

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: March 22, 2022

TO: Honorable Members of the City Council

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No. 21-0570
Assignment No. 21-07-0558

Protecting Small Businesses Against Eviction Due to COVID-19

SUMMARY

On July 20, 2021, the City Council adopted Motion (Raman-Martinez), which directed the Chief Legislative Analyst (CLA), in consultation with the Economic and Workforce Development Department (EWDD) and the Small Business Commission (SBC) to report on the pandemic's impact on the City's small business community and analyze measures to protect small businesses from eviction. In addition, the departments were instructed to provide recommendations to the Council on actions that could further support small business commercial tenants and protect them from permanent closure as a result of the impacts of COVID-19.¹ This report provides background on the impacts of COVID-19 on small businesses, analyzes three data sources that show COVID-19's financial impact on the City's small businesses, provides an overview of existing commercial tenant eviction protections provided by the City and County, reviews the options to assist commercial tenants discussed in Motion (Raman-Martinez), and describes small business assistance programs offered by the City during the pandemic. In response to Motion (Raman-Martinez), this report recommends the reprogramming of \$1.25 million in Community Development Block Grant-Coronavirus (CDBG-CV) funds to provide legal assistance to income-qualified small businesses for lease renegotiation, debt negotiation, and other services.

RECOMMENDATIONS

That the City Council:

1. Authorize the Economic and Workforce Development Department (EWDD) and the Community Investment for Families Department (CIFD) to reprogram \$1.25 million to a temporary program entitled "Small Business Legal Assistance," which will provide support for lease renegotiation, debt negotiation, and other services, from the following sources:
 - a. \$250,000 in Community Development Block Grant-Coronavirus (CDBG-CV) funds from the LA Optimized Program.

¹ See Motion (Raman-Martinez) attached to this report.

b. \$1 million in CDBG-CV from the Microenterprise Grant Program.

2. Authorize EWDD to negotiate and execute a subrecipient agreement with Bet Tzedek in a total amount not to exceed \$1.25 million in CDBG-CV, for the provision of legal assistance to income-qualified small businesses, subject to City Attorney review and approval as to form.

FISCAL IMPACT

There is no impact on the General Fund. This report recommends utilizing \$1.25 million in one time Community Development Block Grant-Coronavirus funds to provide small business legal assistance.

BACKGROUND

Prevalence of Small Businesses in the City

Data provided by EWDD demonstrates that in 2019 (the most recent data available), there were 134,203 businesses in the City. The definition of a small business varies widely, however for simplicity, this report assumes all businesses with less than 50 employees are considered “small businesses.” Figure 1 shows that there are 128,764 small businesses in the City, representing 96 percent of all businesses.

Figure 1. Businesses in the City of Los Angeles By Employee Count (All data from 2019)

	1 to 4 Employees	5 to 9 Employees	10 to 19 Employees	20 to 49 Employees	50 to 99 Employees	100 to 249 Employees	250 to 499 Employees	500 to 999 Employees	1,000 + Employees	Grand Total
Total	87,392	18,887	13,151	9,334	3,106	1,762	407	100	64	134,203

Source: EWDD

COVID-19’s Impact on the City’s Small Businesses: Three Data Sources

The pandemic has had a devastating impact on the City’s small businesses, with the restaurant and retail industries experiencing the greatest impact as a result of their vulnerability to stay at home orders and capacity limitations. A September 2020 report by Yelp listed metropolitan Los Angeles as the statistical area with the most business closures in the nation since the beginning of the pandemic. The report revealed that in the first seven months of the pandemic (March 2020 through September 2020), there were 15,000 business closures across metro Los Angeles, with half of those expected to be permanent. While the broad economy has rebounded from the early days of the pandemic, data from three different sources demonstrates that the City’s small businesses continue to face significant economic challenges. This section will analyze data from EWDD’s Comeback Checks Program, the County’s Small Business Rent Relief Project (SBRR),

and a survey conducted by the Office of Councilmember Nithya Raman. Based on the number of businesses that applied for the program, the data provided by EWDD is a representative sample of the 128,764 small businesses in the City and is the best indicator of COVID-19's impact on the City's small businesses.² Our Office did not analyze the pandemic's impact on landlords, who are often small businesses themselves. These small landlords have faced their own business challenges as the commercial tenant protections may result in delayed rental income and the inability to address regular expenses.

Comeback Checks Program

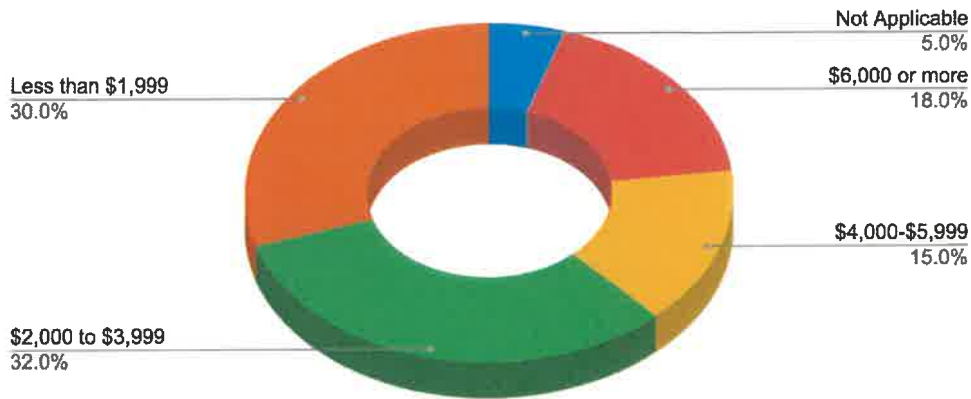
EWDD's Comeback Checks Program provides grants to eligible microenterprises and small businesses in need of economic support due to business interruptions or business closures suffered as a result of the COVID-19 pandemic (C.F. 21-0691). Funded by \$25 million in American Rescue Plan (ARP) funds, the program will provide \$5,000 grants to approximately 5,000 businesses. The businesses will be selected through a weighted lottery process with an equity lens to increase the selection of businesses located in disadvantaged communities. Three business types are eligible for the program. They include:

- 1. Microenterprises:** Small businesses with five employees or less, including the owner(s), with less than \$100,000 in annual gross revenue.
- 2. Small Businesses:** Businesses with less than \$1 million in annual gross revenue.
- 3. Small to Medium Businesses:** Businesses with yearly gross revenues between \$1,000,000 and \$5,000,000.

Out of the 17,976 applicants that applied to the first round of the program, the majority of applicants have monthly rent and utility payments less than \$4,000, as shown in Figure 2 below:

² In order to run an accurate survey of all Los Angeles small businesses with a margin of error of 2 percent, data from over 4,000 businesses would need to be obtained. Since EWDD has data on over 5,000 businesses, this data can reliably be used to represent small businesses in Los Angeles.

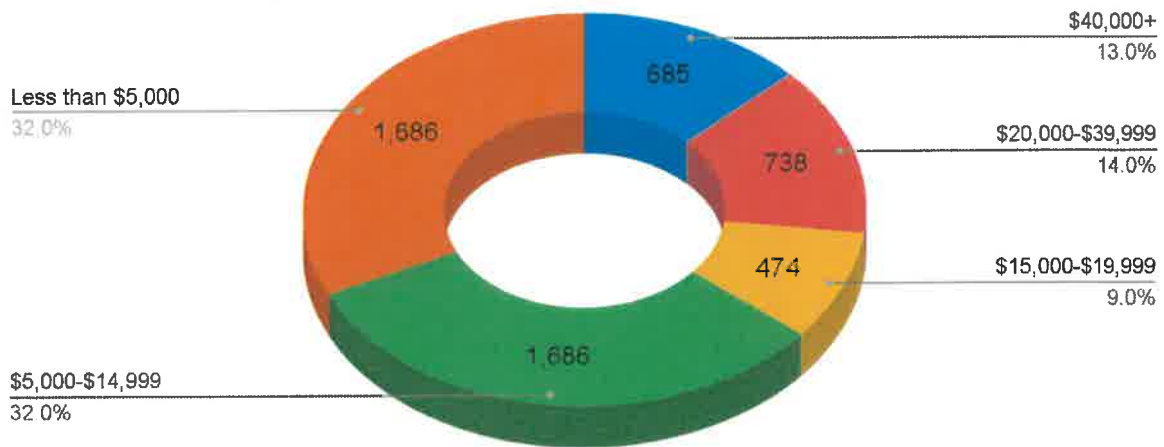
Figure 2. Monthly Rent and Utilities as of January 2020 (Pre-COVID): Small Business Applicants to City Comeback Checks Program



Source: EWDD.

Figure 3 shows that of the total applicants, 5,269 owe back rent to their landlord for the period March 2020 through September 2021.³ Of those applicants, the majority (64 percent) owed \$15,000 or less:

Fig. 3 Total Estimated Past Due Rent March 2020-September 2021: Small Business Applicants to City Comeback Checks Program



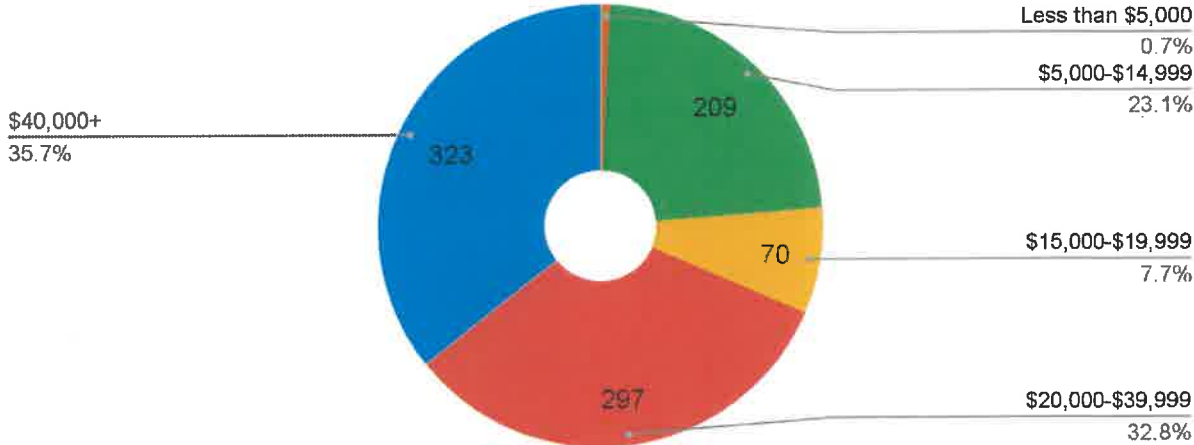
*5,269 applicants. Source: EWDD.

³ 12,707 applicants either did not owe rent or did not respond to this question.

Small Business Rent Relief Project (SBRR)

The County used \$7.5 million in ARP funding to provide between \$5,000 to \$40,000 in rental assistance to qualified small businesses tenants in unincorporated areas of Los Angeles County who have been unable to pay rent due to the pandemic. While 905 businesses located in the City applied to the program, they did not receive funding because only businesses located in unincorporated areas of the County were eligible. Data from these applicants provide additional insight into the economic challenges faced by small businesses in the City.

Figure 4. Total Estimated Past Due Rent March 2020-November 2021: City of Los Angeles Small Business Applicants to County SBRR



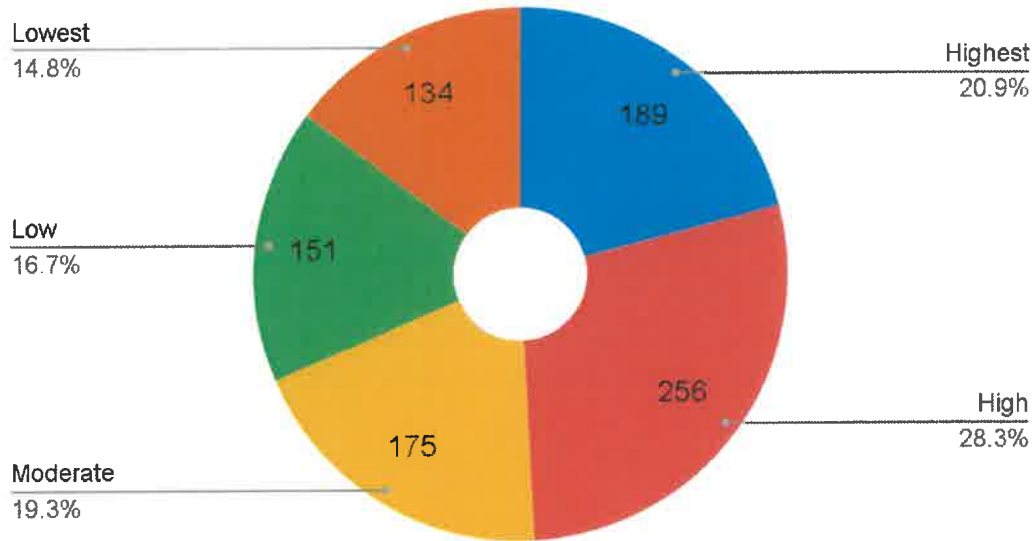
*The max past due amount was \$600,000 and the minimum was \$2,700. Source: Los Angeles County.

Small business applicants to the SBRR were required to have an annual average number of nine or fewer full-time equivalent employees, with annual total gross revenues of no more than \$1 million. While Figure 4 shows a greater percentage of applicants reporting rent debt in excess of \$40,000 as compared to EWDD’s Comeback Check applicant pool, the 905 City applicants captured in the County data represents a small fraction of the 106,279 small businesses with nine or fewer employees located in the City.⁴ Nevertheless, the data is an indicator of commercial rent debt that small businesses are facing. The total rent debt of the 905 businesses in the City who applied to the SBRR was \$35,491,779.

The County prioritized SBRR grants based on the COVID-19 Statewide Vulnerability and Recovery Index (Index), which was developed by the Advancement Project, a non-profit organization. The Index identifies communities most in need of immediate and long-term pandemic and economic relief interventions based on risk factors for COVID-19 infection, vulnerability to severe outcomes if infected, and the ability to recover from the health, economic, and social impacts of the pandemic. The Index organizes communities into five need tiers, ranging from highest to lowest need. Figure 5 shows that nearly half of the City’s 905 SBRR applicants met the highest or high tier:

⁴ There are 106,279 small businesses in the City with nine or fewer employees (2019 data). An unknown number of these businesses have revenues over \$1 million annually.

Figure 5. City SBRR Applicants COVID-19 Vulnerability and Recovery Index Score



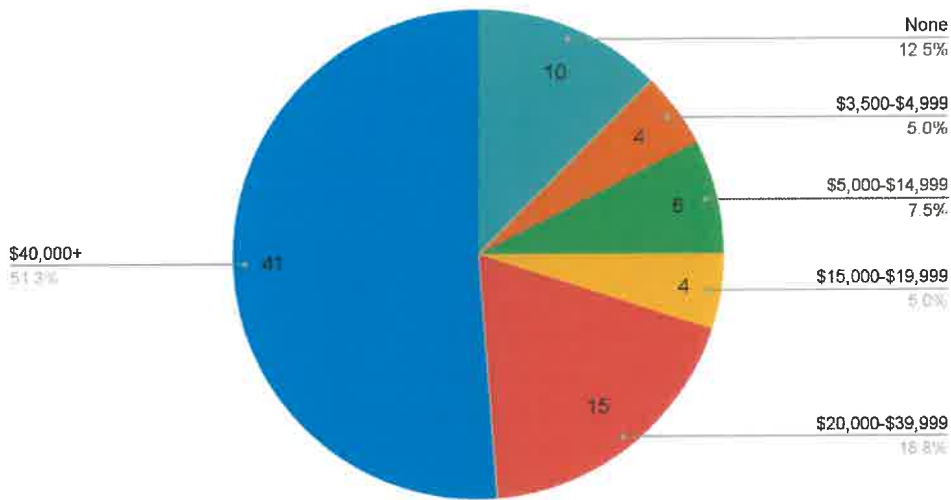
*Five applicants were not categorized, they have been assigned to the Moderate tier. Source: Los Angeles County.

The average rent debt amongst the highest and high tier businesses is \$32,130 and \$34,928, respectively. While these debt amounts are slightly below the average of all SBRR applicants, the businesses in the most vulnerable communities exhibit significant commercial rental debt. Approximately 35 percent of applicants' businesses are located in the U.S. Housing and Urban Development's (HUD) designated Qualified Census Tracts, which are tracts where at least 50 percent of households have an income less than 60 percent of the Area Median Gross Income, or has a poverty rate of at least 25 percent.

Council District 4 Small Business Survey

Additional data on the impact of COVID-19 on the City's small businesses has been provided by a survey conducted by the Office of Councilmember Nithya Raman. The survey results provide additional insight into the impact of COVID-19 on 81 businesses, 80 of which are small businesses with less than 50 employees. The survey found that the majority of survey respondents have outstanding rent debt over \$40,000, as shown in Figure 6:

Figure 6. Total Estimated Past Due Rent: Survey Conducted By Office of Councilmember Raman



*Maximum amount of rent debt: \$648,000, minimum: \$3,500. Note, the total percentage is over 100 due to rounding. Source: Office of Councilmember Raman.

Of the 80 businesses surveyed, 54 have not negotiated new lease terms with their landlord. Of the 26 businesses that successfully negotiated new lease terms, 17 (or 65 percent) found the terms to be unfavorable. Half of the businesses reported that there is a serious possibility of closing the business.

Motion (Raman-Martinez) directed our Office to report on several additional metrics:

- The number of additional small businesses that could be lost due to failure to repay deferred rent, among both businesses that have and have not renegotiated their leases; and,
- The scale of potential job losses due to these small business closures.

To ascertain the information requested above, a Citywide survey would be required. Should the Council wish to proceed with a small business survey, our Office should be directed to identify funding to procure a third party surveyor to complete analysis of these points. Once the City has a more complete data set, our Office could then potentially consider trends across business owners of different genders, socio-economic groups, racial/ethnic groups, and Council districts, as well as the scale of reduced City revenue due to small business closures.

Protecting Small Businesses From Eviction

On March 16, 2020, Governor Newsom issued Executive Order N-28-20, which removed State law restrictions on local government's ability to impose limitations on commercial evictions when the grounds for eviction is non-payment of rent due to a documented substantial decrease in income or increase in expenditures due to COVID-19. The Executive Order does not relieve the tenant of the obligation to pay rent. The order was subsequently extended twice and expired on September 30, 2021. Our Office previously reported on the potential consequences of the

Governor's Executive Order expiring and how that could impact the City's ordinance relative to the continuation of commercial eviction protections (C.F. 20-0147-S19).

Ordinance Number 186606, which was signed by the Mayor on March 31, 2020, prohibits evictions of commercial tenants for failure to pay rent due to the COVID-19 pandemic. Commercial tenants have up to three months following the expiration of the local emergency period to repay any past due rent. The local emergency period is March 4, 2020 to the end of the local emergency (C.F. 20-0291). The ordinance does not eliminate any obligation to pay lawfully charged rent. However, commercial landlords cannot charge interest or late fees on past due rent related to the COVID-19 pandemic. Under the ordinance, "commercial real property" is defined as "any parcel of real property that is developed and used either in part or in whole for commercial purposes. This does not include commercial real property leased by a multi-national company, a publicly traded company, or a company that employs more than 500 employees." Tenants occupying commercial property, as defined above, would be subject to the protections under the ordinance.

In discussions with the City Attorney's Office, their staff advised that with the expiration of the Governor's Executive Order, the City has lost its ability to impose additional limitations on commercial evictions. When the City's local emergency period ends, commercial tenants would be required to begin paying current rent and would have three months to pay all back rent, or could face eviction. However, tenants with 100 employees or fewer may also qualify for the County's payback period, which provides small businesses the ability to pay back rent by July 31, 2022 or January 31, 2023, depending on the size of the business. Under the County's rules, certain commercial tenants could receive a longer payback period than provided under the City's ordinance. Businesses with 100 to 500 employees are not eligible for the County's moratorium and thus would have three months to pay back rent under the City's protections.

On March 19, 2020, the Los Angeles County Board of Supervisors adopted a resolution imposing a moratorium on evictions for nonpayment of rent by commercial tenants. The protections apply to commercial tenancies in both the unincorporated areas and incorporated cities located within the County. These protections do not apply to tenants that are multi-national, publicly traded, or have more than 100 employees. As of September 1, 2020, these protections do not apply to tenants who rent space or property located at airports within the County. The Board established the County's moratorium as baseline protections for commercial tenants in the County, including incorporated cities that have their own local eviction moratoria, which includes the City. This means that the provisions in either the County or City moratorium that provide the strongest protection to commercial tenants will prevail. On January 25, 2022, the Board of Supervisors took the following actions in regards to the commercial eviction moratorium:

- As of February 1, 2022, commercial tenants are no longer protected from eviction due to nonpayment of rent. Tenants who comply with the County's tenant protection procedures will have an extended period of time to repay past due rent, which depends on the number of employees at the business, unless prior arrangements have been made with the landlord:

Figure 7. Los Angeles County Commercial Rent Payback Period

Number of Employees	Time to Repay Back Rent
9 or fewer	12 months, with the option to pay unequal payments. All back rent is due by January 31, 2023.
10-100	6 months, in equal payments. All back rent is due by July 31, 2022.

Commercial tenants also have the following protections:

- Anti-harassment and retaliation protection for all commercial tenants;
- Prohibiting enforcement of personal guarantees for rent incurred by commercial tenants with nine employees or fewer; and,
- Requiring landlords to provide notices of rights to commercial tenants with nine employees or fewer.

The City’s ordinance providing commercial eviction protections is still in effect and will remain so until the end of the local emergency. Under the City’s ordinance, commercial tenants have up to three months following the expiration of the local emergency period to repay any past due rent. However, landlords and tenants are free to negotiate their own rent repayment agreements. Ultimately, questions regarding the County or City’s protections or other disputes between landlords and tenants will be determined by the Courts.

Other Solutions to Protect Commercial Tenants From Eviction

Motion (Raman-Martinez) directed our Office to analyze additional options for protecting commercial tenants from eviction. These include:

- Providing incentives to landlords to renegotiate leases;
- Providing mediation services to landlords and tenants to facilitate lease renegotiations;
- Establishing a right to counsel for small business commercial tenants whose landlords violate the terms of the City ordinance on commercial eviction;
- Temporary suspension of landlords ability to enforce personal guarantee clauses of commercial leases;
- Creating disincentives for landlords to pursue eviction of tenants; and
- Providing direct rent relief to small businesses.

This section discusses the feasibility of each of these options.

1. **Providing incentives to landlords to renegotiate leases.** The Motion cited an example of providing landlords with business tax credits as a potential incentive. Based on State and federal law, the City cannot treat businesses within the same tax category differently. A commercial landlord that renegotiates a lease with a tenant could not receive a credit against the City’s business tax, while other landlords that also renegotiate with their tenants do not receive the same credit. Managing a landlord incentive program would

also be challenging as it would require the City to validate a renegotiated lease. Based on these findings, tax credits are not a feasible option to incentivize lease renegotiation.

Our Office presented the Motion to the Small Business Commission to explore additional incentive ideas. The Commission suggested that the City explore providing incentives to landlords in the form of reduced or waived fees charged to businesses, including Department of Water and Power and Planning Department fees. These fees are calculated to cover staff salaries and expenses for specific City services. A reduction in department fees would result in a potential impact to the General Fund. Altering fees would also require changes to City law.

2. **Providing mediation services to landlords and tenants to facilitate lease renegotiations.** The City has an existing legal assistance program, known as “LA Represents.” The program, managed by the Mayor’s Office, is a coalition of law firms, bar associations, and attorneys who provide pro bono COVID-19-related legal services.

EWDD’s BusinessSource Center program also has \$250,000 in existing Community Development Block Grant (CDBG) funding to support no-cost general legal services for small businesses. As part of the program, Bet Tzedek Legal Services will provide pro bono attorneys to assist small businesses with implementing new workplace regulations, renegotiate commercial leases, apply for government relief programs, and navigate compliance with emergency health and safety orders. To respond to the Motion’s direction to increase services, our Office recommends that the Council authorize a temporary program, to be managed by Bet Tzedek, who will subcontract with Public Counsel and potentially additional legal aid organizations. EWDD has the authority under the CDBG-CV program to select Bet Tzedek as a subrecipient without further action or findings from the Council. While the scope of work has yet to be finalized, such services could include:

- Community presentations, including webinars on specific legal topics and training to City and community partners’ staff and Know Your Rights (KYR) presentations for commercial leasing negotiations. At least half of the presentations will be translated into one or more other languages representative of communities in need in the City.
- Small Business Legal Academy (includes presentations on specific legal topics and consultations with attorneys).
- Commercial Lease negotiations, review of lease agreements, draft related documentation.
- Limited advice on eviction proceedings, in which services may be limited to filing an “answer” in court (pro per answer) or preparing an answer for the client to file in court.

- Settlements, negotiate with landlords a settlement related to past due rent, and draft the appropriate release of claims and/or settlement agreement.
- Draft and review commercial contracts.
- Advice on business structure and entity formation, file forms, and draft related documentation.
- Advice on employee safety, wages, paid leave, and benefits for employees and draft related documentation.
- Complete applications related to accessing COVID relief, including loans and aid.
- Advice on intellectual property matters, such as registering a trademark, patent, or draft related documentation.
- Corporate compliance and board governance.
- Provide general legal advice, answer general legal questions, provide referrals, draft letters, and other limited services.

It is envisioned that Bet Tzedek and Public Counsel will engage in a multi-language outreach campaign to connect with small business owners of color, women-owned businesses, and owners in historically marginalized and underserved communities.

To fund this program, our Office recommends a one time allocation of \$1.25 million in CDBG-CV funds be reprogrammed from the following sources:

- \$250,000 in CDBG-CV from the LA Optimized Program. LA Optimized helps small businesses adapt and compete in the digital marketplace. Due to the program receiving alternative sources of funding, the CDBG-CV is available for potential reprogramming to small business legal assistance⁵:
- \$1 million in CDBG-CV from the Microenterprise Grant Program. Council previously approved \$8.5 million to assist businesses with fewer than five employees. Since the Microenterprise Grant program has yet to launch, our Office recommends using a portion of these funds for legal assistance to provide income-qualified small businesses with legal assistance they would otherwise not have the resources to acquire. If the Council agrees with this recommendation, the Microenterprise Grant Program would have a remaining balance of \$7.5 million.

At the present time, Bet Tzedek and Public Counsel have the capacity to review approximately 210 applications for legal aid under this program and assist 130 businesses. The \$1.25 million in recommended funding is estimated to fund the assistance of approximately 800 businesses. Bet

⁵ CDBG-CV funding must be used in response to the COVID-19 pandemic. Providing legal assistance to businesses affected by the pandemic is an approved use.

Tzedek and Public Counsel are actively recruiting other legal aid providers to maximize the number of businesses served by this program.

3. **Establishing a right to counsel for small business commercial tenants whose landlords violate the terms of the City ordinance on commercial eviction.** A right to counsel program would provide commercial tenants with legal representation during eviction proceedings. The City has an existing program for residential tenants, the COVID-19 Response Eviction Defense Program. The City contracted with the Legal Aid Foundation of Los Angeles to provide tenants with comprehensive eviction prevention services. Our Office recommends the creation of a small business legal assistance program as described in this report. This strategy will enable small business tenants to access legal assistance for lease renegotiation, debt negotiation, as well as numerous other services.
4. **Temporary suspension of a landlord's ability to enforce personal guarantee clauses of commercial leases.** State law considers the small business owner personally liable when that person, rather than that person's business entity, is responsible for the lease obligations. When the person is personally liable, the protection of a business entity, such as a limited liability company, does not protect that person from damages. If a tenant is personally liable, a landlord can instead collect from the person's individual assets. If a landlord is granted a judgment against a person who is personally liable, that person will remain liable even if the business itself is closed.

Under the County's eviction moratorium, a landlord is precluded from enforcing a personal guarantee on commercial rental debt for tenants with nine employees or fewer. As the County's moratorium also applies to commercial tenants located in the City, no further action by the Council is needed to provide this protection.

5. **Creating disincentives for landlords to pursue eviction of tenants.** Under the City's commercial eviction protections (Ordinance Number 186606), tenants can use the ordinance as an affirmative defense against unlawful eviction actions. Landlords who violate the ordinance are also subject to administrative citations.
6. **Providing direct rent relief to small businesses.** On June 30, 2021, the City Council adopted an EWDD report that provides \$50 million in one-time financial assistance to small businesses affected by COVID-19 (C.F. 21-0691). The two largest programs include \$25 million in grants for general operating assistance (Comeback Checks) and \$12 million for rental assistance:

Figure 8. Recent City Small Business Assistance Programs

Program	Description	Amount
Restaurant and Small Business Recovery Program	Deployment of \$5,000 grants to 5,000 small businesses impacted by COVID-19 including restaurants and other vulnerable industries needing assistance in their economic recovery efforts.	\$25,000,000
Small Business Rental Assistance Program	Grants of up to \$15,000 (or six months' rent, whichever is less) to support rental/lease costs for about 800 small businesses in qualifying industries for both current and arrears rent payments, and to eligible new businesses that need assistance with first and last month rent.	\$12,000,000
Jobs and Economic Development Incentive (JEDI) Zones Business Assistance	Funding to provide JEDI Zone Program incentives, including: <ul style="list-style-type: none"> • \$1.5 million in funding for Building and Safety and Planning permits, to assist approximately 150 businesses • \$1.5 million for façade improvement projects, to assist approximately 20 businesses • \$1 million for upgrading business technology needs, including website, point of sale and internet access, to assist approximately 166 businesses. 	\$4,000,000
Good Food Zones Business Assistance Program	Pilot program to assist food-oriented businesses located in approved Good Food Zones. Services and incentives include a Food Business Liaison, outreach and marketing materials, technical assistance, and grants of up to \$25,000 to qualified businesses to expand access to healthy foods. Assistance will be provided to 20 to 40 businesses.	\$1,000,000
Legacy Business Recovery Program	\$4.75 million to provide both technical assistance and grants of up to \$25,000 to support and preserve qualified legacy businesses. Assistance can be provided to approximately 190 businesses, approximately twelve (12) businesses nominated per City Council District. \$250,000 set aside for marketing and outreach to ensure equitable access to this funding opportunity.	\$5,000,000
Program Costs	<p>Technical assistance to support business owners through the application process, particularly applicants with language and technology barriers.</p> <p>Third-party consultants to provide administrative support services for data facilitation and analytics for equitable delivery of programs, eligibility review and funding of grant applications to ensure timely delivery of assistance, and to assist in the marketing, outreach, and translation services to ensure equitable access and to reach businesses that may not have previously received funding assistance.</p> <p>Subrecipient administrative fee for the Restaurant and Small Business Recovery and Rental Assistance Programs.</p> <p>Salaries and related costs for EWDD staff carrying out American Rescue Plan activities.</p>	\$3,000,000
Total		\$50,000,000

As part of the \$50 million package already approved by the Council, the Small Business Rental Assistance Program will provide \$12 million in small business rental relief. EWDD is currently

drafting the provisions of the program, and is considering a grant ceiling of \$15,000 or six months back rent, whichever is less. Data provided from EWDD and noted in this report supports this grant cap value. The Small Business Rental Assistance program will be able to provide grants to approximately 800 businesses, assuming each applicant receives the maximum award of \$15,000. Based on data provided by EWDD, there are at least 5,300 businesses with commercial rent debt. Should the Council wish to provide a higher maximum grant award, the number of potential businesses to be supported will decrease, as demonstrated below:

Figure 9. Small Business Rental Assistance Maximum Grant Awards and Potential Number of Businesses Assisted

Maximum Grant Award	Estimated Number of Businesses Assisted
\$15,000 (proposed)	800
\$20,000	600
\$25,000	480
\$30,000	400
\$40,000	300

*Assumes each business receives the maximum grant award.

Apart from the recent \$50 million business assistance package, the City has also contributed an additional \$79 million toward small business assistance during the COVID-19 pandemic period, bringing the total to \$129.5 million in support.

Figure 10. Additional COVID-19 Small Business Support

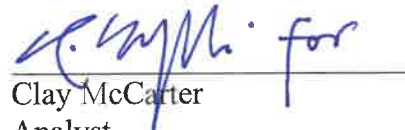
Program	Amount (Rounded)
LA Regional Fund (small business/nonprofit grant program)	\$40,000,000
Street Vendor Grant	\$2,000,000
Childcare Business Grant	\$14,000,000
LA Al Fresco Program (support outdoor dining)	\$2,000,000
Small Business Grant	\$11,000,000
BusinessSource Supplemental Funding	\$2,000,000
Microenterprise Grant (for businesses with five or fewer employees)	\$8,500,000
Total	\$79,500,000

EWDD also provides the following services to small businesses which may mitigate the economic impact of COVID-19:

- **Credit Counseling:** No cost financial assistance to help small business owners with budgeting, improving their credit profile, and connecting them to resources.

- **BusinessSource Centers:** Financial recovery services such as financial restructuring and planning, employee retention strategies, and loan and grant application packaging.
- **Business Response Unit:** One-stop service for business owners to obtain contacts and information across City departments on programs and services geared toward the business community. Specializes in providing aid to entrepreneurs and connecting them to resources.

Our Office will continue to analyze additional opportunities to assist small businesses, including locating savings in the above programs that can be reinvested into existing or new programs to best ensure the economic health of the small business community.


Clay McCarter
Analyst

Attachment: Motion (Raman-Martinez)

Small businesses are the backbone of the local economy in Los Angeles, but the Covid-19 crisis has proven a devastating and ongoing threat to their very existence. In greater Los Angeles, 15,000 businesses closed between March and September 2020, before the worst COVID-19 surge, and half these closures were permanent. At the time, this was greater than the number of small businesses lost in any metropolitan area in the United States.

Partly because of our local labor market's reliance on small businesses, unemployment in the Los Angeles metropolitan area remains higher than in any other major U.S. city, at nearly 10 percent as of March 2021.

Small businesses have both a direct and indirect impact on local employment. They generate more jobs per unit of sales than large chains by creating positive feedback loops within local economies. But Los Angeles is at risk of allowing the Covid-19 pandemic to become a catalyst for corporate consolidation, which would only exacerbate its challenge with economic inequality.

Continued permanent closures of small enterprises would have a particularly severe impact on communities of color. Black- and Latinx-owned small businesses are an important enabler of intergenerational wealth creation in the City of Los Angeles, but these businesses have been hit hardest by the Covid-19 economic crisis. Losing even more would widen the racial wealth gap in the city.

LA's small businesses also foster community and contribute to the vitality and safety of streets and neighborhoods, forming a crucial part of the city's multiculturalism and creative energy. More small business losses would detract from the city's unique identity, which could have its own economic impact, since cultural tourism contributes 30% of tourism revenues in the city.

Even as Los Angeles moves toward post-pandemic recovery, a major looming challenge facing small businesses is the repayment of rent following the expiration of a commercial eviction moratorium instituted in 2020 (City of Los Angeles Ordinance No. 186585 and 186606). Of small businesses operating in Los Angeles County as of November, fewer than 30 percent had at least 3 months of cash reserves, and nearly a quarter had less than a month's worth of cash on hand for business operations. These figures suggest that, as debts have piled up for small businesses, we may soon see a new surge of small business closures in Los Angeles due to commercial eviction.

A report currently being prepared by the Chief Legislative Analyst will offer recommendations to the City Council for aligning the City's eviction moratorium ordinance with Los Angeles County's protections, which provide for a longer repayment period. The report will provide valuable clarity on when the eviction moratorium will end, the length of time commercial tenants have to pay back deferred rent, and the evidence of Covid-19 impacts that small businesses must supply to their landlords.

Yet even with greater clarity on the repayment period, many Los Angeles small businesses are likely to struggle under the burden of large rent debts that have accumulated during the

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pandemic. The Council needs more information on the current state of the small business sector with regard to commercial leases, and may need to consider further actions to ensure that Los Angeles does not suffer another major round of small business losses when the eviction moratorium ends.

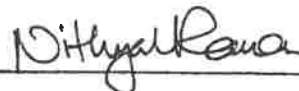
I **THEREFORE MOVE** that the City Council instruct the Chief Legislative Analyst (CLA), in consultation with the Economic and Workforce Development Department (EWDD) and the Small Business Commission (SBC), to prepare a report within 60 days on the capacity of small businesses in Los Angeles to repay deferred rent, and the anticipated impact of the end of the commercial eviction moratorium on the local economy. The report should provide details on:

- The prevalence of **lease renegotiation** among small business commercial tenants and the most common forms of renegotiation;
- The **number of additional small businesses that could be lost due to failure to repay deferred rent**, among both businesses that have and have not renegotiated their leases;
- The **scale of potential job losses** due to these small business closures;
- The **scale of potential City revenue losses** due to these small business closures; and
- An analysis of these trends across business owners of different genders, socio-economic groups, racial/ethnic groups, and Council districts.

I **FURTHER MOVE** that the City Council instruct the CLA, in consultation with EWDD and SBC, to provide recommendations to the Council for actions that could further support small business commercial tenants and protect them from permanent closure. The CLA should consider the feasibility and impact of the following measures:

- Providing incentives to landlords to renegotiate leases (for example, in the form of tax credits);
- Providing mediation services to landlords and commercial tenants to facilitate lease renegotiation;
- Establishing a right to counsel for small business commercial tenants whose landlords violate the terms of the City ordinance on commercial eviction;
- Temporary suspension of landlords' ability to enforce personal guarantee clauses of commercial leases (a protection instituted, for example, by the New York City Council);
- Creating disincentives for landlords to pursue eviction of small business tenants; and
- Providing direct rent relief to small businesses.

PRESENTED BY :



NITHYA RAMAN
Councilmember, 4th District

SECONDED BY :

