

# COVID-19 EMERGENCY SMALL BUSINESS GRANTS PROGRAM

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# COVID-19 ECONOMIC IMPACT ON SMALL BUSINESSES

The COVID-19 pandemic has affected every part of the way we live. Since the national emergency was declared on March 13, 2020, many states issued stay-at-home orders and closed nonessential businesses. For many small businesses and their owners, this was an unprecedented adverse shock. The typical small business maintains cash reserves to cover about two weeks of outflows in the event of a total revenue disruption<sup>1</sup>. Some small businesses were able to shift to alternative channels, such as online sales, and many were able to reduce expenses to offset the loss of revenue, but others had to close.

According to the JPMorgan Chase Institute, since the onset of COVID-19, Black- and Asian-owned businesses have experienced more severe drops in cash balances and revenues relative to White- owned businesses. In their report they examined small business changes in cash balances, revenues, and expenses through April 2020 using a de-identified sample of nearly 1.3 million small firms nationwide. The report studies cash balances, revenues, and expenses provide a summary of small business financial health. The report explains: “balances provide the liquidity firms need, especially when they experience an adverse shock. Revenues and expenses indicate the amount of business activity, which may be reflected in cash balances. However, cash balances are not simply the net change in revenues and expenses: Business owners may also transfer personal assets or secure other financing to replenish their balances.” One of their main findings was that cash balances of Black-owned firms decreased by 26 percent, and revenues of Asian-owned firms declined by more than 60 percent<sup>2</sup>.

JPMorgan Chase Institute’s report also suggests that Black- and Hispanic-owned businesses are more vulnerable to the negative economic impacts “because of the industries in which they are concentrated and in part because they were already in a weaker financial position prior to the pandemic”. Minority-owned businesses comprise a majority of personal services firms<sup>3</sup>, a sector that has been particularly hard hit in the current economic environment. Small businesses in majority Black and Hispanic communities also have less cash liquidity and therefore have fewer resources with which to withstand adverse revenue shocks<sup>1</sup>.



1 Farrell, Diana, Chris Wheat, and Carlos Grandet. 2019. "Place Matters: Small Business Financial Health Urban Communities." JPMorgan Chase Institute.

2 Farrell, Diana, Chris Wheat, and Chi Mac. 2020. "Small Business Financial Outcomes during the Onset of COVID-19." JPMorgan Chase Institute.

3 McManus, Michael. 2016. "Minority Business Owners: Data from the 2012 Survey of Business Owners." SBA Issue Brief (202): 1-13.

# COVID-19 ECONOMIC IMPACT

**Small businesses employ almost 50% of American workers.** Yet, the results from a survey done by the University of Illinois and Harvard Business School underscore the financial fragility of many small businesses, and how deeply affected they are by the current crisis. They found that **43%** of businesses were temporarily closed and that employment had fallen by **40%**. They also found that many small businesses had little cash on hand toward the beginning of the pandemic, which means that they will either have to dramatically cut expenses, take on additional debt, or declare bankruptcy.

**In summary, the survey findings suggest that many small businesses are likely to fail absent financial assistance.** While some small businesses were optimistic about federal aid keeping them afloat, others reported that they do not expect to take out any loans because of the application hassle, distrust that the federal government will forgive the loans, or worry about complicated eligibility rules. Second, firms in particularly exposed industries (restaurants, tourism, and personal services) project that they will find it extremely difficult to stay in business if the crisis lasts for longer than 4 months, which the COVID-19 shutdown has already surpassed for most<sup>4</sup>.

**Nationally representative data on small businesses indicate that the number of active business owners fell by 22 percent from February to April 2020 —the largest drop on record<sup>5</sup>.** While the overall decline is significant, it increases for minorities with Black owned businesses experiencing the most decline at 41%, Latinx business owners at 32%, and Asian business owners at 26% (White owned businesses only fell by 17%)<sup>6</sup>. The Federal Reserve Bank of New York released a report exploring the reasons for this difference in business closing rates by owner race, and found the following factors:

Volumes of COVID-19 cases coincide with Black-owned business locations: the majority of the counties with the most Black owned business activity pre-COVID-19 are in the top 50 COVID-affected areas. The Paycheck Protection Program has left significant coverage gaps: these loans reached only 20% of eligible small businesses in states with the highest densities of Black-owned businesses. Black owned businesses are likely to have less resources, capital and emergency funds: weaker cash positions, weaker bank relationships, and preexisting funding gaps left Black firms with little cushion entering the crisis: even the healthiest Black owned businesses were financially disadvantaged at the onset of COVID-19<sup>7</sup>.

4 Alexander W. Bartika, Marianne Bertrand, Zoe Cullen, Edward L. Glaeser, Michael Lucac, Christopher Stanton. 2020.

"The impact of COVID-19 on small business outcomes and expectations". University of Illinois and Harvard Business School.

5 Rob Fairlie, 2020. The Impact of Covid-19 on Small Business Owners: Evidence of Early Stage Losses from the April 2020 Current Population Survey. NBER Working Paper No. 27309. Available at: <https://www.nber.org/papers/w27309>.

6 Howard Schneider. 2020. "Fed hoped to skirt a second virus wave. Small businesses may sink in it". Reuters.

7 Claire Kramer Mills and Jessica Battisto. 2020. "Double Jeopardy: Covid-19's Concentrated Health And Wealth Effects In Black Communities". Federal Reserve Bank of New York.

# COVID-19 AND NEW JERSEY

The outbreak of novel coronavirus has created a major public health crisis in New Jersey. To slow the spread of the virus, Governor Phil Murphy implemented a variety of containment measures, including restrictions on public gatherings and mandated closure of non-essential businesses. "It is becoming increasingly clear that while the coronavirus pandemic is creating tremendous challenges for everyone, it is having a particularly tragic impact on our most at-risk communities....setting aside resources for businesses in high-poverty communities will help ensure support goes to those who need it while protecting the most vulnerable New Jerseyans and setting us up for a faster and fairer recovery." said Senator Cory Booker.

## City of Newark Partnership

The small business grant was the first of six initiatives Mayor Baraka launched to ease the financial pain and enhance the safety of Newark residents. United Way of Greater Newark served as the administrator for the grant with an additional significant contribution from Prudential. The Mayor's five other programs include short-term rental housing for 300 of the most vulnerable Newark residents, including those without permanent addresses and cash infusions of varying amounts to the "Live Newark" program for homeowners, arts and cultural organizations and other non-profits, and tax for building owners with business tenants.

## United Way of Greater Newark's Emergency Small Grant Program

United Way of Greater Newark's Emergency Small Grant Program aims to help small businesses and microenterprises with losses they have experienced through loss of income, payroll loss, sales, etc.

This grant is for qualifying small businesses based in Newark, NJ. Proceeds of the grant can be utilized for accounts payable, payroll, inventory, equipment, business compliance, licensing renewal, utilities, business capacity, legal, financial services, rent, insurance, business taxes, supplies or most business-related items.

The grant is primarily designed for small sized businesses, which are defined as businesses of 10 total employees and less; and microenterprises, defined as 5 employees or less. This does include franchise operations and local branches or stores of larger companies. Eligible applicants have no threatening or pending litigation or material contingent obligations against the grant participant, and no outstanding tax liens or fees owed to the City of Newark.

**To date The United Way of Greater Newark has received a total of 908 applications, awarding a total of \$1,177,527 in funding to small businesses in need.**

# METHODOLOGY

The funding was done in two rounds, descriptions of each round are in this report. Total application stats: shows the aggregate of all application rounds (when applicable)

## ROUND 1

### March - June:

602 applications

107 awarded businesses

\$967,468 in awarded funds

## ROUND 2

### July - August:

306 applications

27 awarded businesses

\$210,069 in awarded funds

*\*For both rounds, only applications with complete submissions, including all attachments, were considered for funding. Most incomplete applications had the questionnaire portion complete, and were added to the analysis to get the fullest picture possible of the Newark small business landscape.*

# TOTAL APPLICATION FINDINGS

## Small Business Assistance (SBA) Application Findings

In the first round, a lower proportion of applicants had closed their businesses due to COVID. Most of these closures were mandated.

Business Closed due to COVID-19			
	Round 1	Round 2	Total
No	25%	45%	40%
Yes	75%	47%	60%

Just under seven in ten (69%) of businesses that applied have been open for three or more years, demonstrating that established thriving businesses were in need as much as newer businesses.

Business Open for 3+ Years?			
	Round 1	Round 2	Total
No	20%	25%	22%
Yes	70%	67%	69%

Almost all (94%) of businesses that applied reported that at least half of their employees are considered low or moderate income, suggesting that many are living with little savings and relying heavily on a weekly stable paycheck for their basic needs.

50% of your employees considered low or moderate income			
	Round 1	Round 2	Total
No	5%	6%	6%
Yes	94%	82%	94%

# TOTAL APPLICATION FINDINGS

## SBA Application Findings continued

Nearly three quarters (74%) of applicants are unsure if they can, or certain that they cannot pay their rent anymore.

Ability to Make Rent Payments			
	Round 1	Round 2	Total
I don't know/ uncertain currently	44%	34%	42%
No	41%	11%	32%
Yes	10%	34%	19%
Not Applicable	5%	9%	7%

The majority of applicants (94%) have one business location in Newark.

Number of Locations in Newark			
	Round 1	Round 2	Total
1	93%	93%	94%
2	4%	3%	4%
3	2%	2%	2%

More than half of applicants (52%) had one full time employee, and three in ten (31%) had 2-5 full-time staff. All of these full-time staff likely solely relied on their paycheck from the business as their main source of income.

Full-Time Staff			
	Round 1	Round 2	Total
0	9%	7%	8%
1	45%	56%	52%
2-5	27%	33%	31%
6+	18%	4%	9%



# TOTAL APPLICATION FINDINGS

## SBA Application Findings continued

The number of part time staff varied, with about three in ten having no part time staff (30%), one part-time staff (28%), or two to five part-time staff (33%). One in ten (10%) had six or more part-time staff.

Part-Time Staff			
	Round 1	Round 2	Total
0	25%	9%	30%
1	31%	45%	28%
2-5	31%	27%	33%
6+	14%	18%	10%

Nearly six in ten (59%) applicants have had to lay off or reduce the hours of employees and contract workers.

Reduced Staff Capacity			
	Round 1	Round 2	Total
No, we have not reduced staffing and operate the same hours	44%	31%	41%
Yes, we have laid off employees or contract workers	23%	25%	24%
Yes, we have reduced employee or contract workers hours	20%	22%	21%
Yes, we have laid of employees AND reduced employee or contract workers hours	13%	12%	13%

Over six in ten (62%) applicants do not currently have plans to reduce staffing in the future. Nearly four in ten (38%) have plans to lay off or reduce the hours of employees and contract workers.

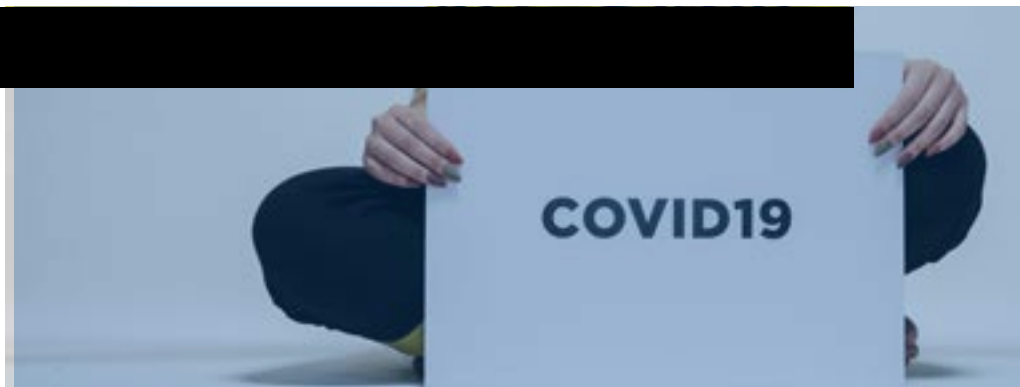
Future Staffing Concerns			
	Round 1	Round 2	Total
No, we do not currently have plans to reduce staffing in the future	60%	59%	62%
Yes, we plan to reduce employee or contract workers	17%	15%	17%
Yes, we plan to lay off employees or contract workers	15%	11%	14%
Yes, we plan to lay off employees or contract workers AND reduce employee or contact workers hours	8%	4%	7%

# TOTAL APPLICATION FINDINGS

## SBA Application Findings continued

The industry sectors of applicants vary, demonstrating the widespread negative impacts of COVID-19. The highest proportions of applicants operate in the retail sector (19%), food or beverage production (13%), or salon, barbershop or nail shop (12%). These industries are more likely to be cut out by individuals and families on a tight budget and eliminating non-essential services.

Industry Sector			
	Round 1	Round 2	Total
Retail (stores or e-commerce)	24%	13%	19%
Food or Beverage production	15%	11%	13%
Salon, Barbershop, Nail Shop	15%	9%	12%
Hospitality or Food Service	13%	4%	9%
Professional or Technical Services	9%	8%	8%
Arts, Entertainment, or Recreation	7%	6%	6%
Healthcare or Social Assistance	6%	4%	5%
Educational Services	6%	9%	6%
Construction or Heavy Site Work	4%	5%	4%
Finance, Insurance, Real Estate	4%	6%	4%
Transportation or Warehousing	3%	5%	3%
Wholesalers	3%	0%	2%
Manufacturing (all others)	3%	1%	2%
Administrative Services	2%	0%	1%
Print Publishing or Other Information	2%	2%	2%
Software or Telecommunications	2%	0%	1%
Legal Services	2%	0%	1%
Utilities or Energy	1%	1%	1%



# TOTAL APPLICATION FINDINGS

## SBA Application Findings continued

The most applicants reported the following experiences related to COVID-19: inability to pay bills or fees (78%), lack of cash reserves (74%), decrease in number of customers (68%), disruption in operations due to an order by the City of Newark (67%), and temporary closures (67%).

COVID-19 Impact on Business			
	Round 1	Round 2	Total
Inability to pay bills, fees	85%	65%	78%
Lack of cash reserves	78%	66%	74%
Disruption in operations due to an order by the City of Newark	77%	46%	67%
Temporary closures	74%	53%	67%
Decrease in number of customers	71%	63%	68%
Decline in business due to uncertainty and long-term fears	65%	61%	64%
Late payments or collection losses	62%	48%	57%
Fewer visitors than normal to your business	62%	45%	51%
Reduced access to clients and customers due to remote working	54%	44%	45%
Workers working reduced hours	45%	37%	36%
Reduced participation at gatherings or events	36%	55%	42%
Unable to get critical supplies or production parts, components	31%	35%	32%
Cancelled or postponed delivery of exports (domestic)	17%	50%	28%
Absenteeism due to sick workers	13%	12%	13%
Cancelled or postponed delivery of exports (international)	8%	24%	13%
Discrimination or unfair treatment	4%	5%	4%

The gross revenue of applicants varied, with over half (56%) reporting less than \$100,000.

2019 Gross Revenue (sales)			
	Round 1	Round 2	Total
Less than \$100,000	45%	76%	56%
Between \$100,000 and \$200,000	20%	10%	17%
Between \$200,000 and \$300,000	8%	4%	7%
Between \$300,000 and \$400,000	6%	2%	5%
Between \$400,000 and \$500,000	4%	1%	3%
More than \$500,000	17%	3%	12%

The majority of applicants have an independently owned business (97%).

Organization Type			
	Round 1	Round 2	Total
Corporate owned franchise	3%	2%	3%
Independently owned	96%	97%	97%

# TOTAL APPLICATION FINDINGS

The majority of applicants report the principals of their business are US citizens or legal permanent residents (95%).

Principals of your business are US citizens or legal permanent residents			
	Round 1	Round 2	Total
No	4%	3%	4%
Yes	96%	95%	96%

The majority of businesses employ at least half Newark Residents (86%).

50% of employees are Newark Residents			
	Round 1	Round 2	Total
No	18%	5%	14%
Yes	82%	92%	86%

About a quarter of businesses are located in East Ward (27%), Central Ward (26%), and North Ward (22%). Less are located in the South Ward (18%) and West Ward (8%).

Location			
	Round 1	Round 2	Total
East Ward	31%	17%	27%
Central Ward	27%	22%	26%
North Ward	23%	20%	22%
South Ward	13%	27%	18%
West Ward	6%	11%	8%

More than half of businesses are minority or person of color owned (59%), locally-owned (58%), and woman-owned (54%). Over one quarter are immigrant-owned (27%).

Ownership			
	Round 1	Round 2	Total
Locally-owned	60%	55%	58%
Minority or Person of Color owned	54%	69%	59%
Woman-owned	45%	72%	54%
Immigrant-owned	31%	18%	27%

# NEXT STEPS

In the JPMorgan Chase Institute's 2020 report, Small Business Financial Outcomes during the Onset of COVID-19, they make four statements for future consideration based on their findings. They are outlined below and should be incorporated in strategies for future rounds of funding, as well as future strategy for rebuilding Newark's small business economy long term.

## **Cash liquidity is an essential component of small business financial health.**

All small businesses need to manage their cash flows. Even in a strong economy, small businesses face irregular cash flows, and cash buffers can mitigate the effects of adverse shocks. Large-scale events, such as the current public health emergency or natural disasters, underscore the need to maintain cash reserves.

## **Support for small businesses should be aware of the differential impacts of COVID-19 across demographic groups.**

Black- and Asian-owned businesses have experienced particularly severe shocks to cash balances and revenues, requiring more assistance to recover. Targeted interventions may be necessary for the small businesses that were hardest hit.

## **Small businesses in some sectors, such as personal services and restaurants, may have a longer path to recovery.**

Some small businesses were able to adjust their products and services to accommodate social distancing practices. However, this was not feasible for every business, and they may require more time and resources to recover. More targeted interventions may be needed for these sectors.

## **Efforts to mitigate losses through expense reduction may have downstream effects.**

Small businesses responded to the sharp declines in revenue by reducing or perhaps delaying expenses. That could, in turn, affect the revenues of other businesses, such as their suppliers. Moreover, if expense payments were delayed, as opposed to reduced, those payments may become due before revenues have recovered.