

The State of Diverse Businesses in California

Economic, Fiscal, and Social Impact Analysis



BEACON ECONOMICS

Acknowledgements

Prepared By:

Beacon Economics, LLC

Commissioned By:

The California Asian Pacific Chamber of Commerce:

The CalAsian Chamber was founded in 2010 to give a voice to the more than 746,000 AAPI-owned businesses in California. Today, CalAsian is the largest statewide ethnic chamber in the state and operates three federal business centers, dozens of programs providing technical and financial assistance to small businesses, and a foundation offering leadership and workforce development programs. Learn more at calasiancc.org

The California African American Chamber of Commerce:

As California's largest statewide African American chamber organization, the group's mission is to drive economic opportunity and wealth creation for African American businesses, connect, and harness the collective strength of a statewide network of member organizations to elevate to elevate the fiscal health of the community.

The California Hispanic Chambers of Commerce:

The CHCC, through its network of over 125 local Hispanic chambers and diverse trade associations, represents the interest of over 815,000 Hispanic businesses in California. For over forty years, the CHCC has served as the nation's leading regional Hispanic business organization. The CHCC works to bring the issues and needs of Hispanic-owned businesses to the forefront of the California and national economic agendas.

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The California Office of the Small Business Advocate

The California Office of the Small Business Advocate (CalOSBA) supports economic growth and innovation and ensures that ALL California small businesses and innovative startups have the information and direct support they need to better navigate resources, programs and regulations. The purpose of CalOSBA is to support economic growth and innovation for small businesses in California. We serve as the voice of small business, representing their views and interests across the state and advocating for equitable access to capital, markets, and networks so that all California small businesses successfully start, manage, grow and become more resilient. Our key objectives include Access to Information and Resources, Advocacy, and Advancing Resiliency & Economic Mobility.



Focus Group and Survey Support:

Small Business Majority:

In California, Small Business Majority works closely with policymakers and small business owners to address the most important issues impacting California’s entrepreneurs today—access to responsible capital, healthcare, retirement, workplace benefits and more. In addition to local outreach in the small business community, Small Business Majority conducts opinion and economic research and develops policy analysis of state and national legislation that affects California’s small employers.

Integrated Communications Strategies:

Integrated Communications Strategies, LLC provides policy and crisis communication, issue management, government relations, strategic planning, and economic development services. Their office is located in Sacramento, and clients include companies, public agencies, trade associations, coalitions, foundations and nonprofit organizations in and outside of California. They have decades of experience solving challenges across a wide range of issues.

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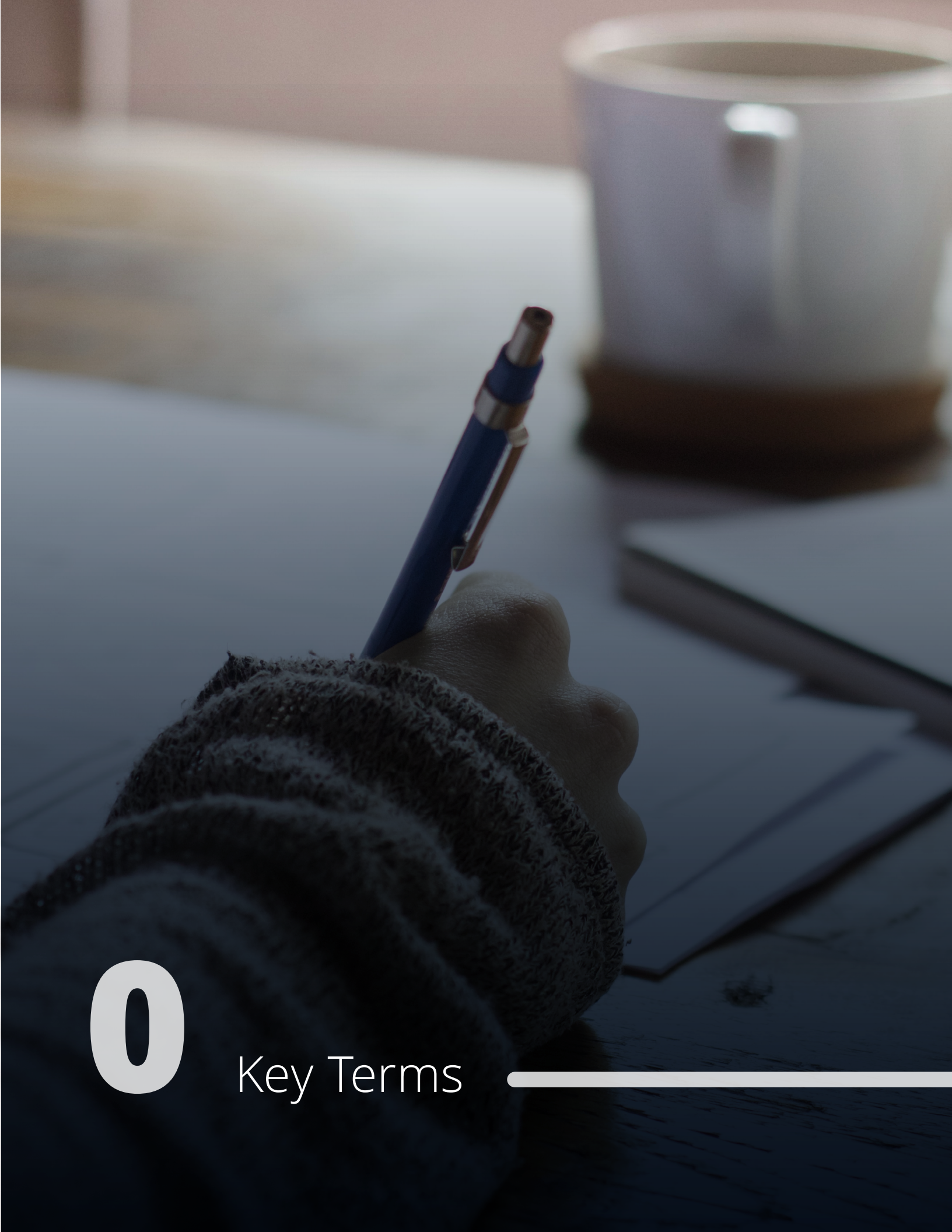
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Key Terms

0.1 Terminology and Definitions

The definition of what constitutes a small business is surprisingly fluid. In some cases, revenues are taken into consideration, and in others, the number of employees[1]. For the purpose of this study, Beacon Economics defines a small business as an establishment with less than 20 employees. The U.S. Census Bureau definitions of race and ethnicity are used to determine minority status of a business owner.

Establishment Analysis Definitions

Establishment Size	Number of Employees
Small Business	Less than 20
Medium Business	20 to 99 employees
Large Business	100 employees or more



Demographic Analysis Definitions

Race/Ethnicity	Terms Include
American Indian or Alaska Native	Non-Hispanic American Indian or Alaska Native
Asian and Pacific Islander (AAPI)	Non-Hispanic Asian, Native Hawaiian, or Other Pacific Islander
Black/African American	Non-Hispanic Black/African American
Hispanic	Any race with Hispanic ethnicity recorded (i.e., Hispanic Black/African American, Hispanic AAPI, Hispanic White, etc.)
White	Non-Hispanic White
Minority-Owned Small Business	Nonemployer or employer firm with a non-white owner. Note that while there are actually more Hispanic people than White people in California, this report uses “minority” terminology consistent with the definition of the word in federal datasets and consistent with small business race/ethnicity owner totals within the state of California.

Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: census.gov

The following list gives definitions of key terms used throughout the report. More information on each term can be found in the report or in the appendix.

Economic and Fiscal Impact Analysis Definitions

Term	Definition
ABS	Annual Business Survey. Data series that provides information on selected economic and demographic characteristics for businesses and business owners by sex, ethnicity, race, and veteran status. The ABS is conducted jointly by the U.S. Census Bureau and the National Center for Science and Engineering Statistics (NCSES) within the National Science Foundation and replaces the Survey of Business Owners (SBO).
NES-D	Nonemployer Statistics by Demographics series. Data series compiled by the Census Bureau from individual-level administrative records. The Nonemployer Statistics by Demographics series (NES-D) provides information on the demographic characteristics of nonemployer businesses and supplements the Annual Business Survey.
Input-Output	A type of applied economic analysis that tracks the interdependence among various producing and consuming industries in an economy. It measures the relationship between a given set of demands for final goods and services, and the inputs required to satisfy those demands
Industry Contribution Analysis (ICA)	Industry Contribution Analysis is a method used to estimate the value of an Industry or group of Industries in a Region, at their current levels of production.



Term	Definition
Direct Effect	The output of goods or services resulting from immediate spending by a firm or industry. These expenditures occur in a variety of categories, including construction equipment, intermediate inputs such as lumber or concrete, labor, professional services, and transportation.
Indirect Effect	The additional output of goods or services generated by supply chain interactions. For example, when a hairdresser spends their earnings on groceries, the grocery store will go to a wholesaler and purchase additional goods, thereby generating an indirect effect.
Induced Effect	As businesses increase productivity from the direct and indirect effects, their payroll expenditures grow through more hiring or increased salaries. As a result, household spending rises. These new personal market transactions, generating additional outputs of goods and/or services, are the induced effect.
Secondary Effect	The sum of indirect and induced effects.
Total Impact	The sum of the direct, indirect, and induced effects.
Employment	The number of jobs supported through spending by the business.
Labor Income	The value of all forms of employment income paid for all types of impacts, including health care benefits, bonuses, etc. Proprietorship income, earning generated from owning the business is also included in Labor income
Output	The total value of production generated through expenditures, including the value of all intermediate inputs required by a business to produce their goods and services.

Term	Definition
Tax Revenue	Money collected to support federal, state, and local governments. This figure encompasses different state and local tax regimes e.g, taxes specific to Los Angeles County or Alameda County.
Leakages	Economic activity associated with the modeled event(s) that does not generate additional effects in the defined region. For example, spending on imports from a different region or abroad are considered “leakages” as they do not have an impact in the modeled region.
Multipliers	Multipliers are a measure of an Industry’s connection to the wider local economy by way of input purchases, payments of wages and taxes, and other transactions. It is a measure of total effects per direct effect within a region.



Geographic Analysis Definitions

Community Economic Resilience Fund (CERF) Region	Counties Included
Southern Border	Imperial San Diego
Inland Empire	Riverside San Bernardino
Los Angeles County	Los Angeles
Orange County	Orange
Central Coast	Monterey San Benito Santa Barbara Santa Cruz San Luis Obispo Ventura
North San Joaquin Valley	Merced San Joaquin Stanislaus
Central San Joaquin Valley	Fresno Kings Madera Tulare
Kern County	Kern County
Eastern Sierra	Alpine Amado Calaveras Inyo Mariposa Mono Tuolumne

Community Economic Resilience Fund (CERF) Region	Counties Included
Bay Area	Alameda Contra Costa Marin Napa San Francisco San Mateo Santa Clara Solano Sonoma
Sacramento	Colusa El Dorado Nevada Placer Sacramento Sutter Yolo Yuba
Redwood Coast	Del Norte Humboldt Lake Mendocino
North State	Butte Glenn Lassen Modoc Plumas Shasta Sierra Siskiyou Tehama Trinity





1

Introduction

As the world's fifth largest economy, California's workforce, businesses and production of goods and services play a vital role on both the US and global stage. California is home to millions of businesses, ranging from multinational corporations to mom and pop operations that generate positive economic effects in their local communities.

Minority-owned small businesses are a pillar of the overall California economy. They account for 45% small businesses in the state, support 2.6 million jobs annually, and generate \$192.8 billion in economic output. Small businesses offer substantial economic, fiscal, and social benefits over large corporations. Locally owned small businesses spend more money locally than non-local business, generating higher local tax revenues and allowing more money to remain in the local economy.[1] Small businesses create local jobs, increase market competition, and build communities. Additionally, small businesses are more innovative than large corporations,[2] which is a particularly valuable quality in California's innovation-leading economy. Minority-owned small businesses are more likely to generate these positive economic, fiscal, and social impacts in historically underserved communities.

Because small businesses play such a significant role in the short- and long-term health of people, communities, and the state economy, it is important to promote small business growth. This is particularly true in disadvantaged communities that have potentially seen lower local economic growth because of lower small business entrepreneurship. Identifying gaps in small business entrepreneurship across communities requires a snapshot of small business ownership in the state. This report finds that members of all studied minority groups, including Asians, Black/African Americans, Hispanics, and Native Americans, are less likely to start and operate a small business than White Californians. This pattern holds true across most California regions and industries, indicating that minority communities are less likely to benefit from the substantial advantages small businesses bring.



Monitoring the status of California’s minority-owned small businesses by race, industry, and region is critical to evaluating the successes and/or failures of California state and local policies and for evaluating the overall health of California’s population and economy. California invests hundreds of millions of dollars annually in small business-related grants, loans, and development programs. Policymakers and stakeholders currently have no consistent and widely accessible way to evaluate the success of those investments. Rather, a patchwork of key performance indicators are used in some contexts but not in others. Likewise, detailed trends in California’s small business landscape are effectively inaccessible to interested parties. This limits the ability of state and local governments to evaluate current needs or anticipate future needs of the state’s small businesses.

Due to the significant economic, fiscal, and social implications of California’s small businesses, it is necessary for detailed minority-owned small business data to be easily accessible. Currently, the opposite is true. This project, which presents the most detailed California minority-owned business snapshot in recent history, took six months of dedicated and collaborative effort from a team of highly experienced economists, the leadership teams of three California minority chambers, the leadership team of a communications strategy consultancy, data from multiple unrelated government agencies, responses from five custom small business owner surveys, and further contributions from a selection of related individuals and organizations. It should not, of course, take that many people in so many organizations to form an understanding of small businesses in a state that has more small business owners than any other. This report strives to emphasize the importance of streamlining data collection related to trends in minority-owned businesses by size and geography, so that local government agencies can develop policies aimed at improving diversity in their economy, and so that state and federal agencies can provide the resources needed to potential minority entrepreneurs that otherwise might not be available elsewhere.

The following findings represent the most detailed available estimates of California minority-owned small businesses and their corresponding economic, fiscal, and social impacts. These include top-line estimates of establishments, employment, revenue, and related economic and fiscal impacts. Detailed estimates, including crosstab estimates, are available by race/ethnicity, California Community Economic Resilience Fund region (CERF), impact type, and industry for small businesses in California.



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Executive Summary

This report combines data from the American Community Survey, the American Business Survey, the Nonemployer Statistics by Demographics dataset, the United States Census Bureau, a handful of other data sources, and custom small business owner surveys developed and deployed in partnership with three California minority chambers, a California-focused small business policy and research non-profit, and a communications strategy consultancy.

The detailed estimates published in this report include breakouts by race/ethnic group, region, industry, and impact type, and in many cases crosstabs across multiple breakout types. The figures in this report are (to the best knowledge of the authors) the most detailed estimates of California's minority-owned small businesses currently available. Quantitative data was supplemented with a handful of minority small business owner focus groups and surveys.

Because policymakers and stakeholders need accurate data to guide policy, a key recommendation of this report is for government agencies to devote resources to improving national and state-level business surveys and other data collected. Improved data at the national and state level would allow more policymakers and stakeholders to access the facts they need, while also increasing data accuracy and mitigating the need to hire large teams of economists, nonprofits, and consultants to obtain figures like those listed in this report.



There are over 4 million small businesses in California. Of those, about 1.9 million are minority-owned. Minority-owned businesses contribute massively to the number of people directly employed (over 2.5 million jobs) and to the personal incomes of employees of those establishments (over \$37 billion for employer firms, a small subset of total small businesses, alone).

CA Minority-Owned Small Business Overview by Race/Ethnicity

Racial/Ethnic Category	Number of Establishments (000s)
White	2,154.2
Hispanic Total	932.5
Asian	754.0
Black/African American	185.0
American Indian and Alaska Native	6.9

Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: US Census Bureau. American Business Survey, NES-D 2018. Establishments and employment include non-employer (sole proprietor) businesses. Nonemployer businesses account for roughly 83% of total establishment estimates across California. Analysis by Beacon Economics.



2.1 Economic Impacts

Minority-owned small businesses in California have substantial state and local impacts. In total, minority-owned small businesses generate \$192 billion in economic output across the state annually, or approximately 4% of total state GDP. Minority-owned small business-related expenditures and employment help support over 2.5 million jobs annually.

Total CA Minority-Owned Small Business Economic Impacts by Type

Impact Type	Jobs Supported Annually (000s)	Labor Income Generated (\$Millions)	Total Economic Output Created (\$Millions)
Direct	2,516.5	77,229.3	181,724.4
Indirect	20.7	2,794.8	5,726.2
Induced	26.4	2,039.1	5,353.3
TOTAL	2,563.7	82,063.3	192,803.9

Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: IMPLAN. Analysis by Beacon Economics.

2.2 Fiscal Impacts

Minority-owned small businesses in California have substantial state and local fiscal impacts. In total, minority-owned small businesses generate \$13.6 billion in tax revenues across state and local governments. Additionally, the federal government receives roughly \$15.2 billion annually.

Total CA Minority-Owned Small Business Fiscal Impacts by Impact Type

Tax Type	State and Local (\$Millions)	Federal (\$Millions)	Total (\$Millions)
Corporate Profits Tax	783.4	1,228.5	2,011.9
Income Tax	3,604.8	9,363.4	12,968.2
Other	958.7	-1,705.2	-746.5
Property Tax	3,869.2	0.0	3,869.2
Sales Tax	4,143.1	0.0	4,143.1
Social Insurance Tax	233.2	6,272.0	6,505.1
Total	13,592.3	15,158.7	28,751.0

Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: IMPLAN. Analysis by Beacon Economics.



2.3 Social Impacts

Small businesses, especially minority-owned small businesses, provide significant qualitative benefits to local and statewide communities. The proximity of small businesses to the communities they serve allows them to quickly develop innovative responses to specific needs. Larger corporations have embraced the strategy of inbound open innovation to accelerate product development, relying on small businesses for innovation. Minority-owned small businesses accelerate innovation by employing their unique perspectives and adapting swiftly to changing market conditions. They also foster an entrepreneurial spirit within marginalized communities, inspiring others to pursue their own business ventures. Small businesses enhance market competition by introducing price competition, offering more affordable options for consumers, and bringing diversity to the market, catering to niche markets and specific customer needs. They contribute to job creation, reducing unemployment rates and narrowing employment disparities. Small businesses also play a vital role in community-building, circulating local revenue and actively engaging with communities. Minority-owned small businesses empower marginalized communities and showcase their cultural diversity, enriching the social fabric and creating a more inclusive environment.

Accelerated
Innovation

Increased Market
Competition

Community
Building

Small Business Insights and
Growth Going Forward



3

Methodology

3.1 Input-Output Model Methodology

To understand the contribution of minority-owned small businesses in California, Beacon Economics used an economic modeling technique called input-output analysis (I-O), a type of applied economic analysis that tracks the interdependence of various producing and consuming industries in an economy.ⁱ It measures the relationship between a given set of demands for final goods and services and the inputs required to satisfy those demands. In other words, the model relies on complex buy-sell relationships between industries, households, and government in the economy and sketches out how money spent ripples through the economy.

Beacon used a contribution analysis approach, a type of I-O analysis method, to accurately model the contributions of existing minority-owned businesses. This method differs from more traditional impact analyses, which examine how changes in key industries affect other regional industries. In contrast, contribution analysis explores the economic value a sector or sectors provide to a region based on their current production levels.

Several types of input data were collected on small businesses in California. Ultimately, four variables of interest were selected to model. These included: number of small business establishments by race and ethnicity; annual payroll; annual revenue/sales receipts; and employment. The data for each variable was sub-divided further by industry super-sectors as defined using the 2-digit level North American Industrial Classification System (NAICS). The NAICS system is a 2- through 6-digitⁱⁱ hierarchical classification system that groups business activity together with successive levels of detail.

i The data used in this report is from 2019, the most recent available. The impact data has been modeled using the latest 2021 IMPLAN system.

ii For more information on the NAICS classification system see: <https://www.census.gov/naics/#q2>



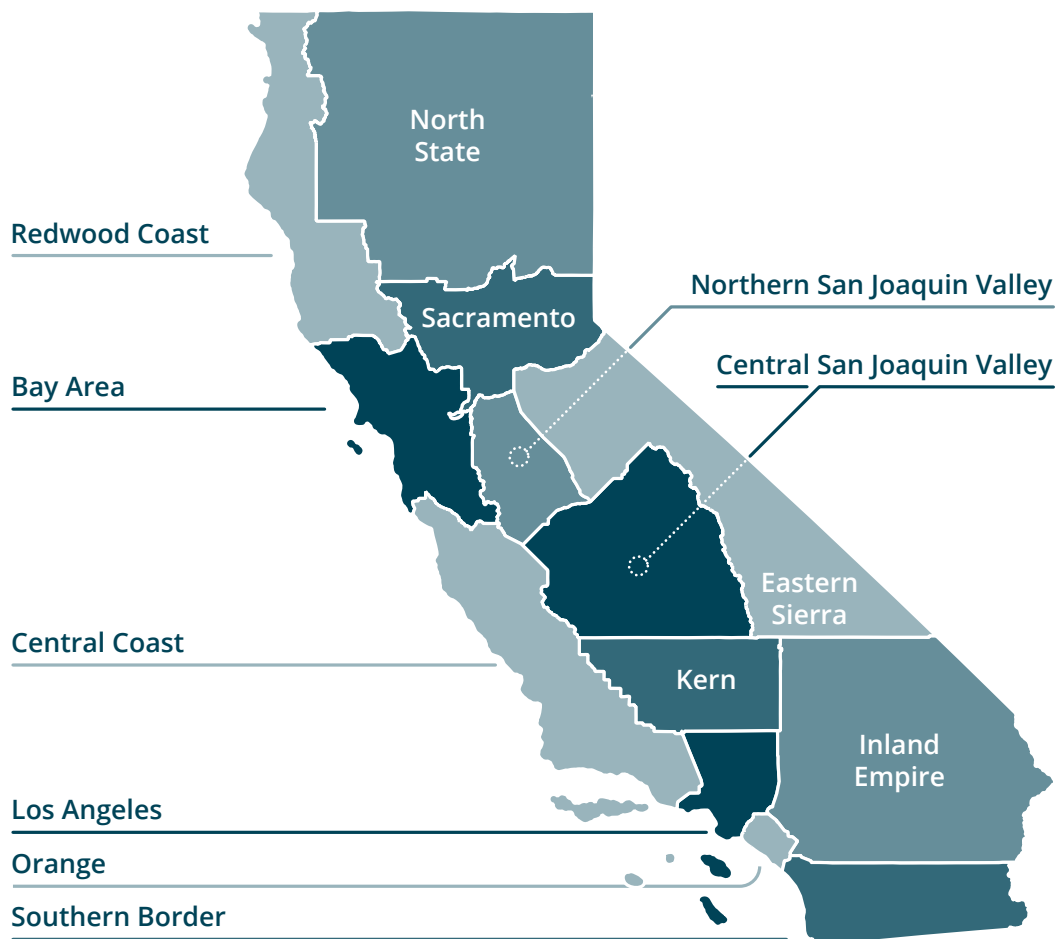
Community Economic Resilience Fund (CERF) regions were used to define the geographic scope of the studyⁱⁱⁱ. There are 13 unique CERF regions in California, each characterized by its own economic and labor market traits. This regionalized approach offers a more precise analysis and ensures insights are relevant and tailored to the individual economic profiles of these regions, contributing to the overall goal of building an equitable and sustainable economy across California's diverse regions.

iii The Community Economic Resilience Fund (CERF) was established to foster sustainable and equitable economic recovery in California post-COVID-19, with a focus on diversifying local economies and creating accessible, quality jobs in sustainable industries. Initially funded with \$600M from the American Rescue Plan Act's Coronavirus Fiscal Recovery Fund of 2021, the funding source was revised to the State General Fund in SB 115 (2022) to maintain its mission across California's diverse regions while transitioning to a carbon-neutral economy. The CERF's development and management is overseen by a Leadership Team comprising the Governor's Office of Planning and Research (OPR), the California Labor Workforce Development Agency (LWDA), and the Governor's Office of Business and Economic Development (GO-Biz).



Additionally, a multi-regional input-output (MRIO) model was employed. An MRIO analysis builds on the standard I-O analysis by expanding the effects of project expenditures beyond a single region to capture changes in demand in other regions that would otherwise be 'leaked' out of the model. In a MRIO analysis, the direct effect in one region triggers indirect and induced effects in others. The results of the analysis reveal the effects of a change in one or more economic activities on an entire economy, as well as the economic interdependence of regions. Accordingly, an MRIO analysis is the most appropriate technique to analyze the sub-regional contributions of minority-owned businesses throughout the state. To set up the model, each geographic CERF region was 'nested' into the larger Rest of California Region. In other words, a model was created for each CERF region for a total of 13 models.

CERF Regions:





Beacon Economics then used state-of-the-art I-O modeling software provided by Impact Analysis for Planning (IMPLAN)[1]. Establishment, payroll, revenue, and employment data for each region and by each race and ethnicity were inputted into the model.

IMPLAN has been a standard tool used by academic and professional economists for decades. The methods used to produce IMPLAN's economic dataset and economic impact estimates have been widely published both in professional publications and peer-reviewed academic journals. Many of these methods are considered best practice in a wide variety of applied economic fields.

IMPLAN generates economic and fiscal impacts at various geographic levels (nationwide, state-wide, county-level and even sub-regional) using various sources to build the complex input-output matrix. They include the U.S. Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), U.S. Bureau of Economic Analysis (BEA), U.S. Census Bureau's American Community Survey (ACS), and various other socioeconomic indicators (commuting patterns, household spending etc.) to provide an accurate economic and fiscal impact assessment.



In contrast to a more typical impact analysis, which examines how changes in key industries affect other regional industries, contribution analysis explores the economic value a sector or multiple sectors provide to a region based on their current production levels. The central concept is that of a ‘ripple effect’ in which every dollar spent has a direct impact and will generate subsequent secondary impacts, which can entail indirect effects, induced effects, or both.

Direct effect is the output of goods or services resulting from immediate spending. For example, if a carpenter is hired by a local minority-owned small business to install a window frame, the upfront cost of employing the carpenter’s services is the direct effect, which helps keep the carpenter in business.

Indirect effect is the additional output of goods or services generated by business-to-business interaction with suppliers of direct purchases, as well as the suppliers of the suppliers. For example, employing a carpenter supports businesses down the carpenter’s supply chain, such as the power tool industry and suppliers of raw materials needed to build power tools.

Induced effect is the additional output of goods and/or services resulting from spending of income by households. For example, the carpenter spending income on goods and services, such as groceries, housing, recreation, and personal shopping.

The indirect and induced effects are also known as ‘ripple’ or ‘multiplier’ effects, as initial direct expenditures generate sequential rounds of spending in the economy. The sum of the direct, indirect, and induced effects is the total contribution.



Regarding the economic indicators analyzed, traditional impact analyses generally prioritize economic output, value added, employment, and labor income as described in detail below:

Economic Output: The aggregate value of production generated by an event, including the value of intermediate inputs, materials, utilities, and other production inputs.

Value Added: The difference between economic output and the cost of intermediate inputs. This is equivalent to the impact of the event on gross domestic product (GDP).

Employment: The number of full-time, part-time, or seasonal/temporary jobs supported by an event. Jobs supported is inclusive of both jobs generated by the event in question or existing jobs that have been expanded in scope.

Labor Income: The value of all employment income paid, which can include fringe benefits such as health care, retirement, etc.



3.2 Data Collection and Analysis Methodology

Lack of high quality, reliable data for minority-owned businesses is a persistent problem, and even more so on a sub-regional level. Although many jurisdictions collect data on small businesses, it is often incomplete, non-comparable or otherwise limited in scope. [2] Further exacerbating the issue are well-meaning privacy protection measures that result in some data being suppressed. To get an accurate picture of small businesses in California, Beacon Economics opted to employ two higher quality data series as the study's base data.

The first is the 2019 **Annual Business Survey (ABS)**[3] dataset, a comprehensive tool that provides detailed estimates of employer firms, classified by sex, ethnicity, race, and veteran status. In addition, the ABS offers a broad range of business-specific information including data on the geographic distribution of businesses, industry classifications based on the two-digit 2017 North American Industry Classification System (NAICS) code, duration of business operation, sales and receipts, and the number of employees. This dataset provides a mostly comprehensive view of the landscape of employer businesses across California.

The second is the **Nonemployer Statistics by Demographics series (NES-D)**[4], developed by the U.S. Census Bureau. This offers detailed insight into the demographic makeup of nonemployer businesses in the United States. It goes beyond the information provided by the historical Survey of Business Owners (SBO) and the ABS by incorporating data specifically for nonemployer businesses. The NES-D achieves this by leveraging individual-level administrative records, which allow for the assignment of demographic characteristics to the sphere of nonemployer businesses. These characteristics include sex, ethnicity, race, veteran status, owner age, place of birth, and U.S. citizenship. Significantly, this dataset also allows for annual examination at detailed geographic and industry levels, receipt-size class, and legal form of organization.

The data was collected, combined, and cross-tabulated by industry and demographics at the California state level. Data for metropolitan and micropolitan areas were heavily suppressed or incomplete for all but the largest metropolitan areas. Data for all establishments was collected, but only establishments satisfying the small business criteria were used in the analysis. It's important to note that the cross-tabulated data may not, and in many cases does not, add up to the total or sub-group total. This can occur because a Hispanic or Latino firm may be of any race, and because a firm could be tabulated in more than one racial group. For example, if a firm responded as both

Asian and Black/African American majority owned, the firm would be included once each in the Asian and Black/African American estimates but would only be counted once toward the Total of All Firms estimates. Further, some firms are unclassifiable by sex, ethnicity, race, and veteran status.

To distribute the California level data into each of the 13 CERF regions, a weighting procedure was employed using the 2019 American Community Survey (ACS) One-Year Public Use Microdata Sample (PUMS)^{iv}. The PUMS data, derived from the American Community Survey, offer detailed person and housing unit records, enabling the creation of user-defined estimates and insights into various contexts. Despite encompassing only a small portion of the US population, these data offer superior flexibility over aggregate data. A distribution of small business owners by industry, demographic, and CERF region was calculated using the following variables:

Self-employed in own unincorporated business, professional practice, or farm.

Self-employed in own incorporated business, professional practice, or farm

In other words, for each supersector and demographic pairing, Beacon Economics calculated how that pair was spread across California. These weights were then applied to the ABS and NES-D data to estimate the number of establishments, payroll, employment, and revenue/sales by industry and demographic in each region.

iv The American Community Survey (ACS) Public Use Microdata Sample (PUMS) files are a set of untabulated records about individual people or housing units. <https://www.census.gov/programs-surveys/acs/microdata/access.html>



This report relied on the most recent, reliable, detailed, data available covering business ownership by race, industry, and region across the primary data sources used for this report. The necessary small business ownership data is only available from a handful of sources, all of which were used to drive this research:

The U.S. Census Annual Business Survey (ABS) dataset, which offers detailed estimates of employer firm counts by sex, ethnicity, race, business size, and veteran status across industries

The U.S. Census Nonemployer Business Survey Data (NES-D) dataset, which offers detailed estimates of nonemployer firms across the same categories (this is a subset of the broader ABS)

The American Community Survey (ACS) Public Use Microdata Sample (PUMS) dataset, which has person-level flags for race/ethnicity and worker type, with self-employed business ownership (split into unincorporated and incorporated) flags and race/ethnicity flags

In the view of Beacon Economics, these are the most reputable and reliable datasets available that can be broadly used to estimate and build further estimates of business ownership across the key study variables: race/ethnicity, region, business size, and industry.

Beacon Economics used 2019 data and 2019 data estimates to derive the analysis of this report. At the time of this report, the key ABS dataset was available for data years 2018, 2019, and 2020, while topline (but not detailed) 2019 NES-D data was also available. Beacon imputed more detailed 2019 nonemployer NES-D data estimates using the topline 2019 NES-D figures and the more detailed 2017 and 2018 NES-D figures. To remain consistent with the ABS and NES-D datasets, which used data from 2019, the 2019 ACS PUMS dataset was also selected. Given the availability of parts or all of each of the three datasets for data year 2019, plus concerns about using 2020 (the first year of the COVID-19 pandemic, which caused sampling issues in many surveys and would highlight temporarily decreased small business activity) ABS data, the 2019 data year was selected as the most recent usable data year available for this report across the primary data sources.

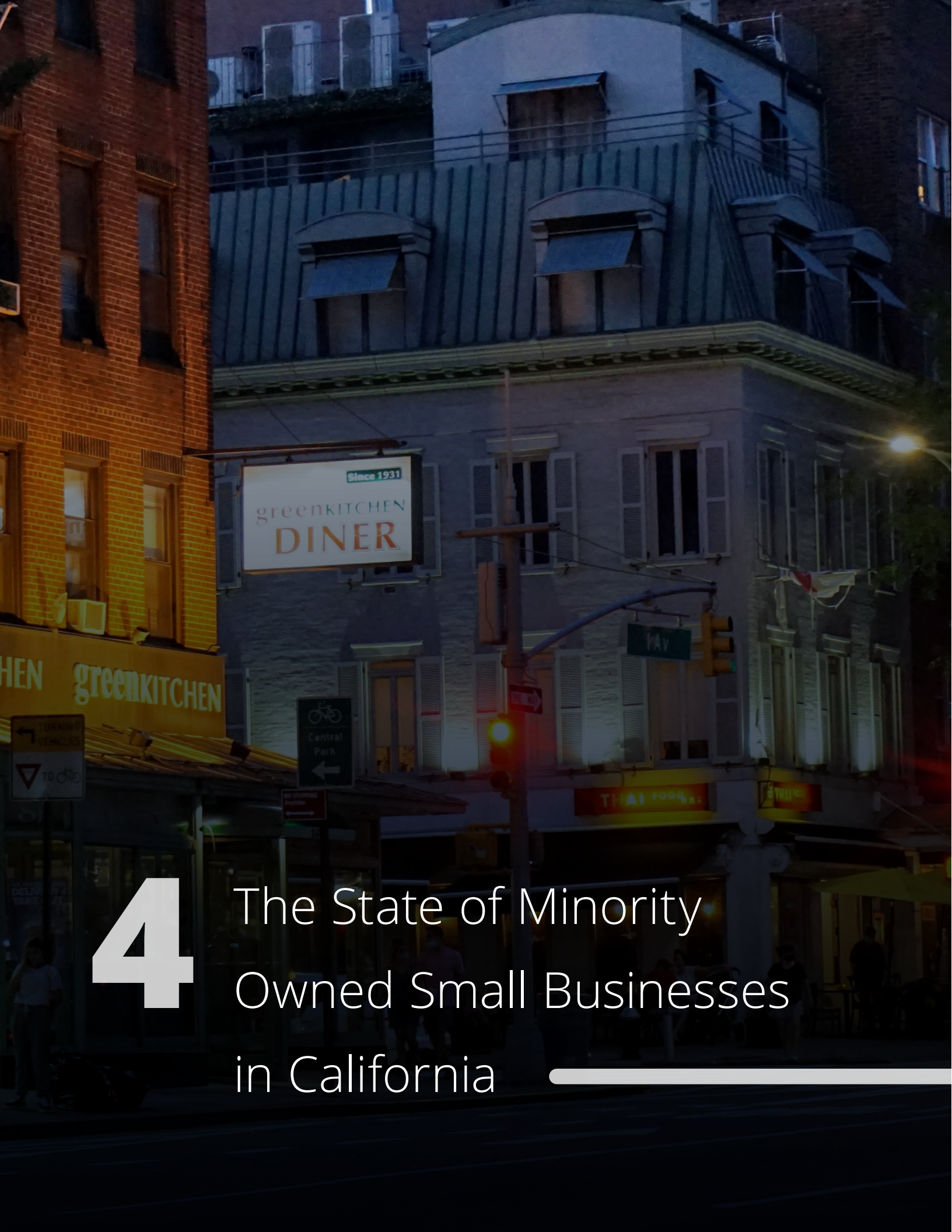
It is worth noting that while 2019 data is now relatively aged, other small business data sources indicate that 2021 and 2022 have relatively comparable levels of overall small business activity compared to 2019. For example, as of the final week of November 2021, California small businesses (as defined by Womply, a small business loan provider) had increased in number by +0.5% and in revenues by +0.3% relative to January 2020. This data, along with other data from sources like the ACS-PUMS dataset, suggest that the topline estimates in this report are likely reasonably comparable, and may even provide a solid approximation of, the state of California's minority-owned small businesses today in 2023.



3.3 Qualitative Data

Small Business Majority conducted three focus groups as part of the qualitative portion of this research to understand the needs, challenges and opportunities facing diverse small businesses. Focus groups were recruited from Small Business Majority’s California network, and from members from the California Asian Chamber of Commerce, the California African American Chamber of Commerce, the California Hispanic Chamber of Commerce, and the Fresno Metro Black Chamber of Commerce. Two of the groups were held on Zoom and one was held in Fresno. Representatives from business support organizations also participated in the groups. Focus group participants shared their views on a range of issues, from the current state of small business in California, to issues around community support and involvement, the effects of the coronavirus pandemic and relief funding on their business, the employee benefits landscape and their views on local and state government support of their enterprises. Respondents represented a range of industries and business sizes, including (but not limited to) construction, beauty salons, digital advertising agencies, restaurateurs and other food businesses, and retail establishments.

Beacon Economics also conducted a survey of minority small business owners to generate additional qualitative data. Survey data was not used to guide the impact analysis portions of this report but was used to inform narrative sections. The survey received over 1,000 unique responses, in large part due to the roughly two dozen groups throughout the state (specified in the Acknowledgments section) who helped connect minority small business owners to the survey.



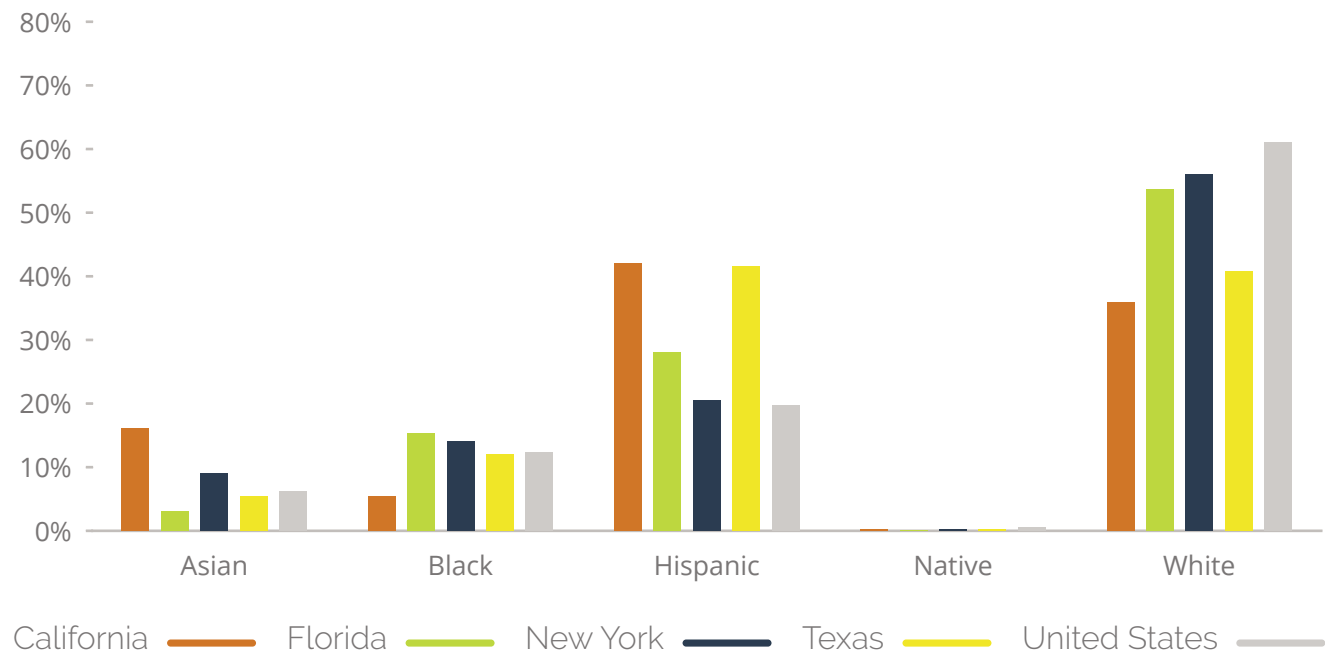
4

The State of Minority Owned Small Businesses in California

4.1 Demographic Assessment of California

California is one of the most racially and ethnically diverse states in the US, with a significant presence of minority groups throughout the state. Roughly 64% of California’s population is of a minority groupⁱ. In comparison, the United States is comprised of 61% non-minority groups, with roughly 39% minority groups. California is also ahead on population diversity compared to many other top-performing states. For example, the share of minority groups relative to total population is lower in Florida (46.4%), New York (43.9%) and Texas (59.2%).

Share of Population by Racial/Ethnic Breakdown (%)



Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

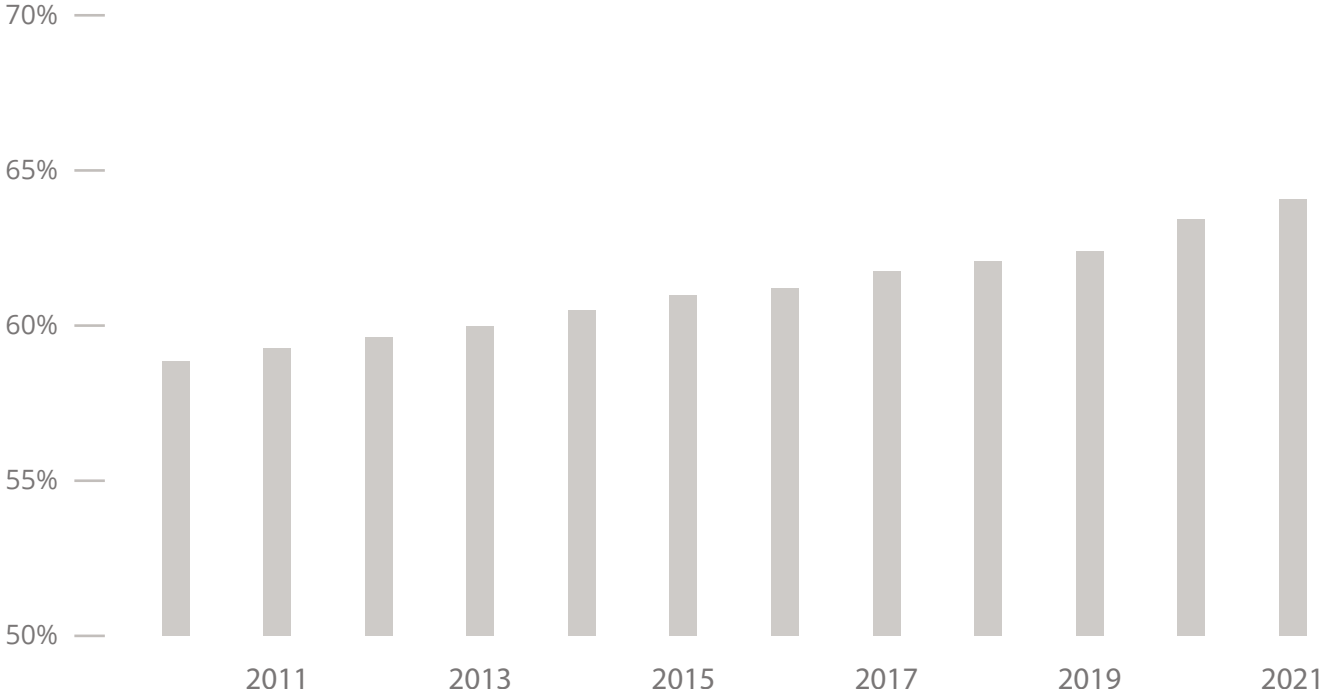
Source: American Community Survey Public Use Microdata Sample. Analysis by Beacon Economics

ⁱ Non-minority is defined as non-Hispanic White, while minority groups are individuals identifying as other races and ethnicities (Asian, Black/African American, Hispanic, Native American).

California has a strong presence of Hispanic and Asian groups (42.1% and 16.1% respectively), more than double for each group compared to the US average (19.8% and 6.2%). California’s population does have lower shares for Black/African Americans (5.5%) compared to the nationwide average of 12.4%. This follows a trend of a gently declining Black/African American population, down from roughly 6% in 2010 to 5.5% in 2021.

The trend of minority groups relative to the population shows that California is becoming increasingly diverse. Between 2010 and 2021, the share of minorities relative to total population has increased from roughly 59% to just over 64%. This demographic trend has been reflected in the labor force. Between 2010 and 2021, the share of minority workers in the workforce has gone up from 55% to 62%.

Share of Minority Population to Total Population (% , CA)



Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: American Community Survey Public Use Microdata Sample. Analysis by Beacon Economics.



4.2 General Overview of California Minority Small Business Owners

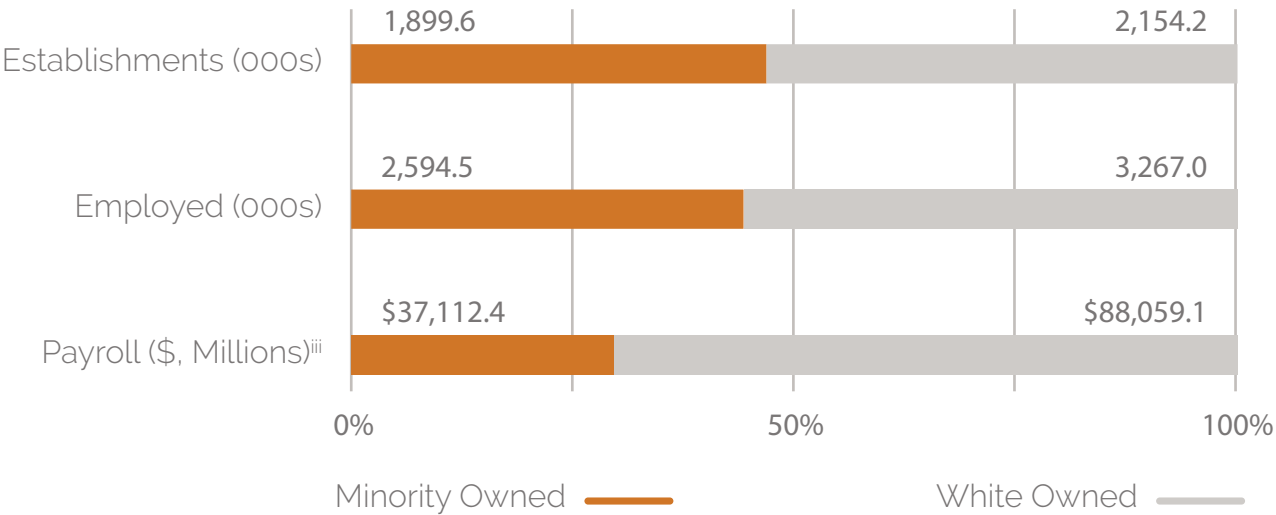
There are two types of small business in California – those with paid employees, and those without (i.e., sole proprietor). Nonemployer firms account for most of the state’s small businesses, comprising approximately 83% of the total, or just under 3.5 million sole proprietor businesses. Small businesses that employ workers account for about 16%, with just under 670,000 in total.

Small businesses account for roughly 98% of all establishments and just over 17% of all employees (excluding self-employed workers) in California. Note that “small businesses” as defined for the purposes of this study refer to employer and nonemployer firms with less than 20 employees. The largest concentration of small employer firms is in Professional, Scientific, and Technical Services (16.6%), followed by Health Care (12.6%), Construction (10.3%) and Retail Trade (9.3%). For nonemployer firms, the largest concentration is in Professional, Scientific, and Technical Services (16.9%), Transportation and Warehousing (12.5%), and Other Services (10.2%).



Classifiable minority small businessesⁱⁱ account for about 1.9 million (roughly 46%) of total small businesses in California, with White business owners accounting for 51.5% of the total, and just under 3% as unclassifiable by race/ethnicity. Minority-owned employer firms account for just under 230,000 of total minority small businesses, with the remainder comprising nonemployer firms. Of the 4.1 million small businesses in total, roughly 22.6% are Hispanic-owned, 18.3% are Asian-owned, 4.5% are Black/African American-owned, and less than 1% are Native American-owned.

Total CA Small Business Data by Minority vs Non-Minority Ownership and Data Type



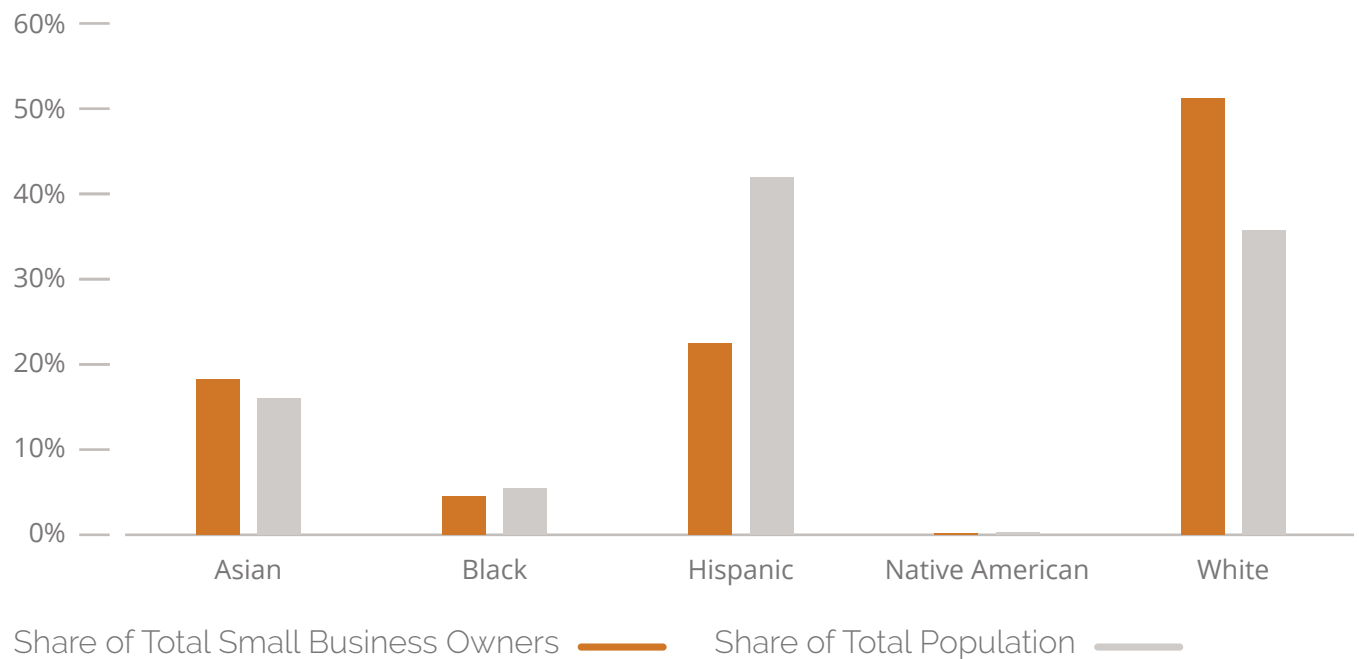
Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

ii Due to data suppression, there are instances where firms are not classifiable under a single race (multiple owners of different races/ethnicities with no majority of ownership, no selection of race/ethnicity, etc.) and as such are not included in the assessment of business owners by race.

iii Employer Firm Payroll, Not Including Nonemployer Firms

Trends in small business ownership by race/ethnicity correlates to population in certain cases, but differs in others. For example, while minority groups are represented equally in the labor force relative to total population, there is a slight mismatch when it comes to business ownership. Minority groups comprise roughly 62% of the working population but only 45.5% of small business owners. The discrepancy is due to White business owners accounting for a significantly higher share of business ownership relative to population (51.5% relative to 35.9%). Conversely, Hispanic business owners fall short compared to the total population (22.6% relative to 42.1%). Figures for Asian and Black/African American small business ownership adhere closely to population estimates, with 18.3% and 4.5% of Asian and Black/African American small business owners, compared to 16.1% and 5.5% of the population respectively.

Difference in California Small Business Ownership and Demographic Makeup by Race/Ethnicity



Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: U.S. Census, Annual Business Survey. Analysis by Beacon Economics.

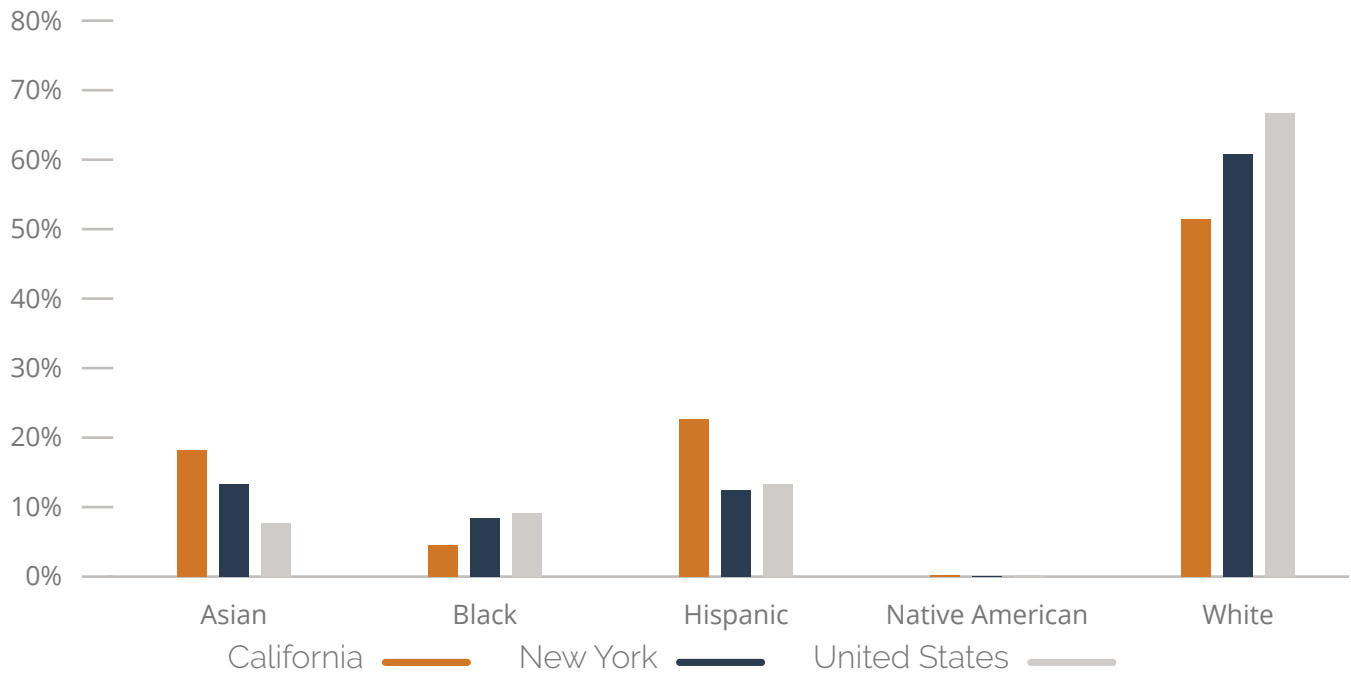


Small business ownership in California (employer and nonemployer) is more diverse than the US or other similar economies. As already mentioned, minority small business ownership accounts for over 45% of all small businesses in California, compared to the nationwide average of 30.5%. New York, the nation's third largest economy, also falls behind on small business ownership diversity compared to California, with a total minority ownership share of 34.4%.

The disparity between entrepreneurship rates and population demographics is caused by a variety of complex issues. Economic inequality by race and ethnicity is a perennial problem in the United States. Historically, there has been a lack of access to business resources for minority-owned firms compared to non-minority groups. These issues include lack of access to safe and affordable capital (including capital available through traditional bank lending and community lenders), public contracts, and entrepreneurial advancement and development. For example, according to the Federal Reserve's report on Small Business Credit Survey, minority-owned businesses are much more likely to face difficulties in getting a loan compared to non-Hispanic White groups[1]. In fact, minority business owners posing low credit risk had the same approval rates for financial assistance as non-minority business owners posing medium to high credit risk[2].



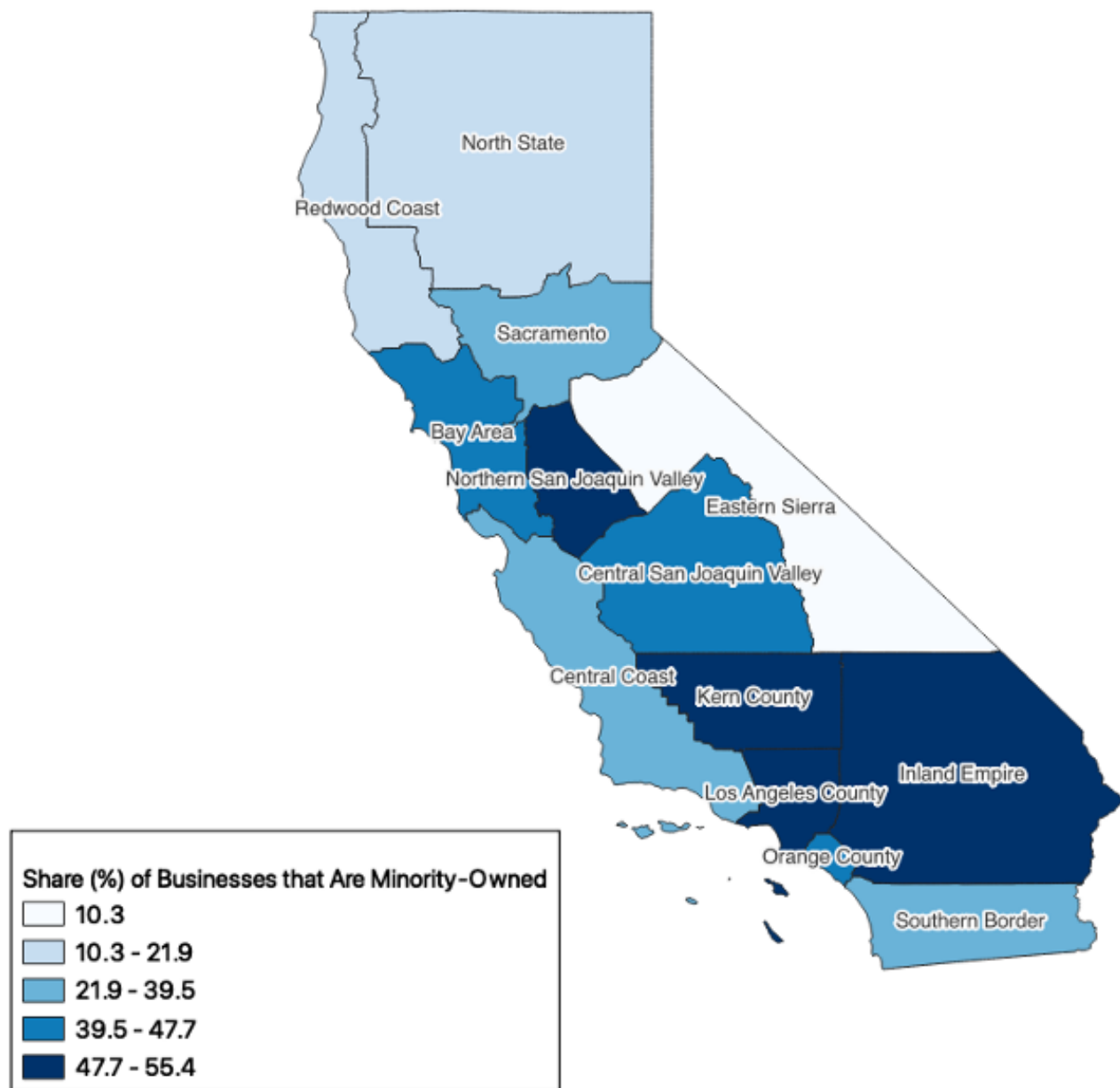
Share of Small Business Ownership by Race/Ethnicity, by Region



Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: U.S. Census, Annual Business Survey, Public Use Microdata Sample. Analysis by Beacon Economics.

Share of minority-owned businesses in California differs based on region. For the purposes of this report, Beacon Economics analyzed the distribution of minority-owned small businesses using the Community Economic Resilience Fund (CERF) geographic breakdowns, which are generally large regions comprised of various counties plus a few comprised solely of one county. For a comprehensive definition of the aggregation of CERF regions by county, please see the Geographic Breakouts under the Key Terms section.



As seen in the map above, the distribution of minority-owned businesses is more heavily concentrated in the southern regions of California, with some of the largest shares found in the Inland Empire, Los Angeles County, and Kern County. Notably, North San Joaquin Valley (comprised of Merced, San Joaquin, and Stanislaus counties), also has one of the largest shares of minority-owned businesses relative to the region's total, in part due to a large Hispanic share of small business ownership. The smallest shares of minority-owned businesses are to be found in Eastern Sierra (10.3%), Redwood Coast (14.5%), and North State (21.9%). Populations there are mainly non-Hispanic White and that is reflected in the share of minority-owned small businesses for each respective area.

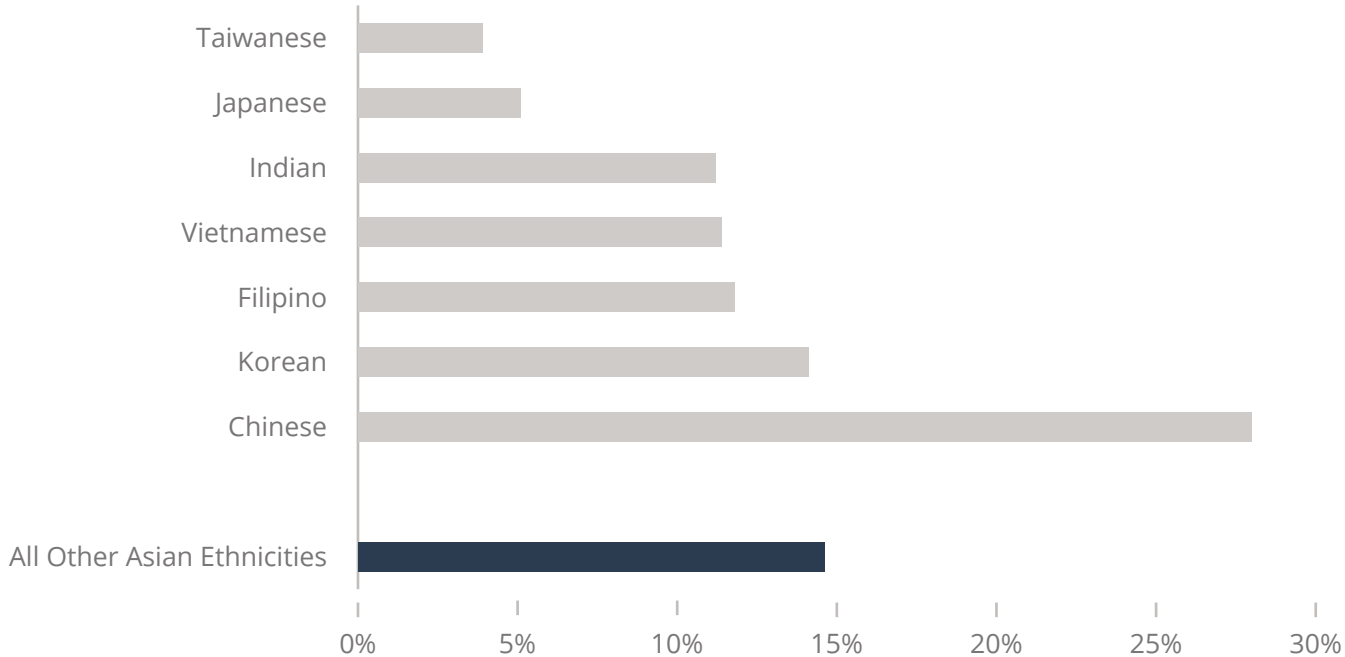
4.3 California Asian-Owned Small Businesses

Of the millions of Asian-owned firms in the United States, roughly 30% of them are in California. Asian business owners add tremendously to California's diversity platform, with owners whose families have been here for generations and newcomers to the United States establishing businesses that help their local community thrive and have a significant economic impact on their local area. Over 64% of Asian migrants born outside of the U.S. who came to California between 2012 and 2021 have at least a bachelor's degree[3]. Many of these migrants are highly skilled in Professional, Scientific, and Technical occupations. Asian-owned businesses grew significantly after the 2008 Great Recession. Between 2007 and 2012, revenues for Asian-owned businesses in California grew by 30%, significantly more than the 8.2% overall growth in revenues for all California businesses.

There are approximately 754,000 Asian-owned small businesses in California, accounting for 98% of all Asian-owned businesses of any size (small, medium, and large) throughout the state. Small businesses are mostly comprised of nonemployer firms, with almost 606,000 Asian sole proprietors across California, or roughly 70% of all small businesses. Approximately 472,500, or over half of all Asian-owned classifiable small businesses, are spread across five industries – Professional and Technical Services (15.6%), Transportation and Warehousing (15.0%), Other Services (13.0%), Health Care (11.1%), and Retail Trade (8.3%). More than 680,000 jobs are directly supported by these businesses, including over 285,000 in employer firms, and just over 395,000 self-employed workers. Classifiable Asian-owned small employer businesses paid a total of roughly \$25.0 billion in wages to over 624,000 employees, with average payroll per employee of around \$40,000. Asian-owned employer small businesses employ the second largest number of people after non-Hispanic White businesses.

Business owners identifying as Asian or Asian American encompass a richly diverse mix of ethnic backgrounds. The largest share of Asian business owners in California by ethnicity are Chinese (28%), Korean (14.1%), and Filipino (11.8%).

Share of Asian Business Owners by Ethnicity



Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: American Community Survey Public Use Microdata Sample. Analysis by Beacon Economics.

Asian-owned small businesses are dispersed across all of California, albeit with different shares relative to total small businesses across all races/ethnicities. The largest concentration of Asian-owned businesses in terms of absolute numbers include Los Angeles County (231,000), the Bay Area (217,200), and Orange County (106,700). In fact, these three regions account for almost 74% of all Asian-owned businesses in California. The Bay Area and Los Angeles County each account for just under 30% of all Asian-owned small businesses in California.

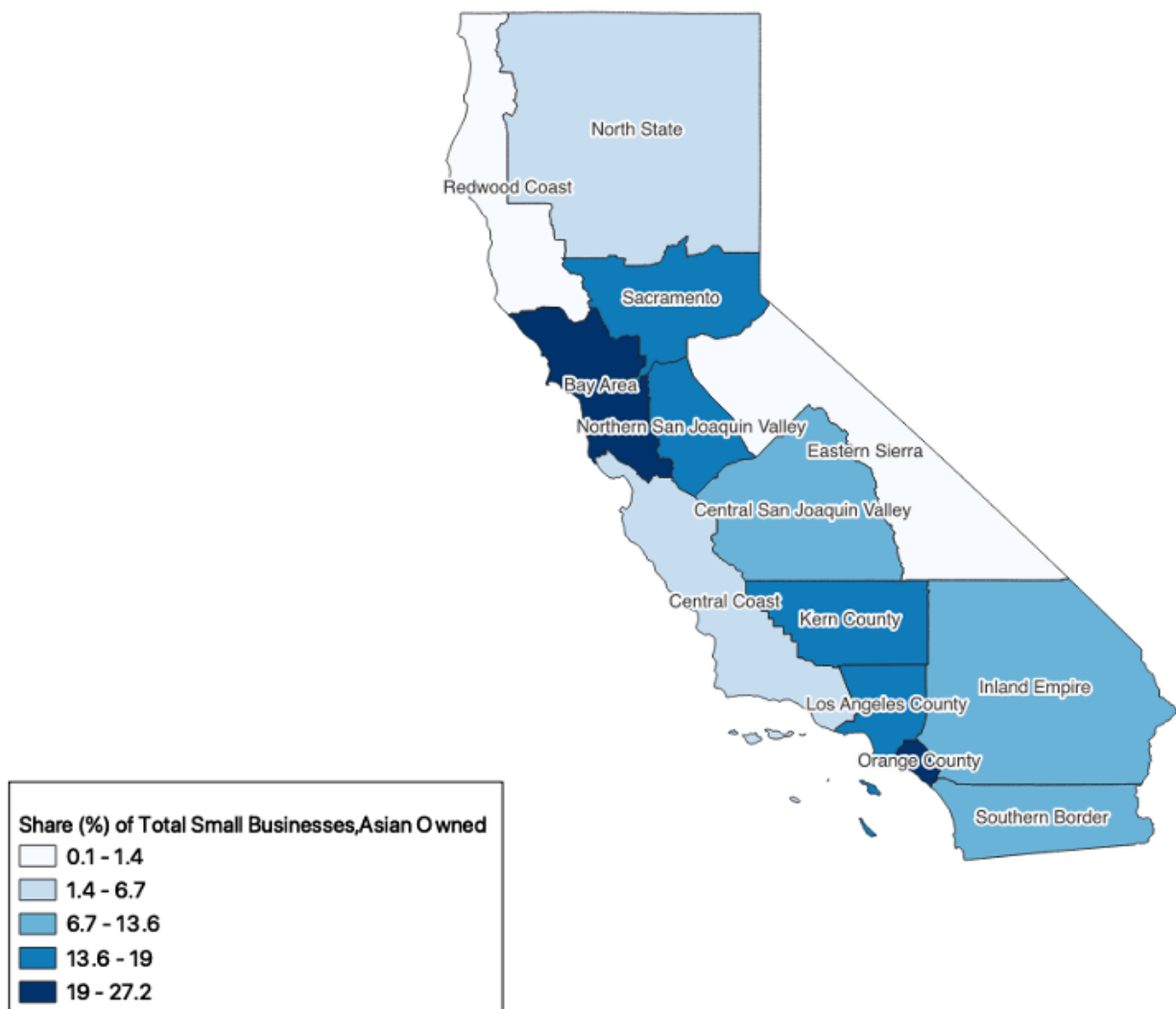
The smallest shares of Asian-owned businesses across the CERF regions are in Redwood Coast, Eastern Sierra, and North State, with these three respective regions accounting for roughly 0.5% of all Asian-owned businesses in California.

Spotlight: Supporting Asian-Owned Businesses

A statewide survey conducted by Beacon Economics asked Asian small business owners what kinds of changes would help their firms, 72.2% said access to financial resources, 59.0% of said support from local government, and 49.3% said support from local community.



The map below highlights the shares of Asian-owned small businesses relative to the total number of small businesses in each respective CERF region. Relative to the total number of small businesses in each region, business ownership varies but is concentrated more in the Bay Area and its surrounding areas, as well as parts of Southern California. Asian-owned small businesses play a vital role in many of California’s largest metros. In fact, Asian-owned small businesses account for roughly 27% of all small businesses in both the Bay Area and Orange County, meaning more than one in four small businesses in either of these metros are likely to be Asian-owned. In the Bay Area, roughly 38,500 of the Asian-owned small businesses are employer firms, the second largest number Asian small employer firms after Los Angeles County (45,700). Los Angeles County also has the largest number of nonemployer Asian-owned firms, (185,300), followed by the Bay Area (178,700) and Orange County (84,500).



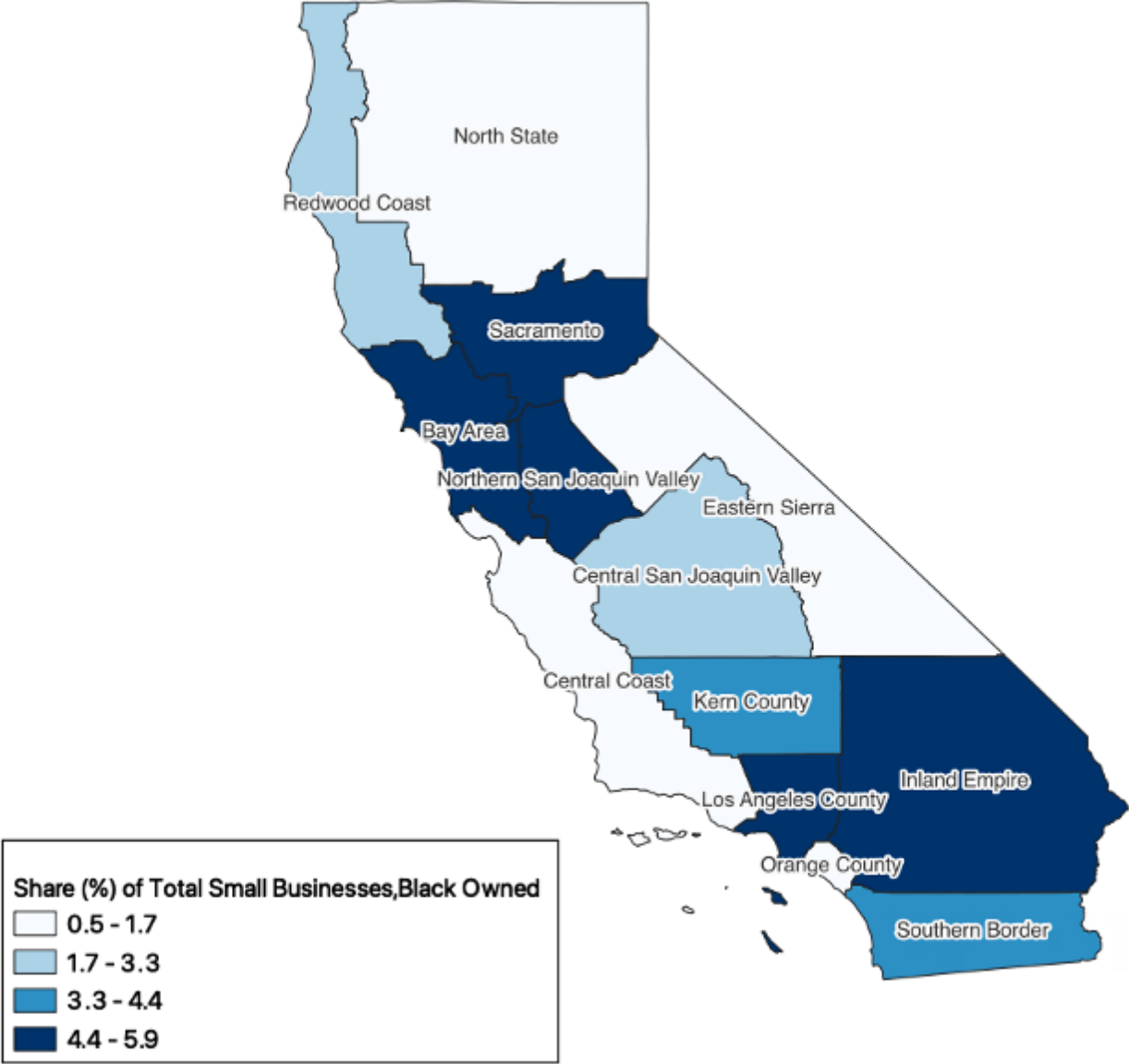
4.4 California Black/African American-Owned Small Businesses

Black/African American business ownership in California dates to the early 19th century, with migration to the Golden State booming during the Gold Rush. In the mid 1850's, the share of Black/African American people to total population hovered around 1%. That figure is now around 6%. While accounting for a small share overall, Black/African Americans have contributed significantly to many of California's largest sub-regional economies, whether it be the Bay Area, in and around San Francisco and Oakland, or Southern California, in and around East Los Angeles[4]. The City of Los Angeles was established in 1781, with 26 of the 44 founders being of African descent[5]. The contributions of Black/African American business owners and workers were historically significant and are just as prominent today.

In total, there are about 185,000 Black/African American small business owners in California. The overwhelming majority of these are nonemployer or sole proprietor establishments, accounting for over 175,000 of the total. Black/African American-owned small employer firms account for just under 10,000 businesses in total, employing just over 22,000 workers statewide. The distribution of Black/African American-owned businesses varies depending on the type of establishment and industry. There are approximately 7,600 Black/African American-owned employer small businesses classifiable by industry^{iv}. Most Black/African American-owned employer businesses are in Health Care, accounting for just over 2,900 Black/African American small businesses employing almost 7,600 people. Just under 1,500 Black/African American-owned small employer firms are in Professional, Scientific, and Technical Services employing over 3,300 people throughout the state. For nonemployer firms, most Black/African American-owned businesses fall under Transportation and Warehousing, accounting for just over 39,300 of total Black/African American-owned nonemployer firms. This is followed by Other Services (25,400 firms), and Health Care (23,200 firms).

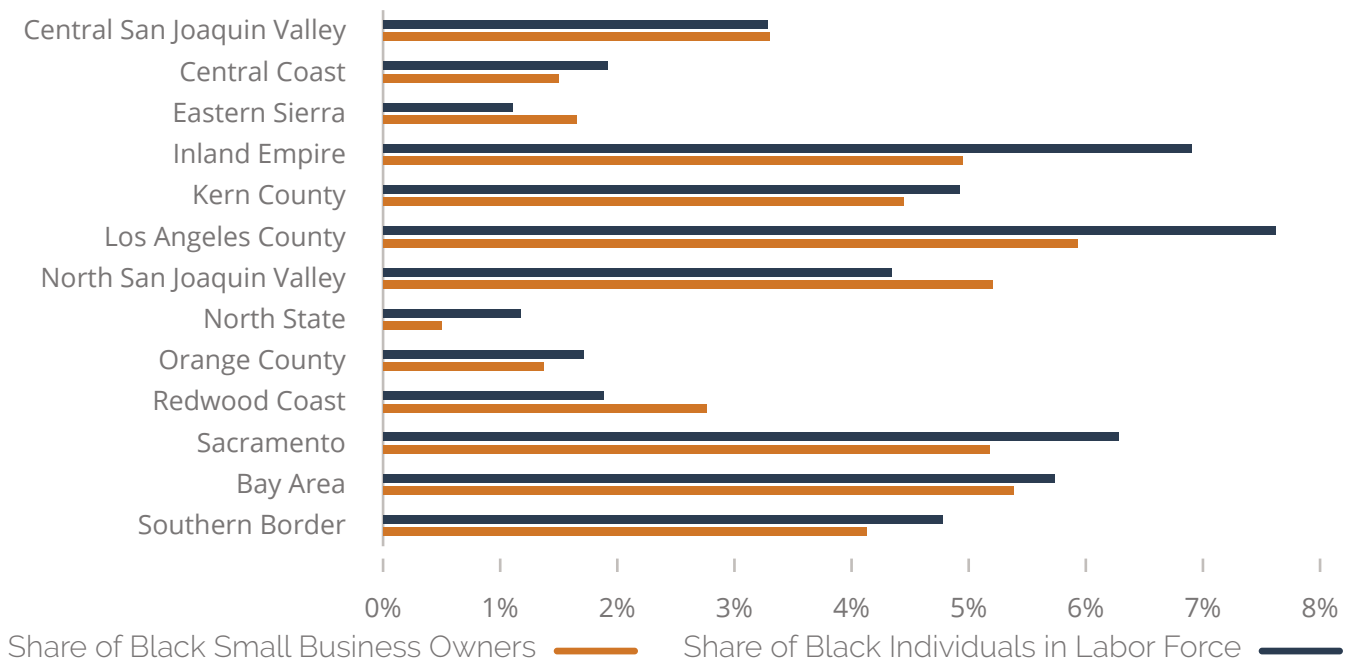
iv Due to limited data and data suppression, 7,600 of the 10,000 Black/African American owned businesses are classifiable by industry. For more detail about data suppression and limitations, please see the Methodology section.

California’s Black/African American-owned small employer firms have a total payroll of roughly \$1.6 billion for over 22,600 workers, an average salary of approximately \$71,000 per worker, considerably higher than the statewide average of \$51,000 for all workers in employer firms. The difference is notable when analyzing Black/African American nonemployer firms and their revenues compared to the statewide average across all races and ethnicities. Black/African American nonemployer firms average roughly \$27,000 in revenue per sole proprietor business, while the statewide average is approximately \$51,000 in revenue per firm.



Los Angeles County has the largest number of Black/African American-owned small business owners of any CERF region in California, with roughly 72,200 in total. This is followed by the Bay Area, with approximately 43,700 businesses, and the Inland Empire with 18,200. These three regions alone account for over 73% of all Black/African American-owned small businesses in California. Most of these are nonemployer firms, with around 128,700 Black/African American sole proprietors, 69,300 of which are in Los Angeles County, 42,000 in the Bay Area, and 17,400 in the Inland Empire.

Share of Black/African American Business Owners vs Share of Black/African American Working Population by CERF Region



Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: U.S. Census, Annual Business Survey, Public Use Microdata Sample. Analysis by Beacon Economics.

Spotlight: Supporting Black-Owned Businesses

Black/African American business owners in California were asked what changes they'd like to see to help support their businesses. 75.5% wanted more access to financial resources, 51.7% more support from their local community, and 42.3% more support from local government.

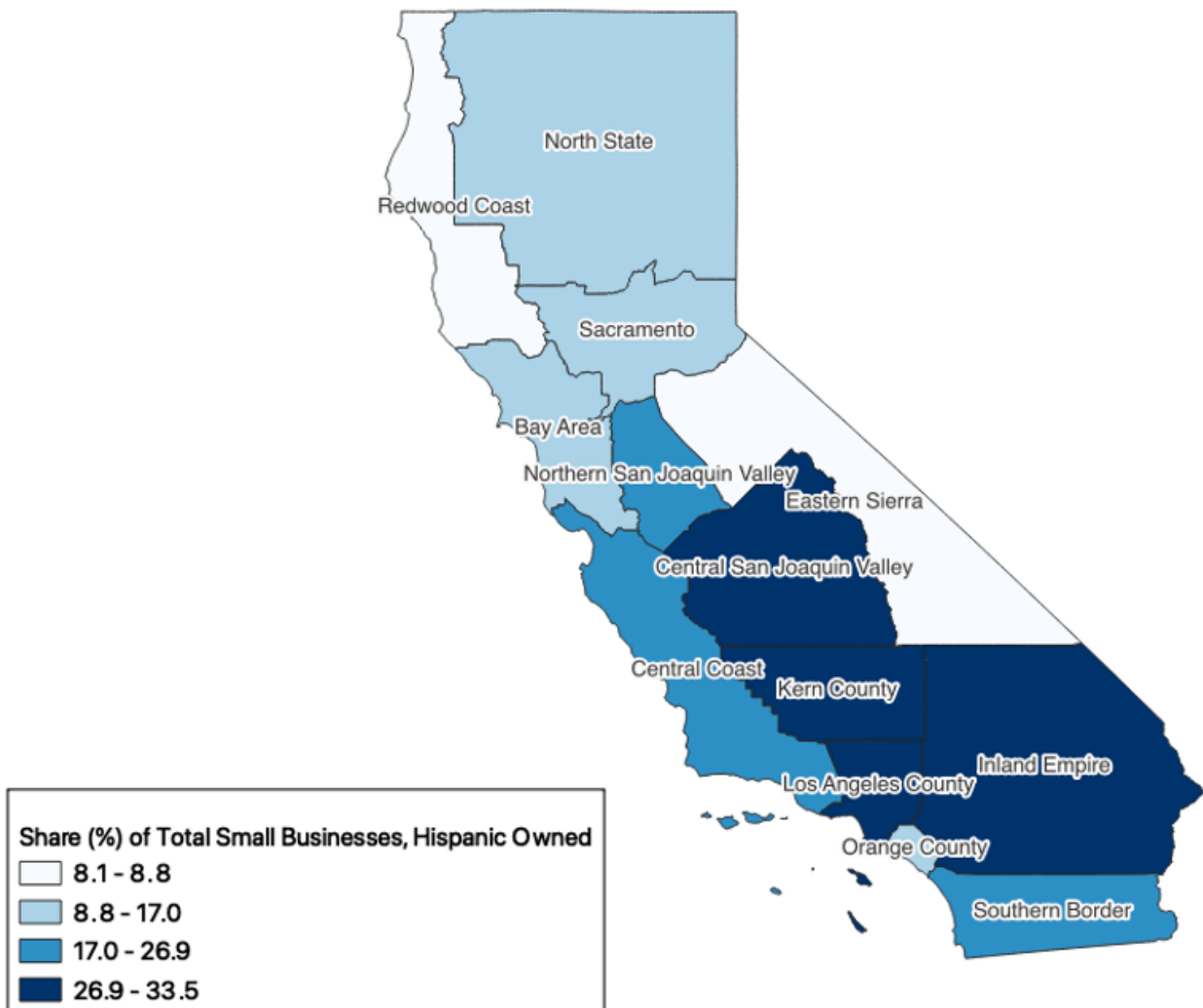
Broken down by region, there are some discrepancies in the share of Black/African American-owned businesses relative to the share of Black/African American working population.^v The largest differences can be seen in the Inland Empire and Los Angeles County. The share of Black/African American workers in the Inland Empire compared to the total working population is roughly 6.9%, but the share of Black/African American business owners relative to the total number of business owners in the Inland Empire is roughly 5%. For Los Angeles County, the share of Black/African American individuals in the working population is roughly 7.6% – the largest of any CERF region in California. However, the share of Black/African American business owners to the total number of business owners in Los Angeles County is just under 6%, a roughly 1.7 percentage point difference. These differences can be attributed to more barriers of entry for potential Black/African American entrepreneurs and business owners compared to their non-minority counterparts.



BEACON ECONOMICS

4.5 California Hispanic-Owned Businesses

The Hispanic population in California is the largest of any subgroup, with over 40% of Californians identifying as Hispanic. Hispanic businesses in the United States date back hundreds of years, from ranchers, farmers, and other agricultural entrepreneurs to the modern day where Hispanic businesses are found in a multitude of industries that serve and boost their local communities and economies. In the 21st century, Hispanic business owners have become one of the fastest growing groups of entrepreneurs in the country, seeing year-over-year growth in businesses of 14% prior to the pandemic. California accounts for a significant number of Hispanic workers and business owners relative to the United States, with a rich history of Hispanic migration to the state that has helped foster the fifth largest economy in the world. With population forecasts consistently showing that Hispanic share of total population will continue to grow, their economic contributions will continue to be more important.



Spotlight: Supporting Hispanic-Owned Businesses

When asked which initiatives would help support their firms, 71.8% of Hispanic small business owners said access to financial resources, 55.9% said support from local community, and 47.4% cited support from local government.

The latest full data release from the Census shows that there are roughly 932,500 Hispanic small business owners in California. Most of these are nonemployer firms, accounting for approximately 867,000, or over 92% of total small businesses statewide. There is a total of 77,600 Hispanic-owned employer firms, the majority of which (around 92%) are small employer businesses. Hispanic-owned small employer firms support over 275,000 workers statewide, and pay roughly \$10.6 billion in wages, or approximately \$38,300 per worker. Average payroll per worker (excluding nonemployer firms) is lower for Hispanic-owned small businesses than the statewide average of \$51,100. This is mirrored by nonemployer firms, with a total of roughly \$63.4 billion generated in revenue by sole proprietors, averaging around \$36,600 per firm, significantly lower than the \$51,000 statewide average.

Hispanic business owners operate in a multitude of industries. The largest concentration of Hispanic business owners is in Administrative and Support Services, with roughly 160,000 businesses in total. This is followed by Transportation and Warehousing (151,200), Construction (107,900), and Other Services (102,200). For employer firms specifically, there are



over 11,000 Hispanic-owned small employer Transportation and Warehousing firms across California, the largest of any industry by employer firms, followed by Accommodation and Food Services with over 8,400 businesses, and Professional, Scientific, and Technical Services at 7,900 businesses.

Southern California is home to most of the Hispanic-owned businesses, with Los Angeles County, the Inland Empire, Orange County, and the Southern Border regions accounting for 644,300 of all Hispanic-owned businesses, or roughly 69%. Los Angeles County alone accounts for around 369,400 businesses in total, or 40% of all Hispanic-Owned small businesses in California.

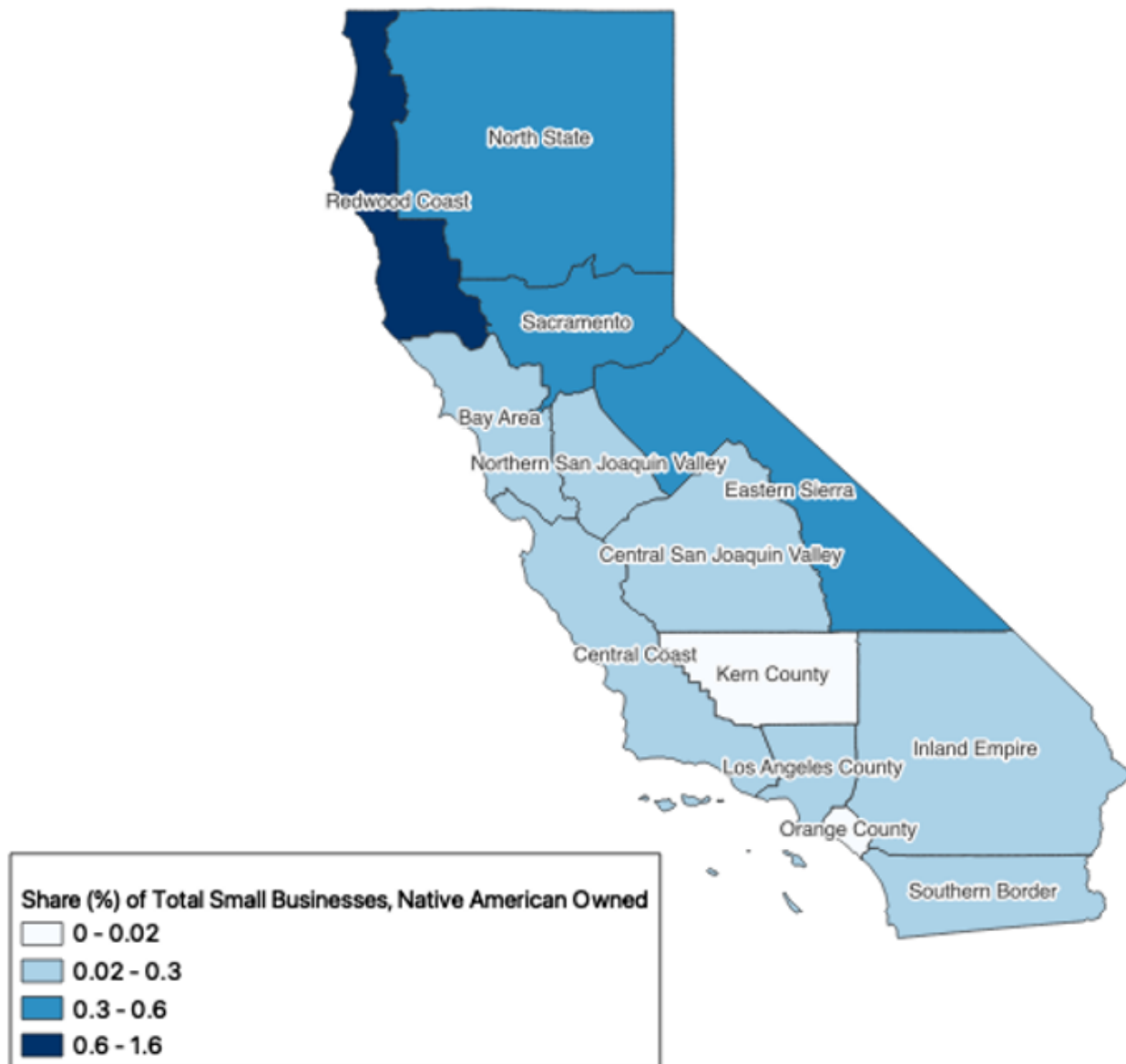
When it comes to the share of Hispanic businesses relative to total businesses by CERF region, the largest share comes from the Inland Empire, with 33.5% of all small businesses there operated by Hispanic owners. Los Angeles and Kern County follow suit, with 30.4% of the total number of businesses there operated by Hispanic owners. Areas in Northern California have lower shares of Hispanic ownership. In the Bay Area for example, which is one of the largest metros in the state, Hispanic small business ownership is 15% relative to the total. The smallest shares of Hispanic-owned businesses of any CERF region can be found in Eastern Sierra (8.1%), Redwood Coast (8.8%), and Sacramento (12.6%). These figures are quite low when compared to the Hispanic working population in these regions. For example, 21.8% of Sacramento's total working population is Hispanic, and 17.7% of Redwood Coast's working population is Hispanic. This is evidence of a disparity in pathways to business ownership for Hispanics, which could be due to potential entrepreneurs leaving the area to start their own business elsewhere, or a lack of access to resources.

4.6 California Native American-Owned Businesses

Native Americans have deep-rooted histories in California – whether it is the tribes of the north-west including Tolowa, Shasta, and Karok, or the tribes of the northeast such as Modoc, Achumawi, and Atsugewi, or some of the many tribes in Southern California such as Chumash, Alliklik, and Kitanemuk. There are dozens of tribes across many territories that have been in these locations for centuries. Native American tribes have endured a long history of severe oppression, discrimination, marginalization, and systemic targeting from the days of the first settlers through the 20th century. As such, Native Americans have struggled to find equality in the business world, and to this day face many more challenges in establishing and maintaining a business than their non-minority counterparts. Nonetheless, the Native American-owned businesses that exist today play an important role in their respective economies. Many Native Americans have developed large successful casinos on tribal lands, supporting thousands of jobs and generating millions in local revenues. While Native American small businesses account for a much smaller share in terms of impact, they are still important to their local economies.

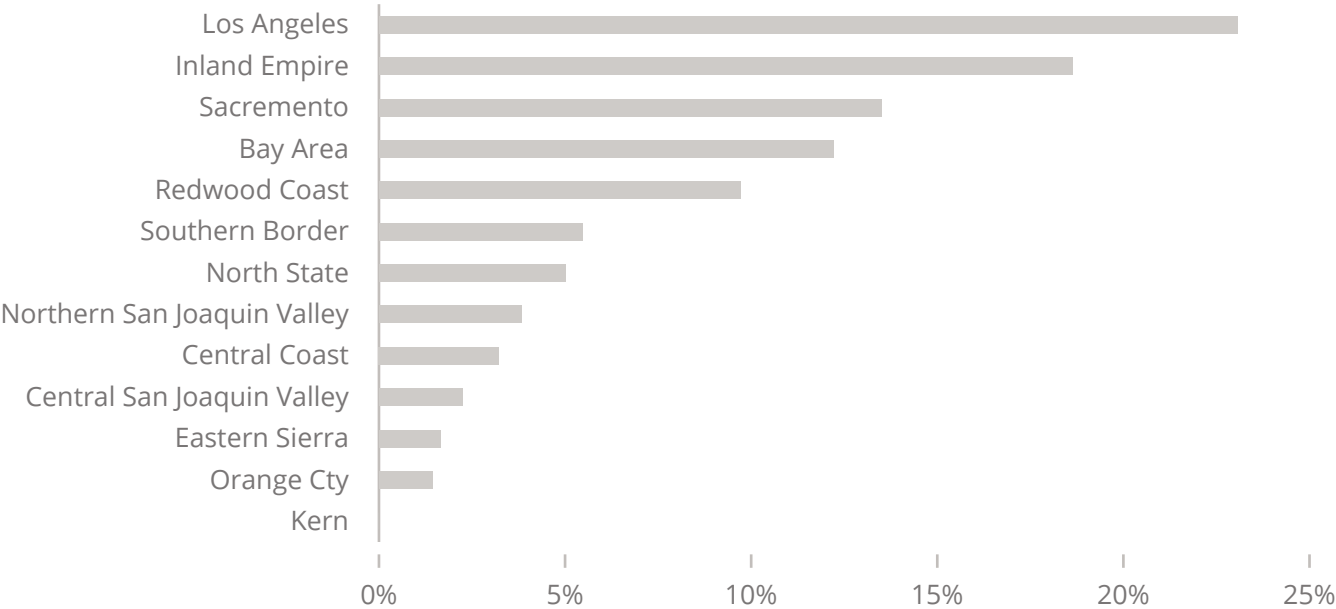


In total, there are roughly 1,300 Native American small employer businesses in California, and a further 5,600 Native American sole proprietors. Including the classifiable Native American small employer firms, the bulk of businesses are in Professional, Scientific, and Technical Services, accounting for roughly 19.5% of all businesses. This is followed by Transportation and Warehousing (12.6%), and Other Services (11.0%). Most of these establishments are nonemployer firms.



In terms of distribution by CERF region, the largest share of Native American-owned small businesses are located in Los Angeles County, accounting for 23% of all Native American-owned firms in California. The Inland Empire is also an important hub for Native American small businesses, accounting for 18.6% of the region’s total. Sacramento accounts for the third largest share at 13.5%.

Share of Native American Small Businesses by Region



Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: U.S. Census, Annual Business Survey, American Community Survey Public Use Microdata Sample. Analysis by Beacon Economics.

Total Native American small employer businesses generate roughly \$163.3 million in payroll annually, paid out to just under 4,900 workers, an average annual pay of approximately \$33,300. This is lower than any other race/ethnicity, and far lower than the statewide average of \$51,000. Native American small businesses also record the lowest revenue per establishment according to the nonemployer data, at roughly \$35,600, or almost \$16,000 less than the statewide average across all races and ethnicities. As is the case with many other minority groups, the lack of access to resources and pathways for Native Americans to become business owners and entrepreneurs suppresses their ability to invest properly in their firms and therefore limits the total revenues that can be generated.

4.7 Industry Assessment and Impacts Statewide

This report analyzes minority-owned small business numbers, shares, and impacts. Industry-level estimates of minority-owned small businesses and the number of direct employees employed by those establishments are reported using two-digit NAICS code sector codes. Industry-level economic and fiscal impacts for minority-owned small businesses are reported using IMPLAN 546 industry codes to provide more detail. For a detailed explanation of the industries and industry types used in this report, please see the Methodology section.



Different race/ethnic groups have different representation rates across industry sectors. We suspect this is caused by differing financial and social capital barriers to business ownership in different sectors. Existing research identifies a handful of factors, including access to capital and family history of business ownership, as drivers for small business entrepreneurship.[6],[7],[8],[9] When viewed from this perspective, it makes sense that non-White Californians own small businesses at lower rates than White Californians. Many past and current systems, including redlining[10] and discriminatory lending practices[11], have caused and continue to cause less access to capital and lower overall business-building opportunities for minorities. These barriers to small-business ownership result in lower minority-owned small business shares in industries with higher barriers to entry, and vice versa.

Minority-Owned Small Business Shares by Race/Ethnicity for CA's Top 5 Largest Industries

Industry (NAICS)	Small Business Owners (000s)	Asian	Black/African American	Hispanic	Native	White
Prof./Scientific/ Technical Services	675.2	17.3%	3.1%	12.8%	0.2%	66.7%
Transportation/ Warehousing	448.8	25.1%	8.8%	33.7%	0.2%	32.3%
Other Services	385.1	25.4%	6.6%	26.6%	0.2%	41.3%
Health Care	349.3	23.8%	7.5%	24.2%	0.1%	44.4%
Real Estate	343.3	18.1%	2.1%	11.9%	0.1%	67.7%

Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: U.S. Census Bureau. American Business Survey. "Top 5 largest industries" is defined as the industries with largest number of small business owners. Sums may not add to 100% due to rounding. Analysis by Beacon Economics.



Among the five industries with the largest number of small business owners in California, industry sectors with lower capital barriers see higher rates of minority-owned small businesses. For example, a large share of small business owners in Transportation and Warehousing are incorporated app-based gig drivers for companies like Uber and Lyft.

Starting a business in an industry like Professional, Scientific and Technical Services may require tens of thousands of dollars of hardware, extensive education in a specific field (often acquired over at least four years with a six-figure investment), and a substantial business plan. On the other hand, an independent app-based driver employed in the two-digit Transportation, Warehousing NAICS sector could get started with just a \$39 vehicle inspection, a local business license (\$0 to \$800, if driver decides to incorporate), a modified vehicle insurance policy, and a full tank of gas.[12]

California small business ownership trends identified in this report suggest that policies intended to increase minority-owned small businesses should focus on decreasing barriers to ownership, including capital costs.

The varied regional footprints of minority-owned small businesses also generate substantially different economic and fiscal impacts in each respective CERF region. The prior estimates of the number of minority-owned small businesses, along with estimates of direct employment and revenue, allow us to generate estimates of total economic and fiscal impacts by region.

Total CA Minority-Owned Small Business Impacts by Industry

Industry (IMPLAN)	Total Employment (000s)	Total Economic Output (\$, Millions)
Professional, Scientific, and Technical Services	286.6	23,318.2
Real Estate and Rental and Leasing	118.8	21,045.2
Accommodation and Food Services	280.9	16,436.3
Transportation and Warehousing	308.8	16,145.7
Wholesale Trade	79.7	15,744.3
Health Care and Social Assistance	304.9	15,202.1
Construction	166.9	14,412.8
Retail Trade	193.4	12,517.2
Manufacturing	66.7	12,179.8
Administrative and Support and Waste Management and Remediation Services	264.1	10,777.2
Other Services (except Public Administration)	254.8	9,338.1
Information	35.1	9,108.6
Finance and Insurance	53.0	6,148.7
Management of Companies and Enterprises	12.2	3,440.0
Arts, Entertainment, and Recreation	71.4	2,484.4
STATE TOTAL	2,563.7	192,803.9

Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: IMPLAN. Note that the sum of the individual CERF Region Impacts is substantially smaller than the California State Total due to the MRIO modelling method, please refer to the Methodology section of this report. Analysis by Beacon Economics.



As shown, California minority-owned small businesses generate substantial economic and fiscal activity in every region of the state. The following section expands on these estimates by closely analyzing the impacts of minority-owned small businesses across California’s diverse economic regions.



4.8 Regional Assessment and Impacts

This report analyzes minority-owned small business numbers and shares across the state's 13 California Community Economic Resilience Fund regions (CERFs). These CERF regions are composed of the following counties:

Bay Area: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, Sonoma

Central Coast: Monterey, San Benito, Santa Barbara, Santa Cruz, San Luis Obispo, Ventura

Central San Joaquin Valley: Fresno, Kings, Madera, Tulare

Eastern Sierra: Alpine, Amador, Calaveras, Inyo, Mariposa, Mono, Tuolumne

Inland Empire: Riverside, San Bernardino

Kern: Kern County

Los Angeles: Los Angeles County

North San Joaquin Valley: Merced, San Joaquin, Stanislaus

North State: Butte, Glenn, Lassen, Modoc, Plumas, Shasta, Sierra, Siskiyou, Tehama, Trinity

Orange: Orange County

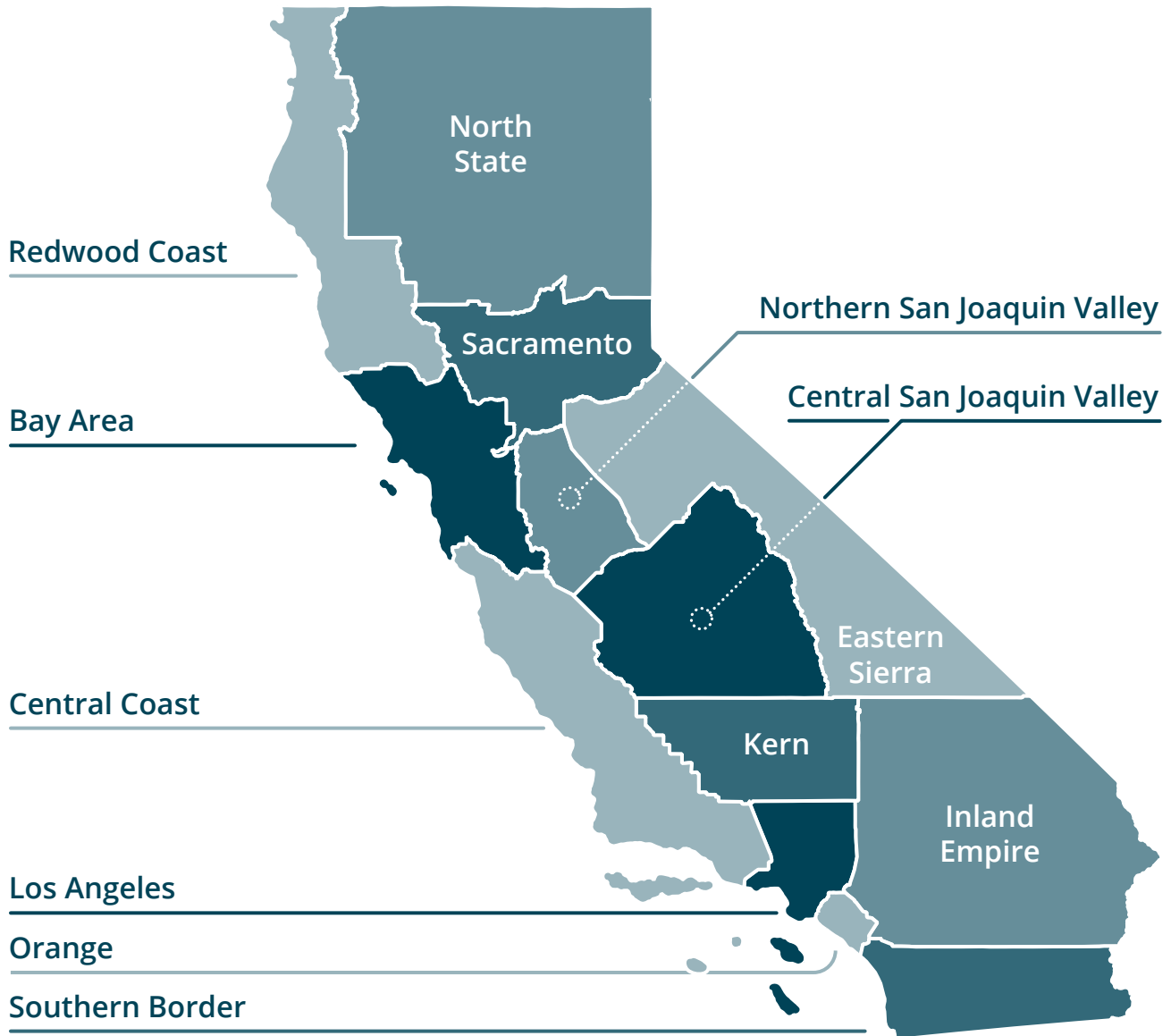
Redwood Coast: Del Norte, Humboldt, Lake, Mendocino

Sacramento: Colusa, El Dorado, Nevada, Placer, Sacramento, Sutter, Yolo, Yuba

Southern Border: San Diego, Imperial



CA CERF Region Map



Source: California Governor's Office.



Both the absolute number of small businesses and the share of small businesses that are minority-owned differ significantly across California, often mirroring demographic differences in the state. Unsurprisingly, regions with larger populations generally have more minority-owned small businesses, and regions with larger proportional minority populations generally have higher shares of minority-owned small businesses relative to overall small businesses:



Minority-Owned Small Businesses and Shares by Race/Ethnicity for CERF Region

CERF Region	Number of Total Small Business Owners (000s)	Share of Small Businesses with Minority Owners (%)
Bay Area	811.4	47.3%
Central Coast	233.0	29.1%
Central San Joaquin Valley	111.1	47.7%
Eastern Sierra	21.9	10.3%
Inland Empire	367.9	52.4%
Kern County	57.6	50.6%
Los Angeles County	1,217.1	55.4%
North San Joaquin Valley	49.0	50.4%
North State	111.3	21.9%
Orange County	392.8	45.6%
Redwood Coast	35.4	14.5%
Sacramento	216.4	34.5%
Southern Border	374.3	39.5%
STATE TOTAL	4,125.9	46.9%

Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: U.S. Census Bureau. American Business Survey. Establishments and employment include nonemployer (sole proprietor) businesses as well. Analysis by Beacon Economics.

Columns may not add to total due to rounding and the exclusion of firms that are non-classifiable by race or ethnicity.



Los Angeles County stands out in terms of minority-owned small business representation as the leader in terms of absolute minority small business owners and third among CERFs with over 55% of overall small businesses owned by minority groups. On the flip side, the Eastern Sierra CERF region (composed of Alpine, Amador, Calaveras, Inyo, Mariposa, Mono, and Tuolumne Counties), has both the lowest number of minority small business owners and the lowest share of minority-owned small businesses relative to total small businesses. This is not surprising since the Eastern Sierra region has a relatively low share of minorities in the general population. A clearer picture of minority-owned small businesses emerges when looking at small business shares relative to the labor force shares for minorities:



The varying regional footprints of minority-owned small businesses also generate substantially different economic and fiscal impacts in each respective region of California. The subsequent estimates of the number of minority-owned small businesses, along with estimates of direct employment and revenue, allow us to generate estimates of total economic and fiscal impacts by region.

Total Minority-Owned Small Business Impacts by Impact Type and Region

Region	Total Employment (000s)	Total Labor Income (\$Millions)	Total Output (\$Millions)	Total Fiscal Impact (\$Millions)
Bay Area	545.7	17,908.2	36,421.8	5,235.4
Central Coast	94.2	2,693.9	6,454.6	940.5
Central San Joaquin Valley	70.1	2,143.8	5,875.5	889.8
Eastern Sierra	3.0	67.2	180.4	22.6
Inland Empire	192.3	5,588.4	14,882.4	2,306.6
Kern County	37.3	1,000.1	2,180.1	337.6
Los Angeles County	921.8	28,780.7	69,026.5	10,266.2
North San Joaquin Valley	77.9	2,347.1	5,337.1	887.3

Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Total Minority-Owned Small Business Impacts by Impact Type and Region (Contd.)

Region	Total Employment (000s)	Total Labor Income (\$Millions)	Total Output (\$Millions)	Total Fiscal Impact (\$Millions)
North State	16.4	437.2	1,358.8	175.1
Orange County	270.5	9,627.1	23,614.4	3,524.5
Redwood Coast	6.8	174.2	435.1	61.5
Sacramento	104.6	3,203.9	7,506.3	1,236.0
Southern Border	192.5	5,648.9	13,114.6	1,928.2
Statewide Impacts	2,563.7	82,063.3	192,803.9	28,751.0

Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: IMPLAN. Note that the sum of the individual CERF Region Impacts is substantially smaller than the California State Total due to the MRIO modelling method, please refer to the Methodology section of this report.

Analysis by Beacon Economics.





5

Race/Ethnic Group Focus:
Economic and Fiscal Impacts



The following economic and fiscal impact section provides detailed statistical overviews of minority-owned small businesses in the state of California by race/ ethnic group. This section expands on the general estimates for statewide minority-owned small businesses provided in previous sections by highlighting economic and fiscal impacts. However, unlike previous sections, this section does not delve into comparative narratives regarding differences in minority-owned small businesses between race/ ethnic groups.



Total Minority-Owned Small Business Impacts by Impact Type and Race

Race/Ethnic Category	Total Employment (000s)	Total Labor Income (\$, Millions)	Total Output (\$, Millions)	Total Fiscal Impacts (\$, Millions)
Asian	1,237.4	45,648.6	110,351.6	17,283.40
Black/African American	199.7	4,443.4	8,329.2	1,274.57
Hispanic	1,089.7	29,373.3	67,393.4	10,145.13
Native American (American Indian or Alaska Native)	6.2	155.2	313.4	47.93
White	3,311.9	158,964.8	465,175.7	66,073.77
Total Minority Impacts	2,563.7	82,063.3	192,803.9	28,751.04
Total Small Businesses Impacts	5,939.8	246,221.3	671,623.7	94,824.81

Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: IMPLAN. Note that the sum of the individual Racial/Ethnic Impacts is substantially smaller than the California State Total due to the MRIO modelling method, please refer to the Methodology section of this report. Analysis by Beacon Economics.

5.1 Asian American-Owned Small Businesses

The 754,000 Asian American-owned small businesses in California have substantial state and local impacts. These businesses directly employ 1.2 million people (including nonemployer firm owners). In total, the employment, payroll, and expenditures associated with these businesses generate \$114.1 billion in economic output across the state. Additionally, Asian American-owned small businesses support 1.3 Million jobs and almost \$47.1 billion in statewide labor income annually.

Likewise, Asian American-owned small businesses in California have substantial state and local fiscal impacts, generating \$8.6 billion annually in state and local tax revenues and \$8.6 billion in federal tax revenues.



Total CA Asian American-Owned Small Business Impacts by Impact Type

Economic Impact Type	Jobs Supported Annually (Thousands)	Labor Income Generated (\$Millions)	Total Economic Output Created (\$Millions)
Direct	1,227.2	44,126.8	107,453.4
Indirect	12.6	1,745.7	3,484.2
Induced	15.8	1,209.7	3,173.7
TOTAL	1,255.6	47,082.3	114,111.4

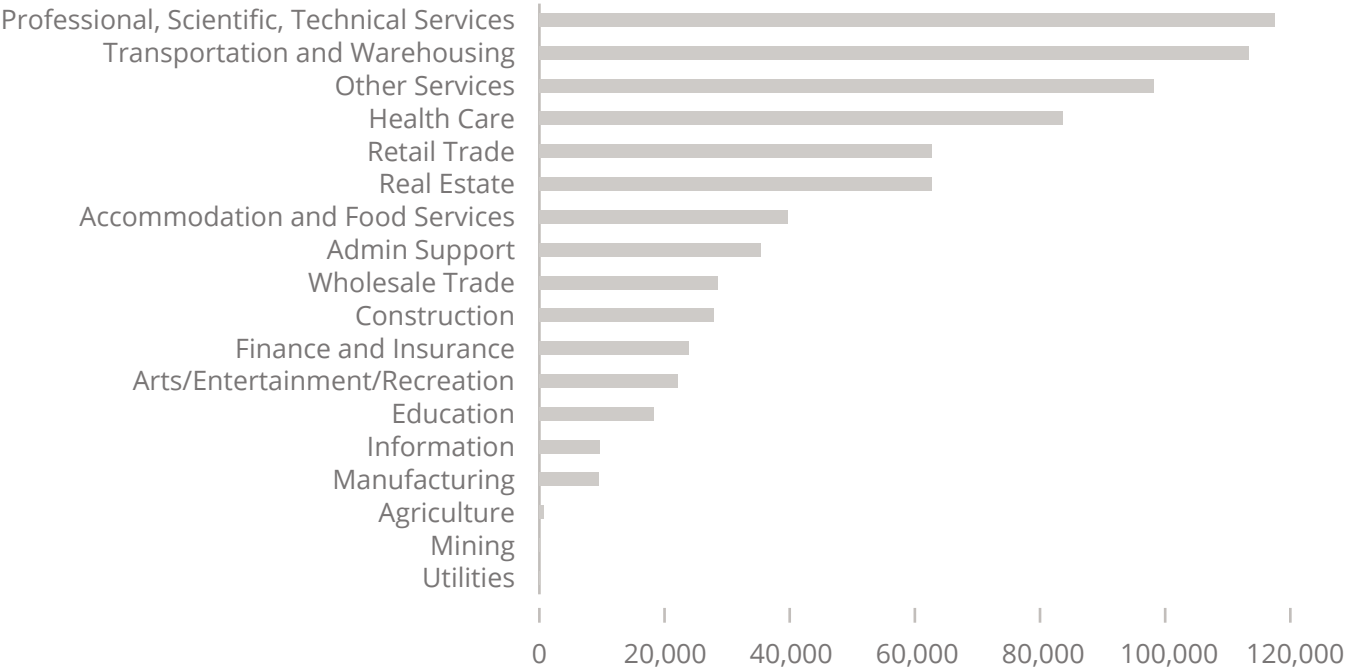
Fiscal Impact Type	State and Local (\$, Millions)	Federal (\$, Millions)	Total (\$, Millions)
Corporate Profits Tax	492.8	772.8	1,265.6
Income Tax	1,996.3	5,136.8	7,133.1
Other	634.2	(1,148.6)	(514.4)
Property Tax	2,607.2	-	2,607.2
Sales Tax	2,760.0	-	2,760.0
Social Insurance Tax	157.7	3,874.2	4,032.0
Total	8,648.2	8,635.2	17,283.4

Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: IMPLAN. Analysis by Beacon Economics.

California’s Asian American small business owners operate across every industry in the state. By two-digit NAICS code industry sector, Asian American small business owners are most likely to operate in the Transportation and Warehousing, Professional, Scientific and Technical, and Other Services industries.

Total Asian American-Owned Small Businesses by Industry



Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: U.S Census. Analysis by Beacon Economics.

5.2 Black/African American-Owned Small Businesses

The 185,000 Black/African American-owned small businesses in California have substantial state and local economic impacts. These businesses directly employ approximately 199,000 people (including nonemployer firm owners). In total, the employment, payroll, and expenditures associated with these businesses generate \$8.6 billion in economic output across the state. Additionally, Black/African American-owned small businesses support 201,100 total jobs and \$4.6 billion in statewide labor income annually.



Likewise, Black/African American-owned small businesses in California have a substantial state and local fiscal impact, generating \$400.6 million annually in state and local tax revenues and \$874.0 million in federal tax revenues.

Total CA Black/African American Owned Small Business Impacts by Impact Type

Economic Impact Type	Jobs Supported Annually (Thousands)	Labor Income Generated (\$Millions)	Total Economic Output Created (\$Millions)
Direct	199.0	4,344.4	8,133.5
Indirect	0.9	113.4	232.6
Induced	1.3	101.9	267.2
TOTAL	201.1	4,559.7	8,633.4

Fiscal Impact Type	State and Local (\$, Millions)	Federal (\$, Millions)	Total (\$, Millions)
Corporate Profits Tax	29.8	46.7	76.5
Income Tax	209.2	549.8	759.0
Other	20.0	(28.4)	(8.4)
Property Tax	65.6	-	65.6
Sales Tax	66.5	-	66.5
Social Insurance Tax	9.6	305.9	315.4
Total	400.6	874.0	1,274.6

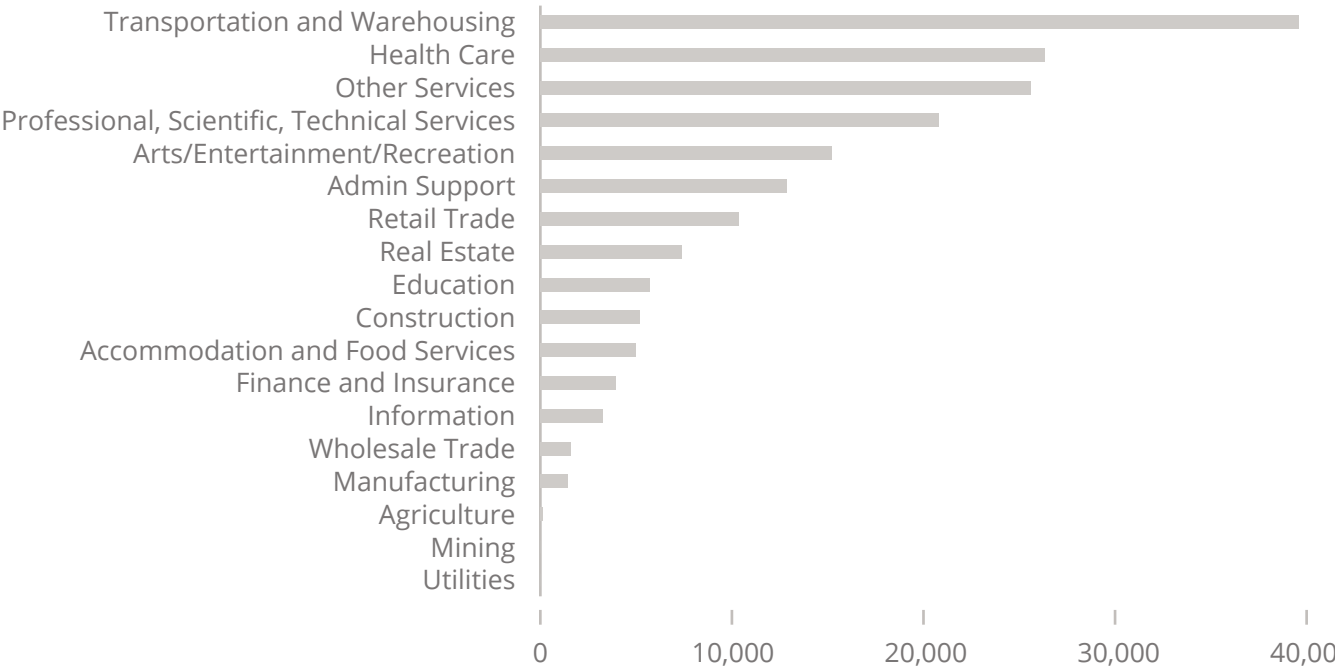
Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: IMPLAN. Analysis by Beacon Economics.



California’s Black/African American small business owners operate across every industry in the state. By two-digit NAICS code industry sector, Black/African American small business owners are most likely to operate in the Transportation and Warehousing, Other Services, and HealthCare industries.

Total Black/African American-Owned Small Businesses by Industry



Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: U.S Census. Analysis by Beacon Economics.

Black/African American-owned small businesses are most prominent (as a share of total minority-owned businesses) in the Inland Empire, Los Angeles County, Bay Area, and North San Joaquin Valley, and are most economically productive in the Los Angeles County, Bay Area, and North San Joaquin Valley CERF regions.

5.3 Hispanic-Owned Small Businesses

The 932,500 Hispanic-owned small businesses in California have substantial state and local impacts, directly employing 1.1 million people (including nonemployer firm owners). In total, the employment, payroll, and expenditures associated with these businesses generate \$69.7 billion in economic output across the state. Additionally, Hispanic-owned small businesses support 1.1 million total jobs and over \$30.2 billion in statewide labor income annually.

Likewise, Hispanic small businesses in California have substantial state and local fiscal impacts, generating \$4.5 billion annually in state and local tax revenues and \$5.6 billion in federal tax revenues.

Total CA Hispanic-Owned Small Business Impacts by Impact Type

Economic Impact Type	Jobs Supported Annually (Thousands)	Labor Income Generated (\$Millions)	Total Economic Output Created (\$Millions)
Direct	1,084.1	28,606.3	65,831.5
Indirect	7.3	931.6	2,000.3
Induced	9.3	724.4	1,903.9
TOTAL	1,100.7	30,262.3	69,735.7

Fiscal Impact Type	State and Local (\$, Millions)	Federal (\$, Millions)	Total (\$, Millions)
Corporate Profits Tax	259.7	407.3	667.0
Income Tax	1,391.8	3,656.8	5,048.6
Other	303.6	(526.6)	(223.1)
Property Tax	1,192.7	-	1,192.7
Sales Tax	1,312.5	-	1,312.5
Social Insurance Tax	65.6	2,081.8	2,147.4
Total	4,525.9	5,619.2	10,145.1

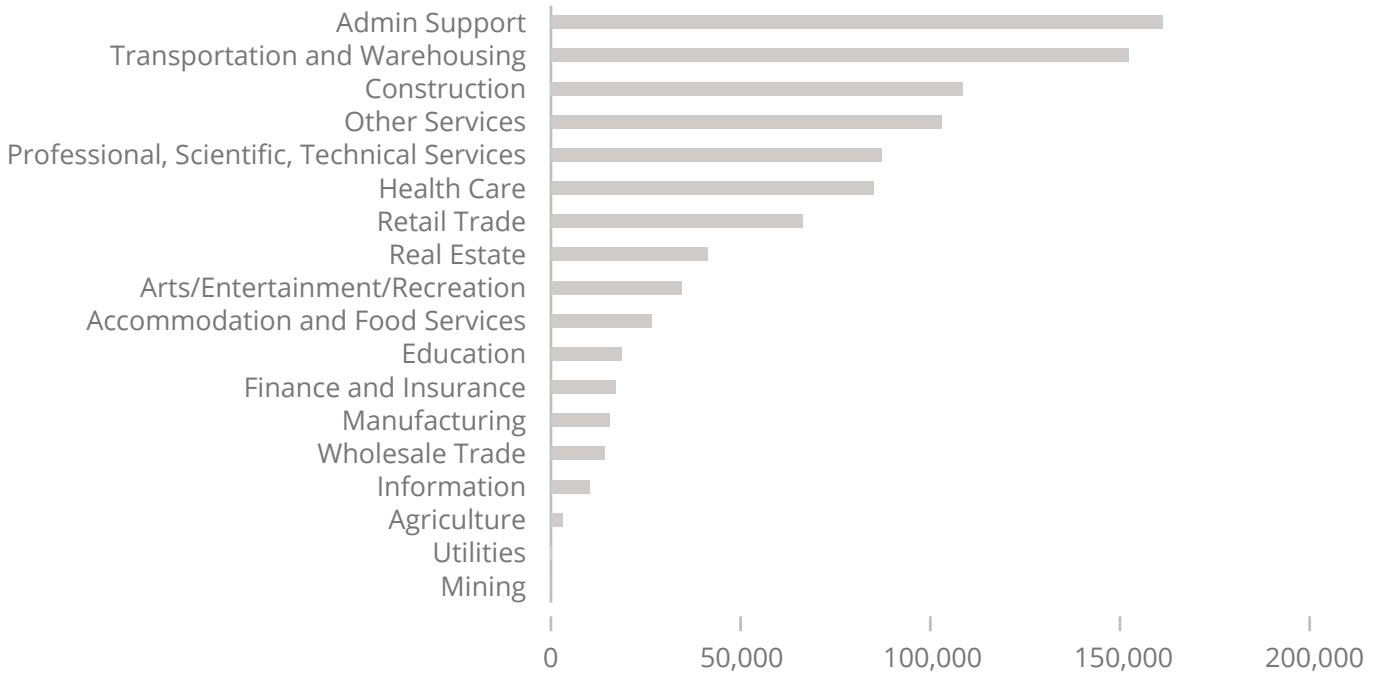
Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: IMPLAN. Analysis by Beacon Economics.



California’s Hispanic-owned small businesses operate in all industries across the state. By two-digit NAICS code industry sector, they are most likely to operate in the Transportation and Warehousing, Admin Support, and Construction industries.

Total Hispanic-Owned Small Businesses by Industry



Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: U.S Census. Analysis by Beacon Economics.

5.4 Native American-Owned Small Businesses

The 6,900 Native American-owned small businesses in California have substantial state and local impacts, directly employing 6,200 people (including nonemployer firm owners). In total, the employment, payroll, and expenditures associated with these businesses generate \$323 million in economic output across the state. Native American-owned small businesses support 6,200 total jobs and \$159.0 million in statewide labor income annually.

Additionally, California’s Native American small businesses have substantial state and local fiscal impacts, generating \$17.7 million annually in state and local tax revenues and \$30.3 million in federal tax revenues.

Total CA Native American-Owned Small Business Impacts by Impact Type

Economic Impact Type	Jobs Supported Annually (Thousands)''	Labor Income Generated (\$Millions)	Total Economic Output Created (\$Millions)
Direct	6.2	151.8	305.9
Indirect	0.0	4.1	9.1
Induced	0.0	3.2	8.4
TOTAL	6.2	159.0	323.4

Fiscal Impact Type	State and Local (\$, Millions)	Federal	Total
Corporate Profits Tax	1.1	1.7	2.9
Income Tax	7.5	20.0	27.5
Other	1.0	(1.6)	(0.6)
Property Tax	3.7	-	3.7
Sales Tax	4.1	-	4.1
Social Insurance Tax	0.3	10.1	10.4
Total	17.7	30.3	47.9

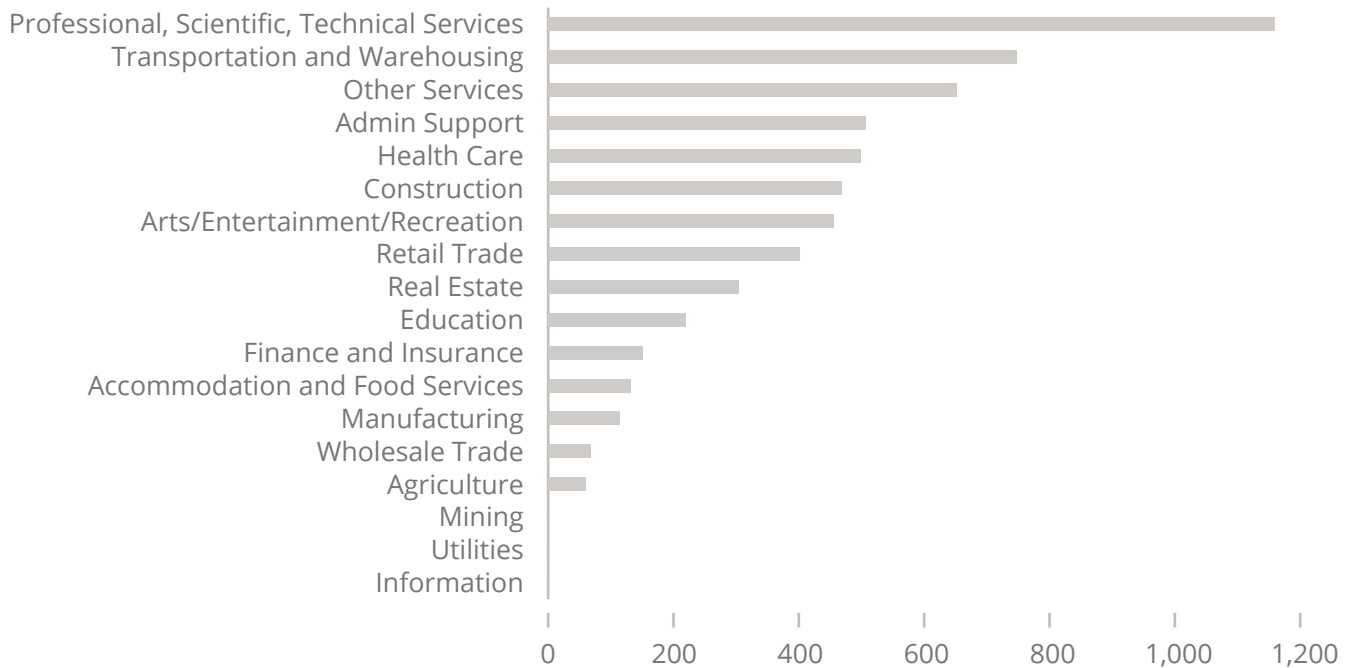
Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: IMPLAN. Analysis by Beacon Economics.



California’s Native American small businesses operate in every industry across the state. By two-digit NAICS code industry sector, they are most likely to operate in the Professional, Scientific and Technical, Transportation and Warehousing, and Other Services industries.

Native American-Owned Small Businesses by Two-Digit NAICS Industry



Data sources from 2019, the latest data year available across all datasets used for this report. Later data years will be compared against this benchmark year when data becomes available.

Source: U.S Census. Analysis by Beacon Economics.



6

Social Impacts

The following section delves into the important social impacts of minority-owned small businesses, focusing on three key aspects: how small businesses drive innovation, how they increase market competition, and how they help strengthen communities by keeping money local. Results from the focus groups conducted as part of this study help inform the discussion of this section.

Additionally, it examines the results of a survey conducted by Beacon Economics, in partnership with Integrated Communications Strategies, LLC, and the three California minority chambers that participated in this report. The survey results provide a better understanding of California's minority-owned small businesses and the policies that could stimulate future minority-owned small business development.

6.1 Accelerated Innovation

Small businesses, renowned for their entrepreneurial spirit, are crucial drivers of innovation within local economies. The proximity of small businesses to the communities they serve allows them to identify specific needs and quickly develop innovative solutions tailored to meet those needs. These innovations can change a community, a state, or even the world (Apple Inc. began life in Steve jobs bedroom in Los Altos, California, before decamping to the family garage. The first Google computer, built at California’s Stanford University by undergrads Larry page and Sergey Brin, was housed in an enclosure made of Lego bricks).

Minority-owned small businesses, in particular, demonstrate an impressive capacity for creative problem-solving. While some small businesses are formed for personal convenience and remain sole proprietorships focused on the well-being of the owner, (potentially leading to stagnation[1]), motivated small businesses are unbeatable when it comes to innovation. Larger businesses are well aware of this. Beginning in the early 2000s, American corporations began using the strategy of inbound open innovation to accelerate product development. Inbound open innovation is defined by the Oxford Review as “sourcing and acquiring expertise from outside an organization and scanning the external environment for new information to identify, select, utilize, and internalize ideas.”[2]

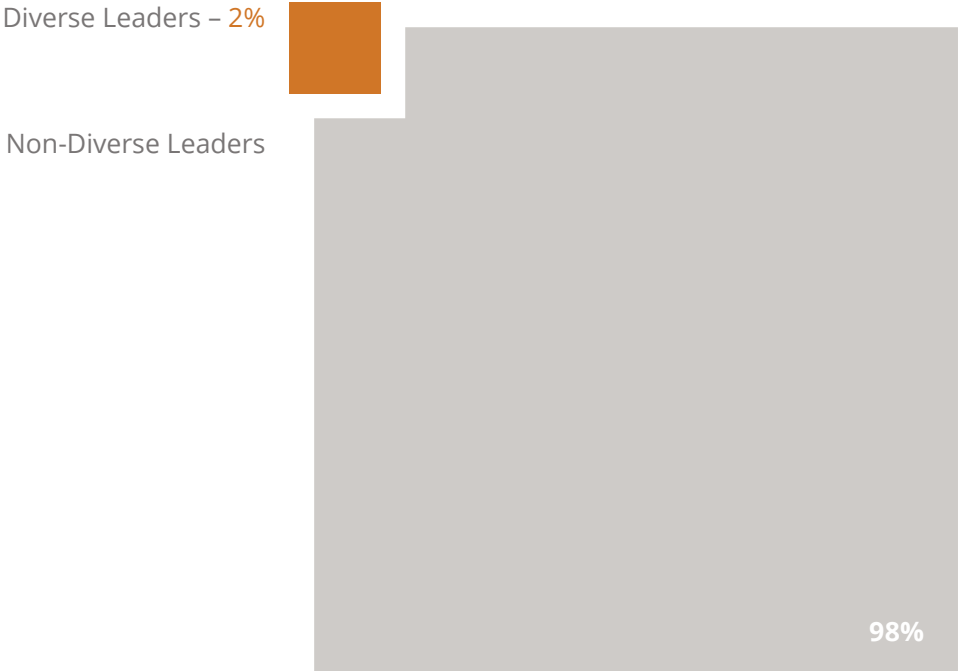
Larger companies frequently experience business growth pains such as added bureaucracy, personnel disagreements, and stricter regulation enforcement that slow innovation. For extremely large companies, these development bottlenecks can bring progress on new products to a halt. Recent surveys of executives at large companies found that 84% believe innovation is critical to business growth, but just 6% were satisfied with the innovation performance of their company. [3] To counter this, larger companies have used inbound open innovation to work with small business owners, people they know to be innovative and flexible. Industry experts have consistently seen large companies benefit from small businesses, either by purchasing IP or buying the entire company, over the last few decades. As a result, many large-business innovations that have made significant impacts on the state and national economy can be attributed to small businesses.



Minority small business owners can accelerate the rate of innovation by utilizing their unique perspectives and experiences to address challenges. Because small-business owners are dependent in the early stages on various forms of social capital, minority-owned small business owners are also attuned to the evolving preferences and demands of their customers. This versatility allows them to swiftly adapt their products and services to meet changing market conditions.

An obstacle to innovation led by minority-owned businesses, however, is a lack of access to funding and representation in highly innovative spaces. Silicon Valley is consistently seen as among the most innovative regions in the world, and the startup ventures that occur in Silicon Valley are also seen as highly innovative. Minority-led firms are essentially nonexistent in this significant component of the California economy:

Share of Venture Capital Funding Given to Startups, by Leadership Diversity



Source: Diversity VC: The Diversity Record, 2022

Note that “Diverse” in the 2022 Diversity Record Report reflects a different definition of diversity than this report does.

Startups with diverse leadership teams received just 1.9% of studied venture capital investments in 2022.[4] This is consistent with the findings of our surveys and focus groups of California minority small business owners conducted as part of this study; access to funding and the need for additional monetary resources were the most cited category of “Obstacle faced in running your business today.” While minority-owned small businesses do accelerate innovation, that innovation can be accelerated by reducing structural barriers to funding.

Notwithstanding existing funding challenges, policy makers at the state and Federal level have made progress on equitable capital access for small business owners in historically disadvantaged groups. Notably, the 2022-2023 California state budget allocated a one-time \$20 million investment in the Accelerate California: Inclusive Innovation Hub Program to expand the number of innovation hubs from 10 to 13^{vi}, ensuring program coverage in all 13 CERF regions. In addition, a portion of the \$20 million investment is being used to create the Entrepreneurship Fund which will provide seed funding to diverse small entrepreneurs that lack access to traditional funding sources or investor networks.

Another example of policymakers taking investment in diverse small businesses seriously is the State Small Business Credit Initiative (SSBCI). The SSBCI is comprised of two Federal programs^{vii} and was reauthorized in 2021 with \$10 billion in funding as part of the American Rescue Plan Act[5]. Program funds are dispersed to state and local jurisdictions for existing programs or for the creation of new programs. California has allocated \$200 million of SSBCI funds under the Capital Program to create the Expanding Venture Capital Access program through the California Infrastructure and Economic Development Bank. The program aims to open-up access to California’s first-rate technology sector while broadening the geographic scope of venture funding to entrepreneurs all across the state.

vi <https://ebudget.ca.gov/2022-23/pdf/Enacted/GovernorsBudget/0010/0509.pdf>

vii The SSBCI comprises the Capital Program and the Technical Assistance (TA) Grant Program. The majority of funding is has been allocated to the Capital Program while the TA Grant Program has been allocated \$200 million in funding. <https://home.treasury.gov/policy-issues/small-business-programs/state-small-business-credit-initiative-ssbci>



An additional \$25.3^{viii} million in SSBCI funds are allocated to California through the Technical Assistant Grant Program. The TA Grant program funding represents a critical investment in socially and economically disadvantaged (SEDI – as defined by the Federal Government) small business owners who may find navigating state and Federal funding processes daunting or lack the resources to take advantage of available programs.

Additionally, small businesses, including minority-owned enterprises, can nurture collaborative ecosystems. Minority-owned small businesses often engage with local universities, research institutions, and fellow entrepreneurs, creating networks for knowledge-sharing and innovative partnerships. These collaborations enhance access to resources, drive research and development, and foster an environment where ideas can flourish. By pooling expertise and resources, small businesses contribute to the broader innovation ecosystem and stimulate economic growth.

viii See Department of Treasury for allocation guidance and amounts: <https://home.treasury.gov/system/files/216/PreliminaryTechnicalAssistanceAllocations-April-2022.pdf>

6.2 Increased Market Competition

Market competition is a cornerstone of a healthy economy, and small businesses, including those owned by minorities, play a crucial role in enhancing competition. Their presence injects dynamism into markets, bringing numerous benefits for consumers, the economy, and even other businesses.

Firstly, small businesses introduce price competition to the market. Their nimbleness allows them to offer competitive pricing and products, prompting larger corporations to adjust their pricing strategies to remain competitive. As a result, consumers benefit from more affordable options and improved value for money. Small businesses, driven by the desire to attract and retain customers, often prioritize offering high-quality products and personalized services. This commitment to quality raises overall standards within the market, benefiting consumers and promoting innovation. Small businesses bring diversity to the market. Their ability to identify and serve niche markets or cater to specific customer needs contributes to a broader range of products and services. This diversity enhances consumer choice, allowing customers to find options that align with their unique preferences. It also stimulates innovation as businesses strive to differentiate themselves and capture specific market segments. The presence of minority-owned small businesses further adds to this diversity, as they bring forth products, services, and cultural experiences that reflect the rich tapestry of California's communities.

Minority-owned small businesses indirectly foster innovation by nurturing an entrepreneurial spirit within marginalized communities. By providing tangible examples of success and role models for aspiring entrepreneurs from similar backgrounds, minority small business owners inspire and encourage others to pursue their own business ventures. Successful minority-owned small businesses serve as catalysts for economic empowerment and social mobility, offering a pathway to self-sufficiency and prosperity.

Additionally, small businesses, including minority-owned enterprises, are significant contributors to job creation. As these businesses thrive and expand, they generate employment opportunities, reducing unemployment rates and stimulating economic growth. They often prioritize hiring locally, thereby fostering community resilience and providing income sources for residents. The inclusive nature of minority-owned small businesses allows them to address employment disparities and contribute to narrowing the wealth gap within marginalized communities.



6.3 Community-Building

The impact of small businesses extends beyond the economy – they also play a vital role in building and strengthening local communities. These businesses foster a sense of place, cultivate community engagement, and contribute to the overall well-being of the neighborhoods they serve.

One of the most notable ways in which small businesses contribute to community development is through the circulation of local revenue. Studies have shown that when consumers choose to spend their money at local businesses, a more substantial portion of that revenue remains within the community. This circulating revenue creates a multiplier effect as it is reinvested in other local businesses, residents, and institutions. The economic benefits ripple through the community, stimulating further economic activity, and supporting the growth of other local enterprises.[6]

This is supported by the survey of California minority small business owners conducted for this report, which found 46% of owners “Engage with local suppliers and vendors”. Each purchase from a local supplier keeps a higher share of the purchase price within the given region than if the purchase was made from a non-local vendor; this means California sees higher economic activity and tax revenues as a result.

In addition to economic contributions, small businesses actively engage with their communities, demonstrating a strong commitment to social responsibility. They participate in community events, sponsor local initiatives, and support social causes. These businesses often serve as gathering spaces, fostering relationships, and creating opportunities for community members to connect. Minority-owned small businesses play a vital role in empowering and uplifting marginalized communities. They serve as beacons of hope and inspiration, providing platforms for individuals from diverse backgrounds to succeed and thrive.

Minority Small Business Owner Survey: Does Your Small Business Have Community Partnerships and Impacts?

Yes – 84.6%

No – 15.4%



Source: Beacon Economics survey of CA Minority Small Business Owners.

Amongst small business owners surveyed for this reported, over 84% listed at least one community partnership or impact tied to their business. Common responses for community partnerships and impacts included charitable giving, volunteerism, and community service days.

Moreover, small businesses contribute to the unique character and identity of their communities. They exude a sense of authenticity, as their offerings often reflect the local culture, heritage, and creativity. This distinctiveness attracts residents and visitors alike, contributing to the vibrancy and appeal of the community. By preserving and showcasing the cultural diversity of California's communities, minority-owned small businesses enrich the social fabric and create a more inclusive and welcoming environment for all.



6.4 Going Forward

The economic and fiscal impacts outlined in this report and the qualitative arguments for small businesses provided throughout throughout this section suggest that minority-owned small businesses are vitally important to the state of California.

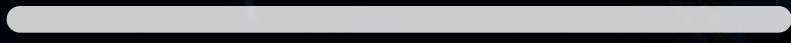
In the wake of the COVID-19 pandemic, many small businesses struggled or went out of business. Additionally, historically disadvantaged communities were hit harder by the effects of the virus, both economically and in terms of personal health. As a result, it is now particularly important to understand and appreciate the true significance of small businesses. Unfortunately, this is extremely difficult given existing gaps in available minority-owned small business data.

Beacon Economics recommends that government agencies collaborate to improve the creation of and collection of detailed data on minority-owned small businesses. This report utilized a variety of data sources, complex modeling methods, and collaboration between dozens of people to produce detailed estimates of minority small business ownership in California. This is not helpful for policymakers or stakeholders who are interested in using data to guide decisions regarding small businesses. Because small businesses are such important contributors to the economy, the inability of policymakers and stakeholders to easily identify (from a single source) up-to-date minority-owned small business data with detailed race/ethnicity, region, and industry breakdowns means that policies are potentially misaligned with what is best for small businesses, including minority-owned small businesses, throughout the state.



7

Conclusion



California's small businesses, including minority-owned small businesses, are a driving force in the state's economy, making significant contributions to regional economic and fiscal activity. Numbering approximately 1.9 million, these enterprises have a massive impact on job creation, employing over 2.5 million people. In terms of economic output, minority-owned small businesses generate an impressive \$192.8 billion. Moreover, their expenditures and employment support numerous jobs annually, fostering economic growth and prosperity. On the fiscal front, these businesses generate annual state and local tax revenues of \$13.6 billion and \$15.2 billion in federal tax revenues. This underscores their importance to California's economic landscape and the significant role they play in driving economic development, supporting the workforce, and contributing to government revenues.

California's small businesses, including minority-owned enterprises, play a critical role in the state's economy, generating positive economic impact and supporting local communities. They account for a significant portion of businesses, jobs, and economic output in the state. Minority-owned small businesses offer numerous benefits compared to larger corporations, including increased local spending, job creation, market competition, and community engagement. These businesses demonstrate innovation and agility, contributing to the overall economic growth and social mobility within marginalized communities. It is important to monitor and support the growth of small businesses, particularly in disadvantaged areas, to foster economic diversity and bridge existing economic, fiscal, and social gaps. Accessible and detailed data on minority-owned small businesses is crucial for evaluating policies, making informed decisions, and providing necessary resources to potential entrepreneurs. The current lack of detailed data on minority-owned small businesses suggests government agencies should collaborate to enable the collection of more detailed small business data. By recognizing the economic, fiscal, and social impacts of small businesses, California can develop more effective strategies to promote diversity, inclusivity, and overall economic well-being.



8

Appendix



I. Overview of Core Data Sources

i. **Data availability and gaps** exist for both the Annual Business Survey (Company Summary) and the Nonemployer Statistics by Demographics (NES-D) for a variety of reasons. Below are common situations where data has been suppressed or is unavailable. Data is more widely available the larger the geographic unit with less omission occurring at each higher geographic level.

- a. **Regulatory:** In accordance with federal law governing census reports (Title 13 of the United States Code), no data are published that would disclose the operations of an individual establishment or business; however, data are included in higher level totals.
- b. **Estimation Quality:** In some cases, the estimates do not meet publication standards because of high sampling variability, poor response quality, or other concerns about the estimate quality.

For more information on data series methodology please see the U.S. Census Bureau: <https://www.census.gov/programs-surveys/abs/technical-documentation/NESDmethodology.html> and <https://www.census.gov/programs-surveys/abs/technical-documentation/methodology.html>

ii. **Public Use Microdata Sample (PUMS)** are data files containing a sample of survey responses to the American Community Survey (ACS) by Public Use Microdata Area (PUMA). PUMS files for an individual year contain data on approximately one percent of the United States population. PUMS files covering a five-year period contain data on approximately five percent of the United States population. Additionally, PUMS data files have variables for nearly every question on the ACS.

PUMAs are distinct, non-overlapping geographic areas that partition each state into contiguous geographic units containing roughly 100,000 people. PUMAs are created after each Decennial Census.

It is important to note that estimates created from the 2019 PUMS data are expected to be different from the 2019 published ACS estimates because the PUMS data are subject to additional sampling error and further data processing operations.

This study relies on ACS 1-year PUMS data for data year 2019 corresponding to the latest NES-D data available. After data was collected, PUMA regions were aggregated into the larger CERF regions to build the demographic and industry weights.

For more information on PUMS data files please see the U.S. Census Bureau: <https://www.census.gov/programs-surveys/acs/microdata/documentation.2019.html#list-tab-1370939201>



II. Expanded Definitions

Some terms may have multiple definitions depending on where the terms are used. Terminology source is indicated by the parenthesis.

AAIP is a person having origins in any of the original peoples of the Far East, Southeast Asia, the Indian subcontinent, or a person having origins in any of the original peoples of Hawaii, Guam, Samoa, or other Pacific Islands. For example, Cambodia, China, India, Japan, Korea, Malaysia, Pakistan, the Philippine Islands, Thailand, and Vietnam.

American Community Survey (ACS) is the premier source for detailed population and housing information about the United States. It helps local officials, community leaders, and businesses understand the changes taking place in their communities.

American Indian or Alaska Native is a person having origins in any of the original peoples of North and South America (including Central America) and who maintains tribal affiliation or community attachment.

Annual Business Survey (ABS) is a data series that provides information on selected economic and demographic characteristics for businesses and business owners by sex, ethnicity, race, and veteran status. The ABS is conducted jointly by the U.S. Census Bureau and the National Center for Science and Engineering Statistics (NCSES) within the National Science Foundation and replaces the Survey of Business Owners (SBO)

Benchmark I-O Accounts are one of the major elements of the U.S. national and industry economic accounts produced by the Bureau of Economic Analysis. They provide detailed statistics on economic processes and relationships, and they provide essential information for other economic accounts.

Black/African American is a person having origins in any of the Black racial groups of Africa.

Bureau of Economic Analysis (BEA) government agency under the U.S. Department of Commerce that provides timely, accurate economics accounts data.

Business Ownership is defined as having more than 50% of the stock or equity in the business.

Capital Expenditures are expenditures made by Industries and Institutions for construction and to obtain capital equipment.

Data Year (IMPLAN) is the year of the dataset that you are utilizing.

Direct Effect are the set of expenditures applied to the I-O multipliers for impact analysis. It is one or more production changes or expenditures made by producers/consumers because of an activity or policy. Direct effects can be positive or negative.

Employee Compensation (IMPLAN) Employee Compensation in IMPLAN is the total payroll cost of the employee including wages and salaries, all benefits (e.g., health, retirement), and payroll taxes.

Employer Firms (core data) are those firms with payroll at any time during the survey year.

Employment (core data) is determined by the number of paid employees during the March 12th pay period of the survey year. The employment size of multi-unit firms is determined by the summed revenue or employment of all associated establishments. The employment size group "0 employees" includes firms for which no associated establishments reported paid employees in the March 12 pay period, but paid employees at some time during the year.

Employment (IMPLAN) is defined as the annual number of full-time equivalent (FTE) jobs supported through a businesses' expenditures in the given year.



Establishments (core data) include all nonfarm employer businesses filing the 941, 944, or 1120 tax forms.

Ethnicity is strictly used to define whether a business owner is Hispanic or Non-Hispanic

Hispanic is person of Cuban, Mexican, Puerto Rican, Cuban, South or Central American, or other Spanish culture or origin, regardless of race.

Indirect Effect are the additional output of goods or services generated by supply chain interactions. In other words, they result from business-to-business transactions.

Induced Effect stem from household spending of Labor Income, after removal of taxes, savings, and commuter income. For example, an employee of a small business spending their disposable income on housing, dining out, and the movies.

Industry Contribution Analysis (ICA) is a method used to estimate the value of a Industry or group of Industries in a Region, at their current levels of production.

Input-Output is a type of applied economic analysis that tracks the interdependence among various producing and consuming industries in an economy; it measures the relationship between a given set of demands for final goods and services, and the inputs required to satisfy those demands.

Jobs (IMPLAN) are defined as an Industry-specific mix of full-time, part-time, and seasonal employment. An annual average that accounts for seasonality and follows the same definition used by the BLS and BEA. In IMPLAN, Employment is not equal to full time equivalents.

Labor Income is the value of all forms of employment income paid for all types of impacts, including health care benefits, bonuses, etc.

Leakages are economic activity associated with the modeled Event(s) that does not generate additional effects in the defined Region. Leakages occur by way of taxes, savings, profits, imports, and commuting.

Multi-Regional Input-Output (MRIO) utilize interregional commodity trade and commuting flows to quantify the demand changes across regions stemming from a change in production and/or income in another Region. It measures the economic interdependence of regions.

Multipliers are a measure of an Industry's connection to the wider local economy by way of input purchases, payments of wages and taxes, and other transactions. It is a measure of total Effects per Direct Effect within a Region.

Non-Hispanic is person NOT of Cuban, Mexican, Puerto Rican, Cuban, South or Central American, or other Spanish culture or origin, regardless of race.

Non-employer Statistics by Demographics (NES-D) series. Data series compiled by the Census Bureau from individual-level administrative records. The Non-employer Statistics by Demographics series (NES-D) provides information on the demographic characteristics of non-employer businesses and supplements the Annual Business Survey

Nonemployer Firms are simply those firms with no employment during at any point during the survey year. Nonemployer firms are typically sole proprietorships, partnerships, single-member LLCs, and S-Corps. T

North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of

Output is the total value of production generated through project spending, including the value of intermediate inputs such as goods and services used in the production of equipment, raw materials, energy, and other production inputs.

Payroll is defined as the total annual payroll costs for the tabulation (e.g., 5 firms with total payroll of \$5mm between them) and is derived from administrative records.

Proprietor Employment (IMPLAN) is a count of proprietors, partners, and tax-exempt cooperative members.



Proprietor Income (IMPLAN) is defined as the current-production income of sole proprietorships, partnerships, and tax-exempt cooperatives. Excludes dividends, monetary interest received by nonfinancial business, and rental income received by persons not primarily engaged in the real estate business.

PUMAs are non-overlapping, statistical geographic areas that partition each state or equivalent entity into geographic areas containing no fewer than 100,000 people each.

PUMS are public use microdata sample data files gathered from the ACS. PUMS files are a set of records from individual people or housing units, with disclosure protection enabled so that individuals or housing units cannot be identified.

Race generally reflects a social definition of race recognized in the United States and not an attempt to define race biologically, anthropologically, or genetically. In addition, it is recognized that the categories of the race item include racial and national origin or sociocultural groups.

Secondary Effects are defined as the sum of indirect and induced effects.

Tax Revenue is defined as money collected to support federal, state, and local governments. This figure accounts for different state and local tax regimes.

Total Impact is defined as the sum of the direct, indirect, and induced effects.

White is a person having origins in any of the original peoples of Europe, the Middle East, or North Africa.

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About The California Office of the Small Business Advocate

The California Office of the Small Business Advocate (CalOSBA) supports economic growth and innovation and ensures that ALL California small businesses and innovative startups have the information and direct support they need to better navigate resources, programs and regulations. The purpose of CalOSBA is to support economic growth and innovation for small businesses in California. We serve as the voice of small business, representing their views and interests across the state and advocating for equitable access to capital, markets, and networks so that all California small businesses successfully start, manage, grow and become more resilient. Our key objectives include Access to Information and Resources, Advocacy, and Advancing Resiliency & Economic Mobility.

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About Beacon Economics

Founded in 2007, Beacon Economics, an LLC and certified Small Business Enterprise with the state of California, is an independent research and consulting firm dedicated to delivering accurate, insightful, and objectively based economic analysis. Employing unique proprietary models, vast databases, and sophisticated data processing, the company's specialized practice areas include sustainable growth and development, real estate market analysis, economic forecasting, industry analysis, economic policy analysis, and economic impact studies. Beacon Economics equips its clients with the data and analysis they need to understand the significance of on-the-ground realities and to make informed business and policy decisions.

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The State of Diverse Businesses in California

Economic, Fiscal, and Social Impact Analysis

