

Little Hoover Commission
Written Testimony Prepared by
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Chairman Nava and Distinguished Commissioners: Thank you for the invitation to address the Little Hoover Commission to provide my perspective and insights on small businesses in the State of California and discuss solutions to improve their resilience.

CalOSBA Overview

CalOSBA is led by the Small Business Advocate and operates within the GO-Biz per Government Code Sections 12098-12098.9. CalOSBA is the principal advocate in the State on behalf of small businesses, representing their views and interests across state government, ensuring information, content and direct support are available to them to better navigate state resources, programs and regulations, and supporting them to increase their resilience.

CalOSBA's mission is to help support economic growth and innovation in California by working to ensure that its small businesses and entrepreneurs can connect to the resources they need to startup, access capital, compete in markets, and grow their businesses. In alignment with Governor Newsom's focus on building a *California for ALL*, CalOSBA is committed to creating inclusive entrepreneurial and small business ecosystems to eliminate opportunity gaps across zip code, race and gender.

CalOSBA has three primary strategic objectives aligned to achieve its mission:

Information and Resources. Connection to resources is critical to small business success and resilience. Small businesses often lack the information and networks to connect to the many private and government resources available. Further, government and the small business ecosystems are sometimes hard to navigate or historically not inclusive. CalOSBA provides accessible information, training, consulting, and tools for small businesses and entrepreneurs to launch and grow or scale.

Advocating for Small Businesses: CalOSBA serves as the voice of small business and entrepreneurship across state government and engages with both public and private sector experts and policymakers focusing on access to capital, markets and networks

Advancing Small Business Resilience: CalOSBA supports disaster preparedness and economic recovery on behalf of GO-Biz. The Office's engagement on recovery has increased in recent years with increases in the number of wildfires across the state, and most recently in response to COVID-19. CalOSBA engages with the California Office of Emergency Services (CalOES) on

behalf of GO-Biz to lead the Economic Recovery Support Function as part of the California Disaster Recovery Framework post-disasters.

Small Business Response during COVID

California small businesses are drivers of economic growth and mobility – creating 2/3 of net new jobs and employing nearly half of all private sector employees, building wealth, innovating to solve global problems, launching future growth industries, and defining main streets across our local communities. California is home to 4.1 million small businesses, representing 99.8 percent of all businesses in the state and employing 7.2 million workers in California, or 48.5 percent of the state’s total workforce.¹

Startups represent an ever-changing nature of the small business segment with new births and deaths cycling through ecosystems at a high rate: 20% fail within the first year and only half of small businesses survive 5 years and only one-third survive 10 years.² During disasters, these deaths are accelerated. FEMA studies on natural disasters show that 40-60% of small businesses don’t reopen post disaster, and 90% fail within a year if don’t reopen within 5 days.³ There is a constant and increasing demand for small business training to continually build this pipeline of small businesses.

In addition to the existing challenges for many, small businesses have been further impacted during the COVID-19 pandemic, facing closures or decreased operation and subsequent pressures on cash flow with limited access to capital or financial relief. Small Business Majority survey data found up to 44% of businesses are at risk of shutting down. As of August 17, 2020, D&B’s COVID-19 Business Impact Index showed that 36% of businesses remain in a precarious situation. From February to April 2020, there was a 22% drop of **active** business owners nationwide according to data released through the Census Current Population Survey. POC-owned businesses have been disproportionately impacted and the number of African-American active businesses dropped by 41%, Latinos 32%, Asians 25%, and immigrants 36%.⁴ The disproportionate numbers reflect the historic inequities minority owned businesses, and especially African-American and Latinx businesses, face in accessing capital, the marketplace, and networks to strengthen their resilience.

Small businesses support has been critical to ensure swift connection to resources. Small businesses need pivot strategies, technologies and community support to help boost revenues in an environment of business closures and changing consumer demands. They also require clear information on the guidance to operate safely and protect their employees and themselves. With pre-pandemic cash flow averages under 15 days⁵ for over half of small

¹ U.S.SBA’s 2020 Small Business Profiles for individual states and the nation unless indicated otherwise. <https://cdn.advocacy.sba.gov/wp-content/uploads/2020/06/04142955/2020-Small-Business-Economic-Profile-CA.pdf>

² US Bureau of Labor Statistics

³ https://www.fema.gov/media-library-data/1441212988001-1aa7fa978c5f999ed088dcaa815cb8cd/3a_BusinessInfographic-1.pdf

⁴ <https://siepr.stanford.edu/research/publications/impact-covid-19-small-business-owners-evidence-early-stage-losses-april-2020>

⁵ <https://institute.jpmorganchase.com/institute/research/small-business/small-business-cash-liquidity-in-25-metro-areas>

businesses, they also need relief to cover business interruption, and recovery capital to fund their pivots and help them survive.

Connection to Information and Resources

CalOSBA and GO-Biz received a surge of requests for direct technical assistance from small businesses during the pandemic. The Office created an extensive resource guide and has been actively amplifying information in collaboration with GO-Biz through website tools, webinars, podcasts, newsletters, community events, earned media and social media. Further, CalOSBA has developed a stakeholder working group of regional small business economic development organizations to partner on outreach and engagement, as small businesses report that community and networking remain critical for their survival during COVID-19.

In late 2018, California launched a state supported network of small business centers for expansion support to underserved business groups, helping to ensure that immediate advisors and trainings are available. Through the Small Business Technical Assistance Expansion Program (SB TAEP) and Capital Infusion Program (CIP), California funds federally contracted small business centers for expansion at \$20M/year through 2022-23. Of the \$20M, \$17M (SBTAEP) goes to expanding free 1-on-1 consulting and no-cost to low-cost trainings with a preference for programs for women, people of color, veterans and low-wealth, rural, and disaster impacted communities, and \$3M (CIP) goes to helping small businesses get loans, investments, grants and other capital infusion. In 2019-20, 86 active centers, providing expanded services in over 30 languages, have been helping California's small businesses pivot, navigate new guidance, accessing capital including federal relief, and adapting to the new marketplace demands to survive COVID-19.

In May 2019, GO-Biz and CalOSBA launched the California Entrepreneurship Task Force (ETF) to create a bridge between the State and the entrepreneurial and SMB communities. The ETF includes 15 diverse, successful entrepreneurs who serve as a bridge to small businesses and entrepreneurs, as well as a working group to share ideas and solutions to propel California's next generation of innovative entrepreneurs and small and medium businesses. To amplify and supplement the efforts of the center network, the CalOSBA led ETF launched a series of weekly COVID-19 Rapid Response Webinars reaching nearly 30,000 small businesses in Spanish and English. The series helped CalOSBA push out critical information in partnership and create a sense of community by sharing successes, challenges and opportunities to overcome obstacles. The series was launched in Spanish with Univision on Facebook Live and in English with a variety of over 20 statewide and regional partner organizations.

Since May 2020, I co-chair the small business sub-committee of the Governor's Task Force on Business and Jobs Recovery, increasing the voice of small business at the policy table across government. CalOSBA serves as a guiding voice on small business issues, navigating resources, and providing small-business specific data and information to response efforts across State government.

Advocacy and Access

Online Access to Markets

Small businesses have had to adapt, especially to the increased impact of an on-demand economy on their business models. The Small Business Roundtable and Facebook surveyed small businesses and 28% said the biggest challenge over the next few months would be cash flow and 20% lack of demand. E-commerce and technology tools have been revenue drivers and 51% of businesses reported increasing online interactions with clients, 36% of businesses with online tools reported conducting all sales online, and 35% of businesses that have changed operations have expanded use of digital payments.⁶ According to a survey by 3C released in May, 76% of small businesses surveyed are relying more on digital tools than pre-COVID19; and 1/3 of businesses say they would have closed all or part of their business without these tools.⁷

Ensuring that all California businesses have access to online marketing and commerce tools, resources and platforms to shift and accommodate new market demands has been a priority.

In June 2020, CalOSBA, in collaboration with the Governor’s Task Force on Business and Jobs Recovery and GO-Biz launched a one-stop-shop resource website and campaign *Calling All Californians: #ShopSafeShopLocal* to drive sales to local small businesses and increase safe operating practices to help keep small business employees, owners, and others healthy by engaging in practices like wearing a mask, adhering to social distancing guidelines and following all public health protocols. The campaign, which reached over 6 million users on Social Media and included corporate free or discounted offers to help businesses connect online as well as connection to local advisors and networks, industry guidance and a Personal Protective Equipment (PPE) marketplace. We have seen similar efforts nationally with GoDaddy’s *Open We Stand* campaign and American Express’s *Stand for Small*.

CalOSBA is now building on the *ShopSafeShopLocal* campaign to expand corporate partnerships for outreach, training and support as businesses shift to online tools to survive COVID-19. Getting digital requires multiple tools and expertise, and access to information and resources is best achieved by leveraging the technology companies best positioned to train and help small businesses improve successful adoption.

Access to Supply Chains

CalOSBA is engaged across state agencies on small business procurement issues. In order to help small businesses access state markets, CalOSBA serves on the small business committees at CalTrans and Department of General Services, as well as engages with the agency assigned small business advocates. The COVID-19 pandemic has shown the need for California to have a strong internal foundation of manufacturers and suppliers to keep the economic engine of all California businesses strong. Sourcing from local retail, hospitality, and food providers also create jobs. The current trend to “On-Shore” or “Near Source” is a huge opportunity for small

⁶ <https://dataforgood.fb.com/wp-content/uploads/2020/05/SMBReport.pdf>

⁷ <https://connectedcouncil.org/new-study-majority-of-us-small-businesses-are-optimistic-digitally-empowered-and-resilient-in-the-face-of-the-covid-19-crisis/>

businesses to reopen strong and help secure a path forward to an inclusive California economic recovery across manufacturing, production, distribution and other business sectors in the wake of COVID-19. CalOSBA has prioritized procurement training across its small business center network and continues to support small business contract readiness to better position California firms to compete for the trillions of infrastructure investments currently planned and potentially to be included in future federal stimulus packages. The Office is working in collaboration with the Governor's Task Force on Business and Jobs Recovery to explore private partnerships to expand local and diverse sourcing strategies to strengthen California based suppliers.

Capital Access

As revenue decreases and cash flow limitations have negatively impacted small businesses, capital relief through grants, forgivable debt and low-cost loans have been critical to the pandemic economic response.

CalOSBA has delivered numerous trainings and provided support and information to build awareness and understanding of federal relief programs. The Office supported outreach and collaborated across its networks to amplify the SBA Economic Injury Disaster Loans (EIDL), EIDL Advances and the Paycheck Protection Program (PPP). As of 8/24, California small businesses had received \$33,572,280.259 EIDL loans, representing 17.86% of the national total. An additional \$2,666,662,000 or 13.33% of the now depleted EIDL Advances were received in California. As of 7/31, California received \$68,102,850,783 or 13.06% of the national distribution of PPP.⁸

CalOSBA has advocated across private and corporate philanthropy, the financial sector and within state government to help promote investments in capital programs to support small business recovery. At the State level, CalOSBA has engaged in the recent efforts to fund California IBank at GO-Biz and help ensure capital is available for the smallest of the small and the underserved, especially those who were not eligible or lacked access to federal relief. IBank received an initial \$50 million one-time General Fund augmentation on April 3, 2020 to support the Disaster Relief Loan Guarantee Program and focus on small dollar loans under \$50,000. The 2020/21 budget included an additional \$50 million one-time General Fund allocation to IBank's Small Business Finance Center for its guarantee programs with flexibility to direct capital to meet market demand. It also included \$25 million to support capital expansion for the mission lender community CDFI lender liquidity and free up more capital for small business loans. IBank has deployed the \$25 million to support the California Rebuilding Fund, a new public-private partnership that will leverage government backed capital to support California's small businesses.

As California rebuilds its economy, the creation of transformative capital pathways for small businesses owned by People of Color (POC) will also be critical to overcoming historical bias that has created an opportunity gap. Numerous studies have demonstrated the economic

⁸ U.S. Small Business Administration.

benefits of supporting and investing in local and small POC-owned businesses, which often serve as the main catalyst behind employment growth, helping to attract new investment opportunities in under-resourced communities. COVID-19 has disproportionately impacted POC-owned small businesses, especially black-owned and Latinx businesses, now struggling to survive. CalOSBA continues to participate and advocate in private sector dialogue to continue to advance capital opportunities for all California small businesses.

Small businesses are facing unprecedented challenges in how they operate, connect to clients and neighborhoods, maintain compliance and innovate to grow and scale. A strong collaborative effort to strengthen and amplify resources and connect small businesses to networks and communities for support will help small businesses recover, build resilience and survive these historic times. I look forward to engaging in a discussion with the distinguished members of the Little Hoover Commission on these issues and remain at service to small businesses and their supporters throughout California. Thank you for your time.