CONFERENCE DRAFT

REDISCOVERING GOVERNANCE

Using Nonservice Approaches to Strengthen Small Business

A Guide for Local Officials

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PREFACE

This guide presents ways that local governments can address problems confronting small businesses by redefining traditional policy relationships between local governments and the private sector. Its major focus is on what can be called "nonservice approaches" to small business problems. Nonservice approaches—which complement service and direct lending approaches—serve small business needs through the purposeful shaping of local government policies (regulatory, administrative, tax) and the redefining of relationships in the community in order to leverage change in the behavior of the marketplace, institutions, and individuals in ways that will enhance opportunities for small business.

This guide shows how a variety of small-business problems are being addressed through nonservice approaches in selected cities and counties across the country. It is not a prescriptive document. Particular actions local governments can or should take depend strongly on the interaction of local capacities and resources with constraints imposed by state laws, by economic conditions, and by local market trends. A nonservice approach that was relatively unsuccessful in one locality may succeed in another, or may succeed at first but introduce a new problem that must then be addressed. By showing how other localities have approached a problem, the guide illustrates issues that should be examined. However, only local officials can decide which of the initiatives discussed should be applied in their specific jurisdiction.

For the purposes of the guide, small businesses are locally owned firms (that is, not branch plants of multinational or even national corporations) and include the very smallest "mom 'n pop" operations as well as growth-oriented young firms. Because the guide focuses on the relationship
between small business and local government, the group of small businesses discussed here are not bounded by size of employment or sales, or even percentage of the market, but by whether or not the firm is large enough to persuade the local government to its position (in which case it would be excluded) or small enough to be merely one of several firms affected by the local government's position (in which case it would be included). Although such a definition has no applicability for any other purpose, it is useful for the purposes of studying how firms can be acted upon for their benefit by government.

The guide is based on analysis of available literature and documents, a nationwide phone survey, and site visits in 12 cities and counties across the nation. Part One (Section I) presents an overview of the relationship between both small business and local government and describes the types of nonservice approaches now being increasingly used by local governments. Part Two (Sections II-VI) shows in detail how nonservice approaches are being used to address the problems recognized as most important by the 1980 White House Conference on Small Business. Part Three (Section VII) shows local officials how to examine their particular jurisdictional problems to identify possible approaches and useful strategies.

The authors hope the guide helps local governments and others interested in small business to find new ways to strengthen this important sector of the economy.
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PART ONE

I  OVERVIEW

Importance of Small Business to Local Government

The importance of small business in the nation's economy is well known. However, small business has only recently begun to receive the attention it deserves from policymakers at all levels of government.

According to the report of the 1980 White House Conference on Small Business, there are 12 million small business operations in the United States, constituting more than 97% of the nation's business enterprises. These small businesses provide income for more than 100 million Americans and account for roughly 40% of the gross national product (GNP). Moreover, as the report states, small companies in recent years have provided over 86% of the nation's new private sector jobs as well as 24 times more innovations than large companies. Looking to the future, the White House Conference report predicts that to achieve a healthy level of employment for Americans in the 1980s, 11 million new jobs will have to come from the small business sector of the economy, many of which will be growth companies.

Paralleling its important national role, small business plays a significant role in many local settings. There is a growing realization that viable urban economies need the benefits deriving from small business operations. The work of David Birch at MIT has shown the importance of small business to new jobs, inasmuch as he found that firms with 20 or fewer employees generate 66% of new jobs.* In neighborhoods, small firms provide essential ownership opportunities, basic services, area identity, and other amenities of modern life. Small businesses also provide important tax revenues to local government. Finally, small businesses are an important
source of stability in many localities. Such businesses are usually products of their place and, therefore, are less likely than large firms to move—creating an important relationship between the firm and the city. Thus, urban governments have many reasons to promote and strengthen the presence of small business.

Functions Small Businesses Play at the Local Level

Small Businesses and Neighborhood Stability

In urban areas, small businesses typically play different roles in declining, stabilizing, and rising neighborhoods. As Table I-1 shows, small businesses in declining neighborhoods often provide goods and services no longer available from larger enterprises that have closed or moved away. Small businesses in declining neighborhoods may also be the main source of jobs for poor and unskilled residents.

Stabilizing neighborhoods have a sufficient variety of small businesses to reduce the importance of individual stores as critical purveyors of goods and services. Neighborhood stores, however, are still important employers, particularly for the undertrained. Local ownership opportunity is also important.

Rising neighborhoods provide opportunity for both resident ownership and employment. Rising neighborhoods also often serve as homes to specialized businesses, which can give such neighborhoods unique identities.

<table>
<thead>
<tr>
<th>Type of Neighborhood</th>
<th>Provide Basic Consumer Goods/Service</th>
<th>Provide Employment For Residents</th>
<th>Provide Business Ownership Opportunity</th>
<th>Provide Specialized Function, (e.g., Tourism)</th>
<th>Provide Neighborhood Identity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declining</td>
<td>Very important--few other local sources. employees in neighborhood.</td>
<td>Very important because of high unemployment and few employees in neighborhood.</td>
<td>Little reliance since mostly absentee owners.</td>
<td>None likely.</td>
<td>Differentiated identity is lacking; survivor businesses usually can provide little.</td>
</tr>
<tr>
<td>Stabilizing</td>
<td>Important, but more opportunities exist for purchasing.</td>
<td>Important source of jobs.</td>
<td>Ownership is an important key to stabilization since owners often upgrade; new resident owners often sought.</td>
<td>If special resources exist they are unlikely to be promoted and need to be strengthened.</td>
<td>The area has an identity that has weakened over time and needs to be upgraded.</td>
</tr>
<tr>
<td>Rising</td>
<td>Important for both residents and for outside consumers--basic service providers may disappear high rent pressure.</td>
<td>Important for local residents although many employees work outside.</td>
<td>Extensive ownership by residents until they &quot;make it,&quot; or rent pressure results in displacement of original tenants.</td>
<td>Often special attraction, such as museum or park, which attracts outside residents.</td>
<td>Likely to have commercial development strip with strong identity due to restaurants, and specialty shops.</td>
</tr>
</tbody>
</table>
The observation that commercial development in neighborhoods is linked to other development has been made frequently. Whether decline in commercial strips follows or precedes the decline in housing is less important than the identification of successful interventions, particularly those that can be carried out without large investments from the public sector. Examples of such interventions include measures that prevent or compensate for redlining, including insurance redlining; measures that attack problems of crime, poor services, and physical deterioration; and measures that encourage turnover of properties from absentee landlords to new resident owners.

Small Business and Jobs

According to David Birch of MIT,* small business is far more likely to provide new jobs than large business, and new small companies are far more likely to expand than larger, more mature ones. Overall, swiftly growing companies in a new field do more on-the-job training than mature companies because there is no trained labor pool to draw from, which means that they can use more recent graduates and more people who are unemployed because of the closing of an older plant.

Small Business and Economic Integration of Vulnerable Groups

The encouragement of small business in a locally with a high minority population is likely to result in some increase in the employment of minorities in expanding sectors. Increases in neighborhood small business in particular often lead to youth employment opportunities. Small business is also a source of part-time jobs for displaced homemakers trying to re-enter the labor market and for the elderly trying to supplement their pensions.

*Ibid.
Small New Business and Economic Growth

Studies of innovation show that small business is responsible for more innovation than larger companies. In fact, an entrepreneur will frequently leave a large corporation, starting his own company to exploit a new technological development the large corporation found too risky. Those new companies that survive and grow provide new markets for firms in older fields and thus contribute to the economic vitality of the locality.

Ways in which local governments can encourage the potential high-growth company might include making site location or capital formation easier, making it easier to move through permit and licensing systems so that capital does not have to be tied up (and paid for) during long delay periods, and so on.

Small Business and Tax Revenue

Even the smallest local business pays some local taxes. Small business that has a high potential for growth also has a high potential for providing increased tax revenues. Although it is true that business growth leads to an increase in the need for public services, it is also true that there are often periods when company payrolls bring more revenue to a city than they require in new public services (i.e., there are not enough employees to require a new school for their children, enough trucks to require widening the street to the plant or installing traffic lights). Inasmuch as local governments have an interest in maintaining and expanding their tax bases, providing general assistance to small firms can contribute to this important objective.

The Role of Local Government

Developing a local government role in strengthening small business requires an altered perspective on what forces are affecting small business
in a locality and what local government powers can affect those forces. Until recently, there has been a tendency in many local governments, to focus economic development strategies principally on the attraction of major new industries and the expansion of existing large enterprises. Likewise, neighborhood revitalization plans in many cities often fail to take into consideration the importance of small business in creating viable neighborhoods and providing employment opportunities for area residents.

In short, small businesses are subject to substantial forces that local governments could address but often ignore. These forces, which range from national to local in their scope, affect supply (capital, operations, facilities costs) and demand (market competitiveness) factors in small business. The theme of this guide is that local governments can use their ability to govern to respond to small business needs in a meaningful way. Developing an intentional effort to use local government policy to address these supply and demand factors is a role that few local governments have assumed. Yet, it is here that local governments could perhaps play a most important role in responding to the small business concerns such as those articulated by the White House Conference on Small Business.

The White House Conference report identified six problem areas of priority concern to small business and recommended specific actions that should be taken at the federal level to address each. These priority problem areas are: improved access to needed capital, elimination of unnecessary regulations and paperwork, education and management assistance, expanded involvement in international trade, opportunities for minorities and women, and involvement in public policy. The report calls for a concerted effort by policymakers to recognize the vital nature of small business and to develop a policy framework that recognizes their particular needs and problems. While the report and its recommendations are directed toward the Federal government, it is clear that the goals of the White House Conference cannot be achieved unless the suggested policy framework includes recognition of the importance of small business to local economic development, local employment, and neighborhood vitality. States have a role to play as well, although that role is not addressed in this guide.
except incidentally. Federal and state initiatives, however, must be supported by appropriate action by local policymakers to address the concerns of small business. The sections which follow lay out how this could be done.

**Nonservice Approaches to Small Business Problems**

Traditionally, local governments have used their legal and administrative powers to protect the health and safety of the community and used spending power to provide needed basic services. As local and Federal fiscal resources have become more constrained, however, and as problems confronting different sectors of the community have grown, local officials have had to seek new approaches. The traditional tools of government have had to be re-examined in terms of what they can do to influence the behavior of the marketplace, institutions, and individuals in recognition of the fact that government cannot do everything by itself.

This emerging use of traditional governance tools in new ways involves using what have been called "nonservice approaches" to community problems. The word nonservice emphasizes the focus of local government activity on using policy tools (such as regulation and deregulation, tax policy change, administrative reform) in new ways and on defining new roles for key public and private actors (through collaboration with the private sector, promotion of self-help, and public advocacy) rather than on direct service delivery (expenditures based on tax revenues or Federal grants). Local governments, consequently, are beginning to examine how the rules and processes they develop can be intentionally used to assist small business in nonservice ways. They are also trying, when developing policies for other purposes, to anticipate their secondary consequences in order to maximize positive effects in the small business community.
Specific Nonservice Tools

Throughout the last 4 years, an array of research has been conducted on the subject of nonservice approaches to community problems.* During this time, six principal categories of nonservice approaches have been developed. These are:

- Regulation and deregulation
- Tax policy change
- Administrative reform
- Collaboration with the private sector
- Promotion of self-help
- Public advocacy.

Each of these areas of local government policy can be used in a different way to address supply or demand problems affecting small businesses. This discussion provides an overview of these tools and of how they can be used to help small business. The sections subsequent to this describe in greater detail how nonservice approaches are being used in different communities to respond to the basic problem areas described by the White House Conference on Small Business.

Regulation and Deregulation--The police powers provided to local government by the states represent tools with which cities and counties have traditionally pursued maintenance of the health, safety, and welfare of their constituencies. Regulatory mechanisms have traditionally been used to prevent actions construed by local government as being against the public's best

* See: The Rediscovering Governance series of publications by SRI International; this series includes documents on "Nonservice Approaches to Neighborhood Problems," "Nonservice Approaches to Social Welfare Problems," and others.
interest, such as zoning to prevent incompatible land use, or licensing to prevent unsafe practices in business. Nonservice approaches to regulation are based on using these traditional local powers in ways that emphasize positive action. Nonservice approaches using regulatory powers can also involve purposeful deregulation designed to encourage or facilitate desired behavior by nongovernmental actors. Thus, through the intentional targeting of regulatory powers, local governments can promote and marginally direct certain market activities, such as protecting small businesses in neighborhoods or providing opportunities for development of special business activities (Exhibit I-1).

Regulatory reforms are predominantly supply-side oriented, as they usually constrain or enhance the development of local enterprise. Few regulatory changes affect demand for small business, since demand is primarily determined by market factors, rather than capital and operating issues.

Thus, cities and counties are developing supply-side strategies to assist small business through regulatory changes such as the use of downzoning to prevent encroachment of expanding residential or high density commercial land uses into commercial strips. Similarly, flexible code enforcement policies and deregulation in certain areas are being used to open new opportunities for entrepreneurship. Finally, some demand-type problems are being addressed through local procurement problems.

Exhibit I-1

REGULATION AND DEREGULATION

Local governments are changing regulatory policies to reduce red tape and purposefully use regulation to assist small business. For example, see how local governments are:

- Using Planned Business Development Zones to facilitate and encourage mixed-use business projects (Denver, Exhibit III-2).

I-9
Exhibit I-1 (concluded)

- Revising the comprehensive land-use plans and zoning policies to both protect and promote neighborhood small businesses by accommodating both existing and new, innovative uses (Portland, San Francisco, Section III).

- Using flexible and purposeful code enforcement to reduce unnecessary costs for small businesses (Memphis) and negotiated code compliance ordinances to reduce abuses by absentee landlords (Baltimore, Section III).

- Establishing both small and minority business procurement programs incorporating specific set-aside levels (Oakland, Los Angeles, Portland, Springfield, San Antonio, Pittsburgh, Section V).

- Revising surety bonding requirements on contract work to enable access by more small businesses (Dallas, Section III).

- Examining bank compliance with the Community Reinvestment Act to see if small businesses are being served in neighborhoods (Chicago, Section III).

**Tax Policy Change**—The traditional purpose of most forms of taxation has been to raise money to fund specific programs or services. Cities and counties however, have more and more recognized the nonrevenue implications of tax policy and have sought to use such implications to their advantage. Because past taxing practices adopted to maximize local revenue often inadvertently rewarded those who left the community rather than those who stayed, urban governments are now beginning to examine tax policies in terms of their actual effects and are using them to influence private sector behavior, as well as to raise revenues in new ways. Tax policies that use taxes as incentives have been targeted to address a variety of problems in communities and are now being considered for their use in assisting small businesses (Exhibit I-2).

A number of local governments are using new tax policies to address supply-side issues such as capital formation and operations costs. Strategies include the use of the authority of local agencies to issue tax-exempt revenue bonds for providing capital to small businesses. Other approaches include the use of tax abatements for improvements to small businesses, or adjustments in the actual tax rate to equalize tax burdens.
Demand-side strategies using tax powers are not common; however, some cities, such as Boston, have developed a requirement that larger firms who have received incentives, such as tax abatement, must demonstrate compliance with a first-source agreement in hiring and purchasing. Thus, 50% of procurements must be made to local businesses that have 25% or more minorities and 10% women employees.

Exhibit I-2

TAX POLICY CHANGE

Local governments are using their tax powers in new ways to assist small business. For example, see how local governments are:

- Using small issues of tax-exempt revenue bonds to provide capital for local small businesses when private and public capital are not available (Boston, Buffalo, Denver, Minneapolis, New York, Philadelphia, and Portland) (Exhibit II-1).

- Targeting tax abatements for small businesses (specifically) to reduce the disincentive of upgrading or expanding facilities (Exhibit II-2).

- Establishing free ports and foreign trade zones to reduce costs for small businesses that use imported materials (Exhibit II-3).

- Assisting small businesses in negotiating adjustments of tax assessments on their facilities (Boston, Section II).

Administrative Reforms--The management of local government involves numerous, ongoing acts of business and resource allocation. Throughout the 1960s, many Federal programs attempted to help local governments move beyond conventional ways of delivering services to bring about "institutional reforms" that would extend to public benefits of service programs. These Federal programs required local agencies to hire neighborhood residents, establish local procurement programs, or institute more flexible services through the use of waivers and new reimbursement policies. Local governments
are now using administrative reforms of these types to address small business problems in both supply and demand areas (Exhibit I-3).

Among the supply-side strategies local governments are using to address problems are reducing red tape and facilitating business development through increasing access to facilities at lower costs. Many cities have one-stop permitting offices, or offices that act as direct advocates for small businesses on governmental issues. The use of local development corporations to reduce the front-end costs involved with acquiring capital from the private sector is another area of activity which, though a public-private collaboration strategy, requires administration reforms to bring it about. For many businesses, the use of the powers of condemnation, or enforcement of tax collection laws and the laws that permit assembly of publicly owned space have helped create "shopsteading" programs, "incubator facilities," and city-facilitated business condominiums.

On the demand side, cities are now using administrative procedures to conduct affirmative action purchasing from small and minority firms, beyond the requirements of Federal program guidelines. Cities and counties are also changing the traditional roles of city offices to perform functions that can strengthen small business competitive capacity by developing marketing information for small commercial strips and, in some cases, actually assisting in local area marketing activities (advertising, neighborhood fairs). Some cities and counties are working with nonprofit organizations to help match small businesses with subcontracting opportunities from larger businesses who need to comply with affirmative action requirements and Federal procurement guidelines. The provision of education in competing for procurements, as well as bid discounts and revisions in surety bonding requirements, are also part of the demand-side strategies that local governments can introduce.
Cities are changing how they do business and the roles they play with respect to helping small business. For example, see how local governments are:

- Providing abandoned buildings to entrepreneurs who can "shopstead" (reuse) the facilities and help upgrade the neighborhood (Baltimore, Exhibit II-5).

- Using selective deposit policies to leverage greater support of lending to small business by local banks; (Chicago, Section II; Exhibit II-9).

- Streamlining permit systems and creating one-stop centers for explicitly addressing small business needs to reduce red tape and focus on small business problems (Section II; Exhibit III-3).

- Providing important marketing information for small business areas and assisting small businesses in their marketing efforts (Boston, New York, Exhibit IV-2 and IV-3).

- Increasing minority and small business participation in procurements by providing training and educational resources that help increase awareness and competence in competition (Portland, San Diego, Phoenix, San Francisco, Detroit, San Antonio, St. Paul, Oakland, Section V; Exhibit V-1).

Collaboration with the Private Sector—The nonservice concept views the private sector as an integral element of the community, with potential for meeting needs of the community as well as needs of its owners, clients, and employees, either directly or as a partner with local government (and with an interest in seeing many community needs met). The nonservice approach focuses on opportunities for involvement that can accrue benefits to both the individual firm and the communities in which it is located (Exhibit I-4). The private sector has four categories of resources that can be brought to bear on public concerns. These are direct giving, in-kind assistance (professional advice, loaned manpower, facilities, training), operational policies (hiring, scheduling, direct services to employees and the community, design and pricing of products and procurement), and the use of investment powers (location expansion of...
sites, real estate and business investments, and related business decisions).

Local governments are working with firms to develop changes in corporate policy that can alleviate pressures on local government, or to develop new market influences on community problems. Some firms are responding to supply-side concerns of small businesses through supporting organizations, such as LDCs that help reduce front-end costs that make getting loans difficult. Some financial institutions are providing direct assistance, and sometimes two-tiered interest rates for local businesses. Banks also are purchasing bond issues for businesses in their neighborhoods. Some corporations and business associations are working with small businesses to increase the management skills and to help address issues confronting local business strips.

To address demand-side issues, some larger local firms are working with local organizations to help establish subcontracting opportunities for businesses. In some cases, the level of interaction is extensive, ranging from technical assistance to new firms, to matching businesses with subcontracting opportunities. Incubators for small business are becoming more common (industrial parks and firms with interests in special high-technology businesses).

Exhibit I-4
PUBLIC-PRIVATE COLLABORATION

Cities and counties are changing the way they view the private sector. The emerging view is one that emphasizes mutual problem-solving and sharing of responsibilities, particularly for small business. For examples of how collaborative strategies are being developed, see how:

Most cities are promoting the organization of local development corporations, with public and private participation, to reduce the front-end costs associated with borrowing, provide management assistance to small businesses to reduce risk of failure, and
leverage other public and private resources to aid small business (Exhibit II-8).

- Corporations are developing corporate social policies that influence the use of their business powers, such as procurement; their provision of management assistance, and use of investment of bonds, stocks, and real estate to help small business, including banks buying small business bond issues, firms investing in new minority small businesses, and insurance companies supporting activities to reduce surety bond costs to new businesses (Section II).

- Local development corporations and Chambers of Commerce are acting as advocates for local small businesses on local regulatory and tax issues as well as state issues (Section II; Exhibit III-4).

- Minority business enterprise organizations and private firms are working with cities to increase minority participation in private sector procurement, through direct assistance, and provision of broad information (directories, business fairs, education) (Exhibit V-3).

- Local economic development processes are being increasingly assisted and influenced through participation by small business advisory groups and consortia of businesses in affected areas (Exhibit VI-1).

**Promoting Self-Help**—Although America has a tradition of placing emphasis on the role of self-help and voluntary programming in meeting community needs, local governments have done little to facilitate this process. Increasingly, however, public decisionmakers are recognizing the significance of individual, neighborhood-level, and community organization approaches to directly meet small business needs. Self-help strategies focus on individual or small organization efforts to pool and benefit from personal resources. The evolution of secondary market mechanisms, such as local or community development corporations, has enabled self-help efforts to leverage larger economic resources than could be moved by a few individuals. Similarly, policy advocacy by small groups and consortia of groups has introduced changes in the equity of public policies that have made resource allocation regulation, tax policies, and administrative procedures more responsive to small business needs (Exhibit I-5).
The key supply-side efforts at self-help have taken the form of initiatives, through business associations and their relationship to local development corporations. In many cities, the emergence of these organizations enabled development of a perspective on factors influencing revitalization of commercial strip areas or new business opportunities.

The demand side of small business concerns has unified many businesses in self-help efforts and led to larger endeavors with local development corporations. Some local merchant associations have taxed themselves to raise revenues for local advertising, or for hiring of security patrols. Other business groups have used their collaborative relationships to influence local government policies toward their industries. In both supply and demand areas of concern, the self-help efforts have usually focused on encouraging the local government to act more favorably toward them, through the use of their governance powers.

Exhibit I-5

SELF-HELP

Local governments are beginning to promote self-help on the part of small businesses in several ways. For example, see how:

- Small businesses are being required by cities to organize associations prior to enabling formation of extensive commercial revitalization or initiation of a local development corporation (New York, San Francisco, Section II).
- Merchants' associations are setting up self-assessments to generate revenues for strip advertising and security (Section III).
- Special interest and small business associations have developed to help overcome obstacles (such as lack of fluency in English) and to gain access to supports (Section III).
- Chambers of Commerce and other local organizations are increasing their advocacy on behalf of small business by drafting statements on needed policy changes (building codes, tax policies) Section VI).
**Public Advocacy**—Local governments have become increasingly aware of how they and their constituents are influenced by local and intergovernmental policies. Consequently, cities and counties have become more aggressive in the use of their legal powers to deal with other levels of government and the private sector. Jurisdictions have sought redress of resource allocation inequities in court against other communities or public and private sector actors (Exhibit I-6).

To deal more effectively with both supply and demand issues confronting small businesses, many local governments have assumed new advocacy roles on behalf of small business, distinguishing these roles from those on behalf of the economy or of large businesses. Furthermore, there are now small business task forces and advisory commissions that were initiated by local government to bring the local businesses closer to the process of establishing policy. Some cities have enhanced their advocacy roles by direct outreach to small businesses to find out what they need (whether it is a pothole filled or a zoning change). Other cities provide direct support of broader-scale advocacy initiatives, such as state tax policy changes, or regulatory reforms that might reduce small business costs. As concerns with all sectors of the economy broaden, local governments are beginning to distinguish more precisely between small business needs and those of the rest of the local economy, and are using their authority on policy issues to address small business concerns.

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**Exhibit I-6**

**PUBLIC ADVOCACY**

Local governments are using their advocacy powers to assist small business; and businesses are organizing to advocate on their own behalf. For examples, see how local governments are:

- Promoting organizations, such as local development corporations, as a means of assisting small business associations in stabilizing and strengthening commercial areas (Section II).
Developing direct advocacy roles on behalf of small businesses to address red-tape issues (zoning problems) or issues surrounding care of physical infrastructures (filling potholes), or to help businesses develop a perspective on city and state-wide issues such as tax incentives (Section III).

Forming small business advisory committees and task forces that are independent of larger economic development organizations to increase participation in policymaking that affects small business (Seattle, Section VI).

Needs Local Government Can Address

As local governments seek to provide more assistance to small business, they clearly need to consider the full range of nonservice options available. While few local governments today are using nonservice approaches in a systematic way, many such approaches are in use.

Moreover, as the following sections show, such approaches can produce a variety of effects. They can:

- Increase the productivity of existing resources by enabling resources to be used in new ways.
- Provide incentives or encouragement for shifting responsibilities for meeting needs to the nongovernmental sector.
- Obviate the need for increased or new service delivery by timely and appropriate intervention or influence in the behavior of markets, institutions, and individuals.

The following sections describe in more detail how local governments are using particular nonservices tools (along with their traditional service delivery programs) to assist small businesses in meeting identified needs. Part Two is organized to address the fundamental issues facing small business as identified by the White House Conference:
. Helping to meet growing needs for capital (see Part Two, Section II).

. Reducing "red tape" (see Part Two, Section III).

. Providing management assistance (see Part Two, Section IV).

. Expanding opportunities for minorities and women (see Part Two, Section V).

. Ensuring the involvement of small business in the making of public policy (see Part Two, Section VI).

In each of these areas, local governments have been making use of existing governance powers and building new relationships with the private sector to aid small business. Finally, Part Three presents the steps local governments should take plan and implement effective programs in these areas.
II MEETING CAPITAL NEEDS USING NONSERVICE APPROACHES

"Nobody would look at us—not the banks, not SBA, nobody. Finally a friend of mine came in—he had some equipment we could use for collateral and for startup—and we've been going great guns ever since."

--Small Business Owner

Overview

According to the White House Conference Report, the lack of access to needed capital for development and expansion is the major problem facing small business in America. Clearly the recommended changes in national tax and monetary policy will help, but local government can also play a role. The range of sources of small business capital is shown in Table II-1; even where the source of capital is Federal funds, local government can play an important role in assuring access and in assuring that public sector funds leverage as much private sector funds as possible. In addition, however, local government can encourage and induce the private sector to make more capital available, and in some cases can itself make capital available directly.

This section provides local government officials with specific information relating to nonservice approaches that can be used to overcome some of the problems of small business in obtaining either start-up or working capital. Each of the four parts of this section provides a number of useful examples that emphasize use of a different governance power. The first part, for example, reviews how tax powers can be used to develop capital through use of tax-exempt revenue bonds or to reduce disincentives for improvement of facilities through use of tax abatements. The second part of this section turns
### Sources of Capital for Small Business and Opportunities for Local Government Action

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>Characteristics Relevant to Small Business</th>
<th>Local Government Role</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal programs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SBA loans and loan guarantees</td>
<td>Only loan program aimed at small business; require considerable paperwork and delay.</td>
<td>Organize private sector or intermediary (ICO) assistance with paperwork; encourage wider (local) knowledge of programs; supplement by organizing other sources of debt capital.</td>
</tr>
<tr>
<td>EDA program funds</td>
<td>Limited in geographical area and demands specific workforce characteristics.</td>
<td>Provide wider information about eligibility criteria; organize private assistance for paperwork.</td>
</tr>
<tr>
<td>HUD funds</td>
<td>Limited to businesses in designated areas; used for infrastructure improvements.</td>
<td>Encourage use where applicable for businesses with a realistic chance of succeeding; monitor carefully.</td>
</tr>
<tr>
<td>PHA funds</td>
<td>Limited to rural areas and minimum loan size is high.</td>
<td>In localities where loan funds are available, encourage their use for larger projects that meet public sector objectives.</td>
</tr>
<tr>
<td><strong>State funds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Connecticut project</td>
<td>State funds help to buy equity in new high-tech, high-growth industries only.</td>
<td>Lobby for replication in this state.</td>
</tr>
<tr>
<td>California transfer fund</td>
<td>Loans for transfer of ownership in existing small business to minority owner only.</td>
<td>Lobby for replication; if replicated, organize private sector support (counseling) for purchases.</td>
</tr>
<tr>
<td><strong>Other state programs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A number of states have loan programs for small business, but eligibility requirements are generally rigid and delays long.</td>
<td>Encourage wider local knowledge of program, assistance with forms; advocate state use of bonding, deposit policies to increase loan funds.</td>
</tr>
<tr>
<td><strong>Local government funds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial revenue bonds</td>
<td>Economies of scale may limit aid to small business; loans available for physical plant only (except in rare cases).</td>
<td>Use industrial revenue bonds for local development corporation to fund small business; encourage local corporate purchases of bonds.</td>
</tr>
<tr>
<td>Federal funds that can be spent as local discretion (e.g., CDBG)</td>
<td>Competition for CDBG and other discretionary funds may prevent use by LDC for business capitalization.</td>
<td>Supplement with private contributions to develop endowment fund; move deposits and interest can be incentive to banks to cooperate.</td>
</tr>
<tr>
<td>Funds derived from local tax revenues</td>
<td>Generally difficult to gain agreement to use public funds for private venture except where some other end is served, such as employment or neighborhood revitalization.</td>
<td>See for deposit incentive to banks to make loans; lend only for project important to local residents (e.g., anchor food store for poor neighborhood).</td>
</tr>
<tr>
<td><strong>Private sector sources and funds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans</td>
<td>Small loans unprofitable even with guarantees; banks avoid high-risk ventures.</td>
<td>See city deposits as incentives.</td>
</tr>
<tr>
<td>Small business investment companies</td>
<td>Specialize in high-growth equity position, especially with fast payout.</td>
<td>Form nonprofit city EDC for small business.</td>
</tr>
<tr>
<td>Venture capital firms</td>
<td>Specialist in high-risk, high-growth equity position, usually high-tech firms or particular industry (e.g., import-export).</td>
<td>Test out information on firms and refer small business owners.</td>
</tr>
<tr>
<td>Commercial finance companies</td>
<td>Short-term loans at high interest.</td>
<td>Provide information to small business owners and encourage community credit union as alternative.</td>
</tr>
<tr>
<td>Private investors</td>
<td>Usually unknown to small business owners.</td>
<td>Seek out and encourage them to invest locally.</td>
</tr>
<tr>
<td>Family and friends</td>
<td>Small investments, usually led to under-capitalization.</td>
<td>Advocate changes in state tax law to make investment tax deductible.</td>
</tr>
<tr>
<td><strong>Nonprofit and mixed funding sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local development corporations using corporate contributions as well as public funds for receiving fund</td>
<td>May have goals such as improving minority employment or neighborhood stabilization that exclude some categories of small business.</td>
<td>Encourage corporate contributions to LDC to increase the amount of funds not subject to Federal/State compliance burdens.</td>
</tr>
<tr>
<td>Community credit union</td>
<td>Loans likely to be very small and term likely to be short.</td>
<td>Encourage corporate contributions to increase funds available for business loans.</td>
</tr>
<tr>
<td>Foundation</td>
<td>Few exist (one in Federal Region X).</td>
<td>Encourage development of a small business investment foundation.</td>
</tr>
<tr>
<td>Nonprofit venture capital firm, with some public funds and some contributions as seed money, which takes equity positions in new firms</td>
<td>Likely to be slow and vulnerable to collapse until its own capital becomes large enough to support a diversified portfolio.</td>
<td>If politically feasible, initiate one using small amount of city seed money and private contributions.</td>
</tr>
<tr>
<td>Nonprofit loan packaging service with wide range of funding sources (public and private) to draw on, including foreign investors</td>
<td>Very few exist and none that is experienced with all possible sources of capital.</td>
<td>Start one or encourage private sector to start one (business might be willing to set up an economical venture of this sort in areas where employment is needed).</td>
</tr>
</tbody>
</table>
attention to the many ways that administrative policies can be used to harness unused capital facilities (such as abandoned property), or to ease small business access to capital through lowering front-end costs for lenders. The third part examines how capital availability for small business can be increased in the private sector by incentives (such as city bank deposits) and by encouraging private sector activities in support of small business capital needs (such as affirmative lending and provision of "incubator" services). The fourth part, direct public advocacy, describes how local jurisdictions can play a major role in assisting small business in capital acquisition by helping to fight discrimination by lenders and by alleviating misconceptions about the viability of neighborhood areas (reducing fear of crime or instability). Overall, an array of strategies is presented that can be used selectively by cities and counties as appropriate.

Changes in Tax and Fiscal Policy

Use of Tax Exempt Revenue and General Obligation Bonds

The preference in meeting the needs of small business capital needs has been, and continues to be, capital provided through the private marketplace. Yet, as the White House Conference pointed out, small businesses have significant problems in finding adequate capital resources in both the private marketplace and through subsidized programs, such as SBA's guarantee and direct loan program. Consequently, while local governments are able to make direct efforts to influence the lending activities of the private sector through promoting affirmative lending to small business, and by reducing front-end loan preparation costs and lending risk, there is still another important avenue that local governments can consider.

Industrial development bonds (IDBs) are revenue bonds issued by a state or a local government to finance property (or in rare cases operating capital needs) used by a profit-making company. The company's rental constitutes funds for payment on the bond. The interest received by the bondholders is exempt from Federal income tax if the bond meets one of the purposes set forth
in Section 103b of the Federal tax code. IDBs are sold privately and in some cases are guaranteed by state funds.*

IDBs are considered, for the purposes of this guide, as nonservice approaches to assisting small businesses because their actual cost to local governments is minimal by comparison to direct funding from general revenues or subsidized loan programs. The cost of such instruments is principally borne through the loss of Federal tax revenue from the investors in the bond, with administrative costs of bond issuance being a secondary expense. A third aspect of the cost is the loss of the opportunity to use the revenue bond for other purposes, due to general limits on bond issuance in a specific jurisdiction.

The use of industrial development or revenue bonds to provide capital for small business is not common. Most cities that develop an industrial bond program use it for large projects for which the reduction in project cost through the bond's tax exemption is significant enough to be meaningful to the business. However, more cities are finding that their traditional resources for providing capital to smaller firms are diminishing. Banks are not favorably inclined toward extensive small business lending, which has higher front-end costs (proportional to larger loans), longer terms, and greater risks. Also subsidized lending sources are not available in sufficient levels to meet all local business needs. SBA 502 loans are in short supply, and while the Federal guarantee increases attractiveness of the loan package to local lenders (who provide from 60% to 90% of the loan), the local development corporations required for the process often do not have sufficient capitalization or expertise to effectively process the loans. The SBA 7(a) program frequently has a long waiting list of applicants. This leads cities to consider measures to fill the gaps created by capital shortage.

Although Congress, in 1968, restricted the tax exemption on IDBs to $1 million per issue to aid small companies in depressed areas, they ultimately increased the size to $10 million in 1978. These instruments have traditionally been used for industrial parks, individual businesses, pollution control, convention centers, parking facilities, and sports facilities. There are many reasons for this. Originally, IDBs were tools that local governments could use to attract industry, or retain it, and were used extensively in the Southwest. Second, IDBs have had to be issued at a size that would make them financially useful. The combined administrative costs and interest savings on the bond were usually not deemed high enough to make this form of financing attractive to apply to smaller business needs. Finally, state and local as well as Federal concern about the overuse of this instrument has resulted in a more constrained use. At least six states require a referendum unless the bond is issued by the state and some require that there be a public issue. Although IDBs are not essential to attracting or aiding big business, however, they can be useful to smaller enterprises that do not have the same access to capital.

Both Federal policymakers and advocates of small business are finding that smaller issues ($1 million and less) are potentially important to strengthening business in depressed areas, and for meeting specialized small business needs, though primarily for business facilities. Currently, to meet these types of needs some states are selling tax-exempt bonds in a pool and then allocating the proceeds to various IDB projects in various municipalities. This can make the advantages of tax exempt financing available to small businesses without established credit ratings. Local governments have not commonly used this approach, although it is an important idea for handling needs of many small businesses. States, however, will usually play a dominant role in issuance of bonds because they may be able to back the bond, and are concerned with the allocation of bonds in their statewide market. In some cities, nonprofit local development corporations (such as New York's Economic Capital Corporation) help bond-issuing institutions to find purchasers (banks, insurance firms). In other cities (e.g., Boston, New York), local marketing efforts though LDCs encourage banks to buy the bonds of businesses in targeted revitalization areas.
The use of bonds by themselves is not always appropriate where small business is concerned. Many states and local governments are finding that additional financial and managerial support is needed to strengthen the development activities of firms benefiting from bond resources. This is being accomplished through the provision of other forms of financial support, such as tax abatements (to be discussed later), and through the supportive intermediary role that local or state development corporations can play in packaging funding and promoting increased management capacity.

A number of cities, including Boston, Buffalo, Denver, Minneapolis, New York, Philadelphia, and Portland have developed revenue bonding approaches that can be applied to local business capitalization needs. Although the emphasis is usually placed on issues too large for small business ($5 million and up), smaller issues are possible. Cities that do issue bonds usually must do so through a noncity agency permitted to carry out bond administration. For example, New York City uses a number of intermediary mechanisms, one of which is the Public Development Corporation (described later in Exhibit II-4).

While many cities solicit applications for individual bond issues (e.g., Denver), others facilitate development of special projects that require bond funding. For Example, Portland (Oregon) encouraged a consortium of produce distributors to seek bonds through the Port District's tax exempt status to develop new condominium warehouses in a deteriorated industrial area. The use of revenue bonds to meet the capital needs of small business is further illustrated by programs in Boston, Minneapolis, St. Louis, and Erie County (New York), as shown in Exhibit II-1.

Exhibit II-1

USING INDUSTRIAL REVENUE BONDS TO CAPITALIZE SMALL BUSINESSES

Boston provides tax-exempt industrial revenue bonds through its Industrial Development Financing Authority, staffed by the Economic Industrial Development Corporation (EIDC). The loans under the program can be used for construction, acquisition, equipping, or improvement of facilities. Eligibility is restricted to industrial projects or any type of business located within
the boundaries of an approved "commercial area revitalization district." The bond revenues can be used to finance all the front-end costs of developing the loan (insurance, taxes, professional fees, and closing costs). The bond is secured by the credit of the firm, and may extend to 50 years (a length of time that most traditional lending sources will not permit). The exact structure of the bond financing is flexible and is determined by the company, its bond counsel, and the lender. Alternative structures include unsecured loans, mortgage loans, leases, leveraged leases, or installment sales. In some instances, where additional security is needed, part of the bond repayment may be insured by the Massachusetts Industrial Finance Agency. Typically, a bond issue is sold to one or more conventional lenders, such as banks or insurance agencies. In many instances, the bond purchaser will be the lender with whom the borrower regularly does business.

In 1977, the New York State Legislature created the Erie County Industrial Development Agency (ECIDA) to combat industrial decline in the state. ECIDA issues industrial revenue bonds to finance the construction or improvement of new or existing industrial plants; the bonds aid small as well as large businesses. To date, 65 bond issues have been effected, most of them running less than $1 million, and the total value outstanding is $110 million. ECIDA points out that revenue bond financing has advantages over conventional financing. Because the tax-exempt nature of the bonds results in providing capital at lower cost, higher levels of project funding can be achieved, and the debt can generally be paid off over a longer period.

The St. Louis Planned Industrial Expansion Authority (PIEA) was created in 1975 under a state law that empowers it to carry out plans approved by the city's legislative body. It is authorized to issue tax-free revenue bonds in amounts up to $10 million; in 1980, it has carried out four revenue bond issues that total $14 million. The beneficiaries include a warehouse company, an industrial display firm, a manufacturer of electrical products, and a manufacturer of aluminum foil—all of them expanding at their current locations. PIEA concentrates on firms with from 20 to 400 employees, and says "We want existing companies to expand and remain here. We do try to attract new firms, but the main thing is business retention."

The Minneapolis Industrial Development Commission (MIDC) has a bond-funded loan program for the rehabilitation of small and medium-size commercial buildings. Banks buy revenue bonds backed by the city and use the city's proceeds from the sale to make loans to building owners at a current rate of 8%. (In essence, this is an interest subsidy program to encourage smaller loans; the ceiling per building is $100,000.) By July of 1980, 25 loans averaging about $75,000 apiece were in process, but MIDC expects from 50 to 60 such loans per year.

Analysis—Bonds are generally less attractive to lenders than loans during periods of high interest rates. However, their long term makes them extremely advantageous for the business owner for facility development. The use of such instruments for small business capitalization is still too new to permit more specific outcome analyses.
The importance of the Boston bond program is that it permits bond issues of virtually any size, although the interest savings on issues less than $250,000 may not be sufficient to offset the higher closing costs of the bond issue. This enables smaller industrial businesses to acquire financing when other institutions cannot help them and, in many cases, at rates 2%-4% below the current rate. The use of the bonds is also constrained to either actual industrial enterprise, or to any commercial property in a designated Commercial Area Revitalization District. In addition, the capital cannot be used to refinance debt, provide working capital, or finance nondepreciable assets, such as inventory or accounts receivable.

The process for acquiring the bond is, as are many forms of assistance, fraught with extensive processing requirements. Furthermore, the city does not provide bond counsel or assistance to applicants. These administrative gaps are areas where the small entrepreneur could use assistance from other intermediaries, such as a local development corporation created by city's Economic Industrial Development Corporation, a city agency, or a private sector institution.

The attractiveness of this source of capital appears to be greatest for firms larger than commercial strip retail enterprises. Borrowers in the Boston program have included a uniform manufacturer ($690,000), a printing house ($600,000) an industrial equipment company ($560,000) a pavement firm ($625,000), a mail advertising firm ($1,840,000) and a museum ($3,200,000). The size of these issues is significantly smaller than those issued by the majority of other cities, who generally favor larger businesses.

Bond financing shifts the risk of capital formation from one part of the private sector to another (that is, from banks indirectly to the city). In general, it does allow business to build physical plants at a lower debt servicing cost and thus expands the effective capital of the borrower. Although bonds may be used to bring an existing business in from some other place, or to assist in business redevelopment, it would be unusual for bonds to be used to aid in the formation of a new small business. This makes the tool more useful for meeting the needs of existing business than for new enterprise.
In addition, bond use generally is restricted to redevelopment of physical plants and may not be used for operating capital, which further narrows bond use to an important but specialized area.

**Tax Abatement**

Tax-based fiscal measures that can improve the availability of operating capital for small business include reductions of business taxes for small business and methods of speeding up issuance of business licenses and permits (to shorten the period during which borrowed capital must be paid for but is unproductive). The use of policies that favor small business, however, is unusual. Where such strategies are used, the most common form is abatement of taxes for improvements by small business.

Many cities are using tax abatement strategies to promote the revitalization of central business districts and commercial strips. Abatements have been used most often as a means of encouraging new development where the market has not attracted such activity. However, cities and counties now are more often examining how their tax policies might also be used to provide an incentive to smaller businesses to undertake improvements. The belief is that smaller businesses in particular are harder hit by the increased assessments caused by making improvements, whereas with larger developments and expansions, tax abatements developers have come to expect from local governments and such benefits are not crucial to project success. Some cities make the abatements available to all applicants; others have criteria for approval, based on the number of jobs preserved or generated. In this approval process, small businesses often lose to larger projects. Developing a tax abatement policy that directly assists small businesses is one important way to help offset their capital needs.

Several cities, in states whose laws permit it, are using property tax abatements to stimulate business development or improvement in specific revitalization areas (Boston, Cleveland, Indianapolis, Kansas City, Philadelphia, New York, and St. Louis are examples). Pittsburgh is considering (under a
Pennsylvania State Law that allows local jurisdictions to abate local property taxes for up to 10 years) a measure that would abate taxes for up to 3 years and $5 million total to stimulate business development.

There is considerable argument, however, about the value of property tax abatements in stimulating new business. Much literature discounts abatements as incentives for business attraction because the benefits to large firms are so small. For small businesses, factors other than taxes may also be critical. However, there is considerable value to tax changes that are aimed at removing either fiscal burdens on small business or the penalty for building improvements for retail stores and small commercial office buildings. Boston, has on an informal basis, for example, helped small businesses in designated target areas to approach the tax assessor for renegotiating tax rates, as some areas may be taxed out of proportion to their current physical condition. Exhibit II-2 provides some examples of how cities and counties have developed tax abatement policies.

While many cities have developed a tax abatement policy for troubled commercial areas, other cities find that their councils will not approve the designations necessary to grant a targeted tax policy. The City of Phoenix, for example, is concerned with the stigmatizing effect of urban renewal designations that suggest blight. The consequences of a poor image are thought to have the potential for hurting the city more than the burden of tax rates on individual small business improvements. Few cities have differential tax rates that can be applied in such a way as to reduce tax impacts on small business.

Exhibit II-2

TAX ABATEMENTS TO REDUCE THE CAPITAL NEEDED BY SMALL BUSINESS

New York City, through its intermediary, the Office of Economic Development, helps small businesses apply for assistance, including tax abatements

II-10
under Section 489 of the Real Property Law, when they undertake improvements. Both industrial and commercial businesses may apply for abatements on new commercial construction (at 50% of the difference between final assessed value of the property and initial value) for 10 years, decreasing by 5% a year. Reconstruction can qualify for 95% abatement of the rate difference for 19 years, decreasing at 5% a year. The abatement is provided through the Industrial and Commercial Incentive Board. As of March 31, 1980, the city had granted abatements to 281 projects: including 52 manufacturing and industrial facilities; 33 retail stores; 26 warehouse distribution facilities; 25 office buildings; 20 professional office buildings; 20 auto repair, sale, and salvage projects; 19 banking businesses; 18 hotels; 15 restaurants; 13 supermarkets; 4 shopping centers; and a wide variety of other types of businesses across the five boroughs.

In Cook County (Illinois) which encompasses Chicago, businesses in areas that lack viable industrial and commercial buildings receive reductions in property tax. The ordinance, passed to facilitate improvements in severely declined areas, has seven classes of real estate that can receive different types of assessments. The classes range from unimproved land through farms, residential, and nonprofit uses to industrial, and commercial uses. The properties that are taxed at the lowest rate include residential, industrial and commercial properties (16% of assessed value). Other properties may be taxed at from 22% to 40% of assessed value. Basically, this policy enables reduced taxation of improvements for up to 17 years in areas that qualify. The assessor accepts applications from individuals in designated areas and rules on the application within 60 days. The designation comes from application of criteria for blight, or renewal, under the Illinois Urban Renewal Consolidation Act of 1961, the Commercial Renewal Redevelopment Areas Act of 1967, and the Commercial District Development Commission Ordinance of the City of Chicago. The program started in 1980 tax-year assessments, and does not yet have extensive operational data.

In San Diego, Cleveland, Indianapolis, Kansas City, Philadelphia, Pittsburgh, St. Louis, and other cities, tax abatements are used to induce businesses to locate in specific urban renewal areas. However, what often happens is that large businesses, particularly developers, receive tax abatements for shopping or office complexes but the small business tenant pays market rents that do not reflect the abatement/exemption.

In states where tax abatements are not allowed, other answers are possible.

In Ohio, for example, some cities are allowed by law (Ohio Impacted Cities legislation) to freeze taxes for up to 20 years on properties owned by a special-purpose Community Urban Redevelopment Corporation, which does nothing but hold title and which is a part of the city. The private investor thus pays the taxes that were set prior to development; at the end of 20 years, when the private investor takes title, land and buildings are assessed at current rates.
Exhibit II-2 (concluded)

In Memphis, since Tennessee state law forbids granting tax abatements or exemptions, the city will retain title to a building for a number of years (usually fifteen) and will lease it back to the private investor at a sum that is equivalent to a tax abatement if the building is in a redevelopment area.

Analysis--Tax abatements can be more important to small businesses than to large ones. However, tax abatements usually do not aid small businesses that rent, because developers who receive abatements often do not reduce rents in shopping or office complexes.

As with most abatement policies, certain applicants who understood the potential benefits of the New York policy took advantage of it. Those users include larger firms and chains. However, through advertising and distribution of information about the program, a significant proportion of applicants are smaller businesses. In New York, the benefits of the current program are not targeted on smaller businesses in the commercial strip areas in the city commercial revitalization program. The technical question that has not been considered is whether these abatements can be made useful to small firms who are engaged in upgrades through various programs. If the existing program is not linked to smaller business needs, perhaps an alternative tax policy is needed.

Free Ports and Foreign Trade Zones

A number of local governments (currently 30 cities) have established foreign trade zones and free ports either near the deep water harbor or near the airport. A foreign trade zone is a physical area usually associated with a port of entry that is isolated, enclosed, and policed, and is operated as a public utility or private corporation. This is a method of reducing the need for operating capital by tax abatement; however, rather than the property tax, the taxes abated are inventory and sales taxes for material bought and sold within the zone and tariffs for material that comes in from abroad, is elaborated within the zone, and is shipped out for sale elsewhere. Small firms as well as large ones can take advantage of a foreign trade zone.
A number of cities have established foreign trade zones, including Boston, San Jose, California (near the municipal airport), and Philadelphia. Los Angeles and San Antonio are planning foreign trade zones (see Exhibit II-3).

Exhibit II-3

USING FOREIGN TRADE ZONES TO STIMULATE LOCAL BUSINESS

Boston has a typical port foreign trade zone that encompasses over 300,000 square feet of building space within another public project, the Boston Marine Industrial Park, set up by the Economic Industrial Development Corporation.

The objective of the foreign trade zone (FTZ) is to reduce the costs of producing goods that are manufactured in the United States using imported materials, such as machined parts, tanned leather, or other non-U.S. products. The FTZ enables the elimination of import duties on goods manufactured with foreign raw materials for sale outside the United States, and a savings on duty if these goods are sold within the country. In both cases, foreign and domestic materials, components, and merchandise (unless prohibited by law) may be brought into the FTZ without being subject to the U.S. customs laws that govern the entry of goods and the payment of duty on them.

In most instances, as in Boston, the FTZ enhances the marketability of the larger business area surrounding the FTZ by stimulating the final processing of goods in the United States, rather than in the country of origin. Boston state that the zone stimulates domestic employment and at the same time saves operating costs through reduced custom duties.

The critical question that underlies the use of FTZs is whether or not their use should or can be increased, since many cities, like San Antonio, desire to set up FTZs. (They want to use an old airport for an FTZ that would enhance business trade with Mexico and South America).

Analysis--The use of the FTZ constitutes a flexible use of Federal policy on import and export controls. If FTZs were used more widely (there are many ports and inland cities where FTZs could be established), there may be questions as to whether that might reduce their competitive advantage to local governments, and a need to coordinate with Federal policy objectives.
Administrative Reform

Using City-Owned Facilities, Land, or Land-Use Controls to Reduce Small Business Capitalization Needs

Local governments can use facilities and land that they have acquired (whether through tax delinquency as in New York City or purchase for a freeway that was never built as in Buffalo) to reduce facilities cost for small business. This can be done in a direct way, either by packaging and selling city property at a reduced price (Exhibit II-4), by setting up a "shopsteading" program for abandoned stores (Exhibit II-5), by setting up a business "incubator" program (Exhibit II-6), or by developing industrial condominiums (Exhibit II-7). The private sector also is becoming involved in incubator projects.

Local governments can also use land controls to reduce capital needs for small business in a less direct way by, for example, allowing businesses and residential uses to share the same buildings, which can reduce the portion of the land rent that must be covered by business revenues. (A local government might consider negotiating with a developer to provide one or two small business spaces at a discount if the building has displaced existing small businesses.)

Exhibit II-4

USING ADMINISTRATIVE REFORMS TO EXPEDITE CONFISCATION OF PROPERTY IN TAX ARREARS

Current New York City law permits the city to confiscate properties whose taxes are delinquent for 1 year, although the owner can appeal to redeem them for up to 2 years after confiscation. The city's Division of Real Property administers over 45,000 city-owned properties acquired as a result of tax delinquency and makes many of them available for reuse.

Every 3 months a catalog of parcels to be auctioned is printed (giving the address of the parcel and the minimum cost, which is the amount of taxes owed) and an auction is held. These auctions have been well attended by
entrepreneurs looking for a good buy, and many of the smaller properties are suitable for small business.

In addition, the Public Development Corporation, established in 1976 but not really active until 1979, can acquire city-owned properties from the Division of Real Property and put together parcels suitable for large scale development, or industrial condominium developments suitable for small business. The Public Development Corporation also administers the "Vest Pocket Program", aimed at firms wishing to expand or businesses seeking to relocate; 60 firms are participating in the program, in which sales of surplus or In-Rem properties are negotiated based on an appraised purchase price.

Some states are changing tax laws in ways that will speed up the process of ownership changes on tax delinquent property that has been abandoned. For example, Ohio enacted a law by which property owners could deed their parcels to the local jurisdiction in lieu of paying the taxes. This can shortcut the process of confiscation and appeal.

Analysis—Abandoned property now owned by the city/county constitutes a valuable capital asset that can be used to aid small business, with the local government benefiting from future tax revenues, employment, and stability.

In 1977, Baltimore began a shopsteading program in which abandoned commercial properties in three areas (Hollins Market, Jonestown, and Washington Hill) could be obtained and rehabilitated for a very small equity investment. Those three areas were designated for shopsteading because they offered considerable promise for revitalization. The properties consisted of brick structures, generally with a shop on the ground floor and living quarters in the two stories above, and they were generally narrow, 15-18 feet wide.

The 48 shopsteaded structures are about equally divided among the three areas. Ten have already been rehabilitated and are in business; ten will be completed within the next 12 months, and the rest are in various stages of rehabilitation.

The city, as a general rule, sought a 10%-15% equity contribution from the shopsteader in the rehabilitation and has depended on a variety of loan sources for the remainder, including SBA loans and city revenue bonds. Because of inflation, the average cost of rehabilitation ($50,000-$60,000 in 1977) is now between $100,000 and $120,000, so that the program moves fairly slowly.
Exhibit II-5 (concluded)

The prospective shopsteader must apply with a sound and suitable plan for the completed building (which must be retained for 2 years paying full taxes after rehabilitation has been completed); no "do-it-yourself" work is permitted unless the shopsteader is a registered building contractor. All codes and special rehabilitation design requirements must be observed, and title is not turned over until rehabilitation is complete. The cost of the land to the shopsteader is $100.

Analysis—Although the number of shopsteading projects in Baltimore is small and the rehabilitation has depended primarily on Federal funds, the idea may be suitable for adaptation in many cities where rehabilitation costs would not be as great.

Exhibit II-6

BUSINESS INCUBATOR PROGRAMS

A private sector incubator program has been found that has interest as a model for consideration by cities. Control Data Corporation (CDC), in its Business Technology Centers, offers an incubator program for new, high-technology businesses trying to get off the ground. The fledgling firm not only rents space, but is able to obtain lower costs by sharing security services, janitorial services, secretarial services, and other supportive services with other new businesses in the center, so that a company can begin with a third of a secretary and a fifth or tenth of an accountant or bookkeeper, rather than having to purchase services at full market value. In addition, the Business Technology Centers also offer computer-based gaming and simulation services that can show entrepreneurs the effect of various business decisions and external factors on their concerns. The provision of high levels of support may or may not be important; since the CDC program is expected to be profitable, the tendency may be to provide services to increase revenue rather than solely to help small business.

Local governments have also undertaken business incubator programs. San Diego set up a business incubator program in an unused city-owned building at a local airport a number of years ago. Space at below-market rates was the primary incentive to use the incubator, and no time limit was set on the period of occupation. The result was that businesses that were essentially marginal took advantage of the lower cost space to remain in business and did not "graduate" from the program and move out. In part, this is a reflection of the fact that San Diego was in a high-growth phase, and space for promising new businesses was available along with financing for those businesses. The program was terminated, and there are no plans to replace it.

Buffalo has fielded an incubator program that has some of the shared services aspect of the CDC program and that has safeguards against nonproductive exploitation not present in the San Diego program. The city built an incubator building as part of its development of a 70-acre tract for an
Exhibit II-6 (concluded)

industrial park. The building is divided into seven bays suitable for merchandising or warehousing, and a flexible leasing program is followed. The expected occupation time is 2 years, but a lease can be written for 6 months if that is desirable, or the 1-year lease can be renewed annually for a total of 5 years. Of the nine companies that have occupied the incubator space, two have failed and seven have succeeded. Some have graduated to locations within Buffalo, and one that is still in the incubator building has increased its workforce from 6 to 48. The lease, which provides for below-market rental, is based on an agreement that, to the extent possible, the new firm will employ Buffalo residents, to make remaining in Buffalo more likely. Other services provided include financing, with the City of Buffalo Local Development Corporation willing to consider capital financing and the Erie County Industrial Development Agency willing to consider loans for working capital. (Buffalo has been experimenting with venture equity capitalization, but debt capitalization would seem to work as well.)

Analysis--Business incubator programs with proper safeguards for the city may be particularly suitable for introducing new manufacturing industries into older cities.

Exhibit II-7

CONDOMINIUMS AND FACILITIES GROUPING TO CUT SMALL BUSINESS OPERATING COSTS

New York City is experimenting with several types of business condominiums, which may constitute the only way for small business to acquire industrial property in that crowded area.

"Plating City" is a business retention plan that will group together in single location a number of electroplating firms. The plan indicates construction of a consolidated effluent treatment plant and a consolidated power plant that also will provide process steam and steam heat. It is a way of retaining the electroplating firms, which might not otherwise be able to afford the cost of effluent treatment that will result when new EPA requirements go into effect in 1983. (Electroplating effluents, including such poisonous heavy metals as cadmium, now go directly into the city sewage system.) Operating costs also will be reduced. Electroplaters must now purchase considerable amounts of power from Consolidated Edison and must generate their own process steam and space heat; the new consolidated generating plant will provide both power and steam, at a considerable reduction in cost.

In 1972, the city began to develop an industrial condominium for small businesses engaged in printing and graphic design. An eleven-story loft building was purchased, but because the building was not actually ready for occupancy until 1975, when the recession was in effect, only four printing firms now occupy the building. However, the Urban Development Corporation
Exhibit II-7 (concluded)

expects that all of the remaining space will be sold within 6 months, mostly to printing and graphics firms. The reason for grouping printing and graphic design firms is not that they need special environmental controls (although printing firms may need noise control assistance), but that they can benefit from each other's presence and from the fact that suppliers can deliver to a single location for several firms.

In 1978, the city acquired a seven-story, west-side building in a tax foreclosure action. The building, said to be in first-class condition, is being marketed as industrial condominiums to small or medium-sized light manufacturing businesses. The NYC Public Development Corporation is committed to marketing the building for industrial condominiums since the spread of conversions of lofts to residential uses has further constricted the supply of industrial sites.

Analysis—Companies that own their industrial site are less at the mercy of market forces than those that rent, and can derive tax advantages from condominium ownership. Where land for business or industry is very costly, the business condominium may be of great utility.

To use this tool, it is not necessary that the city or LDC own land or a building, only that uses to which it may be put be legally circumscribed, e.g. through "industrial condominium zoning."

Another method of reducing facilities costs used by New York, Los Angeles, and many others, is the provision of redevelopment or other land and land packages at below market rates. Note that this is quite a different procedure from that used in some urban renewal areas where the land is provided at market rates and the developer then recoups his investment by bringing in high-margin tenants. That system reduces effective capital for the small business by increasing the amount of working capital that must go for rent.

New York City puts together land packages (from land acquired as a result of nonpayment of taxes) for developers offering rates that drop below market rates. Rates may vary according to the extent such an incentive is needed to attempt the desired type of development to the neighborhood where the available land is located. Although the cost of New York City development efforts tends to put the program outside the financial reach of small business (even where the entry cost is low, the development cost is very high), the model is useful in less expensive cities.
Local governments also can alter extremely restrictive building codes that raise the capital cost of construction or alteration for small businesses. An example of such a restrictive ordinance is one that requires any building being upgraded at a cost of more than 50% of market value to meet the code for new buildings.

A way in which local government can help small business relocate or expand at less cost is to keep track of vacant commercial and industrial properties and to provide a list that shows location, zoning, square footage, the name of the realtor handling the property, and any special features (for example, venting hoods already in place for process gases, reinforced floor for heavy loads). Atlanta has such a listing (as do New York, Philadelphia, and Jamestown), and realtors are happy to cooperate with the city in keeping the list current. Such a service can be particularly useful for small businesses that do not have management time to devote to searching from realtor to realtor and do not have cash to spend on an industrial property location service.

Targeted Capital Improvements

Many cities are targeting public capital improvements (such as streetlights or new sidewalks) to encourage business improvements in specific neighborhoods. Although this practice does not directly provide capital funds for small business, it does improve the business climate for small retail and service establishments so that the capital investment they make in upgrading their properties can go further in terms of the increased business that results. This practice is often combined with private capital improvements (such as facade upgrading, especially in cities where there is some means of persuading local merchants to upgrade or leave (for example, in Baltimore, an ordinance imposes fines on noncooperating merchants). The result is to persuade an absentee owner who no longer has interest in the property as a business but only as a source of income to sell out to a local resident who has intimate knowledge of the local market and has reason to upgrade the business and make it pay.

II-19
Administrative reform in service delivery is a key nonservice approach because of the new role it calls for in local government—that is, awareness of small business needs and targeted use of existing service policies. In Jamestown, New York, a local manufacturer was going to shut down because his loading dock was on such a bad road that suppliers refused to truck in his raw materials and the trucking firm would not pick up products ready to be shipped. Timely targeted street repairs alleviated the difficulty. In Anaheim, California, a street-widening project that would take several months could have put some small businesses out of business (because motor vehicle access to their premises would have been impossible) if the city had not made an effort to notify all merchants far enough in advance that they could arrange for alternative access (as, for example, through a rear door or even through a neighboring store if needed).

Using City Payment and Deposit Policy

Two other kinds of administrative reform that cities can use to help local small business are prompt payment and targeted deposit of city funds. The importance of prompt payment by a city to the small businesses that supply it is often underestimated; treating a small business the same as a large one by forcing it to undergo the same delays has an inequitable effect on the small business because it forces it to maintain a much larger working capital per dollar of sales than the large one. Targeted deposit of city funds (Chicago) to lending institutions that make affirmative action loans (in areas that traditionally would have been considered to be declining areas and therefore poor risks for business expansion or upgrading) also can improve the access of the small business' access to capital it would have been denied otherwise. Deposits can be targeted to lending institutions that provide a lower interest rate on loans to small businesses than to large ones. City deposits can be a significant incentive, although in many cities financial constraints are such that it is necessary to obtain the highest possible interest rate for any deposit.
Public-Private Collaboration

Public-private collaborative efforts to increase the access of small business to capital generally rest on the ability to provide a mechanism or incentive to the private sector that will compensate for the extra effort required in making the smaller loans small business often needs (e.g., loan guarantees), or that will in some other way leverage a larger amount of capital from the private sector than it would otherwise be willing to provide. However, in addition to responding to incentives, business on its own is recognizing the need to assist small firms.

Local Development Corporations

A principal problem facing small businesses in obtaining capital is overcoming the disincentives to the private sector in providing loans. Associated with this problem is the fact that providing loans for many small businesses has a proportionally higher front-end (loan preparation) cost than fewer larger loans. In addition, most banks, particularly those that do not have small business sections, see small businesses as having higher default risks associated with borrowing. Consequently, banks do not favor small business loans, and there are few banks that have a significant portion of their portfolio represented by small business. While efforts are being made to increase the direct lending of banks to small enterprises (such as promoting affirmative action lending, compliance with the Community Reinvestment Act, and combining partial private funding with subsidized or guaranteed loans from the public sector), the obstacles remain. There are however, trends in local response to economic development issues that can help address the primary problems—high front-end loan preparation cost and high risk to lender. This trend is toward local government use of intermediary mechanisms, such as local development corporations (LDCs).

LDCs have no rigid definition, although they must incorporate within the legislation created for such institutions by each state. Their purpose derived from the special-purpose district concept, which originally enabled a
specialized role for a nongovernmental organization in meeting needs such as redevelopment, port development, and other public improvement activities. Community development corporations emerged first, to deal with specific area neighborhood and economic development concerns. These permitted community based organizations, or separate actors formerly attached to city planning or economic development agencies, to undertake activities using Federal grants and other funding sources to rehabilitate housing and to start special enterprises for depressed communities or portions thereof. Typically, community development corporations sought Federal grants to enable their activities, and served as an intermediary in packaging loans from other existing programs.

LDCs evolved as similar organizations that had charters enabling them to perform activities that cities could not, and to permit citizens to assume greater control of investment and development in their own neighborhoods.

Now there are a wide variety of LDCs. They range from large enterprises, closely affiliated with cities, to specific neighborhood organizations, designed to focus on the neighborhood and to involve neighborhood actors (businesses and residents) in self-help activities. Larger development corporations are entitled, in some areas, to issue bonds through state authorization. Others work extensively to organize local citizens and businesses to articulate needs, and to pull together resources needed to address the needs. Usually LDCs have administrative autonomy combined with some degree of political accountability; and they are quasi-public, usually nonprofit, with mixed public private boards. They do not give grants, but rather provide loans and indirect economic development activities.

One of the most important roles for LDCs in recent years has been their capacity to work directly with businesses to package both private and public sector loans, and to work with firms to provide needed assistance in improving management capabilities. This intermediary function, as Roger Vaughn puts
it,* is becoming an essential gap filling measure necessary to both the public and private sectors. In addition to enabling small businesses to overcome basic obstacles to finance, some LDCs are engaged in more complex roles as equity partners in business development. While not a conventional nonservice approach (since they rely on direct funding), LDCs act as secondary markets for equity investments in new or existing firms by venture capital firms reducing capitalization and enhancing the spread of their investment potential. LDCs also are able to act as intermediaries for local government to reduce capital costs to small businesses by taking city-owned land, or land and facilities claimed by cities through default on back taxes or condemnation, and packaging these resources for small business projects. (Examples are provided in Exhibits II-4 and II-7.) Furthermore, some specialized development corporations, such as the New York Economic Capital Corporation, help to locate institutions that will buy bond issues as well as package loans for small business.

The resources needed by LDCs to provide packaging and technical assistance may come from Federal programs, local government, and (increasingly) the private sector (particularly banks) who are recognizing that it is in their interest to support small business needs in their community. Furthermore, in the nonservice concept the investment required by LDCs is multiplied extensively by the benefits provided to small business, particularly where reliance on public lending sources is reduced and employment is maintained.

LDCs, however, are often set up to meet the needs of the local jurisdiction that establishes them, not the needs of the small business community. They may have such goals as increasing minority employment in the locality, providing greater economic stability for a neighborhood or a community, improving local housing and increasing the supply of housing, or

making a neighborhood more satisfying to its residents (see Exhibit II-8). Increasingly, LDCs are being created in conjunction with development of small business associations, which pull together local interests and better focus LDC activities.

Exhibit II-8

USING LOCAL DEVELOPMENT CORPORATIONS TO REDUCE OBSTACLES TO OBTAINING CAPITAL FOR SMALL BUSINESS

The City of St. Paul, Minnesota, set up seven local development corporations that make loans to firms in neighborhood business strips using the SBA Section 502 program and some CDBG funds (2.5% of the total) granted to the city. The 502 loans have a limit of $500,000 and may be used for expansion or modernization. The role of the LDC in this form of organization of traditional service-delivery programs (like the SBA 502 program) is to increase the access of neighborhood small businesses to lower-cost financing that traditional lenders might not otherwise provide in that area.

Philadelphia established the City-Wide Development Corporation to assist small business and stimulate neighborhood revitalization, at present in ten neighborhood commercial corridors. In 1979, it had $10.1 million worth of projects financed, with about 60% of the funding coming from private banks in Philadelphia, leveraged by CDBG funds and SBA Section 502 loan funds and loan guarantees. One aspect of this local development corporation that is unusual is that some of the funds are used to provide working capital loans to firms constructing housing, where the loan will be repaid upon the sale of the housing.

The City of Colorado Springs uses general fund money (appropriated at a rate of $150,000 per year) through a local development corporation to provide second-mortgage financing to support the commercial revitalization of a historic district. (Commercial banks provide the 80% of the first mortgage.) The 35 loans made to date range from $10,000 to $75,000, although most are under $30,000. The power of this approach is the leverage it provides for small business seeking to buy or upgrade their premises, in a situation where traditional financing would tend to refuse (that is, the buildings in the historic district are not the new, modern facilities traditional lenders believe to be most profitable).

In Pennsylvania, the Pittsburgh County Wide Corporation established a $1.6 million revolving loan fund with EDA assistance to contribute up to 33% of the amount of a business loan, with the remainder from private financial institutions. Sometimes the corporation acts as a Small Business Investment Corporation and takes a secondary equity position (as collateral) and sometimes as a lender/loan packager.
Analysis—Local development corporations, even when they depend solely on packaging Federal loan funds and loan guarantees, perform valuable intermediary functions that make bank lending to small business more feasible. However, many LDCs require their role in assisting small business on financial issues.

Because an LDC can receive funding from a variety of sources, it should be feasible to increase the mix of corporate contributions with city appropriations from the general fund and with city-managed funds from Federal grant programs. In Philadelphia, one local church even set up a development fund to which parishioners (and neighbors) pledged a small weekly sum hoping that the result would be an increase in the numbers of jobs available and in the economic stability of the neighborhood. This kind of organization of capital sources not usually tapped constitutes a new approach to meeting the capital needs of small business.

The complaint that LDCs constitute competition with the private capital financing sector is not valid. In most cases banks are involved, but in all cases the reason for developing the LDC is to meet a need that the private sector—operating under traditional incentives—finds unattractive, or not profitable enough.

Control of Government Funds

Many of the incentive or leveraging measures (like the use of the LDC as a new way to organize capital) are based at present on Federal funds provided as grants to the local jurisdiction or Federal funds established to lend. Such measures also could be based on bonds, on endowments, on state or city funds, or on foundation grants. The effect is to allow the city to direct a certain amount of the expenditure it controls (such as interest on deposits or flexible funds) to leverage a larger amount of private expenditure it does not control to meet public objectives, including the objective of helping small local businesses to form and to expand.
Local governments may use several methods to provide incentives for private lending to small business (see Exhibit II-9). Such methods include using interest on city deposits in selected banks as a risk-sharing fund to be used as a contingency for small business borrowers; subsidizing interest rates, where the city pays the bank an amount equal to the difference between the bank interest and a low interest rate (3% for example); and providing low interest loans that are matched by bank loans at the market interest rate.

### Exhibit II-9

**USING FUNDS CONTROLLED BY LOCAL GOVERNMENT TO LEVERAGE PRIVATE SECTOR FUNDS FOR SMALL BUSINESS**

The Milwaukee Economic Development Corporation opens two types of special accounts in banks; one type returns interest to the bank to subsidize interest on bank rehabilitation loans; the other type acts as a reserve fund in case a borrower should default on a rehabilitation loan. This acts as a concealed loan guarantee; because the default reserve fund covers 10% of all of the bank's rehabilitation loans granted under the program, the bank can make eight safe and two risky loans, knowing that the loss of one loan will be covered. It should be noted that this program does not increase the amount of money the bank can make available for lending to small business; in times of tight credit, bank loans tend to go first to "best customers."

The City of Pittsburgh has established, in its Department of Community Development, a program in which CDBG funds are being used to reduce the interest on loans for neighborhood revitalization to upgrade neighborhood shopping districts. A business establishes that a bank is willing to lend to it, then applies for the interest subsidy to the Department of Community Development. Upon approving the application, the Department pays the bank the difference between 3% interest and the market-rate interest the bank would charge. This effectively increases the amount of working capital that the loan provides to the borrower by reducing the debt servicing cost. In 1979, the department spent $890,000 on this program, and expenditures will reach $800,000 in 1980. However, when the interest rate is at 16%, the cost of public funds spent on a 13% interest subsidy can make it unattractive to the city.

In St. Louis, the Planned Industrial Expansion Authority (an LDC) will participate in a HUD demonstration loan program aimed at commercial revitalization in designated areas of St. Louis. Half of each loan will be made up of HUD money at 3% and half by funds from commercial banks at their market rate. The net effect is to increase the effective capital made available to the borrower.
In Philadelphia, the Pennsylvania Industrial Development Corporation, an LDC, lends up to 40% of project cost on a second mortgage for up to 25 years at 4% interest. The company supplies 10% of the remaining cost and a conventional first mortgage—at market rates—supplies 50%. The source of funds for the industrial development corporation is the bonds issued by the Pennsylvania Industrial Development Authority.

Analysis—The manipulation of local funds or locally controlled funds to leverage private sector capital lending to small business is a valuable strategy. However, in periods of high interest rates, interest subsidies may be a costly use of some scarce public funds, especially because they do not make more money available, but only make it easier for the small business owner to compete for a part of what is available.

Use of Corporate Powers

While local government is seeking better ways to directly encourage private sector firms to assist in providing capital to small business, the corporations in communities are also being indirectly exhorted to further use their powers of investment to meet capital needs.

Insurance corporations, such as Aetna, are beginning to develop corporate social policies that influence the use of their investment powers. Aetna has an individual policy statement for each of its departments (stocks, bonds, real-estate, etc.). Each department is expected to show how a certain component of their funds is being leveraged in ways that do not bring a return on investment necessarily in the conventional manner. Aetna, for example, is using its bond purchasing power to buy selected bonds from minority firms that it believes are important to the community. Similarly, the real estate department establishes a component of the portfolio that focuses on local investment needs. This may include housing for the aged or rehabilitated commercial buildings in downtown areas. Most directly influencing needs of small businesses is Aetna's support of a minority firm that provides financial backing for local small and minority business surety bonds. MCAP, as the organization is called, will help package a surety bond for individual firms, when they do not have the credit history needed to acquire a local bond. In some cases the bonds will be guaranteed by SBA (through the firm's contact with
SBA); in other cases no guarantees are necessary, just the role of the firm as an intermediary and first-time issuer of the bond. Beyond direct support of attempts to reduce small business capital costs, Aetna has worked with a number of community-based organizations who have demonstrated that existing insurance rates for residential and commercial property are extraordinarily high in their neighborhoods; and Aetna has provided reduced rates through their local insurance branches (in the North Bronx, Brooklyn, East Los Angeles and other communities). While Aetna stands out among firms using their corporate powers to collaborate in meeting local needs for small business, other firms also are active in similar, new ways.

Efforts to promote incubator facilities for new businesses were described in Exhibit II-6. As the exhibit illustrates, both for-profit and nonprofit development firms have entered into this arena of activity. In St. Paul, Minnesota, and other sites, the Control Data Corporation has set up Business Technology Centers assisting high-technology firms. In Los Angeles, the Economic Resources Corporation (a nonprofit development corporation) set up a mini-industrial complex within the larger Watts Industrial Park that serves as an incubator for many small businesses indigenous to the community. The Watts incubator project links local minority firms with a major anchor firm (Lockheed) that located in the industrial park. The Watts-Willowbrook Lockheed plant was a major collaborative undertaking that was crucial to the investment in the industrial park and the establishment of the incubator component.

Public Advocacy

Cities can undertake several kinds of public advocacy aimed at aiding small business to gain access to private sector capital. They can strongly advocate an end to insurance redlining, where the redlining prevents the small business owner from being able to approach private lenders. Where the problem is crime, the city may have to, as part of the effort, provide advocacy with local merchants associations as well as insurance commissions and insurance companies. Where the problem is fire insurance, the city may have to
undertake not only advocacy with merchant's associations targeted at insurance firm rates but also aid in promoting self-help approaches (such as community, or neighborhood, firewatch programs).

In neighborhood commercial strips, the perception of increased crime and decreased security (store owners, store patrons, elderly pedestrians) can be the single most important reason for decline, as indicated by a survey carried out by city staff in Hartford, Connecticut. This perception of increased crime and decreased physical security in business areas can also affect the financial institutions that provide business with capital as well as the insurance companies they look to for financial protection of their present investments. Hartford's development corporation expended much effort to prove to fearful business owners that perceptions of crime were higher than the reality. This helped to reduce business relocation at a crucial point in Hartford's economic redevelopment.

Local government can advocate on behalf of small business in several ways that affect capital availability. Cities can encourage city-linked local development corporations, city economic development departments, and those banks that provide loan counseling as a public service to examine the whole spectrum of capital sources. Too often, one entity will specialize in one or a few types of capital sources—SBA 502 loans and bank loans, for example. In some cases, SBA loan officers may be able to recommend other Federal programs that might provide loans (HUD, FmHA, or EDA for example), but they may be unaware of private venture capital firms, community credit unions, or even commercial credit firms. Few public agencies attempt to gather information about private investors with money to lend, or foreign investors.

Cities can also advocate that insurance companies undertake a certain amount of affirmative action lending in areas where insurance redlining has damaged local small business over time. (Cities that insure themselves are probably in the best position for such a potentially controversial measure.)

In general, advocacy on capital availability for small business can focus on encouraging local lending institutions to work to provide two-tiered
interest rates for small borrowers, to lend to businesses in their local area, and to participate in larger investment pooling efforts that might be focused on small business. It is very rare for advocacy to take the form of city-to-bank requests, other than within the framework of subsidized lending programs. Attempts to increase bank responsiveness to small business needs have an important potential that should be explored.

DIAGNOSTIC QUESTIONS FOR LOCAL OFFICIALS
(Check the answer that is most applicable.)

1. In terms of access to capital for start-up:

   — Anybody with a good business reputation can get all the funding he needs from the bank and SBA--no city role is needed.

   — We're aware of some problems and are developing intermediaries (LDCs, special districts) and techniques (revenue bonds, city deposit policy, two-tiered loans, "shopstading," land packaging, monitoring compliance with the Community Reinvestment Act by banks) to address them.

   — We're already using all the public and private sources of funds we have any influence over and all the equity and debt capital techniques we can think of, and are now in the process of finding ways to reduce the amount of capital a company needs.

   — Don't know.

2. In terms of access to working capital and funds for expansion:

   — We're only interested in firms employing several hundred--smaller ones aren't worth the trouble.

   — We've worked with firms in neighborhoods where we have redevelopment or revitalization programs going on, but there's no systematic citywide effort to ensure access to capital for existing small firms.

   — We've developed mechanisms and intermediaries that are available citywide using a variety of techniques, but we recognize that what we have is only part of the answer and are beginning to develop mechanisms by which private sector expertise and counseling can be made available as well as the funding.

   — Don't know.
III REDUCING "RED TAPE"

"Look, I do what I can, and for the rest--well, I just hope they don't catch me, that's all. Anyway, I notice they're never in a hurry to enforce their own rules when it might help us. You know how long it took to get that vacant store boarded up? Three months."

--Small Business Manager

Overview

The White House Conference on Small Business placed major emphasis on the fact that small businesses suffer disproportionately from "unnecessary" public regulation that either places an unequal burden on small firms or is designed specifically for regulation of large enterprises and is not applicable to small business. In response to this problem, the Regulatory Flexibility Act (Public Law 96-354) was enacted this year. The Act enables mitigation for small businesses of some of the requirements for compliance with Federal regulations.

Local government also has contributed to the burden of regulation on small business (in particular) in the past, but a number of jurisdictions are taking steps to reduce this burden through administrative reforms, regulatory change, and advocacy at the intergovernmental level. Furthermore, local governments are beginning to look at their ability to make regulatory tools work to help small businesses, as opposed to using them solely to achieve a desired end without regard to the effect on small business. Currently both governmental and collaborative approaches are being used to aid small businesses in coping with regulatory requirements and in harnessing the regulatory power to support small business needs.

This section provides local officials with information on how they can both reduce the negative aspects of regulation on small business and use
regulatory powers purposefully help small businesses maintain stability and expand. There are five parts to this section.

The first part presents ways that local governments can use regulation in a purposeful way to help small businesses through such actions as enforcement of delivery zones, managing traffic, downzoning commercial strip areas to prevent encroachment from expanding high-density commercial or residential areas, or mandating institutional master plans to offset negative consequences of university or hospital growth in neighborhoods. This part also illustrates how careful deregulation, (such as flexible code enforcement for mixed uses, or removal of unnecessary requirements for upgrades) can prevent displacement of small business; while tools such as planned business developments and carefully revised comprehensive plans can preserve or promote new local business opportunities.

The second part focuses on administrative reforms, such as streamlining regulatory processes, creating one-stop centers where small businesses can get help, and providing mechanisms that allow the direct involvement of small businesses in policy development.

The third part shows, through examples, how the emerging public-private collaborative relationships can reduce red tape. The discussion focuses on the roles of banks and LDCs in packaging loans and reducing administrative obstacles to capital acquisition by small businesses. Chamber of Commerce activities designed to help small businesses directly and to advocate for government policy changes are also discussed.

In part four, a number of public advocacy efforts to ease small business problems are discussed, such as city hotlines and ombudsmen. Possible local government roles in ensuring bank compliance with the Community Reinvestment Act also are discussed.

Finally, the emerging role of small business self-help groups in addressing their own problems is reviewed. This includes approaches such as self-taxation for developing advertising and security efforts.
Table III-1 shows the sources of regulatory burdens for small businesses, and the points at which local jurisdictions may be able to assist. Overall, the purposeful use or reform of local regulation can help to reduce capital costs and operating costs by affecting the behavior of markets, institutions, and individuals.

Regulation and Deregulation

Purposeful Use of Regulation

The notion that more regulation can help small business already suffering from too much regulation seems contradictory, until specific examples are examined. For example, keeping delivery zones clear of vehicles that are not making deliveries has a direct effect on the costs of both the firm making and the firm receiving the delivery; banning abandoned cars and enforcing the ban by prompt towing has a direct effect in combating the perception of neighborhood decay; grouping "undesirable businesses" in one area (as Boston has done with its "combat zone") can aid neighborhood merchants by making the neighborhood commercial strip more attractive to local residents who may fear the patrons of adult book stores and similar ventures.

Preventing encroachment by downtown areas expanding into neighborhoods by downzoning or height limits can also protect small neighborhood merchants. Land prices rise in downtown and institutions move out into the neighborhoods for cheaper high-rise land for their office or classroom buildings, or for a hospital annex. Speculators follow; soon small business tenants are displaced by rent increases and frequently are replaced by fast-food franchises and chain store branches.

As the growth of large institutions, such as hospitals or universities, often displaces large parts of older neighborhoods, developing institutional master plan requirements can be very helpful. Such requirements can allow mitigation measures to be devised or can enable negotiation of impacts on
<table>
<thead>
<tr>
<th>Source of Red Tape/Opportunity</th>
<th>Characteristics Relevant to Small Business</th>
<th>Local Government Role</th>
</tr>
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<tbody>
<tr>
<td><strong>Federal</strong></td>
<td></td>
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<tr>
<td>Regulatory agencies</td>
<td>Reporting requirements impose heavy</td>
<td>Advocate changes in</td>
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<td>burden; small owner must take</td>
<td>requirements and</td>
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<td>management/production time to respond.</td>
<td>eliminate duplica-</td>
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<td>Reporting requirements impose heavy</td>
<td>tion or conform to</td>
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<td></td>
<td>burden; options, deductions may not be</td>
<td>Federal requirements.</td>
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<td>known; procurement and bonding</td>
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<td>restrictions onerous.</td>
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<td>Other agencies (SSA, IES, etc.)</td>
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<tr>
<td><strong>State</strong></td>
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<tr>
<td>Regulatory agencies</td>
<td>Reporting requirements impose heavy</td>
<td>Lobby for end to</td>
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<td></td>
<td>burden; conflicting and obsolete</td>
<td>obsolete requirements;</td>
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<td></td>
<td>requirements necessitate appeals</td>
<td>offer advocacy for</td>
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<td></td>
<td>skills small business lacks; compliance</td>
<td>situations where</td>
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<td></td>
<td>poses problems.</td>
<td>requirements conflict;</td>
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<td></td>
<td>Decisions may be influenced by large</td>
<td>organize private</td>
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<td></td>
<td>business, special interests, rather than</td>
<td>sector aid for</td>
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<td>by needs of small business affected by</td>
<td>appeals process.</td>
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<td></td>
<td>Decisions.</td>
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<td>Other agencies (insurance,</td>
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<td>Lobby for end to insurance</td>
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<td>unemployment insurance,</td>
<td></td>
<td>redlining, end to tax</td>
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<td>tax, etc.)</td>
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<td>policies that inhibit</td>
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<td>small business (inventory</td>
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<td>tax, sales tax on</td>
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<td></td>
<td>production equipment);</td>
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<td>monitor unemployment</td>
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<td>insurance to prevent</td>
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<td>abuses.</td>
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<td><strong>Local</strong></td>
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<tr>
<td>Permits, licenses, zoning</td>
<td>Delays increase amount of start-up capital</td>
<td>Streamline local</td>
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<td>waivers</td>
<td>needed, postpone date of production.</td>
<td>permitting and licensing</td>
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<td>procedures; review zoning</td>
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<td></td>
<td>routinely; hold prior</td>
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<td>meetings to work through</td>
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<td></td>
<td></td>
<td>details.</td>
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<tr>
<td>Location restrictions</td>
<td>Residents may not want noisy, dirty</td>
<td>Attempt to group or</td>
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<tr>
<td></td>
<td>businesses, unless they employ very large</td>
<td>otherwise provide for</td>
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<td>numbers; small business owner may be</td>
<td>small businesses by</td>
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<td></td>
<td>unable to negotiate an exception without</td>
<td>zoning, special</td>
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<td></td>
<td>help.</td>
<td>districts, business</td>
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<tr>
<td></td>
<td>Small business owner has neither time</td>
<td>condominiums, etc.;</td>
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<td></td>
<td>nor specialized skills for appeals.</td>
<td>provide directory of</td>
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<tr>
<td>Facility design restrictions</td>
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<td>space available.</td>
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<tr>
<td>Restrictions on access to</td>
<td>Public works and public service</td>
<td>Organize advocacy service</td>
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<tr>
<td>public services</td>
<td>agencies tend to pursue own routines</td>
<td>to aid small business</td>
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<td></td>
<td>and agendas and be unresponsive to</td>
<td>in appeals, resolution</td>
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<td>individual requests for paving, more</td>
<td>of conflicting requirements,</td>
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<td></td>
<td>trash pickups, parking.</td>
<td>alternative routes to</td>
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<td></td>
<td>Large institutions (nonprofit or profit-</td>
<td>compliance.</td>
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<tr>
<td>Restrictions or problems</td>
<td>making corporations) may ignore interests</td>
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<td>imposed by quasi-</td>
<td>of individual small businesses in making</td>
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<td>governmental sector,</td>
<td>corporate decisions.</td>
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<td>private sector</td>
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</tbody>
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III-4
neighborhoods and their business. Requiring institutional master plans and
setting low height limits for neighborhoods are regulatory moves that have
been used to assist existing small business in San Francisco (Exhibit III-1).

Exhibit III-1
SAN FRANCISCO'S INSTITUTIONAL MASTER PLAN REQUIREMENT

San Francisco has had an institutional master plan process for several
years. In 1976 an ordinance was passed that required all hospitals, sanita-
riums, and institutions of higher learning to submit comprehensive master
plans with the City Planning Commission for review. The required master
plan would provide notice and information to the City Planning Commission
and community and neighborhood groups, and would provide for a public forum
where all sides could communicate.

The plan had to include the history of the institution and its services,
a description of the current physical plant, specifics on future development
plans, data on conformity to the City's master plan, neighborhood impacts
alternatives that might lessen those impacts and proposed action to mitigate
adverse impacts.

This approach provided the city, for the first time, with detailed
information on the plans of nonprofit institutions that the city could use
in planning. It also encouraged interaction and coordination among institu-
tions themselves, as well as the community.

Such an approach is preventive in its orientation, using the plan as a
basis for institution, neighborhood, and city response to prospective
impacts. While the plans themselves do not require specific action they do
permit the city and neighborhoods to anticipate impacts and possible compro-
mises the expanding institution might make at the neighborhood level (e.g.,
using its procurement practices to help local employment and business, pro-
viding services to the local residents, investing in housing rehabilitation,
etc.). Other city permit processes provide vehicles for enforcing these
demands.

Analysis—Local government can help protect existing small business
against displacement by expanding public institutions and can meet other
public objectives such as preservation of a neighborhood at the same time by
using regulatory devices such as institutional master plans.

Another example of the purposeful use of regulation can be found in
Baltimore, where the city negotiates individual ordinances with shop owners in
revitalization areas. The owners agree to specific upgrading, with flexible III-5
standards being applied by the city. If the firm does not comply with the agreement, the city can foreclose on the owner's property. This is a measure used primarily as a disincentive for absentee landlords or owners who are exploiting their property at the expense of the neighborhood business area. The result in some cases is earlier sale or abandonment of properties that would eventually be claimed for back taxes after they had decayed. The process of collaboratively setting the goals for improvement are helpful to individual businesses that require guidance in the revitalization process.

A measure such as changing the speed limit or making a street one way (or closing a street to traffic to form a pedestrian mall) is a use of regulation that can be particularly important to small businesses. Often action such as changing a street to an arterial, with a higher speed limit or coordinated traffic lights, will speed up traffic so that local shoppers will avoid the area because of parking problems and the difficulty of crossing the streets against traffic. Rerouting traffic from one business area to another can be just as damaging. San Francisco has undertaken an analysis of the street and parking conditions, as well as general market area data, for over 90 commercial areas in the city. In several instances the planning department has proposed changes in parking and traffic speed that were deemed helpful to the commercial area. This role is particularly delicate for cities, as the calibration of street and road access to planning objectives might affect other dynamic parts of adjacent neighborhoods.

**Deregulation**

Deregulation efforts or flexible enforcement of regulations are more easily seen as beneficial to small business. For example, "living above the store" is very important to very small merchant enterprises because it makes it possible for them to remain open longer, it cuts down the risk of burglary, and it cuts operating costs. However, building a store with living quarters above is an older pattern; for a number of years, conventional wisdom said that uses should be separated. As a result, where deregulation takes place and the city council says it is all right again to live above the store, it
may be that the living quarters no longer meet the restrictions of the building code or the occupancy code. Some upgrading is needed. However, if the city also has a regulation that when the upgrading costs more than half the market value of the structure then the building must be brought fully up to code in all respects, the cost of upgrading the entire building may be prohibitive. Thus, the merchant is effectively prevented from doing what the city council has said he can again do. Therefore, where mixed occupancy of a building is to be permitted, it may be necessary for the city council to consider allowing some flexibility in its regulations. This was the experience in Hudson, New York, and in Pittsburgh.

In Portland, Oregon, the General Plan was rewritten to try and accommodate needs for mixed business uses (such as residential and manufacturing). Small business representatives who reviewed the plan felt that there was already a significant level of inconsistency with the General Plan that needed to be addressed beyond new changes. However, where individual problems in zoning, neighborhood views, and business needs existed, the city economic development staff helped negotiate satisfactory agreements.

In Denver, a flexible zoning technique often used in housing has been applied to small business. This is the Planned Unit Development, for which applicants negotiate significant variances with existing zoning in exchange for compliance with needs or objectives of the city. This tool is very useful in areas that are still developing, or where significantly new uses of existing facilities are desired. The Planned Business Development (PBD) is a type of Planned Unit Development (PUD) that consolidates and reduces much local development red tape (Exhibit III-2).

Exhibit III-2

REDUCING RED TAPE IN DENVER THROUGH PLANNED BUSINESS DEVELOPMENTS

Often in cities (particularly in developing areas) there are parcels of undeveloped or developed land for which existing zoning is examined and deemed incompatible with its current designation. When an application for a
development permit is requested there is need for conditional variance or official zoning change. When the uses proposed are not simple, this variance process can take a long time.

In Denver, the city developed a concept for commercial development that has been typically used only for residential purposes—the Planned Unit Development (or Planned Business Development, as Denver planners call it). In a PBD, new land uses (commercial) can be located in a variantly zoned tract cutting across parcel boundaries, in return for trade-offs (such as new access ways, parking, sidewalks, ramps, and other changes). In Denver, church-owned property was rezoned to enable the church to develop and lease spaces nearby for small businesses (retail store, medical office, real estate office). The PBD encompassed five parcels (in addition to the church) that were developed to meet both city and church interests in the use of the land. The land had been zoned residential, but land in that area had already been developed commercially, and the residential use was more of an exception than a rule. However, the new development had to ensure protection of the local environmental quality both in terms protecting the neighborhood from noise, and in terms of aesthetic aspects of site design.

Overall, such PUDs usually require compliance with Comprehensive Plan and building code requirements, but enable more flexible packaging of the space to accommodate user and city needs.

Analysis—Denver has used the PUD (or PBD) to an increasing extent in recent years, as creative opportunities for development have arisen. Such Planned Unit Developments can be a valuable way of negotiating and mediating conflicting demands without giving up governmental objectives.

Flexible enforcement of codes is a type of deregulation which may be essential to small business reuse of buildings in historical districts or to upgrading of buildings in neighborhood revitalization efforts. Such flexible enforcement does not mean excusing small business owners from meeting obvious fire and building safety standards, but rather recognition that there may be many ways of meeting a particular objective. In Denver's historical district, for example, where exact application of the code would have required installation of a full automatic sprinkler system in an old residence being converted for dental laboratory use, it was determined by the fire marshal that the use of fire doors and more fire extinguishers than were required by the code would meet the same objective because, except for one room in which customers were received, the building was occupied solely by staff—unlike, for example, a building that housed several doctors or lawyers. Similar examples can be
found in other cities in aspects of codes that affect sanitary facilities in office buildings and stores (Memphis), some new code provisions concerning insulation and temperature control (which may simply be infeasible in older structures), and provision for off-street parking.

Another deregulation effort local governments are increasingly undertaking is raising the threshold level above which city contractors must post surety bonds. In Dallas, for example, the threshold was recently raised from $2,000 to $50,000; performance payments are used instead.

Administrative Reform

Streamlining and One-Stop Centers

Several jurisdictions are utilizing existing organizations within local government or creating new structures to act as internal advocates for small business and ensure that their particular concerns about government redtape are addressed.

For example, the principal function of the Detroit, Michigan, Division of Industrial and Commercial Development of the City's Community and Economic Development Department is to act as an advocate and trouble-shooter for individual business persons who have difficulty in coping with the bureaucracy. Staff help their clients get action on requests and applications for building permits, street vacations, and zoning changes.

In St. Louis, Missouri, the economic development section of the Regional Commerce and Growth Association (RCCA) serves small businesses in St. Louis and the metropolitan region. One service often used is that of helping clients to deal with the local bureaucracy--opening doors in City Hall and making it easier and quicker to obtain licenses and permits.
The creation of one-stop centers for assisting small businesses has also been accomplished or is under consideration in several jurisdictions as a device for elimination of red tape.

In Minneapolis, Minnesota, the Coordinator of Development is currently planning the establishment of an information and referral center where small businesses can obtain one-stop service from the city. The idea is that whether a businessman is having trouble getting a permit or a zoning change, needs a site for relocation, would like a loan of working capital, or has some other problem, he should be able to go to one central place for information.

Attempts to reverse disinvestment have also been a stimulus to several jurisdictions to provide one-stop service. Dayton, for example, has suffered more than most cities from the decline of the central business district and the flight of business, industry, and people to the suburbs. In response to this crisis, the city has looked about anxiously for ways to stimulate business activity. One of its initiatives has been to station a Commercial Administrator, or business advocate, in the office of the City Manager. It is the responsibility of this new official to cut red tape and to obtain quick city action on the requests and applications of business firms.

Perhaps the best example of local government efforts to reduce red tape is the comprehensive approach being taken by the City of San Antonio, Texas (Exhibit III-3).

Exhibit III-3

ADMINISTRATIVE REFORM TO REDUCE RED TAPE IN SAN ANTONIO, TEXAS

One Stop-Business Service--The Service is operated by a small staff of three in the City Department of Employment and Economic Development (DEED). It was established in June of 1977 and was consolidated with the new department in October of the same year. The staff offers a variety of helpful information to prospective business applicants, but its major function is to cut through City red tape and serve as an advocate for members of the business community. In this respect the staff works with all city departments to...
Exhibit III-3 (concluded)

expedite the resolution of issues involving permits, zoning, inspections, licenses, etc., on a case by case basis.

Briefing Team—In order to expedite the development process, the economic development division of DEED has established a briefing team covering all major city departments to go over a proposed development after the company has selected a site. Team meetings are held on 24-hour notice from the proposer; all requirements in terms of permits, zoning, utilities, etc., are discussed with the developer and conclusions are reached regarding who is to do what and when. The team is now in the process of reviewing city practices to determine more generic approaches to facilitating economic development in the city. It is expected that this review will lead to recommendations for changes in a number of regulations and procedures.

Platt Approval Process: A Subdivision Regulations Committee has been formed to review city regulations and to recommend appropriate changes. According to the Economic Development Coordinator in DEED, this process will be employed by the department to systematically review those particular sections of city ordinances where variances are routinely sought and granted. In this way, issues that are found to be a problem most often can be addressed without the necessity of reviewing the complete scope of city regulations.

Revising Economic Development Policy Plans to Include Small Business

Some jurisdictions are attempting to review their basic economic development policies to determine how they might be adversely affecting small business through unnecessary local rules and regulations.

For example, both the City and County of San Diego (California) are in the process of revising their economic development policies. In each case, there is a reflection of concern over the support of small business and the impact of government rules and regulations on the development of small business. Two of three new projects proposed for the City Economic Development Division deal with City codes, ordinances, and processes. The County economic development policy proposes that all county environmental, growth management and social plans, codes, ordinances, the annual proposed budget, and any other related administered activities, shall promote economic development within the framework of their primary purpose.
Similar concerns are reflected in the county-wide OEDP.

**Collocating Businesses to Reduce the Cost of Needed Regulation**

A way of aiding local small businesses that are severely affected by necessary regulation is to assist them to group together and share needed facilities. An example is the planned "Plating City" described in Exhibit II-8 in Section II, where government plans to assist electroplaters to collocate in one place where they can share the cost of a consolidated effluent treatment facility that each of them would be severely stressed by having to provide individually. An incentive to join together is the prospect of also having consolidated power generation using diesel-fired steam boilers that can furnish process steam as well as space heating for the electroplaters, at a considerable saving in cost. The benefit for the city is retention of an industry that supports both a number of supplying industries and a number of consuming industries.

The role of the local government in such a business-grouping process would be to organize the process, perhaps (using an intermediary organization such as an LDC); to organize access to conventional development capital; and to act as a facilitator in obtaining the licenses, permits, etc. that would be needed. Although the example is given of electroplaters, local government might consider similar kinds of business grouping for industries that have similar noise control and buffering requirements, that have similar needs for clean process water and effluent-treating facilities, and the like.

In some cases, local government can ease the impact of necessary regulation by helping local small businesses to set up a service whose cost can be shared. The advent of new environmental protection concepts, such as pollution offsets, has led local governments into new roles in mitigating the costs of compliance with environmental regulation for small business. In several counties (under support from EPA) local governments are exploring how offset banking and information systems can be developed (Jefferson County, Erie County, Allegeny County). In these cases the city will help meet the
needs of larger new or expanding businesses to offset the pollution that would result by identifying small businesses that the larger firm could help reduce emissions (by firm paying for pollution control equipment). In this way dry cleaning plants in a city would be assisted in reducing their emissions by the new larger project. This approach was developed in Los Angeles to offset the increases in pollution that would be created by the planned SOHIO petrochemical facility. Cities & Counties in the future may find that they can promote development objectives for both large and small business by using their administrative role in identifying candidates for offset assistance, and by controlling city sources that could reduce pressures on small business pollution sources. This approach involves both administrative returns, and public-private collaboration. In addition, local governments could assist firms, such as dry-cleaners to organize a carbon-tetrachloride collection and dumping organization that would pick up the waste solvent from the closed systems and take it to an approved toxic waste dump; the cost would be less than the cost to individual dry-cleaning establishments of taking the waste to the dumps themselves. Something similar may be needed to deal with the deregulation of trucking, to help small shippers and receivers deal with the drop in service expected to result; local government can assist local small businesses to develop a cooperative freight forwarding service.

Boston's "Combat Zone" is another example of business grouping that can aid small business, particularly in declining neighborhood commercial strips. By grouping together the "adult book shops" and similar ventures, the city protects neighborhood commercial strips against one of the more obvious signs of decline. Here, the collocation of the businesses removed by regulation from the neighborhoods allows them to stay open and may even allow them to benefit from the reputation of the zone as a whole. This might be considered a productive use of the imposition of "red tape" to protect small neighborhood businesses that depend on local residents for patronage, since it is frequently claimed that it is the presence of "undesirable" business attracting "undesirable" outsiders that makes local residents hesitate to shop in their neighborhood commercial strip.
As more and more cities begin to consider requiring local employers to provide transportation for their employees (because of the cost of expanding local transit systems or providing more parking and because of air quality regulations), cities can aid small employers by helping to organize shared vanpools for businesses that are close together, such as retailers in a neighborhood commercial strip or small industries collected in an enclave. Vanpooling need not require the use of a sophisticated computer system, such as those in large metropolitan systems; it may require no more than encouraging the small business arm of the Chamber of Commerce to set up some sort of intermediary for the leasing of vans in order to get the cheaper fleet rate for the small business operator. An analogous development is that in Cleveland, Ohio where the small business arm of the local Chamber of Commerce (Council of Smaller Enterprises) provides an intermediary health insurance group so that local small business owners can provide health insurance for their employees at the lower group rate. (This function would become essential if Congress were to pass legislation requiring that employers provide health insurance for their employees.)

Public Private Collaboration

Local development corporations, Chamber of Commerce small business units, jointly developed public-private courses and seminars for small business that use volunteer private-sector instructors and junior college or community college facilities are ways in which public-private collaboration has been organized to help small business owners deal with the red tape burden. In some cities, a private loan packager is available in the city economic development agency to help small business owners (particularly in revitalization areas) fill out the loan application forms as well as to put together loan packages. For many small business owners, this kind of help can make the difference between receiving and not receiving needed financial help. (However, particularly where there is a private loan packager, the public sector must make it very clear to applicants that there is a legal limit on the fee such a packager may charge. What sometimes happens is that, to cover the extra service
required, the packager charges the borrower more than the legal fee, to be paid from the loan received.)

An example of a useful collaborative effort is the First National Bank of Birmingham, which has established a community development department, with two full-time staff who provide technical assistance and loan packaging for Birmingham small business owners, using some outreach techniques as well as waiting for walk-in business. The Council of Smaller Enterprises in Cleveland, active in helping small business owners get health insurance for their employees at low group rates, is also providing ombudsman services for small business in coping with zoning, local ordinances, obtaining public services, and traffic control problems. The Council has done loan packaging in the past, but is moving away from that at present.

Exhibit III-4 describes an extensive public-private collaboration to reduce red tape in Phoenix based on work and advocacy begun by the Chamber of Commerce.

Exhibit III-4
ADVOCACY TO REDUCE RED TAPE IN PHOENIX

The Phoenix Metropolitan Chamber of Commerce, according to its mission statement, had a responsibility "to assume an activist role, to serve as advocate and mediator, to work with people, institutions and agencies to solve problems and creatively chart new courses of action." Given this mission, the Chamber is engaged in a variety of activities of a nonservice nature.

Efforts of the Planning and Zoning Committee proved successful in decreasing the burden of bureaucratic paperwork for industrial developers in Maricopa County. The committee successfully modified a proposed "time limit for construction" section of the County's industrial code to allow a more equitable time frame in which a developer can begin construction before having to report to the Board of Supervisors. A developer will now have 3 years from the time a zoning change is granted to begin construction. If construction has not started, the written report will serve as a means to control speculative zoning.
Perhaps the best example of the work of the Chamber is their advocacy for changes in reporting requirements through a subcommittee on paperwork of the small business committee.

In cooperation with the City, the Chamber's Small Business Committee initiated an analysis of alternatives to the Privilege License Tax reporting frequencies. The recommendation, recently approved by the Chamber's Board, would allow 21,142 of the 28,472 accounts reporting to be submitted on a quarterly or annual basis. Those taxpayers paying less than $500 in tax annually would report on a quarterly basis, and those paying less than $50 in tax annually would report on an annual basis. Elimination of the filing and processing of 157,773 tax reports annually, or a 53.9% reduction in paperwork, will be the result if the proposed revisions to the Privilege License Tax Code are approved.

**Analysis**--The private sector can serve a strong advocacy role for small business, but local government may need to monitor that role very carefully to make sure that public sector objectives related to all residents are compromised as little as possible, and that small business is needed benefited.

**Advocacy**

Advocacy efforts on behalf of small business to local government concerning local regulatory issues is provided by few organizations. In many jurisdictions, an advocacy role on red-tape issues is being played by groups outside the local Chamber of Commerce (often thought to be the principal business advocate). In these cases, local small business representatives feel that the Chamber is too oriented toward big business and is not responsive to the particular needs of small business. These groups often find themselves in open conflict with local government such as the case of the United Business Commission in San Diego, California, which filed a suit against the city to gain amendments to a local sign ordinance and is currently organizing an effort to contest a city proposal to charge a service fee for each time a burglar alarm goes off.

Where local Chambers will not help, cities sometimes initiate affirmative advocacy efforts. In New York City, the Office of Economic Development is organized to provide a broad array of services as well as direct policy advocacy functions that reduce red tape. The Business Services Department, in addition to operating a hotline for emergencies confronting small business,
operates a one-stop component designed to cut through red tape on issues such as business licenses, changing parking regulations, and plans for buildings. In addition, the Business Action Center component of this Office acts as an advocate on complaints that affect specific industries or local business. In one case they assisted a manufacturer in changing street-cleaning parking regulations that prevented workers from parking near the plant. In another case, the Center helped the garment industry develop its case against a regulation preventing use of CETA funds for training sewing machine operators, which the industry had originally advocated to prevent the outmigration of industry to the South. Now, short of operators, the industry needed help. The city also worked with small businesses in the SoHo area to testify for curtailment of a tax incentive that encouraged conversion of commercial structures to residential. In addition, in response to interior design industry concern about losing its market share, the Center sponsored an international conference, to be held in New York, that would help market local business.

An example of a kind of advocacy that local government can undertake to cut the cost of red tape is shown by a case the district advocate in the SBA office in San Bernardino, California faced when the county forbade the use of commercial delivery vehicles on weekends. A fireworks company that supplied a theme park with fireworks for its nightly displays was severely hampered by the law, because it had a choice of delivering three loads of fireworks on Friday with two to be stored (at considerable risk), delivering no fireworks on the days when heaviest attendance was expected, or delivering fireworks in a vehicle not specifically designed for that. Where such a situation arises, there needs to be a place in local government that understands business and can approach the question of waivers on safety grounds (for example).

Small business can be aided not merely by local advocacy to remove unnecessary regulation but also by adding protective regulation, by enforcing regulations more firmly, and by manipulating regulations. Local governments therefore can have a strong role in regulatory advocacy at other levels of government. For example, in Chicago the government attempted to find ways of enforcing the Community Reinvestment Act so that neighborhoods would benefit. Government officials in a number of cities have attempted to negotiate with
state insurance commissions to alter the practice of insurance redlining, which affects neighborhood merchants as well as neighborhood residents.

Advocacy also extends beyond local issues. In St. Louis, Missouri, for example, the legislative committee of the Regional Commerce and Growth Association, which represents local business in St. Louis and nearby communities, recommends measures in the interest of small business and lobbies for them in the Missouri and Illinois legislatures and in Congress.

City government is also involved in advocacy efforts seeking code revisions at the state level. For example, the City of San Diego passed a resolution seeking amendments to California's Uniform Building Code, which requires unnecessary lighting and ventilation in residential structures.

Other aspects of small business advocacy that local government could address at state levels include advocacy for changes in product liability insurance regulation and in the gross business receipts reporting schedule requirements for tax purposes.

Current advocacy approaches tend to be ad-hoc in nature and lack the strategic coordination necessary to deal generically with the problem of reducing unnecessary red tape. However, these efforts demonstrate both an understanding of the problem and a willingness on the part of local public officials and interest groups to work toward remedies.

**Encouragement of Self-Help**

Small business entrepreneurs, particularly when their businesses are still getting established, tend to be too busy to be joiners. However, an example of how local government can help small business owners get together to help themselves is shown by the revitalization effort undertaken in a neighborhood of Worcester, Massachusetts, where the director of the revitalization effort made a personal visit to the local merchants in the area concerned and invited
them to attend a meeting. At the meeting, a merchants' association was organized that has gradually grown and has dealt with problems of crime in the area and the need for public services.

Merchants' associations occasionally will levy a self-assessment to raise funds for street trees, street furniture, an extra trash pickup, or a private security service for the whole commercial strip. To date, however, there have been few efforts to encourage other small businesses to organize self-help groups to deal with regulatory or red-tape problems. An example of the kind of problem that might benefit from an organized approach is the difficulty small business owners have who are not fluent in English. Printing the city procurement instructions in Spanish (as San Diego does) may not be enough to assist non-English speaking business owners. The Arizona Minority Business Council provides technical assistance in Spanish for coping with intricacies of public procurements. In San Francisco, a group called ASIAN, Inc., a non-profit neighborhood development organization, provides not only technical assistance in loan packaging to small business, but assistance in obtaining procurements from the city and other large purchasers; the assistance can be provided in Chinese, Japanese, and Tagalog. As cities cope with increasing numbers of Hispanics and Southeast Asian refugees interested in small business enterprises, organizing self-help groups providing technical assistance in the home language is likely to become even more important.

**DIAGNOSTIC QUESTIONS FOR LOCAL OFFICIALS**

*(Check the answer that is most applicable.)*

1. In terms of individual small business problems with the city:

   - We tell them what department to call.

   - We have a well publicized business service center where we can help them with common problems like zoning, permits, building code, licensing, and the like, but we don't have much idea of what the problems are that people don't bring in--and we're not sure how effective our center is.

   - We have a business service center and, at our encouragement, the private sector or Chamber of Commerce surveys all local businesses.
at least once a year and reports to us any problems they find. We are also aware of and are beginning to deal with more subtle problems, such as the fear of crime in changing neighborhoods, the effects of traffic engineering changes, and the effects of public works planned for the future, and we are bringing small business into our planning process.

Don't know.

2. In terms of small business problems with other levels of government:

Businessmen are always complaining about government—we stay out of it unless we're directly concerned.

We try to do something about problems we're aware of, like going to the state insurance commission about red-lining, or the state highway commission about a freeway off-ramp, but we have nothing systematic.

We have an advisory commission made up of small business representatives that gives us early warning of the bad effects new regulatory moves are likely to have on local business, so that we can figure out some way to organize a response. Sometimes the response is an advocacy effort, and sometimes it's a plan to ease the burden of compliance for our local firms.

Don't know.

3. In terms of small business problems with large business and large institutions:

That's what civil suits are for—private sector problems should stay in the private sector.

We do a certain amount, like assessing the effect of a new regional shopping center on the neighborhoods, and insisting on institutional master plans and relocation of displaced small businesses (or discounted rents) when a new development goes into a neighborhood, but only as individual cases come to our attention.

We have encouraged the development of systematic initiatives within the private sector for larger companies to help smaller ones, not only in terms of supporting industrial revenue bonds, but in planning for plant closings and assisting the small businesses that will be hurt by them, and negotiating the impact of other large corporate decisions on small business.

Don't know.
4. In terms of small business vs. neighborhood residents:

- We do whatever the law says we do. Other than that, businesses don't vote, but residents may.

- We rely primarily on the neighborhood groups to tell us what they want done, but we do try to do some problem-solving, like finding another site for a business that residents consider undesirable or negotiating a parking problem or a litter problem.

- We have set up neighborhood mechanisms to handle problems with neighborhood small business, and those mechanisms have channels to city government so that we're fairly sure problems are being addressed before they get too serious. We have set up consistent ways of handling problems common to many neighborhoods—we have rules on adult bookstores for example, and planned zones for noisy businesses like muffler shops—and we do negotiate plans with merchant associations and business groups as well as with neighborhood groups to minimize problems as much as possible.

- Don't know.
IV PROVIDING MANAGEMENT ASSISTANCE

"So the management assistance officer goes over how I'm supposed to make out a business plan. We're a job shop doing overflow work—I know generally how to plan for it, but we just can't lay out a business plan that shows what we expect every month."

--Manager of a Technical Publications Service

The need for management assistance in small business would not be easily understood in a closed and static society, where entrepreneur parents would train entrepreneur children to follow them (as in old China, for example). In a fluid and highly mobile society, however, there is a need to develop mechanisms with less intensity than a university degree program to provide training in the skills that cannot be learned on the job. There is a need for both wholesale mechanisms (for example, classes and instruction in how to fill out a business income tax form, such as the seminars put on by the IRS), and retail mechanisms (more closely tailored assistance, such as that provided by SCORE counselors or by the casework method of the Small Business Institutes).

Table IV-1 shows traditional and nontraditional sources of management assistance for small business.

This section illustrates how local governments are now recognizing the need to increase the management capacity of small businesses, and are developing changes in traditional governmental roles and relationships to accomplish this.

In the first part of the section, the area of greatest change in the local government role is discussed. More and more cities are shown to be reorienting their planning and economic development activities to identify and address small and large business problems, to perform new types of
### Table IV-I

**Sources of Management Assistance for Small Business**

<table>
<thead>
<tr>
<th>Source of Management Assistance</th>
<th>Characteristics Relevant to Small Business</th>
<th>Local Government Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federally supported</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small Business Administration</td>
<td>Does aid small business but too few staff to meet total demand.</td>
<td>Use as resource for reviewing aggregated problems.</td>
</tr>
<tr>
<td>SCORE</td>
<td>Counselor may not be available when needed; tend to be unevenly distributed across the country; peer counselors may not be available for minorities and women.</td>
<td>Develop local volunteer counterparts for women and minorities; encourage local corporations to provide free assistance (clinics can be used).</td>
</tr>
<tr>
<td>Small Business Institute case analysis and plan</td>
<td>Can be very useful but quality is uneven; hastily done plan with inadequate supervision of student can damage client.</td>
<td>Organize private sector assistance to and support of institutes; initiate local institutes in community colleges using volunteer supervision.</td>
</tr>
<tr>
<td>Small Business Development Center</td>
<td>Because of heavy workload, tends to be unresponsive to very small entrants or those seen as unprepared or unrealistic.</td>
<td>Consider possibility of local voluntary organization to address gaps.</td>
</tr>
<tr>
<td>MESBIC</td>
<td>Limited clientele, uneven quality.</td>
<td>Encourage private sector aid to programs, greater use of private sector funds, support of peer counseling.</td>
</tr>
<tr>
<td>State supported</td>
<td></td>
<td></td>
</tr>
<tr>
<td>University business schools</td>
<td>Unresponsive to small business needs for assistance; oriented toward large companies.</td>
<td>Use as resource for reviewing aggregated problems.</td>
</tr>
<tr>
<td>Community/economic development departments</td>
<td>Unresponsive to needs of smaller businesses except those expected to grow large quickly.</td>
<td>Use as resource for planning help for local community in devising ways to aid small business.</td>
</tr>
<tr>
<td>Supported by local government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community colleges/adult education</td>
<td>Provide basic business courses only in most areas.</td>
<td>Exploit existence of mechanism to deliver training and information; encourage development of clinics, women's programs, minority programs.</td>
</tr>
<tr>
<td>Economic development department</td>
<td>Unresponsive to those small businesses not relevant to its primary agenda except in a few cities.</td>
<td>Find way to link business sector volunteers to expand coverage (commission, hot line, etc.), attend to commercial strip needs.</td>
</tr>
<tr>
<td>Deputy mayor/deputy city manager</td>
<td>Problems related to city permits/services/taxes only; no interest in management assistance.</td>
<td>Link office to all available Federal, state, local, and private sector resources to expand effectiveness.</td>
</tr>
<tr>
<td>Inspectors</td>
<td>Interested in compliance only, not business problems.</td>
<td>Encourage attention to alternative ways of complying, to prevent adding to problems.</td>
</tr>
<tr>
<td>Local organizations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local development corporations</td>
<td>Mainly interested in start up or expansion; no interest in day-to-day programs.</td>
<td>Encourage links to private sector, city services; encourage development of self-help program.</td>
</tr>
<tr>
<td>Chamber of Commerce</td>
<td>Increasingly interested in developing assistance for small business to encourage membership, but many Chambers still oriented to large, downtown interests.</td>
<td>Encourage development of small business council to provide group rates, organize volunteer counseling/matchmaking.</td>
</tr>
<tr>
<td>Merchants associations, neighborhood business associations</td>
<td>Parochial interest only.</td>
<td>Organize more associations; encourage growth of minority self-help associations.</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National or State Trade associations</td>
<td>Barely interested in individual problems unless the problems are common to many members.</td>
<td>None except in special situations (police work with druggists to prevent robberies, burglaries).</td>
</tr>
<tr>
<td>National Small business associations</td>
<td>Primarily concerned with national or state</td>
<td>None</td>
</tr>
</tbody>
</table>
analysis that can help business strips determine how the market around them is changing, and to assist small business areas in more effectively promoting themselves. These activities sometimes are focused on neighborhood commercial strips and sometimes are focused on specific industries in need of assistance (such as the garment or electroplating business).

The second part examines public-private collaboration in addressing small business management problems. Chambers of Commerce, in some cases, are providing research, technical assistance, and counseling to small business.

**Administrative Reform**

Administrative reform approaches include both public and private sector efforts. Local governments are using existing structures to provide information and technical assistance to small business and local Chambers of Commerce are increasingly extending their efforts in this regard. Local Chambers of Commerce also are becoming more active in meeting the management improvement needs of small business. While this has been a traditional responsibility of local Chambers, they have often been viewed as little more than booster clubs for major industry. This attitude is changing in a number of jurisdictions included in our survey.

**Problem-Solving Efforts**

Many cities (and some Chambers of Commerce) have recently taken the position that they must directly approach businesses and find out what they need to continue to stay in business or to continue to stay in the city. By designating new responsibilities in existing agencies, cities have designed their own ways to approach business retention. In some cases, the Chamber of Commerce or a downtown business group has participated in the factfinding aspect. Cities such as Los Angeles, Jamestown (New York),
Pittsburgh, Philadelphia, Baltimore, Detroit, Springfield (Massachusetts), and Richmond (California) are a few of the growing number of cities that have decided to undertake problem-solving business retention efforts. The activities may include acting as ombudsman on zoning or permit issues, reducing red tape, bringing simple (but seemingly unavailable) services or public improvements (such as getting potholes filled), or finding an expansion site in the city. Exhibit IV-1 shows examples.

Exhibit IV-1

USING CITY ADMINISTRATIVE ROLE TO FACILITATE RETENTION OF BUSINESS, INCLUDING SMALL BUSINESS

Los Angeles—The Mayor and City Council, through an ordinance, established the City Economic Development component of the Economic Development Department, entailing a 16-member Economic Council from the private sector, with committees. The council acts as ombudsman for businesses—including small businesses—having trouble with the City. The members of the Council visit larger businesses that may be planning to move out of the city to discuss ways to avert the move, and maintain a hotline for the businesses they do not visit. Hotline callers are guaranteed a response within 24 hours. The Council helped in the retention of the Los Angeles Wholesale Produce Market by helping to find financing and additional land on which the market could expand. The program is funded by local dollars, an EDA planning grant, and a significant amount of in-kind contribution by the private sector (executive time).

Jamestown, New York—The Chadakoin Industrial Revitalization Program, started by the Jamestown Department of Development, also visits businesses planning to move or shut down. A local furniture manufacturer was planning to close his operation because his loading truck was on a road so bad neither suppliers nor shippers would bring trucks to his plant. The business retention effort notified the City, which targeted street repairs to the area, and the plant flourished.

Pittsburgh—In Pittsburgh, a commission of persons from the private sector survey businesses on a regular schedule to identify businesses that are having problems. The Department of City Development has a small staff to respond to those problems, whether by providing resolution of complaints, by ombudsman services for building permit or zoning changes, help in finding nonconventional funding for expansion and land or space for expansion (working with other Pittsburgh development agencies). For example, the staff helped a drapery manufacturer consolidate two plants (one was out of the country) by matching his needs for space with an available older building in the city. The Department also publishes directories and
compilations of data, and operates a number of financial programs in aid of businesses.

Analysis--Local governments have an inherent interest in maintaining existing businesses because they represent capital investments already made. Where solving a management problem can keep an existing business profitable without subsidy, the benefits accrue to the city as well as to the business.

These business retention efforts, although all entail some city staff time, have an important preventive effect for city governments. To the extent that a business can be kept from leaving or shutting down, the local government costs (and the taxpayer costs) associated with public services to the unemployed can be prevented from increasing. Business retention efforts that focus on very large plants (Youngstown Sheet and Tube, for example) may very well not be cost effective; corporations tend to hold on to very large operations as long as there is any hope that they can provide overload capacity for more profitable plants or take advantage of a market upswing, and to close them down only when all hope has faded. Business retention efforts that focus on small and medium-size businesses, however, can often be highly productive because such businesses tend to be more affected by local problems than by national market or technology trends.

For example, the Erie County Industrial Development Agency (ECIDA) operates a business assistance center that provides services to 3,000 businesses in the county. In 1979 the center responded to 1,200 requests for one form of assistance or another. The center maintains contact with 700 manufacturing firms, for whom it analyzes business needs and problems. It pays particular attention to methods of financing business expansion, methods of financing pollution control, and coordination of programs available through local, state, and Federal governments.

The Philadelphia Industrial Development Corporation (PIDC) provides information and referral services and technical assistance to both small and large businesses. PIDC publishes a list of available commercial and
industrial properties and in other ways helps businesses to find space, assists businesses in their dealings with governmental agencies about such matters as zoning and building codes, and answers questions from businesses about taxes, transportation, labor supply and other matters affecting the business climate in Philadelphia.

The Minneapolis Industrial Development Commission (MIDC) conducts an annual survey of Minneapolis businesses that employ four people or more. The survey document asks whether the businesses are interested in relocating or expanding and, if so, whether they want help. Respondents whose needs can be accommodated by City programs are introduced to them. Others will be referred to agencies where help is available; for example, if an entrepreneur is in need of venture capital, MIDC staff will connect him with the SBA or a commercial bank.

The Minnesota Department of Economic Development (MDED) has set up a small business assistance center that offers comprehensive services by telephone. The aim is to provide information quickly about any small business issue. If the center staff are unable to answer a question they refer the caller to an appropriate source of information. They also assist people in obtaining the counsel of experts concerning particular problems, using resources such as SCORE and the Chamber of Commerce.

The Detroit Economic Growth Council (DEGC) makes a major effort to provide technical assistance to small and medium-sized businesses. The Council helps them in dealings with City agencies involving such matters as zoning and permits, and guides them in efforts to take advantage of Federal, state, and local programs of aid. Most of the requests for help are from businesses that need assistance in securing financing.

An important element in the Dayton City-Wide Development Corporation's work program is the outreach activity of SAFE (Staff Outreach for Employers). Executives from major companies in Dayton are recruited to volunteer their services in advisory roles to small businesses. These volunteers are experts in such fields as manpower training, financing, and
labor relations. They help to identify the problems of small businesses and then work with the proprietors to overcome those problems.

Training and Assistance

In Kansas City, an interesting development is taking place that centers around the junior colleges ("because they have parking," one person explained), in which adult education facilities are being used as the mechanism to provide management assistance to small business owners and prospective small business owners. Private sector volunteers—with a variety of support staff from Federal programs of various types (SBA, EDA, HUD), the local junior college district, the State university system, private corporations such as banks, and organizations such as the Chamber of Commerce—combine to provide courses, seminars, individual counseling sessions, informal symposia, and the like.

Also in Kansas City, the local Small Business Institute made two films, You and Your Banker and You and Your CPA, using the studios of the College of Medicine at the state university and private volunteers. The films are being shown at the junior colleges to groups enrolled in the full-time and the adult education programs, as well as being shown by SCORE volunteers in adult education centers outside of Kansas City. This kind of integration of local resources into the management assistance system can, over time, remove some of the pressure on SBA and SCORE. The use of the adult education system as a distribution mechanism for the "wholesale" aspect of management assistance seems particularly appropriate, as it did in the early part of the century when the mechanism was the chief one for acculturation of immigrants in urban areas.

Although the adult education system in most cities is separated from city government, it is still under local control and responsive to local perceptions of community needs. In addition, it may be easier for corporations to lend skilled management for counseling to a wide-access mechanism such as a junior college than it is for them to lend an executive
for a day or two to an individual small company that needs help. Finally, the education system has always been seen as a worthy recipient of private contributions, which means that private funding for management assistance and instruction would be legitimate rather than suspect (although the demands on private funding are increasing swiftly and locating contributors might not be easy), and course fees can carry some of the cost.

An interesting example of an education effort designed to train not only future business owners and future local government officials but also future voters was found in Phoenix. The Phoenix Chamber's Education Committee, with the cooperation of the Arizona Business Industry Education Council, has developed an Economic Education Pilot Program. Eight companies have committed to work on a matching basis with seven high schools in the Valley. Using the state-mandated course in free enterprise as a framework, corporate representatives from these companies have appeared in the classroom discussing such concepts as productivity, pricing, government regulation, and personnel practices. Also discussed with students are examples of professional career opportunities within the companies. In effect, each of the companies "adopted" one of the high schools, and beyond the activities described above, will provide a resource tool for the school that will soon establish invaluable two-way communication. The program will expand to 10 firms as the second step in an attempt to get all 50 Valley high schools participating by next fall. Since the program's inception, several high school students have been asked to appear on public affairs shows throughout the Valley to discuss their experience with this pilot program.

Nonservice Approaches Derived from Other Programs to Strengthen Small Business

Cities struggling with problems of urban decay often apply for and receive CDBG, UDAG, EDA, and other Federal program funds with which to address their problems. Past efforts at urban renewal often resulted in the displacement of small businesses, and for some time, cities were often
unaware that allowing this destruction was contributing to their difficulties. Increased local understanding about the role of small business, particularly in neighborhood commercial strips, has resulted from the efforts by advocacy groups to get minority participation in large city projects and to defend active neighborhood commercial strips against "urban removal" in large cities and regional shopping malls in smaller ones. CDBG and EDA 302 funds provided incentives for exploring new local government roles in addressing such problems.

CDBG funds, in particular, have provided an important resource for cities in helping to stabilize and strengthen commercial business districts in several ways. First, they can be used for improving shop facades or upgrading streets and sidewalks. However, more important than the direct dollar aid provided has been the chance to organize local government roles and to begin to understand what is entailed in revitalization projects. A key aspect of this has been a shift away from the traditional "bricks and mortar" approach to revitalization toward an emphasis on analyzing market problems and developing strategies to deal with factors critical to the marketplace, such as sales orientation, management capacity, and the impact of specific local and regional policies. Lessons learned from Federally funded efforts have increased local government's understanding, for example, of the importance of merchants' associations, of the potential of local development corporations as an intermediary to gain access to previously untapped sources of capital, and of the need for small business marketing strategies.

While the resources that gave rise to this new knowledge derived from the block grant funding of city planning and economic development agencies, the concepts themselves do not represent capital-intensive efforts, and often can be carried by shifting responsibilities of existing staff and by asserting new city roles. Exhibit IV-2 shows examples of how cities are expanding their analytic and prescriptive roles in neighborhoods in ways that can directly assist small business.
Exhibit IV-2

STRATEGIES FOR STRENGTHENING NEIGHBORHOOD BUSINESS

Boston--Boston has developed a broad-based strategy for strengthening neighborhood business. The City created nine Commercial Area Revitalization Districts (CARDs) and made them eligible for an array of special finance incentives, such as revenue bond funding and support from the City in acquiring private sector funds. Each CARD participates in the development of a plan to reverse a neighborhood business decline, using such tools as targeted improvements to streets, sidewalks, utilities, and the like; plans for citizens' organizations and merchants' associations or small business associations; public-private collaboration; and linking of identified needs with existing public sector agencies and plans. The City works informally with individual businesses to help them negotiate reassessments (in some cases past interest on overdue taxes is forgiven), and helps them find local banks who can provide needed financing, or if all else fails, subsidized financing. In addition, the City has a Commercial Development Program that offers financial counseling, rebates for improvements, and assistance in design upgrades. The City also advises businesses in CARDs of resources available through the state Community Development Finance Corporation (for capitalizing local development corporations), and informs them of state and Federal tax deductions and loan guarantee programs.

New York City--The neighborhood commercial revitalization program is a means of fighting not only neighborhood decay, but the loss of the tax base. In New York, a neighborhood seeking to receive funds for business district rehabilitation or upgrades or for a local development corporation must first organize a business association or merchants' association before they can organize the local development corporation. The City conducts a market analysis of the neighborhood to identify new groups of customers whose needs may not be met by current merchandising methods or selections. The City then facilitates the development of plans for improvements, and helps to obtain financing from public and private sources.

Analysis--The point of the Boston example is not that this is a non-service program directed toward small business but that it is a program directed toward a goal of revitalizing an older, decaying neighborhood that is also very effectively and intentionally used to help small business. The point of the New York example is that local merchants' and business associations are an important tool in preventing official plans from doing unintentional damage to small neighborhood business and for better focusing new local investment.

Many of the services that have proved to be important to revitalization that is aided or supported by Federal funds could also be provided without them, depending on priorities and new definition of areas for effective city action. For example, the New York City market surveys are conducted by the
City Division of Economic Development; San Francisco organizes a similar service through the Planning Department. This kind of market survey is important not only in attracting new merchants to vacant stores, but in helping existing merchants to determine whether to reorient their merchandising or move to another area where their merchandising will suit the local demographic mix.

Another important aid to small business as well as an aid to neighborhood stabilization is neighborhood marketing. Originally begun for quite a different purpose—to stop or at least slow down "block busting" real estate speculation—neighborhood marketing has proved to aid in reversing neighborhood decline in a variety of ways.

Many cities and neighborhood-based organizations have found that they can influence local market factors to favorably increase commercial strip competitiveness within the jurisdiction. These activities parallel concepts in commercial marketing, but are achieved through either changes in the role of the city, development of new collaborative relationships between small business and other neighborhood interests (banks, real estate), or direct self-help actions. The examples in Exhibit IV-3 illustrate different forms such marketing activities can take. The principal action, however, is to focus local resources on increasing neighborhood confidence, and on areawide visibility of the immediate commercial area.

Exhibit IV-3

NEIGHBORHOOD MARKETING STRATEGIES TO STRENGTHEN SMALL BUSINESS

Los Angeles—Members of a Hollywood Strip merchants' association in a designated commercial revitalization area pooled their own funds, through a self-assessment, to buy space for a large advertisement in the Los Angeles Times.

Boston—The City helps neighborhoods to sponsor street fairs, and to devise flyers that advertise the qualities of the neighborhood, the activities that characterize it, and the kinds of restaurants and shopping
Exhibit IV-3 (concluded)

to be found there. The neighborhood merchants' associations play a con-
siderable part in planning for the street fairs, and benefit from the resi-
dents' and visitors' increased awareness of the merchandise available in
different neighborhoods.

Seattle--A neighborhood merchants' association and the City persuaded a
television station to advertise a neighborhood commercial strip as a public
service. Almost immediately, large advertisers who paid for store adverti-
sing in the downtown area threatened to withdraw their advertising from the
station. A compromise was worked out in which a revised announcement of a
neighborhood fair could be presented without problems.

Analysis--City-wide promotion of commercial areas can have an excellent
effect on increasing local business investment in their own facilities, as
well as in attracting city residents to shop in these areas. The advantage
of this approach is that little investment is required, whatever mode of
promotion is selected. The risk, however, is that competing commercial
areas may have to share any increase in attraction they generate.

Marketing of commercial areas is particularly important when new re-
gional shopping centers develop nearby. In this case, the marketing actu-
ity can help local businesses benefit from their proximity and capture part
of the increased traffic, rather than lose business. However, in rare cases
over-attractiveness of commercial strips may result in increases in rent and
displacement of existing tenants by newcomers as popularity of the district
increases. This occurred in the Union Street area in San Francisco and
required development of new business-mix policies to stabilize the market.
Timing and targeting of marketing activities is a very important activity
that requires attention of both local government and businesses in the com-
mercial strip.

A final approach, developed as a result of a number of urban renewal and
urban revitalization efforts, has been a recognition of the importance of a
"business anchor" to a commercial strip or neighborhood business district.
The business anchor is a store or office with a patronage large enough to
draw shoppers to the area. In the Watts district of Los Angeles, the City
redevelopment agency and the nonprofit development corporation managed to
attract a savings and loan, a Pacific Telephone business office, and a
variety store (Newberry's) into a shopping center at attractive rates; the rest of the land assembled for the shopping center was let to small businesses at rates they could afford. This expensive kind of attraction was necessary because of the particular economic and financial disorganization that had affected the area since the Watts riots of the early 1960s.

In Toledo, on the other hand, the River East revitalization program had a devastating effect on existing small business. The developer did attract a large anchor store to the new shopping complex, but as a result, the rents were so high that existing merchants could not afford to move in and were affected as severely as if a suburban shopping mall had been developed next door.

In Hartford, the city-wide development corporation, called HEDCO, seeking a tenant for an abandoned supermarket so that local residents would not be wholly dependent on high-priced convenience stores or have to travel long distances. No supermarket chain was willing to come in, so HEDCO helped the owner of small convenience store in the neighborhood to set up a supermarket in the abandoned store. HEDCO arranged financing for some rehabilitation to the store and for the expanded stock, and even operated the store for a short period while the new owner was hospitalized after a shooting on the street. New businesses have sprung up around this anchor.

In San Francisco, the City listened when a merchants' association objected to a new prospective tenant for a vacant supermarket in the Ocean Avenue commercial district. The prospective tenant was a low-margin, fast-turnover auto parts store, and the merchants objected to this because it would not attract the family shoppers they were after. The City responded by helping to find another anchor whose presence would help the adjacent merchants.

In Boston, the City arranges financial incentives for stores of the type it feels will contribute most to the stability and viability of a neighborhood commercial district that is being rehabilitated. The point of
Public-Private Collaboration

In Detroit, Michigan, the Chamber of Commerce works with local banks and the SBA in the packaging of loans. It works also with the City's Community and Economic Development Department as an advocate for the business community. It often acts as guide and advocate for small businesses that have special financing needs or problems. Through its Business Advisory Resource Bank, the Chamber offers technical assistance services to small business firms, such as setting up bookkeeping and accounting systems and analysis of special managerial problems. Committees of the Chamber hold conferences and seminars for small businesses on such topics as marketing, purchasing, and employee training. The Detroit Chamber provides assistance of one kind or another to about 240 small businesses in the course of a year. The Small Business Department has two full-time and one half-time staff and a budget of about $85,000 a year.

In Minneapolis, Minnesota, the Small Business Council of the Chamber is active mainly in the fields of management and legislative assistance. The Council holds roundtable meetings for small firms in the manufacturing, retail, and service fields on such special issues as state and Federal tax law and attempts to organize responses to proposed Federal and state legislation. Roundtable meetings are problem oriented; case histories are presented on how specific firms have dealt with a particular problem. The Council also works closely with SCORE to provide free counseling for small business owners. The Minneapolis Council will soon put on a small business trade fair to which government purchasing agents will be invited to view what the firms have to offer.

In Springfield, Massachusetts, the Chamber provides research, technical assistance, and counseling services that reach from 300 to 400 businesses a
year. Its small business assistance program has developed strong links with neighborhood groups and organizations.

Jamestown, New York, has won national recognition for its programs of promoting productive relations between labor and management. The Labor Management Council is charged specifically with the task of acting as a disinterested third party, stimulating discussion and working out labor-management problems before they become matters of heated controversy. In operation for 8 years, the Council has an annual budget of $200,000, funded by money from EDA, from the state, and (about one-fourth) from the City's general fund.

DIAGNOSTIC QUESTIONS FOR LOCAL OFFICIALS
(Check the answer that is most applicable.)

1. In terms of management assistance:

   __ Any business that needs outside help is simply taking up space and doesn't deserve to survive.

   __ We do some things, like supporting private sector "matchmaking" efforts for minority business enterprises, providing assistance for small companies new to our procurement process, encouraging banks to do more counseling as a public service, and providing an information and referral service.

   __ We're using every resource we can think of to provide help and counseling to small business, including business retention visits using volunteers, ombudsman aid for appeals, the community college/adult education system for clinics and training, revision of reporting requirements to ease the burden on management, streamlining, and directories of available space.

   __ Don't know.

2. In terms of business mix and physical plant in neighborhood commercial strips:

   __ We look only at the zoning and the building and occupancy codes, which the law requires us to do.

   ____ In areas where we have a revitalization program going on, we do market surveys. We may try to market vacant store buildings in one way or another, or to make sure we get an anchor business in. We
do try to get the businesses to upgrade their facilities, but nothing systematic.

We have established collaborative public-private mechanisms in the neighborhood commercial strips (an LDC or business association) so that when a problem begins to be noticed—stores are beginning to stay vacant for some time, for example—the mechanism is tripped and we can collectively plan a response. We also have set up ways of attracting the kinds of business that a neighborhood needs, as well as ways of surveying the market, and we are willing to set up flexible responses to code enforcement for older buildings, or mixed use zones and zoning changes where that will help; however, we try to handle neighborhood problems from a city-wide perspective rather than one at a time.

Don't know.
V OPPORTUNITIES FOR MINORITIES AND WOMEN

"I'm sick and tired of these cheerleading conferences where they talk about how they made it and you can, too. I don't need encouragement, I need to know how far I can go before the operation has to move out of the garage."

--Woman Entrepreneur at Regional SBA Conference

As identified by the White House Commission, the need to expand opportunities for minorities and women is among the primary concerns of small business. In addition to Federal affirmative action and minority business enterprise participation requirements, local jurisdictions have developed their own nonservice approaches to support minority and women-owned businesses. These approaches primarily include regulation and deregulation, administrative reforms, and public and private sector collaboration.

The ways in which help can be provided differ to some extent because of historical factors. For example, for minorities, the need to compensate for a lack of capital funding in minority communities and a lack of access to conventional capital sources was initially overcome by the introduction of Federal funds that could be exploited to strengthen small business ventures. Cities became adept at such measures as using new Federal grants for housing to also provide contracts for minority construction firms, using Federal loan programs and surety bond programs through local development corporations and other intermediaries, and the like. For minorities, the primary task in cities is to find more local sources of capital funds (e.g., revenue bonds) to strengthen minority small businesses, and to develop peer counseling resources and peer management assistance and technical assistance mechanisms that are independent of Congressional budget-cutting initiatives. It is still necessary—and will likely continue to be necessary—to bring in capital funding resources from outside the minority communities to expand the small business base of those communities until it can reach the
take-off point, and one of those resources is likely to continue to be Federal funding.

For women, the problem is somewhat different; minority women may need access to sources of capital for minority business, but women in general are handicapped by their unfamiliarity with the ordinary techniques of business management and entrepreneurship, so that their greatest need is not for capital funds for women only, but instruction in techniques and skills that men take for granted.

Table V-1 shows traditional and innovative sources of help for women and minority-owned businesses.

This section shows how cities and counties are developing more locally based strategies to address the problems of small businesses operated by minorities and women.

The first part of the section reviews ordinances requiring city set-asides for local business or requiring that private firms doing business with local government adhere to affirmative action policies (particularly in procurements). In addition, regulatory changes in surety bonding requirements and in targeting city and county procurements are discussed.

The second part examines how administrative reforms in such areas as purchasing (not involving regulatory change) can promote minority participation in local procurements of goods and services.

The third part focuses on public efforts to raise bonding limits, to facilitate access to surety bonds, and to match small businesses with private sector subcontracting opportunities and counseling.
Regulation and Deregulation

Public statements of city policy can aid minority small businesses and women-owned businesses; for example that the city follows affirmative action guidelines and expects all of its suppliers to do so as well. The Hartford City Council passed a resolution making it a policy of the city that failure of any firm to follow an affirmative action plan was to be considered equivalent to "white-collar crime." A second appropriate public statement is that the city expects banks to observe the provisions of the Community Reinvestment Act, and that it will monitor their performance for commercial loans as well as residential loans.

Another regulatory effort aimed at helping small, particularly minority businesses (which tend to be less well capitalized) is to raise the bonding threshold on city contracts. Dallas, for example, raised the bonding threshold from $2,000 to $50,000; Birmingham expects to raise its threshold; and Arizona will raise the threshold for all of the cities in the state. Even though SBA maintains a surety bonding program that has aided more than 93,000 small and minority businesses to get contracts, the program cannot meet all bonding needs; the program also is individually costly because proper operation would entail individual monitoring and assistance to curtail defaulting, which is infeasible. Local governments often retain performance bonding limits set in the early years of the century that can be raised to more realistic levels with very little risk. Performance payment systems can provide any needed safeguard.

Cities in some states can adopt ordinances requiring a certain percentage of city procurements of goods and services to go to local minority firms. Oakland and Los Angeles both have quotas of 10%-15%, for example. However, the measure is highly controversial, because a minority firm may not always be the low bidder; tax reform and other groups may mount powerful pressure against the quota measure. (Cleveland and San Diego were forced to retract a quota and return to low-bid awards only.)
<table>
<thead>
<tr>
<th>Sources of Aid</th>
<th>Characteristics Relevant to Special Small Businesses</th>
<th>Possible Local Government Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federally supported</td>
<td>Inadequate to meet demand, costly to administer; affected by Congressional appropriations, interest rates</td>
<td>Begin to replace Federal loan funds with private capital sources, revenue bonds, etc.</td>
</tr>
<tr>
<td>SBA and OMBE minority loan and minority guarantee programs</td>
<td>Directed to minorities; quality uneven; costly to administer.</td>
<td>Monitor lending and organize private sector assistance and support where needed.</td>
</tr>
<tr>
<td>MESBICs</td>
<td>Have helped 93,000 small businesses, but too few staff to provide needed monitoring; costly to administer.</td>
<td>Raise bond threshold and substitute performance payment safeguards where needed to minimize risk.</td>
</tr>
<tr>
<td>SBA surety bond program</td>
<td>Aid to minority-owned business.</td>
<td>Exploit for benefit of poor (not necessarily minorities and women) wherever possible; develop local resources for minorities, women.</td>
</tr>
<tr>
<td>Block and categorical grant programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State supported</td>
<td></td>
<td></td>
</tr>
<tr>
<td>California program to aid transfer of profitable, stable businesses to minorities</td>
<td>Very few transfers per year, so number of minorities aided is relatively tiny.</td>
<td>Use as possible model; organize support (e.g., counseling) for recipients.</td>
</tr>
<tr>
<td>Missouri bank deposit</td>
<td>Requires bank to pay highest possible interest on deposit funds while lending to borrowers considered higher than usual risk.</td>
<td>Consider imitating, but accepting less interest on deposit as incentive to banks to participate.</td>
</tr>
<tr>
<td>Community/economic development department</td>
<td>Primary goal is not aid to small business, let alone aid to minority business, women</td>
<td>Use as planning, network resource.</td>
</tr>
<tr>
<td>University business schools</td>
<td>Some counseling on pro bono basis, but few have systematic programs</td>
<td>Advocate state support of pro bono counseling, clinics, other supportive services.</td>
</tr>
<tr>
<td>Economic development corporations</td>
<td>In Connecticut, aimed at fostering high technology firms, in Massachusetts aimed at increasing employment base</td>
<td>Consider development corporation geared to less capital intensive projects to aid those with poor access to conventional loans.</td>
</tr>
<tr>
<td>Supported by local government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff in purchasing department, economic development department, office of the mayor, or city manager</td>
<td>Can be of great help but presence, ability, and utility of staff appear matters of chance rather than systematic planning.</td>
<td>Systematically establish linking, networking capacity, and improve outreach programs.</td>
</tr>
<tr>
<td>Community colleges/adult</td>
<td>Can organize counseling, training, resources, but most programs related to staff abilities and attitudes rather than community needs.</td>
<td>Systematically establish training, networking, and clearinghouse programs for minorities, women.</td>
</tr>
<tr>
<td>Local organizations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local and neighborhood development corporations</td>
<td>Agenda and capacity determine amount of help and type of help—not need.</td>
<td>Encourage new corporations aimed at aiding special population.</td>
</tr>
<tr>
<td>Voluntary self-help associations</td>
<td>Too few, not well distributed.</td>
<td>Encourage development of new self-help associations, particularly for those not fluent in English.</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National associations</td>
<td>Concerned primarily with Federal and State legislation or litigation.</td>
<td>None.</td>
</tr>
</tbody>
</table>
Local policies and/or ordinances have been established with specific goals for minority participation in government procurements (Springfield, Massachusetts; San Antonio, Texas) or actual set asides (Pittsburgh, Pennsylvania). Within the last year, Portland, Oregon has passed an ordinance that requires the city to increase minority participation in goods and services contracts to at least 10%. Other cities (including St. Louis, Detroit, and Philadelphia), which are required by their strict charter to accept only the low bid on a contract, try to address minority business participation by encouraging the use of minority subcontractors, following Federal Minority Business Enterprise (MBE) regulations. In a similar vein, the Pittsburgh County Wide Corporation reserves 10% of its revolving fund for loans to minority owned businesses, although it is not required to do so.

**Administrative Reform**

The city of Portland (Oregon) conducts sessions to train or increase the knowledge of minority firms about procurement opportunities. Other elements of Portland's effort include an MBE Certification program, analysis of city requirements, identification of MBE opportunities, monitoring MBE participation, and creation of an MBE monitoring system, and MBE information and system evaluation. While the level of participation was 1% or less for the last 2 years, recent participation has increased to 11%.

The city of San Diego maintains a full-time employee in the Purchasing Department who telephones minority firms to notify them of impending procurements in which they might be interested. He may tell a firm about others that might be able to participate jointly in a large procurement.

A somewhat different technique is used by the city of Phoenix to increase minority contractor or vendor share of city government procurements. Although Phoenix does not have a "preferential" policy, there is an intentional strategy to help minority businesses qualify their products on the city's Qualified Products List. This strategy encourages potential vendors to submit products for qualification in the categories in which the
city usually purchases. The retail or wholesale vendor who presents a product for qualification can not only get the product on the list, but also becomes noted by the city as an official source from which procurements can be made. Thus, when bids are solicited (lowest bid process requires five to ten phone or written estimates, depending on the size of the procurement), the firm is likely to be one of those contacted and given an opportunity to bid. The city of Phoenix has 126 yearly contracts and Phoenix staff report having done better in using this strategy than Dallas, San Antonio, San Jose, San Diego, and other cities, based on a survey. In addition to the actual policy for procurement, the city has held workshops for suppliers and vendors on the process, a bonding seminar for minority business contractors, and a seminar on sound business.

In at least three of the cities surveyed (Detroit, San Antonio, and St. Paul), local procurement policies seek to increase the participation of all small businesses as well as minority businesses of various sizes. San Antonio's City Council recently adopted a comprehensive affirmative action plan for increasing the participation of small and minority-owned business in city contracts for services. The Department of Economic and Employment Development will play a major role in overcoming barriers to participation and coordination of the overall effort. Of particular significance are the proposed review of the city's bonding and insurance requirements to ensure that risk/exposure limits are not excessive, and a survey of the business community to locate small and minority-owned businesses with potential to bid on city contracts.

Detroit's procurement policy provides for preferential treatment of small businesses, particularly those owned by socially or economically disadvantaged persons, and of Detroit-based businesses generally. A city ordinance allows the purchasing director to limit bidding on purchases that are not "major" (under $10,000 for equipment and supplies, under $25,000 for building demolitions or nonprofessional services such as tree removal, under $50,000 for street paving, and under $100,000 for construction projects) to small businesses based in Detroit, with the requirement that an effort be made to reach minority firms in the bid solicitations.
Another section of the Detroit ordinance is designed to enable Detroit-based firms of all sizes to compete more effectively with outside firms. This section provides that on contract bids of $100,000 or less, the bid of an outside firm must be at least 2% lower than that of a Detroit-based firm, if it is to be adjudged the low bid. On larger contracts the bid of an outside firm must be at least 1% lower.

The city of Oakland not only instituted a policy of targeting procurements to local small businesses, but implemented it by providing bid discounts and by working with a nonprofit corporation to provide assistance in bid preparation. In addition, in an innovative use of CDBG funds, Oakland created a pool of funds that local firms could use to purchase the required surety bonds. While CDBG funds were used in Oakland, other cities could seek funds from other sources (banks, Chambers of Commerce, foundations) to provide such a pool.

Dade County (Florida), Pasadena (California), and San Francisco have established specific percentage goals for government purchases from small local businesses. San Francisco's implementation is discussed in Exhibit V-1.

Exhibit V-1

PROCUREMENT POLICY IN SAN FRANCISCO

Under Section 201 of the Clean Water Act of 1972, the Federal Environmental Protection Agency is making nearly $1.5 billion available to San Francisco to construct a new sewage transport and treatment system. San Francisco city management decided to establish a special projects office. The Mayor and the Special Projects Director, who were committed to an improved affirmative action policy, negotiated an agreement between the North Bay Division of the Associated General Contractors (AGC), minority contractors, minority workers, and the building trade unions. This agreement, in addition to satisfying the Equal Employment Opportunity Council hiring requirements, makes 10% of the dollar amount of all contracts available to minority firms. The AGC agreed to this because building the 10% requirement into the bid specifications allowed all contractors to compete on an equal footing. It was also calculated that the 10% requirement was far enough
Exhibit V-1 (concluded)

ahead of actual minority enterprise capacity to produce real growth in these firms without exposing them to demands they could not fulfill.

The final policy required a set proportion of the project funds to go to minority firms, through contracts and subcontracts by specific subareas of construction. The firm hired for overall management of the project also was required to let 10% of its contracts to minority firms, as well as to provide technical assistance where needed to put minority enterprises together in joint ventures with more established contractors. Furthermore, minimum goals for the employment of ethnic minority persons and female apprentices were established by groups of trades, based on an incremental schedule.

Because construction was booming at the time of the policy implementation (1977), few objections were raised to the plans--there was more than enough work for building trades around the city. This abundance permitted specification of 50% minority resident hiring on projects located near predominantly black areas, as in the case of Hunter's Point where the Southeast Treatment Plant was to be developed.

The policy to date has resulted in giving 15% of all contract dollars to minority contractors ($30 million). The project has stimulated joint ventures between white contractors and black, Latino, and Japanese-American firms. In a number of cases no local minority firms could carry out the job and minority firms from out of state were needed. The joint venture concept has enabled large, long-established firms to assist minority contractors to meet bonding and management needs.

While there have been few problems in the implementation of the policy and monitoring of compliance, more minority participation in union apprenticeships is needed. As long as construction demand for labor is high, unions can afford to follow affirmative action guidelines. The Department of Labor and the city of San Francisco are subsidizing efforts to provide union teachers in construction programs to help meet training requirements. The overall policy implemented by San Francisco has served as a model for the Department of Labor. The projects will have provided $150 million to minority contractors and $400 million to local minority labor wages. The local treatment plant project has also provided $30 million in contract dollars to the city's poorest black neighborhood, Hunter's Point.

Analysis--The San Francisco project provides a model of a systematic approach to involving minority business in all facets of a large project. It illustrates how the intergovernmental aspect of resource availability (the waste water management funds from EPA) can be applied in conjunction with governance tools (local procurement powers) to achieve greater local impact. Compliance with equal employment opportunity requirements is not sufficient by itself to address neighborhood economic problems. San Francisco used the opportunity provided by its waste water project to focus on the development of economic opportunities for small minority business and labor both city-wide and in the Hunter's Point neighborhood in particular. The specialized procurement process developed enabled meaningful economic opportunities to be created.

V-8
Public-Private Collaboration

Public efforts to work with private minority firms in expanding their business opportunities appear to fall generally within two categories. The first type of public collaboration with the private sector focuses on providing minority businesses with technical assistance and supportive services designed to enable minorities and women to compete successfully for government contracts. The City of Buffalo Local Development Corporation, for example, has established an effort to enable minority contractors to obtain the bonds they must have to bid on Federal projects. Low-interest loans are made to the contractors so that they may purchase the necessary bonds.

Another joint public and private effort specifically related to bonding requirements for public construction projects was found in Phoenix, where the city has worked with The Arizona Minority Purchasing Council (450 members) to develop a bonding seminar for minority contractors. The bonding seminar was needed because the state has a bonding requirement for all public construction on contracts valued over $5,000, which is difficult for some minority contractors to meet.

In addition, the Arizona Minority Purchasing Council is working to get the state to lift the bonding requirement from $5,000 to $25,000, while the city of Phoenix is working to get the state to permit local governments to set bonding standards themselves. The city also has contacted the Minority Contractors Assistance Project, Inc. (MCAP) which is a surety bonding firm created by loans from Aetna and other insurance companies, that specializes in providing packaging and actual bonding that will be guaranteed by SBA. MCAP will bond up to $25,000 on bid payment and performance bonds for undertaking construction. To bring firms together with MCAP, the city has the Phoenix Business Development Center (supported by a variety of public and private funding sources) work with firms to package applications well in advance of need.
The Phoenix city division of Industrial and Commercial Development maintains a directory of minority firms, which it regularly sends to the larger prime contractors and major corporations to facilitate the Federal program of encouraging the letting of subcontracts to minority companies. The division also conducts seminars for minority contractors on how best to pursue public contracts and participates in monthly minority-business breakfast meetings, sponsored by a number of public and private agencies and designed to spread information about business opportunities.

Similarly, representatives of the city of St. Louis sit on the Minority Opportunity Business Committee, a group of Federal, state, and local officials that seeks to further ways of opening up the procurement process to minority vendors.

The second area in which public-private collaboration is occurring involves increasing private sector business opportunities for minorities and women. In this area, governmental efforts are geared to securing capital for minority businesses, providing technical and management assistance, and bringing large private corporations together with the smaller minority businesses.

In the area of providing minorities and women with needed capital, the State of Missouri has a depository program (which some local governments could adopt) that encourages banks to make loans to minority small businesses (Exhibit V-2).
Exhibit V-2
STATE OF MISSOURI DEPOSIT PROGRAM

The State Treasurer makes $15 million to $20 million in discretionary deposit funds available each year. If a Missouri bank can show that it has from $50,000 to $100,000 in loans outstanding to minority businesses, the bank qualifies for a 1-year deposit of $100,000; if it has more in such loans, the Treasurer will deposit discretionary money on a dollar-for-dollar basis up to $1 million. The Treasurer is authorized to renew the deposits for additional years, as the state's cash flow may permit. The banks that receive deposits under the program must agree to pay the rate of interest that could be derived from U.S. Treasury Bills.

Outcome--The program went into effect in April 1980, and information is not yet available on the response from Missouri banks.

A broad range of minority business needs are covered by the organizations shown in Exhibit V-3 (Phoenix Business Development Center, Philadelphia's Mainstream Enterprise Business Development Center, and Detroit's Inner-City Business Improvement Forum). While the minority business assistance centers described represent a well-known institutional format for helping business, what is important in their activities is how they mobilize private sector resources (management assistance and counseling) and act as intermediaries on business issues. This is a potential role that local governments can help to establish in local development corporations and of which they can encourage bigger businesses to assume a part.

The director estimates that the MEBDC is generating $18 million a year in economic activity through minority businesses.

Exhibit V-3
PUBLIC-PRIVATE ORGANIZATIONS TO AID MINORITIES

Phoenix Business Development Center (PBDC)--The Phoenix Business Development Center is a nonprofit corporation established by the city
Exhibit V-3 (continued)

(originally as the Minority Business Enterprise Center) that provides management and technical assistance to minority businesses and socially or economically disadvantaged small businesses at no cost to the recipient. It provides loan packaging and assistance in securing loans, seeks customers for products and services of small businesses, aids contractors in preparing bids and obtaining contracts, provides marketing assistance, and offers management and accounting counseling. The corporation, which started in 1972, has its 29 member staff organized into six divisions: Finance, Construction, Marketing, Procurement, Highway Construction, and Management and Technical Assistance Resource Division. The PBDC has an $800,000 budget funded by MBDA (OMBE), the Arizona Department of Transportation, the Arizona Department of Health Services (for EPA waste water project procurement), and CDBG funds. Much of the Center's importance lies in the successful way it organizes private-sector, in-kind assistance. The PBDC is linked to the Arizona Minority Purchasing Council and serves as a link to private sector firms trying to carry out their affirmative action and minority business procurement requirements. Specific activities of the Phoenix Business Development Center include:

- A private sector executive/expertise resource bank that provides many hours of direct assistance to individual businesses on management and accounting skills.

- Private-firm training sessions for minority businesses (Mountain Bell).

- A Match-Maker Program that links big firms to subcontracting with small firms and helps develop small businesses to respond to changes in opportunities that subcontracting offers.

- Finding public and private sector financing for the development of small businesses that can adapt effectively to unmet demands. (Funding may come from SBA or the private sector).

Mainstream Enterprise Business Development Center (MEBDC)—MEBDC is a nonprofit corporation, located in Philadelphia, that specializes in economic development in minority-group communities. The corporation, which has been in existence for about 10 years and has 26 employees, operates a business development center. For about 8 years, MEBDC has had a contract with the OMBE and its successor, the Minority Business Development Agency. Organizationally, MEBDC has a number of divisions:

- The Business Analysis Division screens clients, does loan packaging, and provides management assistance to minority businesses.

- The Marketing and Resources Division helps clients prepare bids and assists them in winning procurement contracts from Federal, state, and local government.

V-12
Exhibit V-3 (concluded)

- The Construction Management Division provides on-site management assistance to minority contractors. It helps with cost estimates and advises on how to deal with suppliers and unions.

- The Planning Section deals with new business opportunities. A major project at present is the development of projects to generate electric power at existing dams that can be retrofitted with turbines. There are 400-500 small dams in Pennsylvania that might profitably be returned to the generation of power and could sell hydroelectric power to utilities without coming under utility regulation.

- Consulting with Hispanic firms—The MEBDC has a contract with a Hispanic merchant's association to provide consultation on business problems and practices; there are from 150 to 200 Hispanic firms in Philadelphia.

- Consultation on business with railroads—This effort is mainly one of helping minority firms win procurement contracts with AMTRAC and CONRAIL.

**Inner City Business Improvement Forum (ICBIF)**—The ICBIF aspires to be a full-service, one-stop business development agency for the black community in Detroit. Organized soon after the Detroit rebellion of 1967, it is funded by the Minority Business Development Administration and New Detroit, which is the local Urban Coalition. The Ford Foundation has granted money to the ICBIF for the purpose of a revolving loan fund. The ICBIF has established two Minority Enterprise Small Business Investment Corporations (MESBICs) with the aid of grants from EDA. Each is capitalized at more than $1 million. These organizations are able to borrow $3 from SBA for every $1 of private capital they assemble. Their purpose is to provide venture capital and equity financing to minority businesses by making loans or investments. Overall, the ICBIF puts together from 35 to 50 loan packages a year, the average amount being about $75,000 or $85,000. The agency also offers consulting services to minority businesses, and in that way it serves another 180 to 200 firms a year. Some of these services are provided by staff and some by volunteers from the major local business enterprises. On a few occasions, the ICBIF has won tax abatements for its clients, but this type of assistance does not figure largely in its operations. The director says the city of Detroit is currently doing all in its power to help the ICBIF achieve its objectives.

**Analysis**—Linking minority business to existing private sector support capacity can have a high utility for the recipients at a low cost to the public sector. There are obstacles to these relationships, however. In particular, where minorities include those not fluent in English, establishing such small-business/large-business links may be difficult.
Cities can encourage industries to set up programs to help minority-owned businesses with or without participation of the Minority Business Enterprise Network. In Indianapolis, for example, the Indiana Contractor Assistance Center is providing training and technical assistance to small business in solar technology and solar installations. The industry members are likely to support such a move because it is not aimed at increasing minority competition in a field where most of the members of the contractors' association are already established, but it does have the effect of giving minorities assistance and training in a new field that is expected to become more important over time.

For specific help to women-owned businesses, cities can encourage the development of groups of women business owners or prospective women business owners. In some cases the city can stage the first meeting and subsequently provide a meeting room; in other cases the city can establish an informal clearinghouse and networking capacity in the economic development or community development department. Many sources point out the urgent need for women to develop networks among themselves to compensate for past exclusion, and the importance of knowing other women who have faced similar problems and overcome them.

The importance of networking is increased by the fact that, like minorities, women tend to find SCORE counseling inadequate because so few of the SCORE counselors understand the specific cultural and educational backgrounds women bring to business.* The problem is not one of attitude as much as lack of knowledge; often the SCORE counselor or bank loan officer, finding that the woman business owner is ignorant of some obvious business technique (for example, lease back, or computing ROI) tends to assume that the ignorance extends over a wider field than it does, because he compares

*See, for example, P.P. McNamara, "Women Business Owners: Some Policy Issues and Questions from an Observer's Perspective," in The Environment for Small Business and Entrepreneurship in Region IX, SRI International, Menlo Park, California (September 1979).
it with what he knows of businessmen (Exhibit V-4). It should be pointed out, however, that in fields where women entrepreneurs have been established for decades (the beauty shop business, for example), enough experience among women business owners has been accumulated so that all is needed is a SCORE counselor with a background in that business—not necessarily a woman.

Exhibit V-4

NETWORKING ASSISTANCE FOR WOMEN BUSINESS OWNERS

In the "Silicon Valley" area of California, the entry of a contaminant into the solution that will "grow" a silicon crystal to be sliced into microcomputer chips is a matter of importance. Companies that produce silicon crystals need to know, immediately, the chemical nature of a contaminant so that they can find out where it came from and how to prevent it from spoiling further batches. A woman chemist at a large research institute in the area saw this as a service she could provide to the companies, and set up a small analytical laboratory (16 employees at present). Her first problem was that, although she knew the chemistry involved and knew how to price the analytical service, she had never worked with a bank commercial loan officer before and was not aware of the kinds of information he needed, and the bank loan officer had too little knowledge of the field to judge the merit of her venture on any but conventional business lines. An MBA student at a nearby university was able to help her present the venture in terms the bank loan officer could understand.

Analysis—Finding ways to facilitate interactions between persons who have needed skills or other resources and the small entrepreneurs who need help is one of many ways local governments can assist persons unfamiliar with business practices. This can be done directly, through a "resource bank," or indirectly, by encouraging a local Chamber of Commerce or other group to take action.

In Palo Alto, California, the Resource Center for Women (funded by contributions, including a contribution from the city) sponsors classes for women on how to start a business. A fee is charged for the classes, which are scheduled when a minimum enrollment has been met. The classes are practical how-to sessions, including how to apply for a bank loan or an SBA loan, how to find other sources of capital, what kinds of permits and taxes
are involved, what records the business owner must keep (and for how long), what an accountant does, and so on. The Resource Center for Women also provides a networking service and clearinghouse for women business owners and information and referral service.

DIAGNOSTIC CHECKLIST FOR LOCAL OFFICIALS
(Check the answer that is most applicable.)

1. In terms of minorities:

____ There are plenty of programs in place already, and without more Federal funding our hands are tied.

____ We're doing some things to organize better public and private support for minority business, and we've given meeting space to some minority business fairs, but we're not sure how much more is needed. We are looking into how we could help minority employment by helping small business.

____ We're using networking, peer counseling, procurement and loan assistance, and enforcement of the Community Reinvestment Act wherever we can. However, we're directing our funded services, and our funds, toward helping small business in poor neighborhoods, not necessarily minority neighborhoods.

____ Don't know.

2. In terms of women:

____ An official program would be inappropriate, could be controversial.

____ We recognize the need for specialized training and counseling for women business owners and try to help by providing networking and linking facilities and encouraging organization.

____ We have supported a variety of self-help measures and encouraged the local community college to serve as a focal point. We are now considering a women's LDC.

____ Don't know.
VI INVOLVEMENT IN PUBLIC POLICY MAKING

"And then customers started calling and asking how they could get to the shopping center, with the road closed, and that was the very first time I heard about it. I wish they'd let us know earlier."

-- Merchant, on television news, 20 Oct. 1980

Perhaps the most important problem facing small business that was identified by the White House Conference was the need for small business involvement in the making of public policy. In view of the heavy impact of governmental action on the other problem areas named by the Conference, it is imperative that small business make its views known to local government as well as to state and Federal government policymakers (Table VI-1). Small business involvement in local government policymaking has typically been limited, as the principal mechanism of engagement has been the Chambers of Commerce, whose resources for advocacy and knowledge of local policy problems are often limited. It is consequently important for emerging small business organizations, such as business associations or advisory committees, to develop direct working relationships with local government. This will provide access to policy activities, that affect small business on a continuing basis such as decisions on zoning, codes, procurement policy, taxes, capital investment.

This section, which focuses on small business involvement in public policymaking, is particularly crucial to small business because it illustrates the opportunities available to local government to identify and act on potential policy initiatives sensitive to business needs. The trend toward local government concern for the needs of the private sector has emerged recently.
### Table VI-1

**POLICY PARTICIPATION FOR SMALL BUSINESS**

<table>
<thead>
<tr>
<th>Source of Policy Participation</th>
<th>Characteristics Relevant to Small Business</th>
<th>Local Government Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>Provides voice audible to Congress but addresses only national aspects; held infrequently.</td>
<td>Assist in finding and linking with local delegate; use results to the extent possible.</td>
</tr>
<tr>
<td>White House Conferences on Small Business</td>
<td>Provides valuable help at national, regional level; not local.</td>
<td>Link with Regional Advocate (District Advocate where one exists).</td>
</tr>
<tr>
<td>SBA Office of Advocacy</td>
<td>Small business only one voice of many.</td>
<td>Add city/county advocacy efforts; encourage local small business groups to respond.</td>
</tr>
<tr>
<td>Congressional hearings on all legislation</td>
<td>Rarely have links or channels for small business input.</td>
<td>Link local business associations, LDCs, and local representatives of Federal programs.</td>
</tr>
<tr>
<td>State</td>
<td>Small business is one voice of many.</td>
<td>Advocate repeal of measures harmful to local business.</td>
</tr>
<tr>
<td>Economic development department/community development department</td>
<td>Small business is one voice of many.</td>
<td>Advocate for small business as well as poor, minorities, vulnerable groups.</td>
</tr>
<tr>
<td>Legislative hearings</td>
<td>Small business viewpoint rarely represented.</td>
<td>Advocate for small business; link business associations, self-help groups.</td>
</tr>
<tr>
<td>Commission hearings</td>
<td>Most cities lack an existing channel outside of political organization.</td>
<td>Establish an advisory council.</td>
</tr>
<tr>
<td>Regulatory hearings</td>
<td>Most cities lack an existing channel.</td>
<td>Establish ombudsman; have public meetings: link with business associations, LDCs, self-help groups; use media.</td>
</tr>
<tr>
<td>Local Government</td>
<td>Inclusion of small business is resisted because it may slow process down, raise noise level.</td>
<td>Include small business from the outset; link to business associations, neighborhood groups.</td>
</tr>
<tr>
<td>Elected officials</td>
<td>No formal channel for small business participation.</td>
<td>Require notice of specific decisions (plant closings, expansions); encourage links between Chamber of Commerce and other business associations; monitor corporate social responsibility efforts.</td>
</tr>
<tr>
<td>Functional departments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific planning initiatives (redevelopment areas, such as commercial revitalization districts)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Corporations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The three parts of this section offer examples of how some local governments are trying to enhance small business participation in their governance processes. The first part reviews administrative reforms, such as the reorganization of departments of economic development and manpower to provide for more direct interaction between small business and the local jurisdiction. The second part examines the growth of collaborative organizations focused on neighborhoods or on industry-specific problems. The last part focuses on the emergence of small business advocacy organizations within communities as a form of self-help. Many of these organizations are components of local development corporations that are organized around geographic issues (neighborhoods or special development districts). Some Chambers of Commerce also are playing advocacy roles in public policy areas, both on community-wide concerns (such as city zoning policy) and on specific projects (such as industrial parks).

Administrative Reform

One good example of an increasing use of administrative reform by local government to explicitly encourage and facilitate the involvement of small business in policymaking is found in San Antonio, Texas. In 1977, the San Antonio City Council, at the request of the City Manager, established the Department of Economic and Employment Development (DEED), which brought together the administration of all economic development activities of the City. The department is primarily funded through CETA and EDA funds and administers these programs. In addition, the department serves as the primary interface with the private sector regarding economic development issues. Although this particular organizational arrangement is not unusual in and of itself, it constitutes a major administrative reform in that the mission and operation of the department extends well beyond the provision of services and administration of programs. DEED staff see their role as advocates for economic development within City government and act as agents for the private sector in this regard, particularly small business.
The basis for the City of San Antonio's economic development strategies are outlined in the CEDS document prepared by the Department of Economic and Employment Development. This document gives specific attention to the needs of small business and provides the framework for a number of administrative reforms that are being taken by the City to meet these needs. For example, the CEDS plan identifies priority problems that need attention, including insufficient access to capital for existing small businesses, lack of identifiable measures to weight priorities for City assistance, and discouragement to business expansion or location through cumbersome governmental regulations.

Due to limited public sector funds for support of viable development projects, it has become necessary to prioritize the allocation of limited City resources in San Antonio (as well as other cities surveyed). Reflecting San Antonio's comprehensive view toward administrative actions to take into account small business, the City Department of Economic and Employment Development is in the process of reviewing all pending development proposals and ranking them in terms of their potential return on investment to the City and the community. When development proposals come before the City Council, a complete economic analysis of the project is attached for their review. This type of analysis provides an added dimension to the debate over the allocation of local funds. What is important about the reform in organization of San Antonio's government is its examination of the broad effects of City policies on business. Many other cities are finding they can benefit from this type of organization, even though they often have economic development corporations that are active in business advocacy (Philadelphia for example).

Public-Private Collaboration

The most typical form of public-private collaboration involving small business has been the establishment by local jurisdictions of advisory committees made up of local business persons to provide input to public policy. Both Philadelphia and Baltimore have Mayors' Advisory Committees on
Small Business; Seattle's Mayor has a small business task force; and Portland, Oregon has an Economic Development Advisory Committee appointed by the Mayor, composed of up to 20 private citizens from large and small business, industry, and labor. Similarly, in the City of Phoenix, three Chamber of Commerce members serve on the City's Special Urban Infill Committee which is now studying possible infill incentives for recommendation to the City Council.

In at least three cities (Baltimore, Portland, and Jamestown), public-private collaboration also has focused on specific neighborhood revitalization projects. The Baltimore Mayor's Advisory Committee on Small Business has been working closely with the Housing and Community Development Department's Office of Commercial Revitalization to help small business in targeted neighborhoods. Based upon work done by the Mayor's Committee beginning in the early 1970's, Philadelphia's commercial revitalization program got underway in 1974 when the voters approved a bond issue for improving older neighborhood shopping areas throughout the city. The program makes $2 million available for public improvements and $1 million in low-cost loans for small business owners to make improvements in their stores.

In another case, the City of Portland's economic policy statement, which was issued March 26, 1980, has identified a specific role for small businesses in downtown development in specific areas of the city (Exhibit VI-1).

Exhibit VI-1

POLICY PARTICIPATION BY SMALL BUSINESS
IN PORTLAND, OREGON

The City of Portland, Oregon collaborated with small business interests in establishing economic development policies for three target areas.

Albina Industrial District--An area that was unstable, but vital, lacked sufficient space for expansion and needed improvements in local traffic circulation. The Albina neighborhood council passed resolutions requesting changes in the City's proposed comprehensive plan to allow general
manufacturing within the proposed redevelopment area, and requesting a City policy to control institutional expansion and growth on the limited land available for industrial purposes. In response, the City has inventoried available land and space (and has made inventory available to real estate agents); the district planners worked with City planners to examine which land use restrictions could be used to protect and encourage industrial uses and discourage residential rehabilitation and construction in the area. The district planners are also working with the Bureaus of Planning and Traffic Engineering to better understand circulation and parking problems and to find ways to integrate the area into new transportation programs. Finally, firms located in this particular area that are dislocated by a new highway (Greely I-5) will be helped by a state cooperative effort with the City.

Inner Northeast Industrial District--Here, the City strategy has been to support an organizational base that could help the area ameliorate social and economic problems. An Inner Northeast Economic Council was organized. The City also compiled a background report on occupational characteristics, land ownership, zoning, land use, employment, public improvements, business identity, economic trends, and neighborhood development. Although data show an influx of housing rehabilitation and new housing starts that could help support commercial development, results have been limited. Breaking the area into eight subareas, the Council has decided to develop one economic revitalization project for each subarea. Prior onsite inspections and owner interviews had identified over 200,000 square feet of space that could be used to encourage development. A major electronics firm announced that it would locate in the district, which helped the area by acting as an anchor for other firms. In addition, the City is trying to work with local businesses to get input into the comprehensive plan, provide business assistance to locally owned small business, encourage a minority business development program, assess the impact of a street improvement project to focus its potential benefits, and encourage the development of a local development corporation to direct and finance a district revitalization program.

Central Eastside Industrial District--The third largest industrial and employment district in Portland is adjacent to high unemployment, low income residential areas in the heart of Portland's Special Impact Area. There is an industrial council for the area, which advocated a special, exclusive industrial sanctuary for the area, with future development limited to light and medium industrial and commercial activity. Transportation access is a key problem for this area; needs direct connections to the Interstate Highway I-5 southbound (truck traffic currently causes delays and congestion for the area). The first major project undertaken in the area was a development of a $6 million condominium-type wholesale distribution center on 9 acres of land currently owned or used by three major railroads. The organization of wholesalers actually managed the project, hiring their own developer (using a significant amount of their own cash), then working with the Portland Development Commission to develop a bond issue, through the Portland Port District. The bond issue provides the capital for the acquisition and development process. The City also is providing input into
the state's transportation policy process, trying to affect the development in the impacted area.

**Analysis**—Portland's strategies for small business participation in economic development policymaking have been effective in targeting of resources, in focusing local policies (land use, revenue bond use, traffic policy change), in overcoming obstacles to production and expansion of industry (resolution of labor problems, targeting of investments), and in reducing costs and increasing benefits to both the City and small business.

In the smaller City of Jamestown, New York, the Chadakoin Industrial Revitalization Program started in 1976 as the result of joint planning by representatives of the City and the business and industrial communities. The target of the revitalization work is an industrial band along both sides of the Chadakoin River. About 150 manufacturing firms are located along the band; most of them are small or moderate size, employing from 10 to 50 persons each. The program is controlled by a nonprofit corporation with City, business, and labor representation on its board. About $6 million has been put into the program over the 4-year period. The money came from EDA, the Community Development Program, the Appalachian Regional Commission, the City general fund, and the City Board of Public Utilities. (The local tax and utility-revenue money amounts to about $100,000 of the $6 million.) The objective—to retain existing industrial firms and to enable them to expand—is pursued chiefly through public improvement projects designed to create a healthier environment for industry. (Projects include street and sidewalk replacement, construction of parking lots, sewer-system modernization, and the purchase, rehabilitation, and sale of buildings for industrial use.)

**Self-Help**

To communicate their views and needs to public policymakers, small businesses are actively joining forces. In some cases, the emerging small business self-help, advocacy groups have been formed in response to community or
neighborhood issues, while in other instances, they have been established as citywide organizations of small businesses.

Effective community-based advocacy groups were found in Baltimore, Maryland, where community organizations such as the Southeast Community Organization have taken an active role in commercial revitalization. Originally formed 10 years ago to block an expressway, SECO now is active in economic development in its lower middle-class, white ethnic neighborhoods. Group members have participated in economic redevelopment efforts in the Highlandtown commercial strip area and used zoning and code enforcement to obtain neighborhood improvements. Yorky Development Corp. is another community-based organization actively involved in neighborhood commercial revitalization; it has also used code enforcement and zoning changes to achieve neighborhood change. Both groups feel that a neighborhood role in commercial revitalization is crucial and the business/community partnership is required for success.

In Seattle, Washington, one business area (Empire Rainier) formed a task force and developed its own action plan. This commercial strip is in the process of making recommendations on the formulation of a business association, determining what mix of businesses they would like to see in the area and what is necessary to maintain vitality, and how these could be brought in through marketing efforts and use of SBA 502 loans and UDAG projects. The task force is also identifying seminars by organizations in the area that could help local businesses (soliciting help). They surveyed the merchants in the city as well as consumers and told merchants about the characteristics of the Empire Rainier area. Finally, the task force is making recommendations for housing and commercial development in the area. They have already organized a block watch program under an LEAA grant, as a result of local recognition that the area could meet some of its own needs.

Other associations representing neighborhood and commercial interests in Seattle include: the Community Economic Assistance Association, the Central Area Association (trying to set up an LDC), the Madrone Business Development
Association, South East Effectiveness Development, the Central Area Motivation Program, and Interim (an Asian group in the International District area, involved in setting up a UDAG project and an agricultural project in the city), and the United Indians of All Tribes (a statewide Indian group). The City meets with members of these groups through Economic Development Breakfasts, but as yet has no formal means of responding to issues raised.

In many localities, the City's Chamber of Commerce is beginning to take a more active role in representing small business concerns to the public sector. In San Antonio, Texas, in fact, there appears to be little private sector advocacy on the part of small business outside the Chamber, and even here the emphasis has been recent. Despite the fact that 75% of the businesses in San Antonio are small, the Chamber had no Small Business Council or staff dedicated to small business until 1979. The major focus of the Council involves traditional Chamber activities such as newsletters, seminars, counseling, political action, and the publication of a small business directory. There are, however, some examples of advocacy in the nonservice areas. In August of 1979, the Small Business Council recommended that the City's proposed minority business development program be broadened to include all small businesses. This proposal was accepted by the City and recently implemented with Chamber support. Other examples of advocacy by the San Antonio Chamber include support of small business impact statements and regulatory flexibility at the Federal level, positions on drainage project criteria, master planning for the City, neighborhood planning (which they oppose), and improvements in the fiscal position of the Bexar County Hospital District. These positions were taken by units other than the Chamber's Small Business Council.

Similarly, according to the 79/80 Phoenix Chamber of Commerce Action Plan, the Energy and Environment Committee hopes to recommend new City building and construction fees to provide incentives for solar energy devices. This committee is also developing a new effort to promote modified work schedules, car pooling, and van-pooling in the business community. The
Education Committee of the Phoenix Chamber is exploring alternatives available for the future use of high school facilities and the Economic Development Committee operates a business retention and expansion program.

As a part of the Seattle Commerce Cities program, groups of developers have met with the City to share ideas for economic development. This group, which was first a joint venture, is now staffed by the Chamber of Commerce and reviews city policies. As an example, they commented on the inconsistency of zoning for commercial areas with the actual uses. This inconsistency has resulted in denials of variances to firms desiring to locate in areas where there already are similar commercial activities. Comments such as these have led to consideration of performance standards for zoning, rather than the more traditional limitations imposed by existing zoning practices.

San Diego, in addition to the local Chamber of Commerce, has four business advocacy groups. Each of these organizations has a different focus but all represent small business interests either directly or inadvertently. For example, San Diegans, Inc. is a nonprofit group formed in 1959 to advocate the revitalization of the center city. It is headed by a former city planning director, and is a rather typical downtown development organization involved in studies and promotional work. The president says that the organization has no particular agenda for small business, but feels that their work has an indirect impact on small businesses in the downtown area. A recent position paper on circulation and parking in the downtown area provides a good example of their advocacy role. Of particular interest is the concept of preferential streets and the call for the establishment of an office in City government to oversee the coordination and management of the public infrastructure in the center city area.

With a broader geographic focus than San Diegans, Inc. the private Economic Development Corporation is the primary economic development promotional organization for San Diego City and County. Their staff reports that they simply have no time to deal with all small business. Rather, they focus on the small businesses that have potential to grow large in a short
period of time and to produce several hundred jobs, as is often the case with electronics firms. The staff says that the firms they work with do have problems with City and County rules and regulations, but they are not difficult to work out on a case by case basis due to the support of elected and appointed officials for economic growth. The director is a registered lobbyist with the City and County and consults directly with top administration when he needs help. He and his staff also work directly with the state and Federal government on individual problems and/or legislation and administrative regulations, which the director feels are the major barriers rather than those at the local level.

DIAGNOSTIC CHECKLIST FOR LOCAL OFFICIALS
(Check the answer that is most applicable.)

1. In terms of overall policy:

   ___ Small business in this city is apathetic and only complains after the fact. Besides, we have enough pressure groups to deal with now.

   ___ We try to include merchants associations and neighborhood business groups in planning that involves their neighborhood. We encourage small business to develop effective associations, realizing that the Chamber doesn't always speak for small business.

   ___ We require our agencies to check with merchants' associations and businessmen before paving a street, changing traffic flow, altering parking limits, and so on. We also make efforts to notify them of zoning proposals, changes in the general plan, and so on. We involve local business owners in neighborhood planning from the beginning.

   ___ Don't know.

2. In terms of sites for industrial firms, light manufacturing, warehousing and distributing, and the like:

   ___ We're only interested in big employers and clean, non-polluting industries.

   ___ We do have a listing of all available vacant sites, what the zoning permits there, and any special features already in place, and we update the listing monthly. We also have a couple of industrial parks and are considering a foreign trade zone or other special district.

VI-11
We have a listing service, but we also keep track of needs for sites and when we come across a number of similar requests, we may consider an industrial condominium set-up that will permit economies of scale in terms of services (effluent treatment plant, minimum exposure of residents to the hauling of hazardous materials, noise buffering). In addition, we regularly survey zoning in terms of actual land uses to identify inconsistencies as well as emerging problems. We insist that planning for public works (sewerage, freeways, new port or airport facilities) include a look at the economic impact on existing industrial zones and don't depend just on the big company lawyers to tell us when something looks like it may hurt local industry.

Don't know.
PART THREE

VII  OPPORTUNITIES FOR MORE EFFECTIVE UTILIZATION

General Findings

The contents of this guide clearly indicate that local governments in all sections of the nation are attempting to address the critical needs of small business. Collectively, the cities and counties studied are utilizing a full range of nonservice approaches to meet capital needs, reduce red tape, provide management assistance, open up opportunities for minorities and women, and involve the small business community in local decisionmaking. However, the guide also discloses that individual communities often are using these approaches in an ad-hoc and fragmented fashion that fails, in most cases, to provide the overall policy framework necessary for an effective response to small business' needs.

The research indicates that to achieve positive results, approaches to strengthening small business need to be developed within the context of a broader policy framework, to take into account local and regional market forces, and to define new governmental roles in implementing small business policies.

Need for a Policy Framework

Most of the sites visited in the course of preparing this guide have not formulated specific policies and objectives to guide the design and analysis of effective nonservice strategies for the development and support of small business in their communities. In the absence of some policy context or framework, many of the specific tools described earlier fail to achieve their...
potential effectiveness and, in some cases, bring about counterproductive re-
sults.

For example, in some communities attention has been focused on the devel-
opment and expansion of major industry but no steps have been taken to ensure
that regulatory reforms (code revision, bonding thresholds, or licensing
changes) also apply to the often unique problems of small business. In other
cases, assistance for minority business development has been conducted outside
the mainstream of local economic development strategies emphasizing only Fed-
eral contracts, thereby failing to capitalize on significant opportunities,
and for minority entrepreneurship through use of local policy tools, such as
procurement or bid assistance. Likewise, neighborhood stabilization efforts
often fail to make appropriate connections between physical development ef-
forts (such as housing and capital improvements) and the need for tax and reg-
ulatory reforms (such as abatements and defensive zoning strategies) to main-
tain and strengthen appropriate small business to serve neighborhood needs
and reverse trends towards decline. In some cases, where communities have
taken firm stands in promoting economic development, competition and conflict
among local nonprofit development corporations reduced the potential benefi-
cial impacts of the activities of both organizations.

Thus there is both a need for a broad policy framework that recognizes the
multiple effect of different policies on small business, and a need for an
organizational structure that can implement those policies in productive ways.

Need to Take Market Forces into Account

A second area of concern regarding the effective utilization of nonservice
approaches has to do with the economic climate in which such approaches are
employed. Some communities visited in the course of the research have devel-
oped a range of tools to address issues of economic development, stabiliza-
tion, and expansion, with little attention to the market forces at work in the
area and in specific neighborhoods. It is well understood, both in theory and
in practice, that government policies and programs are usually insufficient in
funding levels to counter major market trends. Nonservice approaches are no exception to this rule. For example, in some cities, citywide economic development plans appeared to ignore historic economic trends, such as declining small business in the central business district, and to assume that a reliable economic climate for improvement would be forthcoming based on public investment alone. In other cases, plans for neighborhood commercial expansion failed to take into account needs for shifts in the neighborhood economy in terms of both jobs and services for a changing population. Sometimes, minority business development has been encouraged in parts of the community and in service sectors that were of questionable long term viability. On the other hand, cases also were found where developmental decisions were made on a broader understanding of the local economy, whether neighborhood market trends or citywide patterns of development in sectors (such as electronics). These cases suggest that effective analysis of the context of development, stabilization, and expansion results in more favorable consequences for small business.

Need to Define New Governmental Roles

Perhaps the most consistent finding of this and other nonservice studies is the important new role that local government must play if nonservice approaches are to meet their intended objectives. Elected officials and top management must be visible and effective in their support of small business, and organizational structures must reflect their commitment. All too often, the research revealed examples where this leadership was lacking and the locus of activity for small business promotion was difficult to identify either within or outside city hall. For example, some city government units established to provide services for small business do no more than provide an information and referral service. In other cases, procurement policies have been adopted with no procedure for tracing results or assessing effectiveness and needs for additional action. In most cases, elected officials react only to specific small business problems and no small business advocacy group has emerged to promote systematic change.
Local units of government need to assess the potential application of the nonservice approaches and governance tools described in this report in the context of their particular economic setting. They must also carefully tailor their small business assistance policies and programs to meet the priority small businesses needs of their particular community. These considerations require a concerted, cooperative effort by local government and the small business community to define needs, set objectives and plan a strategy, and organize for action. This section of the guide suggests ways in which local government can develop effective, coordinated strategies for use of nonservice tools both to guard against potentially negative effects and to maximize the positive results of nonservice approaches to small business needs.

Defining the Problem to be Addressed

A sound policy framework for addressing the needs of small business must be based on a clear understanding of the particular problems faced by all segments of the local small business community. Small businesses vary significantly from one another in terms of their needs. A small, growth-oriented firm, for example, will not necessarily be experiencing the same difficulties as a small firm that has been established for some time. Likewise, retail and commercial establishments may be experiencing a set of problems different from those of manufacturing, and the very small "mom and pop" operations are likely to present still a different set of issues. Equally important is the fact that small businesses in different sections of the city will view their problems in terms of the neighborhood economy, rather than that of the community as a whole, and will define them accordingly.

The first step in defining the problems of small business is to recognize these differences and to assess both the unique problems of each segment and those common to all. Such an assessment can come from increased informal contacts between local government officials and representatives of the small business community and their associations or through more formal devices such as surveys and/or advisory groups to local government. A preliminary assessment of the attention being paid to small business already can be made by
filling out the diagnostic checklists at the end of each section of this guide. Close working relationships must be established to accurately assess the priority concerns of small business and to develop a constructive response from local government.

Key steps in defining the problems should include:

1. An inventory of small business to determine the range and mix of products and services offered.
2. An analysis of the expansion plans of existing small business by sector.
3. An analysis of new businesses that would complement the products and services of existing small businesses.
4. An analysis of the small business sector to determine levels of employment and growth in sales by category.
5. An assessment of capital available for the retention and expansion of small business.
6. A sample survey to assess critical problems as seen from the perspective of various segments of the small business community.
7. Creation of a joint public/private task force to analyze the data and refine the problem analysis. The task force should systematically review current local government policies and programs to determine which work for and which work against the promotion of small business.

Setting Objectives and Selecting a Strategy

Perhaps the most difficult task local government will face is selecting a strategy for meeting the needs of small business and promoting their interests. As can be seen from the descriptive information provided in Sections II-VI, a wide range of nonservice approaches and governance tools can be applied effectively to meet particular needs (such as the need for reducing red tape). The results of problem definition activity should provide a sound basis for setting specific objectives and selecting strategies to achieve them. Whenever possible, objectives should be formulated to reflect both the general and specific concerns of the small business community. In selecting
strategies, care should be taken to consider priority issues in order of impact. For example, one segment of the local small business sector may feel that their operation is primarily constrained by a lack of capital for investment in expansion plans, while another may view excessive red tape as the primary constraint. Still others will cite the absence of a well trained labor force or lack of suitable land and facilities as their basic problem. Some will no doubt perceive all of the above as a reflection of a poor climate for small business expansion in the community and will demand a larger voice in the policymaking process of a local government.

An effective strategy need not necessarily address all of the problems faced by small business. In fact, a strategy that attempts to meet all needs is likely to be beyond the capacity of local government despite best intentions. The key to an effective strategy is a systematic analysis of the alternatives and development of a consensus between local government and representatives of small business on which approaches are likely to have the greatest impact on small business development. Such an analysis should begin with a review of the critical problems previously identified and an assessment to determine which nonservice approaches and governance tools would most appropriately address these issues.

Having made the "first cut," local government and representatives of small business should determine the political and economic feasibility of each possible application and agree on the level of commitments each can make to those selected as the most feasible. For example, government intervention has both intended and unintended consequences. A zoning change intended to protect the neighborhood business area from high rise development might force development into another neighborhood, or increase the cost for commercial construction in remaining open areas. Setting parking meters for more rapid turnover of patrons can cause a shortage of employee or resident parking, or inhibit patrons from spending as much time in the business area as they would like.

There is also a cost shifting effect. For example, a zoning policy may place a greater cost on the local private sector, particularly new investors, than would direct financial assistance to small enterprise, which relies on
general revenue shares or Federal program funds. A tax abatement strategy, designed to aid small businesses in improving their operations, shifts part of the cost of upgrading to the general city population. Self-assessment by commercial strip businesses to pay for joint advertising or a private security patrol shifts costs for strengthening neighborhood business to the private sector and, indirectly, to consumers.

A careful analysis of these factors by local government and small business representatives is essential for the selection of a workable strategy. Moreover, this level of analysis provides the framework for constructing firm agreements between the public and private sector regarding roles and responsibilities for carrying out the selected strategy, thereby enhancing its feasibility. The selection of a strategy is more than an academic exercise. There is no optimum strategy except that to which the responsible parties can agree and make a commitment to carry out.

Key steps in the strategy selection process should include:

- Review and agreement on the principal barriers and constraints to small business development and improvement.
- Review and agreement on which services and nonservice approaches best eliminate those barriers and open up new opportunities.
- Assessment of the political and economic feasibility of each approach in terms of its impact on each segment of the small business sector.
- Negotiation and agreement between small business representatives and local government regarding the strategy to be selected and the roles and responsibility of each in carrying out their commitment.
- Formal adoption of the selected strategy and agreement by the local governing body.

Organizing for Action

Once a strategy has been selected, consideration must be given to the most effective organizational structure and process for ensuring adherence to the
objectives during implementation. Unlike service delivery approaches, nonservice approaches cannot be delegated to one department or agency of local government for implementation. Nor can implementation be solely the responsibility of local government. For example, a nonservice approach to meeting the needs of small commercial establishments in the community might involve: administrative reforms in the rehabilitation permit process, regulatory changes for mixed use zoning and/or code requirements and parking restrictions, public-private collaboration with investors to provide operating capital and management assistance, and the creation of a committee from the small business community to monitor progress.

Clearly these responsibilities extend beyond the jurisdiction of one department of local government and require the establishment of a process for coordination and evaluation of results. Circumstances will differ in each community regarding the best organizational framework. However, the existence of a unit of local government for economic development does not preclude consideration of other arrangements for carrying out an integrated small business strategy. Options, for example, might include a unit in the Office of the Mayor, City Council, or Chief Appointed Official to coordinate the strategy for a one-stop small business service center in an appropriate line department. Whatever mechanism is chosen, however, the unit must have the support of top elected and appointed officials and access to them regarding implementation issues as they arise.

Key steps in organizing for action should include:

- A clear directive from local government to the chosen unit regarding its responsibilities for implementation of the strategy.
- Development of processes and procedures for coordination both within and outside the city government structure.
- Design of a method for evaluating the successes and failures of the selected strategy and recommending timely changes as conditions change.
Conclusion

Despite the extensive use of nonservice approaches, much is to be learned through further experience. This guide has attempted to identify current nonservice approaches being employed by local government as well as examples of approaches that derive from service and direct loan strategies, and to suggest how such approaches might be applied to meet the needs of the small business community at the local level. Table VII-I shows the range of approaches available to local governments. It remains for each locality to develop and implement policies appropriate to its local setting.
Table VII-1
NONSERVICE APPROACHES TO STRENGTHENING SMALL BUSINESSES

1. Regulatory Approaches

<table>
<thead>
<tr>
<th>Policy Tool</th>
<th>Performer</th>
<th>Intended Consequence</th>
<th>Problems/Unintended Consequences</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zoning Revision, Downzoning, and Special District Zoning</td>
<td>City Planning Department, May involve City Council and Planning Commission.</td>
<td>-Prevent encroachment of adjacent higher density commercial areas (CBDs).&lt;br&gt;-Prevent nonconforming uses or densities (adult entertainment)&lt;br&gt;-Permit protection of existing uses (joint residential/commercial uses, artists lofts, mom and pop stores)&lt;br&gt;-Control presence of business types (quotas), control traffic and parking, and associated externalities (crime, displacement of original tenants and businesses (grocery stores, cleaners, hardware stores, etc.)&lt;br&gt;-Prevents inadvertent displacement or precipitated abandonment by lower income owners.&lt;br&gt;-Can permit desired forms of structure use (residential conversions) or continued use of nonconforming businesses (small stores not meeting new standards).</td>
<td>-Increases competition elsewhere.&lt;br&gt;-May unduly restrict free trade.&lt;br&gt;-Can still result in cost increases within neighborhood and displacement.&lt;br&gt;-Can result in continued physical decline.&lt;br&gt;-Enables marginal businesses to prolong operation to neighborhood detriment, and increase upgrading costs.</td>
<td>Boston&lt;br&gt;Dade County&lt;br&gt;Detroit&lt;br&gt;Los Angeles&lt;br&gt;Memphis&lt;br&gt;New York&lt;br&gt;Phoenix&lt;br&gt;Portland</td>
</tr>
<tr>
<td>Flexible Code Enforcement Policies</td>
<td>City Planning and Building/Safety Divisions. May involve Community Development Program Staff.</td>
<td>-Prevent inadvertent displacement or precipitated abandonment by lower income owners.&lt;br&gt;-Can permit desired forms of structure use (residential conversions) or continued use of nonconforming businesses (small stores not meeting new standards).</td>
<td>-Increases competition elsewhere.&lt;br&gt;-May unduly restrict free trade.&lt;br&gt;-Can still result in cost increases within neighborhood and displacement.&lt;br&gt;-Can result in continued physical decline.&lt;br&gt;-Enables marginal businesses to prolong operation to neighborhood detriment, and increase upgrading costs.</td>
<td>Denver&lt;br&gt;Philadelphia&lt;br&gt;Portland&lt;br&gt;Memphis&lt;br&gt;Seattle</td>
</tr>
<tr>
<td>Design and Parking, Ordinances, Business License Controls</td>
<td>City Planning Department, Traffic Department, and Business Licensing Office</td>
<td>-Aids improvement of facades in unstable commercial areas.&lt;br&gt;-Controls/expands market access, reduces traffic externalities (crime, crowding, litter).</td>
<td>-Can increase costs to small businesses.&lt;br&gt;-May shift parking burden elsewhere.&lt;br&gt;-May not have any effect, or be impossible to enforce.</td>
<td>Boston&lt;br&gt;San Francisco</td>
</tr>
<tr>
<td>Institutional Master Plan</td>
<td>City Planning Department/Institutions</td>
<td>-Prevents undue disruption of commercial area by expansion.&lt;br&gt;-Harnesses potential beneficial effects of expansion by planning for traffic impacts, employment and procurement practices.</td>
<td>-May increase costs to institution or provide incentive for building elsewhere (decentralizing).&lt;br&gt;-Negative impacts might still result.</td>
<td>San Francisco</td>
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<tr>
<td>Policy Tool</td>
<td>Performer</td>
<td>Intended Consequence</td>
<td>Problems/Unintended Consequences</td>
<td>Jurisdictions</td>
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<tr>
<td>Tax Abatements for Improvements in Commercial Areas</td>
<td>City Tax Assessor</td>
<td>- Reduces disincentive for making improvements.</td>
<td>- May not be an adequate incentive to small business.</td>
<td>Chicago</td>
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<td></td>
<td>- Helps lessen property tax burden for small businesses.</td>
<td>- Can increase tax burden on general public.</td>
<td>Cleveland</td>
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<td>- Promotes general upgrading in target areas.</td>
<td></td>
<td>Indianapolis</td>
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<tr>
<td>Differential Tax Rate for Small Business</td>
<td>City Tax Assessor</td>
<td>- Adjusts inappropriate or out-of-date tax rates to reflect situation in community and reduce local tax burden.</td>
<td>- May not be a meaningful change.</td>
<td>Kansas City</td>
</tr>
<tr>
<td>Reduction of Business Licensing Fees or Taxes</td>
<td>City Business Office</td>
<td>- Reduces both local operating fees and taxes, as well as unnecessary reporting for small business.</td>
<td>- May reduce city tax or fee revenues.</td>
<td>New York</td>
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<td>St. Louis</td>
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<td>Seattle</td>
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<tr>
<td>Policy Tool</td>
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</tbody>
</table>
| Targeting City Procurement Policies to Strengthen Small Businesses        | City Purchasing Office, City Agencies          | - Procurement policies set at meaningful levels can increase participation of small businesses in local government contracts for goods and services, increasing revenues and experience.  
- Locally spent revenues generate neighborhood economic multipliers that strengthen city neighborhoods. | - Procurement "goals" and affirmative action policies may exist only on paper.  
- Randomly direct policies may not accrue sufficient impact to help any one commercial area.  
- Most neighborhood retail business would not compete for procurement, and thus would not benefit.  
- Policies may increase cost of government action, and decrease quality, increase small business dependency on local government. | Los Angeles          
Oakland                    
Chicago                   
Portland                  
San Francisco            
Detroit                  |
| Provide Bid Discounts and Bonding Assistance to Small Businesses           | City Purchasing Office, Economic Development Office | - Increase competitiveness of city/neighborhood small and minority business through giving a reduction in submitted bid (not off actual contract).  
- Provide more city focused expenditures and resulting multiplier effect on small businesses.  
- Assist business entry into city bidding by subsidizing cost of purchasing bond. | - Discount may be inadequate to help local small businesses.  
- Cost increase due to policy may increase taxpayer burden.  
- Bonding practice may have high default risk/new city costs. | Oakland               |
| Streamlining/Expediting License, Permit and Zoning Changes                 | Jointly Developed or New Office for Business Development | - Reduces complexity and costs inherent in getting licenses and permits processed.  
- Enables bringing small businesses into contact with technical assistance from city. | - Streamlining may promote uncontrolled development and lower quality in business licensing.  
- Intradepartmental obstacles may prevent effective coordination of services, and increase problems and costs to local government and small business. | Detroit               
Chicago                   
St. Louis                 
Minneapolis              
San Antonio              
New York                 
Milwaukee               |
| Expedite In Rem and Abandoned Housing Practices                            | City Planning Department and Division of Real Property | - Makes available property at lower cost. | - Expedites property without necessary due process. | New York Los Angeles Baltimore |
| Assemble, Package, Sell/Lease Land/Buildings to Small Businesses           | City Purchasing, Surplus Buildings, Offices/Community Redevelopment Agency | - City can provide space at lower prices to small businesses using surplus.  
- Redevelopment Agency can assemble lots, buildings and sell to nonprofit organization that will pull in small businesses and lease at write-down rates after improving. | - City subsidizes space costs for small business-general public pays difference.  
- Quantity may be inadequate to be meaningful.  
- Location may not be appropriate. |
### Table VII-1 (Continued)

**NONSERVICE APPROACHES TO STRENGTHENING SMALL BUSINESSES**

3. Administrative Reform Approaches (Concluded)

<table>
<thead>
<tr>
<th>Policy Tool</th>
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<th>Jurisdictions</th>
</tr>
</thead>
</table>
| Decentralization of City Offices to Promote Markets for Small Business Strip Areas | City Council, Planning Department, Facilities Planning | - Targeting city offices to specific neighborhoods can increase investment in the area.  
- New business will be generated from employees and citizens.  
- Possible procurement opportunities for local retail and wholesale businesses may exist. | - Small offices in neighborhoods may be detrimental to efficient government function, and increase costs to taxpayer.  
- Small offices may not be of a magnitude that carries meaningful impact in declining or unstable areas.  
- Negative impacts can result, such as parking problems, crime, and litter. | Chicago  
St. Paul  
Philadelphia  
Pittsburgh  
Los Angeles  
Philadelphia  
Dayton |
| Local Development Corporations | City Planning, Economic Development Agency, Community Organization | - LDCs provide an intermediary frontier to help small businesses overcome obstacles to financing. | - Can constitute a competition with private sector financing. | Chicago  
St. Paul  
Philadelphia  
Pittsburgh  
Los Angeles  
Philadelphia  
Dayton |
| Using City Deposit Policy | City Finance Department | - Target deposits of city funds to lending institution that provides lower interest rates to small businesses. | - Can reduce overall rate of return on deposit for city. | Chicago  
St. Paul  
Philadelphia  
Pittsburgh  
Los Angeles  
Philadelphia  
Dayton |
| Establish a Local Economic Development Commission | City Economic Development Agency | - To provide technical assistance and ombudsman service. | - May help some firms more than others. | Chicago  
St. Paul  
Philadelphia  
Pittsburgh  
Los Angeles  
Philadelphia  
Dayton |
## Table VII-1 (Continued)

**Nonservice Approaches to Strengthening Small Businesses**

4. Local Government Collaboration with the Private Sector

<table>
<thead>
<tr>
<th>Policy Tool</th>
<th>Performer</th>
<th>Intended Consequence</th>
<th>Problems/Unintended Consequences</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establish a City Advisory Committee on Small Business</td>
<td>Mayor's Office, Small Business</td>
<td>-To provide opportunity for small business to advise on local policy.</td>
<td>-May not include all small business interests.</td>
<td></td>
</tr>
<tr>
<td>Using Funds Controlled by Local Government to Leverage Private Funds for Small Business (e.g., CDB6 funds used to reduce interest loans for commercial revitalization)</td>
<td>City Community Development Department</td>
<td>-To leverage additional private capital for small business.</td>
<td>-Removes capital for other purposes.</td>
<td></td>
</tr>
<tr>
<td>Business Group (e.g., Chamber of Commerce) Works with City to Advocate for Small Business</td>
<td>City Economic Development Department and Business Groups</td>
<td>-Provide technical assistance and expanding opportunities.</td>
<td>-Some firms helped more than others.</td>
<td></td>
</tr>
<tr>
<td>City Provides Technical Assistance to Minority Small Business to Help Them Bid</td>
<td>City Economic Development Department</td>
<td>-Provide assistance to help bid on contract.</td>
<td>-May not help all firms eligible.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baltimore</td>
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<tr>
<td>Seattle</td>
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<tr>
<td>Philadelphia</td>
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<td>Portland</td>
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<td>Milwaukee</td>
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<td>Detroit</td>
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<tr>
<td>Baltimore</td>
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<tr>
<td>Minneapolis</td>
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<td>Phoenix</td>
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</table>
Table VII-1 (Continued)

NONSERVICE APPROACHES TO STRENGTHENING SMALL BUSINESSES

5. Self-Help Approaches

<table>
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<th>Policy Tool</th>
<th>Performer</th>
<th>Intended Consequence</th>
<th>Problems/Unintended Consequences</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of Merchant Associations to Promote Small Business</td>
<td>Neighborhood Merchants</td>
<td>To promote the joint interest of small business in neighborhood.</td>
<td>May not include all merchants or represent all viewpoints.</td>
<td>Seattle, Los Angeles, San Francisco, San Diego, Worcester, Mass.</td>
</tr>
<tr>
<td>Neighborhood Crime Watch</td>
<td>Neighborhood Merchants and Residents</td>
<td>To provide a crime watch to help prevent crime in the neighborhood.</td>
<td>May displace crime to other neighborhoods.</td>
<td>Seattle, Baltimore, Seattle, Chicago, San Antonio</td>
</tr>
<tr>
<td>Community Organizations Dealing with Commercial Revitalization Effort</td>
<td>Community Organization</td>
<td>To promote commercial revitalization of neighborhood.</td>
<td>Raise the property values and taxes of local merchants.</td>
<td></td>
</tr>
</tbody>
</table>
Table VII-1 (Continued)

NONSERVICE APPROACHES TO STRENGTHENING SMALL BUSINESSES

6. Public Advocacy Approaches

<table>
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<tr>
<th>Policy Tool</th>
<th>Performer</th>
<th>Intended Consequence</th>
<th>Problems/Unintended Consequences</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carry Out Anti-Redlining Advocacy and Negotiations with Local Lenders and Insurers</td>
<td>Mayor's Office, Planning Department</td>
<td>Prevent discrimination in lending, insure credit availability.</td>
<td>Some institutions may close branches rather than comply.</td>
<td>Seattle, Washington, D.C., States of California and Illinois</td>
</tr>
<tr>
<td>Provide Crime Prevention Activities</td>
<td>Neighborhood Boards, Police Departments</td>
<td>Create a positive neighborhood business climate.</td>
<td>May drive crime to other neighborhoods.</td>
<td>San Jose, Hartford, Boston, New York, Baltimore</td>
</tr>
<tr>
<td>City Advocates on Behalf of Neighborhood Small Business</td>
<td>City Planning Department</td>
<td>City helps to market neighborhoods and small business within them.</td>
<td>Targeted neighborhood benefits at expense of other neighborhoods.</td>
<td></td>
</tr>
</tbody>
</table>