A SMALL-BUSINESS AGENDA FOR NYC’S NEXT MAYOR

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Introduction

New York is a big city of small businesses. Out of some 236,000 firms in the Big Apple, 98% employ fewer than 100 employees. Roughly 1.3 million New Yorkers work in a small business. Entrepreneurship is a crucial route to opportunity, particularly for historically marginalized communities. Small business is an engine of growth and renewal that will be all the more vital after the Covid-19 pandemic.

Running a small business is hard, even in the best of times. In New York City, entrepreneurs face high costs, byzantine regulations, and cutthroat competition. And when there is a shock, such as a pandemic, small businesses lack the comfort of size to cushion the blow.

Not surprisingly, the past year has devastated New York City’s small businesses. Nearly 3,000 permanently closed between March and June of 2020 alone, with thousands more left in limbo amid an uncertain recovery. The Partnership for New York City, a business group, estimated in July that one-third of small businesses might never reopen. By November 2020, small-business revenue was only half of what it had been in January.

Hospitality businesses, such as restaurants and bars, were the hardest hit. More than seven in 10 workers in this industry were thrown out of work in April, leaving bare-bones crews behind in these often small shops. Some workers were able to return to the job by summer, thanks partly to the success of outdoor dining. But another wave of Covid-19 at the end of the year sent hospitality unemployment back up to 43.4% in December—more than four times higher than for the city as a whole.

New York City lost one out of every eight jobs in 2020 and is not expected to recover its pre-pandemic employment levels until at least the end of 2024. Many more New Yorkers have, or soon will, drop out of the job market entirely or find themselves chronically underemployed as the city struggles to recover economically. The city is in a precarious state fiscally, as is New York State.

The federal government issued unprecedented financial relief to businesses during the pandemic—totaling $325 billion, mostly through the Paycheck Protection Program (PPP)—as well as other efforts like the Federal Reserve Main Street lending initiative. In New York City, half of all small businesses received a PPP loan in the first round of funding, though in the Bronx, where unemployment soared to Great Depression levels in 2020, only 40% received such relief. The city’s micro-businesses, which employ fewer than 10 employees, received nearly two-thirds of all PPP loans but just 16% of the $19 billion that went to all the city’s businesses. The aid was necessary, but ultimately it was only a Band-Aid—good for stopping the bleeding but by no means a cure. There are deeper challenges for New York entrepreneurs that Washington cannot solve.

In the months since Covid-19 first struck New York City, small businesses have undergone the same “K-shaped” recovery as the economy generally, where the most well-capitalized and talented firms—particularly in technology and financial services—more or less survived and often thrived, while others, especially in the leisure and hospitality sectors, were decimated. Traditional or brick-and-mortar businesses that employ large numbers of less well-off workers were among the hardest hit.

Perhaps the one bright spot during 2020 was the remarkable surge in business formation nationwide after a four-decade slump. Roughly 1.6 million new business applications were filed in third-quarter 2020, nearly double the total from the same period in 2019. After first spiking in the spring, new firms were still being formed at a rate of well over a million per quarter as 2020 grew to a close. While it is too early to know whether this trend will continue, New York City’s leaders should be doing everything in their power to take advantage of this trend and to ensure that entrepreneurial opportunity is available to all. Pre-pandemic, small businesses employed half of all workers nationwide, and the fastest-growing startups drove 20% of all gross job creation; we should aim for such dynamism in New York City, as well.

New York’s next mayor should have one aim when it comes to economic competitiveness: making the city the best place to start and run a small business in America. And that means: (1) giving entrepreneurs a helping hand now; and (2) making it easier for more New Yorkers to join their ranks and thrive. In this brief, I will discuss five ideas for how the city can help the entire spectrum of small businesses, from mom-and-pop shops to fast-growing startups, while making it easier to start and run a business. In order to bring growth and dynamism back to New York, the next mayor should: 1) lend a helping hand to
small businesses; 2) help create markets for “micro-loans”; 3) commit to zero barriers to starting a business; 4) create a one-stop shop for all business regulation, licensing, and permitting; and 5) appoint a Startup Advocate.

Lend a Helping Hand

**IDEA #1: Connections over Cash**

New York City government should help small business tap into existing resources, placing entrepreneurs and the organizations that support them at the center of its economic development strategy. The city should cut through red tape standing in the way of aid and consolidate the public and private support that already exists.

This means helping entrepreneurs navigate the federal government’s small-business aid, including PPP, and pointing them to the state and local dollars already available. New York has a dizzying array of grants, loans, and tax incentives available to businesses, some of which can be consolidated and all of which require help navigating. The Small Business Resource Network, established during the pandemic, provides that support—and the mayor should support this effort, not reinvent the wheel. Through a grant from the Peter G. Peterson Foundation, the city’s chambers of commerce teamed up with the city’s Economic Development Corporation (NYCEDC) and the Department of Small Business Services (SBS) to match founders with resources, from financing to legal and accounting services.

The city should also coordinate and consolidate other public small-business services outfits across the city. The resources available to small businesses include the city’s SBS, which includes the New Business Acceleration Team, targeting restaurants and bars, as well as the separate NYC Business Solutions Centers; the city council–backed Made in NYC, affiliated with the Pratt Center for Community Development, for makers and manufacturers; the state government’s Small Business Development Centers, located in several local colleges; the New York Public Library’s Small Business Resource Centers—and this is just scratching the surface. The new administration should look to streamline and coordinate these resources, while also ensuring that they are better targeted to the actual needs of businesses and communities.

New York’s next mayor should avoid the temptation to give more cash directly to businesses or deplete tax revenues in tight budget times. Financially, city hall can’t—and shouldn’t—compete with the private sector and the federal government’s resources. Moreover, local governments have a poor track record in selecting recipients: public servants may lack the right knowledge, force owners to jump through too many hoops, or choose nonbusiness reasons to award firms. Even then, the dollar amounts available to city government may be too small to make a discernible difference in a small business’s future. And if there is any city already flush with private capital and know-how, it’s New York City.

Tax incentives are tricky forms of aid. Mayors should prioritize making the tax code fairer and more efficient, not riddling it with expenditures and loopholes. New York State and City already have an absurdly large list of credits and incentives available to businesses—likely too many, in fact, with questionable results—that require help navigating. Sales-tax holidays may very well drive extra business to retail establishments, but there is no guarantee that customers will “shop small” or spend big. This is not to say that tax reform is not important. High property taxes and pernicious lien sales, in particular, have been a barrier to brick-and-mortar business recovery. But the solution is to reform property taxes generally, not to riddle the tax code with more credits and exemptions aimed only at small businesses.

To support high-growth startups, mayors should play the role of connectors and champions, celebrating successful entrepreneurs and, in turn, acting like one themselves. Studies show that it is not so much the incentives or subsidies that mayors have at their discretion that drive small-business success but the mayor’s ability to connect the dots between entrepreneurs and the organizations that support them. This is a task for NYCEDC and the city’s local colleges, such as Cornell Tech and CUNY—but it should be coordinated by someone close to the mayor. Right now, NYCEDC is tasked with everything from site selection to managing a ferry system; instead, it should focus on an entrepreneur-led economic development strategy that aims to put founders in the driver’s seat, looking to the Startup Champions Network and SourceLink as national models. And local colleges are tremendous assets for mentoring, connecting, recruiting, and ultimately empowering entrepreneurs, particularly in marginalized parts of New York City.
IDEA #2: Markets for Micro-Loans

To small businesses, micro-loans—between $500 and $50,000—can make it possible to purchase inventory, pay wages, or just stay afloat. Micro-loans are often offered through smaller community-based lenders and are vital sources of funding for entrepreneurs who have trouble obtaining financing through traditional banking institutions. Low-income neighborhoods are particularly served by what are known as community development financial institutions (CDFI), including credit unions and small-business loan funds, 82 of which operate in New York City, with a typical loan totaling just $41,696.15 Yet the demand for these small, risky loans typically exceeds the amount that community institutions have to lend, requiring philanthropic or public dollars to make up the shortfall.

The next mayor of New York can offer better capital access to entrepreneurs by encouraging the creation of an independent Entrepreneur Backed Assets (EBA) fund,16 which creates a secondary market for the loans originated by community-based micro-lenders. The fund purchases and bundles a portfolio of micro-loans and resells them to commercial banks. The money they receive goes back to micro-lenders, who then recycle those dollars and lend them back out—just as Fannie Mae and Freddie Mac do for mortgages.17 City government or nonprofit institutions could opt to put up their own cash in the EBA to multiply its lending power.

The strategy for an EBA was pioneered in the Midwest by Revolve Asset Management, which launched with nearly $9 million in support from the Citi Foundation, Bill & Melinda Gates Foundation, and Robert Wood Johnson Foundation.18 The six micro-lenders that they are working with, as part of what is known as the Microfinance Impact Collaborative, provide 61% of their loans to low- and moderate-income founders and three-quarters to entrepreneurs of color. While EBA itself is new, a study of some of the micro-lenders that it works with reveals a strong track record: a 95% business survival rate, 92% repayment rate, 55% average increase in business income, and 2.9 jobs created or retained per loan.19

Lower Barriers to Doing Business

IDEA #3: Zero Barriers to Starting Up

New York ranks as the worst city in America for ease of starting a business, according to a survey by Thumbtack, an online marketplace for local professionals.20 Arizona State University’s Doing Business report reaches a similar conclusion, placing the Big Apple 69th across North American cities for starting a business, 80th for ease of doing business, and 88th in paying taxes.21 These barriers not only harm entrepreneurs, who are far better at coming up with new ideas than navigating bureaucracy; they also tend to benefit insiders who know how to work the system. They contribute to a form of regulatory inequality in which the well-educated, wealthy founder of a technology startup gets a green light, while an immigrant mother selling salsa from her apartment runs afoul of red tape.

Outdoor dining shows that there is another way. During the Covid-19 pandemic, the City of New York suddenly decided that a permitting process that once took six months to a year, at best—and usually involved hiring a lawyer, architect, and permit expediter—could be done in an instant. Making the approval process for sidewalk dining simple and immediate “turned out to be far more fair than the complicated and expensive former system for getting sidewalk dining permits,” observed the New York Times.22 A simple permitting systems means that a restaurateur in the Bronx can benefit as easily as one on Madison Avenue.

That is why New York’s next mayor should commit to zero barriers to starting a business. There should be no fees or registration costs for at least five years from the establishment of a new firm. The city should initiate a regulatory review promising to halve New York City’s 6,000-plus rules and regulations and about 250 business-related licenses and permits, as well as streamlining the “spaghetti map” of processes to comply with the remaining red tape.23 For certain types of businesses with no clear public safety or health concerns and where clear templates can be established, such as for limited liability corporations (LLCs), setting up shop should be as easy as one-click shopping on Amazon.24

The city also needs to drastically shorten the processing time for permits and licenses. Nearly a third of applicants report waiting six months or longer to receive all the approvals they need. That is why New York’s next mayor should establish a 60-day “shot clock” for permits and licenses. Any applicant should receive a clear yes or no within that time frame, or an
approval is immediately issued; ideally, the criteria applied should be clear and unambiguous. Establishing a clear deadline ensures that no business or licensee is left waiting indefinitely. For the relevant city agency, a permit shot clock incentivizes bureaucratic streamlining and helps a new mayor hold agencies accountable for their customer service.

Better yet, as New York successfully did for health-care professionals during the Covid-19 pandemic, the city should push for the state to recognize occupational licenses issued in other jurisdictions that have been held in good standing for at least a year, or at least allow applicants to bypass the normal application process. Arizona now offers a “universal recognition” of licenses, as do seven other states;25 a similar measure would benefit New York City’s small practitioners, from cosmetologists to barbers, while still upholding the Empire State’s standards.

The goal of zero barriers to start is hardly new: the Kauffman Foundation has spent years arguing for the “fundamental right to take an idea . . . and turn that into a business”;26 former Kauffman executive Victor Hwang has turned this notion into the Right to Start campaign.27 Their agenda should be a model for New York’s next mayor. At the very least, the city should consider trials within some or all of its 514 Opportunity Zones—or focus on those industries with the most regulatory inequality, i.e., where the biggest barriers to entry are entirely governmental creations, such as beauty and nail salons or cottage industries and home-based businesses. Achieving the zero-barriers goal will require more fundamental reforms in how New York City’s government does business with businesses. But small pilot programs will put the city on the right track and allow for an iterative process of improvement, just as startups do for their own products.

**IDEA #4: One-Stop Shop**

From zero barriers, New York should move to a one-stop shop for all business regulation, licensing, and permitting. Rather than making numerous trips to different agencies at varying times, small businesses should have to deal with only a single office, sited both physically and digitally, where all relevant agencies come together to achieve specific regulatory tasks, whether starting a business or receiving a particular permit. The ultimate aim is for a single agency—ideally reporting directly to the mayor, so as to coordinate the work of other agencies with some authority—that controls all permitting and licensing processes for New York City, rather than the alphabet soup that exists today.

As an interim step, this one-stop shop can serve as a regulatory concierge service within SBS that shifts the time-consuming burden of navigating government to the bureaucracy itself and centralizes all relevant information, forms, and know-how. Indeed, SBS already has a unit intended for this purpose—the New Business Acceleration Team (NBAT)—and it should be given more resources and authority. New York under Mayor Michael Bloomberg made some important tentative steps in this direction by creating not only NBAT but the NYC Business Express initiative, where residents could find links to every relevant regulatory step for doing business. The Business Express service is now defunct, replaced with the morass of business support services mentioned earlier, plus the ranks of Small Business Advocates who work in SBS28—all helpful resources that are still empowered to do little more than create checklists. Needless to say, mayors face daunting challenges when trying to streamline bureaucracy; yet even a single regulatory concierge service that builds on past reforms would be an important step forward.

In short, while there are multiple offices functioning as one-stop shops, that ultimately defeats their purpose: to consolidate, coordinate, and streamline customer service for small businesses in a way that is both more efficient and equitable.

Starting a business should pass the smartphone test—able to be completed in a virtual city hall without leaving your screen. This is the stated aim of Miami’s eStart initiative and a target already achieved by Kansas City’s KCBizCare.29 The end goal is to have a single digital portal for doing business in the city, paired with a centralized database and automated processes for permitting and licensing. One of the most common complaints of entrepreneurs in New York is the difficulty in understanding all the hoops that they have to jump through. With good reason, business owners learn to distrust or avoid interactions with the city at all, which, in turn, provides an opening for the private “fixers” and permit expediters in New York who cling to businesses like barnacles. Rather than banning costly expediters, the city can make them laughably unnecessary.
IDEA #5: Startup Advocate

Small businesses new and old are missing a powerful voice in government. While business groups often perform this role from the outside, and numerous public servants may find this in their job description, there is no one close to the mayor whose sole responsibility is to speak up for entrepreneurs. That is why the mayor should appoint a Startup Advocate, modeled after a similar role in Seattle, not only to be the campaigner, connector, and convener for small businesses but to help the city meet ambitious benchmarks en route to making New York City the best place to be an entrepreneur in America.

All this requires a single person empowered by the mayor to ensure that the new administration’s goals are being met. That person should actually be an entrepreneur who knows the difficulty of running a small business and has a sense of how government can help. At the very least, this will signal to the rest of the city that small-business success is one of the mayor’s top priorities. The advocate will help in connecting entrepreneurs with one another and to the right resources across public and private sectors; using the inherent convening authority of the mayor’s office to help turn talk into action.

Perhaps the most important reason for a Startup Advocate is that it means truly placing entrepreneurs at the center of the next mayoral administration, ensuring that the city is actually lending a helping hand and lowering barriers to entrepreneurship, as this report has argued, as well as infusing an entrepreneurial focus on everything from economic development strategies that are too often focused on large corporations to policies on housing, where home-based businesses may flourish.

Small businesses need the support of New York’s next mayor; more important, the next mayor needs small businesses. Together, they can work toward a New York City reborn.
Endnotes

12 NYC Small Business Resource Network.
14 Startup Champions Network; SourceLink.
16 Entrepreneur Backed Assets (EBA) Fund.
23 Stephen Goldsmith and Michael Hendrix, “Unclogging the Permit Pipeline,” Manhattan Institute, October 2, 2018.
24 The city will still need state regulators in Albany to remove their own regulatory barriers to starting a business. For an example of one especially egregious regulation—publication requirements for new LLCs—see Steve Masur, “What’s the Point of New York’s LLC Publication Requirement?” MGA, Apr. 27, 2017. Entrepreneurs have to post notice of their new business's formation or registration in two separate newspapers—one daily and one weekly—for six consecutive weeks. These papers are chosen by a county clerk from its preferred (and often secret) list of in-county papers, which, unsurprisingly, charge high fees, collectively totaling up to $2,000. There is no good reason that these publication requirements should exist—and there are better ways to support local journalism.
27 RightToStart.org
28 NYC.gov, SBS, Small Business Advocates.