

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

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

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

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

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

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

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

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

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

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

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

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

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

PRESENTED BY :



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SECONDED BY :

