Coalition for an

EQUITABLE ECONOMY

**Testimony on American Rescue Plan Act (ARPA) Funding**

**On Behalf of the**

**Coalition for an Equitable Economy**

**to the Joint Committee on Ways and Means and the House Committee on Federal Stimulus and Census Oversight**

**September 21, 2021**

The Coalition for an Equitable Economy (CEE) was formed in 2020 with a mission to ensure equitable access to capital, business networks, education, technical support and other resources for Black, Latinx, immigrant and low-income small business owners in Massachusetts. CEE's membership includes leading statewide organizations like the Black Economic Council, Amplify Latinx, Massachusetts Association of Community Development Corporations, Local Initiatives Support Corporation, Foundation for Business Equity along with dozens of community-based organizations, CDCs, CDFIs and others who work with small businesses across the state.

The CEE seeks to convene and partner with a broad cross-sector group of stakeholders from across the state aligned around a shared commitment to building an equitable small business ecosystem and to the values of racial equity, collaboration, and shared leadership. We aim to build on the foundation of existing assets a highly collaborative, innovative and effective ecosystem of mission-based organizations focused on economic development and technical assistance providers that delivers to diverse and LMI entrepreneurs the linguistic and culturally appropriate resources necessary to start, stabilize, and grow profitable small businesses that fuel the Massachusetts economy. You can learn more about the Coalition on our website.

We appreciate this opportunity to share our recommendations for how the Commonwealth can seize this unprecedented opportunity to deploy a portion of the approximately $5 billion from the American Rescue Plan Act (ARPA) and an initial allocation of $136 million from the State Small Business Credit Initiative (SSBCI) to accelerate its support for inclusive entrepreneurship and work to close the state's large racial wealth gaps.

In mid-2020, we released a report in partnership with MassInc, Unleashing the Potential of Entrepreneurs of Color in Massachusetts: A Blueprint for Economic Growth and Equitable Recovery, that set the stage on the broad issues facing entrepreneurs of color and the strategies needed to address them. In spring 2021, Boston Indicators released a follow-on report, The Color of the Capital Gap: Increasing Capital Access for Entrepreneurs of Color in Massachusetts, that investigated access to capital more closely. The data in these reports underscore the importance of bold actions to support entrepreneurs of color. Key findings include:

- The rate of Black and Latinx business ownership in Massachusetts is half that of whites
- Nationally, Black and Latinx firms receive a combined 3% of venture capital investments, compared to 25% for Asian-owned firms and 72% for White-owned firms.
- 18% of Massachusetts entrepreneurs are people of color, but only 10% of small business bank loans go to neighborhoods that are majority people of color.
- Entrepreneurs of color in Massachusetts have unmet capital demand on the order of approximately $574 million annually.

Informed by this research and by our experience in supporting small businesses through the pandemic, we propose a $1.1 billion investment in the State's small business ecosystem, including $964 million from ARPA and $136 million from SSBCI. Specific proposed programs include:

1. ***$300 million in grants directly to small businesses to support stabilization, strengthening, recovery and growth.*** Grants could be used for revenue replacement, eviction prevention, capacity building, and growth capital to complement loans and investments. Grants could be prioritized for hardest hit industries and demographic groups. Grants could be disbursed through replenishment of recent grant programs: Small Business Recovery Grants, Industry-Specific Grants, Empower Digital, and Biz-M-Power Grants. Grants could be funded by ARPA and allocated over a 2-year period at $150 million per year.

2. ***$300 million in grants to nonprofit small business financing institutions to support their capital deployment and capacity building.*** Community Development Financial Institutions (CDFIs), Community Development Corporations (CDCs), and other nonprofit financial institutions need funding to expand their work. CDFI small business lending per capita in Massachusetts is approximately one third the national average. Grant funding could be used for loan or equity investment capital, loan loss reserves, and operations. Nonprofit financing institutions could use these funds to expand their financing to underserved businesses across the state while growing their portfolios and building self-sufficiency. Eligible CEE members envision using this funding to capitalize current loan products, commercial real estate projects, and seed new equity products. Given the increase in financing activity that would be required, the nonprofit financing institutions could use funding to build their capacity, including professional development, technology and other systems upgrades, and other capacity building. Funding for this program could come from ARPA and could be allocated over a 5-year period at $60 million per year. This program could attract as much as $1 billion in additional loan or investment capital.

3. ***$230 million in loan loss reserves and loan guarantees to increase credit access.*** A Credit Support Fund could provide loan loss reserves and loan guarantees to participating lenders to increase their risk capacity and catalyze lending from banks,

credit unions, nonprofit lenders, and others. Loan loss reserves grants could be made to the originating nonprofit lender who would then manage a pool of loan loss reserves that could be tapped for losses on any eligible loan. Loan guarantees of up to 90% could be supplied to participating lenders. To ensure equitable access, the program could include carve out allocations: 50% for businesses with <20 employees and <$2,500,000 in annual revenues; 50% to entrepreneurs of color; 25% for nonprofit lender (CDFIs, CDCs, and other nonprofits) borrowers. The Fund could be initially capitalized with $160 million from ARPA and $70 million from SSCBI 2.0 and could be deployed over a 5-year period. The Fund could subsequently operate as an evergreen fund, with untapped credit support recycled back into the fund into perpetuity. Based on the performance of relevant SSBCI 1.0 programs (23:1 leverage), this Program could initially leverage $5.3 billion in lending. The Program could be funded by $136 million from ARPA and $96 million from SSBCI 2.0 and disbursed over a 5-7 year period.

4. ***$100 million in equity investments for high-growth startups and moderate growth small businesses.*** A $60 million Venture Capital Fund could invest in Massachusetts high growth startups of various sizes and stages (pre-seed to Series B) with a carve out of 50% for entrepreneurs of color. The Fund could make direct investments and co-investments. Co-investment sourcing for entrepreneurs of color could focus on deepening relationships with existing and emerging mission-driven fund managers and those operated by people of color. The Venture Capital Fund could be administered by MassVentures. A $40 million Patient Capital Fund could invest in moderate growth Massachusetts small businesses that do not meet traditional venture capital investment criteria. Investments would be structured with longer holding periods (10-15 years) and provide exit strategy and structuring support (e.g., recapitalizations, acquisitions, and employee ownership transactions). The Patient Capital Fund could include a carve out of 50% for entrepreneurs of color. The Patient Capital Fund could be administered by MassVentures or another fund administrator; it would be designed and governed in partnership with the CEE and the community representative of target investments. These programs could be funded by $80 million from ARPA and $20 million from SSBCI 2.0. Individual fund or deal funding decisions could be made to maximize each funding sources' programmatic outcomes (e.g., SSBCI could be used to fund high-leverage deals).

5. ***$100 million in subsidies for small business real estate.*** As neighborhood real estate markets evolve, many small businesses, in particular those owned by people of color and lower-income people are facing rising rents or displacement. To survive, it has become increasingly important for small businesses to be able to own the real estate in which they are located. Owning their own property can also be a critical source of wealth building and can increase access to capital for businesses of color who too often lack these opportunities. To increase small business real estate ownership and access, a program could provide grants, subsidies, guaranties, or soft/forgivable debt to support affordable real estate for small businesses, by subsidizing the acquisition, construction or rehabilitation costs of real estate, to provide below-market rents to small businesses.

Small businesses could use the funds to make it feasible to acquire or build a building to stabilize their real estate costs and build the strength of their businesses. Developers could use it to create affordable retail, office or commercial spaces in low- and moderate-income communities and communities of color. The Program(s) could have a set carve out of at least 50% for entrepreneurs and developers/owners of color. Additional preference should be provided for employee-owned businesses, community land trusts, cooperatives, or other community ownership structures. Funding for this program could come from ARPA and could be disbursed over 5-years.

6. ***$50 million in grants for nonprofit small business technical assistance providers.*** We deeply appreciate the Legislature's decision earlier this year to increase the highly successful Small Bustiness Technical Assistance program to $7 million. This program has had a major impact during the pandemic, with SBTA grantees serving 6,229 clients in FY 2021, including 63% people of color, 47% women, and 67% low- and moderate-income. We believe that ARPA offers the opportunity to increase the Small Business Technical Assistance Program (SBTAP) budget from a baseline of $7 million in operating dollars to $10 million combined annually, allowing MGCC to fund more nonprofits and to provide a higher level of base support. In addition to funding core technical assistance through SBTAP grantees, we recommend using the balance of these funds for: specialized professional services, industry-specific technical assistance capacity, ecosystem building to increase research, convening, knowledge sharing, and programmatic collaboration; TA provider capacity building, including access to the Business Development Certificate Program designed by MGCC and MACDC. Funding for this program could come from a combination of state operating dollars and ARPA and could be disbursed over 5-years.

7. ***$20 million in loan participations to catalyze private sector small business lending.*** A Loan Participation Program could fund loans originated by the Commonwealth's established network of nonprofit lenders, including CDFIs, CDCs, and other nonprofit lenders. Nonprofit lenders could source, underwrite, and originate loans within pre-defined parameters. The state could provide capital to the nonprofit lenders to fund the loans (using SSBCI 2.0 funds) and to achieve the leverage, each loan could require a minimum match of at least 1:1 from a Matching Lender, which may include a bank, credit union, nonprofit lender, or others using their own capital. Nonprofit lenders' portion of the loan could be subordinate to the Matching Lender's loan, incentivizing bank participation. Using nonprofit lenders to originate loans would ensure that the most underserved businesses are reached. To fulfill the SSBCI's mandated allocation to Very Small Businesses (businesses with 10 employees or fewer), the Program Fund could carve out $10 million (Massachusetts' allocation to Very Small Businesses) for qualifying businesses. To ensure that entrepreneurs of color are properly served, the Program could carve out 50% of the Program for entrepreneurs of color. Funding for this program could come from SSBCI 2.0 and could be disbursed over 7-years.

**Design for Equity:** Pandemic relief programs taught us a great deal about how critical program design is to ensure that funding programs reach those in greatest need and those who have been historically under-resourced. The Commonwealth's own small business relief grant program administered by the Mass. Growth Capital Corporation showed how equitable program design can direct substantial resources to those who need them most, with 43% of the grants going to businesses of color and 46% to women-owned businesses. The Small Business Administration's Payroll Protection Program (PPP program) unfortunately showed us that failure to prioritize equity in program design can exacerbate, rather than mitigate, wealth and equity gaps. We urge you to adopt the following principles to guide program design and implementation.

- **Make under-resourced small businesses a first priority for funding.** At a minimum, set aside funds for those who need them most and give them the adequate time to connect with the resources and apply for funding. We recommend that 50% of funds be allocated to businesses with less than 20 employees and less than $2,500,000 of annual revenue. At minimum, 50% of funds should be allocated to entrepreneurs of color. Avoid first come first serve, which favors the most stable, well-resourced.

  **Prioritize Businesses left out of prior recovery programs**. Certain businesses left out of prior programs should be considered for priority funding, including businesses formed in 2019 and 2020, restaurants that did not get funded under the Restaurant Revitalization Fund, and similar categories of businesses, like industries still struggling because of the pandemic.

- **Build Accountability into Program Structure.** Create and empower an inclusive review committee with diverse representation to guide the program design and implementation and provide a check on equitable distribution. Solicit input from a diverse group of business leaders before launching programs. Collect demographic data about applicants and impacts and be transparent about outcomes.

We understand that the Legislature must weigh many important priorities across sectors, but we believe that our small business sector – especially those highlighted in this testimony – were disproportionately impacted by the pandemic and need the level of investment recommended here.

Once again, thank you for the opportunity to provide input to your deliberations.

***Summary Table with Funding Amounts and Sources by Program***

| **Funding Source** | **ARPA** | **SSBCI 2.0** | **Total** |
|---|---|---|---|
| *Performance Period* | *5 years* | *7 years* | *n/a* |
| 1. Small Business Grants | $300,000,000 | -- | $300,000,000 |
| 2. Nonprofit Small Business Financing Institution Grant Program | $300,000,000 | -- | $300,000,000 |
| 3. Small Business Credit Support Fund | $134,000,000 | $96,000,000 | $230,000,000 |
| 4. Equity Capital Program | $80,000,000 | $20,000,000 | $100,000,000 |
| 5. Small Business Technical Assistance Program | $50,000,000 | -- | $50,000,000 |
| 6. Small Business Loan Participation Program | -- | $20,000,000 | $20,000,000 |
| 7. Small Business Real Estate Subsidy Program | $100,000,000 | | $100,000,000 |
| **TOTAL** | **$964,000,000** | **$136,000,000** | **$1,100,000,000** |