

**Assembly Committee on
Jobs, Economic Development, and the Economy**

The Impact of the COVID-19 Pandemic on California Small Businesses

February 23, 2021, at the California State Capitol in
Room 4202 at 9:30 am

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The Impact of the COVID-19 Pandemic on California Small Businesses

On Tuesday, February 23, 2021, the Assembly Committee on Jobs, Economic Development and the Economy (JEDE) will be convening the first in a series of informational hearings and briefings examining the impact of the COVID-19 pandemic on the California economy. These activities will serve as a foundation from which the Members will undertake the committee's primary missions of overseeing state programs and evaluating legislative proposals.

This memorandum provides general information on the structure of the February 23, 2022, hearing, the pre-pandemic economy and the role small businesses have historically played within the California economy, impacts of COVID-19 pandemic on small businesses, identification of key policy issues, and recommendations for follow-up actions. The appendix includes a number of fact sheets developed by the JEDE staff, as well as information provided by witnesses and other stakeholder organizations.

Overview of the Hearing

The focus of the JEDE Committee hearing is on current and proposed actions to support small business recovery from the economic impacts of the COVID-19 pandemic. Using a framework of economic resiliency, the JEDE Committee will examine the factors that contribute to long-term economic security for entrepreneurs, workers, and the communities in which they live and work.

Even prior to the pandemic, many small business owners, workers, and neighborhoods, did not have access to the economic opportunities of other areas of the state. The pandemic served to amplify these economic and health disparities. As the Legislature transitions its policy focus from emergency response to economic recovery, it is important to remember the lessons from the Great Recession. Policy solutions geared to assist businesses and workers, generally, were not able to engage with or benefit those most impacted.

Economic recovery post-pandemic can be better, when programs and services are targeted, delivery is transparent, and the Legislature embraces its policy setting and program oversight role. To facilitate these goals, the February 23, 2021, hearing is organized in four parts:

1. Presentation on current economic research;
2. Briefing on the Small Business COVID-19 Relief Grant Program;
3. Stakeholder panel on key issues from main street; and
4. Public comment.

More specifically, the hearing will begin with brief introductory remarks by the Members of the Committee. Dr. Robert Fairlie, professor of Economics at the University of California, Santa Cruz, will then brief the committee on his ongoing research on the impact of the COVID-19 pandemic on businesses. In his [initial report](#), he found that while most major industries in the US faced large drops in the number of business owners, businesses owned by people of color were hardest hit. Using a simulation model, Dr. Fairlie estimates that between February 2020 and April 2020 there was a decrease of 41% among Black-owned businesses, 32% among Latinx-owned businesses, and 26% among Asian-owned business. Dr. Fairlie has also examined the [impact of COVID-19 on minority unemployment](#), as well as the effectiveness of federal loan programs on reaching historically underserved business owners in this [January 2021 publication](#), *Did the \$660 Billion Paycheck Protection Program and \$220 Billion Economic Injury Disaster Loan Program Get Disbursed to Minority Communities in the Early Stages of COVID-19?*

Based on research such as Dr. Fairlie's and others, California policy makers have focused much of their economic recovery efforts on small businesses. In December 2020, the Governor announced, after consulting with Legislative leaders, a \$500 million [Small Business COVID-19 Relief Grant Program](#) to help address the financial needs of historically underserved business-owner groups, businesses in areas most impacted by COVID-19 State-at-Home Orders, and industry sectors most impacted during the pandemic. Assembly Jobs Committee Chair Cervantes, as part of this consultation period, submitted a memorandum to the Administration outlining key issues relating to equity, transparency, and accountability. Since that time, \$237.5 million in grants have been awarded and a second round of funding will be concluding within days of the hearing.

The Legislature, at the time of the writing of this report, is also considering the approval of [SB 87 \(Caballero and Min\)](#), which would provide \$2 billion in additional funding, based on certain statutory conditions being met. The [Governor's Office of Business and Economic Development](#), including [Senior Advisor and Director Dee Dee Myers](#), has been invited to discuss program implementation and outcomes, including the ability of the grant program to meet its priority application and award targets.

In the final panel, formal presentations will be set aside to Members to engage directly with leaders of small business stakeholder groups on how existing state programs have evolved to meet the unique challenges brought by the COVID-19 pandemic. Given the time limitations of the current hearing, only three of the five primary small business development tools will be discussed, including technical assistance programs, access to capital, and workforce training. Tax relief and procurement participation by small businesses and disabled veteran-owned businesses will be explored at a future date. The panelists include:

- **James Watson**, President of the [California Manufacturing Technology Consulting](#) (California's Manufacturing Partnership) will discuss how this federally designated and state and federally funded organization modified its program delivery and services to assist small and medium manufacturers remain viable during the pandemic, including shifting to the production of PPE. The California Manufacturing Technology Consulting is one of [34 state grantees](#) under the [Small Business Technical Assistance Expansion Program](#).
- **Deanna Krehbiel**, Executive Director of Economic Development & Corporate Training at San Bernardino Community College District and representative for the [California Community College Contract Education Collaborative](#) will share information on how the workforce centers quickly pivoted to online learning to serve the small business training needs for new and incumbent workers. She will also discuss how contract education programs have used funding from the state [Employment Training Panel](#) to transition to online learning and focused on the evolving needs of essential workers and businesses.
- **Bianca Blomquist**, Senior Manager, California Policy & Engagement, Small Business Majority, will discuss the range of state lending programs the state is currently supporting, including the new [California Rebuilding Fund](#). The California Legislature approved \$125 million in the [2020-21 Budget](#) to expand the Small Business Loan Guarantee Program and establish California Rebuilding Fund, a direct loan program that blends state funds with other funds of community development financial institutions. Small Business Majority and CAMEO are working with the [California Infrastructure and Economic Development Bank](#) on the deployment of the new and innovative loan product.

Presenter background materials, available at the time of publication, can be found in the Appendices of this report and accessed online at <https://ajed.assembly.ca.gov/content/hearing-impact-covid-19-pandemic-small-businesses>.

To Provide Public Comments

The public and individuals representing organizations and businesses are encouraged to add their voices to this important dialogue. Individuals interested in providing testimony during the public comment agenda item may reserve a space through the Office of the Assembly Jobs Committee prior to the hearing or sign up on the day of the hearing on the public comment sheet that will be available at the Sergeants' Desk during the hearing.

In addition to the public comment period during the hearing, written comments may be submitted through the Office of the Assembly Jobs Committee until March 15, 2021.

Materials in the Appendices

The appendix includes a summary of the California economy and other related background materials.

Appendix A – Agenda for the February 23, 2021, Hearing

Appendix B – Fast Facts on the California Economy

Appendix C – Profile on California Small Business

Appendix D – Selection of Related Reports

Appendix E – Selected Proposals in the Governor's Proposed Budget for 2020-2021

Appendix F – JEDE Chair Cervantes' December 1, 2021, Memo on Small Business Grant

Appendix G – Initial Data from Department of Finance on Small Business COVID-19 Grant Program

Appendix H -- Biographies of the Speakers

Background on the California Economy

This section includes background on the state's economy, including information on major industry sectors, economic trends, job creation, and the challenges California faces in creating an inclusive economy.

The Fundamentals of the California Economy

California is home to nearly 40 million people, providing the state with one of the most diverse populations in the world, often comprising the single largest concentration of nationals outside their native country. In 2019, this diverse group of business owners and workers produced \$3.1 trillion in goods and services; \$1546.1 billion of which were exported to over 220 countries around the world.

California's economy ranked fifth largest in the world in 2019 – only the national economies of the United States, China, Japan, and Germany being larger. Historically, a number of factors have contributed to California's significant position within the global marketplace, including its strategic west coast location, the size of its consumer base, the strength of its dominant industry sectors, its economically diverse regional economies, its skilled workforce, and its culture of innovation and entrepreneurship, particularly in the area of technology.

Many policy makers and economists describe California as having not a single economy but having a highly integrated network of a dozen or so regional economies. While biotech has a comparative advantage in some regions, information technology drives growth in others. This economic diversity is one of the reasons California was able to move out of the Great Recession so aggressively, ranking number two, by Business Insider for fastest growing economies in the nation in August 2014 and as having the fourth best overall economy in March 2015. The following year, Bloomberg, a financial news service, reported that without California, the U.S. economic growth rate would have been flat in 2016. As California considers its path out of the COVID-19-induced recession, it will be important to consider lessons learned from the prior session, including the impact of the California's fast expansion on lower income communities and increase in income inequality, which is addressed in more detail in the following section.

California Industry Sectors

One of the unique qualities of California's economy is its multiple dominant industry sectors. *Chart 1 – California GDP by Industry Sectors*, displays state gross domestic product (GDP) in dollars by industry sector.

The state's three largest industry sectors in terms of GDP – finance and insurance; trade, transportation, and utilities; and professional and business services – also provide a foundation to other industry sectors, including manufacturing and information. Each of these top performing industry sectors are also distinguished as being a tradable industry sector, meaning that it is a sector whose output in terms of goods and services is traded internationally, or could be traded internationally given a plausible variation in relative prices.

In 2019 (most recent data), California's largest industry sectors were: Finance, Insurance, Real Estate, Rental, and Leasing (22.1% of state GDP); Trade, Transportation, and Utilities (14.5%); Professional and Business Services (13.4%); Manufacturing (10.4%); Information (9.6%); Tourism and Arts (4.5%); and Construction (3.8%).

Chart 1 - California GDP by Industry Sectors 2019 (in millions)

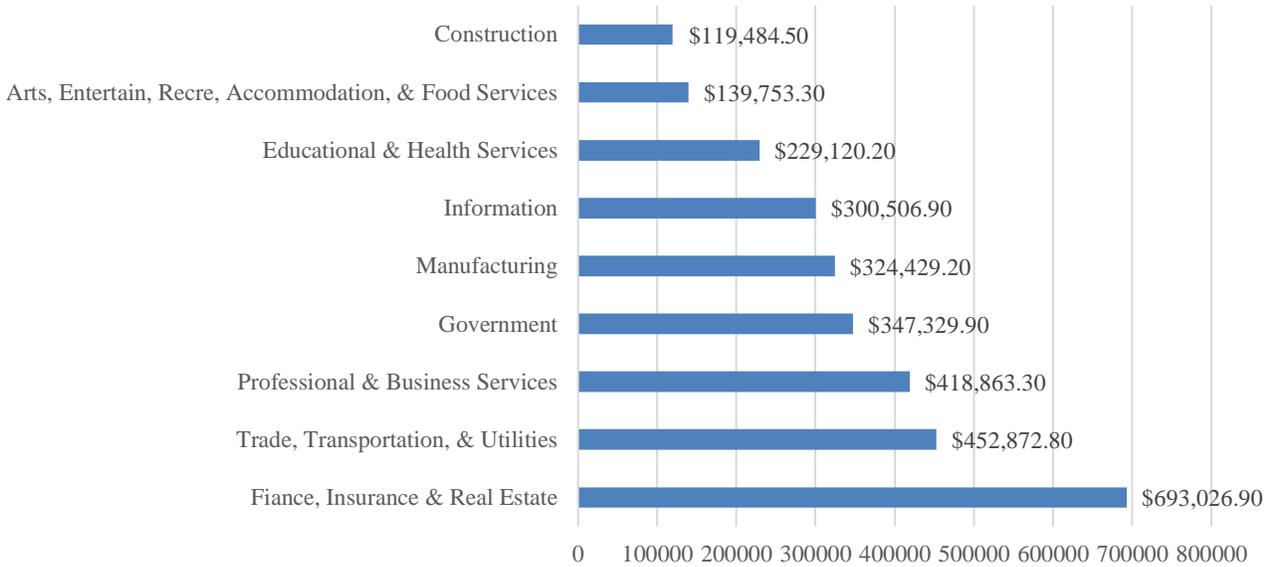
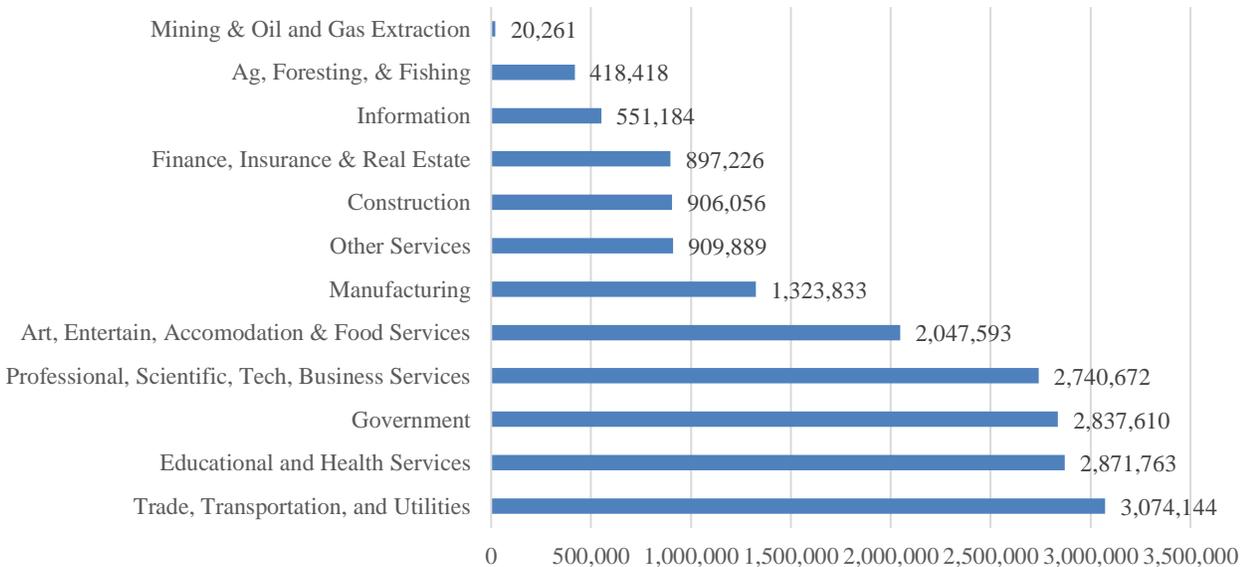


Chart 1 displays industry sectors in California based on their contribution to GDP. Due to its economic impact exceeding its proportional share of the US population, California’s economy has been described as “hitting above its weight.” As an example, while California’s population comprises 12% of the U.S. population, the state contributed 16% of total job growth between 2012 and 2017.

Chart 2 shows employment data within the same industry sectors as are measured in Chart 1. The employment numbers come from the California Employment Development Department.

Chart 2 - CA Employment by Industry Sectors 2019



California's largest industry sector, based on employment, is the trade, transportation, and utilities sector, employing 3.0 million people and representing 16.5% of all California jobs. Jobs in this sector also

support employment in other industry sectors including manufacturing (7.1% down from 8.1% of state employment in 2017), professional services (14.7%), and financial activities (4.8%).

Manufacturing is considered the "gold standard" for jobs because of the higher wages paid to workers, the inclusion of small businesses within its extended supply chains, and the high multiplier effect on their local communities and across the state. The Milken Institute estimates that for every job created in manufacturing, 2.5 jobs are created in other sectors. In some industry subsectors, such as electronic computer manufacturing, the multiplier effect is 16 to 1.

Small Businesses Drive the California Economy

California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's \$3.1 trillion economy. Two separate studies, one by the US Census Bureau and another by the Kaufman Foundation, found that net job growth was strongest among businesses with less than 20 employees. Among other advantages, small businesses are crucial in the state's international competitiveness and are an important means for dispersing the economic positive impacts of trade within the California economy.

- In 2017 (most recent full set of data), of the 4.1 million firms in California, there were 3.3 million nonemployer firms as compared to 763,803 employer firms.
- Total revenues for nonemployer sole proprietorships, across all industry sectors, were \$118 billion in receipts in 2017.
- Businesses with less than five employees are classified as microenterprises. In 2017, there were 473,641 microenterprises which had one or more employees.
- Microenterprises, including both nonemployer and up-to-5-employee businesses, comprise the single largest segment of the California business community, representing 92.9% (3.8 million) of all businesses in the state.

Chart 3 - California Employer Businesses by Size (2017)

Enterprise Employment Size	Number of Firms	Number of Establishments	Employment	Annual Payroll
0-4	473,641	474,301	737,168	\$45.0 billion
<20	676,913	682,756	2,605,213	\$125.5 billion
0-99	743,830	768,456	5,143,522	\$250.5 billion
100-499	13,628	39,757	2,081,423	\$125.0 billion
<500	757,458	808,213	7,224,945	\$375.6 billion
500+	6,345	133,164	7,671,680	\$579.4 billion
Total All Employers	763,803	941,377	14,896,625	\$955.0 billion
<ul style="list-style-type: none"> ▪ An establishment is a single physical location at which business is conducted or performed by one or more paid employees. ▪ A company or enterprise may consist of one or more establishments. ▪ An establishment with 0 employment is an establishment with no paid employees in the mid-March pay period but with paid employees at some time during the year. ▪ This series excludes government establishments except for wholesale liquor establishments (NAICS 4248), retail liquor stores (NAICS 44531), federally-chartered savings institutions (NAICS 522120), federally-chartered credit unions (NAICS 522130), and hospitals (NAICS 622). 				
Source: US Census, SUSB Series				

Chart 3, on the previous page, displays 2017 data (most recent full set of data) on California employer businesses, including payrolls, employment, and number of firms, which may be comprised of one or more establishments.

Excluding sole proprietorships, businesses with less than 20 employees comprise over 88.6% of all businesses and employ approximately 17.4% of all workers. Businesses with less than 100 employees represent 97.3% of all businesses and employ 34.5% of the workforce.

Microenterprises have many unique features and provide important benefits to local communities, according to a recent study from the Microenterprise Fund for Innovation, Effectiveness, Learning, and Dissemination (FIELD) at the Aspen Institute. These benefits include:

- Providing products and services tailored to meet local and neighborhood needs.
- Stimulating an inflow of revenues to and within local communities.
- Serving as catalysts for neighborhood reengagement.
- Revitalizing neighborhoods that may otherwise have vacant storefronts.
- Providing role models and support for future entrepreneurs.

These non-employer and small employer firms create jobs, generate taxes, support important industry sectors, and revitalize communities. While their small size allows them to be more flexible in meeting niche foreign and domestic market needs, it also results in certain market challenges. These challenges include having difficulty in meeting the procedural requirements of the state's complex regulatory structure and the traditional credit and collateral requirements of mainstream financial institutions. Specialized technical assistance, access to credit enhancements, and targeting of state procurement activities help many small businesses overcome or at least minimize these difficulties.

Appendix C (page 33) includes additional information on small businesses from the 2012 Survey of Business Owners.

Small Businesses and Coronavirus

Economic developers, finance professionals, and even the Office of the Legislative Analyst agree that small businesses have been particularly impacted by the coronavirus pandemic. According to a national survey and separate report on the impacts of COVID-19 on small and medium size businesses, both published by McKinsey in April 2020:

- 70% of businesses are delaying purchases, reducing current spending, and holding back on making major investments. [*While not an unexpected outcome, this level of delayed spending has significant multiplier effects as its impacts move throughout the economy.*]
- 50% of workers at small businesses with less than 100 employees are at risk of losing their jobs due to the pandemic. This represents over 2.2 million workers. This is a higher percentage of job losses than those projected for larger private sector employers.
- 40% of the vulnerable small business jobs fall within two occupational categories: food service and customer service and sales.
- 60% of the vulnerable small business jobs do not require a four-year degree, meaning that displaced workers will likely not have formally recognized skills to help them get their next job.

- 55% of businesses felt that the economic impacts of the coronavirus were going to last over one year, with 29% responding the impacts were going to be felt for three years.
- 25% of businesses said they would be filing for bankruptcy within six months.

The McKinsey report ranks California among the top states in which small businesses are and will be impacted by the COVID-19 emergency. The report finds that 92% of workers in small businesses engaged in the accommodation and food sectors are at risk. For workers at small construction firms, the report states that 54% are vulnerable, which is still a significant impact. Regulatory relief is one piece of a broader set of policies to support small businesses.

Dr. Fairlie's work, [*The Impact of Covid-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey*](#), he used a simulation model to estimate that between February 2020 and April 2020 there was a decrease of 41% among Black-owned businesses, 32% among Latinx-owned businesses, and 26% among Asian-owned business. The report further stated that immigrant business owners experienced substantial losses of 36%. Female-owned businesses were also disproportionately hit by 25%.

Dr. Fairlie continued to track active business owners by demographic groups and found that by June 2020, some business activity had returned, but was still down from pre-pandemic levels, "[*The Impact of COVID-19 on Small Business Owners: Evidence from the First Three Months after Widespread*](#)," published in August 2020 in the Journal of Economics and Management Strategies. While overall business activity was down -8%, activity among Black business owners remained at -19% and for immigrant owners -18%. Business owners who were women (-10%), Latinx (-10%), and Asian (-10%), still fared worse than white business owners (-5%).

During the February 23, 2021, hearing Dr. Fairlie will share data on California small business owners.

A Look at California Business Owners

Small Business Majority released the results of a California survey in December 2020, [*California Small Businesses Face Difficult Decisions As Pandemic Continues And Funding Freezes*](#), which found:

- 17% of entrepreneurs of color report they are likely to permanently close their business in the next three months, compared to 12% of white business owners.
- Nearly half say operating capacity has decreased, with 16% reporting their capacity has decreased by more than 50%.
- Despite efforts to reopen local economies and "get back to normal," small business owners have had to reduce the number of employees during the height of the pandemic, with more than 60% reporting that they have not restored their headcount to pre-pandemic levels.
- While about half of small businesses say they applied for PPP loans. Of those who didn't apply, they largely attributed their reasons to confusion about how to apply, fear over taking on debt, inability to secure a loan through their bank or thinking they were ineligible.
- 28% of entrepreneurs of color report they may be forced to temporarily close their business in the next three months. Of those, 27% say they may lay off employees permanently, compared to 15% of white entrepreneurs.

- More than 80% of small business owners support providing direct grant assistance to small businesses, and 76% support another round of PPP loan dispersal.

The Small Business Majority results are based on a survey of 418 California small business owners (*nearly evenly split between white entrepreneurs and business owners of color*) taken between November 10 and 23, 2020.

Income Inequality Is Not New

This section includes background on the ongoing income inequality challenges California faces. Even prior to the pandemic, economic growth out of the Great recession was uneven and created conditions that often deepened the economic and social disparities.

The Challenge of Income Inequality

While California’s dominance in innovation-based industries is unquestionable, the divide between the middle and lower income households and the top income earners in accelerating. Even as California’s unemployment is at historic lows, unemployment within certain geographic regions and population groups remains significantly higher, as does the number of people in the state who are not participating within the core economy. *Chart 4A – Selected Data on Unemployment* shows unemployment-related information by selected counties and population groups for December 2018 and December 2019.

Chart 4A - Selected Data on Unemployment (2018-2019)					
	Unemployment Rate December 2019 (Not Seasonally Adjusted)	Unemployment Rate December 2018 (Not Seasonally Adjusted)		Unemployment Rate December 2019 (12-month moving average)	Unemployment Rate December 2018 (12-month moving average)
California	3.7%	4.1%	California	4.1%	4.2%
Colusa County	14.2%	15.7%	Blacks	5.4%	6.5%
Imperial County	17.0%	17.3%	Hispanics	4.8%	5.1%
Los Angeles County	4.0%	4.6%	Whites	4.0%	4.1%
Riverside County	3.6%	4.1%	16 to 19 years old	14.5%	16.2%
Sacramento County	3.2%	3.7%	20 to 24 years old	7.4%	7.1%
San Bernardino County	3.3%	3.8%	25 to 34 years old	4.1%	4.4%
San Luis Obispo County	2.5%	2.8%	*The Employment Development Department reports a December 2019 Labor Participation Rate (LPR) of 62.2% representing 11.8 million people in California who were not participating in the workforce. The LPR for veterans is 43.4 vs nonveterans LPR of 65.8%.		
San Mateo County	1.7%	2.0%			
Tulare County	9.3%	9.6%			
Source: www.edd.ca.gov					

With unemployment at 4.1%, rural areas like Imperial and Colusa County still experienced unemployment levers more than 4 times that statewide average. As noted in the Chart, with historically low unemployment, there were still 11.8 million people not participating in the labor force. The nearly 120 months to economic growth from the Great Recession only slightly improved employment opportunities in many areas of the state, while others improved fell below what economist consider appropriate structural unemployment (below 3%).

In December 2019, California reported a not seasonally adjusted unemployment rate of 3.7% as compared to the U.S. rate of [3.4%](#). From the employment side, this represents 15.3 million people, with over 82.3% being employed in full time work.

In December 2019, 13 of California’s 58 counties had unemployment below 3%, with San Mateo reporting the lowest at 1.7%. The highest unemployment was reported in Imperial (17.0%). Year-over (December 2018-December 2019), [52](#) counties reported employment increases, and 6 counties experienced employment declines from the prior year.

Chart 4B – Selected Data on Unemployment shows unemployment-related information by selected counties and population groups for a time period that includes COVID-19, December 2019 and December 2020.

Chart 4B- Selected Data on Unemployment (2019-2020)					
	Unemployment Rate December 2020 (Not Seasonally Adjusted)	Unemployment Rate December 2019 (Not Seasonally Adjusted)		Unemployment Rate December 2020 (12-month moving average)	Unemployment Rate December 2019 (12-month moving average)
California	8.8%	3.7%	California	10.2%	4.1%
Colusa County	15.5%	14.2%	Blacks	12.2%	5.4%
Imperial County	17.7%	17.0%	Hispanics	11.7%	4.8%
Los Angeles County	10.7%	4.0%	Whites	9.9%	4.0%
Riverside County	9.1%	3.6%	16 to 19 years old	23.6%	14.5%
Sacramento County	8.5%	3.2%	20 to 24 years old	16.4%	7.4%
San Bernardino County	9.2%	3.3%	25 to 34 years old	10.7%	4.1%
San Luis Obispo County	6.7%	2.5%	*The Employment Development Department reports a December 2020 Labor Participation Rate (LPR) of 60.5% representing 12.3 million people in California who were not participating in the workforce. The LPR for veterans is 44.4 vs nonveterans LPR of 64.6%.		
San Mateo County	5.8%	1.7%			
Tulare County	11.8%	9.3%			

Source: www.edd.ca.gov

In December 2020, California reported a not seasonally adjusted unemployment rate of 8.8% as compared to the U.S. rate of 6.5%. From the employment side, this represents 14.1 million people, with 83.1% being employed in full time work. Within nonfarm industries, six sectors saw month-over increases, including professional and business services (29,600 additional jobs) and educational and health services (6,100 additional jobs) and five sectors experienced month-over job losses.

In December 2020, 5 of California’s 58 counties had unemployment below 6.5%, with Marin County reporting the lowest at 5.5%. The highest unemployment was reported in Imperial (17.7%). Year-over (December 2019-December 2020), 58 counties experienced employment declines from the prior year.

These disparities shown in these charts are driven by and also influence a range of economic and societal issues, including, but not limited to, low educational attainment, economic insecurity, poor health outcomes, lack of a safety net for the elderly and individual with special needs, negative engagements with law enforcement, and homelessness.

The California Latino Economic Institute released a new policy brief in December 2020, which provides new data on the disparate and growing negative impact of COVID-19 on Latinos in California. Among other findings, the briefing noted the following:

- Latinos are overrepresented among California’s COVID-19 cases and deaths—59% of cases and 49% of the state’s deaths.
- Latino overrepresentation in California’s cases has increased since April 2020.
- Nearly 12% of California Latinos are currently uninsured—double the rate of other groups.
- Latino unemployment rates are double those from the same time last year.
- Nearly two-thirds of California Latinos report experiencing a loss of employment income since March 2020.
- Over 40% of Latinos currently report that it is somewhat or very difficult to pay their usual household expenses in the last 7 days.
- Over three-quarters of California small business owners report that COVID-19 has had a moderate to large effect on their businesses.

Chart 4C provides information from the California Department of Public Health relating to COVID-19 cases in California by race and ethnicity.

Chart 4C - All Cases and Deaths Associated with COVID-19 by Race and Ethnicity					
Race/Ethnicity	No. Cases	Percent Cases	No. Deaths	Percent Deaths	Percent CA population
Latino	1,449,831	55.1	21,466	46.2	38.9
White	526,046	20.0	14,689	31.6	36.6
Asian	178,375	6.8	5,371	11.6	15.4
African American	106,708	4.1	2,891	6.2	6.0
Multi-Race	39,026	1.5	578	1.2	2.2
American Indian or Alaska Native	8,574	0.3	163	0.4	0.5
Native Hawaiian and other Pacific Islander	14,915	0.6	280	0.6	0.3
Other	307,116	11.7	1,028	2.2	0.0
Total with data	2,630,591	100.0	46,466	100.0	100.0
California Department of Public Health: 2/20/21 https://www.cdph.ca.gov/Programs/CID/DCDC/Pages/COVID-19/Race-Ethnicity.aspx					

The chart above, *All Cases and Deaths Associated with COVID-19 by Race and Ethnicity*, represents data from 3,421,720 total cases with 23% of those cases missing race/ethnicity. Approximately 2% of the death data is missing race/ethnicity.

Are these Lessons to be Learned from the Recovery of the Great Recession?

California is not unique in experiencing a rise income inequality in the post-Great Recession era. The following is information from a September 2019 hearing JEDE held on income inequality.

National data shows that while the top 1% of income households were significantly impacted by the recession, by 2017 annual revenues had risen to the highest levels ever. Between 1979 and 2017, the income for the top 1% of income households cumulatively rose by 157%.

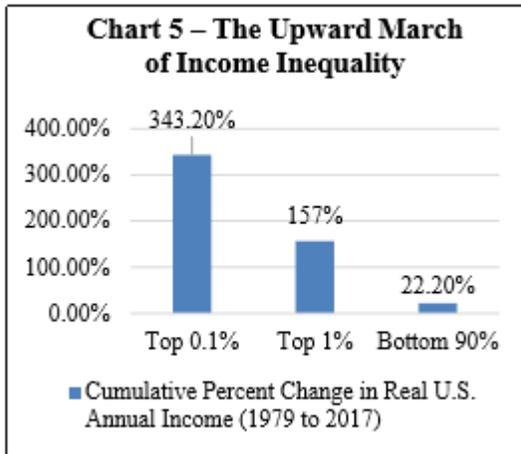


Chart 5 – The Upward March of Income Inequality is based on data from “Working Economies,” a blog of the Economic Policy Institute, and shows the significant divergent increases in income between three groups during the period of 1979 through 2017. For the top 0.1% of income households, earnings had increased by 343.2%, as compared to the earnings of the bottom 90% of households, which experienced an increase of only 22.2%.

The Economic Policy Institute also reviewed income inequality by state and major metropolitan area. Based on 2015 data, every state had a sizable gap between the top 1% and the bottom 99%, with the national average being a top-to-

bottom ratio of 26.3-to-1. In eight states, plus the District of Columbia (30.4-to-1), the top-to-bottom ratio exceeded the national average, including California which received a 30.7-to-1.

Other states with above national average income inequality included New York (44.4-to-1); Florida (39.5-to-1); Connecticut (37.2-to-1); Nevada (32.7-to-1); Wyoming (31.2-to-1); Massachusetts (30.9-to-1); and Illinois (27-to-1). These income discrepancies were also reported by metropolitan areas, where 45 of the 916 major metropolitan areas in the U.S. had income gaps wider than the national average.

In order to qualify as a top 1% household in 2015, family income needed to be above \$421,926. There were 13 states and 107 metro areas in the U.S. with 1% household incomes above the national average, themselves averaging a 1% household income of \$514,694. Further, of all income that accrued to 1% households in 2015, a full 50% accrued to households in five states, including California.

The average annual income in California for a top 1% household was \$1.69 million. The top 1% took home 23.7% of all income in California. By comparison, the average income for the other 99% of households in California was \$55,152. The San Jose-Santa Clara metro area had the most unequal income distribution in the state, with the top 1% making 34.6 times the income of the bottom 99%. Overall, California ranks 7th of all 50 states in income inequality.

According to the report, “The New Gilded Age,” these findings are particularly significant, as the rise of top incomes relative to the bottom 99% represents a reversal of the trend that prevailed in the U.S. during the mid-20th century. From 1928 to 1973, the share of income held by the top 1% declined in every state for which data was available.

What Happened to the California Dream?

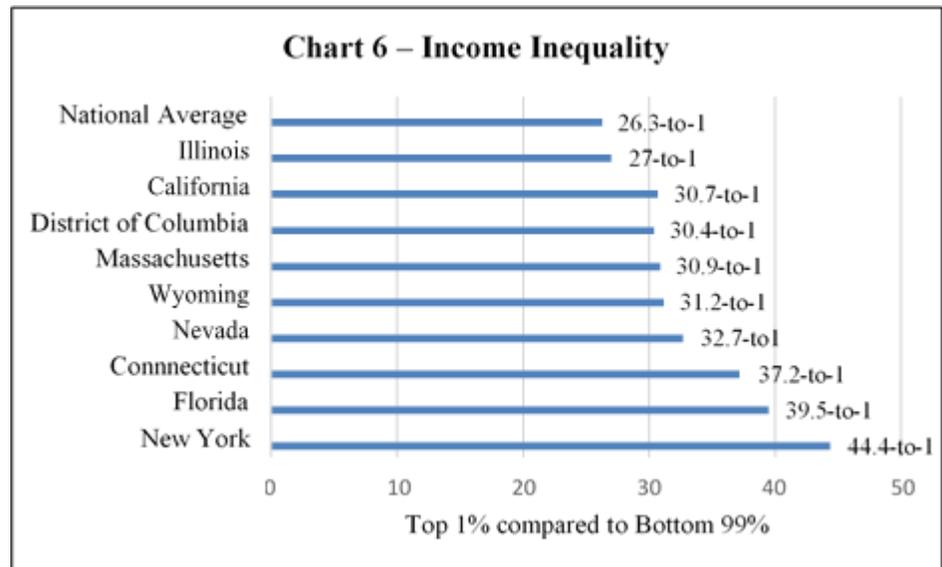
The impact of income inequality was being felt across a broad spectrum of our society in the post-Great Recession era. The ability to get an education, pursue a career, purchase a home, and live-out old age with some level of economic security is being challenged. While median income remains above \$80,000 a year, nearly 12% of households in California have incomes below the federal poverty line, including 12.5% of all children. For too many people, a big medical bill or an unforeseen home repair, could result in a downward spiral potentially even ending in homelessness. An estimated 151,278 individuals experienced homelessness in 2019, based on the single-night survey method.

In 2016, McKinsey issued a study that found that for the first time since WWII – across the top 25 most developed economies in the world – household incomes had actually decreased. Historically, every generation had experienced an increase in income. However, between 2005 and 2014, real incomes were flat or fell for 65% to 70% of households.

The Public Policy Institute of California published data for a similar time span for

households in California. *Chart 6 – Income Inequality in California* shows the growing income inequality within six major regions in the state. Between 2007 and 2014, the income gap grew most significantly in the Inland Empire, followed by the Sacramento Region.

Additional information about the California economy can be found in *Appendix B* (page 29).



California Small Business COVID-19 Grant Program

In late November 2020, Governor Newsom reached out the California Legislative leaders to discuss the possibility of a state grant program for small businesses and nonprofits. While the state had activated its Small Business Disaster Loan Guarantee Program in the spring and authorized the development of a new blended loan program, which became the Rebuild California Fund, it was clear that for the state's smallest businesses grants would be needed. *Appendix F (page 47)* includes the memorandum the Chair of the Assembly Jobs Committee sent to the Administration expressing key priority and programmatic considerations.

After consultation with Assembly and Senate leadership, as well as policy and fiscal chairs, [the Governor announced](#) the new \$500 million Small Business COVID-19 Relief Program on December 4, 2020. Within weeks a competitively bid contract was awarded to Lendistry to administer the program on behalf of the Office of the Small Business Advocate and GO-Biz.

Technical assistance webinars describing the program and how to apply were held daily, sometime more often, between December 23 and January 4, 2021. The core of the webinars were hosted by the California Small Business Development Network. Webinars were offered in a range of languages, which included, in addition to English, webinars in Arabic, Armenian, English, Farsi, Korean, Mandarin, Spanish, Tagalog, Vietnamese.

Outreach was also subcontracted to many nonprofits technical assistance and advocacy organizations, including, but not limited to, statewide organizations like the American Indian Chamber of Commerce, Black Small Business Association of California, CalAsian Chamber California Association for Microenterprise Opportunity (CAMEO), California Association of Nonprofits, California Hispanic Chambers of Commerce, California Manufacturing Technology Consulting, California Small Business Development Center, and CA Women's Business Center Network. The outreach network also included local and regional partners, such as the Fresno Area Hispanic Foundation, Los Angeles County Economic Development Corporation, and the Southern California Black Chamber of Commerce.

The Lendistry online platform, <https://carelifegrant.com/> offers applicants an opportunity to apply through a nonprofit partner which indicated that it specifically served people in their county or through a nonprofit partner that offers assistance in a selected language other than English.

Grant award amounts are based on the annual revenues of eligible businesses:

- Businesses with revenues between \$1,000 to \$100,000 may receive a \$5,000 grant.
- Businesses with revenues greater than \$100,000 up to \$1,000,000 may receive a \$15,000 grant.
- Businesses with revenues greater than \$1,000,000 up to \$2,500,000 may receive \$25,000 grant.

The initial \$500 million was distributed in two rounds of \$237.5 million each:

- Round 1 applications opened on December 30, 2020, and closed January 13, 2021, following an extension to allow businesses and nonprofits who may not have heard amount the grant during the holiday season to apply. Notifications began going out on a rolling basis beginning on January 15, 2021.
- Applicants who submitted applications, including all documentation, in the first round did not need to reapply. All qualified applications were automatically rolled over into the second funding round for consideration.

- Round 2 applications opened on February 2, 2021, and closed February 8, 2021. Notifications began going out to applicants on February 11 and were intended to be completed on February 18, 2021.

High Level of Interest in Round One

According to data provided by the California Office of the Small Business Advocate, over 334,000 applications requesting nearly \$4.4 billion in grants were successfully completed in the first round. The most recent data shows that just over 21,000 applicants were selected for award, or just over 6% of the total first round requests.

Chart 7 includes information on Round 1 awards to underserved businesses and **Chart 8** provides Round 1 awards for highly impacted industries. **Appendix G** (page 51) includes data by county. Please note these are early release charts.

Chart 7: Underserved Small Businesses Awarded CA Relief Grant Round 1				
	Number of Awardees	% of Total Selected in Round 1	Amount Awarded	% of Total Amount Awarded in Round 1
<i>Underserved Small Businesses</i>	16,240	77.1%	\$174,746,860	74.0%
Minority	11,210	53.2%	\$116,987,000	49.5%
Women	10,312	48.9%	\$105,249,000	44.5%
Rural	2,998	14.2%	\$33,668,772	14.2%
Low-to Moderate Income (LMI) Tract	12,292	58.3%	\$134,503,000	56.9%
Veteran	519	2.5%	\$7,150,200	3.0%
*Please note that applicants can fit into more than one category above				
Source: Data provided by the California Department of Finance 1/25/21				

Chart 8: Highly Impacted Industries Awarded CA Relief Grant Round 1				
	Number of Awardees	% of Total Selected in Round 1	Amount Awarded	% of Total Amount Awarded in Round 1
<i>Highly Impacted Industries</i>	12,878	61.1%	\$147,932,429	62.6%
Personal Care	5,651	26.8%	\$49,303,826	20.9%
Restaurant and Other Eating Places	2,089	9.9%	\$36,827,533	15.6%
Child Daycare Services	670	3.2%	\$6,078,996	2.6%
Clothing Stores	653	3.1%	\$7,801,566	3.3%
Specialty Food	442	2.1%	\$5,765,500	2.4%
Other Highly Impacted industries	3,373	16.0%	42,155,008	17.8%
Source: Data provided by the California Department of Finance 1/25/21				

Moving Forward

The Governor’s proposed budget for 2021-22 proposed an additional \$575 million for the grant program. Given the high level of interest, the Legislation and the Governor negotiated for \$2.1 billion and the codification of the program. [SB 87](#) is scheduled to be voted on February 22, 2021.

The new bill would not only authorize new funding rounds, but it also the California Office of the Small Business Advocate to hold a third funding round for eligible applicants in Round 2, which were not ultimately funded. In preparation for the Legislature’s consideration of SB 87, additional data, but aggregate data was provided on funding Round 1 and 2.

All Selected - For Profit Entities				
Category	Unit	Volume	Percentage by Unit	Percentage by Volume
Total Grants	41342	\$455,976,862.00	100.00	100.00
<i>% of total</i>	<i>95.22%</i>	<i>94.81%</i>		
Demographics				
Underserved & Disadvantaged	35924	\$386,251,838.00	86.89	84.71
Minority	22343	\$235,426,501.00	54.04	51.63
Non-Minority	18999	\$220,550,361.00	45.96	48.37
African-American	3334	\$31,424,876.00	8.06	6.89
Alaskan Native	10	\$75,000.00	0.02	0.02
Asian	11853	\$131,840,206.00	28.67	28.91
Hawaiian Native	37	\$375,000.00	0.09	0.08
Native American	721	\$7,080,503.00	1.74	1.55
Other Pacific Islander	886	\$9,210,948.00	2.14	2.02
Hispanic or Latino	6741	\$67,516,818.00	16.31	14.81
Women	21369	\$214,878,568.00	51.69	47.12
Rural	4719	\$51,299,206.00	11.41	11.25
LMI Tract	26780	\$291,585,853.00	64.78	63.95
Low Wealth Area	2757	\$30,371,456.00	6.67	6.66
Veteran	716	\$8,522,999.00	1.73	1.87
Impacted Industries				
Highly Impacted Industries	23645	\$263,386,244.00	63.87	65.37
Other Impacted Industries	17697	\$192,590,618.00	36.13	34.63

Data was provided by GO-Biz 2/20/21

SB 87 also addresses a number of issues raised by Members, which were based on comments from constituents and questions which arose from a review of the data. Besides technology challenges during Round 1, which are reported to have been adequately addressed in the second round, two additional issues were outreach and accountability that priority underserved small business owners were, in fact, having an opportunity to receive grant funds. Outreach and accountability were addressed in SB 87, in the following ways:

- **Codification:** The grant program is being codified through enactment of SB 87, which means that related fiscal and policy committees can hold the program accountable. Knowing this will incentivize GO-Biz and the fiscal agent to fully embrace the statutorily mandated outreach.
- **General Mandated Engagement:** The bill requires that the implementation of the program include consultations with local, regional, state, and federal public and private entities.

- **Specific Outreach Activities:** SB 87 requires the Office of the Small Business Advocate to conduct marketing and outreach to ensure equitable awareness and the distribution of grants. In meeting this requirement, the Office of the Small Business Advocate is required to:
 - Engage multiple partners, including, but not limited to, business and nonprofit associations, chambers of commerce, economic development corporations, and other nonprofit mission-based organizations, and organizations with nonprofit expertise.
 - Provide access to technical assistance services covering all counties in the state and in multiple languages to reach non-English-speaking individuals in all counties in the state.
 - Build awareness throughout the state, including in underserved and underbanked communities, by collaborating with multiple community groups to distribute program information, applicant access through multiple branded partner portals, and advertising and social media outreach through owned, paid, and earned media channels.
- **Time Specific Outreach:** Each new funding round is required to be preceded by at least three weeks of outreach activities to small businesses and nonprofits.
- **Using Data to Improve Outreach:** Following each new funding round, the fiscal agent is required to assess service gaps and address outreach deficiencies as necessary to improve program equity.
- **Transparency and Accountability:** The bill requires specific reporting and timelines on awards, including a report to the Legislature.

Framing the Issues

California is still in the midst of addressing the immediate needs of small businesses impacted by the COVID-19 pandemic. Waiting to determine a renewed path forward can, however, not wait. Major decisions are currently being negotiated at the federal level, the Governor's proposed budget for 2021-22, offers an important opportunity that can be seized by the Members of the Assembly Jobs Committee.

The committee regularly engages with a wide range of small business, workforce development, and economic groups. The committee regularly produces COVID-19 updates and maintains a website with useful resources. Based on these discussions the following six issues continue to rise to the top:

1. Small businesses, especially women- and BIPOC-owned businesses, must be a priority in the state's recovery efforts. Data continues to suggest these businesses are having the greatest challenges in accessing technical and financial assistance.
2. Guidance on business operations continues to evolve making it difficult to identify, understand, and implement. Small businesses are concerned about COVID-19-associated legal liability.
3. State contracting opportunities remain limited and with traditional procurement outreach methods on hold, small businesses are finding it difficult to meet prime contractors who may be bidding on state contracts. It is not clear as to all the factors resulting in small businesses and DVBES being excluded from this important source of revenue.
4. COVID-19 is creating many new business operation challenges, including accessing PPE, testing kits for employees, local broadband capacity, and additional costs of operation during the pandemic.
5. COVID-19 is amplifying old business operation challenges, including local broadband capacity, access to capital, and the cost of meeting regulations.
6. Small businesses need grants, even low-interest loans are not sufficient. Eligible entrepreneurs face major hurdles in accessing Pandemic Unemployment Insurance, which has lagged behind traditional UI payments.

Beyond the unique challenges of brought by COVID-19, moving forward also means addressing systemic dysfunctions that have historically impeded the state's global competitiveness, limited ongoing upskilling of workers, impeded the free flow of investment capital, and hindered business start-ups.

While not the only driver, state government has an important role in establishing the conditions that support a vibrant and inclusive economic economy where both workers and entrepreneurs are prosperous.

Committee Contact Information

The Assembly Committee on Jobs, Economic Development, and the Economy is the standing committee of the California State Legislature responsible for overseeing issues related to business formation, foreign trade and investment, industrial innovation and research, and state and local economic development activities. The Committee Office is located in the Legislative Office Building at 1020 N Street, Room 359. The phone number for the Committee is (916) 319-2090.

Appendices

Appendix A

The Impact of the COVID-19 Pandemic on California Small Businesses

February 23, 2021, at the California State Capitol in Room 4202 at 9:30 am

PRELIMINARY AGENDA

The Assembly Committee on Jobs, Economic Development, and the Economy (JEDE) is convening an informational hearing on the economic impact of the COVID-19 pandemic on California small businesses. The objective of the hearing is to provide Assembly Members with a foundation from which to oversee and evaluate state programs and legislative proposals in the coming Session.

I. Welcome, Introductions, and Opening Statements

Chairs and members of the JEDE and SBE Committees will give opening statements and frame the key issues to be examined during the hearing.

II. Overview of the Economic Impact of COVID-19 on California Small Businesses

Small businesses, and especially businesses owned by people of color, have been deeply impacted by the COVID-19 pandemic. This is a central finding of a working paper by **Dr. Robert Fairlie**, which was released by the Stanford Institute for Economic Policy Research, [The Impact of Covid-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey](#). While most major industries in the US faced large drops in the number of business owners, businesses owned by people of color were hardest hit. Using a simulation model, Dr. Fairlie estimates that between February 2020 and April 2020 there was a decrease of 41% among Black-owned businesses, 32% among Latinx-owned businesses, and 26% among Asian-owned business. Dr. Fairlie has released several follow-up papers on changes in business ownership, including [this paper which includes data through June 2020](#). Dr. Fairlie's work has also been cited in the introduction of federal legislation, the [Minority Business Resiliency Act](#), which codifies the Minority Business Development Agency as a permanent federal agency. <https://news.ucsc.edu/2020/08/fairlie-minority-businesses.html>

III. Meeting the Needs of Small Businesses Through a Grant Program (For scheduling purposes, this Agenda Item will be heard immediately following Agenda Item I – Welcome, Introductions, and Opening Statements)

The Governor, in consultation with the Legislature, announced the [Small Business COVID-19 Relief Grant Program](#) in December 2020. Since that time, \$237.5 million in grants have been awarded and a second round of funding should be concluding soon. Grant awards are intended to financially support underserved business-owner groups, businesses in areas most impacted by State-at-Home Orders, and industry sectors most impacted during the pandemic. **Dee Dee Myers**, Senior Advisor to Governor Gavin Newsom and Director of the Governor's Office of Business and Economic Development, will discuss the Governor's economic recovery efforts. She will be joined by **Michelle Radmand**, the Acting Deputy Director and Northern California Regional Advisor Appointee for the California Office of the Small Business Advocate. Together, they will discuss the grant program implementation and outcomes, including its ability to meet priority application and award targets.

IV. Program Innovations to Support the Economic Recovery of Small Businesses from the COVID-19 Pandemic

The state has five primary methods for supporting small businesses' development: technical assistance, access to capital, tax relief, workforce training, and procurement participation. During the pandemic, the state activated and adapted programs to meet the unique challenges of the COVID-19-induced recession. The panelists include:

- **James Watson**, President of the [California Manufacturing Technology Consulting](#) (California's Manufacturing Partnership) will discuss how this federally designated and state and federally funded organization modified its program delivery and services to assist small and medium manufacturers remain viable during the pandemic, including shifting to the production of PPE. The California Manufacturing Technology Consulting is one of [34 state grantees](#) under the [Small Business Technical Assistance Expansion Program](#).
- **Deanna Krehbiel**, Executive Director of Economic Development & Corporate Training at San Bernardino Community College District and representative for the [California Community College Contract Education Collaborative](#) will share information on how the workforce centers quickly pivoted to online learning to serve the small business training needs for new and incumbent workers. She will also discuss how contract education programs have used funding from the state [Employment Training Panel](#) to transition to online learning and focused on the evolving needs of essential workers and businesses.
- **Bianca Blomquist**, Senior Manager, California Policy & Engagement, Small Business Majority, will discuss the range of state lending programs the state is currently supporting, including the new [California Rebuilding Fund](#). The California Legislature approved \$125 million in the [2020-21 Budget](#) to expand the Small Business Loan Guarantee Program and establish California Rebuilding Fund, a direct loan program that blends state funds with other funds of community development financial institutions. Small Business Majority and CAMEO are working with the [California Infrastructure and Economic Development Bank](#) on the deployment of the new and innovative loan product.

V. Public Comment

Anyone interested in addressing the Committee may sign up to speak during the public comment period. Written comments may also be submitted to the JEDE Committee Office.

VI. Closing Remarks

Assembly Members will make closing remarks and offer recommendations for further actions.

Appendix B

Fast Facts on the California Economy

California Gross Domestic Product (GDP)

- California had a \$3.1 trillion economy in 2019. Compared to GDP of nations, this ranks California's 2019 GDP as 5th largest in the world.ⁱ
- Real GDP decreased in all 50 states (-31.4%) in the second quarter of 2020. California real GDP in the second quarter was -31.5%.ⁱⁱ
- New business applications, considered a leading indicator, were up 53.6% at the end of January 2021, as compared to the same time period in 2020.ⁱⁱⁱ

Firms, Employment, and Wages

- There were 3,453,769 establishments in California that had no employees in 2018, representing 78.3% of all establishments in California (4,408,401 in total). These nonemployer businesses received \$189.3 billion in revenues. There were 954,632 establishments that employed 15,223,664 workers and paid over \$1 billion for payroll in 2018.^{iv}
- 2017 is the most recent data available by state and size of business by employment. Of the 763,803 employer firms (including 941,377 total establishments), 62% had 1 to 4 employees, 88.6% had less than 20 employees, 97.3% had less than 100 employees, and 99.1% had less than 500 employees (federal small business definition). Approximately 6,345 firms in California had 500 employees or more.^v
- There were 19 million workers in the California labor force in December 2020 with 17.3 million individuals employed, a month-over decrease of 92,000 jobs (-0.5%). This represents a decrease of 1.5 million jobs (-7.8%) over the prior 12-month period.^{vi}
- Nonfarm employment decreased in all 11 industry sectors between December 2019 and December 2020. Year-over decreases based on number of jobs are as follows: leisure and hospitality employment fell by 610,900 jobs (-29.8%); trade, transportation, and utilities fell by 138,600 (-4.5%); professional and business services fell by 68,900 jobs (-2.5%); education and health services fell by 135,200 jobs (-4.8%); government fell by 199,800 jobs (-7.6%); other services fell by 118,100 jobs (-20.3%); manufacturing fell by 99,900 jobs (-7.6%); information fell by 44,400 jobs (-7.7%); construction increased by 2,900 jobs (0.3%); financial activities increased by 4,400 jobs (0.5%); and mining and logging fell by 1,500 jobs (-0.5%).^{vii}
- California exported \$156.1 billion in goods in 2020 to over 225 foreign markets, representing 11.2% (\$1.4 trillion) of total US exports.^{viii} This is 897 million than 2019^{ix}. California's largest export market in 2020 was Mexico (\$24.1 billion), followed by China and Hong Kong (\$21.4 billion) and Canada (\$15.9 billion).^x California imported \$396 billion in products from other countries, accounting for 16.9% of total US imports in 2020. China (\$130.3 billion) and Mexico (\$47.9 billion) are the state's largest import markets.^{xi}

Projected Job Growth in Employment 2016-2026 (ranked by number of jobs and including new and replacement jobs)							
	Industry Sector	Percent Change	Increase in Jobs		Industry Sector	Percent Change	Increase in Jobs
1	Educational Services, Health Care, and Social Assistance	23.9%	607,400	7	Information	14.6%	76,600
2	Professional and Business Services	11.1%	280,200	8	Other Services (excludes private household services)	10.1%	55,900
3	Leisure and Hospitality	13.3%	252,300	9	Financial Activities	5.2%	42,600
4	Trade, Transportation, and Utilities	6.7%	200,000	10	Total Farm	3.5%	15,000
5	Construction	20.5%	158,600	11	Manufacturing	0.1%	1,300
6	Government	4.6%	116,100	12	Mining	-8.0%	-1,800

- California’s 2019 median household income was \$80,444 for all households (\$68,703 for US) and \$51,676 for nonfamily households.^{xiii} 11.8% of Californians’ households (12.3% in the US) lived on incomes at or below the federal poverty designation in 2019.^{xiii} Using the federal Supplemental Poverty Measure, which accounts for the cost of living using a range of family needs and resources, 17.2% of Californians (12.5% for US) had income insufficient to meet their basic housing needs.^{xiv} An estimated 151,278 individuals experienced homelessness in 2019, based on the single-night survey method.^{xv}

Future California Job Market

- The Employment Development Department estimates that between 2016 and 2026 total civilian employment (including self-employment, farm employment, and private household workers) will reach 19.7 million, an increase of 1.9 million jobs (10.7%) over the 10-year projected period of 2016-2026. The chart at the top of the page displays details of this estimate.^{xvi}

December 2020 Unemployment

- In December 2020, the California seasonally adjusted unemployment rate was 9.0%, up from 0.9% in the prior month. This unemployment rate represents approximately 1.7 million unemployed workers with a labor force participation rate of 60.6%.^{xvii} Over the same period, the comparable national unemployment rate was 6.7%.^{xviii}
- The unemployment rate in 57 of the 58 counties increased in December 2020. The counties with the highest non-seasonally adjusted unemployment were Imperial (17.7%) and Colusa (15.5%). The lowest unemployment rates in California in December 2020 were Santa Clara County (5.9%), San Mateo County (5.8%), and Marin (5.5%). The comparable non-seasonally adjusted state unemployment rate for December 2020 was 8.8%.^{xix}
- The highest unemployment rates in December 2020 by race and ethnicity were among individuals identified as black (12.2%), Hispanic (11.7%), and white (9.9%). The comparable state non-seasonally adjusted 12-month moving average unemployment rate was 10.2%.^{xx}
- The majority (83.1%) of employed individuals in December 2020 reported working full time. There were 1,077,000 persons in California who worked part time involuntarily, comprising 6.3% of all employed workers during the survey week.^{xxi} California’s labor participation rate was 60.6% in

December 2020, representing 19 million people. Individuals not in the labor force but want a job has increased by 1,009,000 from December 2019.^{xxii}

- By age group, the highest unemployment group in December 2020 were workers 16 to 19 years of age (23.6%).^{xxiii} The largest group of unemployed persons, when sorted by duration, were individuals unemployed for 5 to 14 weeks, which represented 682,000 individuals (35.4% of all unemployed.)^{xxiv}

Appendix C

The 2012 Survey of Business Owners

In August 2015, the U.S. Department of Census published initial data from the *2012 Survey of Business Owners*. The last survey was made in 2007. While the data significantly trails real-time, it is the most comprehensive source for tracking trends in entrepreneurship, including ownership by women and individuals of color.

Gender Differences in U.S. Businesses			
	Percent Change 2007 to 2012 Women-Owned Firms	Percent of Change 2007 to 2012 Man and Women-Owned Firms	Percent Change 2007 to 2012 Men-Owned Firms
U.S. Firms	27.5%	-45.8%	7.9%
Receipts from all firms (employer and nonemployer)	35.1%	6.7%	33.8%
Employer Firms	15.7%	-25.8%	5.3%
Receipts from Employer Firms	35.4%	13.2%	34.9%
Employment	19.4%	-11.9%	11.5%
Payroll	35.3%	-0.9%	25.8%

Source: National Women's Business Council

The **Gender Differences in Business Chart** shows selected data from the 2012 Survey of Small Business Owners. Among other findings, the data shows a 27.5% increase in women-owned businesses between 2007 and 2012, as compared to a 7.9% increase in businesses owned by men and a -45.8% decrease in firms owned equally by men and women. Women-owned businesses also experienced the greatest increase in the number of people they employed and wages paid.

States with the highest percentage of women-owned firms included District of Columbia, Georgia, Maryland, New Mexico, and Florida. Delaware, Alaska, North Dakota, Maine, and New Jersey were the states where women-owned firms collected the highest amount of receipts.

Women entrepreneurs, according to the Ewing Marion Kauffman Foundation, have unique skill sets, which both set them apart from other business owners and make them successful entrepreneurs. Among other advantages, the Kauffman Foundation states that women entrepreneurs have a more nuanced understanding of businesses risk/reward profile. Women are more comfortable with financial risks, but more sensitive about risks that may seem foolhardy. The Kauffman Foundation also believes that there is a correlation between a rise in women entrepreneurs and increased business returns and payout ratios.

In California, business ownership by women was up 13.7%, which was the highest among states with the largest number of women-owned businesses. In Texas, women-owned businesses were up 8.7%; Florida, 8.18%; New York, 7.3%; and Illinois, 4.23%. California also had the highest number of Hispanic and Asian American women-owned firms. For businesses owned by Black women, Georgia had the largest number of firms, California had the fifth largest number.

The Comparison of Business Growth by Race, Ethnicity, and Veterans Chart shows additional information from the 2012 Survey of Business Owners relative to race and ethnicity. The largest percentage changes in business

Comparison of Business Growth by Race, Ethnicity, and Veterans	
Business Ownership	Percent Change 2007 to 2012 Number of all Firms
Asian American Women	44.3%
Asian American Men	25.7%
Black Women	67.5%
Black Men	18.8%
Hispanic Women	87.3%
Hispanic Men	39.3%
White Women	10.1%
Veteran Women	29.6%
Veteran Men	7.7%

Source: 2012 Survey of Business Owners

ownership were by Hispanic women, where the number of firms grew by 87.3% between 2007 and from 20012. As a comparison, male Hispanic-owned firms grew by 39.3%.

Appendix D Related Reports

This Appendix provides links to key reports related to small business and the COVID-19 pandemic. It is not an exhaustive list, rather it is intended to support further examination and discovery on this important topic.

- **Analysis of Place-Based Incentives:** Brookings Institute issued a report, *How States Can Direct Economic Development to Places and People in Need*, which “finds that the criteria that governments use to geographically target tax incentives and other place-based programs are often ill-conceived or out-of-date, with the result that initiatives end up serving wealthy locations instead of disadvantaged ones. And even when programs do reach the intended communities, they often are not well-suited to help residents.” Report recommendations include:
 - Targeting programs using quantitative measures
 - Systematically assessing geographic targeting
 - Regularly updating the set of eligible locations
 - Tailoring economic development strategies to local needs
 - Creating job opportunities for low-income residents

https://www.pewtrusts.org/en/research-and-analysis/reports/2021/02/how-states-can-direct-economic-development-to-places-and-people-in-need?utm_campaign=LM+-+GP+-+SFH+-+Missing+the+Target+report+and+webinar+2+2+21&utm_medium=email&utm_source=Pew

- **California Small Businesses Face Difficult Decisions:** Small Business Majority released the results of a California survey in December 2020, *California Small Businesses Face Difficult Decisions As Pandemic Continues And Funding Freezes.* The survey of 418 California small business owners (nearly evenly split between white entrepreneurs and business owners of color) taken between November 10 and 23, 2020. found:
 - 17% of entrepreneurs of color report they are likely to permanently close their business in the next three months, compared to 12% of white business owners.
 - Nearly half say operating capacity has decreased, with 16% reporting their capacity has decreased by more than 50%.
 - Despite efforts to reopen local economies and “get back to normal,” small business owners have had to reduce the number of employees during the height of the pandemic, with more than 60% reporting that they have not restored their headcount to pre-pandemic levels.
 - While about half of small businesses say they applied for PPP loans. Of those who didn’t apply, they largely attributed their reasons to confusion about how to apply, fear over taking on debt, inability to secure a loan through their bank or thinking they were ineligible.
 - 28% of entrepreneurs of color report they may be forced to temporarily close their business in the next three months. Of those, 27% say they may lay off employees permanently, compared to 15% of white entrepreneurs.
 - More than 80% of small business owners support providing direct grant assistance to small businesses, and 76% support another round of PPP loan dispersal.

- **COVID-19's Outsized Toll on Minority-Owned Firms:** The Federal Reserve Bank of Cleveland released a report, *An Uphill Battle: COVID-19's Outsized Toll on Minority-Owned Firms*. Among other findings, the report stated:
 - For firms that are still operating, cash balances are a growing concern, with minority-owned firms experiencing a more severe cash crunch than nonminority-owned firms.
 - Minority-owned firms had less financial reserves and lower average revenues prior to the severe economic downturn.
 - Business sectors with high percentages of minority-owned firms were the same industry sectors most impacted during the COVID-19 recession.
 - Data suggests that minority-owned firms had difficulty in access the federal Paycheck Protection Program, which may have been related to the lack of banking relationships prior to the pandemic.
 - The potential loss of minority-owned firms goes beyond the business and its workers and could have negative consequences to the broader US economy.

<https://www.clevelandfed.org/en/newsroom-and-events/publications/community-development-briefs/db-20201008-misera-report.aspx>

- **Economic Impact of COVID-19 on California Latinos:** The California Latino Economic Institute released a new policy brief that provides new data on the disparate and growing negative impact of COVID-19 on Latinos in California. The briefing was conducted in partnership with Mindy Romero of the Center for Inclusive Democracy (CID) at the USC Price School of Public Policy. The announcement identified the following findings from the briefing:
 - Latinos are overrepresented among California's COVID-19 cases and deaths—59% of cases and 49% of the state's deaths.
 - Latino overrepresentation in California's cases has increased since April 2020.
 - Nearly 12% of California Latinos are currently uninsured—double the rate of other groups.
 - Latino unemployment rates are double those from the same time last year.
 - Nearly two-thirds of California Latinos report experiencing a loss of employment income since March 2020.
 - Over 40% of Latinos currently report that it is somewhat or very difficult to pay their usual household expenses in the last 7 days.
 - Over three-quarters of California small business owners report that COVID-19 has had a moderate to large effect on their businesses.

<http://www.californialei.org/covid>

- **Economic Status of Small Business:** The US Office of Small Business Advocacy released an Economic Bulletin on the status of small businesses during the pandemic. A few highlights include:
 - While there was little change in the total number of self-employed persons, their income declined 13% annualized in the second quarter of 2020. According to the report, this is the largest quarterly decline since quarterly data began to be tracked in 1947). Incomes, at the aggregate-level, are reported to have recovered in the third quarter.

- Net new job growth was strongest among small firms (<500 employees) from 2010 to 2019, accounting for 63% of the private net job creation. These small firms' employee about 50% of all workers. In 2020, small businesses continued play to play an important role within communities having a net job loss of 4.8 million vs 5.3 million for large firms.
- While business openings have been relatively stable for fifteen years, the number of new business applications have spiked in 2020. The specific source of this increase (new or reformation of existing business) is unclear, and the next few months will provide greater clarity.

<https://cdn.advocacy.sba.gov/wp-content/uploads/2020/12/08111415/December-Economic-Bulletin.pdf>

- **Economic Mobility for All Californians:** The California EDGE Coalition has released its policy agenda for 2021. In summary, their policy agenda includes the following:
 1. Support funding for education and workforce training programs to create pathways to quality jobs by integrating competency-based education and credit for prior learning, and better align and expand career tech and adult education programs that respond to high demand sectors of the economy.
 2. Protect, grow, and expand existing and innovative “learn and earn” opportunities by elevating blended learning, including online and hands-on training in high-demand fields, and expanding work-based training opportunities that support workers in underserved communities.
 3. Expand and secure a social safety net for underserved communities to remove barriers to quality jobs by assisting low/no-income students, adult learners, communities of color, and dislocated workers in accessing support services that address basic needs such as food, housing, transportation, childcare, and healthcare.
 4. Secure quality broadband access for all by supporting the expansion of reliable high-speed internet access, especially in underserved communities, in addition to ensuring equitable learning and training can continue while physical distancing orders are in place and close the digital divide.
 5. Support workers and employers in COVID-19 response and recovery by strengthening partnerships between business, education, workforce, and community-based organizations; supporting economic stimulus funding and employer incentives to assist businesses in rebuilding capacity and retaining/rehiring their workforce and reimagine opportunities within the Workforce Innovation and Opportunity Act.
 6. Support the development and implementation of California’s longitudinal data system by ensuring the integration of statewide data across education, workforce, and human services systems is public-facing, transparent, secure, and includes the adult learner and worker voice. Having access to quality public data will help individuals, researchers, policymakers, and advocates inform decision making through outcome transparency and can improve program/institutional effectiveness.

<https://caedge.org/policy-agenda/>
- **LAO Assessment Framework on Green Stimulus:** The Legislative Analyst’s Office (LAO) released a report proposing a framework to assess state-level "green stimulus" proposals. “During economic downturns such as the one California and the United States are currently experiencing, governments often seek to help the economy recover through various initiatives—such as targeted expenditures—referred to as economic stimulus. When such initiatives also have an environmental benefit, they sometimes are labeled as green stimulus. This report is intended

to provide guidance for the Legislature on how to evaluate the merits of state-funded green stimulus proposals, including the degree to which they are likely to provide significant (1) economic stimulus and (2) environmental benefits.” <https://lao.ca.gov/Publications/Report/4308>

- **LAO Analysis of the Small Business COVID-19 Relief Grant:** The California Legislative Analyst has released its analysis of the Small Business Grant proposal in the Governor’s proposed 2021-22 budget. Highlights and findings include:
 - The California Relief Grant program was created in December 2020 with \$500 million in pandemic-related emergency funds. This program awards grants up to \$25,000 to small businesses impacted by the pandemic. The Governor proposes to expand the program by \$575 million General Fund in the current year.
 - The aim of the small business grants--providing targeted financial assistance to businesses affected by the pandemic- is good, but it is not clear whether the program is achieving that goal. The administration has not made available key details about how this program is being administered. Further, applicants and other stakeholders have raised several concerns.
 - While the rapid launch of the small business grants program was reasonable in the context of the pandemic, we think it would now be prudent to defer immediate action on expanding it until the Legislature can get more information about the existing program and consider ways to improve it, as outlined in our handout.

https://lao.ca.gov/Publications/Detail/4316?utm_source=laowww&utm_medium=email&utm_campaign=4316

- **PPIC Commentary on Recovery:** The Public Policy Institute of California released an editorial that was published in CalMatters regarding the state’s challenge in achieving an equitable economic recovery, Commentary: An Equitable Recovery for California Requires Two Key Strategies. “Given the severe economic distress, how can policymakers help our state avoid the pitfalls of previous recoveries, which left low-income Californians further behind? An equitable recovery requires two key strategies: First, target critical support to those most affected in the near term. Second, help people climb the economic ladder in the long term.”

https://www.ppic.org/blog/commentary-an-equitable-recovery-for-california-requires-two-key-strategies/?utm_source=rss&utm_medium=rss&utm_campaign=commentary-an-equitable-recovery-for-california-requires-two-key-strategies?utm_source=ppic&utm_medium=email&utm_campaign=blog_subscriber

- **Small Business Credit Survey:** The Fed Small Business issued a report, 2021 Report on Employer Firms. Key findings include: Small businesses continue to face significant challenges amid the COVID-19 pandemic, including weak demand, heightened expenses, and limited credit availability. Nearly one-third of firms say they’re unlikely to survive without additional government aid until sales recover. The Fed Small Business is a source of small business research and analysis by the 12 Reserve Banks of the Federal Reserve System.
<https://www.fedsmallbusiness.org/survey/2021/report-on-employer-firms>
- **Small Business Pulse Survey:** The US Census Bureau released new data from the third phase of the Small Business Pulse Survey. This data was collected between November 23 and 28, 2020. A selection of results is reported below.
 - 34.8% of responding businesses in California reported that the COVID-19 pandemic has had a large negative impact on their business. This is 6% higher than the national average.
 - 13.3% of responding businesses in California reported they had less workers in the review week than the prior week.

- 42% of responding businesses in California reported re-hiring employees that had been laid off after March 15, 2020.

<https://portal.census.gov/pulse/data/>

- **State Roadmap for Economic Recovery:** National Governors Association issues “State Roadmap for Economic Recovery” to help state leaders respond holistically to the unemployment crisis as well as to recover and build resilience in the post-pandemic economy. The Roadmap includes, a recovery framework and a menu of policy strategies; a selection of state examples and additional resources; and four state case studies featuring new details about how state peers are implementing this framework and policy strategies. <https://www.nga.org/center/publications/roadmap-workforce-recovery/>

Appendix E

Selected Items in the Governor’s Proposed 2020-21 Budget

The budget presents an expenditure plan of **\$227.2 billion** with **\$164.5 billion in General Fund** expenditures, including significant investments to help catalyze an equitable, inclusive and broad-based economic recovery. A summary of the final 2020-19 budget is available [here](#).

The Governor’s proposed budget reflects a **\$16 billion** estimated budget surplus moneys. Funding levels reflect and support the increase in the state's minimum wage to \$14 per hour.

Below is a summary prepared by the JEDE Committee of key economic, community, and workforce development items included in the California Governor’s proposed budget for 2021-22.

Top Level Investments in Combatting COVID-19 and Economic Recovery

- **\$372 million** to speed up administration of **vaccines across all of California’s 58 counties**.
- **\$14.5 billion** in investments designed to **support economic recovery** with a focus on those Californians who have been most impacted by the pandemic.
- **\$90 billion** to support **California schools** – largest commitment to public K-12 education in California’s history.
- **\$34 billion** in actions to **strengthen the state’s fiscal position**, including providing for budget reserves and discretionary surplus deposits.
- According to the Governor’s budget release statement, this proposed budget plan “advances the Governor’s sustained focus on increasing opportunity through education, including early education; increasing the affordability of health care and housing, and effective governance.”

Governor Calls on the Legislature to Take Four Immediate Budget Actions

- **\$2.4 billion** to capitalize the **Golden State Stimulus** program, which would provide \$600 to low-income individuals and families excluded from the federal stimulus, such as undocumented households that file taxes with an Individual Taxpayer Identification Number (ITIN), including parents with US citizen children. This program would assist roughly four million low-income Californians.
- **\$2 billion** targeted specifically to support and accelerate **safe returns to in-person instruction** starting in February.
- **\$575 million** for the **Small Business COVID-19 Relief Grant** program, which provides grants to small-businesses and nonprofits disproportionately impacted by the pandemic. This would more than double the \$500 million allocated by the Governor in consultation with the Legislature on November 30, 2020. Funding for this program is included within the Governor’s \$4.5 billion **Equitable Recovery for California’s Businesses and Jobs** plan.
- **\$70.6 million** to provide immediate and targeted **fee relief for small businesses** including personal services and restaurants. Funding for this fee relief is included within the Governor’s \$4.5 billion **Equitable Recovery for California’s Businesses and Jobs** plan.

Investments in Building Budget Resiliency

\$34 billion in budget resiliency, including, but not limited to:

- **\$15.6 billion** in the **Proposition 2 Budget Stabilization Account** (Rainy Day Fund) for fiscal emergencies.
- **\$3 billion** in the **Public School System Stabilization Account**.
- **\$3 billion** in additional **debt payments required by Proposition 2** in 2021-22. This includes retirement-related liabilities.
- **\$2.9 billion** in the **state's operating reserve**.
- **\$450 million** in the **Safety Net Reserve**.
- The improved revenue picture allows the state to delay \$2 billion in scheduled program suspensions for one year.
- The Budget assumes a **5% permanent reduction in state operations expenditures**, challenging departments and agencies to find more efficient means to provide services to Californians.

Investments in Economic Recovery

\$4.5 billion for the **Equitable Recovery for California's Businesses and Jobs plan**, which includes:

- **\$777.5 million for a California Jobs Initiative**, which focuses on job creation and retention, regional development, small businesses and climate innovation. This includes:
 - **\$340 million** for the **California Competes Tax Credit**, including a new grant component dedicated to job creation and investments in infrastructure.
 - Increases the annual allocation cap from \$180 million per year to \$280 million per year.
 - The new \$250 million grant program dedicates \$50 million to “high-need, high-opportunity areas of the state.”
 - **\$100 million** to expand the **Main Street Small Business Tax Credit from \$100 million to \$200 million**. This credit supports the hiring new employees and rehiring former employees.
 - Mitigating the **state and local tax deduction limitation** for S-corporation shareholders.
 - **\$35 million** to expand the **California Dream Fund**, which was authorized and appropriated \$10 million as part of the 20-21 budget deal. This program is intended to provide seed grants to social entrepreneurs and small businesses in underserved communities.
 - **\$50 million** to recapitalize the **Small Business Loan Guarantee** programs offered through the Small Business Finance Center at the IBank. The \$50 million can leverage up to \$250 million in loans.
 - **\$50 million** to the **California Infrastructure and Economic Development Bank** to undertake activities that benefit underserved businesses in California. This may include the **California Rebuilding Fund**, which offers blended loans through mission driven lenders, including community development financial institutions. The Fund was initially authorized and funded as part of the 2020-21 Budget (\$25 million). An additional \$12.5 million in capitalization was announced in November 2020.

- **\$100 million** to expand the **sales tax exclusion program** administered by the California Alternative Energy and Advanced Transportation Financing Authority. The program is intended to reduce the cost of manufacturing equipment in order to promote innovation and meet the state’s climate goals.
- **\$575 million** for the **Small Business COVID-19 Relief Grant** program, which provides grants to small-businesses and nonprofits disproportionately impacted by the pandemic.
 - This would more than double the \$500 million allocated by the Governor in consultation with the Legislature on November 30, 2020.
- **\$500 million** to the **Infill Infrastructure Grant Program** to fund the development of 7,500 new permanently affordable homes. These funds will help defray the costs of sewers, roads and site preparation, while also supporting construction jobs. \$250 million of these funds are proposed for early action.
- **\$385 million** for targeted investments to build a more sustainable agricultural industry.
- **\$300 million** one-time General Fund for **deferred maintenance of state properties**, including the greening of state properties and instillation of electric vehicle charging stations at state-owned facilities.
- **\$70.6 million** for fee waivers for businesses and individuals impacted by the pandemic, including barbers, cosmetologists, manicurists, bars and restaurants.

Investments in Education and Workforce Development

- **\$90 billion** to support California schools – largest commitment to public K-12 education in California’s history. \$85.8 billion of these funds fall under Proposition 98. This includes:
 - **\$2 billion** to support and accelerate **safe returns to in-person instruction**.
 - **\$4.6 billion** to help **students bounce back** from the impacts of the pandemic
 - **\$400 million** for school-based **mental health services**.
- **\$367.9 million** to support workforce training that assists California’s workers as they adapt to changes in the economy brought about by COVID-19, including:
 - **\$250 million** to support “workforce development and better linkages between higher education and gainful employment, focusing on communities that have been systematically excluded from opportunities to build skills and create wealth.”
 - **\$25 million** to expand existing **High Road Training Partnership Program** apprenticeship programs, and “additional funding for the **California Apprenticeship Initiative** work-based learning opportunities through the community colleges.”
 - Funding for these programs is included within the Governor’s \$4.5 billion **Equitable Recovery for California’s Businesses and Jobs** plan.
- Proposes the establishment of a new **Department of Better Jobs and Higher Wages** and statutory changes to **consolidate the workforce functions** currently spread across the Labor and Workforce Development Agency. Consolidated workforce functions include: The California Workforce

Development Board, the Employment Training Panel, and Workforce Services Branch and Labor Market Information Division, which are currently in the Employment Development Department, and the Division of Apprenticeship Standards currently in the Department of Industrial Relations.

- **\$800 million** in early education strategies, including:
 - **\$300 million** in ongoing funds for **early intervention** for infants, toddlers and preschoolers.
 - **\$250 million** in incentive grants to school district to **expand high-quality transitional kindergarten programs** for all four-year-olds.
 - **\$200 million** for **transitional kindergarten and kindergarten facilities**.
 - **\$50 million** for **professional development** focused on preparing teachers for early childhood programs.
- **Investments in higher education** includes:
 - **Increase of \$786 million** for the **University of California** and the **California State University** “with an expectation that they focus on measurable goals to address equity gaps, further maintain online educational opportunities and expand dual admissions and other innovative strategies that reduce time to degree completion.”
 - The proposed budget **assumes resident tuition and fees remain flat** in 2021-22.
 - \$12.9 million to support and expand existing UC Medical Programs in Medical Education and to establish a new UC Program in Medical Education focusing on Native American communities.
- **\$15 million** to support the continued development of the **Cradle-to-Career Data System**.
- **\$3.8 million** to support the **California Career Guidance Initiative**.

Investments in Climate Change Response, Adaption, and Mitigation

- **\$1.5 billion** for constructing **electric charging and hydrogen fueling stations** and subsidizing purchases of **zero-emissions cars** by low-income individuals. Includes \$465 million for zero-emission vehicles and \$1 billion for zero-emission vehicle securitization.
 - Other eligible expenditures include the purchase of clean trucks, buses, and off-road freight equipment and “Clean Cars 4 All programs.”
 - Funding for these programs is included within the Governor’s \$4.5 billion Equitable Recovery for California’s Businesses and Jobs plan.
- **\$1 billion** to address a **comprehensive wildfire and forest resilience strategy**.
- **\$143 million** to support **30 new fire crews**.
- **\$48 million** to continue phasing in **Black Hawk helicopters and large air tankers**.
- **\$97 million** for the **Climate Catalyst Fund** at the Infrastructure and Economic Development Bank to support forest resilience (\$47 million) and agriculture-specific projects (\$50 million). The Climate Catalyst Fund was established in 2020 to provide a flexible financing tool for climate-related projects.

This program is included within the Governor's \$4.5 billion Equitable Recovery for California's Businesses and Jobs plan.

- **\$17.3 million for earthquake early warning.**

Appendix F

Memorandum from Assembly Jobs Committee on Designing an Equitable Grant Program

MEMORANDUM

DATE: December 1, 2020

FROM: JEDE Committee, Chaired by Assemblymember Sabrina Cervantes

RE: Small Business Grant Program

The Governor is proposing the establishment of a \$500 million grant program to certain small businesses. This memo has been prepared to provide general background on the make-up of businesses in California and to identify some of the fundamental challenges of providing 20,000+ grants to a possible eligibility pool of over 676,000 employer firms or 3.9 million firms if nonemployer firms are included.

Providing grants to a very small group of firms within such a large eligibility pool will require high levels of transparency, clarity of the selection criteria, and verification of information on applications. It is essential to provide specific guidance that proactively addresses the economic disparities among white male business owners on the one hand, and business owners of color and women business owners on the other. We should expect at least the same level of public scrutiny as with the PPP loans.

Small business owners are facing tough choices with lasting financial and personal consequences.

Key Considerations Regarding the Grant

1. ***Definition of an eligible business.*** Several Assemblymembers have addressed this issue and provided recommendations. Additional considerations:
 - a. Can the applicant business be formed as a corporation, cooperative, limited liability corporation, partnership, franchise, social enterprise, and/or nonprofit?
 - b. Can the applicant be a nonemployer firm? This is the most common form of business in the state.
 - c. Will the grants be limited to certain industry sectors?
 - d. Does a business need to demonstrate that it is viable in order to get a grant? We know that many businesses are in the process of closing due to the pandemic.
2. ***Size of the grant and its impact on fairness and equity.*** Based on the information presented, the Governor is proposing 20,000+ grants to be awarded to a potential group of 676,913.
 - a. With only 20,000+ grants to award, the state would only be assisting less than 3% of businesses with less than 20 employees. Given the need to be so selective, how can one application be differentiated from another? Data will need to be kept on who applies, who gets funding, and why certain applications were turned down.
 - b. PPP and other programs have shown that using “first-come-first-serve” is not an effective means to support minority- and women-owned businesses.

- c. Why is the state grant more than doubling the amount of the grant from the federal Economic Impact Disaster Loan Program (aka cash advance), \$10,000 vs. the proposed \$25,000?
 - d. If not every successful applicant receives the full \$25,000 grant, how will the grant amount be determined? This is particularly challenging when the business has debt and financial needs well beyond \$25,000. Given that we are entering month nine of restrictive business operations, the finances of many small businesses will be poor.
3. **Public transparency around issues of equity.** The Legislature will need to insist on receiving public information in real time about the awarding of \$500 million in grants.
- a. Both applicants and awards will need to be tracked and reported in real time. This means that both GO-Biz and the third-party vendor will need to have the capacity to enroll applicants including information on race, gender, number of employees, industry sector, and county of residence.
 - b. Grants to historically underserved business-owner groups must be ensured. Given the constitutional limitations, GO-Biz must create a process that removes structural impediments to women-owned and minority-owned businesses fairly accessing these grants. The efficacy of the award process must be re-tested throughout the process to ensure artificial barriers are not unintentionally impeding women and people of color from receiving grants. This means that grant making must be done in phases to allow time for evaluating outcomes and adjusting accordingly. It is not likely that Assemblymembers will be comfortable with \$500 million being awarded and only later an evaluation is undertaken to determine whether the money was expended well.
 - c. Specific tools and strategies will also need to be employed to ensure geographic equity. How will geographic equity be defined? How will regions be defined? How much will each region receive? Will it be based on the capacity of the organization awarding the funds, the number of small businesses within the region, or some other criteria?
4. **Questionable success unless grant awards are linked to technical assistance.** Advertising small business grants is only one part of helping small businesses recover from the COVID-19 pandemic. There is a sizable amount of research that links successful small business financial programs to those programs that also provide technical assistance. Without this intentional link between technical assistance and funding, California small business response is limited to a bullet list of discrete programs, too often operating in isolation.
- a. The state already contracts with state-designated financial assistance centers and federally designated technical assistance centers to provide free one-on-one counselling and other business development services. The new grant program needs to be linked to the over 80 financial and technical assistance centers currently supported by the state. This will help businesses access a range of services and increase the likelihood of their ongoing viability whether or not they are one of the <3% of businesses awarded a grant.
 - b. The new grant program could become a mechanism for onboarding more businesses into the state's network of small business financial and technical assistance service providers. While not every business that applies will receive a grant, every small business could receive free services tailored to their needs.
 - c. Several Assemblymembers, including the Chairs of the Assembly Jobs Committee and the Assembly Committee on Arts and Tourism, recommended leveraging the state's existing network of small business financial and technical assistance centers, rather than contracting with the Community Development Financial Institutions (CDFIs) as a new direct grantee. The CDFIs could become sub-recipients of the financial and technical assistance center grantees. This arrangement would provide for faster program

delivery, including expedited review of the businesses' economic conditions and verification of outcomes beyond simply which businesses received a grant. Some of this advantage comes from the centers already having protocols and procedures for enrolling and reporting on small business activities funded by the state.

- d. California's existing network of 80+ small business financial and technical assistance providers include: Small Business Development Centers, Women's Business Centers, Veteran Business Outreach Centers, Minority Business Development Centers, Small Business Financial Development Centers, Procurement Technical Assistance Centers, and a Manufacturing Technical Assistance Center. This network currently works one-on-one with small businesses and is capable of delivering a full range of programs and services.
- e. Each of the financial and technical assistance centers are directly overseen by either the state or federal government. CDFIs do not have this same level of evaluation and, if used, GO-Biz would need to make independent judgements about which CDFIs are capable of effectively implementing this new grant program. Using a new grantee that is not annually reviewed by a government entity is risky.

Background on California Small Businesses

In 2017 (most recent full set of data), of the 4.1 million firms in California, there were 3.3 million nonemployer firms as compared to 676,913 employer firms. [*One firm can have multiple establishments.*]

- Total revenues for nonemployer sole proprietorships, across all industry sectors, were \$118 billion in receipts in 2017.
- Businesses with less than five employees are classified as microenterprises. In 2017, there were 473,641 microenterprises which had one or more employees.
- Microenterprises, including both nonemployer and up-to-5-employee businesses, comprise the single largest segment of the California business community, representing 92.9% (3.8 million) of all businesses in the state.

California Employer Businesses by Size (2017)				
Enterprise Employment Size	Number of Firms	Number of Establishments	Employment	Annual Payroll
0-4	473,641	474,301	737,168	\$45.0 billion
<20	676,913	682,756	2,605,213	\$125.5 billion
0-99	743,830	768,456	5,143,522	\$250.5 billion
100-499	13,628	39,757	2,081,423	\$125.0 billion
<500	757,458	808,213	7,224,945	\$375.6 billion
500+	6,345	133,164	7,671,680	\$579.4 billion
Total All Employers	763,803	941,377	14,896,625	\$955.0 billion
<ul style="list-style-type: none"> ▪ An establishment is a single physical location at which business is conducted or performed by one or more paid employees. ▪ A company or enterprise may consist of one or more establishments. ▪ An establishment with 0 employment is an establishment with no paid employees in the mid-March pay period but with paid employees at some time during the year. ▪ This series excludes government establishments except for wholesale liquor establishments (NAICS 4248), retail liquor stores (NAICS 44531), federally-chartered savings institutions (NAICS 522120), federally-chartered credit unions (NAICS 522130), and hospitals (NAICS 622). 				
<small>Source: US Census, SUSB Series</small>				

The chart below displays 2017 data (most recent full set of data) on California employer businesses, including payrolls, employment, and number of firms, which may be comprised of one or more establishments.

Excluding nonemployer firms, businesses with less than 20 employees comprise over 88.6% of all businesses and employ approximately 17.4% of all workers. Businesses with less than 100 employees represent 97.3% of all businesses and employ 34.5% of the workforce.

SC/TS:me

Appendix G

Initial Data from Department of Finance on Small Business COVID-19 Grant Program

Table 1: Geographic Distribution of CA Relief Grant Round 1

County	Amount Requested	% of Total	Number of Requests	% of Total	Total Population	% of Total	Total Working Age Pop	% of Total
Alameda	\$10,097,744	4.3%	884	4.2%	1,671,329	4.2%	956,523	4.5%
Alpine	\$45,000	0.0%	5	0.0%	1,129	0.0%	533	0.0%
Amador	\$175,000	0.1%	17	0.1%	39,752	0.1%	20,608	0.1%
Butte	\$1,276,500	0.5%	94	0.4%	219,186	0.6%	102,943	0.5%
Calaveras	\$250,000	0.1%	24	0.1%	45,905	0.1%	22,489	0.1%
Colusa	\$102,000	0.0%	14	0.1%	21,547	0.1%	10,553	0.1%
Contra Costa	\$6,820,499	2.9%	627	3.0%	1,153,526	2.9%	614,668	2.9%
Del Norte	\$150,000	0.1%	9	0.0%	27,812	0.1%	14,804	0.1%
El Dorado	\$1,125,000	0.5%	96	0.5%	192,843	0.5%	99,125	0.5%
Fresno	\$6,070,092	2.6%	527	2.5%	999,101	2.5%	495,065	2.3%
Glenn	\$135,000	0.1%	13	0.1%	28,393	0.1%	13,756	0.1%
Humboldt	\$769,494	0.3%	78	0.4%	135,558	0.3%	67,709	0.3%
Imperial	\$1,072,500	0.5%	92	0.4%	181,215	0.5%	87,480	0.4%
Inyo	\$85,000	0.0%	5	0.0%	18,039	0.0%	8,920	0.0%
Kern	\$5,495,000	2.3%	466	2.2%	900,202	2.3%	450,207	2.1%
Kings	\$771,000	0.3%	62	0.3%	152,940	0.4%	78,999	0.4%
Lake	\$349,750	0.1%	28	0.1%	64,386	0.2%	31,676	0.2%
Lassen	\$130,000	0.1%	12	0.1%	30,573	0.1%	17,624	0.1%
Los Angeles	\$60,827,462	25.7%	5,314	25.2%	10,039,107	25.4%	5,547,860	26.3%
Madera	\$818,010	0.3%	79	0.4%	157,327	0.4%	77,006	0.4%
Marin	\$1,430,000	0.6%	116	0.6%	258,826	0.7%	131,001	0.6%
Mariposa	\$115,000	0.0%	7	0.0%	17,203	0.0%	8,437	0.0%
Mendocino	\$500,000	0.2%	37	0.2%	86,749	0.2%	42,283	0.2%
Merced	\$1,672,000	0.7%	153	0.7%	277,680	0.7%	133,782	0.6%
Modoc	\$45,000	0.0%	5	0.0%	8,841	0.0%	4,165	0.0%
Mono	\$65,000	0.0%	5	0.0%	14,444	0.0%	8,235	0.0%
Monterey	\$2,638,990	1.1%	233	1.1%	434,061	1.1%	217,745	1.0%
Napa	\$830,000	0.4%	68	0.3%	137,744	0.3%	71,192	0.3%
Nevada	\$565,000	0.2%	52	0.2%	99,755	0.3%	48,773	0.2%
Orange	\$19,070,461	8.1%	1874	8.9%	3,175,692	8.0%	1,715,453	8.1%
Placer	\$2,344,000	1.0%	214	1.0%	398,329	1.0%	202,009	1.0%
Plumas	\$92,500	0.0%	12	0.1%	18,807	0.0%	9,019	0.0%
Riverside	\$14,537,499	6.2%	1172	5.6%	2,470,546	6.3%	1,255,213	5.9%
Sacramento	\$9,338,601	4.0%	973	4.6%	1,552,058	3.9%	834,234	4.0%
San Benito	\$335,000	0.1%	34	0.2%	62,808	0.2%	32,804	0.2%
San Bernardino	\$13,112,992	5.5%	1082	5.1%	2,180,085	5.5%	1,130,499	5.4%
San Diego	\$19,929,371	8.4%	1988	9.4%	3,338,330	8.4%	1,803,720	8.5%
San Francisco	\$5,347,500	2.3%	463	2.2%	881,549	2.2%	561,258	2.7%
San Joaquin	\$4,622,997	2.0%	386	1.8%	762,148	1.9%	384,980	1.8%
San Luis Obispo	\$1,655,000	0.7%	135	0.6%	283,111	0.7%	132,075	0.6%
San Mateo	\$4,561,966	1.9%	381	1.8%	766,573	1.9%	428,936	2.0%

County	Amount Requested	% of Total	Number of Requests	% of Total	Total Population	% of Total	Total Working Age Pop	% of Total
Santa Barbara	\$2,704,999	1.1%	211	1.0%	446,499	1.1%	208,307	1.0%
Santa Clara	\$11,656,695	4.9%	1030	4.9%	1,927,852	4.9%	1,082,519	5.1%
Santa Cruz	\$1,593,993	0.7%	133	0.6%	273,213	0.7%	133,480	0.6%
Shasta	\$1,045,869	0.4%	93	0.4%	180,080	0.5%	89,623	0.4%
Sierra	\$65,000	0.0%	5	0.0%	3,005	0.0%	1,410	0.0%
Siskiyou	\$235,000	0.1%	19	0.1%	43,539	0.1%	20,474	0.1%
Solano	\$2,610,195	1.1%	232	1.1%	447,643	1.1%	237,978	1.1%
Sonoma	\$2,911,000	1.2%	252	1.2%	494,336	1.3%	257,233	1.2%
Stanislaus	\$3,304,698	1.4%	290	1.4%	550,660	1.4%	277,262	1.3%
Sutter	\$590,000	0.2%	48	0.2%	96,971	0.2%	48,591	0.2%
Tehama	\$317,500	0.1%	31	0.1%	65,084	0.2%	31,974	0.2%
Trinity	\$56,648	0.0%	5	0.0%	12,285	0.0%	6,021	0.0%
Tulare	\$2,831,500	1.2%	285	1.4%	466,195	1.2%	222,974	1.1%
Tuolumne	\$282,014	0.1%	19	0.1%	54,478	0.1%	27,064	0.1%
Ventura	\$4,954,000	2.1%	439	2.1%	846,006	2.1%	440,979	2.1%
Yolo	\$1,301,011	0.6%	105	0.5%	220,500	0.6%	101,721	0.5%
Yuba	\$450,000	0.2%	34	0.2%	78,668	0.2%	39,461	0.2%
Total California	\$236,284,050	100.0%	21,067	100.0%	39,512,223	100.0%	21,101,432	100.0%

Source: Provided by the Department of Finance

Appendix H Biographies of Speakers

Witnesses Biographies (alphabetical order)

Bianca Blomquist, Senior Manager, California Policy & Engagement, Small Business Majority

Bianca Blomquist handles Small Business Majority's policy and legislative efforts throughout California and manages outreach in Northern California. She develops relationships with stakeholders to empower the voice of small business owners and reports to the Vice President, California. Currently, she leads the Silicon Valley small business taskforce on federal and state funding and serves as liaison to the Jobs, Economic Development and the Economy (JEDE) Committee in the California State Legislature.

Prior to joining Small Business Majority, Bianca served as a legislative aide on Capitol Hill for a member of the House Financial Services Committee and current Attorney General for the State of Minnesota. She also worked on federal affairs issues for five years including healthcare, labor, transportation and trade.

Robert Fairlie, Professor of Economics at the University of California, Santa Cruz and Research Associate

Robert Fairlie is Professor of Economics at the University of California, Santa Cruz and Research Associate, NBER. His research interests include entrepreneurship, education, information technology, inequality, labor economics, and immigration. He received his Ph.D. and M.A. from Northwestern University and B.A. with honors from Stanford University. He has held visiting positions at Stanford University, Yale University, UC Berkeley and Australian National University. He has received funding for his research from numerous government agencies and foundations. He has testified to the U.S. Senate, U.S. House of Representatives, U.S. Department of Treasury, and the California State Assembly regarding the findings from his research, and received a joint resolution from the California Legislature.

Deanna Krehbiel, MBA, CCT, Interim Executive Director, Economic Development & Corporate Training, San Bernardino Community College District

Deanna is the Interim Executive Director for Economic Development & Corporate Training at San Bernardino Community College District (SBCCD). She has served for nearly eleven years at SBCCD providing customized rapid response not-for-credit training for the economic and workforce development in our community. In this role, she coordinated the work of designing, customizing, and developing training plans for upskilling businesses' employees and reskilling marginalized populations to gain employment.

In addition, she helped establish the statewide community college contract education collaborative. Over 20 colleges participate statewide to collaborate on training projects, bring awareness to upskilling and reskilling needs, and share best practices.

Other Professional Positions:

- Chair Economic Development & Contract Education, Inland Empire Desert Regional Consortium (IEDRC)
- Founding Member, Executive Board UpSkill Statewide Community College Contract Education Collaborative Member

Educational Highlights:

- Chapman University, B.S. Social Sciences, Minor in Psychology
- California State University San Bernardino, M.B.A
- Certified Contract Trainer CCT LERN

Dee Dee Myers, Senior Advisor to Governor Gavin Newsom and Director of the Governor’s Office of Business and Economic Development

Dee Dee Myers is Senior Advisor to Governor Gavin Newsom and Director of the Governor’s Office of Business and Economic Development. She brings more than three decades of experience in strategic communications, public affairs, corporate governance and social responsibility in both the public and private sectors.

Most recently, she served as Executive Vice President, Worldwide Corporate Communications and Public Affairs for Warner Bros. She was a member of the company’s executive committee and advised the CEO on a wide range of issues. Prior to joining Warner Bros., Ms. Myers served as Managing Director of the Glover Park Group.

Ms. Myers served as White House Press Secretary during President Bill Clinton’s first term and was the first woman to hold the position. After leaving the White House, she worked as a political analyst, commentator and writer as well as a contributing editor to *Vanity Fair*. She is the author of *The New York Times* best-selling book “Why Women Should Rule the World” and served as a consultant on the Emmy Award-winning drama series “The West Wing.”

Before joining the Clinton presidential campaign in 1991, Ms. Myers worked on a number of local, state and national campaigns. She served as press secretary for Dianne Feinstein in her 1990 bid for governor of California and worked on the presidential campaigns of Governor Michael S. Dukakis and Vice President Walter F. Mondale. She also worked on the staffs of Los Angeles Mayor Tom Bradley and California State Senator Art Torres.

Myers also serves on Board of Directors of Wynn Resorts International, a publicly- traded Fortune 500 Company that develops and operates 5 Star integrated resorts in the United States and Macau. She also serves on the boards of the Smithsonian’s National Museum of American History and the Mayor’s Fund for Los Angeles. A graduate of Santa Clara University, she lives in Los Angeles with her husband, Todd S. Purdum and their children.

Michelle Radmand is currently the Acting Deputy Director and Northern California Regional Advisor Appointee for the California Office of the Small Business Advocate

Michelle Radmand is currently the Acting Deputy Director and Northern California Regional Advisor Appointee for the California Office of the Small Business Advocate (CalOSBA) at the Governor’s Office of Business and Economic Development (GO-Biz). As the Northern Regional Advisor, Michelle supports the mission of CalOSBA to support economic growth and innovation in California by working to ensure that all of its small businesses and entrepreneurs have the resources they need to startup, connect to capital, connect to markets, and grow their business. Michelle has been with the CalOSBA/GO-Biz since August 2018.

Prior to her current appointment, Michelle was the Program Manager for CalOSBA and managed all programs including the Capital Infusion Program, Technical Assistance Program, Technical Assistance Expansion Program totaling \$23 million in state funds to support California’s federally designated small business technical assistance centers expand their services to underserved communities and small business

groups; and, Made in California and the innovation hub network (iHub), which included the California Advanced Supply Chain Analysis and Diversification Effort (CASCADE) and worked with partners to bolster California's defense supply chain cybersecurity resilience, innovation capacities and diversify strategies.

Michelle formerly worked for the Los Rios Community College District's Center for International Trade Development as the International Special Projects Manager from 2013 to 2018. During her time, she co-managed SBA's California State Trade Export Promotion (STEP) program with the Governor's Office of Business and Economic Development. She assisted over 200 businesses increase their export promotion efforts overseas, facilitated and participated in inbound and outbound delegations, and aided in businesses securing overseas contracts. In addition to STEP, Michelle managed other State and Federal economic development programs, with a focus on small business export and global entrepreneurship, including a USDA Rural Business Development grant, CDFA Specialty Crop Block Grant, CDFA Climate Smart Action, California Community College Chancellor's Office (CCCCO) of Workforce and Economic Development SB1402 and 1070, and the CCCCCO Strong Workforce Program.

Michelle holds a Master of Business Administration degree with an emphasis in project management from California Southern University, and a bachelor's degree in Political Science with an emphasis in international relations from the University of California, Davis.

James Watson is the President and CEO of California Manufacturing Technology Consulting (CMTC).

Mr. Watson started with the California Manufacturing Technology CMTC in 1999 as Vice President of Business Development and transitioned to the position of Vice President of Operations in 2001 with responsibility for the day-to-day operations of CMTC. He was appointed President and CEO in 2011.

Mr. Watson is responsible for crafting the future vision of CMTC, promoting the importance of the manufacturing sector and expanding the awareness of CMTC's capabilities throughout California. With over 30 years of management experience in areas of strategic planning, operations management, organizational design, sales and marketing and change management, Mr. Watson brings a wide range of knowledge to his position as President and CEO. He started his career with Western Airlines advancing to Vice President of Passenger and Cargo Sales, then became the Vice President and General Manager of SuperShuttle International before moving to Anchor Audio as the Vice President of Sales and General Manager, Europe.

Mr. Watson holds a bachelor's degree in political science from California State University, Northridge.

End Notes

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