

## 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. Providing false hope to people who may be losing their business is not sound public policy, especially when those responsible for the messaging are the same group enforcing business closure mandates.

### **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.

<b>California Employer Businesses by Size (2017)</b>				
<b>Enterprise Employment Size</b>	<b>Number of Firms</b>	<b>Number of Establishments</b>	<b>Employment</b>	<b>Annual Payroll</b>
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"> <li>▪ An establishment is a single physical location at which business is conducted or performed by one or more paid employees.</li> </ul>				

- 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

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