

City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: MAY 5, 2020**

FROM: COUNCILMEMBER RONALDO FIERRO **WARDS: ALL**
COUNCILMEMBER STEVE HEMENWAY
COUNCILMEMBER ERIN EDWARDS

SUBJECT: ESTABLISH SMALL BUSINESS EMERGENCY MICROGRANT STABILIZATION FUND (INITIAL FUNDING OF \$1,870,896 FROM CDBG-CV FEDERAL FUNDING) FOR HARD HIT LOCAL SMALL BUSINESSES (5 EMPLOYEES OR FEWER) THAT MEET OUTLINED QUALIFICATIONS

ISSUE:

Small Business Emergency Microgrant Stabilization Program utilizing federal funds from the CDBG-CV allocation with a program amount of \$1,870,896 for the purpose of providing working capital assistance to microenterprises with 5 employees or fewer that are owned and operated by low-moderate income individuals – administered in strategic partnership with the United Way of the Inland Valleys; provide further direction on small business support efforts

RECOMMENDATIONS:

That the City Council:

1. Approve the conceptual framework of the Small Business Emergency Microgrant Stabilization Program with a program amount of \$1,870,896 from CDBG-CV federal funding from the CARES Act to provide \$7,500 grants to businesses operated and owned by low-moderate income individuals for the purpose of providing urgent and needed working capital assistance to struggling small businesses; and
 - a. Authorize the Councilmembers whom authored this report and the City Attorney's Office to expeditiously put together an agreement with United Way of the Inland Valleys as a subrecipient to receive and administer this initial funding and leverage external donations with the full terms and conditions to be approved by the City Council at a later meeting; and
 - b. Direct staff to create a comprehensive outreach plan to ensure that hard-to-reach small businesses that may not have close ties to mainstream networks and banking institutions are aware of this funding opportunity;
2. Provide further direction on small business support and economic recovery efforts.

BACKGROUND:

In the past two months, local, state and federal governments have mobilized in the face of an unprecedented and unrivaled pandemic, the Novel Coronavirus (COVID-19). The following Emergency Orders have been declared by government officials:

- On March 4th, 2020, California Governor Gavin Newsom declared a State of Emergency in California due to the threat of Coronavirus (COVID-19).
- On March 8th, 2020, the Riverside County Public Health Officer declared a local health emergency based on the imminent threat to public health from COVID-19 in Riverside County.
- On March 17th, 2020, the Riverside City Council ratified a local emergency declaration in order to protect the public from COVID-19. Further actions ordered all bars, wineries and breweries to close and for restaurants to cut capacity to 50%. A previous order by the Riverside County Public Health Officer ordered the cancellation of all gatherings with an expected presence of 10 people or more, effectively closing most small businesses.
- On March 19th, California Governor Gavin Newsom put in place a statewide “Stay at Home” order, closing down all but essential businesses and telling over 40 million Californians to stay at home whenever possible.
- On April 5th, the County Public Health Officer ordered all residents who leave their homes to cover their faces and additionally prohibited all gatherings of individuals that are not family members that live in the same home.

The Governor’s Stay at Home Order (N-33-20), which supersedes all previous orders, mandates the effective closure of most customer-facing businesses, including retail stores, restaurants, hair and nail salons and other typical local businesses. This has a devastating economic effect on these businesses and on the individuals they employ. U.S. Treasury Secretary Steve Mnuchin has warned that without stimulus and intervention, unemployment in the United States could reach 20% in the near future.

In the City of Riverside, there are 2,343 businesses that report to the City’s Tax Division having 5 or fewer employees. Businesses are not mandated to report employment count when registering with the City, so this may not paint the complete picture of how many truly small businesses there are within city limits.

According to the JP Morgan Institute, approximately 50% of Americans own or work for a small business. The average small business has 27 days of cash flow and for close to 50% of small businesses, they have a mere 15 days of cash buffer or less. According to a Federal Reserve Report, while black-owned businesses are the most likely to apply for bank financing, less than 47% of applications are fully funded. Even if funded, black business owners have the highest rate of failure of receiving full financing, more than 10% higher than other categories.

In an April 6th 2020 report, The Center for Responsible Lending estimated that close to 95% of black-owned businesses, 91% of latinx-owned businesses, 91% of Native Hawaiian or Pacific Islander-owned businesses, and 75% of Asian-owned businesses stand close to no chance of receiving federal funding from the Paycheck Protection Program.

According to the National Women’s Council, the lack of access to capital is the largest and most persistent barrier for women launching, scaling and growing their businesses. The report states that in comparison to men, women business owners raise smaller amounts of capital and rely heavily on personal finances, rather than external financing. Additionally, a 2018 report by the Institute for Women’s Policy Research found that male entrepreneurs have a 50% better chance

at receiving at least \$1 million in start-up funding. Men are also more likely to receive funding from venture capitalists and angel investors.

The three main vehicles for small business relief on the federal level are the \$350 billion Paycheck Protection Program, Small Business Administration (SBA) Disaster loans and the Federal Reserve Main Street Business Lending Program. The Paycheck Protection Program is the most viable and well-known assistance program, administered by SBA, and is designed to provide low interest forgivable loans to small businesses. Businesses are able to apply for loans for 250% of their monthly payroll with a \$10 million cap. The loans become forgivable if 75% of the funds go towards pay employees.

The SBA released a report on April 13th detailing loan approvals by NAIC Sector:

NAICS Subsector Description	Approved Loans	Approved Dollars	% of Amount
Construction	114,838	\$33,994,993,103	13.73%
Professional, Scientific, and Technical Services	126,372	\$30,347,630,866	12.26%
Manufacturing	72,728	\$30,324,381,642	12.25%
Health Care and Social Assistance	114,236	\$27,907,315,755	11.27%
Accommodation and Food Services	108,179	\$22,729,710,765	9.18%
Retail Trade	105,796	\$21,205,961,588	8.57%
Wholesale Trade	42,280	\$14,340,947,724	5.79%
Other Services (except Public Administration)	93,538	\$12,302,748,049	4.97%
Administrative and Support and Waste Management and Remediation Services	45,492	\$10,620,220,830	4.29%
Real Estate and Rental and Leasing	48,940	\$7,963,204,190	3.22%
Transportation and Warehousing	28,181	\$7,824,422,844	3.16%
Finance and Insurance	36,714	\$5,780,025,663	2.33%
Educational Services	15,213	\$5,664,150,353	2.29%
Information	13,693	\$4,449,853,324	1.80%
Arts, Entertainment, and Recreation	25,785	\$3,690,034,085	1.49%
Mining	8,133	\$3,010,017,134	1.22%
Agriculture, Forestry, Fishing and Hunting	27,428	\$2,973,951,117	1.20%
Management of Companies and Enterprises	2,278	\$887,589,299	0.36%
Public Administration	3,058	\$824,899,859	0.33%
Utilities	2,056	\$701,335,031	0.28%

Two weeks after the program launched, the SBA announced that the \$350 billion fund was depleted and that applications were no longer being accepted. Only 6% of small businesses in the nation received funds with reports from many local restaurants and retailers of radio silence from lenders. The State of California received the fewest number of loans than any state, with 58.5 loans per 1,000 small businesses. This is $\frac{1}{6}$ as many as the leading state, with 339 loans per 1,000 small businesses.

On April 25th, President Trump signed a bill that authorized another \$310 billion towards the Paycheck Protection Program, which began accepting new applications on April 27th. However, many fear the persistent problems that clouded the first round of funding as well as loopholes for larger corporations were not adequately solved and are destined to repeat.

According to Securities and Exchange filings, 71 publicly traded companies were successfully enrolled in the program, receiving \$300 million in loans, close to 10% of the entire fund. Four major U.S. banks – Bank of America, Wells Fargo, JPMorgan Chase and US Bank –are the

targets of lawsuits accusing the financial institutions of favoring large businesses in the PPP program.

In response to this slow and inadequate response from the Federal government, Adam Ozimek and John Lettieri from the Economic Innovation Group said in a recent policy brief (attached):

“Every aspect of the federal response thus far has been too slow and too small. Without swift and decisive action, a tidal wave of closures will hit the small business community and unleash far-reaching consequences throughout the economy that may be difficult to undo. This crisis necessitates sacrificing finely tuned targeting and administrative complexity in favor of broad and immediate accessibility of capital. The potential costs of overreacting – providing stimulus that is too broad or too large – pale in comparison to the potentially devastating costs of underreacting or moving too slowly.”

The economic effects of this pandemic have been devastating and disastrous. Like the virus itself, without targeted and quick intervention, these effects have the potential to rapidly multiply. The design and delivery of federal programs will take longer than what is needed to keep our local small businesses afloat.

SMALL BUSINESS STABILIZATION FUND:

This stabilization microgrant program will provide nimble and direct economic stimulus in the form of grants to struggling small businesses owned and operated by low-moderate income individuals in desperate need of working capital assistance.

Many microbusinesses (5 employees or fewer) – including nail and hair salons, flower shops, antique stores and many small retail and restaurant establishments, who have been closed due to government order – have fixed bills that continue to pile up, including rent and utilities that despite relief and eviction protection measures are still overdue. Without urgent relief and capital injections, these struggling small businesses will eat into their reserves, cut employees, and eventually close permanently.

Due to the nature of current federal relief (first come, first serve and only distributed through authorized SBA lenders) – small businesses that don't have strong lending relationships with banks or are not typically reached by business networks are largely left out of federally administered bail out measures. Particularly underserved small businesses include those that are located in low to moderate income neighborhoods and are owned by individuals that don't have personal wealth. These businesses are unlikely to tap into federal relief or to navigate through a complex loan process.

As deadlocked negotiations in Washington D.C. bring little promise of true small business relief – the local role is more impactful and needed in the navigation of a successful, healthy and equitable recovery.

This fund, fully operated by recently allocated CDBG-CV Funding, will provide \$7,500 one-time grants to local microenterprises (5 employees or fewer) that are owned and operated by individuals with low-moderate income levels. With roughly \$1.8 million in funding, this stimulus program will assist 250 microbusinesses in the City of Riverside in the first round of funding.

Base Criteria for Qualification:



LOW-MODERATE INCOME LEVEL

The owner of the small business must meet federal guidelines for low-moderate income levels. Verified by personal financial statement.



PHYSICAL BUSINESS LOCATION

The business operations must be physically located at a commercial-use building within the City of Riverside limits.



5 OR FEWER EMPLOYEES

The business must employ no more than five (5) employees. This is to ensure that the business qualifies as a microbusiness.



REGISTRATION WITH THE CITY

The business must be currently registered with the City of Riverside and hold a business tax registration certificate, filed prior to March 1st, 2020.

About the United Way of Inland Valleys:

The United Way of the Inland Valleys (UWIV) is an independent 501(C)3 organization, governed by local volunteers, serving the cities of Beaumont, Banning, Blythe, Cabazon, Calimesa, Canyon Lake, Jurupa, Lake Elsinore, Mira Loma, Moreno Valley, Murrieta, Perris, Riverside, Temecula and Wildomar.

UWIV's mission and vision is as stated: *"Uniting people, ideas, and resources with our community, to improve lives. UWIV envisions a community where all individuals and families achieve their human potential through education, financial stability and housing."*

In response to the COVID-19 pandemic, UWIV has utilized 211 Connect to provide up to date information and resources, available 24 hours a day in over 200 languages. The organization has also quickly established multiple comprehensive funds to respond to the need for direct economic relief for vulnerable populations in the region.

Details of Partnership Model: The United Way of the Inland Valley, with extensive experience administering and disbursing funds in our community, will provide much needed administrative support in the implementation of this fund. After an agreement is approved by the City Council, the United Way of the Inland Valleys will begin accepting applications, collecting required documentations and verifying information. They will subsequently award the grants based upon the program's terms and conditions and in accordance with HUD eligibility guidelines.

The United Way of the Inland Valleys will then efficiently and quickly disburse of these funds to the awarded grantees. After the disbursement, the United Way of the Inland Valleys will be responsible for monitoring, documenting and tracking the outcomes of the stimulus, along with reporting successes and lessons learned. This may include tracking outcomes such as the success rate of the microbusinesses assisted, or the job retention rates of the businesses, along with other relevant HUD guidelines.

PROGRAM PROSPECTIVE TIMELINE:

LEAD	OBJECTIVE	TIMELINE	TASKS
City Council	Project Approval	5/5/20	<ul style="list-style-type: none"> Approval of program and further direction
City Team	Comms/Outreach	5/6/20 – 5/25/20	<ul style="list-style-type: none"> Aggressive outreach and communications plan Possible technical assistance
City Council	Approve subrecipient (United Way of the Inland Valleys)	5/12/20 – 5/19/20	<ul style="list-style-type: none"> For projects to receive funding in the 19-20 Project Year, an amendment to the HUD Annual Action Plan is necessary. Minimum 5-day public comment period plus time to get on City Council Agenda is needed. City Attorney's Office, CM's and United Way hammer our agreement – ideally presented at 5/19 meeting
United Way	Begin accepting Applications Collect/verify Documents	5/12/20 – 5/19/20 OR 5/19/20 – 5/26/20	<ul style="list-style-type: none"> Open Application Portal Collect and verify required documentation Filter out qualified applicants based off of underwriting terms and conditions approved by the City Council.
United Way	Disburse funds	5/19/20 – 5/23/20 OR 5/26/20 – 5/31/20	<ul style="list-style-type: none"> Administer funding to selected grantees
United Way	Tracking/Monitoring	5/23/20 – 9/1/20 OR 6/1/20 – 9/1/20	<ul style="list-style-type: none"> Monitor and continuously evaluate program as implemented Document and track outcomes and report successes and lessons learned. Provide follow up outreach to grantees and track objective outcomes such as success rate of microbusinesses, job retention rates and if the program met the objectives set by the Council.
Council/Staff	Public Reporting	Fall 2020	<ul style="list-style-type: none"> Report back to the City Council and general public on outcomes of the program Reporting to HUD when necessary

Program Funding and CDBG Guidelines:

On March 27, President Donald Trump signed the CARES Act into law. One of the provisions of the stimulus package was additional CDBG allocations to cities. The City of Riverside's allocation is \$1,870,896 in CDBG20-CARES funding, \$968,672 in Emergency Services Grants (ESG20-CARES) and \$479,139 in Housing Opportunities for People with Aids Funding (HOPWA20-CARES).

The following are activities deemed eligible for CDBG20-CARES funding:

1. Building and Improvements, Including Public Facilities
2. **Assistance to Businesses, including Special Economic Assistance**
3. Public Services (capped at 15 percent of the grant with some exceptions)
4. Planning, Capacity Building, and Technical Assistance

The following activities are permitted as it pertains to utilizing the funds for assistance to businesses:

1. Provide grants or loans to support new businesses or business expansion to create jobs and manufacture medical supplies necessary to respond to infectious disease
2. **Avoid job loss caused by business closures related to social distancing by providing short-term working capital assistance to small businesses to enable retention of jobs held by low-and-moderate-income persons.**
3. Provide technical assistance, grants, loans and other financial assistance to establish, stabilize and expand microenterprises that provide medical, food delivery, cleaning and other services to support home health and quarantine.

Potential Reach: With \$1.8 million in initial funding, this program has the ability to reach roughly 250 local businesses with \$7,500 grants.

Small businesses are a reflection of a community's values, needs, and identity. Mom and pop shops, especially, serve as the pulse of our city and community. According to the 3/50 Project, for every \$100 spent at local, independent stores, \$68 goes back into the local economy. Thriving small businesses exert an impression of vitality and wealth, which in turn leads to further and greater economic investment and growth.

Small businesses, especially microbusinesses, are often not just owned but also man-aged and operated by the owner. These individuals are often invested heavily in community-building and have multi-generational operations that will last for decades.

The vitality and health of our local small businesses directly correlation with the financial health of our city. Shopping local ensures that tax revenues remain in town. The health of small businesses directly relates to the size of the City's tax base and revenues.

In order to survive and stay afloat, small businesses must replace their lost income as fast and efficiently as possible. In order to do this, large cash injections and flexible resources are needed so that they may continue to pay operating costs, cover payroll and provide paid sick leave to employees. These microgrants have the ability to act as a lifeline for many businesses that see no other option than closing their doors permanently.

Our unique challenges cannot be completely solved in D.C or in Sacramento. The solutions we need require a bottom-up approach and intense collaboration between all stakeholders and your local government in a constant feedback loop with residents, business owners, and those most affected by the lasting impacts of this pandemic.

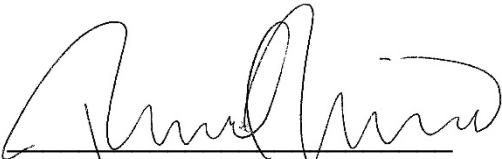
Local relief efforts across the country have played a critical role in ensuring the survival of main street. Federal stimulus may continue to come down the pipeline, while slow and sometimes inadequate, these efforts along with those of the many stakeholders in our community, and of this fund – combined will give our local businesses and economy a fighting chance to successfully rebound from this crisis.

FISCAL IMPACT:

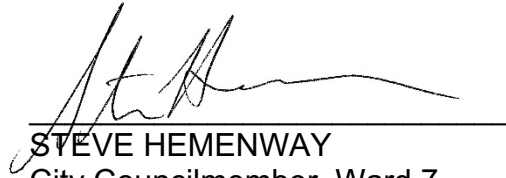
There is no immediate fiscal impact to the City of Riverside from this action, though the potential positive impact of this item towards our local economy is expected to be substantial.

All funding for this grant program will come from the CDBG20-CARES allocation from the Federal Government (\$1,870,896).

Prepared by:



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Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer/Treasurer

Attachments:

1. Eligibility Guidelines - CDBG-20 CARES Act
2. Economic Innovation Group Policy Brief