

# Los Angeles County Small Business Commission

## 2006-2007 Annual Report

April 2008

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The Small Business Commission (SBC) is pleased to submit our Annual Report to the Board of Supervisors. This report is divided into three parts.

**Part I: Accomplishments.** The County can report several significant successes this year. As we implemented the Strategic Plan of 2003, we focused our efforts primarily on increasing opportunities of small businesses to do business with Los Angeles County. The Office of Small Business (OSB) has been working effectively with the Internal Services Department (ISD) to increase opportunities. We also have been supporting ISD efforts to measure success in small business contracting. Achievements in these areas are detailed in Part I.

**Part II: Small Business Challenges.** At the same time, small businesses are facing increasing challenges in a deteriorating economy. A study by the University of California at Irvine determined that small businesses generate more than 60% of total employment growth in California from 1992 to 2004. Small businesses form a major economic base for the County, as shown in the following table. Los Angeles-based businesses represent 91.5% of the businesses in Los Angeles County and 30.0% of the small businesses in the State of California. Therefore, it is crucial that everyone consider the impact of policies and regulations on small businesses so that they can grow and thrive.

### COMPARISON OF SMALL BUSINESS EMPLOYERS

#### AS A PERCENT OF TOTAL BUSINESSES IN THE STATE AND COUNTY OF LOS ANGELES

Region	1-100 Employees	State % Total	County % Total	101-500 Employees	State % Total
Los Angeles County	353,176	30.0%	91.5%	5,164	25.3%
State of California	1,175,330	100%	--	20,413	100%

Source: Small Business Administration (SBA), 2005.

Part II includes many issues of significant concern to small businesses. *As you develop County policies and programs, and as you comment on State and national policy positions, we encourage you to consider their impact on small businesses.*

**Part III: SBC Strategic Directions.** Part III discusses the strategic direction that the SBC is discussing in our attempts to bring the significant resources of County departments into alignment with the interests of small businesses.

## **PART I: Accomplishments**

The SBC, working with and through ISD and OSB, has achieved significant progress in helping small businesses do business with the County, including:

### Small Business Outreach:

- Increased by 41% the number of events and classes offered in 2007. Classes were offered Countywide at Van Nuys, Altadena, Hawthorne, Los Angeles, E. Los Angeles, Glendale, and Long Beach
- Increased by 39% the number of attendees at events and classes in 2007
- Increased by 37% the number of certified vendors in 2007
- Issued 128 Prompt Payment stamps to certified vendors
- Conducted Board of Supervisors “Contracting Connections” workshops in the 1<sup>st</sup>, 4<sup>th</sup>, and 5<sup>th</sup> Supervisorial Districts
- Completed and produced 3<sup>rd</sup> annual Small Business Yellow Pages
- Completed the Small Business Demographic Study, which resulted in purchasing a contact list of approximately 124,000 firms that could possibly do business in and with the County. Used the list for an initial mailing to 12,000 firms marketing the Local Small Business Enterprise (LSBE) program and SD5 workshop. The list can be sorted by:
  - Location of business (city, zip code, or Supervisorial District)
  - Vendor name
  - Type of commodity or service sold to the County
- Increased by 250% the number of hits to the County’s B2B website, a trilingual web portal for firms interested in conducting international business. The County OSB developed this web portal for Los Angeles County firms seeking to buy or sell with counterparts worldwide. A small business registers online and lists their product/service, which enables Requests for Qualifications (RFQs) to be exchanged globally between business to business.

### Procurement:

- Increased by 25% the number of awards made to LSBEs from last year (10,949 in 2006 to 13,643 in 2007)
- Increased by 37% the dollar amounts awarded to LSBEs from last year (\$58 million in 2006 to \$79.2 million in 2007)
- Implemented the LSBE On-line Reporting System in March 2007 making it possible to track the number of awards (both numbers and dollars amounts) to County-certified Small Business Enterprises (SBEs). This system allows for enhanced analytics, including:
  - Size of business (number of employees and company’s gross annual sales)
  - Vendor name
  - Type of commodity or service sold to the County
- Conducted training for SB Commissioners and County Liaisons

## Policy Initiatives:

- Implemented the Prompt Payment Policy, which established a 15-day payment turnaround for certified small businesses
- Established a Prompt Pay Small Business Liaison (single point of contact with hotline number) for certified small businesses to contact regarding any payment issues
- Amended the County Ordinance to expand the Local SBE Preference Program to include SBA certified vendors for Federally funded programs and grants, without restriction as to geographical location, as recommended by the SBC; in August, OSB conducted six training sessions for County staff on the Ordinance change and implementation procedures

## **PART II: Small Business Challenges**

Small businesses face increasing challenges. In many sectors, the impact of the nationwide economic decline disproportionately affects small businesses. They compete with medium and large businesses. We are concerned about, and encourage you, as well, to monitor the following areas:

**Financial/Access to Capital:** Many small businesses have tight cash-flow requirements, and are reliant on credit and regular contracting opportunities to remain viable. The current economic environment is threatening both of those lifelines. Last month, a Federal Reserve report found that one-third of U.S. banks had tightened their lending standards for small business loans. Start-ups and early stage small companies often find it difficult to find financing. We will be distributing informational material at Contracting Connection and other events, supplementing the material as we can. ***Potential Action:** Advocate for the establishment of a “certificated” business education program for small businesses in Los Angeles County that could provide lenders assurance of basic business competency as they assess credit worthiness of small business applicants.*

**Health Care:** The high cost of health care is disproportionately hurting small businesses. Many small businesses cannot afford to provide health coverage for their employees. Small businesses suffer by losing key, and sometimes critical, employees, for whom the availability of health care coverage affects job selection decisions. The small business is left to compete with sub-par employees and incurs significant opportunity costs. ***Potential Action:** Monitor health care legislature regarding the implications and issues facing small businesses and their employees.*

**Work Force Education:** Small business people often cite concerns with the educational level of the entry-level employee pool. The lack of basic written and oral communication, mathematical, and interpersonal skills for high school and even some college graduates is widespread. Small businesses compete with larger

firms for a limited workforce, and are often left to compete with sub-par employees, incurring significant opportunity costs. In our Contracting Connections programs, we will be educating small business owners regarding existing workforce training programs available at the local and State level. **Potential Action:** *Partner with State-level work force development organizations to provide input from the small business community.*

**Energy:** The rapidly rising cost of energy is disproportionately hurting small businesses. Programs coming online that address energy efficiency and conservation issues, such as “On Bill Financing” which finances energy-saving investments, are likely to be exhausted of funds by large companies. Small company needs and participation are being ignored. **Potential Action:** *Include small businesses in the design of the Green Initiatives of the County, by providing education on the impact of new ordinances and outreaching on contracting opportunities. Wherever feasible, involve small businesses in energy efficiency training on AB32 for construction projects equal to or greater than 10,000 square feet. Note: This initiative is applicable to small, medium, and large businesses alike.*

**International Trade:** Los Angeles is a major trading center on the Pacific Rim, and can provide a leadership role in this hemisphere. Many opportunities exist in developing this advantage. Many small businesses are not aware of global trade opportunities. In addition, many do not know about programs that exist to help small businesses overcome financial and regulatory barriers to becoming successful importers or exporters. **Potential Action:** *Promote and advertise the needs and opportunities to Los Angeles County small businesses provide information educational seminars that help them learn how to market internationally, and implement international trade missions.*

**Financial constraints.** *Unfortunately, neither SBC nor OSB has the resources to implement the actions in support of small businesses, just listed.* In view of the fiscal constraints facing the County, we are not proposing adding staff or resources to the Office of Small Business absent evidence that those resources will generate commensurate revenues to the County. As we will explain later, we believe that a significant return on investment can be achieved for resources dedicated to improving the success of small businesses, and will be seeking to verify that belief during the next two to three years.

At the same time, we think that it would be valuable for the Board of Supervisors to be informed about State and Federal legislation impacting small businesses. Maintaining a healthy, small business environment contributes to the County’s economic and employment well-being. **Therefore we recommend that the Board assign a Los Angeles County Lobbyist or Legislative Analyst to identify and monitor local, State and Federal legislation that impacts small businesses, and that you request comments and positions from the SBC before developing positions on the legislation.**

### **PART III: SBC Strategic Direction**

We are currently updating our Strategic Plan, and are considering focusing our efforts over the next few years in the following directions. We appreciate your ongoing support in these efforts.

#### **► Continuing to work with County Departments to increase contracting opportunities for and reduce barriers to small businesses**

We are convinced that the part of our mission that calls for us *to help small business grow and do business WITH ... Los Angeles County* must remain a key focus. The County has made great strides in being able to measure how many local, certified small businesses (LSBEs) receive County contacts. It is important to recognize that the certified LSBE statistics represent a small percentage of the total number of small businesses who contract with the County. There are thousands of small businesses whose County contracts are not included in our measures because they are not “certified”. The Commission has requested reports by size of business and dollar volume, regardless of certification status. ISD is working to further enhance the reporting system so that the award activity of all business types and sizes may be reported and analyzed. With the County’s ordinance change, which allows for a small business preference on certain Federally funded bids and contracts, self-certified small businesses are now eligible for a preference regardless of whether we have certified them.

Establishing a system that will permit us to determine our current baseline of certified and non-certified small business contracts with the County is important. It does not, by itself, increase small business opportunities. The County should establish a goal of increasing the baseline figure by 25%, and we will be working with County Departments, including ISD and the Department of Public Works (DPW), toward that goal during the next three to five years. We will actively promote in the County:

- “Unbundling” contracts, especially construction contracts, so that local small businesses can compete for work
- Partnering with Small Business Liaisons in the Departments to identify themes and issues of concern to County small business vendors, and addressing the root causes of the problems
- Increasing the number of certified small businesses registered with the County so that they can take advantage of preference programs
- Regularly reviewing the County program that simplifies the availability of performance bonds for small businesses, ensuring that it remains sufficiently flexible and affordable to small businesses; investigating the advantages and disadvantages of providing the contracting officer the option to waive performance bonds for contracts attractive to small businesses

While we believe these efforts will generate significant improvements, we will also rely on enhanced efforts by all County employees to achieve the growth goal.

Subcontracting is also a potentially strong source of opportunity for small businesses. It is usually not as lucrative as prime contracting. In addition, it is important to assure that small businesses can easily resolve problems between prime contractors and their small business sub-contractors. Dispute resolution and prompt payment have been identified as problem areas. In concert with the County Attorney, we will seek to develop incentives and contract language that: 1) will encourage prime contractors to pay their small business sub-contractors in a timely manner, and 2) can lead to consequences for prime contractors against whom there are repeated complaints.

► **Leveraging current OSB efforts, such as Contracting Connections, to provide additional information or opportunities for small businesses**

OSB has coordinated several “County Contracting Connections Workshops”, in concert with the Board of Supervisors and the State of California Department of General Services and Small Business Administration, in which 30 County departments and local agencies provide exhibits and counsel small businesses on their services and programs. In addition to government procurement, focus workshops have been conducted on specific topics of interest (e.g., Going Green in LA County, Access to Capital, Workforce Development). The County also co-hosts the Annual Greater Los Angeles Vendor Fair, a networking event bringing together hundreds of businesses with local government agencies such as the City of Los Angeles, Los Angeles Unified School District, Los Angeles Metro, and the Metropolitan Water District.

We think workshops like these are ideal venues for disseminating additional information and opportunities for small businesses. As examples, we will encourage OSB to:

- Inform small businesses in the future LEED Green Certification and Green Purchasing Programs
- Disseminate information about capital funding opportunities for small businesses
- Distribute information about international trade missions
- Conduct or include workshops that increase the understanding and implementation of AB 32 as well as the utility program of On Bill Financing
- Educate and inform small businesses in the value of energy conservation programs, as small businesses consume 51% of the energy used
- Educate small businesses about the availability of insurance and bonding programs, (e.g., SPARTA, the County’s Contractors’ Liability Insurance Program)
- Inform small businesses about work force training programs available at the local and State levels (e.g. the County’s GAIN Program which helps employers with staffing needs, and the State’s Employment Training Panel – ETP- which funds training to meet the needs of employers for skilled workers)

In addition, we intend to increase SBC participation at these events, raising awareness among the small business community of our availability to advocate for reforms and improvements that are within the sphere of responsibility of the County.

► **Establishing a Center for Small Business in the County**

We are convinced that the County would benefit from having a center where small businesses could retrieve materials, learn about County and other business opportunities, and meet with Commissioners and OSB staff. OSB's current location, in the basement/lowest floor of the ISD headquarters building at 1100 Eastern Avenue, is not suitable for this purpose. It is not centrally located. Parking, while free, is not always readily available. As importantly, there are no convenient meeting rooms, nor is there a location to display materials or information that might be of interest to small businesses. There are many educational and funding programs, including SBA-sponsored programs such as the Small Business Development Centers, which are of interest to small businesses. Until and unless we have the resources to develop and maintain independent databases, we believe that brochures, as well as web-based links are useful sources that should be widely available to small businesses. Our current location is not helpful in that way.

Therefore, we will encourage the Director of ISD to consider other options, including:

- Relocating OSB within the ISD building in a location more conducive to visitors
- Considering locating the Center in other quarters, either nearby or more central to small businesses in the County
- Developing agreements with other departments, such as the Library, to reserve a location for displaying materials of interest to small businesses in multiple locations across the County

► **Increasing alliances with the Los Angeles Economic Development Corporation (LAEDC)**

We are convinced that our broader mandate "*to help small business grow and do business... IN Los Angeles County*" should now take on greater importance as the County Departments continue to track and expand contracting with small businesses. While County contracting opportunities are important, in reality only a small proportion of small businesses in the County are interested in or strategically oriented toward governmental business. These are the businesses that we want to understand and support.

We think Los Angeles must quantify the impact of small business growth or reduction on the overall Los Angeles economy, as well as on County revenues. Researchers at the University of California at Irvine, Stanford University, and Clark University have documented small business impact on job growth in California, and Los Angeles County should build on and expand this research. LAEDC's well-recognized capacity in economic modeling and evaluation would be central in assessing in strongly defensible ways the economic importance of small businesses. LAEDC has recently focused on

small businesses in its Regional Business Assistance Network (RBAN) project. We appreciate their efforts to include SBC in this effort.

We believe that the magnitude of resources and effort that our County places on addressing the issues and needs of small business is inadequate relative to the contribution of small business to the County's economic and employment well-being. We look forward to developing a partnership that can tackle the challenge of demonstrating a positive return on investment of dollars spent encouraging small business growth in Los Angeles County.

In addition, we would like to encourage small business participation in international trade missions coordinated through LAEDC, the various business chambers, and other organizations. As recently as five years ago, OSB sponsored international trade missions for small businesses. Subsequently, it was determined that limited OSB resources could be better spent focused on implementing internal County programs and procedures, rather than in planning and executing trade missions. While we agree that the internal focus of OSB staff have led to significant improvements in the County's small business contracting, we also recognize that it is useful to provide international trade opportunities to small businesses. Therefore, we plan to cooperate with LAEDC, the various business chambers, and other organizations in this direction.

Finally, we would like to become more active participants at LAEDC events – both internationally and locally.

► **Monitoring County proposals to evaluate their impact on small businesses**

Our Legislative Committee will monitor the review by the OSB of weekly Board of Supervisor agenda items. We will seek to raise awareness of the impact on small businesses of changes or improvements to County programs, policies, and procedures.

► **Raising the visibility of SBC and OSB**

We will be developing increased SBC visibility by the small business community, thereby increasing our understanding of the small business environment in the County, and providing additional access and opportunities for small businesses to provide input and thoughts to the County about policies and procedures.