for small businesses during the 2014-2015 fiscal year and produced three webinars for small businesses. The speaking engagements ranged from a teleconference with more than 1,000 small business owners in partnership with the National Federation of Independent Businesses, large public conferences with 300 or more small businesses hosted by the State Board of Equalization, to more informal roundtables with local chambers of commerce, members of the Legislature or small business resource partners such as the California Small Business Development Center Network. Events were conducted throughout the state.

On April 20, 2015, GO-Biz held a Disaster Preparedness Workshop at the Watts Senior Citizen Center in partnership with the Los Angeles City Council Office of Joe Buscaino. Panelists and partners included Small Business Development Center at El Camino College, Small Business Admiration-Glendale Office, Red Cross, Los Angeles County Emergency Responder, state Board of Equalization, Internal Revenue Service and representatives from the state legislature and city council that represent that district.

To celebrate Small Business Month in May 2015, OSBA produced three free informative webinars for small business owners. The title and descriptions of the webinars are as follows:

Topic	Description
How to Define Employees and Independent Contractors	This webinar provided an overview on how to properly classify employees and independent contractors. The purpose was to help business owners understand the difference between a common law employee and an independent contractor. The webinar discussed the common misconceptions about independent contractors and provided information to help business owners classify workers appropriately. Webinar speakers included Jason Powers, Hearing Specialist, Employment Development Department and Ling Wu, Employment Tax Consultant, Employment Development Department.
Small Business Exporting: Connect Your Small Business to the Global Marketplace	This webinar covered key issues small businesses should consider when exporting, as well as information on export services and programs offered by the state and federal government. Specific topics included required documentation, export financing, market assessment, and business matchmaking services. Webinar speakers included Brian Peck, Deputy Director of International Affairs and Business Development, and Abby Browning, International Business Specialist.

California's Small Business Development Center Network	<p>This webinar described the services that Small Business Development Centers provide throughout the state. Services from other organizations, such as SCORE and Women's Business Centers, were also discussed. In addition, the webinar provided tips to small businesses on how to obtain financing, including funding resources, requirements, and important considerations. The webinar presenters were Diane R. Howerton, Regional Director, UC Merced SBDC Regional Network and Kurtis Clark, Director, Alliance SBDC.</p>
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The Small Business Advocate also helped launch the new California Business Portal⁴ in July 2015. Prior to the launch, GO-Biz convened a group of small business owners and entrepreneurs to test the website and provide feedback. OSBA continues to remain closely engaged in the development and enhancement of the California Business Portal and is working to promote the portal and solicit feedback and input on practical use of the Portal and improvements.

OSBA regularly participates in the meetings of regional business stakeholder groups such as local economic development agencies, non-profit organizations, district offices of the U.S. Small Business Administrations and chambers of commerce, throughout the state to allow for the opportunity to both share GO-Biz news and gather feedback on local concerns. In addition, OSBA directly engages with the small business community through a variety of ways including email communication, the GO-Biz website, live events, webinars, radio shows, and teleconferences, among other methods. OSBA is active on social media and posts information on OSBA and GO-Biz activities and news on Twitter and connects to small business owners and small business resource partners on LinkedIn and Facebook.

Agency Coordination

It is a priority of OSBA to partner with state agencies to help them to work effectively with the small business community. OSBA manages an Interagency Working Group, in partnership with the Permit Assistance Unit at GO-Biz, which convenes small business officers and advocates from various state agencies to discuss new or changed regulations or to discuss small business programmatic concerns. The last meeting was held shortly upon the arrival of the new Small Business Advocate in May 2015. Subsequent to that meeting, the Small Business Advocate met with a number of state agency advocates to discuss their needs and objectives in order to determine the best approach to further developing that interagency group. Next steps for that group are described in the 2015-2016 strategic objectives for OSBA, which is detailed in a later section of this report on pages 8 to 10.

OSBA also regularly participates in a number of different groups managed by different agencies including the Department of General Service's Small Business Council meetings, CalTrans Small Business Council meetings and the Taxpayer Advocates Quarterly meetings, a convening of taxpayer advocates from the Franchise Tax Board, Board of Equalization, Employment Development Department, and the Internal Revenue Service. The Small Business Advocate also regularly meets with the advocates at other agencies to discuss programmatic issues and identify ways to collaborate.

⁴ www.businessportal.ca.gov

Business Assistance

In addition to managing two core business assistance programs, OSBA collaborates with the different units of GO-Biz to provide assistance to small businesses in the state. Here are just a few examples of these collaborative efforts:

- Supporting the Innovation and Entrepreneurship Unit to help nurture the next generation of high growth entrepreneurs by helping to develop and implement Innovation Hub Network (iHub) programs and providing connections to innovation stakeholders such as the Transatlantic Cooperation on Incubators, Accelerators and Startups, a program of the Office of the European Union for the U.S. Department of Commerce.
- Supporting the International Affairs and Business Development Unit by working with the office to help promote and develop programs such as the State Trade and Export Promotion (STEP) grant program for small businesses and trade missions to key nations.
- Supporting the California Competes Tax Credit Unit by developing strategies and outreach programs to connect to small businesses that may be eligible to leverage the program.
- Supporting the California Business and Investment Services (Cal-BIS) and Permit Assistance Units by supporting small businesses as they look to launch, grow or relocate their business in California. Often these business cases are involved and require hours of assistance and long-term relationship building.
- Collaborating with the California Infrastructure and Economic Development Bank to help promote the Small Business Loan Guarantee Program.

Capital Infusion Program

OSBA oversees the Capital Infusion Program. The program enables the California Small Business Development Center (SBDC) Networks to expand their one-to-one, no-cost, confidential consulting to small business owners to help them attain loans, investor capital, understand and resolve their credit readiness issues and develop funding strategies for business expansion or startup.

Funding for this program was first authorized as part of the fiscal year 2014-2015 state budget and again as part of the 2015-2016 budget. The Capital Infusion Program provides \$2 million in competitive grant funding to the SBDC Network, the largest technical assistance program for small businesses in California. The California SBDC Network is comprised of six regional networks, each having one administrative hub or "Lead Center" and a network of small business development centers. Funds are matched 1:1 by the U.S. SBA. In fiscal year 2014-15, 34 small business development centers across California received grant funds. In fiscal year 2015-16, 41 centers will receive grant funds. OSBA administers the program and oversees all aspects including program management, compliance, and performance progress and outcomes.

Program Outcomes

Annual metric reports were submitted by the six California SBDC regional networks to OSBA in December 2015. In the first year of the program, the Capital Infusion Program resulted in \$202,645,465 in documented capital infusion, exceeding the capital infusion goal for the program by more than 50%. The program served 9,702 small business owners across the state.

Region	Funding Received	Capital Infusion	Clients Served
Northern CA SBDC	\$382,124	\$30,128,694	2,312
Northeastern CA SBDC	\$192,708	\$17,731,645	569
UC Merced SBDC (Central CA)	\$208,795	\$12,536,699	1,141
Los Angeles SBDC	\$540,000	\$33,933,198	3,147
Orange County/Inland Empire SBDC	\$393,665	\$101,257,667	1,003
San Diego/Imperial Valley SBDC	\$198,000	\$4,304,862	1,051
Pasadena City College SBDC	\$54,708	\$2,477,700	344
University of La Verne SBDC	\$30,000	\$275,000	135
Total	\$2,000,000	\$202,645,465	9,702

A sampling of Capital Infusion Program success stories and the diversity of the clients and the capital infusion milestones are as follows:

University of La Verne SBDC – Your Health in Motion

Location: San Gabriel Valley (Claremont and Pasadena)

Your Health in Motion has been providing chiropractic care solutions for residents of the East San Gabriel Valley (Claremont, CA) since 2013. Dr. Setarh Derakhshan came to the University of La Verne SBDC seeking assistance with a business acquisition to expand her practice to the west end of the San Gabriel Valley (Pasadena, CA). After working with the University of La Verne SBDC during the business acquisition and planning process, she was successfully able to purchase the assets of the new business for \$75,000 and has retained five jobs to grow her business. Her business continues to grow on a monthly basis and she is still working with the University of La Verne SBDC to manage the growth through 2016.

LaunchPad SBDC – ClarVista

Location: Aliso Viejo, CA

ClarVista is a leading developer of innovative products to treat challenging ophthalmic conditions. Their newest product is intended to make it easier for surgeons to correctly position the lens, as well as to make it simpler to exchange the optical component when required through a dual-component structure. LaunchPad SBDC was able to assist this client in receiving \$14.5 million in Series B funding.

Inland Empire SBDC – Fazeli Vineyards

Location: Temecula, CA

Fazeli Vineyards has been a client of the Inland Empire SBDC since September 2013. The company had obtained Inland Empire SBDC assistance to build a winery and event/tasting room in Temecula. The client currently has a tasting room in old town Temecula and wants to expand. After receiving assistance from Inland Empire SBDC with business plan development, market research, and financial

projections, the client was ready to submit the loan package to the Commerce Bank of Temecula Valley. After several months of hard work with an Inland Empire SBDC consultant, the client was approved for an SBA loan of \$5 million. The client is now in the process of expanding the business and has hired over 40 staff for the winery and tasting room.

Tech Futures Group - DeviceFarm, Inc.

Location: San Ramon, CA

DeviceFarm is an early stage medical device company focused on curing fungal nail infections. Onychomycosis is a fungal infection of the nail affecting an estimated 10% of the world's population. DeviceFarm's patent-pending solution combines the safety of a topical treatment with the effectiveness of an oral drug. Tech Futures Group assisted DeviceFarm, Inc. with a National Science Foundation (NSF) grant submission, paying special attention to the commercialization portion of the submission. The company was recently awarded a \$746,000 NSF Small Business Innovation Research (SBIR) Phase II grant (non-owner equity) to build a prototype to be used for their first clinical trial of the technology. With the recently awarded NSF Phase II SBIR grant, DeviceFarm, Inc. plans to hire four employees to develop the prototype and conduct the clinical trial.

Alliance SBDC – Cal Central Catering

Location: Modesto, CA

Cal Central Catering was started in 2002 operating out of a single food truck. The owner decided to build himself a second food truck and he quickly became the owner/operator of a growing food truck manufacturing business. Beginning in 2013, the company saw an explosion in growth and hired an additional 11 employees. It was during this crucial time that the owner requested assistance from Alliance SBDC to improve the manufacturing processes and the management of the workforce. The client worked with an Alliance SBDC consultant during a variety of crucial phases in the expansion of his business including: evaluating potential sites, reviewing lease proposals, seeking sources of capital funding, completing cash flow projections and projected production levels, and reviewing budget development to ensure that Cal Central Catering's growth is sustainable. The grant funding enabled Alliance SBDC to provide the much needed and deeper level of assistance to Cal Central Catering.

2015-2016 OSBA Strategic Objectives

As the principal advocate in the state on behalf of small business, OSBA exists to not only help small businesses survive in the marketplace but to help them thrive in the marketplace. The OSBA team values include being responsive to small business owner concerns, helping connect small business owners and small business stakeholders to achieve mutual benefit, problem solving on small business issues and being collaborative with the many small business stakeholders in the state.

For 2015-2016, OSBA will continue to focus on our key priorities: Advocacy, Information Gathering/Dissemination, Agency Coordination and Business Assistance. The objectives and key actions steps for each priority is detailed on the following pages.

Priority	Goal	Expected Outcomes
Advocacy	Build out the “Coffee with GO-Biz” program to provide the small business community with greater awareness of existing resources and tools.	Conduct 40 “Coffee with GO-Biz” events over the course of the 2015 calendar year across California
Information Gathering/Dissemination	Create a master email list of small businesses and economic development stakeholders that can be used for event promotion or general information dissemination. Develop a strong partnership with the Governor’s Office of Emergency Services (Cal OES) and collaborate on small business outreach activities.	<p>Enhanced partnership with Cal OES.</p> <p>Increased outreach to small business community on disaster preparedness and business continuity.</p> <p>Partnered event with Cal OES on business continuity.</p>
Agency Coordination	Create new forums and tools to engage and inform agencies, stakeholders and small businesses about small business issues and new regulations.	<p>Re-launch the Small Business Roundtable stakeholder group and hold regular discussion on small business issues with stakeholders from across the state and receive and give input on federal, state and local issues impacting small business.</p> <p>Relaunch the Interagency Working Group for state agency small business advocates and small business liaisons into two different groups:</p> <ul style="list-style-type: none"> • Advocate Garage – a quarterly meeting designed to give advocates the opportunity to discuss programmatic issues and share best practices. • Regulatory Interagency Collaborative – a quarterly meeting for advocates to learn about new or changed regulations that may impact their small business constituents. <p>Create and disseminate a public-facing document that informs small businesses about new laws that impact small business and where to get information on those laws.</p>

<p>Business Assistance</p>	<p>Successful completion of 2nd year of Capital Infusion program. Continue operation of the Capital Infusion Program and raise the Program's public profile.</p> <p>Launch and implement the “Made in California” program.</p> <p>Continue to build relationships with key small business stakeholder community groups through participation in key regional events and other means.</p> <p>Support development and promotion of the CA Business Portal by heavily promoting the tool and helping to gather beta group feedback on experience and success to date.</p> <p>Advance efforts to provide a statewide technical assistance program for small business that addresses their needs as a startup, established business or new to export.</p>	<p>All 2015-16 funds are spent and milestones are met or exceeded.</p> <p>Provide a public Capital Infusion Program report that describes milestones and highlights key success stories.</p> <p>Execute successful marketing program for Made in CA.</p> <p>Secure initial group of manufacturer participants in Year 1 of Made in CA.</p> <p>Build approximately 15 new relationships with municipal economic development agencies.</p> <p>Partner with agencies at the city, county and state level to host at least 15 information tables at small business events throughout the state, including being a speaker at the event.</p> <p>Hold two focus groups on the CA Business Portal with small business stakeholders.</p> <p>Post at least 20 small business success stories to the CA Business Portal.</p> <p>Establishment of a funding pool comprised of corporate and public funders to support small business technical assistance programs.</p>
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Made in California

Overview

In 2013, Governor Brown signed Senate Bill 12 (Corbett, Chapter 541, Statutes of 2013), which created the “Made in California Program” within the GO-Biz. “Made in California” is a state labeling program designed to encourage consumer product awareness and to promote the purchase of products manufactured in California. OSBA is responsible for administering the Program. This annual report is

required as part of Government Code Section 12098.10 (g). It describes the status of the Program from September 1, 2014 to October 31, 2015, as summarized below and described in detail in the report.

In order for a manufacturer to participate in the Made in California program, they must meet the following requirements:

- 51% or more of a product's value added must be from California.
- The finished product must be able to lawfully use a "Made in U.S.A." label pursuant to Section 17533.7 of California's Business and Professions Code.
- Agricultural products subject to Buy California program are excluded.
- A third-party certification is required at least once every three years.

The statute indicates that a qualified third-party certifier is an "individual, group, or association that possesses a professional license, certification, or other equivalent documentation indicating sufficient training, education, or expertise to perform a regulatory compliance audit." In order to apply for the program, applicants must provide a certification form for their product that acknowledges that the product meets the program's requirements. OSBA is working with trade partners to help manufacturers connect with potential third-party certifiers.

Based on data provided by Dun & Bradstreet, approximately 75,000 manufacturers are located in the state, excluding food and agriculture. Based on the current Made in U.S.A. requirement, GO-Biz estimates that 25% of these manufacturers may qualify for the Made in California program, resulting in approximately 18,750 eligible manufacturers. Using business participation rates of other manufacturing organizations in the state as a proxy, namely CMTC and Manex Consulting, GO-Biz estimates a participation rate of approximately 125 manufacturers. In addition, OSBA is monitoring efforts at the national level to broaden the definition of U.S. manufacturing to include intangible production which may result in significant expansion of the Made in California program.

Progress

GO-Biz is required to develop regulations to provide a framework for operating the program. Draft regulations were submitted by GO-Biz to the Office of Administrative Law on June 2, 2015. In the past fiscal year, GO-Biz has been able to develop a program label and is currently developing the program website, which will include an online application.

In 2016, GO-Biz will be commissioning the creation and implementation of a digital media campaign, marketing materials, and website content to use on an ongoing basis. This initiative will be funded through the \$200,000 FY 2015-16 budget allocation for marketing.

Expenditures

To date, expenditures for the program have included staff time dedicated to advancing the program. It is expected that the \$200,000 budget for program marketing will be expended in full by June 30, 2016.

Ongoing Priorities

In the 2015-16 fiscal year, OSBA will be focusing on implementation of the marketing plan for the program and securing its initial group of participants. Activities include:

- Finalize program regulations.
- Finalize statement of work for the marketing partner.
- Develop list of stakeholders (existing GO-Biz list, trade organizations, CalBIS manufacturing contacts, Manex/CMTC, BOE Manufacturing Sales Tax Exemption) for marketing support.
- Release Statement of Work to select small business/Disabled Veteran Business Enterprises in the beginning of January.
- Award marketing bid with work expected to be completed by June 30, 2016.
- Complete website revisions.
- Complete marketing plan by June 30, 2016.
- Monitor consultant expenditures and ensure all funds are spent before June 30th.

Conclusion

OSBA is committed to serving the needs of California 's small business community and to being a collaborative partner to small business stakeholders and state agencies in California. We continually invite your feedback and input as we seek to advance the growth of our small business economy – the primary job creators for the State of California.

For questions in regards to this report, please contact:

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