

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 2, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 62: SUGGESTIONS FOR HELPING SMALL BUSINESSES

This is in response to Councilman Krupicka's request for suggestions for the fiscal impact of increasing the threshold at which businesses must pay gross receipts and other ways it might be possible to help small businesses in Alexandria. This memo includes input and suggestions from the Small Business Development Center (SBDC) and from the Alexandria Economic Development Partnership, Inc. (AEDP).

Raising the threshold for businesses to pay gross receipts taxes

Currently, all businesses with gross receipts of \$100,000 or less pay \$50 in gross receipts tax. Above \$100,000 in gross receipts, businesses are taxed according their classifications, ranging from \$0.20 per \$100 of gross receipts for retail establishments to \$0.58 per \$100 of gross receipts for professional businesses. The table below shows the approximate percentage of businesses which fall into each category and an estimate of the revenue impact if the revenue threshold for paying gross receipts were to be raised such that businesses falling within each gross receipts category would no longer have to pay the gross receipts tax.

Revenue impact of eliminating gross receipts tax (BPOL) by amount of gross receipts (\$50 annual fee would be kept)

Gross receipts	# of businesses	% of City businesses	Revenue reduction
<\$100K	2,251	34.8%	\$0
<\$250K	3,470	53.6%	600,000
<\$500K	4,366	67.4%	1,500,000
<\$750K	4,795	74.1%	2,400,000
<\$1M	5,061	78.2%	3,100,000

The table below shows the amount that would be saved for a typical business, by category and by gross receipts level.

Amount that would be saved (and would annually cost the City in foregone tax revenue) for businesses with gross receipts of \$100,000, \$250,000, \$500,000, \$750,000, and \$1,000,000, by category

Business type	Tax		Gross Receipts Savings @			
	Per \$100	\$100,000	\$250,000	\$500,000	\$750,000	\$1,000,000
Amusements	0.36	\$0	\$850	\$1,750	\$2,650	\$3,550
Builder	0.16	0	350	750	1,150	1,550
Business Services	0.35	0	825	1,700	2,575	3,450
Contractors	0.16	0	350	750	1,150	1,550
Financial Services	0.35	0	825	1,700	2,575	3,450
Personal Services	0.35	0	825	1,700	2,575	3,450
Professional Occupations	0.58	0	1,400	2,850	4,300	5,750
Repair Services	0.35	0	825	1,700	2,575	3,450
Restaurants	0.2	0	450	950	1,450	1,950
Retail	0.2	0	450	950	1,450	1,950
Wholesale	0.05	0	75	200	325	450

It should be noted that one of the SBDC’s suggestions for ways to help small businesses would be to reduce gross receipts tax rates, but it was considered less important by SBDC than some other initiatives which are detailed in the section below. Also, the City in 2006 became the first jurisdiction in Virginia to eliminate the BPOL tax being levied on estimated revenues not yet earned. The City’s switching to paying BPOL taxes only after revenues are earned means most business pay only \$50 for their first year of operations and then a tax on actual (part-year) revenues for the second year of operation. This tax reform aided start-up businesses and helped almost all business start-ups (except businesses whose first year gross was expected to exceed \$2 million.) This unique tax benefit has not been marketed to its fullest by AEDP or ACVA.

Current Policy Initiatives

The City and other economic development organizations will continue to implement policy initiatives designed to improve the City’s climate for small businesses. These include:

1. Continue implementation of the recommendations of the Small Business Task Force. In general, simplification of City business application processes should continue such they take less time, identify upfront requirements, and don’t necessitate small business legal representation.
2. Continue implementation of the Wayfinding Sign program. The Wayfinding Program’s status is detailed in Budget Memo #8.
3. Develop more innovative and collaborative programs from the Marketing Fund such as the “Old Town Boutique District.”
4. Continue implementation of the “Buy Alexandria” campaign.
5. Conduct timely promotional efforts such as ACVA’s “Inaugural Dining Campaign”
6. Implement recommendations from the forthcoming King Street retail

consultant report.

Suggested Initiatives from SBDC and AEDP

In addition to existing initiatives, SBDC and AEDP have identified additional steps the City could take to aid small businesses. The suggestions are below.

1. Conduct retail market study to identify types of retail and anchors to fill vacant commercial properties. One-time funding of \$63,000 was made available in FY 2009 for such a study, but additional funding is not provided but was not provided in the FY 2010 budget.
2. Monitor and report local economic performance and make information accessible to local businesses. This could include tracking sales revenue by district, and tracking prevailing rents and availability by district.
3. Make the retail market studies which appear in Planning and Zoning's area plans more accessible to businesses, possibly by posting them separately on the Internet.
4. Make old photos of current buildings (and historical text about such buildings) available to business owners to purchase and place in their windows to highlight the businesses and Alexandria's historic setting.
5. Hold more holiday, seasonal, special events that seize opportunities and create buzz.
6. Encourage 501(c)(6) merchants' associations or business improvement districts which allow pooled funding for marketing and training.
7. Encourage JobLink/NVCC as quality workers are desperately needed for retail sales and hospitality positions.
8. Encourage minority-owned businesses through advocacy and business development programs in cooperation with the SBDC and AEDP by conducting regular workshops and participating in outreach activities.
9. Establish a Small Retail Market Area Pilot Project to encourage building improvement construction activity in areas such as Arlandria and South Van Dorn Street, where there are many small businesses that cannot afford space elsewhere by offering abatement of property taxes for improvement and new construction.
10. Re-institute the successful City-wide Façade Improvement Grant program in targeted areas of the City.
11. Reestablish the Alexandria Gap Financing Loan Program to help small businesses obtain funds to bridge the gap between a lender's loan and the business's own equity and funding requirement.
12. Institute a SUP Prequalification Pilot Program, where SUP applicants that meet all requirements but do not qualify for Administrative SUP may be given a notice prequalifying them for approval.

The SBDC and AEDP also provide important assistance to individual businesses, and continued close cooperation between the City and various economic development organizations will be essential to help small businesses through this difficult time.

The AEDP's and SBDC's detailed responses are attached.

Attachments

Attachment 1. Response to Councilman Krupicka – from Alexandria SBDC

I appreciate Councilman Rob Krupicka’s request for suggestions to help small businesses and have the following thoughts:

1. Different types of businesses are affected in different ways and from various ripple effects from the economic slowdown
 - a. Our Regional economy – so far – has not seen severe job losses and still has relatively high disposable incomes, BUT consumer behavior has changed.
 - b. Different categories of businesses:
 - i. Stronger, healthier small businesses
 1. Strong sales even though may be slowing a bit
 2. Baring economic catastrophe – should survive and thrive
 3. Typically businesses that started with sound planning and capitalization; have market concept; effectively manage cash flow; and adapt to change
 - ii. Businesses constantly operating on very narrow margins
 1. Severely challenged now - and might not survive
 2. Typically businesses that did not start with sound planning, capitalization and market concept
 - iii. Businesses whose goods / services are viewed as discretionary
 1. Most severely impacted by changing consumer priorities – ex: florists, beauty shops, some restaurants, “luxury” goods
 2. Must adapt radically or possibly fail
2. Broad policy initiatives to help small businesses
 - a. Ongoing beneficial programs to continue or enhance:
 - i. Clarifying / simplifying City processes – so they take less time; identify up-front requirements; and don’t necessitate small business legal representation
 - ii. Policies that permit more effective marketing:
 1. Relaxed regulation on A-frame signs
 2. Quicker implementation of Wayfinding recommendations for other attractive signage
 - iii. Marketing Fund / Marketing Fund Committee – encourage more innovative and collaborative programs
 - iv. Reduced business taxes
 - v. “Buy Alexandria” campaign
 - vi. ACVA’s timely promotional efforts – ex: Inaugural Dining program
 - b. New initiatives (as feasible in light of scarce budget resources):
 - i. Retail Market Study to identify types of retail and anchors to fill vacant commercial properties
 1. Economic downturn is creating more vacancies but one upside is the opportunity to enhance our shopping mix
 2. Either AEDP or a consultant should be funded ASAP to identify target businesses and anchors to recruit
 - ii. Monitor and report local economic performance
 1. Track sales tax revenue (by business district - Old Town; Del Ray; West End; Eisenhower; Braddock/Queen St)
 2. Track prevailing rents / availability (by business district)

3. Make this information more accessible to businesses
- iii. P&Z - More accessible Retail Market data in small area plans. This information might already be public but the market studies should be easier for businesses to read without going through voluminous plans.
- iv. Similar highlighting or more accessible data in any City agencies/organizations that might be helpful to business owners
- v. Retail / Restaurant training programs:
 1. Highly effective guidance that prompts owners/managers/staff to improve appearance, merchandizing and operations
 2. Our retailers / restaurateurs are highly motivated, attended last year's training in large numbers, made changes and saw business improve
- vi. Office of Historic Alexandria – making old photos of current structures available to business owners to purchase and place in their windows – to highlight the businesses' and Alexandria's historic setting
- vii. More holiday, seasonal, special events/promotions that seize opportunities and create a buzz – ex: Inaugural Dining program
- viii. Encourage 501(c)(6) merchants' associations or BID – pooled funding for marketing and training

3. Individual assistance – provided by SBDC

a. Struggling businesses

- i. “Strategies for an Economic Downturn” is accessible on the City's, Chamber's and SBDC's websites
- ii. Business owners meet with the SBDC Business Analyst for individual help with their particular issues
 1. Business Analyst has met with over 33 struggling owners lately
 2. His guidance is helping most of them continue operations
 3. When dissolution is the only option, the SBDC Business Analyst guidance makes it a more organized process.
- iii. SBDC counselors help businesses expand / target their markets and connect them to contracting opportunities (federal, state, VDOT, WMATA, MWAA)
- iv. When Stimulus Package details are better defined and clarified, SBDC will coordinate with City, Chamber, AEDP, ACVA and others to communicate the beneficial aspects and how to access them to business owners.

b. Strong, well-managed businesses

- i. SBDC helps them improve, get to growth stage sooner
- ii. SBDC helps them better manage their success
- iii. SBDC connects them to resources and new business opportunities

4. Individual assistance – other agencies and organizations

- a. Marketing Fund / Marketing Committee – excellent guidance and funding for innovative programs
- b. ACVA – connecting businesses to Virginia Tourism Corporation resources for leveraged marketing opportunities
- c. ACVA – media guidance to businesses
- d. AEDP – guidance on lease rates / alternative sites
- e. AEDP – revived Façade Improvement (or Grant Program)
- f. Chamber – business education programs (cosponsored w/ SBDC)
- g. Chamber – professional resources; networking resources
- h. JobLink / NVCC – Workforce training for retail sales/ hospitality – quality workers are desperately needed

Attachment 2. From AEDP:

1. Minority-owned Businesses (MBE)/ Procurement- MBE's (African-American-; Hispanic-; Asian-, etc. owned) firms often refer to the neglect they sense in comparison with the attention paid to their issues by the Commonwealth of Virginia, other states, and local governments of Northern Virginia. While the Commonwealth itself recognizes that state law does not permit the granting of preferential treatment to designated business enterprises, it has instituted regulations that attend to the needs of MBE's through a certification/procurement initiative administered by the Virginia Department of Minority Business Enterprise. (VDMBE).

Suggestion: The City of Alexandria should provide support to MBE's through advocacy and business development programs, in cooperation with the SBDC and AEDP, and VDMBE by:

- Conducting regular workshops and participating in outreach events on "Doing Business with the City".
- Instituting a "Virtual" Certification program that would recommend that businesses wishing to be certified should obtain that status through VDMBE, but without necessarily agreeing to set-asides, the City would adhere to its support of the *Buy Alexandria, Our Dollars Count* program by emulating its own proclamation for procurement of goods and services it purchases.

2. Location / Available Space. Currently AEDP provides information and assistance to business owners searching for available space, but it appears that mid-to-large businesses are more likely to actually lease space, based on the resources and assets that are required to occupy a space/location of choice. Small businesses are often at a disadvantage.

Suggestion: Help alleviate the impact and availability of market rate commercial space and cost to small businesses and make it affordable by:

- Establishing a *Small Retail Market Area Pilot Project* to encourage building improvement construction activity in areas such as Arlandria and South Van Dorn Street, for example, where there is a preponderance of small stores and businesses that cannot afford space elsewhere, by offering abatement of property taxes for improvements and new construction.
- Return the very popular successful city-wide *Façade Improvement Grant Program* in targeted areas of the City. Currently the program is only available in the Enterprise Zone as a local incentive. The program requires significant work by the Planning & Zoning office, and there are opportunities to change the administration arrangement to assure that the program runs efficiently.

3. Alternative Financial Assistance. In addition to space and business development, this is the area of most concern to small businesses. There are a plethora of financial assistance programs for small businesses at the federal, state and non-profit levels yet there may still be a need for Alexandria-specific financial assistance that would aid in the attraction and retention of small businesses:

Suggestion:

- Reestablish the *Alexandria Gap Financing Loan Program* to help small eligible businesses obtain funds to bridge the gap between a lender's loan and the businesses own equity and funding requirement. Funds for such programs may be available from HUD's CDBG program and possibly as a result of the Federal Government's Stimulus Program. Application fees and service charges to applicants could be shared by the City with the SBDC to help fund SBDC's budget. A consortium of lenders would be encouraged to participate in this Program and receive applications and fees for underwriting.

4. Special Use Permits.

With City implementation of the Small Business Task Force Recommendations for Special Use Permits, a process of separation from others running in the pack has begun with approval of the Administrative SUP in more areas of the City. To augment the process, the City should consider the following:

Suggestion:

Institute a *SUP Prequalification Pilot Program*, where SUP applicants that meet all requirements but do not qualify for Administrative SUP may be given a notice prequalifying them for approval. The benefit of this procedure to the small business might be that it could give them some leverage in negotiating with property managers and lenders. It allows them to seek confirmation of a lease agreement or commitment of such by lenders and property managers without losing their place in the queue. It could also eliminate the cost associated with a small business paying months of rent while an SUP is being processed, a problem that often compromises a business' chance at success before their doors are even opened.