

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

To: Members, Committee on Small Business
From: Nydia M. Velázquez, Chairwoman
Date: February 4, 2021
Re: Full Committee Hybrid Hearing: “State of the Small Business Economy in the era of COVID-19”

The Committee on Small Business will meet for a hybrid hearing titled “State of the Small Business Economy in the era of COVID-19.” The hearing is scheduled to be at **10:00 A.M. on Thursday, February 4, 2021, in person in 2360 Rayburn House Office Building, and virtually via the WebEx platform (information to be provided)**. The hearing will allow Members to assess the state of the small business economy after nearly a year into the global COVID-19 pandemic. Specifically, Members will be able to explore how relief efforts thus far such as the Paycheck Protection Program, Economic Injury Disaster Loan Program, and Shuttered Venue Operator Program have benefited small firms. Members will also hear about potential improvements that may be needed in these programs along with other policies that will be needed to spur equitable recovery from COVID-19 for all small businesses in 2021.

Panel:

- Dr. Robert W. Fairlie, Professor of Economics, University of California-Santa Cruz, Santa Cruz, CA
- Ms. Sharon Pinder, President and CEO, Capital Region Minority Supplier Development Council, Silver Spring, MD
- Mr. Stephen Schoaps, Owner, Strother Cinema, Seminole, OK
- Ms. Karen Kerrigan, President and CEO, SBE Council, Vienna, VA

Background

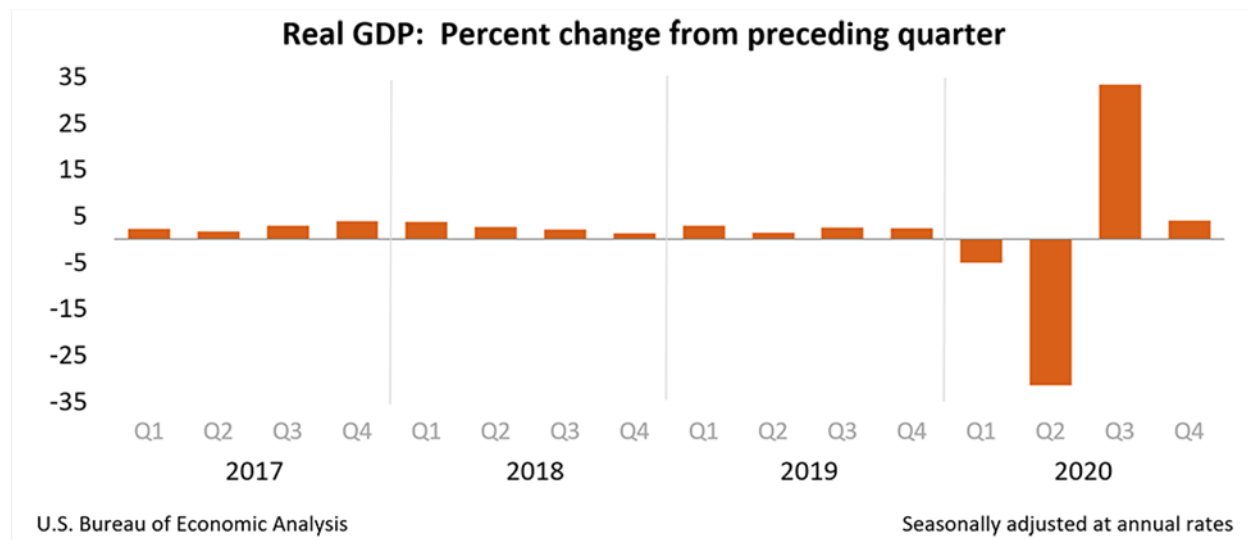
On January 28, 2021, the U.S. Bureau of Economic Analysis released an advance estimate of real Gross Domestic Product (GDP) for the fourth quarter of 2020, which grew at a weaker than expected four percent annualized rate as COVID-19 cases soared across the country.¹ This was down from the third quarter increase in real GDP of 33.4 percent.² In addition, millions of Americans are still struggling to make ends meet, as evidenced by the continual decrease in

¹ U.S. Bureau of Econ. Analysis, *News Release: Gross Domestic Product, Fourth Quarter and Year 2020 (Advance Estimate)*, (Jan. 28, 2021), BEA 21-02, https://www.bea.gov/sites/default/files/2021-01/gdp4q20_adv.pdf.

² *Id.*

disposable personal income which was down \$372.5 billion, or 8.1 percent, in the fourth quarter, coupled with the decrease of \$638.9 billion, or 13.2 percent, in the third quarter.³

At the same time, unemployment claims still hover around one million, five times higher than the pre-pandemic average, and millions of Americans are still displaced from the economy, straining demand for goods and services for Main Street businesses.⁴



While small businesses in hospitality, retail, travel, leisure, entertainment along with any other business that relies on foot traffic for revenue struggled, big businesses thrived during the pandemic. Profits soared for large retailers such as Amazon, Wal-Mart, Home Depot, Best Buy, Costco, and others who gained market share and saw their stock prices rise accordingly.⁵ According to an analysis conducted by the Washington Post, 45 of the 50 most valuable publicly traded U.S. companies turned a profit between April and September 2020, one of the most tumultuous economic periods in modern history.⁶ Meanwhile, the outlook for small businesses reached historic lows.⁷

³ *Id.*

⁴ Lucy Bayly, *Weekly initial jobless claims fall slightly to 847,000 vs. estimates of 875,000*, (Jan. 28, 2021), NBC NEWS, <https://www.nbcnews.com/business/economy/weekly-initial-jobless-claims-fall-slightly-847-000-vs-estimates-n1255953>.

⁵ Alicia Adamczyk, *Profits are 'soaring' for large retailers—but frontline workers are barely earning more*, (Nov. 27, 2020), CNBC, <https://www.cnbc.com/2020/11/27/large-retailers-are-making-record-profits-but-not-paying-workers-more.html>.

⁶ Douglas MacMillan, et al., *America's biggest companies are flourishing during the pandemic and putting thousands of people out of work*, (Dec. 16, 2020), THE WASHINGTON POST, <https://www.washingtonpost.com/graphics/2020/business/50-biggest-companies-coronavirus-layoffs/>.

⁷ National Federation of Independent Business, *Small Business Optimism Drops Below Index Average in December*, (Jan. 12, 2021), <https://www.nfib.com/content/press-release/economy/small-business-optimism-drops-below-index-average-in-december/> [hereinafter “NFIB”].

State of the Small Business Economy

Almost eleven months after shutdown orders and social distancing guidelines were implemented across our economy, small businesses are still struggling to stay open, retain workers, and remain viable. According to research published by the Federal Reserve Bank of New York, the number of active business owners fell by 22 percent from February to April 2020, the largest drop on record.⁸ According to the same research, Black businesses suffered the most severe decline in business ownership as a result of the COVID-19 pandemic, with a 41 percent decline.⁹ Latino-owned businesses trailed closely behind with a 32 percent decline.¹⁰

Furthermore, small businesses overall reported decreasing optimism as they move into 2021. Specifically, the National Federation of Independent Businesses Small Business Optimism Index declined 5.5 points in December to 95.9, falling below the average Index value since 1973 of 98.¹¹ Nine of the ten Index components declined and only one improved.¹² Owners expecting better business conditions over the next six months declined 24 points to a net negative 16 percent.¹³ Importantly, this lack of optimism is likely to be felt more acutely by Black-owned firms based on estimates of pre-pandemic financial health. According to research published by the Federal Reserve Bank of New York, 73 percent of White-owned businesses were found to be “healthy or stable,” compared to 27 percent considered “at risk or distressed.”¹⁴ On the other hand, only 42 percent of Black-owned businesses were considered “healthy or stable,” while 58 percent were considered “at risk or distressed.”¹⁵

Small Business Road to Recovery

Access to Capital

According to survey results published by the National Bureau of Economic Research, which includes responses from over 4,600 small businesses in the U.S., about 42 percent of small businesses reported having greater outflows than inflows during the first month of the pandemic, and over 78 percent of small businesses reported concerns about cash flows during the next three months.¹⁶ Only a quarter of small businesses had access to formal sources of financing through a

⁸ Claire Kramer Mills and Jessica Battisto, *Double Jeopardy: COVID-19’s Concentrated Health and Wealth Effects in Black Communities*, (Aug. 2020), FEDERAL RESERVE BANK OF NEW YORK, https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses [hereinafter “New York Fed”].

⁹ *Id.*

¹⁰ *Id.*

¹¹ NFIB *supra* note 7.

¹² *Id.*

¹³ *Id.*

¹⁴ New York Fed *supra* note 8.

¹⁵ *Id.*

¹⁶ Alekseev, Georgij, et al., *The Effects of COVID-19 on U.S. Small Businesses: Evidence from Owners, Managers, and Employees*, (Sep. 10, 2020), Georgia Tech Scheller College of Business Research Paper No. 3692733, <https://ssrn.com/abstract=3692733>.

loan or line of credit from a financial institution, and most businesses relied on personal savings and informal sources of financing.¹⁷

For Black-owned businesses, the capital access outlook is worse, since according to the Federal Reserve Bank of New York, fewer than one in four Black-owned employer firms have a recent borrowing relationship with a bank.¹⁸ This number drops to one in ten among Black non-employer firms, compared to one in four White non-employers.¹⁹ Black business owners are also more likely than White owners to report being discouraged, or not applying for financing because they believe they will be turned down. Among Black employer firms, 37.9 percent reported being discouraged, compared to 12.7 percent of White-owned firms.²⁰ These racial gaps in banking relationships exist even among the financially healthiest firms. When controlling for only firms that are healthy or stable, sizable differences remain between Black- and White-owned firms in financing from traditional lending institutions. Even among the firms that should not have major difficulties accessing bank credit (given business performance and creditworthiness), Black-owned employers were much less likely to have obtained bank financing in the past five years. Instead, most rely on personal savings or financing from family and friends. The Federal Reserve Bank of New York's research shows 54 percent of healthy or stable White employers have an existing banking relationship, compared to 33 percent of healthy or stable Black employers.²¹

Access to Customers

In addition to capital, small businesses also need access to customers. The U.S. Federal Government is the largest consumer in the world, purchasing over \$550 billion in goods and services in FY 2019.²² As a result, the Federal Government can play a unique role in supporting small businesses by using the Defense Production Act (DPA) and tightening “Buy American” statutes and regulations to increase the customer base of small businesses. At a time when economic uncertainty has wreaked havoc on small businesses, it is imperative for the Government to invest in them by maximizing the use of products and services manufactured or offered domestically.

The Committee is aware of small businesses who have shifted their production to combat the COVID-19 pandemic. For example, several small businesses have pivoted to manufacturing COVID-19 supplies and materials, including personal protective equipment (PPE), to fill supply chain gaps and address current needs.²³ Using the DPA to purchase or commit to purchase from

¹⁷ *Id.*

¹⁸ Federal Reserve Banks, *2020 Small Business Credit Survey: Report on Employer Firms*, (Apr. 7, 2020), <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firms-report>.

¹⁹ *Id.*

²⁰ *Id.*

²¹ New York Fed *supra* note 8.

²² GAO's WatchBlog, *A Snapshot of Government-wide Contracting for FY 2019 (infographic)*, (May 2020), <https://blog.gao.gov/2020/05/26/a-snapshot-of-government-wide-contracting-for-fy-2019-infographic/>.

²³ Jesse Noyes, *There's a shortage of PPE. These Small Businesses Pivoted to Fill the Gap*, (Apr. 2020), WORKEST, <https://www.zenefits.com/workest/small-business-shortage-ppe-choices-and-solutions/>.

these small businesses would not only ensure they stay afloat during these difficult times but also strengthen the industrial base for this and future pandemics.

Relief for Hardest-Hit Industries

Throughout the pandemic, the Committee has heard feedback that there are many kinds of small businesses that rely on a foot traffic and close interaction with others that have been disproportionality impacted by the pandemic. Included among these are businesses whose business models depend on gathering large groups of people, such as music venues, theaters, museums, and other cultural institutions. The Committee has also heard feedback from restaurants, non-profit organizations, and firms in the travel industry about the unique challenges they've each faced because of the COVID-19 pandemic. With conferences across the country postponed or cancelled, travel agents and event planners have virtually no business.

Restaurants across the country, a notoriously thin-margin business, faced full or partial shutdowns, and limited capacity and abbreviated hours when they were open. Yet in 2020, restaurants and the food service industry received only eight percent of Paycheck Protection Program (PPP) dollars lent.²⁴ Despite expanding to outdoor seating, pivoting to online and delivery orders, and even fresh produce to generate revenue, many restaurants may not survive. The New York Restaurant Association, in partnership with the National Restaurant Association, recently reported that 54 percent of all New York restaurateurs are in danger of closing permanently if another federal relief package is not passed.²⁵

Similarly, many non-profit organizations that provide invaluable services and create jobs in their communities were excluded under the first round of the PPP. Business in and around the tourism and travel business have also struggled as governments restricted non-essential travel to curb the spread of the virus. Without business travel or recreational tourism, thousands of small businesses across the country, including hotels, gift shops, travel agents, and others have lost out on revenue they could not replace. To meet these unique needs, Congress enacted numerous relief programs, including the PPP, expanded Economic Injury Disaster Loan (EIDL) program with Advances, and the Shuttered Venue Operators Grant program. In addition, many states have established their own relief programs catered to businesses in those states.²⁶ The hearing will allow Members to explore policies already enacted, changes that might need to be made to them, and future initiatives to revive the small business economy.

²⁴ U.S. Small Bus. Admin., *Paycheck Protection Program (PPP) Report: Approvals through 08/08/2020*, (Aug. 8, 2020), https://www.sba.gov/sites/default/files/2020-08/PPP_Report%20-%202020-08-10-508.pdf.

²⁵ Erika Adams, *More Than Half of New York's Restaurants Are in Danger of Closing: Survey*, (Dec. 11, 2020), EATER NEW YORK, <https://ny.eater.com/2020/12/11/22166728/new-york-restaurant-closing-survey-pandemic>.

²⁶ See, e.g., Maryland Small Business COVID-19 Emergency Relief Loan Fund, <https://commerce.maryland.gov/fund/maryland-small-business-covid-19-emergency-relief-loan-fund>.

Current Issues

EIDL and Advances

While the outbreak of COVID-19 was impacting small businesses in some parts of the country as early as January, SBA was slow in issuing the county-by-county disaster declarations that allow small businesses to apply for EIDLs, forcing Congress to act. On March 6, 2020, Congress passed the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020,²⁷ which deemed the COVID-19 outbreak a declarable disaster under the Small Business Act and provided SBA with an additional \$20 million for disaster assistance administrative expenses. This also permitted SBA to issue disaster declarations that make EIDLs available to eligible small businesses across different parts of the country. On March 16, 2020, the Administrator began issuing such declarations in response to states seeking SBA disaster assistance. By March 21, 2020, SBA had issued disaster declarations for all 50 states and three territories. On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act,²⁸ which provided \$10 billion for Emergency EIDL grants, a new SBA program that would provide advance payments of up to \$10,000 that would not need to be repaid, even if borrowers are later denied disaster loans. The CARES Act streamlined the process for EIDL approvals and disbursements by:

- waiving the credit elsewhere requirement;
- approving an applicant based solely on credit score, instead of running a full credit check, or use alternative appropriate methods to determine an applicant's ability to repay;
- not requiring applicants to submit a tax return or tax return transcript for approval;
- waiving the personal guarantee on advances/loans up to \$200,000; and
- waiving the requirement that an applicant be in business for the one-year period before the disaster declaration.

Following the enactment of the CARES Act, SBA imposed a \$1,000 per employee cap on EIDL Advances. On April 24, 2020, Congress passed the Paycheck Protection Program and Health Care Enhancement Act (Enhancement Act),²⁹ which appropriated an additional \$50 billion for EIDL loan subsidy and an additional \$10 billion for Emergency EIDL grants. The Enhancement Act also provided an additional \$2.1 billion for SBA's salaries and expenses account so that SBA could increase staffing to meet demand for the program. The Enhancement Act expanded eligibility for EIDL loans and Emergency EIDL grants to agricultural businesses during the covered period.

In December, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act³⁰ (Economic Aid Act), which established a new Targeted EIDL Advance program, building off the popular EIDL Advance program enacted under the CARES Act. Under the Targeted EIDL program, SBA will reach out to borrowers negatively impacted by the previously imposed \$1,000 per employee cap on EIDL Advances and allow them to access the full \$10,000 intended by Congress under the CARES Act. Under the Economic Aid Act, SBA will have more flexibility to verify that emergency EIDL grant applicants have submitted accurate information.

²⁷ P.L. 116-123.

²⁸ P.L. 116-136.

²⁹ P.L. 116-139.

³⁰ P.L. 116-260.

SBA will also have 21 days to approve and disburse emergency EIDL grants, up from the three days required under the CARES Act. Importantly, the Economic Aid Act requires SBA to target grants to businesses in low-income communities. The Economic Aid Act also authorized an additional \$20 billion for Emergency EIDL grants.

On December 30, 2020, SBA extended the application deadline for COVID-19 EIDLs through December 31, 2021. As of February 3, 2021, the EIDL application portal is open and accepting applications. Though the CARES Act EIDL Advance program is no longer available, the recently enacted Targeted EIDL Advance program is currently being implemented, and SBA will be reaching out to impacted borrowers in the coming weeks.

Paycheck Protection Program

The PPP was established in the CARES Act³¹ as a subprogram of SBA’s 7(a) loan guarantee program. Under PPP, banks and other private lenders make fully guaranteed SBA loans to small businesses negatively impacted by the COVID-19 pandemic. The loans are intended to assist small businesses with meeting payroll costs and other expenses, and offers full loan forgiveness if loan proceeds are spent on such purposes. In total, over \$800 billion has been appropriated for PPP in several pieces of legislation. The Enhancement Act³² included a series of set-asides of newly-appropriated PPP funds so that community lending institutions, including Community Development Financial Institutions (CDFIs), Certified Development Companies (CDCs) and SBA Microloan Intermediaries could participate in the program on equal footing with large banks. These set-asides were intended to maximize PPP lending in traditionally underserved business communities. The Paycheck Protection Program Flexibility Act³³ (Flexibility Act) established a minimum maturity of five years on PPP loans and extended the covered period during which borrowers may use such funds for certain expenses while remaining eligible for forgiveness from eight to 24 weeks. The Flexibility Act also raised the non-payroll portion of a forgivable covered loan amount from the current 25 percent up to 40 percent. S. 4116³⁴ extended the PPP application deadline to August 8, 2020, allowing more time for small businesses considering applying for a PPP to weigh their options. Finally, the Economic Aid Act³⁵ made numerous improvements to PPP, including allowing borrowers who’ve spent all of their PPP loan to apply for a “Second Draw” PPP loan, and expanded the use of loan proceeds eligible for forgiveness.

As of February 3, 2021, the PPP has re-opened and is currently accepting applications for First and Second Draw loans. According to SBA’s public data, as of January 31, 2021 (the most current available on SBA.gov), the PPP has guaranteed over 6 million loans for a total net PPP dollars lent at over \$595.5 billion, with an average loan size of approximately \$98,597.³⁶ In 2021 alone, over

³¹ P.L. 116-136.

³² P.L. 116-139.

³³ P.L. 116-142.

³⁴ P.L. 116-147.

³⁵ P.L. 116-260.

³⁶ U.S. Small Bus. Admin., *Paycheck Protection Program (PPP) Report: Approvals through 01/31/2021*, (Jan. 31, 2021), https://www.sba.gov/sites/default/files/2021-02/PPP_Report_Public_210131-508.pdf.

891,000 PPP loans have been approved representing over \$72.7 billion total net PPP dollars lent, with an average loan size of approximately \$81,635.³⁷

Shuttered Venue Operator Grant Program

The PPP was not designed for live event venues, which are completely shuttered and depend on gathering large groups of people. The live event industry is experiencing upwards of 90 percent revenue loss and will be closed well into 2021 due to health and safety concerns posed by large gatherings. A study by the Chicago Loop Alliance estimated that \$1 spent at a small venue results in \$12 of economic activity for neighboring restaurants, hotels, and retail shops.³⁸ To address the unique challenges facing the live event industry, the Economic Aid Act established the \$15 billion Shuttered Venue Operator Grant program for shuttered venues and live event operators. In the initial 14-day period, grants will be awarded to eligible entities with revenue losses of at least 90 percent, and in the following 14-day period, grants will be awarded to entities with at least 70 percent revenue loss. After these two periods, grants will be awarded to all other eligible entities. Grant funds may be used for payroll costs, rent, utilities, and PPE.

Defense Production Act and Buy American Plan

In January 2021, President Biden issued the “National Strategy for the COVID-19 Response and Pandemic Preparedness” and signed the “Executive Order on a Sustainable Public Health Supply Chain.”³⁹ The National Strategy and the Executive Order direct agencies to fill supply shortfalls using all available legal authorities, including the Defense Production Act, to increase stockpiles and ramp up production of COVID-19 response supplies, including PPE, testing supplies and vaccine supplies.⁴⁰ Also, both the National Strategy and Executive Order pledge the Biden administration will use its full powers to prevent price gouging, fraud, and the hoarding of scarce materials.⁴¹

It is encouraging the Biden Administration has pledged to fully leverage the Defense Production Act. The DPA, particularly under Title 3, includes a myriad of authorities to expand supply and production capacity. As previously mentioned, those include the authority to purchase or commit to purchase for Government use or resale,⁴² through which the Government could serve as a customer. It also includes the ability to issue loans and loan guarantees, among others.⁴³ If under the Executive Order those authorities were to be used towards small businesses, they would represent an investment in our small businesses, increasing their viability, expanding production, and ultimately strengthening the industrial base. However, while the DPA includes preferences

³⁷ *Id.*

³⁸ Chicago Loop Alliance, *Arts in the Loop Economic Impact Study: 2019 Revision*, (2019), <https://loopchicago.com/assets/f4fdb1e00/Arts-in-the-Loop-Study.pdf>.

³⁹ President Joseph R. Biden, Jr., *National Strategy for the COVID-19 Response and Pandemic Preparedness*, (Jan. 21, 2021), <https://www.whitehouse.gov/wp-content/uploads/2021/01/National-Strategy-for-the-COVID-19-Response-and-Pandemic-Preparedness.pdf>; *see also*, President Joseph R. Biden, Jr., *Executive Order on a Sustainable Public Health Supply Chain*, (Jan. 21, 2021), <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/21/executive-order-a-sustainable-public-health-supply-chain/>.

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² 50 U.S.C. § 4533.

⁴³ *See*, 50 U.S.C. § 4531; 4532.

towards small businesses,⁴⁴ the extent to which those small business preferences will be used or the extent to which small businesses will be part of DPA efforts remains to be seen.

President Biden has also signed the “Executive Order on Ensuring the Future is Made in America in All of America by All of America’s Workers.” This Executive Order directs The Federal Acquisition Council to tighten regulations relative to what qualifies as a domestic product as well as increasing price preferences for domestic goods.⁴⁵ It also creates a position in the Office of Management and Budget (OMB) responsible for providing oversight of potential waivers and enforcing the Executive Order.⁴⁶ Importantly, the order also directs agencies to partner with the Hollings Manufacturing Extension Partnership (MEP) to conduct supplier scouting and identify American companies, including small- and medium-sized companies, able to produce goods in the United States that meet agency needs.⁴⁷ While this executive order is a step in the right direction, it is important for the Administration to maintain an open dialogue with the small business community as it has the potential of adversely impacting those small businesses who resell or rely in foreign supply chains.

Conclusion

Eleven months into the worst public health crisis in a generation, the small business economy remains in a precarious state. Certain industries were hit harder than others, and some businesses have been able to adapt more readily than others. Scientific research shows COVID-19 is most seriously impacting communities of color. Economic data shows the same – the virus is disproportionately impacting business owners of color. The small business economy therefore needs a continued commitment from the federal government that it will continue to provide relief, and that it will target that relief to the industries and communities that need it most.

⁴⁴ See, 50 U.S.C. § 4518; 4551.

⁴⁵ President Joseph R. Biden, Jr., *Executive Order on Ensuring the Future Is Made in All of America by All of America’s Workers*, (Jan. 25, 2021), <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/25/executive-order-on-ensuring-the-future-is-made-in-all-of-america-by-all-of-americas-workers/>.

⁴⁶ *Id.*

⁴⁷ *Id.*