

■ Executive Summary

A Dual Crisis

The COVID-19 pandemic poses a dual crisis for California. The pandemic is a health crisis that has cost the lives of more than 18,000 Californians. It is also an economic crisis that has wreaked economic catastrophe. The pandemic-induced recession has left millions of Californians unemployed and brought countless small businesses to the edge of extinction. The impact has fallen disproportionately on communities of color and on underserved communities, amplifying existing inequities in California's economy.

The Little Hoover Commission began studying the economic impacts of COVID in Summer 2020 to identify how state government can best support an equitable recovery. The Commission finds that the state must work in partnership with the private sector to support California's small businesses, especially those in underserved communities. California has already taken important steps in this direction. Additional state leadership and expanded action are required, however, to meet the scale of the crisis confronting small businesses.

The Economic Impacts of the Pandemic

The COVID pandemic produced the sharpest and deepest economic contraction in California's modern history.

Impact on Employment. More than twice as many Californians lost their jobs between March and May 2020 as did during the Great Recession of 2008. Unemployment in Spring 2020 reached levels not seen in California since the Great Depression.

Impact on Small Business. As of early November, more than 30 percent of California's small businesses remained closed. Thousands of small businesses have shut-down permanently.

Impact on Marginalized Communities. The pandemic has hit minority- and women-owned businesses hardest. Job losses are concentrated among lower-wage and less-educated workers, and among workers from communities of color.

Need for Public-Private Partnership. State government must work boldly both to support those impacted by the recession and to address California's structural inequalities. Yet California faces a fundamental challenge: even as COVID devastated the state's economy, it also decimated the state budget. Even with an improving budgetary outlook, California state government does not have the resources to fully address the enormous economic impacts of COVID.

In order to put the state on a pathway to recovery, state government must leverage private resources—financial, institutional, and human talent—toward addressing the economic impact of COVID.

Supporting Small Business

In order to foster economic recovery, and address the pandemic's disparate economic impacts, state government must leverage public-private partnership to support small businesses, especially those in underserved communities. Small businesses accounted for nearly half the state's private sector workforce at the start of the pandemic. These enterprises are the cornerstones of vibrant communities. They provide livelihoods and jobs and drive local economies, supporting local tax bases and helping to maintain communities' economic well-being. The Commission finds that efforts to support small businesses must include two key elements:

- California must support the financial institutions that serve underserved communities, especially Community Development Financial Institutions (CDFIs). CDFIs are uniquely positioned to support businesses in underserved communities, but they need affordable capital to do so.

- California must develop a loan program that can help small businesses survive the current downturn and retool for a changed economic landscape. Small business loan programs that provide subsidized financing have a track record of increasing small business profitability and employment. They also carry a multiplier effect, increasing economic growth and expanding government revenues, benefiting the economy and communities as well as the immediate loan recipients.

California has taken the first steps toward developing a robust mechanism to support small businesses and CDFIs, and encourage broader economic recovery, with the creation of the California Rebuilding Fund.

California Rebuilding Fund. The Rebuilding Fund supports small businesses by aggregating funding from the state, CDFIs, major banks, and philanthropies. The state appropriated \$25 million toward the fund as first-loss capital to help attract additional funding from private sources. The goal is to leverage state dollars to create a Rebuilding Fund of \$250-\$500 million, which will be made available to CDFIs to provide low interest small business loans.

Given the scale of the crisis facing small businesses, state government needs to work to expand the Rebuilding Fund and maximize private participation, while also ensuring that funding reaches small businesses in underserved communities and communities of color.

Coordinating Information and Resources.

California state government also needs to work in partnership with the private sector and with local government to make information more readily available to small businesses. Foundations, civic organizations, nonprofit entities, and city and county governments, as well as state government, are all supplying small businesses with financial and technical assistance. Aggregating information by developing a single web portal for resources would

have the benefit of creating a one-stop shop for business owners around the state looking to identify potential sources of financial or technical support.

Recommendations

State government has taken important steps to support California's small businesses. Bold leadership and close collaboration between the public and private sectors are needed to build on this initial work. The report concludes with five recommendations for supporting small businesses in underserved communities:

Recommendation 1: California should develop and execute a strategy for maximizing participation in the California Rebuilding Fund among California's financial institutions.

Recommendation 2: California should report demographic and geographic data on the small businesses receiving support from the Rebuilding Fund to demonstrate that funding from the Rebuilding Fund reaches small businesses in underserved communities. Where needed, California should work with city and county governments and with community-based organizations to improve access to the Rebuilding Fund.

Recommendation 3: California should develop a strategy for expanding the size of the Rebuilding Fund, with an aspirational goal of creating a fund of one billion dollars. California should also consider making the Rebuilding Fund permanent by establishing an annual, recurring state contribution.

Recommendation 4: California should design and execute a campaign to raise awareness of CDFIs and other mission-based lenders, especially among grantmakers and impact investors.

Recommendation 5: State government should partner with the technology sector to make informational resources more broadly accessible to California's small business owners.