



Deep South States Provide Over \$1.1 Billion in Small Business Relief: Who Benefits, Who is Left Behind?

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Introduction

Since May 2020, five Deep South states have allocated over \$1.1 billion towards small business relief. These state programs have the opportunity to serve as a lifeline for small businesses struggling to survive and regroup from the economic consequences of COVID-19. Small businesses are a critical component to vibrant communities and healthy economy, and thus ensuring they receive the help they need now will shorten the road to recovery. This is particularly true for small businesses owned by people of color. Prior to the pandemic, Black and Latino-owned businesses were growing quickly, supporting over 7 million jobs, and generating over \$600 billion in economic activity.¹ In the Deep South, nearly one in four businesses (24%) are minority-owned.² Despite the critical contribution of these businesses, the federal Paycheck Protection Program's \$600 billion aid for businesses largely bypassed minority-owned businesses and other small businesses.³ State-level small business relief programs are well-positioned to fill the gaps left by PPP, but without adequate attention, may risk repeating the same inequities.

Table 1: Status of Deep South Small Business Relief Programs Funded by CARES Act

State	Amount Allocated	Program Launch	Amount Deployed as of Mid-August	Number of Businesses Aided	Average Relief Amount
Alabama	\$120,000,000	July 16	\$96,204,868	7,896	\$12,184
Arkansas	\$147,000,000	May 6	\$128,658,245	11,391	\$11,295
Mississippi	\$300,000,000	June 2	\$29,556,492	15,684*	\$1,884
Louisiana	\$275,000,000	July 28	\$177,000	47	\$3,766
Tennessee	\$283,500,000	July 7	\$110,000,000	14,172	\$7,762
Total	\$1,125,500,000		\$364,596,605	49,190	\$7,412

*\$2,982,492 deployed to 2,326 through the Back to Business Grant Program, which launched on June 10 and 13,358 businesses received \$26,574,000 through the direct payments program, which launched on June 2.

State Summaries

Each state is funding its program using a portion of its Coronavirus Relief Fund allocation provided through the federal CARES Act. The Coronavirus Relief Fund is a uniquely discretionary funding stream to help tribal, states, and local governments cover unexpected expenses related to COVID. States must spend the money by December 31, 2020.⁴ Given the amount of states' flexibility in using their funds to best meet their COVID-needs, each of the five programs differ in their details in size, scope, and manner by which they distribute the funds. As a result, each also has unique concerns about inequities in their deployment. The following provides a brief summary of these programs as of mid-August 2020, with a particular focus on whether historically underserved businesses benefit from these efforts.

Arkansas:

Through its Arkansas Ready for Business program, the Arkansas Department of Commerce deployed over \$128 million in grant awards to 11,391 business between May 6 to June 26, 2020.⁵ The window to apply was just 48 hours. The grants could not be used for payroll, but rather were COVID-related expenses such as personal protective equipment. Just over 25% of the grants went to minority-owned businesses and 33% went to women-owned business, exceeding the program's requirement that 15% of the grants benefit minority and women-owned businesses and exceeding the firms' representation in the state as whole.⁶ Grant recipients in counties where the majority of residents are people of color represented approximately 5% of all Arkansas business, and received 5% of grant dollars. Similarly, businesses in counties that have been in poverty for more than 30 years represented 10% of all Arkansas, businesses, and received just over 9% of grant dollars. As such, Arkansas, to date, is the most the successful Deep South state in the proportionate deployment of funds relative to business representation in the state as a whole. Given COVID's prolonged trajectory, however, more may be needed to ensure the resources deployed match COVID-19's disproportionate impact on communities of color.

Mississippi:

Mississippi funded two programs to support eligible businesses with 50 or fewer full time employees.⁷ One was a \$60 million allocation for the Mississippi Department of Revenue to deploy as direct payments of \$2,000 to an estimated 29,000 businesses, whose eligibility was pre-determined by the Department in accordance with statutory requirements. As of August 14, over 13,000 businesses had received over \$26 million through the direct payments program. The second was a \$240 million allocation for the Mississippi Development Authority to deploy as grants up to \$25,000 for which eligible businesses could apply. The grant program preserved \$40 million for the first 60 days of the program for minority and women-owned businesses. More than 20,000 businesses applied for a grant, seeking more than \$100 million in relief, and 58% of applicants were minority and women-owned business. As of August 14, more than 60 days after the program launch, only \$2.9 million of the \$240 million had been deployed to any businesses at all, essentially negating the set-aside for minority- and women-owned businesses.

Tennessee:

Tennessee's Small Business Relief Program, established by the Governor's Stimulus Financial Accountability Group,⁸ deployed over \$110 million of an available \$200 million to over 14,000 business between June 29, and August 11, 2020.⁹ The Tennessee program utilized a system of providing payments directly to pre-determined eligible businesses via the state's Department of Revenue, similar in concept to the one administered by Mississippi's Department of Revenue. There are two concerns related to Tennessee's program, both of which were raised by the NAACP Legal Defense Fund in a letter to the Governor and the Tennessee Stimulus Financial Accountability Group established to oversee the state's CARES Act spending.¹⁰ As described below, data affirming these concerns is coming into focus:

- Racial disparities in the funding formula: The formula for determining payment sizes is based on a business's gross sales, such that the larger the gross sales, the higher the relief payment, regardless of the magnitude of COVID's impact on the business.¹¹ This formula based on gross sales inherently benefits white-owned businesses. In Tennessee, businesses with white owners have an average business value (based on gross sales, revenues, receipts) of \$525,493 compared with an average value of \$47,178 for Black-owned business.¹² NAACP LDF estimated, based on the program's formula, more than half of the funding may go to businesses with more than \$500,000 in annual gross sales. Less than 1% (1,200) of Tennessee's Black-owned businesses fall in that category, whereas 9% (77,000) of the state's white-owned businesses do.¹³ As of August 11, 70% businesses who have received a payment have less than \$500,000 in annual gross sales. However, when conveyed in terms of dollars amount, the disparities come become clear. Even if all of these businesses received the maximum amount available to businesses with less than \$500,000 in annual gross sales, it would still mean that 55% of the \$110 million already deployed went to businesses with annual gross sales over \$500,000.¹⁴

Additionally, as of August 11, of 14,172 businesses that had received a payment through the program, at least 1,572 (11%) voluntarily self-identified as minority-owned businesses.¹⁵ Finally, 50% of the state's minority-owned businesses are located in Shelby County, yet only \$14 million (13%) of the payments have flowed there.¹⁶

- Opt-in requirement: The Tennessee program, unlike Mississippi's direct payments program, requires that businesses pre-determined by the Department of Revenue to be eligible for a payment must receive and complete a "pre-award certification form." This form functions as an "opt-in" barrier preventing businesses from receiving their relief. As NAACP LDF raises in its letter, "Extensive research in a variety of fields shows that "opt-in" mechanisms result in lower participation rates."¹⁷ To date, the data bears out this concern about this barrier. Some businesses are reporting that they did not receive the form by mail or by email. The Department of Revenue, has identified 18,400 businesses that they have determined to be eligible but have not received payment because the businesses have not returned the form.¹⁸

On August 14, Tennessee announced an expansion of the program, adding an additional \$83.5 million and expanding the scope of industries eligible to participate, but did not address either of the concerns related to racial disparities or the opt-in approach.¹⁹

Alabama:

Through its Revive Alabama program, the Alabama Department of Revenue deployed over \$92 million of its \$120 million grant program between July 16 and August 14.²⁰ Alabama kept its application window open for just one week (from July 16 to July 25), limiting opportunities for outreach. While Alabama has publicly reported the names of businesses and grant award amount, it has not provided data on ownership demographics or geographic location.

Louisiana:

Through its Louisiana Main Street Recovery Program, the Louisiana Department of Treasury launched its program on July 28.²¹ In many ways, Louisiana's program is most similarly structured in size, scope, and requirements as Mississippi's Back to Business grants program. Within two weeks of the program launch, over 14,500 businesses had applied, with more than 70% from minority, women, or veteran-owned businesses.²² Based on its review of the applications, the Louisiana Treasurer found the average turnaround time to be 14 days. As of August 12, Louisiana had deployed \$177,000 to 47 eligible businesses.

About 7,000 applicants were deemed to be eligible but on hold until after the first 21 days of the program in order to prioritize businesses that had not yet received any federal funding. Other applications were incomplete or deemed ineligible.

An Alternative Approach

While each of the five programs differ in their details in size and scope, and differ in the manner by which they distributed the funds, one common characteristic is that each is run by a state agency directly. At least one state outside of the region took a different approach. Pennsylvania provided \$225 million to the 17-member Pennsylvania Community Development Financial Institution (CDFI) coalition, to administer and distribute the funds, CDFIs are already deeply embedded in communities hardest hit by the COVID crisis and have existing expertise in serving small businesses.²³ Of this \$225 million, \$100 million is dedicated to historically underserved businesses. Launched on June 29, early results show success in such a model reaching hardest hit, historically underserved businesses. As of August 11, nearly 50,000 applications were received seeking more than \$860 million in the first application window. About half of 4,933 businesses – or 2,512 – that are received grants in this round are going to historically disadvantaged businesses. More than 80% of the grant recipients are were low-income business owners or owned a business located in a low or moderate income census tract.²⁴

Conclusion

While much attention has been correctly given to the racial inequities and barriers to small business in the historic Paycheck Protection Program, state-level relief programs merit equal attention. State programs have the opportunity to address needs unmet by PPP, and to structure the programs in a way to leverage each state's needs and strengths of reaching businesses underserved by PPP and the mainstream financial system generally. Unfortunately, to date, Deep South small business relief programs are also bypassing these same businesses, leaving the fate of many small businesses, particularly businesses of color, uncertain.

There are several ways programs can promote a more equitable recovery from COVID-19. Two ways are to account for, rather than perpetuate, existing inequities in the front-end program design, and to include targeted funds for historically underserved businesses. In addition, states should partner with entities, such as community development financial institutions, community groups, and small business technical assistance providers, to ensure businesses hardest hit by this crisis know of and can access the available relief funds. Finally, state-level programs must report on the racial, gender, and geographic demographics of applicants, awards, and amounts throughout the program implementation, not just at the program's conclusion. Doing so is critical to assessing what changes, if any, are needed during the process to ensure relief funds are reaching businesses and communities in an equitable manner. The vital role of small businesses in the economy of the Deep South, and the nation as whole, merits the significant resources states are providing to aid them, as well as the transparency and accountability along the way.

¹ Stanford Latino Entrepreneurship Initiative, "2019 State of Latino Entrepreneurship," Jan. 2020, <https://www.gsb.stanford.edu/faculty-research/publications/state-latino-entrepreneurship-2019> and Association for Enterprise Opportunity, "Tapestry of Black Business Ownership in America," Feb. 2017, https://aeoworks.org/images/uploads/fact_sheets/AEO_Black_Owned_Business_Report_02_16_17_FOR_WEB.pdf

² U.S. Census Bureau, Survey of Small Business Owners (2012)

³ Kiyadh Burt, Hope Policy Institute, May 8, 2020 "Despite Changes in Second Phase of PPP, Many Small Businesses Remain Locked Out," <http://hopepolicy.org/blog/despite-changes-in-second-phase-of-ppp-many-small-businesses-remain-locked-out/>

⁴For more information on the Coronavirus Relief Fund guidance and uses, see U.S. Department of Treasury, "The CARES Act Provides Assistance for State, Local, and Tribal Governments," <https://home.treasury.gov/policy-issues/cares/state-and-local-governments>. Access August 23, 2020.

⁵Arkansas Economic Development Commission, Ready for Business Grant, <https://www.arkansasedc.com/covid19resources/business-resources/ready-for-business-grant-program>. Accessed on August 23, 2020.

⁶Calandra Davis, Hope Policy Institute, "Review of Arkansas Ready for Business Program: Gaps and Opportunities," July 29, 2020, hopepolicy.org/blog/review-of-arkansas-ready-for-business-program-gaps-and-opportunities

⁷For in-depth review of Mississippi's small business relief programs, see Hope Policy Institute, "Mississippi's Small Business Relief: Gaps and Opportunities," August 25, 2020 <http://hopepolicy.org/briefs/mississippis-small-business-relief-gaps-and-opportunities/>

⁸The Tennessee Stimulus Financial Accountability Group, <https://www.tn.gov/governor/news/2020/4/16/gov-lee-announces-stimulus-financial-accountability-group.html>

⁹Email from Tennessee Department of Revenue to Hope Policy Institute, Aug. 20, 2020. See also, Tennessee Department of Finance and Administration, Stimulus Fund Dashboard, <https://www.tn.gov/content/tn/finance/looking-for/cares-act-awards-.html>

¹⁰NAACP Legal Defense Fund, Letter to Governor Bill Lee Re: Tennessee Small Business Relief Program, July 6, 2020 <https://www.naacpldf.org/wp-content/uploads/Tennessee-Letter-2020-07-06-1.pdf>.

¹¹Tennessee Department of Revenue, "If eligible, how much will my relief payment be?," <https://revenue.support.tn.gov/hc/en-us/articles/360045455712-if-eligible-how-much-will-my-relief-payment-be>. Accessed on Aug. 23, 2020.

¹²Prosperity Now Scorecard, Business Value by Race: Tennessee, <https://scorecard.prosperitynow.org/data-by-issue#jobs/outcome/business-value-by-race>

¹³NAACP Legal Defense Fund, Letter to Governor Bill Lee Re: Tennessee Small Business Relief Program, July 6, 2020 <https://www.naacpldf.org/wp-content/uploads/Tennessee-Letter-2020-07-06-1.pdf>

¹⁴Hope Policy Institute analysis of data provided the Tennessee Department of Revenue. Seventy percent of 14, 172 businesses, is 9,920 businesses. The maximum amount available to businesses with less than \$500,000 in gross sales is \$5,000 (though some may receive payments of \$2,500). If each of the 9,920 businesses received the maximum \$5,000, this would total \$49,602,000, which is 45% of the funds deployed as of August 11.

¹⁵Email from Tennessee Department of Revenue to Hope Policy Institute, Aug. 20, 2020.

¹⁶U.S. Census Bureau, Small Business Owner Survey (2012), and Tennessee Department of Finance and Administration, Stimulus Fund Dashboard, <https://www.tn.gov/content/tn/finance/looking-for/cares-act-awards-.html>

¹⁷NAACP LDF Letter, citing, "For example, class action litigation has long utilized the "opt-out" model, requiring class members to affirmatively opt out of participation, for this reason. See, e.g., Scott Dodson, An Opt-In Option for Class Actions, 115 Mich. L. Rev. 171, 179 (2016)."

¹⁸Kyle Horan, NewsChannel5, "TN has \$100 million in federal COVID aid for small business owners," <https://www.newschannel5.com/news/tn-has-100-million-in-federal-covid-aid-for-small-business-owners>, Aug. 7, 2020, ("13,000 businesses have received funds from the program, with the max payout being \$30,000. However, there are still 18,453 businesses that were sent notifications about the funds who haven't responded to the Department of Revenue.")

¹⁹Tennessee Office of the Governor, Press Release, "Gov. Lee Announces Expanded Small Business Relief; New Relief Programs for Agriculture, Tourism, and Workforce Development," Aug. 14, 2020, <https://www.tn.gov/governor/news/2020/8/14/gov-lee-announces-expanded-small-business-relief-new-relief-programs-for-agriculture-tourism-and-workforce-development.html>

²⁰State of Alabama, Coronavirus Relief Fund: Expenses, <https://crf.alabama.gov/default.aspx>

²¹Louisiana Main Street Recovery Program, <https://www.louisianamainstreet.com>. See also, SB 189, Act 311, 2020, <https://legis.la.gov/legis/BillInfo.aspx?i=237870>

²²Louisiana Department of Treasury, Report to the Louisiana Joint Legislative Committee On The Budget, August 14, 2020, at page 830, <https://jlc.la.gov/Docs/2020/aug/08-14-20%20JLCB%20Meeting%20File.pdf>

²³Pennsylvania, CDFI Network, "COVID-19 Relief PA Statewide Small Business Relief," <https://pabusinessgrants.com/>

²⁴Pennsylvania CDFI Network, "Summary - Round 1: COVID-19 Relief PA Statewide Small Business Relief," <https://dced.pa.gov/wp-content/uploads/2020/08/COVID-19-Business-Grants-Summary-Round1.pdf>