

## COVID-19 and Utah's Small Business Sector

The COVID-19–induced recession poses an unprecedented threat to small businesses. Past recessions have always meant some loss in revenue, a drop of 20%–30% over several months, but not a sudden and unexpected drop, in some cases, of 90%–100%. Without federal and state assistance, many small businesses in Utah could face bankruptcy in 2020. While the shutdown is a threat to both large and small businesses, it is particularly threatening to those 75,000 small Utah firms with fewer than 20 employees. For these small and often undercapitalized firms, the sudden loss of much of their revenue could be devastating.<sup>1</sup>

The health of the Utah economy is inseparable from the health of the state's small business community. Over half of all workers in Utah are employed by small businesses (see Table 1). Even very small businesses (<20 employees) account for a sizeable share of Utah's workforce. One out of every six workers in Utah is employed at a firm with fewer than 20 employees.

**Table 1: Private Nonfarm Employment, Income, and Number of Firms in Utah, 2019 Q1**

Category	<500 Employees	Share of Utah Economy	<20 Employees	Share of Utah Economy
Employment	880,704	57.1%	254,669	16.5%
Annual payroll (billions)	\$38.6	53.3%	\$11.5	15.9%
Firms	83,959	99.6%	75,019	89.0%

Source: Utah Department of Workforce Services

### The Paycheck Protection Program

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Securities (CARES) Act, a \$2.3 trillion relief package for individuals and businesses suffering from the economic impact of the COVID-19 pandemic. The act included a program to assist small businesses with \$349 billion in loans. This program, known as the Paycheck Protection Program (PPP), provides loans to small businesses (≤500 employees) to cover up to eight weeks of payroll.

The amount of the PPP loan can be up to two months of a firm's average monthly payroll cost plus an additional 25%. Loans can't exceed \$10 million. In essence, the PPP is a short-

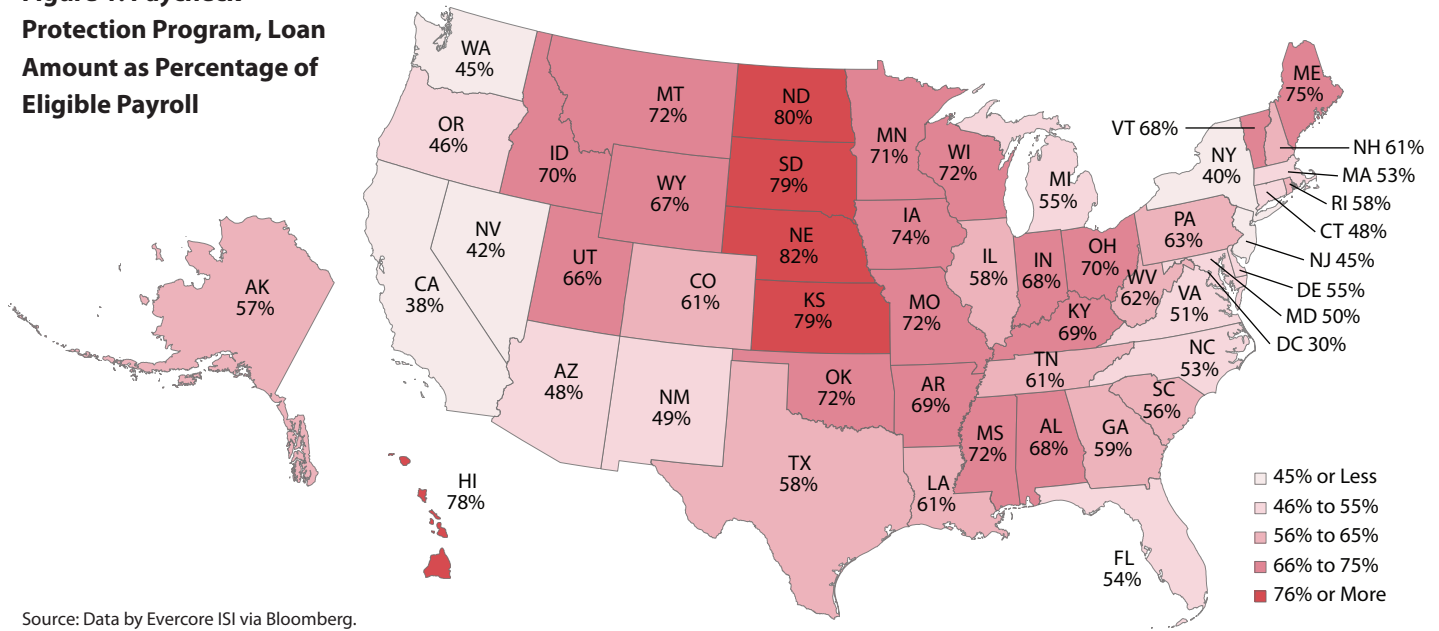
term bridge loan to allow a small business to pay its employees for eight weeks. If the borrower uses 75% of the proceeds for payroll and retains all their workers at the pre-COVID-19 wage, the loan can be forgiven. The borrower will have until June 30, 2020, to restore the firm's full-time employment. For those firms able to only partially restore their employment by June 30, a prorated amount of the loan can be forgiven. The remaining balance becomes a two-year loan. The loans carry a 1% interest rate, with payments deferred for six months. The loans don't require collateral or personal guarantees. The SBA administers the program while commercial banks process the loans.

Applications for the first round of PPP were opened on April 3, 2020. The demand was overwhelming. It took just 13 days to drain the \$349 billion in funding with 1.7 million approved loans. Twenty-one thousand small businesses in Utah received \$3.7 billion in loans. The average loan amount for Utah businesses was \$176,200.

### Paycheck Protection Funding for Utah Small Businesses

The first round of PPP loans covered 66% of the eligible payroll costs for Utah's small businesses. Coverage differs widely by state, from a high of 81.9% for Nebraska to a low of 30.4% for the District of Columbia (see Figure 1). The national average in the first round was 62%. The second round of \$322 billion in funding has been signed by the President and should provide another \$2 billion in loans for the 18,000 small businesses in Utah that applied in the first round but did not receive funding. Unfortunately, borrowers will have to form a new queue for the second round of funding.

**Figure 1: Paycheck Protection Program, Loan Amount as Percentage of Eligible Payroll**



Source: Data by Evercore ISI via Bloomberg.

**Other COVID-19 Assistance for Small Businesses**

Another SBA program for small businesses impacted by COVID-19 is the Economic Injury Disaster Loans (EIDL), which offers loans of up to \$2 million. EIDL is a long-standing SBA assistance program for small businesses hurt by natural disasters; however, the CARES Act expanded the program to include small businesses impacted by COVID-19. Under the CARES Act, the EIDL program also provided a \$10,000 grant to impacted business. Unfortunately, COVID-19 EIDL funds, like the PPP, were exhausted in short order. A second round of EIDL funding has been approved for \$60 billion. The SBA has not released data on the first round of EIDL funding by state.

To complement the federal response, the Governor’s Office of Economic Development (GOED) has distributed \$6 million to about 500 small businesses in Utah through an emergency bridge loan program known as the Utah Leads Together Small Business Bridge Loan. A second round of bridge loans totaling \$5 million is underway through GOED. The bridge loans range from \$5,000 to \$20,000 to cover three months of operating expense. The loans carry zero interest for up to 60 months with payments deferred for 12 months.

Of the assistance programs for small businesses, the PPP is by far the largest with two rounds of funding totaling \$660 billion. Utah’s share of PPP funding will be around \$6 billion. The PPP may well be the difference between survival and bankruptcy for many Utah small businesses, and for their employees it may well be the difference between household solvency and insolvency.

**Endnote**

1 The typical restaurant holds 16 days of cash buffer, retail 19 days, personal services 21 days, health care services, 30 days. Cash is King: Flows, Balances, and Bufferdays: Evidence from 600,000 Small Businesses. JPMorgan Chase & Co. Institute, 2016. <https://www.jpmorganchase.com/corporate/institute/document/jpmc-institute-small-business-report.pdf>

**A Summer of Uncertainty**

More federal assistance for small businesses may be needed later in the year. The U.S. economy has entered one of those rare occasions—the Great Depression, World War II, the Great Recession—when the federal government has to assume responsibility for the economic conditions of the country. Just how much additional federal assistance for small businesses may be needed depends on consumer and business demand. Goldman Sachs forecasts that the biggest U.S. companies will cut spending by 33% in 2020. A cutback in business spending will hurt the demand for services and products of both large and small businesses. A huge unknown is how the pandemic will affect consumer demand during the recovery. How cautious will consumers be? How long before the revenues of locally owned restaurants, nail salons, retail outlets, etc., return to normal?

The federal government’s Paycheck Protection Program and the state’s bridge loan program will provide a critical \$6 billion short-term lifeline for small businesses. But this extraordinary level of federal assistance is intended to provide just eight weeks of payroll relief. Given the \$24 billion annual payroll of Utah’s small businesses, the urgency to contain the virus and ease the economic shutdown is clear.