

## **Results of the CEDC informal survey on issues affecting small businesses in Brooklyn**

23 CEDC members responded to the inquiry as to what they thought were the most pressing issues affecting small businesses. Since CEDC represents many organizations that assist retail businesses, many of the comments addressed that sector. Several commented and expanded on what others had written, so this became a dialog as well. After a review of all the responses, 7 major issues emerged that were repeated with regularity, and 2 other issues were voiced by one or two respondents.

The respondents included 3 Community Board District Managers, several small businesses that were also active in their local merchants or civic associations, LDC and BID directors, and organizations that work with small businesses. This survey was not scientific, but reflective of sentiments that BEDC also hears from our small business clients.

What came through loud and clear was that those who responded felt that a lot of the political talk about the importance of small businesses to NYC's economy was not reflected in planning and policy decisions.

The major issues that emerged included:

- Dealing with rising rents;
- The need for some kind of stimulus package to attract and support small businesses;
- The impact of regulations;
- The need for small business funding;
- The impact of zoning actions/impact of national retailers;
- Effects of capital projects on businesses' operations;
- Tax burden

Other issues included:

- Rising cost/burden of utilities
- Providing employee benefits/health insurance

It should be noted that most of the respondents were not just complaining, but suggesting solutions. Suggestions and recommendations for each issue follow.

### **Rising Rents**

One small business owner remarked that she "runs her business on behalf of her landlord." While NYC can't legislate how private property owners use their property, as long as the use conforms to local law, everyone who commented on this issue felt that the City has to step in and stop the commercial rent madness that drives people out of business and discourages formation of locally owned businesses.

One respondent made a forceful argument for conducting a study of commercial rents so that the issue of the impact of rising rents could be quantified; she felt that you can't make new policy without hard data that supports it.

Some of the suggestions for dealing with this included:

- The most radical and politically problematic – some form of commercial rent control

- Tax subsidies to landlords who rent to small businesses, as opposed to national chains. But one respondent was very clear that this benefit had to be passed onto the tenant, i.e. had to be reflected in lower rent, not just as an operating subsidy for the landlord.
- Reviewing NYC's commercial real estate assessments: Higher assessments result in higher rents, more pass-throughs to tenants. Paraphrasing one respondent, "the practice of assessing buildings to increase the real estate tax base is in turn driving small businesses out of business, as they can't keep up with uncontrolled rent increases that pay those taxes." In other words, the landlord benefits from the increased value in his property while passing all the expense through to his tenants.
- Providing a kind of "Section 8" voucher to entrepreneurs who locate within neighborhoods needing better services.

### **Stimulus Package**

- We need something similar to the post-9/11 programs that helped businesses work through hard times
- There should be a tax subsidy for job creation for small businesses, since they provide many jobs in NYC
- The City should fund efforts that promote and support small businesses, not necessarily street fairs, but neighborhood based events like local restaurant tasting days, shop local programs, etc.
- Support and fund small business incubators
- Provide a tax subsidy to small businesses that locate within targeted neighborhoods.
- Provide marketing support to help businesses weather demographic changes in their communities by giving them access to information that is typically only available to large businesses that can pay for it. (i.e. What IS the new neighborhood profile? Who should I be marketing to?) Too much is based on anecdotal as opposed to hard information. One respondent suggested that NYC should develop and fund a giant web-based sales site that local businesses could sell through.

### **Regulations**

- There is still no coordination for businesses needing multiple permits for opening a business. The "one stop" model has not really worked.
- Peddler enforcement continues to be a problem. The NYC "Zero Visibility" Law, which prohibits store owners from selling their own goods in front of their stores, creates a vacuum that the peddlers exploit. BIDs pay a fee to get stores a 3-foot allowance in front of their stores while peddlers continue to operate with impunity at no cost. One respondent mentioned "silly" regulations regarding tripod signs in front of businesses.
- Sanitation and DOT enforcement continue to be seen as harassment and just another way for NYC to collect revenues at the expense of small businesses. Any request for a change in parking/traffic regulations takes a long time and a lot of follow-up.

### **Small Business Funding**

- EDC programs like the Capital Access Program, which helped banks and nonprofit loan funds make loans to small businesses have dried up and in this tight credit market, these types of programs are needed.
- There should be a subsidized loan program specifically to help small businesses buy the real estate where their businesses are located, to encourage stability and growth.

## **Impact of Zoning**

There was widespread agreement that the many zoning changes in NYC have affected local retail, and not always in a positive way. It has encouraged landlords to land bank properties while awaiting higher paying tenants, or driving out older tenants with dramatic rent increases. Suggestions for dealing with the unintended consequences of zoning changes on small business included:

- Creating designated “Small Business Districts”, similar to the Industrial Business Zones, where certain types of businesses would not be permitted
- An all-out moratorium on re-zoning unless small business impacts were part of the analysis
- Creating a tighter definition of “highest and best use”, which is now highly subjective and under the control of City Planning

## **Impact of Capital Projects**

More than one respondent noted that extended period street reconstruction projects can drive people out of business as the impeded access deprives them of revenue. While these projects are necessary, some suggestions for mitigating their impact included:

- Grants to businesses to carry them through the reconstruction period; and
- Including this cost as part of the budget for the project

## **Tax Burden**

Respondents applauded the elimination of the sales tax on clothing purchases up to \$110, but felt that the sales tax overall was too high. They also agreed that real estate taxes, which are generally passed directly through to tenants on leases, were hurting small businesses. Some suggestions for dealing with these issues included:

- More sales “tax free” weeks, especially now, when the economy needs stimulation
- Defining how real estate tax costs may be allocated to tenants: some landlords charge tenants over 100% of their tax bill by generous “common area maintenance” charges that sometimes add 20% to the tenants usable square footage costs. In mixed use buildings, the commercial tenants are sometimes the ones who bear most of the tax costs.

## **Other Issues**

**National Chains.** Surprisingly, some of the issues that were expected to dominate did not: Only 2 respondents were in favor of legislating in some way to prevent national chain retailers from entering the NYC market. BEDC’s work with over 70 Brooklyn groups indicates a wide divergence of opinion on this topic, with some groups welcoming an anchor store, and others feeling that they are overrun with them, driving out local entrepreneurs. Not surprisingly, it is the higher income neighborhoods that consider this a bigger problem, since this is where national retailers tend to cluster (they believe that’s where the money is, in defiance of statistics showing a lot of disposable income in lower income communities).

**Local Purchasing Requirements.** Like MWBE programs, several respondents suggested that locally based enterprises (LBEs) be included in municipal purchasing programs.

**Utility Costs.** Already high, projected increases in utility costs will further erode the profitability of small businesses. On electric costs, one writer said that the simple fact of how much space you

occupy, not your usage, determines what service class you end up in, and EL-1 has higher costs than EL-9. Although Brooklyn was less affected than Queens with utility outage problems, there was a sense that NYC had to advocate for businesses when these events caused business interruptions beyond the control of the businesses.

**Employee Benefits.** While most respondents felt that business owners wanted to do right by their employees in terms of providing benefits, they conceded that this was beyond the means of many of the businesses. Health insurance stood out as the major issue, despite efforts by many organizations to offer affordable insurance to small businesses; the profit margins of small businesses generally seem razor thin, and other involuntary costs like taxes and rent force them to put aside employee benefits.

### **Some comments extracted from the respondents**

“I think the city’s policies are overwhelmingly tilted in favor of big developers, corporate subsidies, and rezoning designed to promote big box retail and/or national chains. If one looks where the city’s money goes, it is not going to support small businesses.”

“With the economic meltdown, what will be the impact on small businesses and is there any stimulus package for small businesses? The only frame of reference is the aftermath of 9/11 when small businesses were hurting.”

“There is no doubt that I am basically running my business as a money-making proposition for my landlord. Several other businesses with whom I have honest conversations report that the owner takes no salary *at all*.”

“Addressing the problem [of business rents] is not only for businesses, but a question of emerging communities and all the aspects of assimilation between the existing businesses and the new demands of the residents that never left and the new residents that are living in luxury housing.”

“Small businesses have been and continue to face a huge loss in revenue due to reconstruction projects. The question would be, what could be put in place during the negotiation process of the project for small businesses to help keep them optimistic until the project is finished, e.g. if the project is supposed to last for one year and then continues past that year, what can be done to help them from losing their business?”

“We need a new model, a comprehensive strategy, to support our Mom and Pop businesses. It would be nice to see the City Council investigate things like -- potential tax incentives for locally-owned businesses, creating commercial revitalization programs that specifically target locally-owned businesses, and anything else that might help level the playing field. If we can create and support a host of MWBE programs that encourage entrepreneurship and opportunity across races and genders, why can't we do something for our own neighbors who are simply trying to scratch out a living in their own neighborhoods?”

Re the Zero Visibility Law: “While the law was created for good reasons...and if fully enforced (this is a major issue) would protect areas from street vending.. it currently places an unfair restriction on stores without providing the protection against legal and illegal vendors.”

“City Council members need to actually get a basic small business education and begin to meet with small businesses more often. In my 4 years - I have been around the council reps and none of them understand what a small business really is. It's great to hear them talk about promoting or supporting small business but talking about it is not doing anything. Every time there is a crisis, there is a beginning conversation about addressing the needs of small businesses - and after the crisis ends - the long and short is that there have not been any changes to policy, law or legislation. Small businesses like mine watch and smile...and think maybe next time.”