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GREENLINING.ORG

April 8, 2020

The Honorable Gavin Newsom  
State Capitol Building  
Sacramento, CA 95814  
*Sent via email*

### **Support Diverse Small Businesses and Nonprofits**

Dear Governor Newsom,

Thank you for your exemplary leadership during this challenging time for our state and our country. The Greenlining Institute and Greenlining Coalition applaud you for the steps you have taken thus far, including your bold actions to support public health. Your leadership will make California a leader in our response to and recovery from COVID-19.

***We urge you to ensure that as California meets the hardships and challenges of this pandemic, vulnerable communities, diverse small businesses and grassroots nonprofits are prioritized in state-level recovery programs.*** Communities of color were hit first and hit hardest by the Great Recession and the impact will reverberate for decades.<sup>1</sup> In 2018, the average White family had ten times as much wealth as the average non-White family<sup>2</sup>. It is imperative that California's communities of color, which make up 60% of our state, participate fully in COVID-19 recovery programs and that these funds benefit the families and businesses who need help the most.

#### **Small, diverse businesses play a key role and need extra support in the recovery**

Small businesses employ approximately half of all workers in the United States. Out of the four million businesses in California, more than three million have no employees and an additional 700,000 have less than four employees.<sup>3</sup> People of color play a key role in our small business ecosystem and, as of 2015, owned almost half of all small businesses in our state<sup>4</sup>. These businesses drive the economy of many communities and keep families, including those of the business owner, from homelessness. These businesses, and the ethnic small business chambers (which are left out of the Paycheck Protection Program) that represent them, will be most hard hit by the coming recession.

Please see ***Attachment A*** for policy priorities that, if enacted, could help avert disaster for the millions of African American, Asian American, and Latino small businesses throughout California. Our recommendations include:

- Use supplier diversity and state agency contracting, including CalTrans, as a tool for economic stimulus.
- Make \$100 million available for mom-and-pop businesses and ethnic business chambers left out of the federal recovery.
- Create a commercial rent tax credit for restaurants and non-grocery store businesses.
- Waive payroll taxes and annual LLC fees for companies with less than \$2 million in revenue.
- Use diverse media outlets to reach vulnerable communities.

#### **Target grassroots, community-based nonprofits to fill the gaps left by government and business**

We urge you to consider one key group that we believe has to-date been left out of the recovery conversation: diverse grassroots organizations. While the undersigned encourage broad support to the entire nonprofit sector, it is essential that

<sup>1</sup> ["The Recession's Racial Slant." The Atlantic, 2015.](#)

<sup>2</sup> ["The Racial Wealth Gap: What California Can Do About a Long-Standing Obstacle to Shared Prosperity." California Budget and Policy Center, 2018](#)

<sup>3</sup> ["Small Business Lead California Economic Growth." California State Assembly, 2019.](#)

<sup>4</sup> ["California leads nation in 'minority-owned businesses.'" The Sacramento Bee, 2015](#)

any economic support for nonprofits be directed first and foremost to small community-based organizations, especially those led by people of color. It is grassroots organizations that are ramping up service to low-income neighborhoods, new immigrants, and vulnerable seniors, even while their own funding is going down.<sup>5</sup> Although not all nonprofits carry out functions of critical importance to government, a surprising number of them deliver services that ordinary Californians depend on. Indeed, the modern welfare state has largely been subcontracted to nonprofits.<sup>6</sup> Unfortunately, nonprofits that fail cannot be so easily replaced or restarted. Few have the type of hard, tangible assets that can survive a gap in service. There is no all-powerful profit-motive to fuel a reconstruction. Philanthropy is not good at providing front-loaded, restart capital at scale.

Please see **Attachment B** for our recommendations on how to support diverse nonprofits and the communities they serve. These recommendations include:

- Create a \$100 million community nonprofit grant fund.
- Pre-pay existing contracts to small nonprofits.
- Increase speed and flexibility in budget reimbursements.
- Create a tax credit to maximize philanthropy to small organizations.

Greenlining and the organizations listed below request a conference call with your staff in the next 30 days to discuss our proposals further. Adam Briones, Greenlining's Economic Equity Director, will contact your office within one week to schedule this meeting. Mr. Briones can also be reached at [adamb@greenlining.org](mailto:adamb@greenlining.org). Thank you for considering our request and we look forward to scheduling this meeting with you at your earliest convenience.

Sincerely,



Adam Briones  
*Economic Equity Director*

**Endorsers of this letter**

Asian Business Association; Asian Business Association of Silicon Valley; Asian Journal Publications; Black Cultural Zone Community Development Corporation and East Oakland Black Cultural Zone Collaborative; Brightline Defense Project; California Community Builders; California Journal For Filipino Americans; Community Veterans Oversight and Engagement Board; Council of Asian American Business Associations of CA; El Concillio of San Mateo County; Faith and Community Empowerment FACE; Fresno Metro Black Chamber of Commerce; KHEIR Center; National Federation of Filipino American Associations; Our Weekly; Black Cultural Zone Community Development Corporation and East Oakland Black Cultural Zone Collaborative; Sacramento Black Chamber of Commerce; San Francisco African American Chamber of Commerce; SF Filipino American Chamber of Commerce (SFFACC); Southern California Black Chamber of Commerce

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<sup>5</sup> ["Sacramento nonprofits struggle to survive amid COVID-19 outbreak." KCRA3, 2020.](#)

<sup>6</sup> ["A Voice for Nonprofits." The Brookings Institution, 2005.](#)

### **Attachment A—Support for Small Business**

- ***Use supplier diversity and contracting as a tool for economic growth.*** Greenlining encourages you to direct the procurement staff of each state department to submit a plan within the next 90 days outlining how they will creatively reach diverse small businesses for their contracting needs. An agency like CalTrans, with its more than \$23 billion budget, could save thousands of businesses. We also urge you to work towards the repeal of Prop. 209, which is holding back millions of dollars of economic activity and is out of step with 44 of the 50 states.
- ***Make \$100 million available for mom-and-pop businesses left out of the federal recovery.*** Greenlining applauds the \$50 million dollar loan fund recently announced, but request that it be doubled in size to account for the historic catastrophe facing small businesses, especially those owned by people of color. We agree that many small businesses, including immigrant and home-based businesses, will likely fall through the cracks and not receive the help they need from federal legislation like the CARES ACT. California should provide \$100 million to local CDFIs that operate in low-income communities and communities of color to 1.) put more boots on the ground as the federal fund application rolls out and 2.) make available forgivable loans to businesses with under ten employees who are unable to access federal funds. This will be essential for ethnic small business chambers that do not qualify for the current Paycheck Protection Program.
- ***Create a commercial rent tax credit for restaurants and non-grocery store businesses.*** The current shelter-in-place directives are essential to protect our communities' health. Still, a consequence is that many small businesses, especially restaurants, are paying rent for space that is illegal for them to operate. Greenlining recommends the creation of a commercial rent tax credit to offset 100% of the rent incurred by small, vulnerable businesses over the next six months and then some portion after that for the next 12 months. This program could build on the infrastructure of California's sophisticated Low-Income Housing Tax Credit allocation program and staff, which are already in the businesses of subsidizing real estate to support vulnerable communities.
- ***Waive payroll taxes and annual LLC fees for small businesses.*** Greenlining admires your announcement that small businesses will be allowed to waive state taxes that they have already collected. We urge you to consider extending that by an additional six months next filing season. We also recommend that you move forward with the LLC fee waiver that is currently in your latest budget proposal. This waiver will allow entrepreneurs to protect their assets during this challenging time when, unfortunately, many entrepreneurs could lose everything.
- ***Use diverse media outlets to reach vulnerable communities.*** Media owned by and serving people of color will be the best at connecting with hard-to-reach populations, especially non-English speaking communities, that are often underserved by the mainstream media. Greenlining urges you to prioritize contracting with diverse media outlets, especially as your administration shares essential updates and public health information about the impact of COVID-19.

### **Attachment B—Support for Nonprofits**

- ***Create a \$100 million community nonprofit grant fund.*** Small, diverse nonprofits are the first place that low-income, vulnerable communities turn to for support during a crisis. For those small nonprofits with budgets at or below \$2 million, Greenlining urges you to create a grant or forgivable loan fund that subsidizes their operating expenses for the next 18-months. These organizations are all incurring increased costs as the communities they serve grapple with COVID-19 and turn to them for support. While federal assistance will enable some of these organizations to maintain staff at their current level, the undersigned urge you to maximize the invaluable resource these nonprofits represent for low-income communities and communities of color throughout the state.
- ***Pre-pay existing contracts to small nonprofits.*** Many nonprofit service providers are dependent on government contracts that tie their funding to the number of families served. Greenlining requests that your administration ensures any nonprofit with a budget at or below \$2 million and a current contract with the state be pre-paid the remainder of their projected annual contract amount. Pre-paying these front-line nonprofits will allow them to continue serving the communities and families that need it the most.
- ***Increase speed and allow flexibility in budget reimbursements.*** For nonprofits with government contracts, Greenlining recommends the state allow an expedited or automatic approval process for budget modifications that do not increase the contract total. This flexibility will enable nonprofits to move budget-line items associated with existing contracts to new priorities such as the cost of disinfecting facilities. Further, we urge you to direct your department heads to maximize the speed at which they reimburse the county agencies if there is an agreement that they, in turn, will increase the speed of their nonprofit service providers.
- ***Create a tax credit to maximize philanthropy to small organizations.*** AB 2922 (Gray) proposed a tax credit that leverages philanthropy to nonprofits. Greenlining urges you to sign that legislation into law, or a similar tax credit program if that legislation does not move forward, to ensure that small nonprofits can stretch donations as far as possible.