

## The Agenda for California's Entrepreneurs

Small Business Majority has created a comprehensive state policy agenda to ensure entrepreneurship remains at the center of a thriving and inclusive economy in California. California's 3.9 million small businesses employ seven million people, which amounts to about half of the private workforce, according to the U.S. Small Business Administration.

Despite their importance to the state's economy, California's small businesses have been greatly impacted by the COVID-19 crisis and have struggled to access the financing and tools they need to weather storm. This is particularly true for the smallest businesses and those owned by people of color, women and immigrants. [Recent polling](#) from Small Business Majority found 60% of small business owners in California who laid off employees have yet to restore their headcounts to pre-pandemic levels, and nearly 1 in 5 entrepreneurs of color (17%) said they are likely to close their businesses in the next few months.<sup>1</sup>

This is why it's critical that state lawmakers enact policies to support and empower these entrepreneurs, guaranteeing they have access to capital to start and grow their business, affordable and quality healthcare and the ability to compete for top talent with larger companies. To achieve these goals, policymakers should consider the following policy proposals.

### Expand access to responsible capital for entrepreneurs

Entrepreneurs—particularly women, people of color and other underrepresented populations—have faced significant hurdles accessing capital, and this has only been exacerbated by the COVID-19 pandemic. Increasing access to capital and expanding opportunities for marginalized communities is key to driving more inclusive economic growth. However, it's critical to ensure that any new opportunities to access capital are safe. California has provided new loan and grant programs to help hard-hit businesses during the pandemic, and we encourage the state to pursue additional policies that will ensure greater access and more options for entrepreneurs to obtain responsible capital, including the following:

- **Support the expansion of the California Rebuilding Fund.** This innovative public-private partnership through the IBank is driving millions of dollars of affordable capital to under-resourced small businesses throughout the state. The Fund should be made permanent to ensure that California entrepreneurs are able to access affordable capital for years to come.
- **Expand programs like the California Capital Access Program for Small Business (CalCAP) and the Small Business Loan Guarantee Program through the IBank to ensure lenders are able to continue to use these tools.** These programs encourage banks and other financial institutions to make loans to small businesses that have difficulty obtaining financing. According to the State Treasurer's Office, for every \$1 in CalCAP funding, another \$18 in private investments was leveraged for small businesses in 2017. We support legislation that will keep these programs healthy and successful for small businesses. We also support similar programs that drive responsible capital to micro-entrepreneurs.
- **Explore the concept of a state bank to unlock additional affordable capital for small businesses.** A state bank would make low-interest loans for infrastructure, agriculture, affordable housing, student loans and small businesses. This will spur economic growth and lead to thriving community banks with higher lending totals, which in turn, could provide millions of dollars in affordable capital for small businesses that need it the most.

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<sup>1</sup> "California small businesses face difficult decisions as pandemic continues and funding freezes," Small Business Majority, Dec. 2020, <https://smallbusinessmajority.org/our-research/california-small-businesses-face-difficult-decisions-as-pandemic-continues-and-funding-freezes>

- **Support the establishment of a Community Development Financial Institution (CDFI) Fund.** This state fund could be used to provide millions of dollars in leveraged capital to CDFIs throughout the state.
- **Assist the new Department of Financial Protection and Innovation (DFPI) in developing disclosures that give small business owners clear and concise information about their financing options.** Disclosure of APR and estimated monthly payments are some of the elements necessary for informed comparison. APR is the only established metric that enables informed comparisons of the cost of capital over time, and between products of different dollar amounts and term lengths. In addition, these regulations should bring transparency to the abusive practice of “double dipping,” or double charging the borrower.

### Expand small business ecosystem support

Small business owners rely on community-based organizations and state and federal agencies to provide business assistance and education to help maintain and grow their businesses. These organizations provide guidance on how to build and maintain good credit, navigate business regulations, apply for a loan and more. This assistance is particularly important to entrepreneurs of color who have historically seen fewer investments in their communities than their white counterpart. Expanding and funding the following measures is critical to supporting California’s diverse small business community.

- **Update and expand state investments into business support services,** such as Small Business Development Centers (SBDCs) and Women Business Centers (WBCs). These centers provide low and no-cost critical counseling and assistance by professional staff to all entrepreneurs, especially to women and people of color, helping small business owners maximize their potential. This assistance is especially critical now as small businesses adapt their business models or apply for capital for the first time as a result of the pandemic.
- **Increase collaboration and coordination between public agencies and business assistance organizations to promote microenterprise development.** The state must ensure that technical assistance is expanded to include marginalized industries such as child care businesses and undocumented business owners. Increased partnership across these entities will encourage vital investment in California’s job creators and chief exporters, particularly helping women entrepreneurs and entrepreneurs of color.

### Strengthen healthcare markets, expand coverage and contain costs

California has led the way in expanding access to healthcare, yet millions remain uninsured, including many entrepreneurs and small business employees. Meanwhile, many entrepreneurs and small business employees have lost coverage or struggled to afford their premiums during the COVID-19 pandemic. California can address its remaining uninsured rate and promote more affordability for the small business community through common-sense policies to strengthen healthcare markets and expand health coverage. Specific proposals include the following:

- **Expand historic assistance to individuals in the middle class who are eligible for state subsidies for the first time.** California made history in 2019 by extending state premium assistance to those struggling to afford insurance, but the subsidies are expected to expire next year. Extending the subsidies will significantly improve affordability for thousands of moderate-income individuals and families, including many entrepreneurs and small business employees. According to the Small Business Administration, the average income for incorporated small business owners is around \$57,000, just above the \$50,000 threshold of 400% FPL. Thus, the average California small business owners will benefit from an increase in premium support for those making between 400% and 600% of the federal poverty level.
- **Provide additional cost-sharing assistance to individuals struggling to access affordable healthcare.** Proposed legislation will strengthen existing ACA subsidies and provide

additional support to individuals who have incomes below 400% of the FPL and are unable to afford monthly healthcare premiums, which will benefit California's small businesses, their employees and self-employed entrepreneurs who are struggling to afford health coverage.

- **Protect Californians from increased costs and lack of access to health services through hospital consolidation.** Studies show that hospital consolidation creates instability in the small and large group marketplaces that small businesses rely on. Moreover, Small Business Majority polling found 3 in 4 small business owners oppose hospital consolidation if it leads to increased costs for healthcare.
- **Build upon the new generic prescription drug program,** which established a generic brand and label of prescription drugs for the state to sell to all of its residents. A generic prescription drug program allows Californians to access the medications they need and increases competition in the marketplace. This program will reduce the cost of prescriptions drugs for small business owners and their employees who rely on these medications to stay healthy.

### Expand access to small business benefits while supporting quality jobs

Entrepreneurs support programs that will provide for a level playing field as they compete for talented workers. These programs allow them to provide quality jobs for themselves, including retirement saving and paid family and medical leave programs. Sixty-three percent of small business owners support state efforts to enact retirement programs that automatically enroll employees of businesses without their own retirement plans into a state-administered retirement saving program. Similarly, 67% feel it is important to establish state programs to guarantee access to paid family and medical leave.

- **Support the implementation of CalSavers to ensure small business owners understand the opportunities and responsibilities within the program.** It's critical that small business owners have access to information about how they can use the program to attract talent and grow their business.
- **Expand the state's paid leave program and educate small businesses about how to participate.** The state's Paid Family Leave program is currently vastly underutilized, and many small businesses and employees are unaware the program exists. Lawmakers should consider ways to expand the program that would benefit the small business community. Additional funding should also be identified to promote education and outreach to small businesses so that more Californians are able to take advantage of the program.
- **Strengthen the workforce development system in California by ensuring small businesses are supported and provided the resources they need to hire and retain talented employees,** understanding small businesses are an essential part of the development system. This includes child care providers who provide child care to essential workers. This should include encouraging small business participation in upskilling programs like those provided in the JUMPSTART Act and job-training programs that benefit micro-business owners without the technical expertise to plug into these systems.
- **Support efforts to address the current gaps in access to unemployment insurance** for the self-employed. At some point, almost 30% of the workforce has identified in some way as "self-employed." COVID-19 has demonstrated the stark limitations of our state's unemployment system to account for this sector of the workforce.
- **Increase education to entrepreneurs about the importance of business structure and employer responsibilities.** Many sole-proprietors, gig-workers and independent contractors are unaware of the limitations their business legal entity status can have on their eligibility to access social programs. State departments must work to address this shortfall, especially as federal benefits provided through Pandemic Unemployment Assistance (PUA) are set to sunset in 2021.