

Date of Hearing: April 27, 2021

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY
Sabrina Cervantes, Chair

AB 1573 (Committee on Jobs, Economic Development, and the Economy) – As Amended April 20, 2021

SUBJECT: Small business technical assistance: California Business Retention Program

POLICY FRAME: Small businesses form the core of the California economy. Too often overlooked, these small size businesses frequently do double duty as the state’s top job creators and innovations. Based on prior program experience, technical assistance to small businesses results in many advantages, including lower default rates, higher sales tax revenues, and new hires. The California Small Business Technical Assistance Expansion Program (SB TAEP) was established in 2018 for the purpose of providing direct assistance to small businesses within a statewide network of 80+ federally-designated small business technical assistance centers.

During the pandemic, these centers have worked collaboratively with local governments, chambers of commerce, and economic development organizations to meet the needs of small businesses struggling to survive during mandatory shut downs, partial re-openings, and evolving regulatory obligations.

AB 1573, a committee bill, expands the provisions of SB TAEP to support local business retention programs. This expanded program is required to be funded through a separate appropriation from the Legislature for this purpose. The analysis includes information on the California small business economy, the history of SB TAEP, and studies on the impact of the COVID-19 pandemic on small businesses. There is no known opposition to the bill.

SUMMARY: AB 1573 establishes a supplemental grant program within SB TAEP, for the purpose of supporting local small business retention programs. Specifically, the bill:

- 1) Authorizes the establishment of the Small Business Retention Program which is to be delivered through the SB TAEP administrative structure.
- 2) Conditions implementation of the Small Business Retention Program to an appropriation of funds by the Legislature.
- 3) Provides that the purpose of the Small Business Retention Program is to:
 - a) Support local small business retention programs by providing state matching funds.
 - b) Expand the network of small business technical assistance centers and providers who will collectively contribute their on-the ground experience to an early warning system to alert the Governor’s Office of Business and Economic Development and other state, federal, and local partners of trending business challenges and individual negative business outcomes.
- 4) Specifies eligible applicants to include a federal small business technical assistance center, local government, local government, or any established nonprofit community-based organization, exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code, the mission of which includes economic or business development that operates entrepreneurial or small business development programs that provide free or low-cost services to California’s underserved businesses and entrepreneurs.

- 5) Requires grant funds to be matched by non-state funds, as specified.
- 6) Requires the Small Business Retention Program to provide a preference to applications that propose new or enhanced services to underserved business groups, including women, minority, and veteran-owned businesses, and businesses in low-wealth, rural, and disaster-impacted communities included in a state or federal emergency declaration or proclamation. This is the same preference as used for other SB TAEP grants.
- 7) Requires grantees to report process and outcomes consistent with SB TAEP procedures.

EXISTING LAW:

- 1) Establishes SB TAEP for the purpose of providing technical assistance to small businesses through partnership agreements with one or more federally-designated small business technical assistance centers.
 - a) Defines a “federal small business technical assistance center” to include, but not limited to, small business development centers, women’s business centers, veterans business outreach centers, manufacturing extension partnership centers, minority business development business centers, and procurement technical assistance centers that operate in California under federal contracts.
 - b) Specifies, as a condition of SB TAEP funding, that each small business technical assistance center agrees to submit an annual report, which includes, at a minimum, the number of businesses assisted, the amount of funds awarded, the size of businesses assisted, the city and county in which the businesses assisted are located, and the industry sectors of the businesses assisted, as reported by the assisted businesses.
- 2) Requires a preference be given to SB TAEP applications that propose new or enhanced services to underserved business groups, including women-, minority-, and veteran-owned businesses, and businesses in low-wealth, rural, and disaster-impacted communities included in a state or federal emergency declaration or proclamation.
- 3) Sunsets the SB TAEP on January 1, 2024.

FISCAL EFFECT: Unknown

COMMENTS & CONTEXT:

- 1) **Small Businesses and Coronavirus:** Economic developers, finance professionals, and even the Office of the Legislative Analyst have agreed 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:
 - a) 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.*]
 - b) 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.

- c) 40% of the vulnerable small business jobs fall within two occupational categories: food service and customer service and sales.
- d) 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.
- e) 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.
- f) 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 that engage 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.

AB 1573, a JEDE committee bill, expands an existing small business technical assistance program to provide grants to local governments, chambers of commerce, and economic development organizations to operate business retention programs.

- 2) **A Closer Look at the Impact of COVID-19 on Businesses:** During the initial months of the 2021-22 legislative session, the Assembly Committee on Jobs, Economic Development, and the Economy held several hearings examining policy options for supporting an inclusive economic recovery. Dr. Robert Fairlie, University of California Santa Cruz, testified at the Committee’s February 23, 2021 hearing and provided an overview of the economic impacts of the pandemic on small business owners in the US and in California. His presentation began with his work, [*The Impact of Covid-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey*](#). In this report 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 impacted, experiencing a 25% decline in business activity.

Dr. Fairlie regularly tracked business activity by demographic group and found that by June 2020, business activity had returned, but was still down substantially from pre-pandemic levels, “[*The Impact of COVID-19 on Small Business Owners: The First Three Months after Social Distancing*](#),” published in Journal of Economics and Management Strategies in August 2020.

While overall business activity was down -8% in June, 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%). **Chart 1** shows this transition on a monthly basis, for selected business-owners of color.

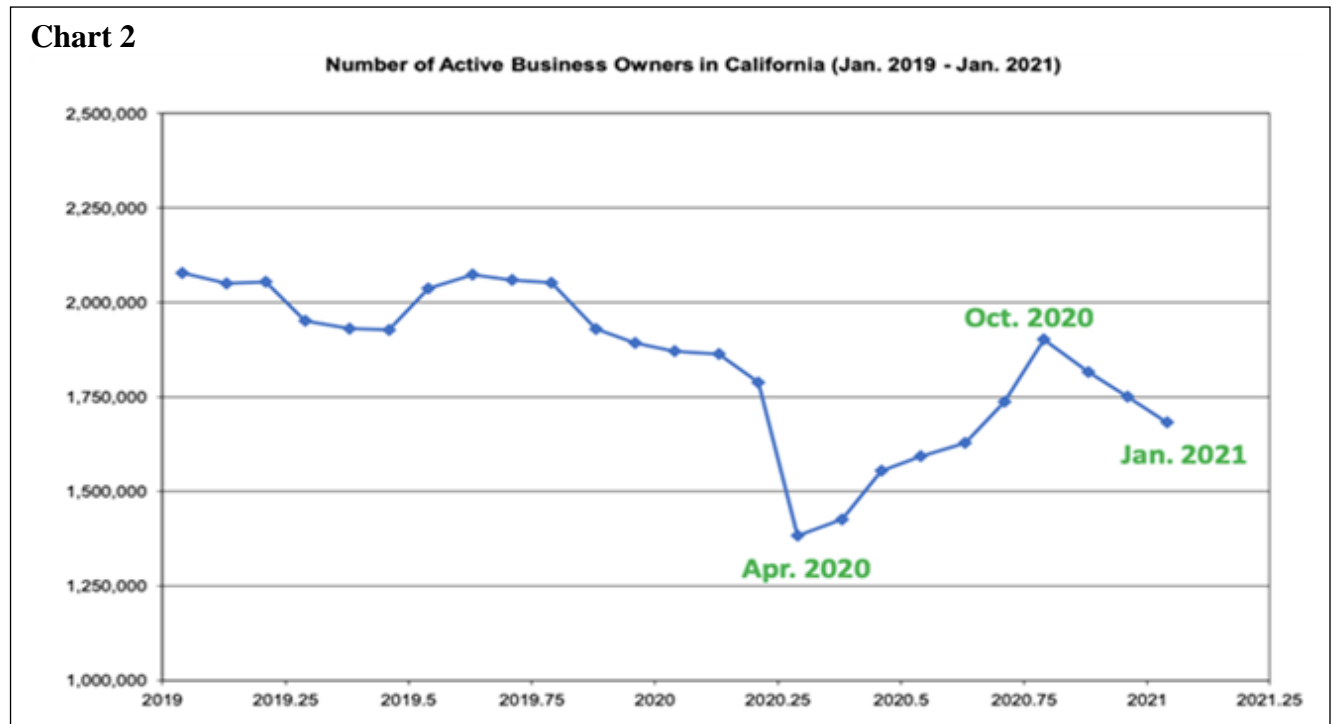
Chart 1 - Change in Number of Active US Business Owners by Race and Ethnicity									
	African-American			Latinx			Asian		
	Relative to			Relative to			Relative to		
	Feb. 2020	Month in Prev. Yr.	Reg. Adjusted	Feb. 2020	Month in Prev. Yr.	Reg. Adjusted	Feb. 2020	Month in Prev. Yr.	Reg. Adjusted
Feb. 2020	0%	2%	0%	0%	5%	0%	0%	-1%	0%

Mar. 2020	0%	13%	-6%	-6%	-3%	-4%	5%	4%	6%
Apr. 2020	-41%	-38%	-52%	-32%	-28%	-32%	-26%	-36%	-29%
May 2020	-26%	-23%	-35%	-19%	-14%	-20%	-21%	-24%	-24%
June 2020	-19%	-24%	-28%	-10%	-4%	-8%	-10%	-14%	-10%
July 2020	-10%	-18%	-18%	-11%	0%	-10%	-9%	-5%	-7%
Aug. 2020	1%	-2%	-5%	-3%	2%	-3%	-11%	-11%	-9%
Sept. 2020	2%	-6%	-6%	1%	0%	0%	-17%	-12%	-20%
Oct. 2020	7%	-3%	-4%	3%	1%	-1%	-15%	-5%	-17%
Nov. 2020	3%	0%	-5%	5%	-1%	-2%	-22%	-16%	-27%
Dec. 2020	-3%	-10%	-12%	-3%	-1%	-7%	-20%	-20%	-23%

Notes: (1) Estimates are a continuation from those reported in Fairlie, Robert. 2020. "The Impact of COVID-19 on Small Business Owners: The First Three Months after Social-Distancing Restrictions" Journal of Economics and Management Strategy. (2) Reg. Adjusted estimates are based on regression analysis accounting for trends and seasonality (monthly).

Source: Robert W. Fairlie, Professor of Economics, University of California, Santa Cruz, <https://people.ucsc.edu/~rfairlie/current/>

- 3) **California Small Businesses in the Pandemic:** According to Dr. Fairlie’s testimony at the February 23, 2021 hearing, it was estimated to be over 1.8 million small businesses in California at the end of January of 2020. By the end of January 2021, he reported that the number of small businesses in California had fallen to 1.6 million. In the First Quarter of 2020 business activity decreased by an estimated loss of 100,000 businesses, followed by a 200,000 decrease in the Second Quarter. In the Third Quarter, as businesses began reopening, business activity increased by 165,000 businesses in California. In the final Quarter of 2020, business activity was up by 10,000.¹ In considering this rise in business activity, it is important to note that this data is reported in aggregate numbers and does not distinguish between new business activity and activity attributed to the continuation of existing businesses. *Chart 2 - California Small Businesses*, part of the slide deck provided by Dr. Fairlie tracks business activities from January 2019 through January 2021.



Among other features, the data shows that although there has been some recovery from the steep drop in business activity experienced in April, California has not recovered to pre-pandemic small business activity levels.

- 4) **Survey of California Business Owners:** In conjunction with the February 23 hearing, Small Business Majority released the results of a California survey it undertook in December 2020, "[California Small Businesses Face Difficult Decisions As Pandemic Continues And Funding Freezes](#)," which found:
- **Temporarily Close:** 28% of entrepreneurs of color reported they may be forced to temporarily close their business in the next three months. Of those, 27% say they may lay off employees permanently, as compared to 15% of white entrepreneurs.
 - **Permanently Close:** 17% of entrepreneurs of color reported they are likely to permanently close their business in the next three months, compared to 12% of white business owners.
 - **Struggling to Pay Bills:** Nearly 6 in 10 (57%) small businesses who own or rent commercial spaces, reported they are currently struggling to pay their rent or mortgage, with 64% of entrepreneurs of color reporting the same. Entrepreneurs of color are more likely to be struggling, with 37% having missed their payments and 32% behind on payments, as compared to all small business respondents, 28% and 25%.
 - **Operating Capacity and Employment:** Nearly half say operating capacity has decreased, with 16% reported their capacity has decreased by more than 50%. More than 60% reporting that they have not restored their headcount to pre-pandemic levels.
 - **Limited Access to Capital:** While about half of small businesses say they applied for Paycheck Protection Program 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 not ineligible.

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.

- 5) **The Role of Small Businesses within 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 U.S. 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 positive economic impacts of trade within the California economy.

In 2018 (most recent data), of the 4.4 million establishments in California, there were 3.4 million nonemployer establishments as compared to 954,632 employer establishments. The top three industry sectors with the largest number of nonemployer sole proprietorships included professional, scientific, and technical services (593,897 establishments); transportation and warehousing (406,364); and Other Services [except Public Administration] (379,626). Total establishments revenues for nonemployer sole proprietorships, across all industry sectors, were \$189 billion in receipts in 2018. As these non-employer businesses grow, they continue to serve as an important component of California's dynamic economy.

Businesses with less than five employees are classified as microenterprises. In 2017, there were 473,641 microenterprises which had one or more employees. 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.

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.

These nonemployer and small employer firms create jobs, generate taxes, support important industry sectors, and revitalize communities. However, their small size also results in certain market challenges, including 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.

- 6) **Governor's Office of Business and Economic Development:** In April 2010, the GO-Biz was established to provide a one-stop-shop for serving the needs of businesses and economic developers. While initially established through Executive Order S-01-10 and partnership agreements with the Small Business Development Centers, the office was later codified and renamed the Governor's Office of Business and Economic Development [*AB 29 (John A. Pérez), Chapter 475, Statutes of 2010*].

The Governor's 2012 reorganization plan (GRP2) further aligned the state's economic development-related administrative structure. Key changes included the dismantlement of the Business, Transportation, and Housing Agency and the shifting of a number of programs and services to GO-Biz, including:

- The Small Business Loan Guarantee Program;
- The California Travel and Tourism Commission;
- The California Film Commission;
- The Film California First Program; and
- The Infrastructure and Economic Development Bank.

In 2018, GO-Biz assisted over 25,000 businesses through programs and services administered through its six service units: California Business Investment Services, the Office of Permit Assistance, the

Office of the Small Business Advocate (OSBA), International Affairs and Business Development, the California Competes Tax Credit Program, and the Innovation and Entrepreneurship Program.

The OSBA oversees a number of programs and services, including advocacy on small business regulatory and legislative issues, administering the Made in California Labeling Program, maintaining an informational website, and providing advisory assistance to small businesses in the areas of regulatory compliance, business start-up and expansion, capital formation, and disaster preparedness. The SB TAEP is also administered through the OSBA, and it provides grants to federal small business technical assistance centers to provide one-on-one counseling to help small businesses access capital.

The Small Business Retention Program expands SB TAEP to address the challenges of business retention and recovery during the COVID-19 pandemic. In doing so, it is furthering GO-Biz's ability to serve as a strategic resource for start-ups, small businesses, and entrepreneurs in California.

- 8) **Related Legislation:** Below is a list of bills from the current and prior sessions.
- a) ***AB 184 (E. Garcia) Small Business Technical Assistance Act of 2015:*** This bill would have designated the Governor's Office of Business and Economic Development as the lead entity for facilitating the state's engagement with five key federal small business technical assistance programs: the Small Business Development Centers, the Women's Business Center program, the Veteran Business Outreach Center program, the Service Corps of Retired Executives, and the Procurement Technical Assistance Cooperative Agreement program. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2015.
 - b) ***AB 1632 (Assembly Budget Committee) Financing and Technical Assistance Funds for Small Businesses:*** This bill provided \$32.35 million in funds for small business finance and technical assistance, which leveraged \$174 million in federal and in-kind funding. The \$32.35 million was allocated as follows: \$20 million was appropriated for use within the state Small Business Loan Guarantee Program; \$6 million to provide a federal match for California SBDCs to draw-down federal dollars; \$6 million for the California Capital Access Program for loss reserve programs; and \$350,000 to the Federal Technology Program to draw-down federal dollars. Status: Signed by the Governor, Chapter 731, Statutes of 2010.
 - c) ***AB 2206 (Price) Small Business Development Centers:*** This bill would have re-established the California Small Business Development Center Program through the auspices of the Business, Transportation, and Housing Agency. Status: Held in Assembly Committee on Appropriations, 2008.
 - d) ***AB 1807 (Assembly Jobs Committee) Small Business Technical Assistance Program:*** This bill would have modified provisions of the Small Business Program by clarifying the content of the Request for Proposal, reporting requirements, and administrative procedures. Status: Held in Assembly Appropriations Committee, 2019.
 - e) ***AB 1817 (Assembly Budget Committee) Small Business Technical Assistance:*** This bill established the Small Business Technical Assistance Expansion Program for the purpose of assisting small businesses through free and low-cost one-on-one counseling and low-cost training by entering into grant agreements within one or more federal small business technical assistance centers. Status: Signed by the Governor, Chapter 37, Statutes of 2018.
 - f) ***AB 2670 (Medina) Small Business Technical Assistance Centers:*** This bill would have designated the Governor's Office of Business and Economic Development as the lead state entity for overseeing the state's participation and collaboration with the federal small business technical

assistance programs. Status: Held on the Suspense File in the Assembly Committee on Appropriations, 2014. As a result of this bill and AB 2717, \$2 million dollars was provided in the Budget to the SBDCs for assisting small businesses in accessing capital.

- g) **AB 2717 (Bonta) Funding for Small Business Development Centers:** This bill would have appropriated \$6 million for the purpose of assisting SBDC Administrative Lead Centers in providing the mandatory match to draw-down federal funds. Status: Held on the Suspense File in the Assembly Committee on Appropriations, 2014. As a result of this bill and AB 2670, \$2 million dollars was provided in the budget to the SBDCs for assisting small businesses in accessing capital.
- h) **AB 2900 (Assembly Jobs Committee) Small Business Centers Reporting:** As passed by the *Assembly Jobs Committee*, this bill requires a state department that awards funds to a federal small business technical assistance center to report to the Legislature in the following year. Among other data, the department would be required to report on the number of businesses assisted, industry sectors of those businesses, and the general geographic location. Amendments taken in the Senate removed the contents of the bill and added the provisions in AB 2901 with amendments. As signed, this bill expands the mandatory annual reporting of data on the California Competes Tax Credit to include the city and county of the business location, and whether the business is located in areas of high unemployment or high poverty, as specified. Status: Signed by the Governor, Chapter 582, Statutes of 2016.

REGISTERED SUPPORT / OPPOSITION:

Support

Coalition of Small and Disabled Veteran Businesses
Flasher Barricade Association

Opposition

None on File

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ⁱ Robert Fairlie, "California State Assembly, Feb. 2021- Written: Testimony", <https://people.ucsc.edu/~rfairlie/current/>, accessed February 24, 2021 and United States Census Bureau, "2017 SUSB Annual Data Tables by Establishment Industry", <https://www.census.gov/data/tables/2017/econ/susb/2017-susb-annual.html>, accessed November 25, 2020, and United States Census Bureau, "2018 CBP and NES Combined Report", <https://www.census.gov/data/tables/2018/econ/nonemployer-statistics/2018-combined-report.html>, accessed October 3, 2020, and United States Census Bureau, "2018 CBP and NES Combined Report", <https://www.census.gov/data/tables/2018/econ/nonemployer-statistics/2018-combined-report.html>, accessed October 3, 2020.