REDUCING REGULATORY BURDENS ON SMALL BUSINESSES:

Policies, Programs, and Practices for Local Leaders

MUNICIPAL ACTION GUIDE
Introduction

Small businesses, or those with fewer than five hundred employees, are the backbone of America’s economy. Not only do small businesses drive almost half the nation’s GDP; they employ more than fifty percent of America’s private sector’s employees; and companies younger than one year have created roughly 1.5 million jobs annually over the past thirty years. Cities have a strong role to play in supporting small businesses. In Fresno, California for example, businesses with fewer than one hundred employees account for nearly forty percent of total employment in the region. By supporting six of these businesses alone, The City of Fresno was able to preserve nearly two hundred jobs in manufacturing, construction, retail, and other industries. Young and old, small businesses help strengthen communities, create economic mobility, and provide the energy and innovation to spur economic growth at the local level.

Despite the value they provide, small businesses have repeatedly voiced their concern about the overwhelming maze of government requirements and processes they must navigate to open, operate, and scale. Before New York City overhauled their regulatory landscape in 2014, an aspiring restaurant owner for example, was required to submit documentation, pay fees, undergo inspections, and obtain approvals, licenses and permits from up to eight city agencies before welcoming their first customer. Challenges such as manual workflows, siloed information, and one-off solutions can make the complex system even more time consuming and cumbersome.
Furthermore, regulatory burdens tend to especially hurt new and small businesses. Unlike their larger counterparts, small businesses do not typically have dedicated personnel to manage government interactions or stay abreast of the latest requirements and rules. Many small business owners are also inhibited by language, cultural barriers, or other nuances that make this process more difficult. This disproportionate burden imposes real costs on real people. As regulatory adherence becomes increasingly complicated, entrepreneurs may choose to not comply, operate at limited capacity, or close their doors for good. Other entrepreneurs may be deterred by the effort from starting a business at all.

The COVID-19 pandemic prompted some cities to reexamine their regulatory requirements for small businesses, especially those in the service and hospitality sectors. Cities waived license fees, streamlined permitting, allowed 'streateries' to open in public rights of way, and moved formerly paper-based processes online. Many cities are wondering whether these temporary interventions should be made permanent. Now, with the passing of the American Rescue Plan Act (ARPA), cities also have flexible funding with which they can explore other interventions that challenge the regulatory status quo.

In this guide, we examine some of these interventions in greater depth and identify key considerations for policymakers, agency partners, and community-based organizations.
Local leaders are in a unique position to ease the regulatory and administrative burdens small businesses face when starting and growing. The strategies below aim to help cities

1. make the overall regulatory system easier for small businesses to navigate.
2. ensure support is accessible to all regardless of language, ability, or location, and
3. promote an environment where regulations are more helpful than harmful.

**Key Strategies**

**SIMPLIFY AND TRANSLATE BUSINESS REQUIREMENTS.** Provide abundant support to businesses regardless of language, ability or location.

**CREATE ONE-STOP SHOPS FOR REGULATORY GUIDANCE.** Reduce the number of agency interactions, complexity, and wait times.

**PILOT CHANGES TO LICENSING, ZONING, AND PERMITTING REQUIREMENTS.** Regularly assess regulatory landscape and pilot changes when appropriate.

**FORGIVE FINES AND FEES.** Consider fee, fine and penalty relief and turn early violations into learning opportunities.

**Who are these strategies for?**

**Local governments**, including elected officials and agency partners, such as the City Planning, Sanitation and Fire Departments, can each use their leadership roles, cross-departmental resources, and community partnerships to streamline regulations and encourage small business growth.

**Community-based organizations (CBOs)** Some groups of entrepreneurs may have stronger connections to neighborhood or community-based organizations, which include social service agencies, nonprofit organizations, recreational or special-interest clubs. By partnering with community-based organizations, the city can build relationships and provide services to those that may not traditionally trust government.

**This toolkit is organized by intervention type:**

- **PRACTICES** include actions that establish a foundation for transparent and straightforward regulations.
- **POLICIES** include regulatory and legislative interventions.
- **PROGRAMS** are near-term interventions designed to alleviate the regulatory burden on small businesses.
Simplify and Translate Business Requirements

KEY CONSIDERATIONS

Multiple points of access. Some business owners may prefer to interact with agency personnel face to face, while others may want to rely on digital forms and applications. Providing information in a variety of ways will help ensure that the preferred form of support is there when needed. There is no silver bullet, but resources that exist digitally, in hard copy, over the phone, in government offices, at community centers and more will only help make entrepreneurs more aware, more informed, and more connected should they need help.

Make it a team effort. Such efforts do not reduce burdensome regulations, but they are easier to implement and more politically feasible because they do not require any changes to statutes or regulations and are often cost-free. Not only can local government take part, but citizen volunteers, non-profits, academia, and the private sector can also contribute to innovative solutions.

OVERVIEW

All entrepreneurs and business owners should be able to understand what purpose a regulation serves and how they can comply. If regulations are too complicated or unclear, you risk creating a climate where rules are ignored, or entrepreneurship is deterred rather than nurtured.

Complex, vague, or overly technical jargon is further muddled when the recipient is not a native speaker of the language in which it is explained. Twenty-eight percent of all main street business in the United States are owned by immigrant entrepreneurs, which not only underscores the critical role these businesses play in our economy, but also the importance of language and dissemination of the resources on which they rely.

While immigrant businesses may successfully operate within their communities, an inability to proficiently speak or read English may limit their ability to navigate the regulatory landscape. Providing ‘plain language’ explanations is one relatively straightforward way to address this pitfall. Other strategies entail translating related information into multiple languages and providing visual tutorials or demonstrations.

Clear communications that explain the purpose of, and how to comply with, rules and regulations will not only help dispel negative responses, but also ensure that small business owners have equal opportunity to succeed, no matter where they are located or what language they speak. In addition, efforts must be made to raise awareness for such resources once they exist. Entrepreneurs are not always aware of the services available to assist them; constant promotion through multiple channels is key.
Reducing Regulatory Burdens on Small Businesses:
Policies, Programs, and Practices for Local Leaders

The number of different, uncoordinated agencies involved in regulating new and small businesses can be overwhelming. Not to mention, connecting with the appropriate person at a government agency often requires time and patience, especially for those less familiar with the process. When a business owner can connect with the right contact, government employees may be unwilling or prohibited from giving concrete, case-specific guidance.17

Furthermore, licensing and permitting departments are not always incentivized to optimize and simplify their processes, sometimes resulting in long wait times, miscommunication, and unclear guidelines.18 These frustrations are problematic for business owners because they waste time and resources that should be spent building their enterprise. While administrative red tape or bottlenecks may not apply to all local governments, cities should consider whether reorganizing staff, departments, or resources could streamline interactions with small business owners for a better, faster customer experience.

Creating a “one-stop shop” where businesses have free, consolidated access to these services can help eliminate duplicative efforts and reduce the associated cost, delays, complexity, and possibilities for confusion. Doing so can also prevent future violations and provide a foundation for a more comprehensive support system.19

KEY CONSIDERATIONS

The trust gap. For some communities, historical discrimination has eroded faith in government and potential mentors and consultants.20 In these instances, one-stop shops will need an effective outreach strategy that incorporates efforts in rebuilding trust. If done correctly, such interventions could help establish renewed connections between agencies and the small business community and incorporate the feedback of small businesses into the rulemaking process.21

Time is money. Unlike larger companies, small businesses rarely have in-house human resources or legal counsel.22 The more time and energy a small business owner must spend meeting various regulatory requirements, the less time they can spend operating their business, and earning revenue. Consolidating services or even bringing consulting options directly to business owners helps reduce the burdens on resource-constrained enterprises.

CASE STUDIES

THE CITY OF NEW YORK, NY

In 2011, the City’s Department of Small Business Services (SBS) partnered for the first time with the Mayor’s Office on Immigrant Affairs (MOIA) and several CBOs, including Baruch College, GrowNYC, and Renaissance Economic Development Corporation, to offer small business courses in Chinese, Korean, Russian, and Spanish. Then in 2015, The City created an Online Business Portal, which includes a comprehensive list of regulations and checklists searchable by category, keyword and business type. Specific regulations are matched to plain language guides in easy-to-understand English. The portal also contains tutorials on how to pass inspections including video examples and industry checklists translated into top languages.

THE CITY OF DETROIT, MI

developed BizGrid, an infographic that presents names and contact information for assistance organizations based on an entrepreneur’s business stage and needs. Local philanthropic and corporate sponsors donated extra-large wall decals and covered the cost of printing hard copies, which were distributed to the 50 local organizations featured on the grid. BizGrid is also available as an interactive web tool.

THE CITY OF WICHITA, KS

launched a mobile-friendly website to improve the certification process for women- and minority-owned firms. The City partnered with Qwally, a cloud-based software platform that helps small businesses navigate local government regulatory processes and accelerates the application process for many types of licenses, registrations, permits, and certifications.

Create
One-stop Shops
for Regulatory Guidance

INTERVENTION TYPE
PROGRAM

CASE STUDIES

THE CITY OF NEW YORK, NY

THE CITY OF DETROIT, MI

THE CITY OF WICHITA, KS

rockford, il

reno, nv

rock hill, sc

OVERVIEW

The number of different, uncoordinated agencies involved in regulating new and small businesses can be overwhelming. Not to mention, connecting with the appropriate person at a government agency often requires time and patience, especially for those less familiar with the process. When a business owner can connect with the right contact, government employees may be unwilling or prohibited from giving concrete, case-specific guidance.17

Furthermore, licensing and permitting departments are not always incentivized to optimize and simplify their processes, sometimes resulting in long wait times, miscommunication, and unclear guidelines.18 These frustrations are problematic for business owners because they waste time and resources that should be spent building their enterprise. While administrative red tape or bottlenecks may not apply to all local governments, cities should consider
Reducing Regulatory Burdens on Small Businesses: Policies, Programs, and Practices for Local Leaders

THE CITY OF ROCKFORD, IL launched Business First in 2016, which operates as a one-stop-marketplace for entrepreneurs seeking to start their business. An individual can make a 30-minute appointment to meet with a team from city and county departments, including Building & Construction, Zoning & Permitting, The Health Department, The Water Department and The Small Business Development Center to discuss their project.

THE CITY OF RENO, NV launched its own Business First Program, designed to streamline the business licensing process by allowing prospective or active business owners to meet with a wide array of licensing professionals and access essential resources to facilitate the process. This program offers face-to-face meetings, a hotline, and an online portal. Customers have 24/7 access to services, through which they can apply or renew their license or make changes to their business information online.

THE CITY OF ROCK HILL, SC provides an Open for Business Program, designed to help small businesses with the process of opening, relocating or expanding. Staff within the Planning and Development Department have been trained to assist business owners with tasks such as checking the location for zoning, building and fire code requirements, coordinating inspections and plans reviews, and issuing the business license. The goal of the program is to eliminate costly mistakes by letting businesses know up front what they need to properly occupy their location and conduct business.

Pilot Changes to Licensing, Permitting, and Zoning Requirements

INTERVENTION TYPE
POLICY
CASE STUDIES
LINCOLN, NE
DENVER, CO
CHESAPEAKE, VA

OVERVIEW

Without review, old rules can disrupt the business ecosystem, becoming real obstacles to economic growth, or even survival. As we have witnessed throughout the COVID-19 pandemic, unforeseen events can spotlight the obsolescence of some regulations, like outdoor dining and takeout restrictions for restaurants and bars.

Pandemic-related limitations have been economically devastating for personal care businesses, like barber shops and nail salons, as well as for bars, restaurants, night clubs, theaters, and gyms. Luckily, many municipalities quickly adjusted zoning and permitting to allow outdoor dining opportunities, modified licensing requirements for take-out, and fast-tracked new solutions to capitalize on underutilized space such as parklet permits in Chicago and Washington, DC.

As many businesses shut their doors or were limited in their capacity, more people sought to capitalize from “non-traditional” workspaces, such as their own home. This prompted some localities to modify home-based business regulations, like “cottage food laws,” which apply to small-scale food makers who sell homemade recipes. Cottage food regulations vary, but usually dictate the types and quantities of foods that may be sold, where they may be sold, who may sell them, or how much money can be made. A 2017 study found that cottage food producers are overwhelmingly female, more likely to reside in rural areas, and have below-average incomes. Reevaluating these restrictions can provide flexible entrepreneurship for immigrants, women, people of color, and others who have historically faced barriers and have suffered disproportionately from COVID-19 at a time when equitable economic opportunity is critical.

The impacts of COVID-19 will likely be felt for some time and raise questions about the restrictions we place on our small businesses. Localities should consider conducting a thorough review of existing regulations and pilot changes to licensing, permitting, and zoning requirements when appropriate.
KEY CONSIDERATIONS

Carefully target regulation toward demonstrated risks. Before adopting a new regulation or when considering whether to keep existing ones, policymakers should first investigate whether a problem exists and, if so, whether regulation is an appropriate solution.

Fast-track it. Regulatory reform may seem like an easy policy choice for local governments, as it lies squarely within a local government’s purview. However, the process is complex, as it involves multiple stakeholders and government procedures. Simply reducing the time it takes to reach decisions, however, can drastically minimize the burden of regulations on small businesses.

CASE STUDIES

THE CITY OF LINCOLN, NE voted unanimously to amend its cottage food regulations in March 2021. Although the state of Nebraska voted to adopt LB304 in 2019, The City chose not to exempt its cottage food producers from the permitting and inspection requirements imposed on commercial restaurants. Under the new ordinance, cottage food producers registered under LB 304 simply must register with the city, and inspections are only required in special circumstances (e.g., based on suspicion of foodborne illness).

THE CITY AND COUNTY OF DENVER, CO announced it is extending its program allowing restaurants and eligible bars the ability to create outdoor consumption areas amid COVID-19. Denver also offered process navigators to provide individual customer service to businesses as they navigated the process in applying or extending their outdoor expansion.

THE CITY OF CHESAPEAKE, VA made it easier to use temporary outdoor dining areas for businesses that have not previously had the option through zoning ordinance adjustments and temporary permitting. The Department of Economic Development facilitated this process by putting together an easy-to-follow four-step guide, waiving fees, and providing online and phone assistance.
Forgive Fines and Fees

KEY CONSIDERATIONS

Who are the regulators? Regulators oversee everything from schools and restaurants to pipelines and apartment buildings. Usually, they have tremendous discretion in regulatory enforcement. Understanding how these individuals are interpreting rules and how they are incentivized to work with businesses or each other is critical.

Cover certification fees. Certification programs, such as Disadvantaged Business Enterprise (DBE) and Minority/Women-owned Business Enterprise (MWBE) are meant to connect small business owners within certain minority groups with a broader network of contracts, clients, and resources. While not everyone believes the current certification process should persist, it is important to recognize that there are benefits, and costs, for participation. Covering certification fees for businesses is a simple way to help connect them with lucrative opportunities, like government contracts, that screen for certification criteria.

Lower or fix penalties. For violations, a city may fix a penalty at the bottom of an existing penalty range, lower existing penalty ceilings, or lower all existing fixed penalties. In the case of first violations, a city may want to consider eliminating the penalty altogether, implementing a cure period, or issuing a warning instead. The Local Fiscal Recovery Funds established by ARPA, cities can also reimburse themselves for the revenue lost from waived penalties for businesses impacted by COVID-19. This is both a benefit for the city and for the businesses in question.

Deferring or refunding fees. If feasible, cities may offset fee revenue by using increased annual sales tax revenue, for example. Delaying tax collection or providing tax rebates can help businesses recover from lost income and increased costs. In exceptional circumstances, refunding fees or fines can help businesses struggling through no fault of their own.

INTERVENTION TYPE

POLICY

CASE STUDIES

MINNEAPOLIS, MN

SAN FRANCISCO, CA

RIVERTON, UT

OVERVIEW

Business licensing fees make up a considerable percentage of municipal revenue. In San Francisco, for instance, around 11,000 businesses such as restaurants, bars, small retailers, and tour operators pay $14 million annually for licenses to city departments like public health, entertainment, fire, and police. That is about half the amount the city takes from all business licenses, permits, and franchises each year.

Research has shown that small businesses pay a disproportionate amount of these fees when compared to their larger counterparts. According to the SBA, small businesses pay 36% more to comply with regulations than larger firms, as measured by dollar cost per employee. These added costs have a greater impact on the smallest businesses, which have fewer staff and skills required to comply. Research conducted in 2014 showed that small firms and startups with fewer than 50 employees incurred regulatory costs of more than $11,700 per year, per employee—17% higher than the average for all firms.

On top of this, businesses must also worry about penalties for violations. Good faith mistakes are easily made by those spun around by regulatory red tape. To the extent regulators are afforded discretion, it is helpful to bear in mind the difficulty of the issues presented and consider alternatives to financial penalties. Moreover, an audit of the most commonly occurring penalties may reveal opportunities for the city to address poorly communicated rules. Local governments can use the $65.1 billion in Coronavirus State and Local Fiscal Recovery Funds established by the American Rescue Plan Act to reimburse themselves for the cost of reduced fees, fines, and penalties for businesses and communities impacted by COVID-19. Such interventions may afford opportunities to educate, rather than punish first-time offenders, which could help promote a more positive regulatory environment and accelerate small business recovery.
Reducing Regulatory Burdens on Small Businesses: Policies, Programs, and Practices for Local Leaders

Conclusion

The COVID-19 pandemic brought small business regulation to the forefront, as cities sought ways to provide immediate relief to business owners and entrepreneurs. Some interventions targeted near-term financial burdens, including extending payment deadlines for taxes and fees and waiving business license requirements. Other interventions adjusted or fast-tracked regulations so businesses could adapt safely. Examples included streamlining permitting for outdoor dining and easing restrictions on delivery of food and alcohol. Local governments should consider keeping these adjustments in place as we begin to emerge from the crisis and enter recovery.

However, other, more entrenched regulatory barriers were exposed that prevented small businesses from obtaining local and federal relief. The accumulation of these barriers can be analogized to a frog gradually boiling in a pot of water; too slow to draw attention to the problem but equally devastating in the end. Most small business relief funds, including the SBA’s Paycheck Protection Program, required businesses to be properly licensed and registered with the city and/or state. City economic development staff were surprised to learn that many of their city’s businesses were unregistered and unlicensed, and therefore, ineligible for fiscal relief. This is a problem that was exposed by the pandemic but whose origins predate it.

Now, cities face an opportunity to simplify their administrative processes, alleviate costs, and reach out to underserved businesses that face structural disadvantages in navigating the regulatory landscape. With the passing of ARPA, there is also an unprecedented opportunity to overhaul archaic regulatory systems completely, so they are more equitable and sustainable long-term. Doing so will help the primary driver of American jobs – small businesses – steer the economic recovery from COVID-19 and the revitalization of America’s cities.

CASE STUDIES

THE CITY OF MINNEAPOLIS, MN proposed in its June 2021 Mayor’s Recommended ARP Spending that of $90 million The City intends to spend in Phase 1, $17 million will be allocated for a Minneapolis Recovery Fund for small business acceleration. The fund aims to reimburse small business license fees owed to The City from March through December of 2021, reduce current fees for businesses forced to close due to economic hardship from the pandemic and are seeking to reopen, and provide general support for businesses who may have been left out of other government aid programs over the last year.

THE CITY OF SAN FRANCISCO, CA is providing up to a $5,000 reimbursement to locally owned businesses that have applied or currently hold a Shared Spaces, or parklet permit. The permit allowed businesses to set up outdoor dining sections for their customers amid COVID-19. When cases spiked again in the winter, permit holders were forced to close those areas under shelter-in-place orders. The refunds are designed to help restaurants and other small businesses offset amounts paid for the permit.

THE CITY OF RIVERTON, UT expanded upon a state-wide bill that repealed business licensure requirements for home-based businesses by eliminating the license fee for all businesses (with the exception of establishments that serve or sell alcohol or sell fireworks). Businesses will continue to be licensed by The City, but there will be no associated cost for both new business licenses and renewals.
Endnotes


5 Ibid.


8 Ibid.


10 Ibid.


14 Ibid.


20 Ibid.


22 Ibid.

23 Ibid.

24 Ibid.

25 Ibid.

26 Ibid.

27 Ibid.

28 Ibid.

29 Ibid.

30 Ibid.

31 Ibid.

32 Ibid.

33 Ibid.

34 Ibid.

35 Ibid.

36 Ibid.

37 Ibid.

38 Ibid.

39 Ibid.

40 Ibid.

41 Ibid.

42 Ibid.

43 Ibid.

44 Ibid.

45 Ibid.

46 Ibid.
Reducing Regulatory Burdens on Small Businesses:

NATIONAL LEAGUE OF CITIES