



54%
of Philadelphia's
jobs are created by
small businesses



98%
of Philadelphia's businesses
are small businesses with
fewer than 50 employees



TAKING CARE OF BUSINESS

Improving Philadelphia's Small Business Climate



27% have 2-50 employees | 73% are self-employed

93,000
small business owners in Philadelphia



Report definitions:

By federal definition, a small business is one with fewer than 500 employees. While this definition may be helpful on the national level, it makes less sense for Philadelphia, where 98% of businesses have fewer than 50 employees.

Small Business:

A business venture existing in the City of Philadelphia with 50 or fewer employees (including businesses with no employees).

Entrepreneur:

A person who conceives, develops and operates a new business venture in the City of Philadelphia, assuming both the risk and reward for the effort.

Non-Employer/Self-Employed:

A person who works for himself/herself and draws income from a trade or business with no employees.

Necessity Entrepreneur:

An individual who chooses to start a business because no better option exists due to a lack of available wage jobs or an inability to qualify for available jobs.

Small Business

Support Organization:

A nonprofit with a mission to help small businesses thrive.

Opportunity Entrepreneur:

An individual who chooses to start a business because they believe an unexploited or underexploited business opportunity exists.

Technical Assistance:

The provision of advice, training and other help to small business owners.

We gratefully acknowledge the William Penn Foundation for its funding of this effort.

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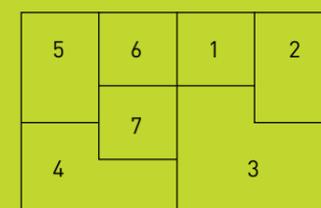
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November 2011

On the cover:



back front

1. Ultimate Concrete, LLC
2. Hana & Posy
3. Wash Cycle Laundry
4. Earth Bread + Brewery
5. YIKES, Inc.
6. Feast Your Eyes Gourmet Catering
7. The Night Kitchen Bakery

What is a locally-owned business?

The focus of this report is small businesses with 50 or fewer employees. Most of these are locally-owned businesses. However, Philadelphia has both large locally-owned businesses and small businesses that are part of national chains or franchises. Locally-owned businesses are defined as companies where more than 50% of the owners live within 50 miles of the business, putting the decision makers in close proximity to the people and environments that will be affected by their business decisions. 89% of Philadelphia businesses (including self-employed persons) are locally-owned. The other 11% are headquartered in another state (3%) or are non-commercial businesses such as nonprofit organizations and universities (8%).¹ Locally-owned businesses create more than six out of ten jobs in Philadelphia.² In addition, locally-owned businesses significantly increase per capita income growth (the amount each resident of Philadelphia is earning over time).³

TAKING CARE OF BUSINESS

Improving Philadelphia's Small Business Climate

November 2011

For ten years, the Sustainable Business Network of Greater Philadelphia (SBN) has been working to build a just, green and thriving economy in the Philadelphia region. We accomplish this by educating and growing a broad base of local, independent businesses and educating policy makers and the public.

The primary constituents served by SBN are locally-owned, independent businesses in the Philadelphia region. Over half of our members are located in the City of Philadelphia. These businesses represent diverse industries and business sectors, including independent retailers, manufacturers and service-based businesses. Our 500+ member businesses are run by entrepreneurs from varying racial/ethnic backgrounds, economic levels and age groups and they represent over 5,000 employees in the Philadelphia region.

Through educational seminars, conferences, networking events, and one-on-one mentoring, SBN teaches the "triple bottom line" business model—people, planet and profit—that measures business success by how well an organization impacts its employees, its community and the environment. Our Green Economy Initiatives are helping to grow job opportunities for low-income people. SBN is also a founding member of the Business Alliance for Local Living Economies (BALLE), the fastest-growing network of social entrepreneurs in North America, comprised of 80 networks in 30 U.S. states and Canadian provinces representing over 22,000 businesses.

Why did SBN take on this project? Because if our member businesses cannot figure out how to stay in business, they cannot produce any of the social and environmental impacts that help create a stronger local economy. If they are not profitable, they will not have the resources to create new jobs or green their facilities. For years, we have heard our members tell us that Philadelphia is a hard place to do business. This report outlines nine things that the Mayor and City Council can do to help them succeed.

We believe that the Mayor and City Council are ready to act. The Nutter Administration has shown its commitment to small businesses by reducing wait times at Licenses and Inspections, reducing the number of required licenses, and introducing an online Business Services Center to provide information on how to start and run a business⁴. City Council recently held hearings on the zoning code and is pushing towards the goal of creating a new, business-friendly zoning code before the end of 2011. We hope this report supports their efforts to improve the small business experience and we are eager to work with them to improve the economic prosperity of Philadelphia.

We at the Sustainable Business Network of Greater Philadelphia (SBN) understand that businesses must first survive, and only then can they take proactive steps to benefit their communities and the environment.

Leanne Krueger-Braneky,
Executive Director of SBN

Leanne Krueger-Braneky
Executive Director

Lindsay Gilmour
Board Co-Chair

Iola Harper
Board Co-Chair

SUMMARY

Business owners say that the small business environment needs to improve.

Gabriel Mandujano, owner of Wash Cycle Laundry, Philadelphia's first sustainable, bike-driven laundry service.

The Sustainable Business Network of Greater Philadelphia (SBN), with funding from the William Penn Foundation, embarked on a yearlong study of small businesses in Philadelphia. The goal of the study was to explore the reasons behind the City's low rate of small business formation and determine how the City can effectively support small business growth.

SBN conducted surveys, focus groups and interviews with over 100 small business owners and over 20 small business support organizations, as well as with leadership at the agencies that businesses regularly interact with: Health, Licenses and Inspections, Commerce, Revenue, Office of Economic Opportunity, and Procurement. SBN spoke to small business owners in diverse industries and neighborhoods throughout the City. SBN spoke to what the nation has been calling "Main Street" and its butchers, bakers, restaurateurs, skilled craftsmen, real estate agents, small shopkeepers, graphic designers, suppliers, coffee shop owners, and cleaners.⁵ SBN spoke to business owners along commercial corridors in West Philadelphia, North Philadelphia, Northeast Philadelphia and South Philadelphia. SBN talked to businesses owned by African-Americans, Hispanics, Asians and recent immigrants. SBN spoke to business owners in neighborhoods that are growing and neighborhoods where the customer base is in decline. SBN talked to business owners who have been hit hard by the economic downturn and those who have seen little impact. SBN spoke to business owners who started their businesses in the last year and those who have been operating family businesses for over 50 years. Each of these owners shared a belief that Philadelphia is a tough place to open and operate a business.

Their needs were universal. Other than a request for materials to be made available in languages other than English, something immigrant business owners noted had improved under the Nutter Administration, the needs of minority-owned businesses and immigrant-owned businesses were the same as other small businesses. Most business owners expressed a belief that city government poses substantial obstacles to small business formation and growth. Business owners were willing to talk freely as long as their identities were not disclosed in the report. Their views are expressed throughout this report in quotes from Philadelphia small business owners.

This study examines the city's public policy and how its taxing, legislative, regulatory and service delivery authority can be improved to better encourage small business formation and growth. The Sustainable Business Network identifies impediments to job growth and small business success and recommends actions that can be taken within the next four years to eliminate them. The report focuses on the laws, regulations and policies that impact all Philadelphia small and locally-owned businesses. Many of these recommendations are budget neutral. Many build upon actions that the Nutter Administration is already taking. All will significantly improve the small business environment.

The Sustainable Business Network of Greater Philadelphia (SBN) asked more than 100 small business owners about their experience in Philadelphia and how they would explain the City's low business and job growth. They responded that Philadelphia is a tough place to do business. Owners reported that only the most committed entrepreneurs would be able to form thriving new businesses in Philadelphia, in part because of the obstacles that city government places in their path.

p. 6 **WHY** Are Small Businesses Important to the City's Economic Growth?

Small businesses provide jobs for over half of the City's private sector workforce. Young, small businesses contribute more new jobs than large, established firms with over 50 employees. Small businesses—and the billions of dollars that they inject into the economy each year—are critical to the health of the City.

p. 8 **WHO** Are Philadelphia's Small Business Owners?

The City's 93,000 small business owners serve Philadelphians in every neighborhood of the city providing lawn care, dental care and day care. While many owners start their businesses to obtain financial independence, others start businesses because no jobs exist for which they qualify.

p. 10 **HOW** Does Philadelphia Rank on Small Business Formation and Survival?

Philadelphia is creating fewer new businesses than the national average, and its businesses are not growing as quickly. Commonly, the same number of businesses close as open in Philadelphia each year. As a result, the City has fewer jobs to offer its residents than nine out of ten of the country's largest counties.

p. 12 **NINE RECOMMENDATIONS** to Spur Small Business Growth and Job Creation

Small business owners identified nine actions that the Mayor and City Council can take today to spur new business formation and growth. SBN believes these recommended actions can create a better business environment in Philadelphia and make our small businesses stronger.

- 1 **Reduce the time, cost and confusion of obtaining approvals.** Philadelphia must continue to streamline and clarify its license and permit process and remove politics from decision-making. By continuing to consolidate and eliminate licenses, the City can ensure that businesses do not need to obtain seven or more separate licenses to open. By streamlining the process, the City can encourage new businesses to form rather than requiring over \$1,000 in fees and up to a 12-week process just to gain approval to hang a sign. Finally, by creating objective standards that eliminate the need to obtain the support of a District Councilperson, the City can remove politics from the approval process.
- 2 **Simplify the tax compliance burden for small businesses.** While there is an extremely clear consensus that business taxes must be lowered, it is just as important that Philadelphia simplify its business tax filing rules and eliminate the requirement that a start-up business pay two years of taxes upfront in one payment before the business makes its first sale.

3 **Ensure laws do not unnecessarily harm small businesses.** City Council can protect small business from the unintended negative impacts of laws and regulations by improving direct notice and comment opportunities for owners. By regularly reviewing existing laws and attaching sunset clauses, City Council can ensure laws deliver more benefits than costs.

4 **Reform the inspection system to ensure it is fair, objective and offers the right to a timely appeal.** Philadelphia can create a fair, objective inspection system by establishing rights and responsibilities for inspectors and businesses, sharing better compliance information with owners, and improving the appeals process. Inspection policy has been improved at the highest levels of city agencies, but implementation continues to burden businesses.

5 **Partner with Community Development Financial Institutions (CDFIs) and nonprofit support organizations to increase financing to small businesses.** Partnering to expand the small business lending capacity of Philadelphia's CDFIs, which offer only a quarter of the loan capacity of the average national CDFI, will make more loans available. Adopting a successful model that helps to improve business owners' credit scores by adding good credit payment history will significantly improve their access to financing.

6 **Encourage collaboration and increased accountability among small business support organizations.** Philadelphia should create a more collaborative, integrated network of nonprofits to support small businesses more effectively. Philadelphia's many small business support organizations too often try to provide the same complement of services to the full spectrum of business owners, rather than taking a strategic and collaborative approach. The City should bring these nonprofits, many of which receive City funding, together to determine where their expertise lies, who they serve and how they can work more effectively to eliminate duplication and fill gaps in service. By doing this, the City can better match entrepreneurs to the right resources at the right time to help them grow.

7 **Transfer vacant land and enforce tax foreclosure laws to provide land for new and expanding businesses.** Philadelphia needs to bring blighted vacant land back on the market and into the hands of new and expanding businesses. Owners are discouraged by their inability to purchase vacant land near their businesses and by the ability of tax-delinquent owners of vacant land to leave their land blighted without consequence. By creating an objective, transparent process to obtain publicly-owned land and aggressively using code enforcement and tax foreclosure to coerce private owners to care for or transfer their vacant properties, Philadelphia can strengthen small businesses. L&I is currently working with the courts to increase enforcements for code violations on vacant properties. This early program shows that the Administration understands the need for code enforcement against vacant property owners.

8 **Consolidate and modernize the City's procurement process to increase small business participation.** A clear, uniform procurement process allowing the electronic submission of bids, limiting performance bond requirements and paying contractors in a timely manner will increase the ability of small businesses to compete for City contracts.

9 **Improve communication between government and small businesses.** Philadelphia can improve communication with business owners by creating customized alerts, improving and publicizing its new online Business Services Center, training employees to provide consistent information, and participating in an annual small business town meeting.

It is tough to make a living in Philly. Philadelphia taxes take so much out of revenues, stormwater fees again reduce revenues, and then there are licenses that have to be renewed like the Dumpster License. And all with virtually no customer service from the City.

Butcher

I won't say the City caused me to move, but my best decision for my business was to leave. The taxes, regulations, and real estate prices (you would think leasing would be cheaper in the city but in my case it wasn't) made me want to leave. Going across the border substantially improved my business' bottom line and I still live in Philly.

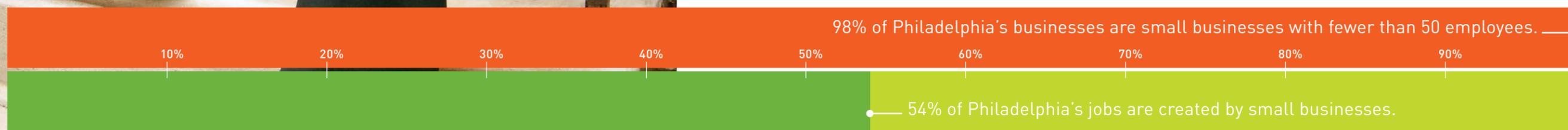
Drycleaner who left city

Yvette and Dereck Jones, owners of Ultimate Concrete, LLC, a full-service concrete and masonry company, at the site of a recent installation in East Falls.



WHY

Are Small Businesses Important to the City's Economic Growth?



Small businesses form the backbone of Philadelphia's economy and create jobs at a faster pace than larger companies. 98% of Philadelphia businesses are small businesses with fewer than 50 employees⁶. These small businesses create over half of the jobs in Philadelphia (54%).⁷

New start-ups also play a leading role in job creation—65% of jobs in the City are created by businesses five years old or less⁸. In fact, nationally, without new start-ups, there would have been no job growth from 1980 to 2005⁹. This is true even though many small businesses fail within the first two years. These failed businesses are typically replaced by new businesses in a process called "churning" that has been proven to create more jobs.¹⁰

Small local business owners contribute to Philadelphia's vitality and sustainability. Unlike money spent with publicly-traded companies, national chains or franchises, small locally-owned businesses help money earned in Philadelphia stay in Philadelphia.¹¹

If \$100 is spent at a national chain bookstore, \$13 stays in the community. 

If \$100 is spent in a local, independent bookstore, \$45 stays in the community.¹² 

Small business owners provide leadership as they join boards, sponsor events and support local efforts to create strong neighborhoods and improve the City. Local business owners support nonprofits with contributions 350% greater than non-locally-owned businesses.¹³ Small businesses are an important source of jobs for people who may not be employable by large corporations including ex-offenders.¹⁴ Small businesses meet the day-to-day needs of Philadelphia residents and at the same time connect Philadelphia markets to the larger global economy.

Helping local small businesses to form and grow is a far more cost-effective strategy than attempting to attract established firms from other jurisdictions. Research has shown that government dollars and subsidies are more effectively used to help homegrown businesses than to attract firms established in other locations.¹⁵ While conventional economic development strategies typically include tax credits to attract large, nonlocal firms, investing in locally-owned businesses leads to more job creation in the long run.

City government plays a significant role in defining Philadelphia's business climate. Government:

- » Passes the laws under which businesses must operate.
- » Sets the standards for many professions by requiring licenses.
- » Taxes businesses.
- » Builds and maintains the infrastructure businesses rely upon.
- » Buys products and services from businesses.
- » Assists businesses with loans, grants, technical assistance, and targeted services.

98%

98% of Philadelphia's businesses are small businesses with fewer than 50 employees. 

54%

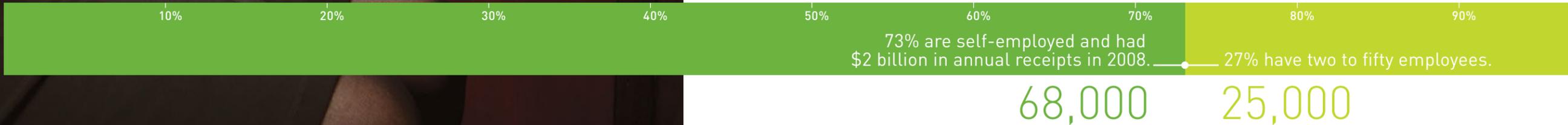
54% of Philadelphia's jobs are created by small businesses. 

Peggy Zwerver and Tom Baker, owners of Earth Bread + Brewery in Mount Airy, which offers house-made beer, flatbread pizza and a focus on local and sustainable products.



WHO

Are Philadelphia's Small Business Owners?



Taking Care of Business: Improving Philadelphia's Small Business Climate

Small businesses are America's most trusted institution. A 2010 Pew Center for Research poll found that Americans trust small business owners more than government, churches, colleges, labor unions or large corporations. Americans also feel that government should do more to meet the needs of small businesses.¹⁶

Philadelphia has 93,000 small business owners. 68,000 of these are non-employer businesses or self-employed individuals. The remaining 25,000 are businesses with between two and fifty employees. The city has a total of 27,000 businesses with employees. The 68,000 non-employer businesses contribute significantly to Philadelphia's economy, bringing in annual receipts in 2008 of over two billion dollars.¹⁷

Owners locate their small businesses in every neighborhood of the City. The services they provide range from a new start-up patenting sophisticated technology to a corner store to a self-employed accountant working out of her house. Most small business owners are not selling a unique product, but instead are trying to provide goods and services to Philadelphia residents and businesses. It is these small businesses that are the focus of this report.

While some businesses generate significant profits for their owners, many Philadelphia small business owners become entrepreneurs out of necessity and will never earn substantial profits from their businesses. Many Philadelphians started their small businesses to fulfill a desire to be their own boss and gain financial independence, but many others began a business because few jobs existed for which they qualified. Entrepreneurship offers ambitious individuals with limited education, poor language skills, or ex-offender status an alternative path to earning an income. The businesses of necessity entrepreneurs tend to be labor-intensive and low-profit.¹⁸ In fact, most entrepreneurs located in low- and moderate-income neighborhoods earn less initially, and have lower earnings growth, than their peers who have a job with a wage.¹⁹

Over 90% of Philadelphia businesses are licensed and pay taxes, while approximately 9% operate underground or "under-the-table," providing legal goods and services for cash payments that are not reported to government.²⁰ For some Philadelphians, these cash businesses supplement income from wage jobs; for others, they furnish the sole income for a household. Many of these businesses fill a gap in services that formal businesses do not provide. All operate without government supervision and without contributing taxes. Encouraging these businesses to become licensed is important because formalized businesses grow faster and create more jobs.²¹ Lowering the regulatory hurdles and costs to register as a legal business has proven to motivate underground businesses to come forward and meet legal requirements.²² A 2010 City of Philadelphia tax amnesty program brought 1,700 existing businesses out into the open to become official taxpaying businesses.²³ In May 2011, the administration introduced a similar initiative from L&I encouraging Philadelphia businesses to renew lapsed licenses, allowing up to 45 days to come into full compliance.²⁴

Immigrants are almost 30% more likely to launch a business than non-immigrants.²⁵

These self-selected risk takers who move from one country to another are credited with the recoveries of many urban neighborhoods and commercial corridors.²⁶ Immigrant entrepreneur needs are very similar to those of entrepreneurs in general.²⁷

The City needs to understand that we eat from our business. When the City charges us more money, it has a significant impact on the groceries I bring home to my family. It really hurts.

Optometrist

93,000
small business owners
in Philadelphia

Kayo Higashimura, owner of Hana & Pōsy, a full service, eco-friendly florist and gift boutique in Old City.

HOW

Does Philadelphia Rank on Small Business Formation and Survival?

The Philadelphia region has the lowest small business formation rate of the largest fifteen regions of the country.²⁸ While metropolitan Philadelphia has 150 entrepreneurs starting new businesses for every 100,000 people in its population, Los Angeles has 620 entrepreneurs and Boston has 330 entrepreneurs for every 100,000 people.²⁹

Philadelphia has fewer jobs to offer its residents than its surrounding suburban counties or peer counties across the nation. While Montgomery County offers 57 jobs for every 100 people and Chester County offers 46 jobs per 100 people, Philadelphia offers 42.³⁰ Similarly, a comparison to job availability in the largest counties in the country makes it clear that Philadelphia must work with small businesses to create new jobs to offer its residents and bolster its economy.³¹

10 Largest Counties and Philadelphia (by employment)	2010 Population	Number of Jobs (December 2010)	Number of Jobs Per 100 People
New York, NY	1,585,873	2,335,900	147
Dallas, TX	2,368,139	1,392,800	59
King, WA (Seattle)	1,931,249	1,131,800	59
Harris, TX (Houston)	4,092,459	2,091,300	51
Orange, CA	3,010,232	1,382,000	46
Cook, IL (Chicago)	5,194,675	2,379,800	46
Maricopa, AZ (Phoenix)	3,817,117	1,643,900	43
Philadelphia, PA	1,526,006	634,300	42
San Diego, CA	3,095,313	1,256,100	41
Los Angeles, CA	9,818,605	3,931,600	40
Miami Dade, FL	2,496,435	970,300	39

The City of Philadelphia experiences little business growth because a similar number of businesses open and close each year. In 2007, 2,912 new businesses opened and 2,852 closed. This means that Philadelphia experienced a net gain of only 60 businesses as businesses opened and closed at virtually the same rate—about 11% per year.³² Throughout the decade, Philadelphia has formed new businesses and jobs at a slower rate than the nation as a whole, although notably in 2008, the latest year for which data is available, Philadelphia added 422 new businesses. This higher rate of business formation mirrors that of the nation and is largely attributable to individuals who lost jobs and established new businesses with no employees.

For the ten years between 1998 and 2008, businesses grew 77% nationally while in Philadelphia, businesses grew 69%. That sounds like we are doing fairly well until you look at job gains. During the same decade, the country grew jobs by 9% while Philadelphia lost 2%. Why is that? Because the new businesses Philadelphia grew during this period were primarily small non-employer businesses. Philadelphia actually suffered a net loss of businesses with two or more employees during this decade.³³

Philadelphia Lost Jobs as the Nation Gained Jobs				
Establishments	1998	2008	Change (1998-2008)	% Change
Philadelphia, PA	51,157	86,282	+35,125	+69%
U.S.	13,560,755	23,947,096	+10,386,341	+77%
Jobs	1998	2008	Change (1998-2008)	% Change
Philadelphia, PA	854,085	836,270	-17,815	-2.10%
U.S.	151,750,675	165,870,794	+14,120,119	+9.30%

Administration red tape and the Business Privilege Tax can get in the way, but there is a culture of entrepreneurship in Philly. College students don't view this city as a place to start a company. Having stayed in Philly, I can tell you that they're wrong. We have cheap rent, universities, and talent.

Manufacturer

Observant readers may note that the total jobs for Philadelphia County vary in the two charts on this page. The first chart uses quarterly data collected by the Bureau of Labor Statistics from state and federal unemployment insurance records that does not include all industries. For instance, it omits government workers. The second chart uses data from YourEconomy.org and its National Establishment Time Series (NETS) database.



NINE RECOMMENDATIONS

to Spur Small Business Growth and Job Creation

Amy Edelman and John Millard of The Night Kitchen Bakery, a Certified Green Restaurant® that has served Chestnut Hill for 25 years.

- 1** Reduce the time, cost and confusion of obtaining City approvals.
 Philadelphia must continue to streamline and clarify its license and permit process and remove politics from decision-making.
 p. 14
- 2** Simplify the tax compliance burden for small businesses.
 Philadelphia must simplify its business tax filing rules and eliminate the requirement that a start-up business pay two years of taxes upfront in one payment.
 p. 19
- 3** Ensure laws do not unnecessarily harm small businesses.
 City Council can protect small businesses from the unintended negative impacts of laws and regulations by improving notice and comment opportunities for small businesses, regularly reviewing existing laws and attaching sunset clauses.
 p. 21
- 4** Reform the inspection system to ensure it is fair, objective, and offers the right to a timely appeal.
 Philadelphia can create a fair, objective inspection system by establishing rights and responsibilities for inspectors and businesses, sharing better compliance information with owners, and improving the appeals process.
 p. 23
- 5** Partner with Community Development Financial Institutions (CDFIs) and nonprofit support organizations to increase financing to small businesses.
 Philadelphia can help improve small businesses' access to financing by increasing local CDFI loan capacity and helping business owners build better credit.
 p. 25
- 6** Encourage collaboration and increased accountability among small business support organizations.
 Philadelphia should create a more collaborative, integrated network of nonprofits to support small businesses more effectively.
 p. 27
- 7** Transfer vacant land and enforce tax foreclosure laws to provide land for new and expanding businesses.
 Philadelphia needs to bring blighted vacant land back on the market and into the hands of new and expanding businesses.
 p. 29
- 8** Consolidate and modernize the City's procurement process to increase small business participation.
 A clear, uniform procurement process allowing the electronic submission of bids, limiting performance bond requirements and paying contractors in a timely manner will increase the ability of small businesses to compete for City contracts.
 p. 31
- 9** Improve communication between government and small businesses.
 Philadelphia can improve communication with business owners by creating customized alerts, improving and publicizing its new online Business Services Center, training employees to provide consistent information, and participating in an annual small business town meeting.
 p. 33

Recommendation

1 Reduce the time, cost and confusion of obtaining City approvals.

Philadelphia must continue to streamline and clarify its license and permit process and remove politics from decision-making.

In Philadelphia, having a license just shows that you paid a fee. There is no assurance of quality performance or anything else. A license doesn't secure the safety of customers.

Restaurateur

Eliminating high regulatory costs will significantly increase the value of the City as a business location.³⁴ Studies have repeatedly shown that cities that adopt a speedy and simplified regulatory approval process increase business growth.³⁵ The most detrimental regulations are costly, complex, and require businesses to pay a fee to qualify to practice in a field without any objective check on their skills and capabilities.³⁶ Most Philadelphia licenses operate solely as fee obligations without any evaluation of business quality.

If a city "wants to attract entrepreneurs, changing its stifling regulatory climate—particularly rules that make it difficult to open new businesses—would be a good place to start." -Economist Edward Glaeser³⁷

Reduce the time and money business owners must invest to obtain required City approvals to help businesses' bottom lines and Philadelphia's economy.³⁸ Philadelphia business owners have a difficult time understanding what approvals they need to run a business in Philadelphia. The Nutter Administration has introduced several measures to better communicate government requirements, including an informative new Business Services Center on its website. Yet the sheer number of approvals a business may be required to obtain is daunting. A business must evaluate how many of Licenses and Inspections's 50 different business licenses are required for its operation, and then determine the requirements of the Streets Department or Health Department and other City agencies.³⁹ While there has been notable progress, most agencies cannot accept online submission of applications and fees for the majority of

The Business Privilege License is aptly named. Philadelphia employees act like they are bestowing a privilege on us when they allow us to open a business here and run through their labyrinth of rules and requirements.

Start-Up Business Owner

their licenses or permits. Some, like the Health Department, still require money orders or cashier checks to pay fees. The Commerce Department has introduced a small number of Business Service Representatives who are available to help businesses navigate the maze of government requirements, and they are well-regarded by those who have worked with them.

Unfortunately, most businesses interviewed had not heard of the Business Service Representatives, and there are too few of these employees to help even a small percentage of the business owners who need assistance.

Business owners seek to remove politics and "who you know" from the approval process. They seek to remove the need to form a relationship with the District Councilperson in order to ensure that they can obtain business approvals. For instance, a first-time coffee shop owner explained that he cannot allow his customers to take coffee back to their offices until he obtains a certificate or variance from the Zoning Board of Adjustments (ZBA) and the ZBA gives substantial weight to the position of the District Councilperson. This same coffee shop wants to offer sidewalk seating for which the District Councilperson must agree to introduce an ordinance authorizing sidewalk seating in City Council. If the business owner and the District Councilperson do not have a relationship, this approval may not be attainable. Taking politics out of the permitting process is essential if the City is to become business-friendly. The City's recent effort to adopt a more objective, modern zoning code will hopefully eliminate the need for small businesses to obtain variances or special exceptions.

Business Service Representatives are really helpful but they need more authority. They currently only have the same authority as I do as a commercial corridor manager. They can make calls but are ineffective with agencies that will not cooperate—the same as corridor managers. In fact if you look at their job description, it is the same.

Commercial Corridor Manager

Expedited fees add up. Every time I go to an agency, they say it will take weeks unless I pay them hundreds of dollars' worth of expedited fees.

Restaurateur

According to an informal email survey of SBN members completed by 63 business owners⁴⁰:

93% find that the City rarely or only sometimes offers prompt customer service to small businesses. PIDC was ranked most business-friendly with the Commerce Department as a close second. L&I and the Streets Department were ranked least business-friendly.

80% find that rarely or only sometimes were owners clear as to what licenses and permits their businesses were required to have.

30% encountered conflicts among government departments, most commonly between L&I and Health.

86% rarely or only some of the time find it easy to obtain or extend permits or licenses.

When asked about the permits or licenses required to open their businesses:

63% had to obtain two or more licenses or permits.

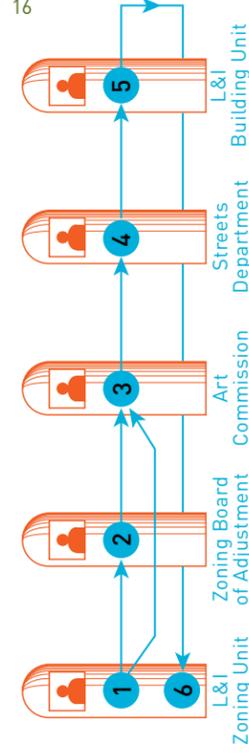
10% had to obtain five or more licenses or permits.

The 63 respondents do not represent a statistically significant percentage of Philadelphia business owners.



How to Obtain Approvals for a Projecting Sign

Every storefront business needs a sign. The process for obtaining approval to put up a projecting (2-sided) sign in Philadelphia illustrates how costly and time consuming it can be to meet city requirements.⁴¹



	City Department to Visit	Paperwork Needed	Cost	Time
1	<p>L&I Zoning Unit</p> <p>Zoning Application accepted! You must gain approval from Art Commission and Streets Department for zoning to be approved. Go to Art Commission (step 3).</p> <p>-OR-</p> <p>Zoning Application rejected: your sign is too large and/or in a residential district. You must obtain a variance from Zoning Board of Adjustment. Go there (step 2).</p>	<p>APP-LICA-TION Zoning Application</p> <p>ELEVATION DRAWINGS Elevation drawings</p> <p>THREE PHOTOS OF BUILDING Three photos of building</p> <p>6X Six copies of plot plan showing relation of sign to property line</p> <p>ROUGH DRAWING OF SIGN DIMENSIONS Rough drawing of sign dimensions</p>	<p>\$400-500 for all drawings</p> <p>+\$100 filing fee (credited toward permit fees at end of process)</p> <p>+\$420 expedited fee to receive review in 5 days or less</p>	2 hours to 20 business days
2	<p>Zoning Board of Adjustment</p> <p>File "Petition of Appeal" and post orange poster on property 12 days before hearing. Need attorney if business is a corporation.</p> <p>ZBA approved your variance. Submit Notice of Decision to L&I Zoning to continue process.</p> <p>-OR-</p> <p>ZBA denied your variance. Appeal to court or change sign design.</p>	<p>DEED Deed or Lease</p> <p>NOTICE OF REFUSAL Signed L&I Notice of Refusal</p> <p>COVER LETTER Cover Letter</p> <p>PHOTOGRAPHS Photographs</p> <p>LETTER OF SUPPORT Letter of support from Councilperson and community group recommended</p> <p>6X Six photos of building exterior, street views, and adjacent buildings or sites</p> <p>Plot plan showing relation of sign to property line Plot plan showing relation of sign to property line</p> <p>PERSPECTIVE DRAWING Perspective drawing</p>	<p>\$250 for hearing</p> <p>+Roughly \$1,000 for attorney fees if corporation</p>	6 weeks to obtain a hearing
3	<p>Art Commission</p> <p>Staff reviewed your sign design and approved it. Go to Streets Department (step 4).</p> <p>-OR-</p> <p>Your sign design must be reviewed by the Commission Sign Committee at their next monthly meeting.</p>	<p>COVER LETTER Cover Letter</p> <p>Plot plan showing relation of sign to property line Plot plan showing relation of sign to property line</p> <p>ELEVATION DRAWINGS Elevation drawings</p> <p>Plot plan showing relation of sign to property line Plot plan showing relation of sign to property line</p> <p>PERSPECTIVE DRAWING Perspective drawing</p>	<p>+\$50 for drawing reproductions where sign design must appear before Sign Committee.</p>	up to 8 weeks
4	<p>Streets Department</p> <p>Your sign does not project too far over the sidewalk, so it was approved. We will now sign your plot plan. Go to L&I Building Unit (step 5).</p> <p>-OR-</p> <p>Your sign projects too far over the sidewalk. Try again.</p>	<p>SIX PHOTOS OF BUILDING EXTERIOR, STREET VIEWS, AND ADJACENT BUILDINGS OR SITES Six photos of building exterior, street views, and adjacent buildings or sites</p> <p>Plot plan showing relation of sign to property line Plot plan showing relation of sign to property line</p> <p>ELEVATION DRAWINGS Elevation drawings</p>		1 hour
5	<p>L&I Building Unit</p> <p>Your plans meet all Building Code requirements and you have no outstanding violations for work without permits. Once you have zoning approval, we will issue your building permit. Go back to L&I Zoning Unit (step 6).</p> <p>-OR-</p> <p>Your sign design does not meet the Building Code or you need to pay for outstanding violations. Try again.</p>	<p>Plot plan showing relation of sign to property line Plot plan showing relation of sign to property line</p> <p>SIX PHOTOS OF BUILDING EXTERIOR, STREET VIEWS, AND ADJACENT BUILDINGS OR SITES Six photos of building exterior, street views, and adjacent buildings or sites</p> <p>ELEVATION DRAWINGS Elevation drawings</p> <p>THREE COPIES OF SIGN CONSTRUCTION PLAN THAT SHOWS WALL MATERIAL, WALL CONNECTION AND SIGN WEIGHT Three copies of sign construction plan that shows wall material, wall connection and sign weight</p>	<p>\$100 filing fee (credited toward permit fees at end of process)</p> <p>+\$540 expedited fee to receive review in 5 days or less</p>	up to 20 days
6	<p>L&I Zoning Unit</p> <p>You have obtained all required approvals. Please pay for and pick up your permits.</p> <p>-OR-</p> <p>You have not obtained all required approvals. Try again.</p>	<p>APPROVAL LETTER Approval Letter from Arts Commission</p> <p>BUILDING PERMIT Building Permit # 09-2710</p> <p>ZONING PERMIT Zoning Permit # 111-205</p> <p>Plot plan signed by Streets Department Plot plan signed by Streets Department</p>	<p>\$125 + \$400 for Zoning Permit (\$200 per sign, each side considered a separate sign.)</p> <p>+\$200 for Building Permit</p> <p>(Credit all \$100 filing fees from steps 1 and 5.)</p>	1 hour
TOTAL	Two permits from L&I, review by Art Commission, sign-off by Streets Department, and possible hearing by Zoning Board of Adjustment.	Zoning application, drawing of sign dimensions, up to nine copies of a plot plan, up to 27 photographs, up to three copies of two elevation drawings, drawing showing sign colors, perspective drawing, three copies of a construction plan, and deed or lease.	\$725 for permit fees and copies = \$1,325	4 to 12 weeks, plus time for professionals to create drawings.

(Several steps can be accomplished during the same time period.)



Better Business Model for Government

New York City's Business Express website (www.nyc.gov/portal/site/businessexpress) brings a significant amount of information to business owners online and allows them to buy 57 city licenses online. Business Express offers an interactive wizard that lists all licenses, approvals and requirements a business must obtain from city agencies to operate. Similarly to the new Philadelphia Business Services Center, each business owner is asked to answer a series of questions about business type and location. They are then provided with a checklist of all applicable city government requirements. Business Express allows business owners to purchase 57 licenses online with a credit card (a convenience fee of 2.49% is charged). Business Express also makes it easier to apply for licenses and approvals. After an owner enters a business name, address and basic information, this information is automatically added to all applications, allowing the owner to answer only the supplemental questions unique to that particular license or agency. New York City plans to use the site to allow business owners to check on license and approval status as well as violations within the year.

Actions

- » **Reduce the number and cost of licenses and eliminate licenses not tied to health and safety issues.** Continue to eliminate and consolidate license requirements. Lower the cost of licenses, particularly the Business Privilege License because of its symbolic importance as the first formal requirement small businesses must satisfy.
- » **Continue to improve the City's Business Services Center** so it can serve as an information gateway and allow small business to purchase licenses and permits online.
- » **Take the politics out of permitting.** Create objective standards for every common business activity. Do not require a business to obtain a variance or have an ordinance passed to conduct a necessary business activity for that business to operate profitably. Complete the city's four-year effort to adopt a more objective, modern zoning code.
- » **Help businesses navigate the City's approval process** by increasing the number of Business Service Representatives to give them recourse when an agency is uncooperative. Market the availability of these representatives to small businesses.
- » **Increase customer service training of city staff** to ensure they dependably provide consistent information.

When I was starting my business this year I found out about the Commerce Department's Business Service Representatives from a friend. My representative was so helpful getting me through the long list of city approvals I needed, but few new business owners know they exist.

SBN Survey Respondent

Simplify the tax compliance burden for small businesses.

2

Philadelphia must simplify its business tax filing rules and eliminate the requirement that a start-up business pay two years of taxes upfront in one payment.

Academic studies and local task forces have repeatedly documented the job losses Philadelphia has suffered because of the City's high personal and business taxes.⁴² Given the overwhelmingly clear consensus that Philadelphia must lower its business taxes to remain competitive within its region and the global economy, and recent efforts by City Council to restructure those taxes, this report focuses on actions the City can take today to assist small businesses by fixing its time-consuming and burdensome process for filing local business taxes.

Philadelphia's Tax Code is odd and compliance is difficult. Philadelphia's Tax Code is like no other in the United States and it bears little resemblance to State or Federal Codes. Filing rules are so complex that virtually every business owner interviewed hires an accountant or tax preparer to complete City tax forms. In contrast, businesses do not need professional help to complete state and federal tax returns. The Revenue Department has largely accepted the need for small businesses to take on the expense of hiring a professional to file their taxes and typically consults with these professionals, who have a vested interest in maintaining tax complexity, on any efforts to simplify the Code. Small business owners feel strongly that Philadelphia tax forms and calculations should be simplified and modified so the calculations more closely mirror State and Federal taxes and allow the average businessperson to accurately report and pay taxes without professional assistance.

I started a business and failed to pay an estimate of my second year taxes. I was fined. It felt like I was punched in the face. It felt like the City did not want me to succeed.

Former Small Business Owner

I am trying to get a new business off the ground and the City wants me to loan them money? That is exactly what they are doing when they require me to pay estimated taxes a year in advance.

Laundry Owner

Philadelphia's requirement that a new business pay two years of taxes upfront places a significant burden on start-ups. Philadelphia requires a new business to pay taxes due for its initial year and an estimate of the next year's taxes.⁴³ Failure to do so results in a fine. For a new business with limited cash flow, payment of two years of taxes can undermine its ability to pay suppliers and operate a business day to day. And unlike the quarterly business taxes at the state and federal level, the taxes must be paid all at once.⁴⁴ When the Revenue Department receives the estimated taxes for the subsequent year, the money is not put into escrow; rather, these funds are

Business tax reform is underway in City Council:

In November 2011, City Council took an important step forward when they approved legislation to reduce business taxes and start-up fees. Amendments to Bill 110554, introduced by Bill Green and Maria Quiñones Sánchez, reform Philadelphia's Business Privilege Tax by exempting business income up to \$100,000 and cap the net income tax at 6.45% of profits from Philadelphia sales. Amendments to Bill 110548, sponsored by Jim Kenney, eliminate many start-up fees and exempt start-ups from paying business taxes for two years if they employ three city residents in the first year and six by the second year. The legislation will be rolled out in phases over the next five years. Mayor Nutter is expected to sign both bills.

placed directly into the City's General Fund. If a business begins to fail and revenues fall, the excess tax payment is kept by the City and used towards the taxes for the next year, rather than being refunded. A business can receive a refund only if it closes.

As other cities like Los Angeles announce tax hiatuses for new start-ups to allow revenue to be recycled back into business growth and survival, it is incumbent on Philadelphia to eliminate the requirement that new businesses pay two years of taxes upfront.⁴⁵

The City should also take steps to minimize tax bill errors and create a process for fixing errors that requires less time to resolve. Four out of twelve business owners who participated in one focus group held in the research phase of this report received one or more inaccurate business tax bills from the City. One owner received duplicate bills for taxes on the same property. Paying the sum once did not remove the delinquency. Two other businesses received tax bills for properties that they did not own. These errors could not be fixed by mailing letters or placing phone calls.⁴⁶ To dispute and resolve the errors, the owners had to make several in-person visits over one to five days to the Revenue Department in the Municipal Services Building with an accountant or attorney. The owners had to wait in line because the Revenue Department does not offer appointments. Often, business owners report that because they cook the food or drive the truck for their company, taking several days to negotiate with government effectively shut them down or significantly reduced their income earning abilities.

They push you to give up. Unless you are a huge business or have a lot of money, the City makes it so difficult. After awhile you think all they want to do is tell you that you are wrong. You just want to keep a business running, keep bills paid and after a while it becomes disheartening. Many are nice people individually but you can't trust them because they all say something different.

Therapist

Actions

- » Simplify City tax calculations and forms so they mirror federal and state forms to allow the average business owner to complete tax forms without having to hire an accountant or tax preparer.
- » End the requirement that new businesses pay two years of taxes upfront. This places a huge burden on a business at the time when its cash flow is lowest. Allow businesses to pay quarterly tax estimates when they pay their State and Federal estimated taxes.
- » Accurately maintain tax records and make it easier and less time-consuming for business owners to fix errors made by the Revenue Department. Allow owners to electronically file complaints about inaccurate tax bills and respond within 48 hours. Where an in-person meeting is needed, the Revenue Department should provide appointments with experienced staff with the authority to resolve these issues.
- » Create an online help forum or knowledge base where business owners can ask tax questions and have them answered by knowledgeable staff. These conversations would remain available online and for other owners with similar questions.

Ensure laws do not unnecessarily harm small businesses.

City Council can protect small businesses from the unintended negative impacts of laws and regulations by improving notice and comment opportunities for small businesses, regularly reviewing existing laws and attaching sunset clauses.

According to experts on urban success, "all regulations should pass two straightforward tests: that they reasonably promise to deliver more benefits than costs, and that they are crafted to be the least restrictive of the available alternatives."⁴⁷ According to small business owners, Philadelphia laws fail these tests too often. Small business owners contend that Philadelphia's business environment is unpredictable in part because City Council passes laws that hurt their businesses in an effort to solve unrelated challenges. Several business owners expressed a belief that there is a disconnect between their financial reality and City Council's view of small businesses as profit-making enterprises that can afford new taxes and fees. In fact, the owners assert a view supported by national academic studies that many small businesses are low-profit enterprises unable to absorb additional expenses. Predictable, transparent policies that recognize the affordability constraints of business are critical for business growth.⁴⁸

While the City's laws and regulations impact all Philadelphia's businesses, they pose a disproportionate burden on small businesses, particularly "entry level" businesses that entrepreneurs can start with little capital. Larger businesses are able to spread the costs of laws and regulations across departments and have greater freedom to hire accountants, lawyers, and expeditors to handle compliance issues. This is not true of small businesses. Nationally, the average cost of regulation to firms with 20 employees or less is \$10,500 per employee per year, compared to an average of \$8,000 per employee for all firms.⁴⁹ The high cost is a particular concern where the City's rules impact "entry-level" businesses that require relatively little capital and no formal training to start, such as day care, sidewalk or food truck vendors or coffee shops. High compliance costs can deter business formation.

Owners seek a stronger voice in the development of laws that impact small businesses as an important step in strengthening Philadelphia's entrepreneurial environment. Before Congress can pass a new law, or a federal agency can put a new regulation into effect, the impact of the law or regulation on small businesses must be evaluated.⁵⁰ Small business owners who were interviewed do not seek to restrict Council or City departments in this way, but they do want to create an ongoing relationship directly with government, and have the opportunity to offer feedback on all relevant law and policy changes. Philadelphia typically provides notice and obtains feedback from small businesses through alerts to professional associations, nonprofit business support organizations, public hearings, and press articles. These methods are not always effective according to owners. The majority of small business owners interviewed do not belong to a professional association and cannot attend public hearings during the workday. If they do not see an article in the newspaper, they often do not learn of a new law until they receive a violation notice.

96% of businesses surveyed reported that it is the business owner who stays informed of changing laws and regulations. Only 4% have a manager or accountant who handles this responsibility.

Only 25% of business owners surveyed find out about a change in law from a professional association. 50% read about it in the paper, and 21% learn about it when a City employee informs them they are in non-compliance.

I understand why folks illegally start their business because they are scared to death of dealing with government after hearing horror stories. I understand it even if I don't approve of it.

Home Care Provider

The most-cited examples of laws recently passed by City Council that hurt small businesses are:

The Dumpster License that requires a business to buy an electronic identification medallion for each outdoor dumpster maintained on private property and to pay an annual fee of up to \$150 per dumpster. The purpose of the fee is to finance enforcement of overflowing dumpsters. Owners feel strongly that violators should pay fines rather than having compliant owners pay annual license fees in addition to private garbage pickup costs.

The paid sick leave requirement passed by City Council in October 2011 that requires small businesses with City contracts to provide their employees a certain number of days of paid sick leave. The goal is to ensure workers have the right to take paid sick days, but owners saw it as an additional financial burden.

Existing laws and regulations that impose significant costs on businesses should be reexamined. Too often in Philadelphia, laws pile up. City Council may pass a new law to deal with a fleeting problem and then fail to reevaluate the law. As a result the law remains on the books even though the problem was resolved years or even decades earlier. The City's current effort to rewrite its 50-year-old Zoning Code is a perfect example of the need to keep laws relevant and to limit their negative impacts on small businesses. Owners are following the rewrite process and are anxious for Council to pass clearer rules that will improve the viability of small businesses by creating a more predictable environment with clear, objective rules on where a business can locate or expand. Placing sunset clauses on laws that impact small businesses will also help limit harm.

Better Business Model for Government

New York City has created "NYC Rules", a strong interactive platform for sharing draft rules and laws before they are passed and soliciting comments from small business owners. The city posts all proposed and final rules on its website (www.nyc.gov/html/nycrules/html/home/home.shtml). The express purpose of the site is to allow small businesses and the public to submit comments electronically in order to safeguard against rules or laws that could "potentially slow down business growth or hinder economic development."⁵¹ Weekly email newsletters give owners the ability to quickly identify any proposed laws that may impact them. If they wish to comment, they can do so conveniently through the NYC Rules website. Of course, this is only effective if small business owners take the time to comment and City Council seriously weighs their suggestions and concerns.



Actions

- » **Create a web page and weekly email notification of all proposed laws and rules that impact small businesses.** Allow the public and business owners to electronically submit detailed comments.
- » **Review existing laws and regulations and eliminate those provisions that create a cost on small businesses disproportionate to the benefit to public health and safety.**
- » **Agree not to adopt more licensing requirements unless a clear and demonstrable impact on health and safety can be shown.**
- » **Implement "sunset" clauses for new business regulations.** Require newly adopted city ordinances that impact businesses to expire after three or more years unless reviewed and renewed by Council action. There is value in giving regulations an end date so they expire when they have outlived their usefulness.

Reform the inspection system to ensure it is fair, objective, and offers the right to a timely appeal.

4

Philadelphia can create a fair, objective inspection system by establishing rights and responsibilities for inspectors and businesses, sharing better compliance information with owners, and improving the appeals process.

Several City agencies perform inspections of businesses to ensure the health and safety of customers and compliance with regulations. When they are carried out efficiently and with accountability and transparency, inspections improve the welfare of Philadelphia residents without imposing significant burdens on compliant businesses. Small business owners in Philadelphia, however, assert that this is rarely the case. Instead they describe inspections that involve discretionary implementation of laws and regulations, imposition of unclear sanctions, ineffective or inconvenient appeal procedures, and intimidating and aggressive behavior by inspectors. Governments throughout the country are successfully changing the relationship of small business and government to one that is more objective and less adversarial to ensure compliance with rules and regulations. Philadelphia would benefit greatly by taking similar actions.

You can't offend an inspector because they will become petty and issue citations. Sometimes, you can't even ask questions.

Restaurateur

Inspection policy has been improved at the highest levels of city agencies, but implementation on the ground continues to burden businesses. It is clear that the Nutter Administration is attempting to prevent any unfairness in the inspection process at the leadership level, but it must change practices on the ground. Licenses and Inspections Department policy calls for business owners to be notified before a commercial corridor inspection, yet businesses repeatedly reported inspections on their corridor without any notice. Health Department policy

severely limits an inspector's ability to close a business unless customers' health is at risk, yet several business owners assert that they were closed down by City inspectors for minor violations.⁵² Business owners related a significant number of stories about adversarial inspectors who "always find something." Owners are particularly troubled by situations where they receive citations for changes in law that they were unaware of. In addition, owners expressed confusion over which agency was inspecting their property, particularly where duplicative inspections were conducted and imposed conflicting mandates. The most common example given by business owners of inspectors with conflicting requirements were L&I and the Health Department. For instance, several restaurateurs reported that L&I and Health inspectors demand different sink placement, size and setup. Finally, businesses expressed concern that when they do receive a citation, the appeals process is too slow and ineffective to attempt. So owners wait for inspectors to return for a follow-up inspection to remove the violation from the record. Unfortunately it can take weeks or even months to arrange for a follow-up inspection and this leaves the citations in place even when the violation has been addressed. This is a significant concern for restaurants that have their citations published online.

Code enforcement is not done fairly—I get nailed for an outdoor seating license after six years, and the "deli" with takeout beer near my house lets patrons drink inside, loiter, and urinate.

Restaurateur

There are definitely conflicts between Health and L&I. The building inspector ripped me apart because I had a health inspector come first. He told me to move the sink, telling me, 'I don't care what the health inspector wants, what I say goes, it is my site.'

Coffee Shop Owner



Better Business Model for Government

In response to business owners' complaints about inspectors' conduct, in 2011, New York City introduced a Business Owner Bill of Rights that lays out the principles which should guide inspectors' interaction with business. While it does not have force of law, it is being enforced at the administrative level. City Council and the mayor's office jointly worked on this statement of rights and responsibilities in an effort to transform a hostile relationship between inspectors and businesses into a more positive and productive one.

New York City Business Owner Bill of Rights

As a business owner, you have the right to:

- » Courteous and professional treatment by our employees;
- » Inspectors who are polite, professionally dressed, and properly identified;
- » Information about how long inspections will take and the cost of all related fees;
- » Knowledgeable inspectors who enforce agency rules uniformly;
- » Receive information about agency rules from inspectors or other employees;
- » Contest a violation through a hearing, trial or other relevant process;
- » Request a review of inspection results or re-inspection as soon as possible;
- » Receive explanation from inspectors (if requested) on violation details and instructions for viewing inspection results;
- » Access information in languages other than English; and
- » Comment, anonymously and without fear of retribution, on the performance or conduct of our employees.

Efforts to improve the City's inspection processes must have three main components:

1. Improve the objective nature of the inspector's conduct. Inspectors should identify themselves and their agency when entering a business, politely observe whether there are violations, make clear when they are issuing a citation without a fine, and answer the business owner's questions. Inspectors can increase compliance by helping owners to understand and meet City requirements, rather than trying to identify violations.

2. Increase the information available to businesses. Information regarding the nature and scope of inspections, the underlying legal and regulatory framework (with attention to most common violations), and the rights and authority of both the inspectors and the business being inspected is essential. Business owners expressed that they often do not understand the reason for a citation, particularly when it had not occurred the last time they were inspected or when nearby businesses were not similarly cited.

3. Improve the appeals process. Business owners contend that the appeals process is slow, inconvenient, and jeopardizes their relationship with the inspector. The City should offer a clear, fair and convenient appeals process that guarantees consistent interpretation of laws and regulations.

Actions

- » Adopt a list of conduct requirements for small business inspections similar to New York City's Business Owner Bill of Rights. This should include a detailed description of a fair and timely appeals process.
- » Encourage compliance by publishing common reasons that businesses fail an inspection to help businesses proactively avoid citations.⁵³
- » Where inspectors disagree, mandate that they resolve any inter-agency conflicts within 24 hours and submit a joint opinion to the business owner.
- » Work with commercial corridor managers to identify violations that harm businesses along the corridor and enforce them. Do not limit citations to active businesses.

Recommendation

5

Partner with Community Development Financial Institutions (CDFIs) and nonprofit support organizations to increase financing to small businesses.

Philadelphia can help improve small businesses' access to financing by increasing local CDFI loan capacity and helping business owners build better credit.

Small businesses often need financing at some phase of their growth, but there are two local barriers, unrelated to City government, that make obtaining financing more difficult. First, small business owners contend that there are fewer small business loans available in Philadelphia from Community Development Financial Institutions (CDFIs)—nonprofits that provide financial services to people underserved by traditional financial institutions. SBN's independent analysis confirms that Philadelphia CDFIs direct fewer dollars to small businesses than the national average. Second, most Philadelphia small businesses are turned down for loans because of poor personal or business credit. By proactively helping CDFIs increase their capacity and business owners improve their credit, the City will expand the financing available to small businesses.

Government should work to support and encourage the expansion of local CDFIs and their small business lending capacity.⁵⁴ Traditional lenders typically will not provide loans for less than \$100,000 because the processing cost is the same as much larger loans, and the returns are far lower. As a result, it is typically left up to microlenders, most often CDFIs, to provide smaller loans to small businesses. Philadelphia's largest CDFIs do not provide general small business loans, and its smaller CDFIs loan fewer dollars to small businesses than the national average.⁵⁵ As a result, there are fewer loans available in Philadelphia to meet the needs of small businesses. In September 2011, Mayor Nutter announced \$2,125,000 in new funding streams for small business loans.⁵⁶ This is a step in the right direction, but the loans must be made available to smaller companies.

The average Philadelphia CDFI loans fewer dollars to small businesses than the average CDFI in the United States. National CDFI lending activity data for 2008 allows us to compare the average outstanding loans a CDFI makes to business clients to the average outstanding loans of a Philadelphia CDFI.⁵⁷ While the average CDFI in the nation made \$12.5 million in loans available to businesses, the average Philadelphia CDFI made only \$4 million available.

One leading small business support provider and CDFI offers \$3,000-\$5,000 loans to businesses with fewer than five employees. The nonprofit provided only six loans from July 2009-2010 and eleven the year before. That scale is too small to have a significant impact on economic growth or job creation. The primary reason applicants did not qualify was bad credit.

2008 Direct Financing Outstanding for Business and Microenterprise (less than 5 employees)

	National	Philadelphia
Total (\$)	\$6,235,044,032.61	\$60,097,824.00
Average (\$)	\$12,596,048.55 for 495 CDFIs Nationwide	\$4,006,521.60 for 15 CDFIs Located in Philadelphia

In 2008, Philadelphia CDFIs had 25% of the assets of the average national CDFI.⁵⁸

Throughout the United States, small businesses are having difficulty obtaining loans. Lenders have tightened their criteria for lending and homes—the most common loan collateral for small business owners—have lost value.

Actions

- » Increase the small business loan capacity of CDFIs in Philadelphia by helping high-performing existing CDFIs to expand. Encourage banks to provide more small business loan assets to effective CDFIs.
- » Offer a credit-building program for existing and potential small business owners modeled on Justine Peterson's successful efforts in St. Louis.
- » Partner with PIDC to offer small businesses a gap financing product to pay upfront costs to fulfill a contract with the City of Philadelphia for between \$25,000 and \$75,000.
- » Monitor small business loan activity of CDFIs that receive City funding for technical assistance. Require data on the number and performance of loans issued.

Poor credit, which impedes small businesses from obtaining financing, can be overcome by programs that help to build new good credit. Personal and business credit ratings are closely scrutinized by lenders in the early stages of a business. Entrepreneurs with poor personal credit will not only find it more difficult to obtain financing, but they will also pay three times as much interest as those with good credit.⁵⁹ Banks routinely tell owners with poor credit to finance their businesses using credit cards and to come back when they have improved their credit scores.⁶⁰ St. Louis, MO has created a model to help small business owners repair their existing credit, create new good credit and obtain financing. Philadelphia can partner with one or more of its small business support organizations to implement this model described below.

The City should also work with Philadelphia Industrial Development Corporation (PIDC) to offer gap financing loans for small business owners contracting with the City. PIDC is a non-profit established in 1958 to provide loans, assemble land and take other actions to promote economic development in the City. PIDC currently offers an Emerging Business Loan to larger companies that receive government contracts but need help paying upfront costs. The loans start at \$75,000. Small businesses that are awarded City contracts should be offered a gap financing product to help them handle upfront costs with loan amounts between \$25,000 and \$75,000. The contract will act as collateral and the City can pay PIDC back directly.

Some small businesses interviewed for this study would like City government to offer more grants and loans, but these programs have not been shown to substantially impact business development or job creation. Local governments have little success acting as general lenders for small businesses.⁶¹ In addition, government's role is so tiny compared to the overall credit market that offering a few loans will not significantly increase business formation or job creation. That said, government can impact a targeted geographic area such as a commercial corridor. Government can also restructure existing programs, such as those designed to promote workforce development, to better serve the needs of small businesses. Given the fact that most new jobs in Philadelphia are created by small and locally-owned businesses, the public workforce system should be more proactive about connecting with these potential employers. Right now, most public workforce programs are designed to meet the needs of larger businesses.

Better Business Model for Government

A nonprofit in St. Louis named Justine Petersen has created a proven method for restoring good credit and improving business owners' access to financing. The basis for their program is that new, on-time payments improve a business owner's credit more quickly than paying off old debt. They provide secured credit cards with small limits (e.g., \$300) and installment loans for small amounts (e.g., \$500) to owners. Each payment an owner makes in a timely manner is reported to the credit bureau. As a result, owners have created new, good credit and raised their credit scores up to 700 (a good score that entitles the owner to low interest rates) even while they still have some bad credit on their records. Robert Boyle, CEO at Justine Petersen, says the cost to the nonprofit to help business owners create good credit is very low and it opens up significant new lending possibilities at far lower interest rates for the business owners.⁶²



Recommendation

6

Encourage collaboration and increased accountability among small business support organizations.

Philadelphia should create a more collaborative, integrated network of nonprofits to support small businesses more effectively.

Currently the City funds nonprofits with overlapping missions to provide technical assistance to small businesses. The quality of their support to small businesses varies greatly, and there is little collaboration between these organizations. Rather, it appears that each nonprofit is attempting to provide the same full complement of services to all small businesses. In fact, one nonprofit director stated that other small business support organizations are competitors. Nationally it is common to find nonprofit support organizations that fail to work together, duplicate efforts and pursue the same resources.⁶³ Philadelphia has many Chambers of Commerce, commercial corridor managers, community development corporations, general small business assistance nonprofits, and Small Business Development Centers, but the City's economic growth will be far better served if they work collaboratively.

"In regions around the country, countless service providers are available to help entrepreneurs manage challenges. This abundance, however, often leaves small business owners with fewer answers and more questions: Which organizations are the most knowledgeable about my kind of business? Which can offer the help I need right now? Which can help me two years down the road, when my needs change?" -Maria Meyers, Network Builder, U.S. SourceLink

Creating an effective network to provide small businesses with technical assistance and training is essential because education is one of the more successful approaches that governments can take to help small businesses. Small businesses that take advantage of free guidance and mentoring have higher survival rates than those that do not.⁶⁴ By providing training and one-on-one consultation, the City can help grow its businesses.⁶⁵ Hundreds of workshops and trainings are offered in Philadelphia each year. Most are offered by a single nonprofit and advertised to their clients. Most are taught by local consultants using curricula that they have developed themselves. Small business owners interviewed who had taken more than one class or workshop observed that there were huge differences in quality between the trainings. In addition, it was common for a single class to accommodate owners at very different levels of sophistication and with different needs. Rarely does Philadelphia offer a national curriculum with proven results such as FastTrac, a curriculum developed by the Kauffman Foundation that resulted in 33% of new business owners that completed the course launching their business and 54% of existing owners growing their business within the six months it was presented in NYC in 2010.⁶⁶ The City of Philadelphia Department of Commerce's recent addition of a calendar of small business events is a positive step towards helping business owners find technical support.

Small business support organizations need to be strategic and specialized in meeting the needs of entrepreneurs and business owners within the City. Small nonprofits cannot serve the full

I knew my profession but didn't know how to run a business. I was 55 years old and about to start a business. So I consciously determined what I needed and found a nonprofit that helps women business owners using a Google search. I took a class. I put in for a loan that I got. They were fantastic and gave great information. Now my friends use me as a resource.

Message Therapist

Small business owners reported that it is virtually impossible to identify the right nonprofit to contact for help. The City does not list nonprofits supporting small businesses on its website. Many nonprofits have names that imply they serve only part of the population and there is no centralized listing that explains what areas each specializes in. On a national level, only a relatively low percentage of small businesses (28%) have any awareness of the existence of government programs meant to assist small businesses, including technical assistance and training programs.⁶⁷



spectrum of business owners and entrepreneurs effectively. The City must take a leadership role and bring these nonprofits together to determine where their expertise lies, who they can best serve and how they can work more effectively to eliminate duplication and fill gaps in service. Until they do this, the City will continue to struggle to match entrepreneurs to the right resources at the right time to help them grow. In addition, the City needs to create clear performance standards for the nonprofits it funds. Until two years ago, it was customary for nonprofit business support organizations to receive grants from the city for technical assistance through a non-competitive process. The city issued an RFP to small business support organizations for the first time in 2008, although it did not include a clear statement of the city's expectations for the types of small businesses each nonprofit will serve and the outcomes they will be expected to achieve.

Better Business Model for Government

Kansas City's "KCSOURCELINK" offers one proven method for creating collaboration between nonprofits that serve small business. KCSOURCELINK was created in 2003 to connect a network of more than 140 organizations that offered business support services in the Kansas City metropolitan region. Their first task was to bring the nonprofits to the table to understand the services each provides, the business population each serves, and any areas of duplication or gaps in services. For instance, Kansas City found that there were a large number of organizations catering to the start-up entrepreneur and few assisting small business owners beyond the start-up stage. The next task was to understand what the nonprofits needs were and how KCSOURCELINK could bring sufficient value to the table to encourage businesses to work together as a network by improving marketing and recruiting. The key resources this effort developed are now available to other cities through U.S.SOURCELINK for a reasonable fee:

- » Resource Navigator, a user-friendly online database that organizes resource partner programs allowing entrepreneurs to go online, answer a few questions about business needs, and find the nonprofit with the specific resources they need.
- » Biz-Trakker, a single database for managing clients and tracking economic impact. It is also used to manage events, make referrals between organizations, and report to funders and governments.
- » Online clearinghouse for centralized resources.

The value KCSOURCELINK brought to the nonprofits was clear: surveys showed that they increased the total number of clients, better matched clients to organizations increasing productivity, and increased cross-referrals and collaboration. Other cities that use the KCSOURCELINK model include Toledo, OH; Charlotte, N.C.; Milwaukee, WI, and Cleveland, OH. U.S.SOURCELINK charges an initial cost of \$55,000 to facilitate the process of creating an efficient network and link all its tools to local websites and then \$5,000-10,000 per year to maintain the website and databases and to respond to unique local challenges.⁶⁸

Actions

- » Adopt Kansas City's KCSOURCELINK model and bring all funders and nonprofits supporting small businesses together to understand current areas of focus and gaps in service. Collaboration will allow for an online directory of nonprofits with detailed descriptions of the services they provide, city-wide training for different segments of the business population with proven results, a single citywide calendar of events, and a comprehensive set of informational materials available in hard copy and on the city's website.
- » Define the City's expectations regarding outcomes for small business support organizations that it funds for technical assistance. Implement performance standards to achieve those outcomes.
- » Provide detailed information about small business support resources to business owners. The City should provide a list of key organizations and the services they provide to business owners when they obtain a Business Privilege License and maintain a directory on the City website.

Transfer vacant land and enforce tax foreclosure laws to provide land for new and expanding businesses.

Philadelphia needs to bring blighted vacant land back on the market and into the hands of new and expanding businesses.

Proximity to vacant, blighted land hurts small businesses. Vacant properties deter customers from visiting, lower property values and stop vibrant contributing businesses from locating nearby. In addition, small business owners report that an inability to purchase vacant land for business expansion makes business growth in the City difficult.

I negotiated with the RDA to buy the abandoned property behind my business for months. While I was trying to complete the City's crazy purchase process, the land was sold at Sheriff's Sale for \$5,000 to a speculator who is sitting on it and waiting for its value to increase.

Wholesale Supplier

Owners seek an objective, transparent process to obtain publicly-owned vacant land. Profitable businesses grow and create new jobs. Philadelphia's economic growth depends on this. Yet for many businesses, growth requires physical expansion and more land. Most small businesses are near or adjacent to one or more of the City's 40,000 vacant properties. Yet interested business owners are rarely able to obtain this land for business expansion. In fact, businesses report it is more difficult to obtain publicly-owned vacant land than privately-owned land. Each of the government's land-holding agencies has a different lengthy, confusing process to acquire vacant property that can involve up to 54 steps and 12 City agencies.⁷⁰ The one thing all of these land acquisition processes have in common is the fact that the business owner must obtain the support of their District Councilperson to buy a vacant

parcel. There are hundreds, if not thousands, of discouraged buyers who know of a property that they would like to purchase. Owners interviewed repeatedly stated that the purchase of vacant land should be like any transaction for market value. If a business owner satisfies the contractual conditions and pays the price, the owner should be able to obtain the property.

The City should aggressively use code enforcement and tax foreclosure to force owners to clean up or sell vacant properties. During SBN site visits to businesses, owners frequently pointed to adjacent or nearby vacant properties when discussing their negative impacts. Some owners stated that repeated complaints to the City received no response. Others had gone so far as to check the tax delinquency on a property and request that the City foreclose on the property—with no results. One owner tried to buy a property from a private owner for the amount it was tax-delinquent, but the owner refused to sell,

Vacant land should be made readily available as part of a standardized financial transaction and not a political process.

Real Estate Broker

Philadelphia's vacant land:

40,000 vacant properties are scattered throughout every neighborhood of the City.

10,000 of those properties are publicly owned by three agencies, and each has a different process for selling vacant properties:

5,706 by the Department of Public Property;

2,783 by the Redevelopment Authority, and

681 by the Housing Development Authority.

17,000 of the vacant properties are tax delinquent.

11,000 have been tax-delinquent for over ten years.

92% of City-owned vacant properties are smaller than one-tenth of an acre.

2% of City-owned vacant properties are larger than one-half of an acre.⁶⁹

Actions

- » **Support businesses by creating a single transparent, clear and fair process for buying publicly-owned vacant land.** Create a single inventory of publicly-owned land that is accurate and searchable online. Post an objective, user-friendly process to buy the land for market value and transfer the land once the requirements are met. Do not require a business that is current on its taxes and compliant with code to get permission to expand from the District Councilperson.
- » **Reduce transaction time** from offer to settlement on publicly-owned vacant land to no more than 180 days.
- » **Strengthen code enforcement to improve the condition of privately-owned vacant land.** Prioritize vacant properties over occupied properties and prioritize commercial corridors.
- » **Enforce the City's tax laws and foreclose against tax-delinquent properties that are long-term vacant.**

assuring him that the city would never foreclose and the property could only go up in value if it sat long enough. Small business owners would like the City to strengthen its code enforcement efforts and fine vacant property owners who are not code-compliant. The hope is that as fines pile up, they will pressure absentee landowners to do a cost/benefit analysis and either reinvest in their properties to avoid more fines or sell them to someone who will. The administration is aware of this significant issue and is in the formative stages of creating a new process to try to enforce code more effectively in these situations. Business owners also want the City to use tax foreclosure as a tool to gain control of vacant properties that are tax-delinquent and blighting their surroundings. Several owners expressed the belief that if tax foreclosure was a certainty for vacant property owners who failed to pay taxes and care for their properties, many owners would bring their properties back to an appropriate condition or sell. The reality, however, is that tax-delinquent vacant properties are rarely foreclosed upon.⁷¹ L&I is currently working with the courts to increase enforcement for code violations on vacant properties. This early program shows that the administration understands the need for code enforcement against vacant property owners.⁷²

There is a building that has been vacant with trash in the front doorway for years near my store. Vacancies hurt us. An eyesore next door harms business plus no new business can move into that space. Yet the owner isn't going to clean it up or sell it because there is no real risk of foreclosure in Philadelphia, even though she owes over \$200,000 in taxes.

Retail Store Owner

Buying publicly-owned vacant properties should be:

- » **Clear**, with a searchable, accurate inventory and a single acquisition process;
- » **Predictable**, with set pricing and a standard contract;
- » **Timely**, with reduced transaction time and a deadline for the City to accept or reject offers;
- » **Transparent**, with clear definition of a qualified buyer and a written acquisition process; and
- » **Objective**, as politics should not play a role.

Better Business Model for Government

Philadelphia does not need to look to other cities to create a functioning vacant land disposition policy. The Nutter Administration knows what it needs to do to create a predictable policy and is working to gain the support of City Council and relevant agency leadership to implement a new uniform system. In order to make it possible for business owners to quickly and conveniently buy and fill vacant land with businesses that create new jobs, it must publish an accurate searchable database of publicly-owned vacant properties. The City must then put in place a single, clear process for acquiring vacant land that can accomplish a market value sale within 180 days. This process must be transparent and predictable and require no more than three approvals from various agencies and political bodies. There can be no mandatory letter of support from a District Councilperson required to allow a business owner to buy a property.



Consolidate and modernize the City's procurement process to increase small business participation.

A clear, uniform procurement process allowing the electronic submission of bids, limiting performance bond requirements, and paying contractors in a timely manner will increase the ability of small businesses to compete for City contracts.

Each year the City buys more than a billion dollars worth of products and services from private-sector contractors. In 2009, Philadelphia spent \$1.3 billion to purchase materials, equipment, supplies, and professional services. This figure accounts for approximately one-third of FY 2009 city spending.⁷³ Improving the procurement process will encourage small businesses to compete for City business and result in better prices for government and a major new client for competitive small businesses.

Small businesses would like to take advantage of opportunities to sell to government, but several features of the City's government contracting process deter them. First, there is little understanding about how the system works. Several City websites advertise different opportunities.⁷⁴ Significant information about non-competitive opportunities for professional services can be accessed only by using Internet Explorer.⁷⁵ Second, payment

I'd like to know who gets the contract and how much they are paid. I know they are paying noncompetitive prices for some items. Not only transparency, but the government could save a bundle if they let us see the bids so we could compete with the lowest bid.

Start-Up Business Owner

delays deter small business owners from competing for City business as many have heard stories about the government failing to pay for three to six months and taxing a small business' cash flow to a point that threatened its survival. Third, business owners point to their inability to obtain required performance bonds in the amount routinely required under City contracts due to underwriting guidelines that have recently become much stricter.

Owners' perception that only "insiders" obtain contracts deters many from competing for City business. This perception is strengthened by the lack of transparency in the selection process. The City historically has not posted the winning vendors or their bids. The City does not inform unsuccessful bidders when a decision has been made. Small business owners describe the process as a black hole—the bid goes in and nothing ever comes out. Philadelphia is beginning to provide

more extensive information online that can break down the perception that politically connected firms are its primary contractors; the City must continue its work to change these perceptions.

City contracting is divided among multiple agencies with varying requirements. Most procurement decisions are made by the City's operating agencies. The Procurement Department handles only a small portion of the City's contracts—those that involve products and maintenance, repair and construction services that exceed \$30,000. It issues about 200 bid invitations

The City has a three-part process to pay vendors:

1. The City operating agency or department (i.e. Managing Director's Office) sends an invoice to the Finance Department and declares that the services provided under the contract were received. There is no deadline for submitting the invoice to Finance.
2. The Finance Department must approve and certify that the operating agency has funds available to pay the contract. There is no time frame for approval and certification.
3. The City Controller must also sign off on the invoice before it can be paid.

three to nine months

If an involved employee at any of these agencies is sick or on vacation, payment is delayed.

Actions

- » Consolidate all City contract offerings on a single searchable website. Describe the vendor selection process for each agency.
- » Allow businesses to register for email notices about relevant contracting opportunities. The vendor and the winning bid should be publicly disclosed on the City's website in a searchable database that also includes historic bids and awards.
- » Offer businesses the opportunity to submit bids and RFP responses online using standardized forms. The Nutter Administration has been working towards this goal since a charter amendment was passed in November 2010, giving the City authority to accept bids online with electronic signatures.
- » Require operating agencies to submit invoices within ten days of delivery, and the Controller and Finance Department to approve them in a timely manner. Define timelines in contracts and make payments according to those timelines. Explore the feasibility of using direct deposit or electronic payments.
- » Lower performance bond requirements. Reduce bond requirements in the construction sector and eliminate unnecessary bonds in other sectors. Create formal criteria to determine the need for and amount of performance bonds.⁷⁷

annually for a total of only about \$7 million dollars, just 1% of the City's total buying power. All other procurement (for professional services and goods that cost less than \$30,000) is performed by individual operating agencies. The \$30,000 minimum is adjusted every five years to account for inflation. This means that small businesses seeking to sell to the City must get to know the individual agencies and track their needs and Requests for Proposals (RFPs). In addition, since contracts can be renewed three times for one-year terms, businesses may have to wait more than two years before an opportunity becomes available for bid with a new vendor.⁷⁶

Payment by the City is slow, unpredictable and can threaten small business cash flow. One small business owner stated that he was not paid by the City for nine months after an invoice was submitted. More commonly, businesses operate wait 60-120 days for payment. Most small businesses do not have sufficient cash flow to operate this long without being paid for their services. The City's invoice approval process requires that three agencies review and approve every invoice without any specific time requirements. Exacerbating the problem, prime contractors often do not pay subcontractors for weeks after receipt of payment, even though the standard City contract mandates payment to subcontractors within five days.

Small businesses find it difficult to qualify for the large performance bonds required by the City. Many City contracts require the small business owner to obtain a performance bond. The required bond amounts vary from 10% to 100% of the value of the contract. Amounts are often determined by replicating prior contract terms rather than using a recent assessment of risk. Small business owners report that underwriting for performance bonds is as strict as for bank loans and that they are unable to qualify for the large bonds the City requires. Defaults on government contracts are very rare, so for lower-risk contracts, the City should eliminate or lower the bond requirement.



Better Business Model for Government

Cities across the nation have reformed their procurement processes to increase small business participation. They have improved transparency and participation by offering a single searchable website listing for procurement opportunities, cus-

tomized email notices of relevant opportunities, online submission of bids or responses to RFPs, electronic payment of vendors, and posts of winning bids and vendors. For some best practices, Philadelphia can look to:

Los Angeles, CA for a clear, user-friendly explanation of how the procurement system works at http://doingbusiness.lacounty.gov/about_purchasing.htm;

Atlanta, GA for online submission of bids on city contracts at <http://www.atlantaga.gov/business/doingbusiness.aspx>;

San Francisco, CA for electronic payment of vendors to improve speed at <http://www.sfcontroller.org/index.aspx?page=85>;

Chicago, IL for posting all awarded contracts with the amount and vendor name at www.cityofchicago.org/city/en/depts/dps/provdrs/contract/svcs/awarded_contracts.html;

Phoenix, AZ for sending contract opportunities under \$50,000 to a database of locally-owned companies at http://cityofphoenix.org/webcms/groups/internet/@inter/@goods/@fin/documents/web_content/councilreport62211.pdf.

Improve communication between government and small businesses.

Philadelphia can improve communication with business owners by creating customized alerts, improving and publicizing its new online Business Services Center, training employees to provide consistent information, and participating in an annual small business town meeting.

Businesses would like to communicate with government as a whole, rather than having to deal separately with each siloed department. Small business owners want to know what the City requires them to do, not what the Streets Department, Health Department and L&I require. Their wish is to have an easy, transparent, and holistic way to relate to government and to obtain all licenses and address all violations at a single location. Unfortunately, the way the government is structured—each operating agency with its own staff, process and database—makes it difficult to move beyond silos. Each business has a single identifier—the Business Privilege License number. Yet a single business has multiple records with the City, each record

is maintained by a different agency, and no one computer or individual can access these files at one time. Each agency is upgrading its technology at a different pace based upon the priority it puts on technology improvements. This means that a new restaurant or day care center can purchase a Business Privilege License from Licenses and Inspections online but must then go to the Health Department's Office of Food Protection in West Philadelphia in person to obtain other approvals. This results in expensive inefficiencies that force people to pay too much to conduct business with the City. Government services to small business will be dramatically improved if systems and processes are connected across agencies. There will be a short-term cost but long-term savings to government.

Those with tremendous drive and ambition will start a business anywhere. But those with a little less ambition, who might be able to start it elsewhere, won't succeed in this city. In Philadelphia, entrepreneurs who can be discouraged will be.

Eyeglass Store Owner

The Nutter Administration's Business Services Center (<http://business.phila.gov>) provides personalized information to businesses online for the first time. By enhancing and widely publicizing this site, Philadelphia can wrap a rational government structure around its siloed departments to allow businesses to relate to the City as a single entity. New York City—a city that like Philadelphia has many independent operating agencies with older databases that do not communicate with each other—has created Business Express. Business Express, discussed on page 18 of this report, is a user-friendly interface that allows owners to transact business with the city at a single online location. Philadelphia's Business Services Center presents a similar gateway. With the addition of key features that allow businesses to purchase licenses and permits online, as

Communication challenges cited most often by business owners include:

- » Incorrect or conflicting information;
- » Not knowing where to get information and being bounced from one person to the next;
- » Dealing with multiple agencies that don't talk to each other;
- » Not having messages returned or letters answered;
- » Not being able to make appointments but instead having to go in person and wait;
- » Not being able to pay fees and taxes online;
- » Not receiving information about changes to law or policy; and
- » Not knowing what resources and training are available to assist them.

Agencies are still very difficult to work with under the Nutter Administration. You receive different information depending on who you talk to and some of the personnel treat you like you are an idiot. When I was trying to get my restaurant opened a year ago, I left L&I in tears.

Restaurateur

I am scared of city officials. I don't want a ribbon cutting. I just want to be left alone to run my business.

Physical Therapist

well as check the status of applications and violations, the City can better serve businesses while relieving its staff of the need to process time-consuming routine transactions.

Business Owners Seek Direct and Efficient Communication with Government

Business owners prefer to communicate with government and perform routine tasks online because it saves them money. They do not want to conduct business in person at multiple agency locations because it requires them to divert their time from income-producing activities. Yet many business owners believe the City offers no alternative to in-person communication for many tasks. Using online communication presents exciting opportunities for government to share timely information, reach out to business owners directly, reserve staff time for non-routine transactions, and allow businesses to deal with government holistically rather than requiring them to communicate with individual agencies separately.

Actions

- » Allow businesses to perform all routine transactions online. Online services are the most convenient and least expensive method for government and business to conduct basic transactions that involve submitting a form and fee. Issue a printable receipt so business owners can prove payment in case of dispute.
- » Continue to develop the online Business Services Center so that business owners can easily find relevant, accurate and up-to-date information and complete routine tasks efficiently. Work towards allowing businesses to check their files and view the status of every permit, license or violation.
- » Use the moment that a business owner walks in to obtain a Business Privilege License in person as an opportunity to share information. This is a good time to connect owners with available resources, including technical assistance providers. This can be done electronically as well.
- » Ensure consistency among answers provided online, over the phone and in person.
- » Allow businesses to register for customized emails listing government contracting opportunities, notices of law and policy changes and incentive programs.
- » The Mayor and City Council should actively participate in an annual town meeting with small businesses to allow for a productive discussion between small business owners and Philadelphia leaders on changes needed to improve small business formation and development.

What the City Does in order of frequency of use reported by business

1. In Person
Most expensive for City and business
2. Nonprofits
Indirect communication to client and member businesses
3. Public Hearings
Held during business hours
4. Phone
Multiple transfers common; long hold time
5. Mail
Responses rare
6. Internet
Few tasks can be accomplished online
7. Email
Rarely used

What Businesses Want in order or preference

1. Internet
Least expensive for City and business
2. Email
Inexpensive with quick response time
3. Phone
Quick access to the right person with short hold time
4. In Person
Make appointment to discuss complex issues
5. Mail
Receive timely, accurate replies
6. Public Hearings
When owner cannot attend, can file testimony online
7. Nonprofits
Prefer direct communication

Better Business Model for Government

"Business should be able to interact with the City in the simplest and most convenient way possible that doesn't impact the city's oversight role."⁷⁸ That is the principle behind New York City's Business Express website (<http://www.nyc.gov/portal/site/businessexpress>). Business Express allows government to communicate a significant amount of information to owners. The City is currently expanding Business Express to allow business owners to check the status of applications or violations online. To provide the latter service, NYC has created a workaround to bring information (e.g., approval dates) from old databases, drag it forward, and display it in a way that makes sense to the user using a "back-end translator system from iWay." Basically, the website user sends requests to the translator and the translator goes into the agency database and sends the information back out to the portal. Only one of the City's "legacy databases" from the 1980s could not be connected to the translator to provide information directly to users. NYC could not share any cost numbers but they do think the system has made a substantial improvement to their communication with businesses.⁷⁹



CONCLUSION

In the fall of 2011, everyone from the President of the United States to Philadelphia City Council is looking to small businesses to bring this country and this city out of the economic downturn created by the global financial crisis. Speeches by politicians and articles in virtually every newspaper and journal cite data showing that small businesses drive economic growth and that their health is essential for job creation. Clearly, the secret is out: small business formation and growth is not just a peripheral strategy for economic development in Philadelphia, it must be the foundation of economic development efforts. The Sustainable Business Network of Greater Philadelphia turned to small business owners themselves to identify actions that the City can take to improve the business climate and help form and grow more small businesses. Many of these recommendations will require government to change its long-standing culture by eliminating silos, opening up opportunities and communication channels to work with small businesses directly, and taking measures to ensure that the hundreds of license requirements and laws imposed on businesses create benefits that outweigh their costs. When small businesses prosper, the entire city prospers. Let's get started.

Small business formation and growth is not just a peripheral strategy for economic development in Philadelphia, it must be the foundation of economic development efforts.

CHECKLIST

Nine Recommendations to Spur Small Business Growth and Job Creation

1 Reduce the time, cost, and confusion of obtaining City approvals.

- Reduce the number and cost of licenses and eliminate licenses not tied to health and safety issues. Continue to eliminate and consolidate license requirements. Lower the cost of licenses, particularly the Business Privilege License because of its symbolic importance as the first formal requirement small businesses must satisfy.
- Continue to improve the City's Business Services Center so it can serve as an information gateway and allow small business to purchase licenses and permits online.
- Take the politics out of permitting. Create objective standards for every common business activity. Do not require a business to obtain a variance or have an ordinance passed to conduct a necessary business activity for that business to operate profitably. Complete the city's four-year effort to adopt a more objective, modern zoning code.
- Help businesses navigate the City's approval process by increasing the number of Business Service Representatives to give them recourse when an agency is uncooperative. Market the availability of these representatives to small businesses.
- Increase customer service training of City staff to ensure they provide consistent information.

2 Simplify the tax compliance burden for small businesses.

- Simplify City tax calculations and forms so they mirror federal and state forms to allow the average business owner to complete tax forms without having to hire an accountant or tax preparer.
- End the requirement that new businesses pay two years of taxes upfront. This places a huge burden on a business at the time when its cash flow is lowest. Allow businesses to pay quarterly tax estimates when they pay their estimated State and Federal taxes.
- Accurately maintain tax records and make it easier and less time-consuming for business owners to fix errors made by the Revenue Department. Allow owners to electronically file complaints about inaccurate tax bills and respond within 48 hours. Where an in-person meeting is needed, the Revenue Department should provide appointments with experienced staff with the authority to resolve these issues.
- Create an online help forum or knowledge base where business owners can ask tax questions and have them answered by knowledgeable staff. These conversations would remain available online for other owners with similar questions.

3 Ensure laws do not unnecessarily harm small businesses.

- Create a web page and weekly email notification of all proposed laws and rules that impact small businesses. Allow the public and business owners to electronically submit detailed comments.
- Review existing laws and regulations and eliminate those provisions that create a cost on small businesses disproportionate to the benefit to public health and safety.
- Agree not to adopt more licensing requirements unless a clear and demonstrable impact on health and safety can be shown.
- Implement "sunset" clauses for new business regulations. Require newly adopted city ordinances that impact businesses to expire after three or more years unless reviewed and renewed by Council action. There is value in giving regulations an end date so they expire when they have outlived their usefulness.

4 Reform the inspection system to ensure it is fair, objective, and offers the right to a timely appeal.

- Adopt a list of conduct requirements for small business inspections similar to New York City's Business Owner's Bill of Rights. This should include a detailed description of a fair and timely appeals process.
- Encourage compliance by publishing common reasons that businesses fail an inspection to help businesses proactively avoid citations.
- Where inspectors disagree, mandate that they resolve any interagency conflicts within 24 hours and submit a joint opinion to the business owner.
- Work with commercial corridor managers to identify violations that harm businesses along the corridor and enforce them. Do not limit citations to active businesses.

5 Partner with Community Development Financial Institutions and nonprofit support organizations to increase financing to small businesses.

- Increase the small business loan capacity of CDFIs in Philadelphia by helping high-performing existing CDFIs to expand. Encourage banks to provide more small business loan assets to effective CDFIs.
- Offer a credit-building program for existing and potential small business owners modeled on Justine Peterson's successful efforts in St. Louis.
- Partner with PIDC to offer small businesses a gap financing product to pay upfront costs to fulfill a contract with the City of Philadelphia for between \$25,000 and \$75,000.
- Monitor small business loan activity of CDFIs that receive City funding for technical assistance. Require data on the number and performance of loans issued.

6 Encourage collaboration and increased accountability among small business support organizations.

- Adopt Kansas City's KCSourcelink model and bring all funders and nonprofits supporting small businesses together to understand current areas of focus and gaps in service. Collaboration will allow for an online directory of nonprofits with detailed descriptions of the services they provide, city-wide training for different segments of the business population with proven results, a single citywide calendar of events, and a comprehensive set of informational materials available in hard copy and on the City's website.
- Define the City's expectations regarding outcomes for small business support organizations that it funds for technical assistance. Implement performance standards to achieve those outcomes.
- Provide detailed information about small business support resources to business owners. The City should provide a list of key organizations and the services they provide to business owners when they obtain a Business Privilege License and maintain a directory on the city website.

7 Transfer vacant land and enforce tax foreclosure laws to provide land for new and expanding businesses.

- Support businesses by creating a single transparent, clear and fair process for buying publicly-owned vacant land. Create a single inventory of publicly-owned land that is accurate and searchable online. Post an objective, user-friendly process to buy the land for market value and transfer the land once the requirements are met. Do not require a business that is current on its taxes and compliant with code to get permission to expand their business from the District Councilperson.
- Reduce transaction time from offer to settlement on publicly owned vacant land to no more than 180 days.
- Strengthen code enforcement to improve the condition of privately-owned vacant land. Prioritize vacant properties over occupied properties and prioritize commercial corridors.
- Enforce the City's tax laws and foreclose against tax delinquent properties that are long-term vacant.

8 Consolidate and modernize the City's procurement process to increase small business participation.

- Consolidate all City contract offerings on a single searchable website. Describe the vendor selection process for each agency.
- Allow businesses to register for email notices about relevant contracting opportunities. The vendor and the winning bid should be publicly disclosed on the City's website in a searchable database that also includes historic bids and awards.
- Offer businesses the opportunity to submit bids and RFP responses online using standardized forms. The Nutter Administration has been working towards this goal since a charter amendment was passed in November 2010, giving the City authority to accept bids online with electronic signatures.
- Require operating agencies to submit invoices within ten days of delivery, and the Controller and Finance Department to approve them in a timely manner. Define timelines in contracts and make payments according to those timelines. Explore the feasibility of using direct deposit or electronic payments.
- Lower Performance Bond requirements. Reduce bond requirements in the construction sector and eliminate unnecessary bonds in other sectors. Create formal criteria to determine the need for and amount of performance bonds.

9 Improve communication between government and small businesses.

- Allow businesses to perform all routine transactions online. Online services are the most convenient and least expensive method for government and business to conduct basic transactions that involve submitting a form and fee. Issue a printable receipt so business owners can prove payment in case of dispute.
- Continue to develop and refine the online Business Services Center so that business owners can easily find relevant, accurate and up-to-date information and complete routine tasks efficiently. Work towards allowing businesses to check their files and view the status of every permit, license or violation.
- Use the moment that a business owner walks in to obtain a Business Privilege License in person as an opportunity to share information. This is a good time to connect owners with available resources, including technical assistance providers. This can be done electronically as well.
- Ensure consistency among answers provided online, over the phone and in person.
- Allow businesses to register for customized emails listing government contracting opportunities, notices of law and policy changes and incentive programs.
- The Mayor and City Council should actively participate in an annual town meeting with small businesses to allow for a productive discussion between small business owners and Philadelphia leaders on changes needed to improve small business formation and development.

NOTES

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5 For the purposes of this report, the terms “entrepreneur” and “small business owner” are used interchangeably.

6 There is no clearly accepted definition for a small business. The federal government defines small business as an establishment with fewer than 500 employees. The City of Philadelphia does not have a common definition of a small business for its agencies and programs. For the purpose of this report, small business is defined as a business with 50 or fewer employees.

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members of the Sustainable Business Network. This survey was conducted in order to gain a better understanding of the priorities and concerns of small businesses in order to inform preparation for focus groups and interviews. This is not a statistically-significant percentage of Philadelphia business owners.

41 Sign approval process verified through interview with Michael Fink, Deputy Commissioner for Development, Department of Licenses and Inspections.

42 The most comprehensive analysis was by the 2003 Philadelphia Tax Reform Commission created by voter referendum, with the most recent being by Mayor Nutter's Task Force on Tax Policy and Economic Competitiveness established in 2009 under Executive Order No. 3-09.

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any tax credits as indicated on Line 3 of the return. Enter the amount of Line 3 on Line 4 of the return. If your business is active in 2011 you cannot enter zero "0" on Line 4. If you enter an amount on Line 4 less than the amount on Line 3, you may be billed additional interest and penalty.

44 Businesses must pay estimated state and federal taxes on a quarterly basis, rather than on a single date, allowing a better estimate of actual business performance and spacing out required payments. When asked, Revenue Department management stated that transitioning to a quarterly payment process would mean that revenues would be delayed for one or more quarters in its first year of implementation and this has prevented reform.

45 Los Angeles' Business Tax Holiday exempts any new business from the City of Los Angeles's gross receipts tax for the first three years of operation. The program is described further on the city's website at <http://www.losangelesworks.org/businessServices/3Incentives.cfm>

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with Nan Feyler, Health Department Chief of Staff and Dr. Palak Raval-Nelson, Director of Environmental Health Services on May 25, 2011.

53 Chicago does this at <http://www.cityofchicago.org/city/en/progs/inspectionspermitting/commoninspectionmistakes.html>

54 Id.

55 Philadelphia has two very large CDFIs—The Reinvestment Fund and LISC—but neither provide general small business loans. LISC does not provide business loans, and The Reinvestment Fund has restricted its business loans to the food industry. Most of the remainder of the City's CDFI's are small with less than a million dollars to lend each year. They provide small loans to businesses and typically provide support to business owners.

56 New loan funds came from two different sources. The U.S. Small Business Administration's new, competitive Intermediary Lending Pilot (ILP) Program provided \$1M each to Ben Franklin Technology Partners of Southeastern PA and the Philadelphia Industrial Development Corporation (PIDC) to invest in regional startups and to grow small businesses. Funded by a \$125,000 grant from Citi Community Development Impact and

Innovation Fund to Finanta and EntrepreneurWorks, the Circle of Success initiative will make loans of \$1,000 to \$20,000 to support the development of microbusinesses and build the credit of underserved and low-income entrepreneurs in the City of Philadelphia.

57 A Philadelphia CDFI is defined as a CDFI located in the City of Philadelphia. CDFIs located outside the City that may offer loans within the City were not included due to data constraints.

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75 Several business owners reported that they found it inconvenient that Philadelphia's online services can only be accessed by using Internet Explorer.

76 Interview with Mary Stitt, Deputy Procurement Commissioner on June 20, 2011.

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42
jobs per 100 people
in Philadelphia



Self-employed
business owners had
\$2 billion
in annual receipts in 2008



90%
of Philadelphia
businesses are
licensed and
pay taxes



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