



CALIFORNIA REINVESTMENT COALITION

A Comprehensive Proposal to Save California's Small Businesses

In order to confront the challenges faced by the almost 5 million small businesses in California and the economic devastation that can result from COVID19, a bold comprehensive plan is needed by California's elected leaders. A [recent poll by Small Business Majority](#) found that 41% of small businesses report their revenues have declined by more than 50% since the COVID-19 crisis began and a vast majority have permanently laid off employees. A majority (53%) of small businesses say the CARES Act was a good first step to address the challenges they're facing, but they believe additional small business assistance is needed. Most small businesses (92%) say what they need from the federal government is direct grant assistance.

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 size of small businesses, and whether they are owned by people of color, immigrants, or women is not known. The federal relief provided to small businesses through the PPP loan program was insufficient and poorly structured, banks preferred their large and well-resourced clients when making these loans. Most small businesses in CA did not have well established banking relationships to get in the queue for relief, or enough professional staff to quickly complete the complex applications. This means that many of the state's smallest businesses and those owned by people of color were left out of accessing relief.

A comprehensive program is required to ensure that small businesses don't fall through the cracks. To this end, the California Reinvestment Coalition is proposing an additional \$200 million infusion and changes to the IBank loan guarantee program to ensure that hard to reach and historically marginalized small businesses can benefit from the program. In addition, a \$100 million grant program is proposed that will serve small businesses in the state.

Small businesses need the full backing of the State of California if they are to survive this crisis. Loans are not enough. Grants are not enough. A comprehensive program that includes both, and a partnership between the State of California and community organizations that can work as financial first responders is necessary to make this work. We are in this together.

Small Business Loan Guarantee Program

On April 2nd Governor Newsom announced a \$50 million infusion into the California Infrastructure Economic Development Bank (IBank) for an emergency micro lending program to assist small businesses that may not be eligible for the SBA's Paycheck Protection Program (PPP) loans. The \$50 million will be leveraged into \$100 million for loan loss reserves, allowing



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lenders serving small business entrepreneurs in California to leverage the funds to make low interest loans in communities across the state.

In order to ensure that the IBank state loan guarantee program reaches hard to reach communities and the small businesses who are least likely to benefit from the PPP program we propose the following:

- An additional \$200 million (that can be leveraged into \$400 million) of capital into the IBank to be used to guarantee small business loans to micro businesses that did not access the PPP program
- Waivers of lender fees so as to increase lender capacity and to ensure fees are not passed on to the borrower
- Geographic set asides for rural communities, small businesses with less than 25 employees, MDBE, and immigrant owned businesses
- An additional \$20 million in grants over two years to support CDFIs, CDCs and nonprofits working to package and underwrite loans
- 100% loan guarantee for lenders that offer 0% interest rates
- Maintain the collection of race, ethnicity, gender and census tract data of small business owners receiving loans through the program
- Forgive at least 50% of the loan if used on eligible costs
- Provide liquidity to the CDFI and mission lenders in the program through purchasing their loan guarantees

Small Business Grant Program

California should provide \$100 million in emergency recoverable grants to California small businesses and entrepreneurs, including ITIN filer owned small businesses. The funds can be provided through the Treasurer's Office or Franchise Tax Board in order to allow for the fastest and widest reach into low income communities and communities of color.

Community Development Corporations, Small Business Development Centers and Community Development Financial Institutions will conduct outreach, act as a clearinghouse for applications, and provide technical assistance as necessary. An application will be set up allowing small businesses to be vetted for size and eligibility and to track demographic data of grant applicants.

Community based organizations should be part of the distribution mechanism because they operate in and serve low-income communities and communities of color and they are integral to



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the success of the program in reaching small businesses that were left out of the PPP federal relief efforts.

Grants of up to \$10,000 would be repaid if the grantee receives an SBA, SBA guaranteed or state guaranteed disaster loan. Nonprofits conducting outreach, technical assistance, vetting and grant making would receive \$250 per grant made.

Loan Criteria Qualifications:

- Show a revenue loss of 25% or more between March 1-July 31, 2020
- Have less than \$1 million in annual gross receipts
- Have between 1-25 employees (including sole proprietors)

Or have a revenue loss of 25% and operate in a low income census tract and is a MDDBE or immigrant owned small business.

Eligible Borrowers

For-profit and tax-exempt businesses in the State of California that have been negatively impacted by the COVID-19 outbreak and will make their best effort to continue or re-establish their business operations and employees.

Certification

Business or non-profit must have a business license with their respective city or county or a health permit in good standing at the time of application.

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