



CREATING RESILIENT AND INCLUSIVE ECONOMIES

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In the wake of the COVID-19 pandemic, small businesses across the country are only just beginning to recover from the past two year's unprecedented economic downturn. Businesses owned by people of color, immigrants, and women have been hit especially hard, augmenting already-existing economic and financial disparities in many cities. As the process of reopening begins, this session will offer a deep look into strategies cities can implement in aiding the business owners most affected by institutional barriers in accessing financial resources and capital.



RESOURCES

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“Reducing Regulatory Burdens on Small Businesses,” National League of Cities, 2021.

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“B-Local: Support Boston’s Small Businesses,” City of Boston, MA, updated 2/22/22.

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“City Leaders Advance a Proposal to Support Wealth Creation in Communities of Color,” City of Madison, WI, June 17, 2020.

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“Creating Section 4.32 of the Madison General Ordinances to establish a Commercial Ownership Assistance Program,” City of Madison, WI, July 10, 2020.

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“Madison Pop-up Shop Program,” City of Madison, WI, May 13, 2021.

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Claire Kramer Mills and Jessica Battisto, “Double Jeopardy: COVID-19’s Concentrated Health and Wealth Effects in Black Communities,” August 2020.

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Andre M. Perry, Regina Seo, Anthony Barr, Carl Romer, and Kristen Broady, pages excerpted from: “Black-owned businesses in U.S. cities: The challenges, solutions, and opportunities for prosperity,” Brookings Institute, February 14, 2022.

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“Montgomery, Ala., to Welcome City’s Third Innovation Center,” Government Technology, August 23, 2021.



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;¹ they employ more than fifty percent of America's private sector's employees;² and companies younger than one year have created roughly 1.5 million jobs annually over the past thirty years.³ 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.⁴ 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.⁵ 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.⁶

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.⁷ 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.⁸ Not only can regulations be numerous, they can be onerous. A survey by Babson College found nearly sixty percent of small businesses identify some difficulty in understanding and managing government regulations and laws.⁹ In mid-sized cities, fewer than twenty-five percent of business license services are available online.¹⁰ Challenges such as manual workflows, siloed information, and one-off solutions can make the complex system even more time consuming and cumbersome.

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About the National League of Cities

The National League of Cities (NLC) is the nation's leading advocacy organization devoted to strengthening and promoting cities as centers of opportunity, leadership, and governance. Through its membership and partnerships with state municipal leagues, NLC serves as a resource and advocate for more than 19,000 cities and towns and more than 218 million Americans.

About the City Innovation Ecosystems (CIE) Program

Catalyzing the uptake and implementation of proven policies, programs, and practices that support inclusive, entrepreneurship-led economic growth in American cities, CIE connects city leaders to technical assistance providers, peer networks, and catalytic funding to help them achieve their goals.

Intro Cont.

Furthermore, regulatory burdens tend to especially hurt new and small businesses.¹¹ 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.

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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



INTERVENTION TYPE PRACTICE

CASE STUDIES
NEW YORK, NY
DETROIT, MI
MOBILE, AL

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.¹²

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,¹³ 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.¹⁴

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.¹⁵



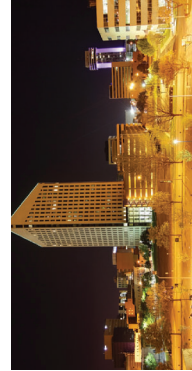
CASE STUDIES



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.¹⁶ 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
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

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

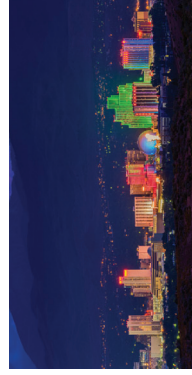
The trust gap. For some communities, historical discrimination has eroded faith in government and potential mentors and consultants.²⁰ In these instances, one-stop shops will need an effective outreach strategy that incorporates efforts in rebuilding trust. If done correctly, such interventions could 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 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](#) 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 Chicago²³ and Washington, DC.²⁴

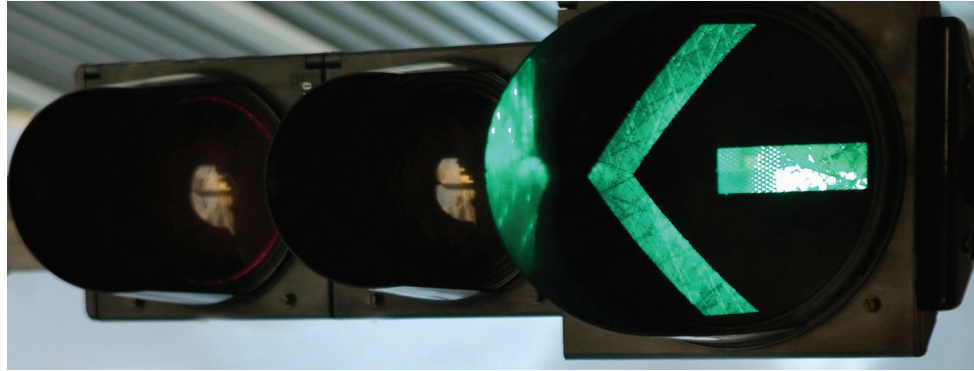
As many businesses shut their doors or were limited in their capacity, more people sought to capitalize from 'non-traditional' workspaces, such as their own home. This prompted some localities to modify home-based business regulations, like "cottage food laws," which apply to small-scale food makers who sell homemade recipes.²⁵ 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.²⁶ A 2017 study found that cottage food producers are overwhelmingly female, more likely to reside in rural areas, and have below-average incomes.²⁷ 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.

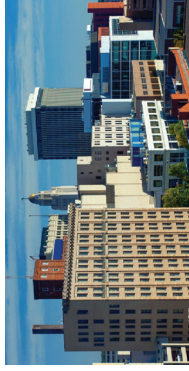
KEY CONSIDERATIONS

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.

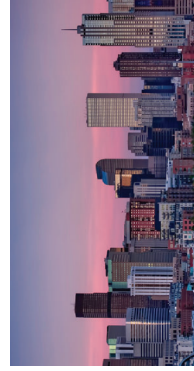
Fast-track it. Regulatory reform may seem like an easy policy choice for local governments, as it lies squarely within a local government's purview. However, the process is complex, as it involves multiple stakeholders and government procedures. Simply reducing the time it takes to reach decisions, however,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



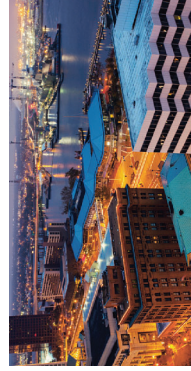
CASE STUDIES



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



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.²⁸ That is about half the amount the city takes from all business licenses, permits, and franchises each year.²⁹

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.³⁰ 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.³¹

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.³²

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.³³ 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,³⁴ 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 can 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. With the Local Fiscal Recovery Funds established by APRA, 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.

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.

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.

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- ³³ Ibid.
- ³⁴ Burton, K. (2021) Reimagining Supplier Diversity, Racism and the Economy: Focus on Entrepreneurship. [Online]. Available from: <https://www.minneapolisfed.org/-/media/assets/events/2021/racism-and-the-economy-focus-on-entrepreneurship/burton-proposal.pdf?la=en>. [Accessed June 7, 2021].



Last updated: 2/22/21

B-LOCAL: SUPPORT BOSTON'S SMALL BUSINESSES

The City of Boston is launching an app, B-Local, in partnership with [Colu](#). We want to support the economic recovery of our neighborhood commercial districts.

The **B-Local** app rewards residents and visitors for shopping at Boston's local businesses. Rewards come in the form of **Boston Points**. Every **Boston Point** equals \$1, and it can be easily redeemed at your local business.



EARN POINTS. SUPPORT BUSINESSES.

FOR BUSINESSES: HOW TO APPLY

Your business can participate in the following ways:

1. PARTICIPATING BUSINESS

A "Participating Business" is a business located in the City of Boston that has agreed to participate in the B-Local Program. By doing so, the business enables customers to earn Boston Points when they shop at their business.

2. REDEEMING BUSINESSES

A "Redeeming Business" is a business located in the City of Boston that has agreed to participate in the B-Local Program. They accept Boston Points from customers as a form of payment. These Points (discounts) will be reimbursed to the business by the City of Boston.

You can learn more about the program in our [common questions and answers for businesses](#).

TO APPLY FOR THE PROGRAM:

1. You must have gmail account ([get one for free](#)).
2. You must have a City of Boston Vendor ID. This is a free process, and we have instructions on how to get one:
 - [English](#)
 - [中文 \(Chinese\)](#)
 - [Kreyòl ayisyen \(Haitian Creole\)](#)
 - [Español \(Spanish\)](#)
3. Your business must have a storefront or engage with customers directly.
4. Your business must be located in Boston.
5. Prepare the following (not required, but encouraged):
 - Pictures of your business
 - Your logo

[APPLY FOR THE PROGRAM TODAY!](#)

INFORMATION SESSIONS

Information sessions are optional and open to any business owner interested in learning more about how B-Local can support their business.

JOIN THROUGH THE LINKS BELOW:

- [Wednesday, February 17, at 5:30 p.m.](#)
- [Friday, February 19,](#)

<https://cityofmadison.com/news/city-leaders-advance-a-proposal-to-support-wealth-creation-in-communities-of-color>

City Leaders Advance a Proposal to Support Wealth Creation in Communities of Color

Archived News: This news release is more than one year old and may include outdated information.

posted June 17, 2020 - 9:07 am

Mayor Satya Rhodes-Conway and numerous Alders today advanced the Commercial Ownership Assistance (COA) program to increase opportunities for commercial property ownership among historically disenfranchised communities. The measure was added by amendment to the 2020 budget and the program will be introduced by title at today's Common Council meeting with details of the legislation to be released at Wednesday's Economic Development Committee meeting.

Alder Samba Baldeh championed the funding for this program in the 2020 budget. "Racial justice cannot be achieved without programs like this to address economic justice, which will allow African Americans the ability to become more autonomous in our destinies," he stated this week.

Council President Sheri Carter sees this as a promising tool to support business owners of color in the Park Street corridor, which is experiencing gentrification pressure. "During our Common Council leadership meetings, Alder Baldeh and I initiated the COA program. This program will encourage and support entrepreneurship in minority communities that have historically faced barriers in accessing capital to start and grow their businesses, especially in the Park Street corridor," said Council President Carter. "In addition, this program will integrate people of color in the business community which lacks diversity in ownership. This isn't a hand out but a pathway to entrepreneurship."

The Commercial Ownership Assistance program establishes a forgivable loan fund to help Madison business owners transition from renting to owning commercial property. The program is being launched as a pilot with \$500,000 of funding in 2020, which may increase if the pilot is successful. The program loans for buying or constructing a business space with no payment due to the City unless the property is sold. The program will focus resources toward communities that have historically faced barriers to purchasing commercial property, including communities of color, immigrant communities, women, disabled residents, and veterans, and will also prioritize support for businesses in under-invested geographic areas.

The COA program is another City effort to reduce racial disparities and increase economic empowerment in communities of color. While people of color represent approximately 27% of Madison's population, they represent only 3-9% of business owners. The City is directing more support toward building wealth and economic empowerment in communities that are not sharing in the City's prosperity as part of its ongoing work to reduce these disparities.

"This is a good first step to support wealth-building and also to help prevent displacement in our communities, especially in neighborhoods at risk of gentrification," said Mayor Rhodes-Conway. "It is one of numerous steps we must take to fully address the disparities in our community." The City has also recently doubled its support of the Black and Latino Chambers of Commerce, and is developing an expansion of the Kiva loan program to help residents of color start and grow small businesses.

"Black owned businesses have an uphill battle to succeed," says Alder Barbara Harrington-McKinney. "More likely to rely on credit cards and personal savings. More likely to be denied access to outside investors and small business bank loans. The coronavirus pandemic came with more challenges for black owned businesses to thrive. Of the \$2.2 trillion CARES Act for forgivable loans an estimated 90% of black owned businesses were either ineligible or denied loans. We have an opportunity to help reset some of the ways racism operates in our community. We must not lose this opportunity to optimize and build wealth for Black businesses. Generational wealth creates more opportunities and without that it is difficult for our Black businesses to compete. By helping grow generational wealth, generational experience, connections, and support passed down to the next generation, we can begin to dismantle 'the racial gap in our community.'"

An ordinance details will be discussed at the Economic Development Committee meeting on Wednesday, June 17 at 5:00 p.m.

Contacts

- Katie Crawley, 608-335-7071, kcrawley@cityofmadison.com



City of Madison

City of Madison
Madison, WI 53703
www.cityofmadison.com

Master

File Number: 60944

File ID: 60944

File Type: Ordinance

Status: Report of Officer

Version: 1

Reference:

Controlling Body: FINANCE
COMMITTEE

Lead Referral: FINANCE COMMITTEE

Cost:

File Created Date : 06/11/2020

File Name: Commercial Ownership Assistance Program

Final Action:

Title: Creating Section 4.32 of the Madison General Ordinances to establish a
Commercial Ownership Assistance Program.

Notes: 6378commercialassistprogram

Code Sections:

CC Agenda Date: 07/14/2020

Indexes:

Agenda Number: 33.

Sponsors: Satya V. Rhodes-Conway, Sheri Carter, Samba
Baldeh, Barbara Harrington-McKinney, Michael E.
Verveer, Arvina Martin, Keith Furman, Shiva Bidar,
Donna V. Moreland, Patrick W. Heck and Marsha A.
Rummel

Effective Date:

Attachments:

Enactment Number:

Author: Kevin Ramakrishna

Hearing Date:

Entered by: jphelps@cityofmadison.com

Published Date:

Approval History

Version	Date	Approver	Action
1		Michael Haas	Approved as to Form
1		Elizabeth York	Delegate
1		Brent Sloat	Approve

History of Legislative File

Ver- sion:	Acting Body:	Date:	Action:	Sent To:	Due Date:	Return Date:	Result:
1	Attorney's Office	06/11/2020	Referred for Introduction				
	Notes: Finance Committee (6/22/20), Economic Development Committee (6/17/20)						
1	COMMON COUNCIL	06/16/2020	Refer	FINANCE COMMITTEE			Pass

Notes: Additional referral to the Economic Development Committee (6/17/20).

1	FINANCE COMMITTEE	06/17/2020	Refer	ECONOMIC DEVELOPMENT COMMITTEE	06/17/2020
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Notes:

1	ECONOMIC DEVELOPMENT COMMITTEE	06/17/2020	RECOMMEND TO COUNCIL WITH THE FOLLOWING RECOMMENDATION S - REPORT OF OFFICER
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1	FINANCE COMMITTEE	06/22/2020	Refer	FINANCE COMMITTEE	07/10/2020	Pass
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Notes:

1	FINANCE COMMITTEE	07/10/2020
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1	FINANCE COMMITTEE	07/20/2020
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1	COMMON COUNCIL	07/21/2020
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Text of Legislative File 60944

Fiscal Note

The 2020 Adopted Capital Budget included \$500,000 in the Economic Development Division for the Commercial Ownership Assistance Program. This program is intended to replace the Capital Revolving Loan Fund. The 2020 appropriation is funded by existing cash reserves from the Capital Revolving Loan Fund. No additional City appropriation is required for the approval of this ordinance.

Title

Creating Section 4.32 of the Madison General Ordinances to establish a Commercial Ownership Assistance Program.

Body

DRAFTER'S ANALYSIS: Madison seeks to make progress in equalizing economic quality of life indicators between white residents and residents of color. In particular, Madison needs to do more to support diverse business and property ownership. Data shows that while Communities of Color represent approximately 27% of the City of Madison's population, business ownership rates for People of Color are much lower (between 3-9% using varying metrics) within the City (Source: Reference USA Business Database).

Business and property ownership is a vital pathway to economic empowerment. For Madison to make meaningful progress in addressing racial disparities the City must go beyond programs focused on addressing basic needs, and direct more resources and strategies toward building wealth and economic empowerment among communities that are not sharing in the City's prosperity. The City designed this ordinance to address these inter-related issues by identifying, supporting, and capitalizing business owners seeking to purchase or develop commercial space.

The Common Council of the City of Madison do hereby ordain as follows:

1. Section 4.32 entitled "Commercial Ownership Assistance Program" of Chapter 4 entitled "Finance" of the Madison General Ordinances is created to read as follows:

“4.32 COMMERCIAL OWNERSHIP ASSISTANCE PROGRAM.

- (1) Legislative Intent. Over the last several years, the City of Madison has made some progress in addressing racial economic disparities. Further, recent city-sponsored initiatives have focused on conditions for Madison’s most vulnerable populations through programs addressing affordable housing, workforce training, food access, and transportation. The Commercial Ownership Assistance Program (COA) is a new City of Madison effort focused on helping business owners expand their enterprises by transitioning from renting space to owning commercial property for their business.
- (2) Program Rules.
 - (a) Eligible Applicants:
 1. Applicants must be City of Madison residents, own a business located within the City of Madison and not have received funds in any way through this program in the past.
 2. The program is designed for existing business owners to support them in taking the next step toward owning or developing a business property. As such, applicants should be established businesses with two or more years of operating experience.
 3. Applicants will be required to demonstrate the viability of their business concepts through a business plan, financial statements, appraisals, and/or other documentation.
 4. If an applicant currently owns their commercial property the proposal must be an expansion of this property and the applicant shall not own or partially own any other commercial property.
 5. Applicants if eligible are encouraged to be certified with The MADcertification Program through the City of Madison’s Department of Civil Rights.
 6. The COA Program is an Economic Development initiative focused on supporting for-profit businesses to build community wealth by expanding their enterprises.
 7. Priority: Applicants who are people of color, immigrants, women, the disabled, veterans and any other underrepresented groups.
 - (b) Locations: Properties located anywhere within the City of Madison are eligible to apply for this program. Priority scoring will be given to applications for projects located within under-invested communities, as defined by the City of Madison’s federally designated Opportunity Zone census tracts, Food Access Improvement Areas, and/or Neighborhood Resource Team areas.
 - (c) Eligible Uses: The loan may be used for the purchase of property, the redevelopment of a property, or the expansion of an existing building already owned by the applicant, with the requirement that the property be used to house the applicant’s business. This includes the purchase or development of multi-tenant buildings that would include space for their existing business as well as space for additional tenants.
- (3) Loan Terms:
 - (a) Loans may be up to \$250,000. Loan amount shall not exceed 25% of the cost of the Eligible Use.
 - (b) All loan repayments are deferred until sale, cash-out refinance for other than property improvements, the property is transferred or ceases to be a location for a business owned by the borrower. If any of the above

happen before the 7th anniversary of the loan closing, repayment of the full amount is required. If any of the above happen between the 7th and 15th anniversary of the loan closing, repayment of one half the borrowed amount will be required. If the applicant still owns the property after the 15th anniversary of the loan closing, the original loan amount will be forgiven. There will be no interest rate. The loan will be secured by a mortgage on the property where the loan is utilized.

- (c) Each loan will require that applicants who are selected speak with future recipients on lessons learned and their experience, at the request of the City."



Department of Planning & Community & Economic Development

Economic Development Division

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cityofmadison.com

Office of Business Resources
Office of Real Estate Services

TO: Common Council, Community Development Authority, and Economic Development Committee

FROM: Matthew B. Mikolajewski

SUBJECT: Madison Pop Up Shop Program (Legistar #65499)

DATE: May 13, 2021

The Common Council identified promoting pop-up retail as a path to supporting entrepreneurs of color when it adopted the Small Business Equity and Recovery (SBER) program guidelines in 2020 (RES-20-00613, Legistar #61605). The City has received its first interest by a property owner in hosting a pop-up retail location, we have started working with several community partners on supporting the initiative, and we are prepared to take the first step of launching a new Madison Pop Up Shop Program ("Program").

The Proposed Program Structure

The first step of the Program is for the Community Development Authority ("CDA") to execute a master lease with a property owner to host retailers. Regardless of the number and type of retailers located within the space, the CDA will serve as the primary point of contact between the property owner and the Program for typical property maintenance and management concerns. This will allow the retailers to focus more on their business and less on the real estate.

The second step is to identify and select potential retailers interested in a pop-up opportunity. The Economic Development Division has already started to have conversations with some of the organizations that serve entrepreneurs of color and we will continue to partner with our business community to identify potential tenants for these spaces. The Economic Development Division will work with the CDA to develop Program requirements, an application, and process for selecting tenants; working closely with entrepreneur of color support organizations throughout the entire process. Examples from programs in other communities are available and Downtown Madison Inc.'s "Downtown Group" has been collecting and compiling this information to assist with this effort.

Once the CDA has executed a master lease with property owners and identified potential pop-up tenants, the CDA will execute sub-leases with those pop-up tenants. We anticipate that pop-up retailers will pay a below-market rent, or perhaps no rent at all. As such, it should not be assumed that tenant sub-lease payments to the CDA will cover the cost of the master lease with the property owners. A single space may be shared by multiple pop-up tenants and the term of a lease for a single pop-up tenant could vary depending on the needs of the retailer. The CDA will continue to manage the property as needed; recruiting and partnering with new pop-up tenants as space becomes available.

The Economic Development Division and entrepreneur of color support organizations will likewise continue to work with the pop-up tenants by providing connections to business development resources available in the community. The goal is to help some of these businesses transition into a more permanent retail location.

Why the Community Development Authority (CDA)?

The Madison Pop Up Shop Program is new for our community, and we won't be able to anticipate every need and opportunity during the early months of this effort. The Community Development Authority (CDA) is set-up to be able to respond flexibly and quickly with regard to managing real estate assets. The CDA already has experience managing the retail leases at the Village on Park. In partnership with Economic Development Division staff (business resources and real estate), we believe the CDA will provide the best organizational structure for this new initiative. The Economic Development Committee and Common Council will continue to be updated and consulted throughout Program implementation.

State Street Opportunity

JD McCormick Properties has forwarded a proposal for an initial pop-up retail space on State Street. The space is the first floor of 440/444 State Street, immediately next to Peace Park. The spaces total 1,894 square feet. They would lease the spaces to the CDA for a year at \$21/s.f. gross (rent includes all utilities, common area maintenance, etc.). By way of background, JD McCormick Properties was previously leasing these spaces for \$37/s.f. NNN (no utilities, common area maintenance, etc. included). JD McCormick Properties would paint and prepare the spaces for use by pop-up retailers; however, no furniture would be included. The initial lease would be for a year, with month-to-month thereafter. JD McCormick Properties will eventually want to demolish this building to make way for a new development; the CDA can likely continue to lease the property until that happens. Under these terms, the initial year would cost about \$40,000 with about \$3,300 per month thereafter.

Project Budget and Future Opportunities

The current resolution before the Common Council (Legistar #65499) commits \$100,000 to the CDA to manage this Program. Of this, at least \$40,000 will be used to lease the space at 440/444 State Street. The remaining balance will be used to cover staff time, incidental costs related to managing the space, and possible financial support to entrepreneur of color organizations assisting with the effort.

It is also possible that the CDA and Economic Development Division may identify additional properties throughout the community as candidates for the Madison Pop Up Shop Program. If the initial commitment at 440/444 State Street is successful and if there appears to be demand for similar Pop Up opportunities elsewhere, a request for additional funding may be made to the Common Council at a future date.

DOUBLE JEOPARDY: COVID-19'S CONCENTRATED HEALTH AND WEALTH EFFECTS IN BLACK COMMUNITIES



By Claire Kramer Mills, Ph.D., Assistant Vice President and Jessica Battisto, Senior Analyst

INTRODUCTION

The COVID-19 pandemic has exposed acute and deep-rooted connections between physical and economic health. Many of the same places hit hardest by the pandemic are reeling concurrently from the health crisis, business closures, and job losses. These communities are disproportionately communities of color.¹

The effects of the pandemic on small businesses amid forced closings, modified re-openings, and weakened demand, are well documented. Nationally representative data on small businesses indicate that the number of active business owners fell by 22 percent from February to April 2020^{2,3}—the largest drop on record. While the overall decline is noteworthy, differences among closure rates across racial and ethnic groups are even more striking. Black businesses experienced the most acute decline, with a 41 percent drop.⁴ Latinx business owners fell by 32 percent and Asian business owners dropped by 26 percent. In contrast, the number of white business owners fell by 17 percent.⁵

This brief examines reasons why Black firms have been almost twice as likely to shutter as small firms overall.⁶ We draw on epidemiological data on COVID-19 cases, Census data on business locations, data on the geographic reach of the Paycheck Protection Program (PPP), and data on small firms' financial health from the Federal Reserve's Small Business Credit Survey to examine connections between COVID-19 incidence, policy interventions, and business survival rates.⁷ Overall, we find:

- Volumes of COVID-19 cases coincide with Black-owned business locations: two-thirds of counties with high levels of Black business activity pre-COVID-19 are in the top 50 COVID-affected areas. Data from counties nationwide show *Black-owned firms are more likely* to be located in COVID-19 hot spots, whereas *white-owned firms are less likely* to be in the most heavily affected areas.

1 See for example: <https://www.cdc.gov/coronavirus/2019-ncov/need-extra-precautions/racial-ethnic-minorities.html>; <https://www.aha.org/testimony/2020-05-27-testimony-disproportionate-impact-covid-19-communities-color>; <https://www.mckinsey.com/industries/public-sector/our-insights/covid-19-investing-in-black-lives-and-livelihoods>; <https://www.nytimes.com/interactive/2020/07/05/us/coronavirus-latino-african-americans-cdc-data.html>.

2 Rob Fairlie, 2020. The Impact of Covid-19 on Small Business Owners: Evidence of Early Stage Losses from the April 2020 Current Population Survey. NBER Working Paper No. 27309. Available at: <https://www.nber.org/papers/w27309>.

3 Data from the U.S. Census Bureau's Current Population Survey indicate that the decline was uneven across states, with hardest hit areas like CA (27% drop), MI (33% drop), NV (35% drop), and NY (36% drop) experiencing steeper declines. In contrast, states like KS (2% drop), ME (2% drop), and TN (0% change) saw very little change in active business ownership.

4 U.S. black-owned small businesses are highly concentrated in retail, restaurants, and other service industries most affected by shutdowns and social distancing. See <https://www.reuters.com/article/us-usa-economy-blackbusiness/why-some-black-owned-u-s-businesses-are-hardest-hit-by-coronavirus-shutdowns-idUSKBN23N34A>.

5 Rob Fairlie, 2020. The Impact of Covid-19 on Small Business Owners: Evidence of Early Stage Losses from the April 2020 Current Population Survey. NBER Working Paper No. 27309. Available at: <https://www.nber.org/papers/w27309>.

6 See <https://www.reuters.com/article/us-usa-fed-smallbiz/fed-hoped-to-skirt-a-second-virus-wave-small-businesses-may-sink-in-it-idUSKCN24P139>. Certainly, many closures to date have been temporary and owners may decide to reopen when conditions improve. Nonetheless, differential closure rates highlight differential vulnerabilities across communities and segments of business owners.

7 We use county-level data when possible, but also examine state and national differences for some measures, such as monthly business closures and financial health when more granular data are not available.

- The Paycheck Protection Program, the federal government's signature relief program for small businesses, has left significant coverage gaps: these loans reached only 20% of eligible firms in states with the highest densities of Black-owned firms, and in counties with the densest Black-owned business activity, coverage rates were typically lower than 20%.^{8,9}
- Weaker cash positions, weaker bank relationships, and preexisting funding gaps left Black firms with little cushion entering the crisis: even the healthiest Black firms were financially disadvantaged at the onset of COVID-19.

BLACK BUSINESS ACTIVITY IS GEOGRAPHICALLY CONCENTRATED

Black business activity is geographically concentrated in the U.S. and is correlated with Black population density.¹⁰ Research shows that Black populations are typically clustered in metropolitan hubs¹¹ and the number of cities that are majority-Black has grown over the past decade.¹² Forty percent of receipts from Black-owned businesses are concentrated in just 30 counties, roughly *one percent* of all counties in the country. Examining the same 30 counties,¹³ we find that roughly two-thirds (19 of 30) are areas with the highest numbers of COVID-19 cases.¹⁴ Given the high geographic concentration of firm activity and the Black population in general, business disruptions in these particular places can have outsized effects on African American well-being at large.¹⁵

COVID-19 CASES COINCIDE WITH BLACK BUSINESS LOCATIONS

A broader analysis of counties across the United States shows a correlation between Black business density and COVID-19 incidence. Figure 1 displays the share of businesses in a county that are Black-owned and COVID-19 cases per 1,000 residents through the end of June. There is a positive relationship between COVID incidence and the share of a county's businesses that are Black-owned, an indication that areas with higher concentrations of Black businesses are more likely to be facing larger direct (longer forced closures, COVID-19 symptoms) and indirect (social distancing, fewer customers) effects of the pandemic.¹⁶

8 Anneliese Lederer and Sara Oros, 2020. Lending Discrimination within the Paycheck Protection Program. National Community Reinvestment Coalition. Available at: <https://www.ncrc.org/lending-discrimination-within-the-paycheck-protection-program/>.

9 This figure is consistent with testimony from Ron Busby, President of the U.S. Black Chamber of Commerce, who reported that 70% of his members who applied for PPP loans were denied. See https://www.sbc.senate.gov/public/_cache/files/c/a/caab6b6f-cbe1-44c0-b804-21a3158c1d9b/5293D75005E736363CB2A4D75DF67335.busby-testimony.pdf.

10 The correlation coefficient between the share of a county's population that is Black and the share of a county's businesses that are Black-owned is 0.94. (Sources: U.S. Census Bureau, 2014-2018 American Community Survey & 2012 Survey of Business Owners.) While the total number of employer firms grew between 2012 and 2017 from 5.4 million to 5.7 million, the share of Black-owned employer firms rose only marginally from 2.0% to 2.2%. (Sources: U.S. Census Bureau, 2012 Survey of Business Owners & 2017 Annual Business Survey.)

11 <https://usa.ipums.org/usa/resources/voliii/pubdocs/2010/2010%20Census%20Briefs/c2010br-06.pdf> (See Figures 6 & 7).

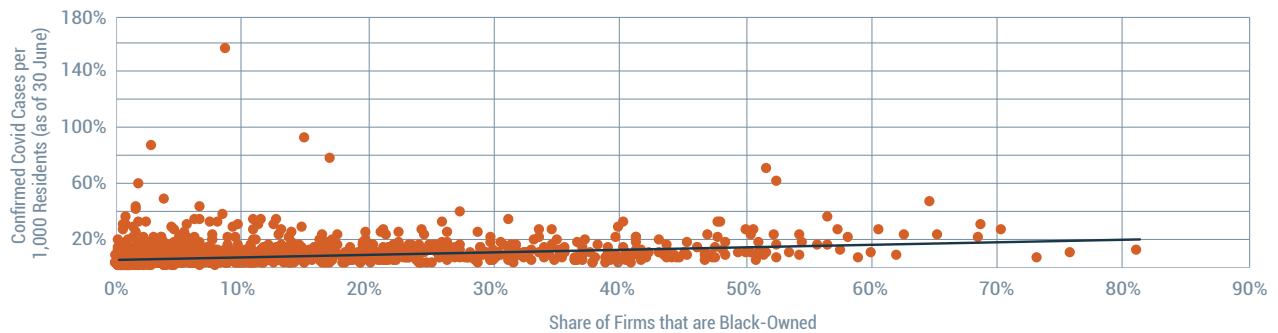
12 David Harshbarger and Andre M. Perry, 2019. The Rise of Black-Majority Cities. The Brookings Institute. Available at: <https://www.brookings.edu/research/the-rise-of-black-majority-cities/>.

13 U.S. Census Bureau, 2012 Survey of Business Owners.

14 John's Hopkins University Coronavirus Resource Center, Top 50 Confirmed Cases by County (updated July 5 2020).

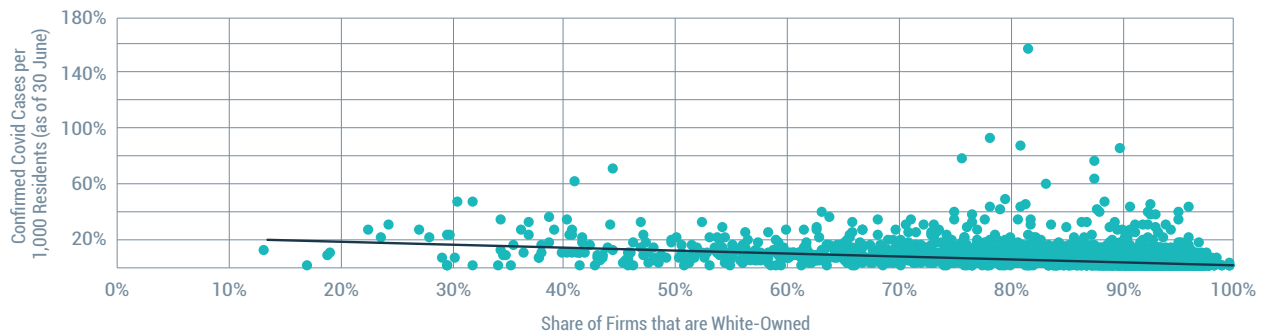
15 The U.S. unemployment rate for May 2020 was 13.3%. Among the total labor force in the 30 counties that account for 40% of all Black business receipts, the unemployment rate was 15.7%. Source: Bureau of Labor Statistics: Labor force data by county, not seasonally adjusted, April 2019-May 2020 (preliminary; published June 26, 2020).

16 The correlation coefficient for this relationship is 0.30.

FIGURE 1 COVID-19 INCIDENCE VERSUS BLACK-OWNED FIRM SHARE FOR U.S. COUNTIES

Sources: U.S. Census Bureau, 2012 Survey of Business Owners; U.S. Census Bureau 2014-2018 American Community Survey; USA Facts: Known Cases (<https://usafacts.org/visualizations/coronavirus-covid-19-spread-map/>; updated 26 July 2020)

To probe whether there might be a general connection between business activity and COVID-19 cases that is not specific to Black businesses, we also plot white business density and COVID incidence in Figure 2. The relationship is negative (with a correlation coefficient of -0.36), meaning that areas with higher shares of white-owned firms tend to have lower shares of COVID-19 cases.

FIGURE 2 COVID-19 INCIDENCE VERSUS WHITE-OWNED FIRM SHARE FOR U.S. COUNTIES

Sources: U.S. Census Bureau, 2012 Survey of Business Owners; U.S. Census Bureau 2014-2018 American Community Survey; USA Facts: Known Cases (<https://usafacts.org/visualizations/coronavirus-covid-19-spread-map/>; updated 26 July 2020)

LIMITED PAYCHECK PROTECTION PROGRAM REACH

The geographic concentration of Black-owned firms and heightened incidence of COVID-19 cases in these same geographies has implications for how relief programs can best reach communities at risk.

PPP Overview

The Paycheck Protection Program (PPP) allocated significant federal funds for temporary relief to small firms. Importantly, both firms with employees on payroll (employer firms) and those without payroll employees (nonemployer firms) were eligible, with applications open to employer firms on April 3 and nonemployer firms on April 10. Inclusion of nonemployer firms in the program was significant, since these firms represent roughly 80% of all small businesses and 96% of Black-owned businesses.¹⁷

The first round of PPP allocated \$349 billion for forgivable government-guaranteed loans to small businesses to cover costs related to payroll, salaries, and benefits, as well as utilities, and mortgage and rent payments. The program was oversubscribed by April 16. To meet the significant and unmet demand, lawmakers authorized a second allocation of \$310 billion for the program later that month, and the Small Business Administration (SBA) started approving loans again on April 27.

In total, between April and June, nearly 5,500 lenders distributed \$521 billion in the form of 4.9 million loans with an average loan size of \$107,000. According to the SBA's estimates, these loans went to small businesses that supported over 51 million jobs nationwide, or 84% of the nation's small business payroll.¹⁸

Recent analysis of the geographic distribution of PPP loans, however, shows that aid has not reached many if not most of the hardest hit areas.¹⁹ For example, research from the New York Fed and the University of Chicago found that loans from the first round of PPP were not correlated with the number of COVID-19 cases in a state. Instead, more likely reasons for businesses receiving these loans included having a prior banking relationship as well as community banks' market share. A recent paper from The Brookings Institution also shows significant variation in PPP coverage across metro areas, with remaining coverage gaps for the hardest hit metros.²⁰

A Deeper Look at PPP Coverage by County

Looking at PPP loan reach through June 2020, we continue to see coverage discrepancies. We examine county-level counts of PPP loans for a consistent comparison with COVID-19 case counts and Black-owned business receipts. In the 30 counties we note as particularly vulnerable to the effects of Black business closures, most counties have seen about 15%-20% of their total businesses receive PPP loans. Figure 3 shows this data for the top 10 counties by Black business receipt size. The number of firms ("total firms") includes both employer firms and nonemployers, since both types of small businesses were eligible for PPP.

17 U.S. Census Bureau, 2012 Survey of Business Owners.

18 Small Business Administration. Paycheck Protection Program (PPP) Report: Approvals through June 30, 2020. Available at: <https://www.sba.gov/sites/default/files/2020-07/PPP%20Results%20-%20Sunday%20FINAL.pdf>.

19 Haoyang Liu and Desi Volker, Liberty Street Economics blog (<https://libertystreeteconomics.newyorkfed.org/2020/05/where-have-the-paycheck-protection-loans-gone-so-far.html>); and University of Chicago, BFI Working Paper (<https://bfi.uchicago.edu/working-paper/did-the-paycheck-protection-program-hit-the-target/>).

20 Joseph Parilla and Sifan Liu, 2020. Across metro areas, COVID-19 relief loans are helping some places more than others. The Brookings Institution. Available at: <https://www.brookings.edu/blog/the-avenue/2020/07/14/across-metro-areas-covid-19-relief-loans-are-helping-some-places-more-than-others/>.

The average coverage rates shown in Figure 3 are not too different from the national business coverage estimate for PPP loans of 17.7%.²¹ However, there is significant variation across counties. Of note, among the top 30 counties (measured by Black business receipts) only 7% of firms in Bronx, NY; 11.3% of firms in Queens, NY; 11.6% of firms in Wayne County, MI; and 12.2% of firms in Prince George's County, MD received PPP loans.²²

FIGURE 3 PPP LOAN COVERAGE IN TOP 10 U.S. COUNTIES BY BLACK BUSINESS RECEIPTS

County	Total black-owned firms (2012)	Total number of firms (2012)	Total number of PPP loans (through June 2020)	PPP firm coverage (PPP loans/ Total firms)
Los Angeles County, CA	81,563	1,146,701	176,434	15.4%
Cook County, IL	110,155	549,686	84,256	15.3%
Harris County, TX	71,564	438,793	70,058	16.0%
Prince George's County, MD	45,115	77,204	9,420	12.2%
Wayne County, MI	59,706	151,746	17,610	11.6%
District of Columbia, DC	22,097	63,408	12,484	19.7%
Fairfax County, VA	8,832	115,917	17,921	15.5%
Manhattan, NY	24,859	315,399	61,687	19.6%
Fulton County, GA	44,574	125,745	26,189	20.8%
Miami-Dade County, FL	51,285	468,185	70,447	15.0%

County-level PPP loan counts are calculated based on aggregated zip code data. In cases where zip codes match to multiple counties, the county with the highest share of that zip code's business addresses is used.

Sources: U.S. Census Bureau, 2012 Survey of Business Owners; U.S. Department of the Treasury, SBA Paycheck Protection Program Loan Level Data (through June 2020).

WEAKER FINANCIAL CUSHION AND WEAK LONGER-TERM BANKING RELATIONSHIPS

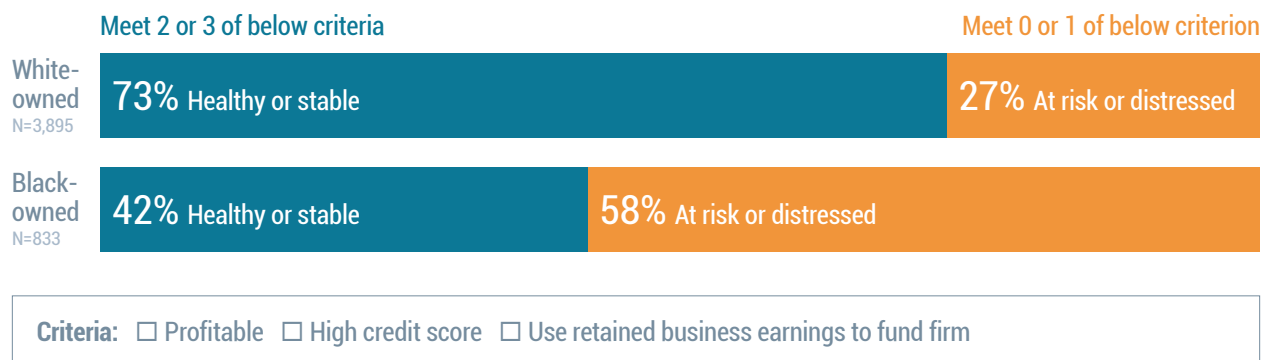
The coincidence of these coverage gaps, along with a large sum of remaining PPP dollars—more than \$130 billion remains available through August 8th—presents a puzzle about why Black firms are not accessing PPP loans.

One consideration is that a large number of Black firms entered the crisis in a weakened position and may have been reluctant to apply for a PPP loan given uncertainty about future activity. There is some evidence to suggest this played a role. We find that Black employer firms were less likely to enter the pandemic from a strong financial position than white-owned firms, with smaller shares of Black firms operating at a profit, having a high credit score, and using retained business earnings to fund the business.²³ As shown in Figure 4, 42% met at least two of these criteria, compared to 73% of white employers.

21 Based on a total of 27,626,360 firms in the U.S. and 4,885,388 PPP loans made through June 2020. For consistency with county-level firm estimates, the U.S. total firm count is from the 2012 Survey of Business Owners.

22 See [Data Appendix](#) for detailed information about PPP loan coverage in the top 30 U.S. counties by Black business receipts.

23 This finding is consistent with recent research. Diana Farrell, Chris Wheat, and Chi Mac. 2020. "Small Business Owner Race, Liquidity, and Survival." JPMorgan Chase Institute. Available at: <https://institute.jpmorganchase.com/institute/research/small-business/report-small-business-owner-race-liquidity-survival>.

FIGURE 4 FINANCIAL HEALTH SPECTRUM (PRE-PANDEMIC) FOR WHITE- AND BLACK-OWNED EMPLOYER FIRMS

Source: Federal Reserve Banks, 2019 Small Business Credit Survey.

A second important consideration, however, is that most Black owned firms lack strong bank relationships. In the latest *Report on Employer Firms* based on the Fed's 2019 Small Business Credit Survey, we found that fewer than 1 in 4 Black-owned employer firms has a recent borrowing relationship with a bank.²⁴ This number drops to 1 in 10 among Black nonemployer firms, compared with 1 in 4 white-owned nonemployers.²⁵ It is important to note these funding gaps are not due to differential rates in Black firms applying for financing. In fact, recent survey evidence indicates that Black-owned firms—both employer and nonemployer—apply for financing at equal or higher rates than white-owned firms but are denied at higher rates.²⁶

Black business owners are also more likely than white owners to report being discouraged, or not applying for financing because they believe they will be turned down. Among Black employer firms, 37.9% reported being discouraged, compared to 12.7% of white-owned firms.²⁷ Perceiving a higher probability of funding success from online lenders, Black-owned employer and nonemployer firms are relatively more likely to turn to online providers for funding.²⁸ Fintech providers were not initially authorized to lend PPP funds though they collectively dispersed \$4.7 billion in funds through June 30th.²⁹

Firm financial health certainly plays an important role in the ability to access bank financing. However, racial gaps in banking relationships exist among the financially healthiest firms. When controlling for just those firms that are healthy or stable, we continue to see sizable differences between Black- and white-owned firms in bank funding. Even among the firms that should not have major difficulties accessing credit from a bank (given their business performance and creditworthiness), Black-owned employers were much less likely to have obtained bank financing in the past five years, instead relying most commonly on personal savings or financing from family and friends. Figure 5 shows that 54% of healthy or stable white employers have an existing banking relationship, compared to 33% of healthy or stable Black employers. This finding indicates the role that factors beyond firms' financial health play in accessing mainstream—and affordable—financing.

24 Federal Reserve Banks, Report on Employer Firms, 2020. Available at: <https://www.fedsmallbusiness.org/survey/2020/report-on-employer-firms>.

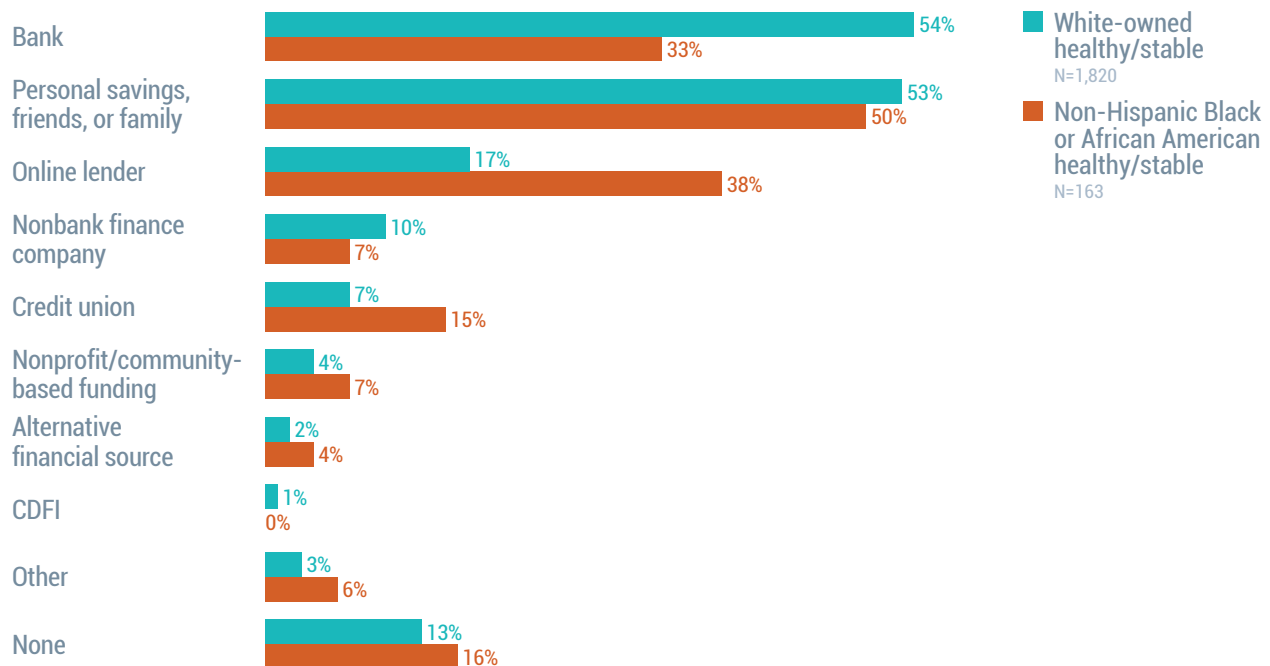
25 Federal Reserve Banks, 2019 Small Business Credit Survey.

26 Among Black-owned firms, 28% of nonemployers and 54% of employers applied for financing in the last 12 months, compared to 45% of white employer firms and 25% of white nonemployers. See Federal Reserve Banks, Report on Employer Firms, 2020. Available at: <https://www.fedsmallbusiness.org/survey/2020/report-on-employer-firms>, and Federal Reserve Banks, Report on Nonemployer Firms, 2019. Available at: <https://www.fedsmallbusiness.org/survey/2019/report-on-non-employer-firms>.

27 Federal Reserve Banks, Report on Employer Firms, 2020. Available at: <https://www.fedsmallbusiness.org/survey/2020/report-on-employer-firms>. See also: UnidosUS and Color of Change, 2020. "Federal Stimulus Survey Findings." Prepared by Global Strategy Group. Available at: <https://theblackresponse.org/wp-content/uploads/2020/05/COC-UnidosUS-Abbreviated-Deck-F05.13.20.pdf>.

28 Federal Reserve Banks, 2019 Small Business Credit Survey.

29 Fintech lenders, including PayPal, Square, Intuit, and Kabbage were authorized late in the first round of PPP and disbursed \$4.7 billion through June 30. Source: Small Business Administration. Paycheck Protection Program (PPP) Report: Approvals through June 30, 2020. Available at: <https://www.sba.gov/sites/default/files/2020-07/PPP%20Results%20-%20Sunday%20FINAL.pdf>.

FIGURE 5 FUNDING SOURCES USED IN THE PAST 5 YEARS AMONG WHITE- AND BLACK-OWNED STABLE OR HEALTHY EMPLOYER FIRMS*

Source: Federal Reserve Banks, 2019 Small Business Credit Survey.

*Note: Data collected prior to CARES Act and do not include PPP lending.

Black Business Closures

Since the onset of the COVID-19 pandemic, Black business ownership has sharply dropped. Rob Fairlie at UC Santa Cruz recently estimated the total decline in active business ownership between February and April among Blacks at 41 percent, twice the drop in active business ownership among whites.³⁰ We have expanded that analysis for the eight states with the largest numbers of Black owners and found that despite a leveling off in closure rates in the May data, all but two of these eight states (CA and FL) experienced a net decline in Black business ownership between February and June. At the state level, the net numbers of business closures in Ohio and New York are the most acute.

After the declines between February and May, several states saw a resurgence in active Black business ownership in May and June as phased reopening began. In the last column of Figure 6, we have categorized states with respect to early or later reopening dates. In this small sample, most states with earlier re-openings (GA, NC, FL) saw increased active Black business ownership, with Texas as an exception. States with later reopening dates (NY, CA, and IL) saw continued declines in the number of active Black business owners. It should be noted that several of the earlier openings have now been paused or reversed due to heightened health concerns.

30 Rob Fairlie, 2020. The Impact of Covid-19 on Small Business Owners: Evidence of Early Stage Losses from the April 2020 Current Population Survey. NBER Working Paper No. 27309. Available at: <https://www.nber.org/papers/w27309>.

FIGURE 6 ACTIVE BLACK BUSINESS OWNERS IN STATES WITH LARGEST COUNTS OF BLACK OWNERS

State	Active Business Ownership among Blacks, Feb 2020	Active Business Ownership among Blacks, May 2020	Active Business Ownership among Blacks, June 2020	Feb to May, % change	May to June, % change
NY	98,600	43,407	29,479	-56.0%	-32.1%***
TX	88,574	84,160	77,580	-5.0%	-7.8%*
GA	87,008	68,457	79,563	-21.3%	16.2%*
CA	78,826	89,516	81,837	13.6%	-8.6%***
FL	75,859	38,837	100,328	-48.8%	158.3%*
NC	75,664	47,539	62,043	-37.2%	30.5%*
IL	61,201	70,325	57,712	14.9%	-17.9%***
OH	55,175	22,464 (based on Apr)	35,420	-59.3%	57.7%**

Source: U.S. Census Bureau, Current Population Survey: February, April, May, June 2020 Monthly Estimates.

*Reopened late April/early May

**Reopened mid-May

***Reopened late May

Conclusion

Recent research has separately shown an alarming incidence of COVID-19 cases among Blacks, racial disparities in access to federal relief funds, and higher rates of Black business closures. An under-appreciated point, underscored here, is the close ties between the health and economic effects of COVID-19 in specific communities: counties with the highest concentration of COVID-19 are also the areas with the highest concentration of Black businesses and networks. Our analysis shows stark PPP coverage gaps in these hardest hit communities.

These findings have two important implications. To have the greatest impact, the next round of COVID-19 relief should be more targeted geographically to focus on the hardest hit areas and communities that lack critical infrastructure (hospitals, banks) to ameliorate the gaps. Furthermore, the racial disparities in bank relationships prior to COVID-19 detailed here raise structural questions about the presence of banks and access to credit in communities of color, questions that have heightened significance when banks are relied on to administer federal, taxpayer-supported relief programs, as is the case with PPP.

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BROOKINGS

Report

Black-owned businesses in U.S. cities: The challenges, solutions, and opportunities for prosperity

Andre M. Perry, Regina Seo, Anthony Barr, Carl Romer, and Kristen Broady Monday, February 14, 2022

Editor's Note:

Tune in on Wednesday, February 16 for the virtual event State of Black businesses: Resilience in the face of a pandemic.

At a January 17 event marking Martin Luther King Jr. Day, Treasury Secretary Janet Yellen said, “From Reconstruction, to Jim Crow, to the present day, our economy has never worked fairly for Black Americans—or, really, for any American of color.” Yellen’s remarks were an acknowledgement that U.S. policymakers have established racially tilted rules for the economy, prohibiting intergenerational wealth transfers among Black Americans, among many other harms.

According to the Federal Reserve, in 2019, the median net worth of white families was \$188,200—7.8 times that of their Black peers, at \$24,100. That wealth gap translates to many other disparities, including in business ownership, which is heavily influenced by individual and family wealth. In 2019, there were a total of 5,771,292 employer firms (businesses with more than one employee), of which only 2.3% (134,567) were Black-owned, even though Black people comprise 14.2% of the country’s population.

In support of the Path to 15|55 initiative, which endeavors to grow the percentage of Black-owned employer firms, Brookings published “To expand the economy, invest in Black businesses,” a report that used the Census Bureau’s 2019 Annual Business Survey (ABS) to calculate the national proportion of Black and non-Black businesses in the prior year. The report also calculated the businesses, jobs, and revenue the nation would gain if the percentage of Black-owned employer firms equaled the proportion of Black people in the country’s population.

In this report, we examine those same projections at the metropolitan level using 2018 and 2020 ABS data. (The ABS uses yearly administrative data and representative surveys to compile key economic and demographic information for employer firms and non-employer firms [also known as sole proprietorships], and produces data estimates at the national, state, metro area, county, and economic place level.) Additionally, we explore policy solutions that get at the heart of Yellen's assertion, recommending structural changes that will enable the economy to work for entrepreneurs of all races.

What metro areas could gain with more Black-owned businesses

Before illuminating the lack of Black-owned businesses in U.S. metro areas and the structural reasons behind it, the interactive below presents the revenue, jobs, and wages that places would gain if the percentage of employer firms that are Black-owned was on par with the metro area's Black population share.

We assume an expansion in the size of the economy such that no gains in Black business revenue or size come at the expense of non-Black businesses. The estimations are based on revenue and payroll data from the 2018 ABS, as the 2019 and 2020 ABS have limited data on revenue at the metro level.



Black-owned businesses are prevalent in the Southeast, but still far below the Black population share

No metro area in the U.S. has a share of Black-owned employer firms that matches or exceeds the Black population in the area. Among 69 metro areas for which the 2020 ABS reports data, the highest proportion of Black-owned firms among employer businesses is in Fayetteville, N.C. at 11.2%, or 585 out of 5,210 firms.

Table 1 displays the 10 metro areas with the highest representation of Black employer firms in 2019. It shows Black entrepreneurs have found a niche in the Southeast, which features a high number of Black residents, a lower cost of living, and a historical lineage of Black people supporting Black-owned businesses.

However, in absolute terms, there are more Black businesses in other regions of the country. Table 2 shows the 10 metro areas with the highest number of Black businesses.

Table 1. Metro areas with the highest representation of Black employer businesses in 2019

	Metro Area	Number of Black Businesses	% Black Businesses	% Black Population	Ratio of % Black Businesses to % Black Population
1	Oxnard-Thousand Oaks-Ventura, CA Metro Area	294	1.6%	2.8%	57.7%
2	St. Louis, MO-IL Metro Area	3,112	6.0%	19.5%	30.8%
3	Fayetteville, NC Metro Area	585	11.2%	36.6%	30.7%
4	Los Angeles-Long Beach-Anaheim, CA Metro Area	7,200	2.3%	7.6%	30.1%
5	Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area	8,649	7.7%	27.4%	28.2%
6	Worcester, MA-CT Metro Area	285	1.6%	6.4%	25.3%
7	Cape Coral-Fort Myers, FL Metro Area	407	2.4%	9.5%	24.9%
8	Columbus, OH Metro Area	1,254	4.1%	17.9%	22.9%
9	San Francisco-Oakland-Hayward, CA Metro Area	2,087	2.0%	8.8%	22.4%
10	Rochester, NY Metro Area	556	2.9%	13.1%	21.9%

Source: 2020 Annual Business Survey

B | Brookings Metro

Table 2. Metro areas with the highest number of Black employer businesses in 2019

	Metro Area	Number of Black Businesses	% Black Businesses	% Black Population	Ratio of % Black Businesses to % Black Population
1	New York-Newark-Jersey City, NY-NJ-PA Metro Area	14,424	3.0%	19.1%	15.5%
2	Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area	8,649	7.7%	27.4%	28.2%
3	Atlanta-Sandy Springs-Roswell, GA Metro Area	7,539	6.7%	36.3%	18.4%
4	Los Angeles-Long Beach-Anaheim, CA Metro Area	7,200	2.3%	7.6%	30.1%
5	Miami-Fort Lauderdale-West Palm Beach, FL Metro Area	6,204	3.6%	22.6%	16.0%
6	Chicago-Naperville-Elgin, IL-IN-WI Metro Area	4,142	2.1%	17.6%	12.1%
7	Houston-The Woodlands-Sugar Land, TX Metro Area	3,981	3.6%	18.5%	19.4%
8	Dallas-Fort Worth-Arlington, TX Metro Area	3,191	2.5%	17.4%	14.5%
9	St. Louis, MO-IL Metro Area	3,112	6.0%	19.5%	30.8%
10	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area	3,052	2.7%	22.9%	11.7%

Source: 2020 Annual Business Survey Data



Nationally, as of the latest census data release, there were 3.12 million Black-owned businesses in the United States, generating \$206 billion in annual revenue and supporting 3.56 million U.S. jobs. Table 3 shows that Black people comprise approximately 14% of the U.S. population, but only 2.3% of owners of employer firms. White-owned employer firms represent 83.5% of all employer firms—8.2 percentage points higher than the white share of the population. Asian Americans make up 6.6% of the U.S. population and own 10.1% of employer firms.

Table 3. Business Representation by Race/Ethnicity Group

Race/Ethnicity Group	% Population	% Employer Businesses	% Nonemployer Businesses
White	75.3%	83.5%	77.2%
Black	14.0%	2.3%	11.8%
Asian	6.6%	10.1%	7.8%
Latino or Hispanic	18.0%	6.0%	14.7%
Other	7.6%	0.6%	0.5%

Notes: Race groups include those who identify with more than one race.
 Source: Data for population and employer businesses are for 2019 (from 2019 ACS and 2020 ABS) and the data for nonemployer firms are for 2018 (most recent NESD data).

B | Brookings Metro

Black-owned businesses are much more likely to be nonemployer firms (sole proprietorships). In 2019, only 4.1% of Black-owned businesses were employer firms, compared to 19% of white-owned businesses. If Black businesses accounted for 14% of employer firms (equivalent to the Black population share), there would be 798,318 more Black businesses.

The Census Bureau collected these statistics before the COVID-19 pandemic, so many of the figures presented here have undoubtedly changed. As we await updated data reflecting those changes, we can draw upon qualitative sources to get a sense of how the pandemic has impacted Black businesses.

The pandemic affected Black business owners worse than other racial groups

This report uses 2020 ABS data, which was collected in the year prior, before the outbreak of the COVID-19 pandemic. However, findings from the Federal Reserve System's 2021 Small Business Credit Survey (SBSC)—which was conducted in September and October 2020—provide qualitative insights into the pandemic's impact as well as the issues that must be addressed to increase the Black share of employer firms. The SBSC is an annual survey of businesses with fewer than 500 employees, which represent 99.7% of all employer firms in the U.S.

The SBCS reveals that the COVID-19 pandemic exacerbated the challenges that small businesses owned by people of color faced prior to the pandemic. Table 4 shows the percentage of small business owners by race that reported experiencing financial challenges in 2020. Most small business owners reported experiencing financial hardship during the pandemic, but the highest rate was reported by Black business owners: 92%, followed by 89% of Asian American-owned firms, 85% of Latino- or Hispanic-owned firms, and 79% of white-owned firms.

According to the SBCS, approximately 79% of Asian American-owned firms and 77% of Black-owned firms reported that their financial condition was poor or fair, while only 54% of white-owned firms reported similar conditions. Nearly 75% of Black- and Asian American-owned firms reported difficulties paying their operating expenses, compared to 63% of white-owned firms. Black small business owners were also the most likely to experience difficulty accessing credit (53%).

Reduced revenues due to the shutdowns and quarantines forced businesses to adapt their operations. Black- and Asian American-owned firms were most likely to reduce their business operations in response to the pandemic (67% each), followed by Latino- or Hispanic-owned firms (63%) and white-owned firms (54%). In response to financial challenges, Black business owners were the most likely to tap into their personal funds (74%), compared to Latino or Hispanic owners (65%), Asian American owners (65%), and white owners (61%).

Systemic policy failures kept pandemic aid from reaching Black businesses

In March 2020, Congress passed the CARES Act to address the economic fallout of the pandemic. As part of the act, Congress authorized the Treasury Department to disperse up to \$659 billion in forgivable loans to small businesses through the Paycheck Protection Program (PPP.) Eligible businesses received loans to cover payroll and certain other expenses (including mortgage, rent, and utilities), and those loans were forgivable if firms retained employees at their current level of compensation.

While PPP loans were an important economic cushion, key flaws meant that the program was largely regressive and not targeted to the firms with the greatest need, particularly in communities of color. One paper estimated that “only 23 to 34 percent of PPP dollars went directly to workers who would otherwise have lost jobs” while “the balance flowed to business owners and shareholders, including creditors and suppliers of PPP-receiving firms.”

Additionally, the first round of PPP loans gave relief only to employer firms. This disproportionately disregarded Black-owned businesses, 95% of which are nonemployer firms, compared to 78% of white-owned firms. When Black businesses did receive PPP loans, the funding arrived much later than for white businesses, and was often substantially less than what was offered to white businesses. “Black-owned businesses received loans through the Paycheck Protection Program that were approximately 50 percent lower than White-owned businesses with similar characteristics,” one nationwide study found. Likewise, the SBCS shows that only 43% of Black-owned firms received all of the PPP funding they applied for, compared to 61% of Latino- or Hispanic-owned firms, 68% of Asian American-owned firms, and 79% of white-owned firms.

The first-come, first-serve nature of the PPP compelled mainstream banks to work with existing customers. This is a problem because Black people are significantly underserved by mainstream banks and the financial services sector in general. Table 5 shows banking access by race in 2020; that year, only 59% of Black adults were fully banked, compared to 70% of Latino or Hispanic adults, 88% of white adults, and 89% of Asian American adults.

Black business owners' perceptions of their pandemic hardships mirror the realities. According to the SBCS, 46% of Black business owners reported concerns about personal credit scores or loss of personal assets as a result of late payments—the highest share among owner groups by race. In contrast, white business owners were the most likely to report that there was no impact on their personal finances.

Figure 1 shows average credit scores by race for 2021. Black people had the lowest average credit score, at 677. People with lower credit scores are more likely to pay higher fees to receive financial services and more likely to depend on alternative financial institutions, some of which are predatory lenders.

Nevertheless, many Black businesses had greater luck pursuing loans from non-mainstream banks. For example, in Charlotte, N.C., several Black businesses that were denied loans from big banks were able to secure loans from Uwharrie Bank, a small community bank. Similarly, NPR reported that Savannah, Ga.'s Black-owned Carver State Bank helped many Black businesses that were denied loans from mainstream banks, issuing \$9 million in PPP loans within a five-month period. These examples underscore the importance of supporting a fuller range of financial intermediaries when big banks fail to deliver services to all constituents.

The pandemic has led to a surge in new Black-owned businesses

While the pandemic disproportionately hurt preexisting Black firms, it also spurred the creation of new Black businesses. A recent Brookings report found there has been a surge of new online microbusinesses, which grew fastest among groups hit hardest by the pandemic's economic shock; among racial groups, Black owners account for 26% of all new microbusinesses, up from 15% before the pandemic. And a recent paper from the National Bureau of Economic Research found large upticks in new businesses between 2019 and 2020 in Black neighborhoods with moderate income levels. The paper found a statistically significant correlation between upticks in new business registrations and both rounds of pandemic stimulus checks, with particularly high rates of business formation in Black neighborhoods.

Many commentators have connected the burst in Black entrepreneurship to the loss of employment for Black workers, combined with new opportunities stimulus checks made available. Of the five occupations that employ the largest number of Black and Latino or Hispanic workers, four experienced the highest job losses at the beginning of the pandemic: retail salespersons, cashiers, cooks, and waiters and waitresses.

The use of personal stimulus checks for business creation and the failure of PPP funding to reach Black business owners are two sides of the same coin. Both demonstrate that Black business owners—like Black consumers in general—struggle to access traditional

lines of credit and capital, which forces them to seek funding outside of these institutional structures.

For example, [a 2019 study](#) from the Federal Reserve Bank of Atlanta found that Black entrepreneurs are much more likely to rely on personal funds and credit to finance their businesses, and the SBCS study cited earlier found that Black- and Latino- or Hispanic-owned firms were not approved for the full requested financing “even when the Black-owned, Latino-owned, and white-owned firms were all categorized as presenting a low credit risk.” These studies show that Black entrepreneurs face many systemic barriers that rob them of investment and suppress development.

Lower personal wealth inhibits Black business creation

According to [a 2018 study by the U.S. Small Business Administration](#), most entrepreneurs start their businesses using personal or family wealth. But the study finds that Black entrepreneurs are more likely to rely on personal credit cards to finance their business creation. This is due in part to barriers to bank loans and other sources of institutional capital, but is also the result of staggering inequalities that impact how much wealth is held by Americans of different racial groups.

According to our analysis of 2019 Census Bureau data, Black people with positive net worth have assets that are primarily tied up in real estate—mainly homeownership. But in the U.S., the homeownership rate varies significantly by race and ethnicity, and is lowest for Black people. According to the [Census Bureau](#), in the third quarter of 2020, the homeownership rate for white non-Hispanic Americans was 75.8%, compared to 61% for Asian Americans, 50.9% for Latino or Hispanic Americans, and 46.4% for Black Americans.

Black families are not only less likely to own a home, but according to Brookings’s [Hamilton Project](#), “their homeownership yields lower levels of assets.” Among homeowners, Black families’ median home value is \$150,000, compared to \$230,000 for white families. Black people are also underindexed in businesses, stocks, bonds, and other assets that can increase their net worth. In addition, assets that Black people hold have [lesser value](#), lessening their ability to start businesses.

While increasing Black business ownership would certainly have a positive economic impact on Black households and communities, renewed fiscal support from federal, state, and local governments is needed to mitigate the racial wealth gap. Data and research show that on average, Black people have higher unemployment rates, lower earnings, lower rates of homeownership, and pay more for credit and banking services—all factors that result from a history of structural racism and contribute to vast disparities in wealth creation and accumulation between Black households and white households.

Federal and metropolitan policy solutions to expand Black business

There is a causal relationship between discriminatory policy and wealth accumulation, and there is a direct correlation between wealth and business development. Business outcomes reflect a racial wealth gap that is shaped by racialized policies, including those created by the federal government.

We should look at the wealth gap as merely an indicator. “By focusing on the *root* of racial wealth inequality rather than fixating on the racial wealth *gap*, we can identify a path forward for creating a fairer and more sustainable economic and political system,” wrote the Roosevelt Institute’s Anne Price in a 2020 report aptly titled “Don’t Fixate on the Racial Wealth Gap.”

Treasury Secretary Janet Yellen’s recent Martin Luther King Jr. Day remark that the U.S. economy has never worked fairly for Black Americans should reverberate loudly in the halls of federal policymaking. Inequality is a choice, and systemic racism involves a constellation of policies that racialize how resources are distributed. But just as systemic racism was built upon unjust policy, it can be deconstructed and replaced. Here are some potential ways to do so:

The Treasury Department should create inclusive and equitable policies

Under the Trump administration, the Treasury Department oversaw and led the Paycheck Protection Program (PPP), which was slow to reach most Black-owned businesses. In 2021, Treasury Secretary Yellen announced that the department would invest \$9 billion into the Emergency Capital Investment Program, a new initiative designed to provide capital to community development financial institutions and minority depository institutions—entities that have a better track record of working with the conditions surrounding Black borrowers.

Before the inevitable next economic shock, the Treasury Department should aim to build enough capacity among these financial institutions to avert the PPP’s original failures. The department should lead an interagency taskforce to take a roll call among banked and unbanked Black businesses; to enable these businesses to receive the financial services to participate in capital markets, they must be identified first. In addition, Treasury and the

Federal Reserve System should step into their regulatory roles to ensure mainstream banks that distributed PPP funds are ready and willing to serve the range of Black entrepreneurs.

Additionally, the Internal Revenue Service (IRS), a bureau of the Treasury, should closely monitor the impacts of new rules that require reporting of business transactions through apps such as PayPal, Square, Venmo, and Zelle for goods and services amounting to \$600 or more in a calendar year. The prior reporting threshold was \$20,000 across more than 200 transactions.

These new rules, which will take effect for the 2022 tax year, will most certainly garner greater tax revenue enforcement particularly at the lower end of the business revenue spectrum. This will have a disproportionate impact on Black-owned businesses because of their higher share of nonemployer firms. The new criteria will have a particular effect on “cash only” businesses in informal or underground local economies, such as barbershops, beauty salons, and other neighborhood-facing firms.

This tax code change poses an equity issue because it’s unclear how the IRS will reduce tax revenue loss on the opposite end of the income scale. Owners of higher-revenue-generating businesses have many ways to hide or reduce tax liabilities. The previous higher reporting thresholds provided a tax shelter of sorts for small businesses that were unbanked and under-resourced.

Expand the Minority Business Development Agency and its partnerships

To help the federal government build the capacity of financial institutions that serve Black entrepreneurs, the Commerce Department’s Minority Business Development Agency (MBDA) should be expanded. The MBDA connects minority-owned businesses with the capital, contracts, and markets they need to grow. The recent Infrastructure Investment and Jobs Act permanently authorizes the MBDA and provides the agency with a bigger budget and greater grant-making capacity.

Moving forward, the MBDA should use its newly created regional offices to spur a more inclusive innovation economy, such as by providing flexible funding streams for the creation and expansion of Black businesses. The MBDA should also establish business

centers at historically Black colleges and universities, tribal colleges and universities, and other minority-serving institutions—providing startup capital and technical support for students and community members interested in starting or expanding businesses. In line with other policy recommendations offered in a 2020 Center for American Progress report, the MBDA should “initiate an economic equity grant program that would fund municipal projects that foster wealth creation, opportunity, and minority business development in Black communities.”

Commit to opportunities for Black-owned businesses in infrastructure spending

As the Infrastructure Investment and Jobs Act’s federal dollars are delivered to state and local leaders, much of the work will be contracted out to small, medium-sized, and large businesses. This will be an important opportunity for leaders to follow through on their promises to lift the Black community by formalizing and building relationships with the Black businesses that create wealth for these communities. However, equity isn’t systematically built into the infrastructure bill; consequently, states will vary in their attempts to address past inequality and drive capital to Black-owned firms.

Empower more Black people as public fund managers

Municipal governments control large sums of capital in the form of pensions for public employee groups, developed and undeveloped real estate, public utilities, air rights, and other captive city-related funds and public assets. But globally, women and people of color manage less than 2% of capital.

To ensure public funds are managed by people who look like the public, we must be deliberate about funding a diverse set of fund managers. Diversity in asset management leads to diversity in investment; for example, Texas Woman’s University’s AssistHER grant program, which provided \$10,000 grants to 100 women-owned businesses adversely impacted by the pandemic. Urban wealth funds are another innovative approach to public finance that involves mapping the commercial value of public assets and leveraging them to generate revenue that can be used to reinvest in community services, infrastructure improvements, and other worthwhile projects. Cities should demand that oversight of funds and assets maintains at least 30% representation from women and people of color.

Leverage philanthropy to support structural change

In the aftermath of 2020's racial justice protests, large corporations pledged billions of dollars to the cause. Likewise, various charitable foundations—notably, corporate and grant-making foundations—provided billions to support Black businesses. The impact of these contributions remains to be seen as the pandemic rages on, taking a toll on low-wealth communities and the businesses in them. Future investments must be focused on altering the structures that prohibit maximum participation in markets.

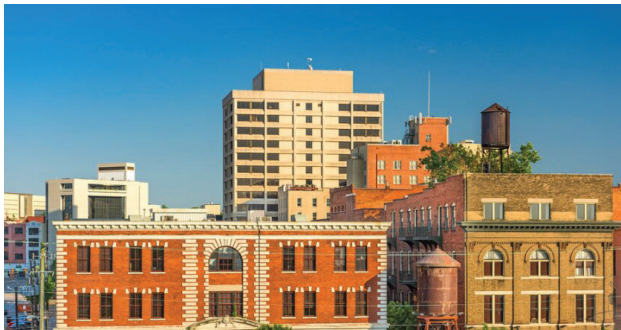
Supporting Black businesses stuck in systems that extract Black wealth is akin to putting water in a bucket with a hole in it. Philanthropic funding certainly provided temporary relief, but we're not going to "nonprofit" our way to better business outcomes. Philanthropic giving must encourage the kind of structural change at the federal, state, and local level that will allow the economy to work for everyone.

CIVIC INNOVATION

Montgomery, Ala., to Welcome City's Third Innovation Center

The Montgomery Area Chamber of Commerce has announced it plans to open a third downtown technology innovation center that will serve as a multipurpose center for co-working, training and entrepreneurship. August 23, 2021 •

Brad Harper, Montgomery Advisor



(TNS) — The Montgomery Area Chamber of Commerce has announced it plans to open a third downtown technology innovation center that will serve as a multipurpose center for co-working, training and entrepreneurship.

The Lab on Dexter will open its doors Aug. 30 inside a former bank building at 150 Dexter Ave. The building will serve as the new home of [Montgomery TechLab](#), which is moving from its current space inside the MGMWerx building on Commerce Street. But it will also be the home of a range of functions meant to help grow small businesses, tech-focused and otherwise, including business suites and work spaces for lease.

That separates it from the other two tech centers, the [Air University-affiliated MGMWerx](#) and the Gunter-affiliated Bepin hub nearby on Commerce Street.

"This piece is more of an entrepreneurial Chamber lab," Chamber President Anna Buckalew said.

It's launching through a public-private partnership that includes the Chamber's TechMGM initiative, the city and county governments, Alabama Power and the TechLab. They expect it to house programs that will give tech and innovation professionals and entrepreneurs access to resources, networking opportunities, capital and equipment.

They're planning quarterly workshops, mentoring and other initiatives, and Buckalew said there will be an effort to incorporate programming specifically for Black-owned small businesses. "That's a need that's been expressed to us," she said.

Montgomery Mayor Steven Reed said in a release that the center will help match the area's unique assets with the needs of tech companies and small and minority business startups. Montgomery County Commission Chairman Elton Dean praised the public-private partnership that brought it together and said it will be "a cornerstone" of downtown's growing innovation district.

A public grand opening is set for 11 a.m. Aug. 30. You can see more about the space at thelabondexter.com.

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