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CAMEO STATE COVID RESPONSE

Background

The country's small businesses are facing unprecedented challenges and devastation. Analysis of the Current Population Survey found that over the two-month window from February to April 2020, "the number of active business owners in the United States plummeted by 3.3 million or 22 percent ...The drop in business owners was the largest on record, and losses were felt across nearly all industries and even for incorporated businesses." The recent rise in COVID-19 cases warns of continued harm.

A deeper dive into the data shows that the pain has not been equal across the board. The drop in the number of business owners are as follows:

- African-American business owners dropped by 41 percent.
- Immigrant business owners dropped by 36 percent.
- Latinx business owners dropped by 32 percent.
- Asian business owners dropped by 26 percent.
- Female business owners dropped by 25 percent.
- White business owners dropped by 17 percent.

Again, African-Americans end up suffering the most, with other minority communities coming in a close second.

If small businesses are the canaries in the coal mine when it comes to the economy, then the plight of African American small businesses show the state of the American soul. If the state and country are going to weather this crisis to the best of our ability that means investing in small businesses is a priority; and investing in African-American businesses is an imperative.

We need to recognize that inequality is rife in our system and that system has produced the reality and needs fundamental structural change. Society as a whole must alter the baked in racism and unrig the system. We need new rules that promulgate equity, and not systematically perpetuate an unequal society. This is the long-view and CAMEO will work toward that path.

Simultaneously, we recognize that policy decisions are being made in the here and now and we must respond appropriately to that reality.

Responding to COVID-19, most efforts thus far have been focused on immediate relief.

On the federal level, programs included in the relief bills such as the PPP loans and EIDL loans will help some businesses. However, money is not reaching those who are in most need in the implementation of those programs. A Goldman Sachs report found that

- [79% of Black business owners applied for a PPP loan, compared with 91% of small businesses overall;](#)
 - 40% of Black business owners have been approved for a PPP compared to 52% overall; and
 - 26% of black business owners have less than one month of cash reserves compared with 17% overall.

In the first round of PPP loans, according to SBA data, less than 3% of all small businesses and sole proprietors in California received PPP loans. The second round went far better for our small businesses as 70% of the loans were less than \$50,000. CAMEO is committed to advocating for resources to these communities that have been left out, especially black-owned businesses that historically have not had good relationships with banks, as well as ITIN holders, and other micro



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businesses. At the federal level that means supporting grant funding for small businesses, responsible business lending, and liquidity for CDFIs.

On the more local level, some efforts have been launched such as California's \$100 million loan guarantee funding, local public emergency funds, and private emergency loans such as Verizon/LISC, FB, Salesforce grants, among others. The [California FY 20-21 budget contains several provisions that will help small business](#) that CAMEO supports including: maintaining funding for the Technical Assistance Expansion Program and Capital Infusion Program funding; more money for the IBank to help with small business lending, waiving of the \$800 minimum franchise tax fee, and \$10 million for a fund to help start up entrepreneurs regardless of immigrant status or English proficiency.

What Relief/Recovery Looks Like from a State Policy Perspective

California has been operating a patchwork of programs located in different agencies that have cropped up over the years. Some work, some don't. All programs are well intentioned, but some fall critically short of delivering the stated policy goals. The core issue is that state agencies and their programs work in their own silos without a coherent overarching strategy of how to efficiently and effectively collaborate on small business outreach and programs.

In an ideal world, the state would not make an across the board budget cut. What we envision is that each agency would submit a summary of the small business programs that they run, their costs and the economic impacts they've produced and that the programs that were underutilized or were not being used at all would be put on pause and resources directed to those programs that have a higher economic multiplier or return on investment. Agencies would also share resources and outreach strategies. The ideal outcome would be to develop a plan to save the state money for the next few years while not hurting small businesses. Additionally, the plan would address the structural inequities that are embedded in our financial system and work towards closing the gross wealth gap. We will continue to advocate for such holistic and equitable small business policies at the state level.

However...

We fully recognize that we don't live in an ideal world. In the short run, we must address the immediate reality and inequities highlighted in our current environment. What CAMEO proposes is to invest significant resources into communities of color for small business development. They should be first in line for any programs. The following policy suggestions would move us toward that goal:

Identifying Funding Sources

We have identified a new funding source and several existing funding sources that can be re-directed to better served the small businesses and communities most impacted by the pandemic.

IBank's investment of \$25 million into Black, Latino, Asian, and other minority communities. The FY20-21 budget allocates \$25 million to the IBank to expand underserved small business lending in the state by establishing funds to support liquidity for California Community Development Financial Institutions and mission-based lenders. These funds should be used to make zero to very low interest rate loans to minority business owners.

Repurpose Returned Cal Competes Tax Credits. In 2018, money from the Cal Competes Tax Credit program was repurposed to fund federally-recognized business assistance programs that truly help small business in what is known as the Technical Assistance Expansion Program or



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TAEP. Currently, those programs are generating \$192 in economic activity for each dollar invested. In 2020, at least \$25 million in tax credits from this program are being returned and can be allocated to additional organizations throughout the state with ample experience serving minority and underserved entrepreneurs.

\$10 million from the CalCAP/ADA program. The program has yet to enroll a single loan. Further, only [two lenders are listed in the program](#), as compared to the 19 participating in the broader CalCAP Loss Reserve Program.

\$10 million from the CalCAP/Seismic Safety program. Only [one lender is listed in the program](#); about 60% of their loans go to multi-family units and 40% to Homeowners Associations. (They declined to provide more details.)

Uses of Funds

For our small businesses to thrive, we need to support our local entrepreneurial resources with what these small businesses really need – a strong entrepreneurial ecosystem with business training and management skills, small amounts of capital, access to markets, an environment in which to thrive, and policies that encourage entrepreneurship on all levels of government. And we need to take a holistic/ecosystem view: Coaching (all training), Capital, Connections (to markets and networks), Culture, and Climate (policy). When the pieces are in place, our small businesses can move toward recovery and finally resiliency which in turn spill upward to our communities and our state.

Read our white paper for a more in-depth explanation of a strong [Local Entrepreneurial Ecosystem](#).

The funds identified above should be used to strengthen the local entrepreneurial ecosystem for communities of color as explained below.

Coaching

California has done a good job of communicating what it will take to re-open the state's small businesses, including the development of [checklists and guidance for different industries](#). Most business owners have realized that they will need to change the way they do business and become more resilient. They'll need to figure out new marketing and delivery channels, new products and services. They'll need to understand their finances inside and out so they can make informed decisions on what the next moves are for their businesses. When small business owners receive help from mentors or coaches, they're more likely to be successful; a concept that rings especially true during and after a crisis.

CAMEO advocates for:

- Re-allocation of a portion (\$5 million) of the returned Cal Competes money to expand the eligibility of business development organizations that can receive that funding under the TAEP program to include those that have proven effective in building community wealth. These are organizations who work with the most underserved and vulnerable populations and help them develop successful businesses that lead to family sustaining incomes and wealth building opportunities. CAMEO would be able to help develop the criteria for eligible organizations.



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Capital

In good times small business owners believe the availability of credit is a problem. About 75 percent of small business owners who apply for a bank loan are rejected. And [for minority-owned firms, the challenges of accessing financing are worse](#), even with good credit. The need for affordable access to capital is crucial for small business growth and longevity. CAMEO applauds Governor Newsom and the California legislature for investing \$125 million in the state loan guarantee program and increasing the loan loss percentage to 95%.

CAMEO advocates for:

- Strong transparency in small business lending regulations (SB 1235) and small business lender accountability through the Department of Business Oversight's re-organization to the Department of Financial Protection and Innovation.
- Use the rest of the return Cal Competes tax credits plus the \$25 million from the IBank's discretionary funds to support grants and loan deferment options to small businesses distributed through the Community Development Financial Institutions (CDFIs)
 - Grants for small businesses to cover operating expenses for the duration of the shutdown and the transition period to re-opening.
 - Debt payment relief to offer our California borrowers the option to pay six months of their principal, interest, and any associated fees owed to CDFIs in the network; this debt relief option mirrors assistance offered by the US Small Business Administration through the CARES Act. This option would be available for business loans not covered by SBA deferments.
- Grant funding and/or very patient capital (0% long-term (20 year) patient capital for CDFIs so that they are able to make it through the recession and assist in the recovery with a flexible carve out to CDFIs that make loans to microenterprises and small businesses that are owned by undocumented people.
- Use the funds from the CalCAP/ADA and Seismic programs to waive lender fees for the State Loan Guarantee Program to increase lender capacity and ensure fees are not passed to the borrower.

Other Issues that CAMEO supports:

- Establish a state CDFI Fund.
- Increase the use of public banks.
- Allow crowdfunding as a capital option for small businesses.
- Continue to support unemployment for California self-employed while they start their own businesses with a re-orientation of Workforce dollars.

Connections

People in communities with lots of social networks have more ability to work together and address economic problems. Connections or social capital help with information flows, mutual aid, collective action, developing a community mentality, and connections to critical support. For the entrepreneur, that network may be a connection to the CDFI for start-up capital or a business owner may use their relationship with a supplier to expand. We've mentioned how the government can connect business owners to resources above.

When discussing an entrepreneurial ecosystem, we also need to consider connections between the business owner and her customers and connections between the region and its adjacent economic centers. Government can play two roles: a customer and a solid infrastructure.



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Bring government spending home and create opportunities for local businesses. Census data says that in 2017 state and local governments collectively spent about \$3.7 trillion. Shifting that spending toward local businesses would boost local income and wealth, create jobs, and likely save billions of public dollars.

COVID-19 has revealed shortcomings in California's broadband system. Many children didn't have online service for school; people had issues connecting with their health care providers and filing for unemployment. Then of course nearly all business transactions have moved online. The Department of Business and Economic Development understands the need for digital tools and partnered with many technology companies to offer their products for free or at a discount with their #shopsafeshoplocal campaign.

Re-opening/Recovery at the State and Local Level

CAMEO advocates for:

- Continuation of contracts even if unable to deliver projects
- Replace import with goods and services from locally-owned companies
- Compare bids net of expected tax proceeds for lowest bidder. (Example, locally-owned Company A bids \$1.2 million for a state contract and a nonlocal Company B bids \$1 million. If Company A generates \$300,000 more in taxes for the state, Company A is the low bidder.)
 - Fix AB 5, the independent contract versus employee bill, to ensure that workers have the best options available to them, whether as independent contractors or employees. We recognize that some businesses abuse contracting relationships and jobs should be good jobs. AB 5 does not provide clarity as to whom it applies and to whom it doesn't, which has caused each profession to work for an exemption. Current law is not clear and needs to be re-thought in a more holistic manner so that each profession and group is not fighting for an exemption. The bills that are being considered AB 1850 and AB 2257 will allow more people to work as independents, but are still based on who is exempt. Until the bill is written to be more holistic, it will continue to be amended to exempt one profession or another. Some suggestions include:
 - Workers whose income is less than 80% of the Area Median Income should be allowed to engage in any work they are able to in order to make ends meet and conditions can be put in place such as a maximum number of hours per week at any one establishment.
 - Independent contractors whose working conditions are better as a contractor should not be required to be an employee.
 - Small businesses < 19 FTE employees
- Broadband is a basic utility that everyone needs to access.

Culture

Culture is not usually seen as a government activity, but the government can support an entrepreneurial culture with recognition and engaging in the policies suggested above that provide a strong LEEP.

- Recognize that the best social safety net program is a job.
- Embrace small business as part of economic development.
- Recognize the importance of entrepreneurship and small business ownership.

By providing leadership, they create the stage for communities to embrace policies that create their own strong local entrepreneurial ecosystems.



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Small businesses are the foundation of our communities. They are the fabric that holds us together. They are what makes us want to live where we live and provide our communities' identities and personalities. Without them, we live in a meaningless-static-cookie-cutter world. In addition to strengthening the spirit of the communities, these very small businesses employ more than half the working population. The restaurants, bakeries, retail shops, professional services, health care services, and other businesses that support families that are working hard to provide a better future for their children, the next generation. To secure that future, the foundations of an entrepreneurial ecosystem need to be strong.