The Future of Work in a Post Covid19 Environment: How Western states can adapt and facilitate growth and resiliency

Access to Capital

JULY 2020
• Over $3 billion of investment capital deployed; registered investment advisor
• Manage public/private partnerships utilizing 40 distinct state and federal economic development programs
• Allocated over $2.5 billion in state and federal tax credit programs

“We founded Advantage Capital in 1992 on a mission of building businesses, services and jobs to communities that have historically lacked access to investment capital. We’ve been expanding our toolkit and partnerships ever since.”

- Steven Stull, Founder and CEO
Mark Scheffel serves as a senior vice president for Advantage Capital. Given his experience as both a legislator and practicing attorney, Mr. Scheffel plays an important role in helping the firm’s clients navigate the challenges presented by state governments.

With over 25 years of professional experience in business and public service, Mr. Scheffel most recently served as the Senate Majority Leader in the Colorado State Senate, representing State Senate District 4 as the second highest-ranking Republican in the chamber. A member of the Colorado Senate since 2008, he has dedicated his career in public service championing both small businesses and Colorado’s taxpayers, leading legislative efforts to help small businesses grow and expand and provide more transparency in state government for taxpayers. Mr. Scheffel has worked as a practicing business and tax attorney since 1989, starting his own firm, Reid and Scheffel, P.C. in 1993. He has represented individual, corporate, and governmental entity clients in tax, business, and regulatory matters.

Mr. Scheffel received his LL.M. degree in taxation from New York University’s School of Law, his J.D. from John Marshall School of Law, and his bachelor’s degree in finance from the University of Denver.
THE PLOIGHT OF SMALL BUSINESS UNDER COVID-19

• Small Businesses Could Vanish During Coronavirus Pandemic—The Street, March 26, 2020

• ‘People are Very Scared’ Why Small Businesses Hit by Coronavirus Are Struggling—Time Magazine, April 9, 2020

• Small Business Owners Report Devastating Impacts of COVID-19, Need Immediate Cash Assistance to Survive—Small Business Majority, April 14, 2020

• The Stimulus Cover Up: Small Businesses Cheated, Corrupt COVID-19 Stats, Crony Benefits—BitCoin.com, April 19, 2020

• Coronavirus U.S.: Small Businesses Struggling to Secure Loans Amid COVID-19 Outbreak—ABC Philadelphia, April 20, 2020

• Haven’t Seen a Dime: Five Small Businesses on a Struggle to Survive the Pandemic—The Guardian, April 26, 2020

• Small Business Struggles Amid Coronavirus Outbreak—Spectrum News, April 28, 2020

• Survey Shows Pandemic’s Severe Impact on U.S. Small Businesses—Yale News, May 1, 2020

• Small Businesses Face Dire Scenario in COVID-19 Shutdown—SHRM, May 6, 2020

• Over 100,000 Small Businesses Have Closed Forever as America’s Pandemic Toll Escalates—Washington Post, May 12, 2020

• Coronavirus is hitting Black Business Owners Hardest—New York Times, June 18, 2020

• Small Businesses Raced to Spend PPP Funds but COVID-19 Pandemic Drags On—The Wall Street Journal, June 26, 2020

• Coronavirus Surge Is Killing America’s Small Businesses—New York Times, July 13, 2020
Small businesses comprise what share of the U.S. economy? Small businesses make up:
- 59.7 percent of U.S. employer firms,
- 55.6 percent of nonemployer firms,
- 46.2 percent of private-sector employment,
- 42.9 percent of private-sector payroll,
- 46 percent of private-sector output,
- 43 percent of high-tech employment,
- 48 percent of firms exporting goods, and
- 33 percent of exporting value.


How many small businesses are there? In 2010 there were 27.9 million small businesses, and 18,500 firms with 500 employees or more. Over three-quarters of small businesses were nonemploying; this number has trended up over the past decade, while employers have been relatively flat (Figure 1).

Table 1: Small Business Shares

<table>
<thead>
<tr>
<th>Type of Firms</th>
<th>Share (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonemployer firms</td>
<td>52.6</td>
</tr>
<tr>
<td>Franchise</td>
<td>0.8</td>
</tr>
<tr>
<td>Sole proprietor</td>
<td>0.2</td>
</tr>
<tr>
<td>Corporation</td>
<td>0.4</td>
</tr>
<tr>
<td>Employer business</td>
<td>1.3</td>
</tr>
<tr>
<td>Nonemployer (business with employees)</td>
<td>18.5</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, SUSB, SBB.

What is a small business? The Office of Advocacy defines a small business as an independent business having fewer than 500 employees. For the small business definition by industry used in government programs and contracting, see www.sba.gov/content/small-business-size-standards.

What percent of small businesses operate as...?
The many kinds of small businesses are shown in Table 1. The definitions overlap so the shares total more than 100.

What is small businesses’ share of net new jobs? Small firms accounted for 69 percent of the net new jobs created between 1993 and 2011 (11.8 million of the 16.5 million net new jobs). Since the latest recession, from mid-2009 to 2011, small firms, led by the larger ones in the category (20-499 employees), accounted for 67 percent of the net new jobs.


How can small businesses’ share of net new jobs be larger than their share of employment, yet their share of employment remains steady? As firms grow, they change employment size classes. So as small firms grow, their growth counts toward small firm job gains; but if they pass the 500-employee mark, their employment is classified as large firm employment.

Do the unemployed become self-employed? When finding work is difficult, starting a business can be just as difficult if not more so. But in March 2011, a significant number of the self-employed, 5.3 percent or about 500,000, had been unemployed in the previous year. This figure was up from March 2006 and March 2001, when it was 3.6 and 3.1 percent, respectively.

Which businesses create more jobs—startups or existing businesses? In the last two decades about 60 percent of the private sector’s net new jobs have been created by exiting establishments and about 40 percent from the churn of startups minus closures. While firm births account for many new jobs, job losses from firm closures are equally important in accounting for net effects to employment levels.

Source: Bureau of Labor Statistics, BLS.
FEDERAL COVID-19 LEGISLATION

• Paycheck Protection Program

• Economic Injury Disaster Loan Program

• Main Street Lending Program

• Phase Four
According to the National Association of State Budget Officers, as of July 1, 41 states have enacted a full-year budget for fiscal 2021. States are currently contending with revenue losses and increased spending demands related to COVID-19 as they work to finalize or adjust their fiscal 2021 budgets. In addition, states continue to monitor developments at the federal level to see if additional federal aid will be provided, helping to lessen the need for more drastic cuts to essential services that would impact state residents and dampen the nation’s economic recovery.

Generally, 46 states begin their fiscal years on July 1

- **New Jersey** extended its fiscal year so that fiscal 2021 will begin on October 1, 2020 and end on June 30, 2021
- **New York** starts its fiscal year on April 1
- **Texas** begins on September 1
- **Alabama** and **Michigan** start their fiscal years on October 1

33 states are enacting a new budget for fiscal 2021, while 17 states previously enacted budgets covering both fiscal 2020 and fiscal 2021; some of the 17 states that previously enacted a two-year budget approved a revised budget this year. In addition, of the 33 states approving a new budget, two states authorized a two-year budget covering both fiscal 2021 and fiscal 2022.

- **Kentucky** normally would have enacted a two-year budget but opted to pass only one-year appropriations given the budget uncertainty regarding COVID-19 impacts.

Due to questions about the possibility of future federal aid, along with uncertainties regarding revenue outlooks, several states are planning on temporary budgets to begin fiscal 2021, while considering budgets for the remainder of fiscal 2021 in the coming months. Additionally, some states that enacted balanced budgets before the effects of COVID-19 expect to convene special sessions over the summer to adjust those spending plans in response to revenue declines.

*Source: [http://budgetblog.nasbo.org/budgetblogs/blogs/brian-sigritz/2020/06/26/states-work-to-finalize-fiscal-2021-budgets-update?CLK=412c0c68-3f5-4443-a76d-ad490a46cc0b](http://budgetblog.nasbo.org/budgetblogs/blogs/brian-sigritz/2020/06/26/states-work-to-finalize-fiscal-2021-budgets-update?CLK=412c0c68-3f5-4443-a76d-ad490a46cc0b)*
PROJECTED REVENUE LOSSES BY STATE (IN BILLIONS)

- Alabama - $4
- Alaska - $3
- Arizona - $6
- Arkansas - $4
- California - $68
- Colorado - $7
- Connecticut - $8
- Delaware - $2
- Florida - $18
- Georgia - $10
- Hawaii - $3
- Idaho - $1
- Illinois - $16
- Indiana - $6
- Iowa - $3
- Kansas - $4
- Kentucky - $5
- Louisiana - $7
- Maine - $2
- Maryland - $9
- Massachusetts - $11
- Michigan - $9
- Minnesota - $9
- Mississippi - $3
- Missouri - $5
- Montana - $1
- Nebraska - $2
- Nevada - $3
- New Hampshire - $1
- New Jersey - $14
- New Mexico - $3
- New York - $32
- North Carolina - $11
- North Dakota - $2
- Ohio - $10
- Oklahoma - $4
- Oregon - $4
- Pennsylvania - $14
- Rhode Island - $1
- South Carolina - $5
- South Dakota - $1
- Tennessee - $6
- Texas - $24
- Utah - $4
- Vermont - $1
- Virginia - $11
- Washington - $11
- West Virginia - $3
- Wisconsin - $6
- Wyoming - $1
- Total - $397

* Source: https://www.truthinaccounting.org/news/detail/state-general-revenue-shortfall-projections
STATE ROLE IN PANDEMIC RESPONSE

- Leverage Revenue Streams
- Investment Location
- Investment Time-Table
- Rates and Terms
- Program Length
- Measurable Outcomes and Accountability
- Empowered Oversight
STATE NMTC PROGRAMS

- Nebraska
- Nevada
- Ohio
- Kentucky
- Illinois
- Mississippi
- Utah
- Missouri
- Florida
- Maine
- Oregon
- Alabama
- Arkansas
- Louisiana
OTHER STATE INCENTIVE PROGRAMS

- Mississippi
- Utah
- Connecticut
- Pennsylvania
- Tennessee
- Georgia
- Ohio
NMJA BUSINESS TORTILLAS, NORTH LAS VEGAS

Minority Owned for 30 Years

121 Full Time Employees
ACT AEROSPACE

- Aircraft components manufacturer for the military and commercial aerospace industries
- Company was unable to secure needed expansion capital from traditional banks
- NMTC investment enabled the company to purchase new equipment, expand product lines and win additional contracts
- Employees are paid on average $21 an hour (2x the living wage for Sanpete County)
- Company offers accessible jobs and workforce training, helping to grow the local labor force and drive wage progression

- Gunnison, UT
- Aerospace components manufacturer
- $8.6 million in NMTCs
- 81 jobs created
- 106 jobs retained
Mark Scheffel · Senior Vice President
Direct: 303.523.3497
mscheffel@advantagecap.com · www.advantagecap.com