CALIFORNIA'S SMALL BUSINESS COVID POLICY REVIEW

Or a policy perspective on how California's small businesses fared during the pandemic

The Need for an Equitable Recovery

Before the global pandemic, in 2019 the Tax Policy Center released disturbing data about Black and Hispanic households[1]. Black households in America have a median net worth of $17,000 or 10% of white household wealth and Hispanics are at $20,720 or 12% of white household wealth. Nor was the pandemic kind to Black and Brown business owners. A McKinsey analysis found that "4% of businesses run by black Americans are still in business after 3.5 years compared with the national average of 55.5%."[2] Now consider that more people started businesses in 2021 than ever before, a full 5.4 million applications, and people of color are starting their own businesses more than their white counterparts, but systematically struggle to access capital.[3] These trends of inequity in small business ownership and success are illustrated further in our advocacy toolkit "An Equitable Small Business Recovery".

Responding to COVID-19, most state and federal efforts have been focused on relief with an eye toward recovery. As we move deeper into the recovery phase, we must understand that some businesses, including many of the socially and economically disadvantaged businesses remain in the relief phase, and that businesses are starting at higher rates than ever before and these business owners are people of color. "Small businesses are facing new challenges - inflation, staffing issues, supply chain issues, population shifts, and more. If the state and country are going to weather this crisis properly and reimagine what an equitable recovery

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[1] Median Value of Wealth by Race FF (03.11.2019) | Tax Policy Center

[2] McKinsey & Company, "Consumer demand for Black brands is rising", November 17, 2021

[3] https://www.census.gov/econ/bfs/index.html

is, investing in small businesses is a priority; and investing in BIPOC businesses and their owners is an imperative. We must do better.

What Relief/Recovery Looks Like from a State Policy Perspective

For our small businesses to recover and 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. When the pieces are in place - Coaching (all training), Capital, Connections (to markets and networks), Climate (policy), and Culture - our small businesses can move toward recovery and finally resiliency which in turn spill upward to our communities and our state.[4]

If we want to "build back better," and if this recovery is to be more equitable than past ones, then we need to meet our underserved communities where they are. Our member organizations need tools and capacity building to deliver a significant, measurable growth of services to more low- to moderate-income micro business owners.

One of the silver linings of the pandemic is that it strengthened the California network of nonprofit, mission-driven business service providers that make up the CAMEO network of 400+ business service organizations and microlenders. We strengthened connections. We added capacity. We became very good at cooperation and working in collaboration. We learned a lot about what it takes to reach those business owners that aren't already our network. Our members doubled, tripled, and sometimes quadrupled the number of businesses they served. And the State of California recognized the importance with significant investments in the ecosystem.

In this white paper, we review how California's small business fared and how California contributed to a strong local entrepreneurial ecosystem during the pandemic. To learn more about our policy recommendations, read "An Equitable Small Business Recovery."

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[4] The concept of an entrepreneurial ecosystem is not unique, and many descriptions use different nomenclature, but conceptually they are similar. For more explanation of the 5Cs and the LEEP, download CAMEO's LEEP Toolkit. The 5Cs are aligned with Ewing Marion Kauffman Foundation's America's New Business Plan: Access to Opportunity and Support encompass, Climate (policy); Access to Funding is directly analogous to Capital; Access to Knowledge is directly analogous to Coaching.

COACHING

If there was any certainty about the small business landscape in the last few years, it was that uncertainty was here to stay.

California did a good job of communicating procedures and policies that needed to be in place 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 need to change the way they do business and become more resilient. They needed to figure out new marketing and delivery channels, new products and services. They need to understand their finances inside and out so they can make informed decisions on what the next moves are for their businesses. The ones that could do this or ask for help are weathering the storm. 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.

Business owners that seek assistance vary in knowledge and experience; some have little experience and possibly less capacity to tackle all basics of running a business, while others have significant experience and aptitude. Coaching services should focus on the entrepreneur and meet them where they are. What we learned during the pandemic is that a resilient and sustainable economy depends on having coaching services that provide:

- Basic business services for self-employed and microbusinesses;
- Language and culturally appropriate services;
- Assistance to go digital (a must for a post-pandemic economy);
- Specialized services for growth business, delivered by an entrepreneur with a proven track record;
- Virtual, curated content that helps entrepreneurs; and
- Opportunities for exchange of ideas, connectivity, serendipity, and experimentation.

The COVID-19 crisis has raised the importance of Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), SCORE, and other business advising organizations that are mission-driven to serve low-moderate income and underserved entrepreneurs with low or no-cost services. These organizations have been the front line for providing small business assistance whether its advice or finding funding to keep local business alive. Capacity building and training new staff hired to meet the growing demand will be crucial if they are going to help our diverse small businesses recover from the pandemic and in an atmosphere where business models are shifting, and the future holds uncertainty.

California support for coaching organizations and other state coaching programs/resources

In 2021, California supported small business coaching organizations to the tune of almost $40 million.[5]

- Small Business Technical Assistance Expansion Program (TAEP) - $17 million
- Capital Infusion Program - $3 million
- Social Entrepreneurs for Economic Development (SEED) - $17 million
- iHub2 - $2.5 million
- Startup Business Quick Start Guides from CalOSBA
- Get Digital CA!

In 2022, California increased their ecosystem investments to $113 million or by approximately 50%.

- Capacity building funding for CDFIs - $50 million
- Small Business Technical Assistance Expansion Program (TAEP) - $23 million
- Capital Infusion Program - $3 million
- Women's Business Centers - $8 million
- iHub2 - $20 million
- Micro Enterprise Home Kitchen Operations (MEHKO) grants - $8 million
- Small Business Incubator and Training Facility in San Fernando Valley - $1.5 million

In the last two years during the COVID-19 pandemic California invested in federal business assistance centers. The California Small Business Technical Assistance Expansion Program (TAEP) was originally created in 2018 to expand the services offered by small business assistance centers that have an active grant or agreement with the federal government. The California Office of the Small Business Advocate (CalOSBA) at the California Governor's Office of Business and Economic Development (GO-Biz) is charged with administering and providing oversight of the TAEP program. During the pandemic the state of California budgeted $17 million for the TAEP program to improve the state's small business consulting and training services. The program had a five-year funding period that would have ended on June 20, 2023. In California's 2022-23 budget proposal the TAEP program was increased by $6 million to $23 million and given a permanent annual appropriation. The WBCs will

[5] Some of the money from the SEED program went directly to small businesses.

receive an additional $8 million to build capacity to meet the increased demand for women who want to start businesses. Funds also will go to counties to develop a MEHKO program.

California also made the Capital Infusion Program (CIP) permanent; it's a $3 million program so that SBDCs can assist small businesses access capital. In 2021, the program turned the $3 million investment into $1.5 billion of capital accessed; *that is 500 times the investment*.

In 2022-2023, the new Micro Enterprise Home Kitchen Operations (MEHKO) program received a one-time $8 million for grants to be managed by the California Workforce Development Board. A competitive grant will be issued for nonprofit organizations to perform outreach about MEHKO opportunities; provide education and training; marketing; and negotiate preferred rates for food, supplies, equipment, and services. Funding can also be used for direct financial support for home cooks to reimburse activities related to permitting or food-safety certification, including, but not limited to, obtaining permits, completing food manager certification courses, and purchasing food safety supplies.

CalOSBA's grant program, iHub2, will encourage regions to build upon existing or emerging innovation resources and local industry concentrations to create activity hubs, promote technology transfer and assist young companies. In 2021-22, the program allocated $2.5 million to 10 technology and science-based firms to create local incubators in underserved communities to encourage female innovators and entrepreneurs of color. Inclusive Innovation Hubs (iHub2) are intended to spur high-growth industries and startups and build a pipeline of scalable firms that provide well-paid jobs, and increase access to private investment for diverse founders as well as those in geographically isolated and underserved regions. In 2022-2023, the California budget allots $20 million for iHub2, 8 times the previous year's investment.

In 2020 the Social Entrepreneurs for Economic Development (SEED) initiative was created to provide microgrants, entrepreneurial training, and technical assistance to immigrant entrepreneurs and individuals with limited English proficiency to start or maintain a business. These individuals face significant barriers to employment, which California hopes to turn into an opportunity to spur business innovation and to address community needs. The SEED program is funded at $20 million to award to entrepreneurs and went into effect in the spring of 2022.

CalOSBA created two business assistance resources. Startup Business Quick Start Guides provide prospective business owners with information about the regulations and the regulatory agencies of a business they may want to start. For example, if a prospective business owner wants to start an automotive repair business, the CalOSBA website has a guide. The Get Digital California! program is an e-commerce initiative to promote accelerators and intensive training to build skills necessary to compete in an online marketplace and drive Californians to support small businesses through online festivals. The program offers guidebooks on technology learning, digital bootcamps, online tools, and digital pop-up festivals.

What small businesses need post-pandemic from coaching resources

In a post-COVID-19 world, small businesses will be working in an environment that has drastically been altered coupled with an uncertainty about the future. Few, if anybody, know what is to come a year or two from now. One thing we do know is that being able to operate digitally is not an option anymore for small businesses that wish to survive and recover from an economy subject to a pandemic or other external shock.

From our work with the California Relief Grant, a $4 billion grant program (see Capital section), we confirmed that if we want to serve the businesses that need the most assistance, we need new strategies to reach those businesses and serve them. It wasn't unusual for partners to go door-to-door, pass out flyers at farmer's markets, and spend more than an hour helping a client apply for the grant. Additionally, the pandemic has changed everything about how small businesses are run and the business services organizations that support them. Capacity building for SBA training partners and microlenders are crucial as they hire new staff to meet the growing demand for their services.

What we heard anecdotally from our members is that many of the hard to reach, underserved entrepreneurs didn't have access to and weren't familiar with the digital tools they needed to apply for grants, loans, or add a digital point of sale system to their business. Building the capacity of our business service organizations – both the trainers to build the access to capital pipeline and the lenders who need clients that can access their technology - to better serve these entrepreneurs is a priority in these times of change. The OSBA's *Get Digital CA! California* program is great for businesses that are online already; other entrepreneurs need their hand held to bring them online.

Business owners that had their finances and books in order were ready to take advantage of programs, loans, grants, or were otherwise able to pivot quickly. We know from other crises (e.g. the fires over the last few years) that business owners, who did not have their finances in order, were on the margins and often didn't recover. A majority of these businesses hailed from socially and economically disadvantaged communities. Other coaching resources needed are legal counsel to negotiate leases or liability for pandemic-related workforce issues.

CAPITAL

Cash flow is the lifeblood for small businesses. They need it to make payroll, buy inventory, pay expenses, and invest in growth. In good times small business owners believe the availability of credit is a problem. Before the pandemic, big banks approved about 30% of loan applications; that number is hovering around 14-15% with small banks and alternative lenders coming in at higher percentages.[6] For minority-owned firms, the challenges of accessing financing are worse, even with good credit. Black entrepreneurs are three times as likely as white entrepreneurs to say that a lack of access to capital negatively affects their businesses' profitability and almost twice as likely to cite the cost of capital[7]. The need for affordable access to capital is crucial for small business growth and longevity. During the pandemic capital was tight due to the lack of economic activity because of global lockdowns.

More than 90% of the minority business owners that applied to the Paycheck Protection Program (PPP) program did not receive a loan or received lower loan sizes.

> *"Based on this self-reported demographic information, Minority and Hispanic business owners received 121,081 loans (23%) corresponding to $11.7 billion (18%). Native American business owners received the highest average PPP loan, $154,429. African American business owners received lower average PPP loans, $84,747, compared to Asian Americans ($92,570), Unanswered Race/Ethnicities ($98,029), Hispanics or Latinos ($103,783), and Whites ($132,741). African American business owners also received a lower median PPP amount, $20,832, compared to Unanswered Race/Ethnicities ($21,200), Hispanics or Latinos ($29,391), Asian Americans ($33,300), and Whites ($38,577)."*[8]

Two banking trends have created wide gaps in capital access for new and small businesses - bank consolidation and unwillingness to loan less than $250,000. From 2008-2018 the number of community banks decreased by more than two thousand; from 2001 to 2020 minority owned banks decreased from 164 to 143. This has hit entrepreneurs of color especially hard, considering local financial institutions account for more than half of all small business loans.

With the decline of traditional bank lending, we have seen an uptick in online lending as well as an increased need to scale the U.S. Department of Treasury's Community Development Financial Institutions (CDFIs), which are community-based and mission-driven to serve socially and economically disadvantaged individuals. The pandemic highlighted how important it was to provide small businesses with liquidity with both the federal government and the state providing much needed loan capital as well as direct aid to some small business owners and raising the profile of CDFIs who became a trusted tool to address the

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[6] Biz2credit, "Biz2Credit Small Business Lending Index™ for December Finds Loan Approval Rates Continue to Rise, But at Slow Pace" December 2021.

[7] Robb, Alicia and Morelix, Arnobio, "Startup financing trends by race: How access to capital impacts profitability," Ewing Marion Kauffman Foundation, October 2016.

[8] Demko, Iryna and Sant' Anna, Ana, "Impact of Race and Gender on the SBA Paycheck Protection Program (PPP) Loan Amounts," SSRN (June 10, 2021), p. 9.

lack of capital access to underserved communities. Below, we also address the need to ensure online lending has guardrails.

Federal support for access to capital amounted to almost $500 billion for California

Two programs announced in the initial round of relief were two direct loan programs from the U.S. Small Business Administration: PPP program and Economic Injury Disaster Loans (EIDL).

The $659 billion PPP program offered forgivable loans that would help businesses keep their workforce employed during the crisis and was written about extensively. California received $104 billion with $90 billion worth having been forgiven. "The majority of these unforgiven loans are held by sole proprietors and independent contractors: one-person businesses specifically targeted by a later round of the program." Advocates successfully urged changes for the 2021 round of PPP funding that increased the number of loans made by CDFIs, which were more likely to lend to underserved small businesses. This addressed some of the racial inequities in previous rounds of funding.

The EIDL program had two pieces, a $10,000 advance which was basically a grant and then a 30-year loan at low interest rates. The program disbursed approximately $390 billion to nearly 4 million small businesses and nonprofits. Almost 600,000 California businesses received about $68 billion in EIDL loans. Another program that provided capital was the Pandemic Unemployment Assistance that allowed self-employed business owners to claim unemployment. California's independents received approximately $27.3 billion by the programs end in September 2021.[9]

In addition to direct aid, the federal government also made significant investments in the capital ecosystem for entrepreneurs.

In June 2021, three powerful California women – Vice President Kamala Harris, Secretary Janet Yellen, and Congresswoman Maxine Waters – announced $1.25 billion in COVID-19 relief funds for CDFIs through the U.S. Treasury's CDFI Rapid Response Program. The funds provided necessary capital for CDFIs to respond to economic challenges created by the COVID-19 pandemic, particularly in underserved communities. California received $95 million with $27 million explicitly for small business lending. In June 2022, the CDFI Fund announced another $1.75 billion was available in the CDFI Equitable Recovery Program with applications due in August of 2022. Then in September 2022, ten California CDFIs and

[9] GAO Report, Pandemic Unemployment Assistance, June 2022, p. 70.

minority depository institutions were awarded $671 million out of $8 billion in capital investments, not all of which will go to small business lending.

The State Small Business Credit Initiative (SSBCI) from the Great Depression was revamped in response to the COVID-19 pandemic. SSBCI 2.0 was funded it at $10 billion of which, California expects to receive $1.2 billion in 3 tranches, which started in the fall of 2022. California's funds will be split between the Small Business Finance Center and the California Pollution Control Financing Authority's California Capital Access Loan Program inside of the State Treasurer's Office as well as a new venture capital program aimed at minority founders.

California support for access to capital

In 2021, California delivered a historic small business capital package of over $4.6 billion. The package included grants and loans to small businesses to increase the amount of available capital from the small micro business all the way up to business with more than one hundred employees.

- California Small Business COVID-19 Relief Grant - $4.15 billion
- California Venues Grant - $150 million
- California Performing Arts Grant - $50 million
- California Dream Fund Grant - $35 million
- California Microbusiness Grant - $50 million
- The Paid Family Leave Grant - $1 million
- California Competes Grant Program - $120 million
- California Rebuilding Fund - $87.5 million

In 2022, the direct aid to small businesses totaled $635 million and was significantly less, due to the discontinuation of the $4 billion relief grant program.

- California Small Business COVID-19 Relief Grant - $150 million
- California Venues Grant - $15 million
- Paid Family Leave Grant - $250 million
- California Competes Grant Program - $120 million
- California Small Agricultural Business Drought Relief Grant- $75 million
- California Regional Initiative for Social Enterprises Program - $25 million

The California Small Business COVID-19 Relief Grant program provided grants from $5,000 to $25,000 to eligible small businesses and nonprofits impacted by the COVID-19 pandemic. An initial $475 million was provided for the grant program with an application deadline of

January 13, 2021. Emergency budget provisions in February and a May revised budget brought the total grant program to a historic $4 billion. On February 9, 2022 Governor Gavin Newsom signed an early budget action bill into law providing an additional $150 million to support small businesses that were eligible and did not receive funding because the fund was depleted. No additional funds were granted afterwards.

The following table was calculated from the state reports and shows the percentage of grants that went to various demographic groups, compared with the total population and business owners.

Demographic	Percent Receiving CRG	Percent of CA Population	Percent of CA Business owners
LMI	59.2	34	n/a
Rural	6.7	6	n/a
Minority	60.9	64.8	27.3
White	39.1	71.1	72.7
Women	44.4	50	43.1
Veteran	2.8	3.9	4.4
African American	1.2	6.5	5.5
Asian	34.2	15.9	20.6
Hispanic	18.2	40.2	23.4
Native	1.8	1.7	0.5
Other Pacific Islanders	2.3	0.5	0.4

Source: California Relief Grant State Report, U.S. Census Bureau, except for the LMI which came from the Public Policy Institute of California (PPIC), and the U.S Small Business Administration California State Profile.

The California Relief Grant reached a much higher percentage of low-moderate income and minority business owners than those that are represented in the California population and as a percentage of California business owners. Women business owners received the grant more or less proportional to their business ownership, while veteran grant recipients were lower than their proportional representation in the general population and as business owners. When we breakdown the minority grant recipients into race and ethnicity Asian, Native, and other Pacific Islander grant recipient received a greater proportion of grant funding than their population and business ownership proportions, while African Americans and Hispanic received lower percentages.

The California Venues Grant program, a $150 million allocation, helped venues by providing them with a grant to cover the losses caused by COVID-19. The grant also helped the venue pay for COVID-19 compliance with federal, state, and local regulations. The grant award was $250,000 or 20% of their 2019 gross earned revenue. In 2022, the budget allocated an additional $15 million to the program.

If venues are heavily impacted by the loss of income due to COVID-19, it follows that the performing arts industry as a whole is suffering. The FY2021 budget included $50 million in grants for the California performing arts community. The California Performing Arts Grant award ranged from $5,000 to $25,000 for performing arts centers that suffered financial loss during the pandemic. The FY2022 budget did not include additional funding for this program.

The state of California acknowledges the funding gaps that underserved communities face, so they developed the California Dream Fund program. The program started in 2021 and authorized microgrants up to $10,000 to seed entrepreneurship and encourage new small business ownership in underserved communities. The California Dream Act was a one-time $35 million grant and was not allocated additional funding in 2022. These microgrants were available to clients that participate in a qualified training program.

The California Microbusiness Grant Program was a one-time $50 million grant for microbusiness in California and was not repeated in 2022. Counties apply for funds to develop and implement an outreach and marketing plan to identify and engage eligible microbusinesses that face systemic barriers to access capital, including but not limited to, businesses owned by women, minorities, veterans, individuals without documentation, individuals with limited English proficiency, and business owners located in low-wealth and rural, communities. Counties will also administer the grant program. Many small counties found the costs of administrating the program to be too burdensome to be worth the effort.

The Paid Family Leave (PFL) grant program for COVID-19, budgeted at $1 million, supplies micro-grants to affected businesses which can be used to hire, train, or retrain other staff to cover the duties of the employee utilizing Paid Family Leave if the small business has fewer than ten employees. Small businesses that have 51-100 employees could be awarded $1,000 for each employee who is utilizing the PFL Program; small businesses with 50 employees or less could be awarded $2,000. This program was increase to $250 million in 2022.

In 2022, California created a $75 million grant program for California Small Agricultural Business Drought Relief Grant that will ameliorate small business losses that occur as a result of extreme droughts.

Small businesses obviously prefer grants to loans because they do not have to be paid back. However, low-interest, long-term loans can keep a small business afloat during a crisis. California has a variety of loan programs that provide needed capital infusion into the coffers of small businesses with good terms and low interest rates.

The California Rebuilding Fund is a $87.5 million loan program that supports small businesses in economically disadvantaged and historically under-banked areas of California. Small businesses with 50 full time employees or less and with gross revenues of less than $5 million in 2019 are eligible for this loan – which started as a 4.25% / 3- or 5-year term loan. With interest rates rising, the rate is currently at 6.25% in August 2022. The California Rebuilding Fund was built in partnership with public, private, and nonprofit leaders across the state to ensure that California's smallest businesses are able to access the resources and capital they need to get through these challenging economic times. The program was possible thanks to a $25million anchor commitment from California's Infrastructure and Economic Development Bank (IBank), with strong support from agencies across the State government.

IBank's Small Business Finance Center's Disaster Relief Loan Guarantee Program was created to help businesses that have 1-750 employees recover from a state declared disaster. A maximum loan guarantee of $1 million can be awarded, depending on the impact of COVID-19. Nonprofits can also apply for this program.

Responsible small business lending in California

With the decline of traditional bank lending and lack of scale from most microlenders and CDFIs, online lending is filling the access to capital gap with little to no oversight. During the pandemic it was common for online lenders to use interest in PPP to generate leads. And with cash being tight and incomes in decline, business owners are desperate and turning to whomever will offer them money. African American and Hispanic-owned employer firms apply to online lenders at higher rates than White-owned firms.[10] We write about the problem of online lending in "An Equitable Small Business Recovery." In a nutshell, online lenders can engage in predatory practices.

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[10] Lipman, Barbara and Ann Marie Wiersch, Board of Governors of the Federal Reserve System, "Searching for Small Business Credit Online," Consumer and Community Context, Nov 2019, Vol 1, No 2.

California has been a leader in responsible small business lending. The federal Truth in Lending Act protects consumers but does not protect small businesses, so California enacted SB 1235 in 2018. The first small business truth-in-lending law in the country law requires lenders to clearly communicate to small businesses what their financing would cost. CAMEO has worked with the Responsible Business Lending Coalition since the bill was passed to support the California Department of Financial Protection's (DFPI) efforts to provide financial protection for small businesses. On Friday, June 24, 2022 DFPI released an updated, proposed rule that adopts some of our recommendations:

1. DFPI is proceeding with the proposed protections against "unfair, deceptive, and abusive acts or practices."
2. Data on the pricing of small business financing will be collected in the form of APR, not dollar cost, in recognition that APR, unlike dollar cost, enables comparison of the cost of financing over time.

After the creation of DFPI, we were a contributing partner of a coalition that submitted a memorandum that outlined the legal arguments that DFPI has the authority to develop regulations for "unfair, deceptive, and abusive acts or practices" (UDAAP) for small business. They agreed and began to develop regulations. On August 8, 2022, we were part of a coalition that submitted a comment letter urging DFPI to close two important gaps that remain in the proposed regulations:

1. DFPI should not rely on merchant cash advance companies to police themselves for misleading disclosures and slap their own wrists. Instead, DFPI should collect data on the disclosed vs. actual retrospective APR for merchant cash advance companies that choose to estimate the APRs they disclose.
2. DFPI should collect APR data on all small business financing under its jurisdiction, to create complete information and a level playing field.

On December 9, the DFPI issued final regulations as required by SB 1235 and we are pleased to see that most of our recommendations were taken. However, merchant cash advances can still police themselves. We would like to see this loophole closed.

CONNECTIONS

When discussing an entrepreneurial ecosystem, we need to address two different types of connections:

- connections between networks of entrepreneurial activity
- connections between the business owner and her customers, i.e. markets

During the labor shortage, some restaurants in California's Central Valley shared staff to fill out their shifts - all were clients of the local Small Business Development Center (SBDC). Being connected to the ecosystem - such as Small Business Development Centers or

Women's Business Centers or other nonprofit business service providers - helps entrepreneurs tap into a whole host of other resources including other business owners. Those organizations helped thousands of businesses apply for the California Relief Grant, access the PPP program, pivot their businesses, and provide support systems in a time of crisis.

Some of the most advantageous opportunities for small businesses are state procurement contracts, i.e. the government is the customer. The California Procurement and Contract Academy (CalPCA) has online training program on how to obtain a state procurement contract and make smart purchasing decisions. The Department of General Services (DGS), the state's procurement agency, has a goal to spend 25% of procurement funds with small businesses. Eligible, registered small businesses receive a 5% bid preference on some state solicitations such as disabled veteran business enterprises.

In 2021, CAMEO supported AB 915, which would have codified the State's 25% procurement goal to be directed towards small businesses with an equity lens, but was held in the Senate Appropriations Committee, i.e. it didn't move forward. In the 2022 legislative session Assemblymember Cottie Petrie-Norris and Chris Holden introduced AB 2019 (Equity in State Procurement) which was signed into law in September 2022.

One of the most obvious ways of finding clients in the 21st century is online. During the pandemic, businesses that could easily pivot to online sales had a head start. According to an analysis of California Public Utilities Commission data, only one-third of rural California households have internet access, largely because people can't afford the internet and very few internet service providers service in the area.

To address broadband accessibility, the American Jobs Plan of 2021 included $100 billion to connect every community in America to broadband internet. California received $7 billion in funds to place broadband internet in areas that currently do not have it. Governor Newsom's plan, the "middle mile" fiber broadband network, incentivizes internet service providers to provide broadband to 51% of rural households that have no high-speed internet options. The program sets aside $500 million for loans to nonprofits and government municipalities that want to build the broadband infrastructure on their own without internet service providers. The telecommunications industry lobby is trying to prevent this plan from coming to fruition.

Governments can also play a role to ensure platforms that offer customer access are not behaving in ways that are predatory or take advantage of small businesses. Over the course of the pandemic people increased their use of food delivery services – DoorDash, Uber, Postmates, and GrubHub – as-stay-at-home orders prevented people from eating out at their favorite local spots, thus allowing restaurants to continue operating. However, delivery drivers and restaurants complained for years that these companies were taking advantage of them by taking their tips, and increasing fees, and charging more to their customers. And with the increased reliance on delivery and takeout during the pandemic, many food delivery app companies abused the situation and increased fees on desperate restaurants when the restaurant industry needed money the most. In 2021, California passed AB 286 that:

> (1) Prevents food delivery companies from charging the customer more for the food than the restaurant charges.
>
> (2) Requires food delivery services to provide to the customer ordering the food and the restaurant an itemized bill on what the food delivery service charges each party.
>
> (3) The food delivery service must also give any tip or gratuity to the delivery driver or to the restaurant for a pickup order. Food delivery companies can charge a customer up to 91% more than if the customer went to the restaurant and picked the food up.

CULTURE

Despite the pandemic, or maybe because of it, the entrepreneurial spirit is alive and well. Americans applied for a record 5.4 million business ID numbers in 2021 and another 5 million in 2022. California business applications mirror the national trends. In 2020, business ID number applications were 436,730, a 20% increase; in 2021, Californian's applied for 518,000 business ID numbers, an 18.3% increase.

The state has lots of entrepreneurial energy at all levels, not only in the high technology sector. For example, we re-invented the taco truck into an entire food truck culture/ phenomenon that is now more than a $1 billion a year industry. During the pandemic, pop ups, parklets, cocktails-to-go, online yoga classes, and more became ways that some of our small businesses innovated and many more started up to meet new needs as the pandemic progressed or dive head-first into turning their hobby into a money-maker.

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

Before the pandemic the state of California invested small amounts in the small business sector. Everyone said they supported small business, but the sector had to fight for resources, often coming up empty handed or wanting. The pandemic shined a light on the importance of small businesses. We saw a cultural shift in the way the state views its relationship with small business aid/investments when times are tough and when they are not. During the pandemic new funds were created to improve access to capital, and historic amounts of money were granted to help the smallest businesses and self-employed survive.

Additionally, CalOSBA hosted events throughout the year meant to encourage cultural small business exchange with customers. #ShopSafeShopLocal campaign was designed to encourage shoppers to shop at their local business during the COVID-19 pandemic and be safe wearing appropriate personal protective equipment. They posted a calendar of training events, many of which are hosted by the CAMEO's network of business coaching organizations.

We have been trying for a long time to participate in a meaningful way in the economic development conversations and doors are opening. In 2022, CAMEO participated in the editorial process to develop an economic resiliency playbook that was led by California Association for Local Economic Developers (CALED). We had editorial input that resulted in a more robust discussion of equity and the diversity of small business, including the importance of micro businesses. Additionally, CAMEO is participating in the Community Economic Resilience Fund to ensure that diverse small businesses are included in these plans. We're confident that fortifying the entrepreneurial ecosystem will be considered in at least several jurisdictions. The Redwood Coast region, which includes Mendocino County, is sure to include the many initiatives in their economic development plan – MOVE 2030, in which business development and expansion is one of the three priorities and follows the ecosystem structure we've laid out here. We're also hopeful that the Central Coast and two San Joaquin regions will be influenced by the Salinas regions plan expand the entrepreneurial ecosystem as is written in their "Investment Plan Blueprint 2021."

> *In order to grow, build, and support innovative local entrepreneurship, this area aims to improve access to technical assistance, capital and business loans to support new business creation. For example, providing business education and technical assistance to local individuals interested in starting, growing, and sustaining a local business will set quality standards that not only prolong the longevity of a business but contribute long-term to the growth of the local economy. Attracting new and innovative capital investment is a key area of need in order to not only build local revenue streams but increase opportunities to access the market for both employers and employees.*

CLIMATE

During COVID-19 the state of California realized the importance of supporting small businesses, we've discussed many ways that the state supported the entrepreneurial ecosystem and provided historical grants programs and loans than ever before. When it comes to climate - regulation and policy - we are going to focus our comments and recommendations in this section to issues that directly affect small businesses that have not already been discussed.

Tax Credits

In addition to the government investments in the entrepreneurial ecosystem covered in previous chapters, California implemented a slew of tax credit programs aimed to help small businesses.

Small Business Tax Credits in 2021:

- To help new entrepreneurs the state of California put nearly $40 million in its budget to waive business licensing fees on a one-time basis for new businesses with the Secretary of State from July 1, 2021 through June 30, 2022. For business owners that had businesses before the pandemic the state worked to provide tax credits.
- The Main Street Small Business Tax Credit provides financial relief to qualified small businesses due to economic disruptions caused by the global pandemic. Small businesses can use the credit against income taxes or make an irrevocable election to apply the credit against sales and use taxes. The credits come on a first come, first serve basis until the $100 million in funds are exhausted.
- The California Competes Tax Credit is available to businesses that want to locate in California or stay and grow in California. Businesses of any size or industry can compete for over $180 million in tax credits. [11]
- To encourage more hiring in communities with high unemployment the state of California started the New Employment Credit. If a business hires an employee that will do work inside of a "Designated Geographical Area" (DGA) then the business can receive a tax credit from the California Franchise Tax Board, California's tax collector. The DGA is determined by unemployment data provided by the California Department of Finance. In addition to hiring someone working in a DGA the employer must pay wages that are 150% more than minimum wage and the business must have a net increase in jobs.
- While not really a tax credit, Governor Newsom signed AB 80, which excludes federal aid - the Paycheck Protection Program (PPP), Economic Injury Disaster Loan (EIDL), and advance grants under the Coronavirus Aide, Relief, and Economic Security Act (CARES) - from small business income. Thus, under the California tax code businesses will not be taxed on the "income" they received from these federal programs, costing the state $6.2 billion over the next four years.

Small Business Tax Credits in 2022:

[11] The state also had a California Competes Grant program for companies creating more than 500 jobs, which is no longer a small business.

- The legislature continued the fee waivers at the same level for as 2021 for new businesses registering with the Secretary of State from July 1, 2022, through June 30, 2023.
- Businesses eligible for the Main Street tax credits have five years to claim those credits.
- The state budget included $250 million one-time General Fund for relief grants for small businesses and non-profits to offset costs of their employees who have utilized the state's supplemental COVID-19 paid sick leave.
- California's tax code doesn't treat the $8 billion in PPP loans the same as the federal tax code. To ensure that businesses do not have to pay for the state taxes related to conformity, the FY 2022-23 budget includes a $436 million in budget drawdown over the next 5 fiscal years to exclude PPP funds from state taxes. This is real money that small business owners will not have to pay.

While tax credits are popular, a new report finds they are not the best way to help entrepreneurial firms.[12]

Focused Local Grants

In order to improve or create local business climates in individual cities, the state of California sent funds to local governments to give to nonprofits that work in the community funds to help those in need. Examples of programs include:

- Long Beach received $5 million to enable local hiring to a nonprofit that helps aspiring entrepreneurs to start and grow a small business.
- San Francisco received $2.5 million for SF Live, a new series of live performances presented by local entertainment venues at outdoor parks and plazas in 2022.
- Oakland received $8 million for ESO Ventures under California Capital in the Community Act. ESO Ventures is an entrepreneurial support organization focused on providing confidence, competence, and capital for black and brown people. ESO Ventures partners with community colleges and local governments to help establish one business per day for the next 10 years.

Commercial Rent Relief

The Centers for Disease Control issued a residential eviction moratorium in March of 2020 so that the people that were forced not to work because of global lockdowns would not be evicted from their homes. Unfortunately, the moratorium did not extend to commercial rent, leaving millions of small business owners at risk of losing their place of business. Congress never stepped in to write legislation for commercial rent moratoriums leaving it up to each individual city, county, or state to create commercial rent moratoriums on their own.

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[12] Hackler, Darrene, and Harpel, Ellen, "Incentives for Entrepreneurial Firms," Ewing Marion Kauffman Foundation, August 2021, p. 10.

To ease small business cash flow issues California Governor Newsom issued and executive order on March 4, 2020 to create a commercial and residential eviction moratorium. The catch to his executive order was that cities or counties had to implement their own commercial eviction moratorium and not every city or county created one. Governor Newsom was hoping to buy cities and counties time while waiting for a permanent state legislative solution, which has yet to come.

Assembly Member Al Muratsuchi introduced AB 255, the Small Business Eviction Relief Act. This bill would have required that a commercial landlord have a good faith negotiation with their tenant to allow their tenant a reasonable amount of time to pay their rent, but there was fierce opposition to the bill and it failed on the Assembly floor in 2021. Also in 2021, Assembly Member Sabrina Cervantes authored AB 1146, a bill to authorize a county to establish a local small business rent forgiveness and tax relief program that would provide county tax credits to commercial property owners that forgive small business tenants' unpaid rent. This would provide relief for small business owners, because their landlords would be getting various forms of tax relief to give them more time to stabilize their businesses. This bill died in the Assembly Appropriations committee.

As of October 2022, small businesses still don't have commercial relief. We heard from many small business owners who lost their physical location because their landlord wasn't willing to work with them. Additionally, some corporate commercial landlords have increased the price per square foot and aren't willing to offer tenant improvements.

Local cities took charge of commercial eviction moratoriums. At the beginning of the COVID-19 pandemic Los Angeles Mayor Eric Garcetti and San Francisco Mayor London Breed announced commercial eviction moratoriums. In Los Angeles this order applied to all businesses in the city, while in San Francisco it covered businesses that have less than $25 million in annual gross receipts. In San Francisco the commercial eviction moratoriums remain in effect. Los Angeles' commercial eviction moratorium ended in the summer of 2022.

We are hearing stories of small business owners struggling to pay back rent and who may face eviction. Los Angeles had a grant program to help with back rent that was open for nine days in July 2022. However, this is not a long-term solution. We remain concerned about displacement of small businesses as an after effect of the pandemic's forced closures.

CONCLUSION

California is the world's fourth largest economy; it couldn't hold that position without a strong and successful small business economy. According to the U.S. SBA, California small businesses employed 7.1 million people, about 48.8% of employed people are employed by a small business.

When the five Cs – Coaching (all training), Capital, Connections, Climate, and Culture – are solid, a community will have a strong Local Entrepreneurial Ecosystem (LEEP). Much like a puzzle, an ecosystem needs each piece, each C in this case, to fully realize its impact. In an ecosystem, pieces interact, support each other and depend upon each other. They don't work in silos. With a strong ecosystem, local economies are able to nurture self-employment and small businesses to create a sustainable, self-reliant, and thriving local economy.

The importance of the ecosystem was proven with the over hundreds of thousands of businesses that received help from all corners of the state, whether that was applying for grants, figuring how to pivot, or providing a loan. The state came through with significant investments and it's important that they continue to do so. Small and very small business concerns must be front and center of any economic recovery.

Governor Newsom's proposed FY2023-24 budget will maintain funding for programs like the State Small Business Credit Initiative and the Small Business Technical Assistance Program. However, the proposed budget also eliminates some key small business funding provisions, including rolling back California's version of the CDFI Fund.

CAMEO will advocate and educate our elected and appointed leaders of the importance of building a sustainable and strong entrepreneurial ecosystem that works for *all* entrepreneurs with a focus on those who are underserved and underinvested.