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Scale Up New York: Creating Middle Class Jobs By Growing New York City's Small Businesses

Despite the surge in the number of new small businesses and start-ups, too few of these companies manage to achieve sustained growth. A strategy to help small companies scale up is one of New York's greatest unrealized opportunities for economic and employment growth—and one of the best chances to expand the number of middle-class jobs.

by Charles Euchner

- The following is the introduction to *Scale Up New York.*
- Read the full report (PDF).
- View the recommendations from the report.

New York City is humming with small business activity. The city's entrepreneurial environment has expanded greatly in recent years, thanks to an explosion of new businesses in fields from financial technology and digital health to artisanal food manufacturing and film postproduction. Over the next few years, turning more of these small companies into larger businesses is one of New York's greatest opportunities for economic and employment growth—and one of the best chances to expand the number of middle-class jobs.

The opportunity is clear. The city is home to more than 207,000 businesses with 20 or fewer workers. The number of businesses employing fewer than ten workers has increased by nearly 12 percent since 2008. Over the same period, Brooklyn added more than 8,000 new businesses with fewer than ten workers, growing nearly 22 percent.

Unfortunately, too few of the city's small business manage to scale up and achieve sustained growth. Despite the surge in the number of new small businesses, growth among businesses with more than 100 employees has been largely flat since 2008 and the number of businesses with more than 1,000 employees decreased 1 percent during the same period.

Not every small business has the potential to expand. And some business owners are content to stay small. But there is a

clear opportunity for many more of the city's small firms to grow to the next level. As this report details, the path to growth for small businesses in New York City is exceedingly difficult. Among those small firms in the five boroughs with growth potential, a significant share get tripped up along the way. Many don't even try.

A strategy to help more small businesses scale up would do more than just bolster the city's strong economy. It could be the city's best opportunity to boost its supply of middle-class jobs.

Firms with fewer than ten employees tend to be top- and bottom-heavy, with many of their jobs in executive positions or at the lowest rung of the job ladder. But as small businesses grow, they often add middle-wage positions and increase benefits for their workers, including paid sick leave, time off, and subsidized healthcare.

This report—the latest publication of the Center for an Urban Future's Middle Class Jobs Project, a research initiative funded by Fisher Brothers and Winston C. Fisher—examines the potential to boost the number of middle income jobs in New York by scaling up small businesses. It takes a close look at the challenges and barriers facing small businesses and identifies strategies for helping more of them to grow. Although it is difficult to predict which industries are best positioned to add jobs over the long term, one thing is clear: New York City has enormous potential to grow more of its small businesses of all kinds, creating thousands of middle-wage jobs in the process.

For this report, we interviewed dozens of small business owners from all five boroughs and in a bewildering array of industries, as well as government officials, economic development professionals, and other small business experts. Our goal was to better understand the pain points that emerge as small businesses struggle to grow and to offer concrete ideas for helping more New York City companies to scale up.

Barriers to Growth

Despite the city's advantages as the most dynamic and connected economy in the Western hemisphere, New York's small businesses often struggle to grow. Companies with fewer than 50 employees accounted for nearly 98 percent of the growth in businesses citywide from 2000 to 2013. As of 2014, nearly two thirds of the city's private sector businesses had fewer than five employees, and these very small businesses were responsible for nearly a quarter of all new hires between 2007 and 2012.

New York's high tax rates and demanding regulatory burdens are well known. So, too, is the city's expensive real estate market. These barriers often prompt companies to look outside the city to expand operations. But most business owners accept these burdens as a cost of doing business in a city that boasts 8.5 million residents, attracts 60 million tourists a year, and stands as one of the globe's leading cultural and economic centers.

The greater challenge, say New York City's small business owners, is the opacity and complexity of the city's business environment and the lack of coordinated resources along the way. Small business owners struggle to understand the taxes and regulations that affect their firms' operations—a more frustrating hurdle than simply affording the bill. Even when business owners think they are obeying the city's regulations, they are too often surprised by a fine or a new demand for paperwork. If they are able to find a suitable facility in which to expand, they struggle to secure a reasonable lease or outfit it with the necessary equipment and services. And although they are impressed with the diverse pools of talent in the city, they struggle to find workers with the right mix of technical and soft skills.

Too many businesses in New York City run into obstacles when they try to add employees. Labor costs are compounded by the additional costs of growth, including office space, training, human resources, middle management, and mandated benefits such as sick leave, healthcare, workers' compensation, and unemployment taxes. In a costly, competitive, and complex business environment, growing from a handful of employees to 20 or more often requires rethinking every aspect of business operations. The more that small businesses succeed, the more complex— and overwhelming—their operations

become. Many owners lack the expertise or connections to make the transition from everybody-does-everything companies to large-scale organizations based on extensive specialization and division of labor.

With every new contract, revenue stream, and employee, businesses take on new challenges. A city law mandates paid sick leave at five employees and the Affordable Care Act requires companies with 50 or more employees to provide health insurance coverage to all full-time workers. At the same time as the initial costs of growth are kicking in, however, a financing gap emerges. For far too many small businesses, this creates a perfect storm of obstacles that can stop growth in its tracks.

“New York is strong with the start-ups employing one to four people, but there is no growth with the 50-or-more-employee companies,” says Michael Simas, the executive vice president for the Partnership for New York City. Part of the problem, he says, is an inadequate bridge from coworking spaces to large-scale factories and private offices. “When you stick your head up from the collaborative work spaces, when you have to pay your own bills and take care of permitting and other issues, it’s a big challenge,” says Simas. “As you grow it gets more expensive—you have to deal with HR, with legal, with workers’ comp, not to mention other expenses. All that starts to add up and New Jersey doesn’t look so bad.”

Companies face a “Death Valley” of uncertainty and limited resources as they grow their companies, says Kinda Younes, the executive director of the Industrial and Technical Assistance Corporation (ITAC), which provides below-market consulting services to manufacturing companies. When they succeed, companies in all sectors need a whole new strategy to handle growing demand, add workers and business locations, fund and deploy machinery and equipment, source local materials, and decide what parts of the business to outsource and what to handle in-house.

Managing growth “itself is a full-time job that they are expected to flawlessly execute, while still being understaffed and running their business,” Younes says. “There are lots of initiatives around start-ups—entrepreneurship programs, accelerators, incubators, etcetera—but much less of a focus to actually help [companies] grow.”

Too often, small business owners say, they struggle to benefit fully from the city’s advantages, while remaining unable to escape its high costs and burdens. When they seek help—from government agencies, banks, consultants, and bigger firms—they have no reliable place to go. To grow in the city, businesses need a complete roadmap tailored to industry, location, and customer base. Longtime business owners and advisors caution that although certain kinds of tools and advice can be shared across sectors, much has to be adapted to each company’s particular circumstances. In addition, the vast range of information available only exacerbates the complexity. So small businesses improvise, adapting their traditional practices, piecemeal, to chase new programs and opportunities.

The major challenge of small businesses in New York, then, is a disconnect between everyday operations and the opportunities for growth and development. What small businesses need, above all else, are rational systems that help them understand their business operations, access local and regional markets, and identify broader opportunities for growth.

Even when the government offers services, business owners say they are often difficult to find and use. “There are so many resources out there, it can become overwhelming,” says Jill Johnson of the Workshop in Business Opportunities, which provides business services to underserved communities. Adds Sabrina Valle of Jam Stand, a Brooklyn-based jam manufacturer: “There are like a bajillion resources but I don’t really know how to navigate them. The city is trying to do things. Most of us don’t know where to look if we wanted to.”

Small Business in New York City

Business Size	Number of Companies	Total Payroll (billions)	Employees	Average Annual Pay	Average Revenues
<20	207,619	$31.7	646,593	$49,091	$880,602
20-99	21,263	$33.8	563,722	$59,930	$10,545,354
100-499	4,306	$35.3	518,535	$68,024	$35,815,650
500+	755	$174.7	1,785,080	$97,839	$194,055,433

Source: U.S. Census Bureau, County Business Patterns

Help from City Hall

The de Blasio administration's Small Business First (SB1) program, a $27 million initiative announced in July 2014, has developed a three-pronged agenda. First, SB1 aims to make information and compliance procedures more accessible online. Second, the program seeks to provide more direct and responsive services to small businesses to help them understand the regulatory environment and stay in compliance. Third, SB1 proposes evaluating the small business regulations on the books to determine which ones might be consolidated, simplified, or eliminated.

At the same time, SB1 leaves many of the specific obstacles to small business growth unaddressed. From attracting and retaining employees who can drive new opportunities, to coping with wage pressures and benefit mandates, to financing for equipment and real estate, to seeking new markets and breaking into supply chains, the barriers to small business growth are distinctly different from the burdens facing small businesses in general.

In order to grow more of its vibrant small businesses, New York City should develop a multifaceted strategy to bridge the disconnect between the city's unparalleled advantages and its eager, entrepreneurial companies. Given that the challenges facing small businesses mount as they grow, it is not enough simply to reduce the barriers to starting a business. A strategy to create middleclass jobs by supporting small business growth should focus on the challenges facing New York City's smallest companies at each pivotal step on the path to growth.

As part of this strategy, the city needs to identify gaps in government services and programs for small businesses. These service gaps—which include investments in facilities, capital equipment, revolving loan funds, and training and consulting programs— should focus on helping businesses deal with the issues that emerge as they grow, not just supporting businesses as they first get off the ground. Companies that invest in their own equipment upgrades, operational systems, space expansions, and marketing— and combine those investments with investments in their workforce—not only succeed but also create real opportunity for their workers.

In addition, the city should develop a comprehensive online tool that connects New York's businesses with their obligations and opportunities. This system should gather all of the essential information for businesses to succeed in New York—including taxes and regulations, labor market data, real estate assistance programs, training and workforce development opportunities, government-backed financing programs, and consulting services—so that every aspect of the business environment is transparent and understandable, and services are centralized in a single location.

Finally, the city should redouble its efforts to invest in its infrastructure. The city has always benefited from coordinated investments in transportation, utilities, industrial spaces, parks, neighborhood revitalization, and environmental reclamation, which have the added benefit of creating additional jobs. These investments make business operations more efficient and

effective, while improving the quality of life for employees and employers alike. By strengthening communities all over the city, investments in public spaces and resources cement the bond that both companies and people have with New York City.

The Levels of the Challenge

Small businesses face obstacles to growth at four distinct levels.

The challenges begin with people, as companies struggle to find the talent necessary to grow their businesses, streamline their operations as they grow more complex, finance investments in facilities and equipment, and connect with markets and supply chains to sell their goods and services on a larger scale.

At the level of business operations and the built environment, businesses cite three major obstacles to growth: difficulties securing financing, a lack of affordable real estate, and decaying public infrastructure. Not only is real estate expensive but the search can take months and even years. Leases for most small businesses are short and subject to exorbitant rent increases, which can kick in just as a business is beginning to invest in its own growth. Investment in capital equipment also proves a challenge. Banks usually require a level of cash flow or collateral that many small businesses lack. Venture funding is available to highgrowth companies but almost never to small independent businesses.

At the level of government and policy, firms struggle to meet their obligations and to make the most of New York's advantages, especially as they seek to grow and add employees. Taxes and regulations are more burdensome in New York than most other cities—and their complexity makes them even more onerous. Procurement offers small businesses contract opportunities worth billions, but too often the process is opaque, confusing, and too time-consuming.

Scaling poses a daunting challenge across sectors. Once producers reach a certain threshold, they need more space, equipment, and workers. Growth typically takes place in leaps rather than steady increments. That puts companies in the uncomfortable position of taking huge risks without a high degree of confidence in the prospects for success.

Number of Small Businesses by Sector

Sector	2010	2011	2012	2013	2014
RETAIL TRADE	30,135	30,671	31,298	31,693	32,085
PROFESSIONAL, SCIENTIFIC, TECHNICAL SERVICES	23,417	23,775	24,284	24,804	25,393
OTHER SERVICES (NOT PUBLIC ADMINISTRATION)	22,144	22,725	23,363	24,010	24,426
HEALTH CARE AND SOCIAL ASSISTANCE	19,146	19,443	19,692	19,893	20,110
REAL ESTATE AND RENTAL AND LEASING	18,104	18,300	18,401	18,640	18,994
ACCOMMODATION AND FOOD SERVICES	17,140	17,403	17,728	18,286	18,459
WHOLESALE TRADE	15,098	14,995	14,941	14,962	14,916
CONSTRUCTION	11,209	11,145	11,373	11,931	12,323

Number of Small Businesses by Sector					
Sector	**2010**	**2011**	**2012**	**2013**	**2014**
FINANCE AND INSURANCE	9,684	9,608	9,763	9,874	9,497
ADMINISTRATIVE/SUPPORT AND WASTE/REMEDIATION	6,879	6,976	7,134	7,277	7,335
MANUFACTURING	4,998	4,875	4,808	4,650	4,644
ARTS, ENTERTAINMENT AND RECREATION	4,818	4,906	5,030	5,159	5,359
INFORMATION	4,749	4,739	4,882	5,103	5,254
TRANSPORTATION AND WAREHOUSING	4,274	4,461	4,487	4,506	4,696
EDUCATIONAL SERVICES	2,283	2,339	2,527	2,635	2,674
MANAGEMENT OF BUSINESSES	742	694	738	748	766
INDUSTRIES NOT CLASSIFIED	536	485	258	446	587
UTILITIES	57	52	58	66	69
AGRICULTURE AND FORESTRY	14	14	17	12	14
MINING, QUARRYING, AND OIL AND GAS EXTRACTION	13	18	18	21	18
TOTALS	**195,429**	**197,584**	**200,800**	**204,716**	**207,619**

Source: U.S. Census Bureau, County Business Patterns

The following are the recommendations from *Scale Up New York*.

Read the full report (PDF).

New York City has an enormous opportunity to help its small businesses grow. The challenge is to identify the specific hurdles that keep small businesses small and end the disconnect between the city's vast resources and its eager entrepreneurs. Rather than simply adding new programs, New York City should focus on aligning its efforts to serve growing businesses, making these programs easier to access, and targeting more of them at the gaps that prevent small businesses from scaling up.

Small business owners recognize that the city's high costs stem, at least in part, from its extraordinary advantages. Real estate is expensive because so many people want to live and work here. Business taxes and regulations are high due to the city's historical commitment to protect the health and safety of New Yorkers and to provide a wide range of services for a

diverse population. But if New York places more burdens on small businesses than other cities, it should also strive to provide greater transparency and opportunity. A strategy to grow more of the city's small businesses would strengthen and diversify the economy while creating a crucial source of middle-class jobs.

Create the NYC Business Engine, a single online portal to streamline business compliance information and programs to spur growth.

In order to help more small businesses grow, the city's websites should do more than serve as repositories of information. To create clarity and certainty amid the city's complex and often byzantine business environment, New York City should develop a comprehensive, web-based, interactive database of all regulations, taxes, mandates, and programs that apply to every stage of business development.

In order to succeed, the NYC Business Engine needs to collect all existing and future resources in a single place, spanning agencies, issues, and levels of government. Even more important, the Business Engine should consolidate access to information, guidance, and programs aimed at helping business overcome the hurdles that stymie growth.

The web-based portal would provide comprehensive information about regulations, taxes, and programs at the city, state, and federal levels. The database would allow businesses to track their progress on compliance issues and their participation in public programs, with prompts and tips for tasks and opportunities. Users could opt in to email reminders for filing deadlines and program options.

This system could be linked to a database for labor, which would provide online profiles of workers in all fields—a "career passport" that can help workers document their experience, skills, and training, and connect with employers.

The city has already developed a number of websites to help businesses. The city's NYC Business website offers a number of "how to" resources for starting a new company. A "wizard" tool helps businesses sift through licensing requirements according to the type of business. Business owners can also check the status of permits, licenses, and violations. But too many of the existing systems are disconnected from one another and focused largely on helping start businesses—not helping them to grow.

Small Business First, a $27-million initiative of the Department of Small Business Services, includes the city's latest effort to provide comprehensive and transparent data and information for businesses. The SBS Online Business Portal—which is currently under construction and scheduled to launch in 2017—would offer information about city taxes and regulations, filtered by the type of business and other variables. Using the portal, which the SBS is creating in collaboration with 20 departments, businesses will be able to track their progress on licenses, permits, certifications, inspections, and violations and to make payments to the city and check the status of applications.

The proposed Online Business Portal offers an excellent foundation for a comprehensive, interactive system. But the NYC Business Engine needs to go beyond this system to track information and processes. The tool could be even more effective if it included all levels of government as well as nonprofit and for-profit programs specifically focused on helping existing small businesses to navigate the challenges that accompany growth. The tool should provide one-stop shopping for all phases of small business development.

Develop an online tool with comprehensive information on resources, regulations, and programs across all levels of government and all stages of business growth.

The NYC Business Engine should include information about all relevant city, state, and federal regulations, taxes, certifications, and mandates. To grow a business in the city, companies need a comprehensive system for managing the many regulations, licenses, and mandates that require compliance, as well as links to relevant program applications, courses,

procurement opportunities, consulting services, and other resources. And businesses need to understand the entire context of government mandates and opportunities, not just those at the city level.

To help small businesses take advantage of public sector contracts, the database should include information about government procurement at the federal, state, and local levels, as well as the tools to qualify for and bid on these contracts. This system should include links to companies seeking co-bidders and subcontractors, with tools for collaborating on contracts. As with all online data systems, these tools should allow users to populate forms offline, with the option to upload materials at key points in the qualification and bidding process.

The database should also contain comprehensive information about the relevant services and programs offered by all levels of government, as well as offerings from nonprofits and other organizations. The database should eventually include information, online forms, and tracking capabilities for small business financing, subsidized consulting, essential business services like broadband and utilities, and programs to help upgrade facilities and lease or purchase equipment.

To unify data most efficiently, the city should leverage existing resources. Rather than build a new data warehouse for small businesses, the city should feed relevant data into the city's DataBridge warehouse and SBS should pull information from DataBridge for the Business Engine. Business records could then be linked to buildings, utilities, and financial data already fed into DataBridge. The Mayor's Office of Operations should work with SBS to ensure that its needs are included in the Citywide Data Integration Agreement plan.

Crowdsource ideas and evaluations through online peer networks.
The Engine should include a crowdsourced system of ratings and comments about the quality of programs. For small businesses to thrive, they should be able to benefit from the wisdom of the crowd, not left to fend for themselves in an environment with many programs and initiatives of uneven quality. For the first time in history, a tech-savvy city like New York has the opportunity to provide comprehensive, detailed information on the full range of programs available to its small businesses. Yelp, the consumer rating site for restaurants, hotels, and other goods and services, could offer a model for this system. A rating system could also offer invaluable feedback to providers and administrators on the quality of various programs and services.

These evaluations could be enhanced by topic-specific online question-and-answer forums, organized around specific sectors and issues. Public forums should follow the best practices of online professional communities, with protections against spamming and a system for upvoting helpful responses. Experts could be invited to offer advice or conduct online seminars and city agencies could turn to the online community for user testing.

Analyze user-generated data to identify inside-out reforms.
City officials should leverage the data gathered through this online portal to identify rules and regulations that are unnecessary, duplicative, or contradictory—and then propose their revision or elimination. The NYC Business Engine will offer a place where virtually all data relevant to small business is tracked. This data can help the city identify gaps in its services and programs, and understand how changes to the city's regulatory environment affect businesses across all sectors.

An award-winning state program in Minnesota, the Board of Government Innovation and Cooperation, offers a model for how this could work. Under the direction of a statewide board composed of members from all three branches of government, public officials were encouraged to propose waivers of regulations—as long as they also proposed a new, better way to pursue the regulations' stated goals. At the end of the waiver period, the agencies assessed how well the alternate approach worked. If the trial approach worked, the board submitted a proposal to the legislature to make it permanent. If the approach

did not work, the agencies reverted to the old approach. The Minnesota program saved millions of dollars and sparked a wide range of rule revisions and interagency collaborations.

Develop new initiatives to help small businesses grow and expand awareness of existing small business programs. New York City has a number of valuable small business assistance programs, including initiatives run out of the Department of Small Business Services and the Economic Development Corporation, and others managed by nonprofit small business assistance providers. But the majority of these programs are focused on entrepreneurs starting new businesses. The de Blasio administration should refocus its toolkit of small business programs to include more initiatives that help existing businesses to grow.

In addition, although New York boasts several good business assistance programs, some of them are not marketed sufficiently. Small business executives say they simply aren't aware of the programs that exist.

One city program that could benefit from additional marketing is Strategic Steps for Growth, a small business capacity-building program developed by the Boston-based nonprofit Interise. Strategic Steps for Growth provides minority and women business owners with the knowledge, knowhow and relationships they need to grow their business. It is one of the few standout business assistance programs in the five boroughs that is specifically focused on helping small firms get to the next level. Using Interise's curriculum, the program now operates in 70 cities across the country, run by local partners that are licensed to deliver it. Results are impressive, but the Strategic Steps for Growth program in New York consistently operates at less than full capacity. The program, which is operated by SBS and the Berkley Innovation Lab at New York University's Stern School of Business, can accommodate 18 business owners, but enrollment averages between 15 and 16 firms in each cohort.

The de Blasio administration should initiate an extensive marketing campaign for the program. To increase interest, the administration should provide full funding, allowing SBS to reduce or eliminate the $1,500 fee for Strategic Steps for Growth. Seven other Interise partner programs now operate in New York City without charging fees.

Create incentives for banks and alternative lenders to make more small loans.
For many small businesses, the biggest obstacle to growth is financing. In the early days, many entrepreneurs are able to keep their business afloat with funds from their own savings, support from friends and family, funding from a microloan, or profits from operations. But to expand, small businesses need next-stage capital, which is often too difficult to secure. Although entrepreneurs and small business owners at all levels struggle to access capital, the biggest gap is for loans under $1 million—and often in amounts under $250,000. Unfortunately, there is currently little incentive for banks to make loans at $500,000, $200,000 or $75,000. It costs the same for banks to process these small loans as it does for a $5 million loan, yet the profit potential is significantly lower and the risks are typically much higher. Meanwhile, microlenders generally do not provide loans over $50,000, with the vast majority of their investments coming in under $5,000. City, state, and federal government officials should create new incentives that entice lenders to fill the gap between microloans and traditional bank loans.

Expand the Capital Access program.
The city's Capital Access program guarantees up to 40 percent of eligible loans from participating lenders to small businesses. By providing the guarantee, the city reduces the risk for lenders and thus helps them make small loans they would not otherwise offer. The de Blasio administration could do two things to increase the number of loans made through the program. First, it should follow the lead of the SBA, which eliminated fees that it had imposed on lenders for every loan made through its loan guarantee program. Second, the de Blasio administration ought to consider extending the guarantee to

60 or 70 percent. Doing so would encourage lenders to make more small loans.

Deploy small business counselors to visit companies where they are.
Federal and city assistance centers offer help centers in all five boroughs, allowing entrepreneurs and business owners to seek advice without trekking to the Small Business Services headquarters in lower Manhattan. But the city-funded Business Solutions Centers and federally funded Small Business Development Centers focus on clients who come to them. The vast majority of small businesses owners are too busy running their firm's daily operations to leave their own neighborhoods, especially during business hours.

It is time to further decentralize small business services. SBS should create a new unit with a roving band of business counselors who regularly visit neighborhoods and actively reach out to businesses there to query them about their challenges and proactively offer suggestions on resources. This mobile business assistance unit might spend several days twice a year operating out of each of the city's 69 business improvement districts (BIDs), which typically represent hundreds of area businesses but lack the capacity to have technical assistance providers on staff. Along with merchants' associations and other neighborhood-based business entities, BIDs would be well placed to provide a temporary home for the city's new team of roving business counselors.

Develop programs that help immigrant-run businesses scale up.
In recent years, both the de Blasio and Bloomberg administrations have rolled out new programs aimed at supporting immigrant entrepreneurs. This makes a lot of sense, as immigrants start almost half of all small businesses in New York. The time has come to focus on helping more of the city's immigrant-run firms expand. One idea is to launch new programs that help immigrant-run firms reach customers outside of their own ethnic communities. When an immigrant-owned firm makes a deliberate attempt to go out of its comfort zone and reach new markets, the results can be impressive. The city should partner with organizations in immigrant communities to launch a new program—or expand successful efforts like the Immigrant Business Initiative, which was launched by SBS in partnership with Citi—to provide counseling on strategies to expand markets beyond their own communities.

Strengthen the city's outreach and standards for small business procurement opportunities.
By dint of its massive scale, New York's state and city government should offer a rich feast of procurement opportunities for small businesses in all sectors. But while the city sets important goals for contracting with minority- and women-owned businesses, many of which are small, it sets no specific goals for small firms overall. Too often, small companies do not benefit from discretionary purchases or gain access to subcontracting arrangements with larger firms. The city should make small business procurement a major priority.

To help small businesses compete for more contracts, the city should require more contracts to be advertised publicly. Currently, only contracts worth more than $100,000 are required to be published in the City Record. The city should mirror the state's policy of publicizing contracts over $50,000.

The city should also consider new policies for discretionary purchases that would help more small MWBEs compete for government contracts. A new city rule enacted in March 2016 increased the micro-purchase limit for construction from $25,000 to $35,000. This rule change allows agencies to direct more contracts toward certified MWBE vendors. The city should monitor that policy and consider increasing the micro-purchase limit in other industries.

The ultimate goal is to increase both MWBE and small business participation in procurement. The federal government sets a general goal of 23 percent contracting with small businesses. New York state and city governments set no contracting goals. The city should consider creating a certification program and setting goals for small businesses, just as it sets goals for

MWBEs (30 percent) and service-disabled veteran-owned firms (6 percent). The city should also reach out to banks and community groups, such as community development corporations, to offer bridge loans for companies doing public projects. Many public contracts do not pay until months after the goods or services are provided, putting small businesses in precarious financial situations.

Too often, federal and state governments goals for small business subcontracting are not enforced. Prime contractors simply need to state that they tried and failed to find appropriate subcontractors, without any real proof of effort. Although greater oversight might help rectify the situation, there are other options, too. The city should use its many resources—including the NYC Business Engine—to create a pipeline of small businesses appropriate for a wide range of jobs. When a company asserts that it has tried and failed to find a subcontractor, the city could then suggest five certified small businesses to do the work.

Create more customized training programs for small business workers.
For small business to grow, they need workers who are prepared with the unique mix of skills that those enterprises demand. However, there is a major disconnect between the current workforce development system and the needs of small businesses.

New York's job training programs tend to be oriented toward large employers in a limited range of industries. To better connect workers with small businesses, workforce development providers could partner with community-based organizations to identify the varied needs of everyone-does-everything small businesses and develop tailored training curricula. The city should expand its support for such community-based training programs, which have the potential to better integrate local business into the workforce development system.

The Brooklyn Chamber of Commerce, Southwest Brooklyn Development Corporation, and Lower East Side Employment Network (LESEN) offer useful models of programs that connect hundreds of businesses and thousands of workers each year. In the case of LESEN, for example, In the case of LESEN, for example, a job developer works with seven different workforce development organizations to feed candidates to small businesses on the Lower East Side.

For many small businesses, hiring new employees presents an additional challenge of onboarding and training. Retoolingthe city's workforce development system to better address the needs of small businesses should include programs that help businesses provide on-the-job training for new hires and retraining for existing workers as the company's needs shift.

Help more small businesses access operations and logistics advice.
In a city as expensive and competitive as New York, small businesses need strategic advice and direction on key issues of operations and development. Too often, businesses struggle due to limited knowledge about attracting and training workers, production and distribution processes, navigating complex tax and regulatory systems, or marketing and sales.

The Industrial and Technology Assistance Corporation, a state-funded consultancy, provides below-market consulting services for companies in New York. Independent analysis of 200 ITAC clients have found dramatic improvements in labor productivity and operational efficiency, as well as investments in equipment and training. Surveys of those clients from 2011 to 2015 showed increased sales of $145.86 million, cost savings of $173.2 million, and 1,297 new jobs.

The city—perhaps in collaboration with the state or local banks or foundations—should establish a fund to encourage businesses to invest in high-level advice on their operations and logistics. Under a "pay it forward" approach, the program might front the money needed for consulting or training from vetted agencies or companies. In return, the participants would pay program fees from future revenues. If consulting services enable companies to grow, some of their new revenues could

pay for the program retroactively. Companies could be rewarded for creating jobs with a partial forgiveness of the loans.

NYCEDC's Fashion Manufacturing Initiative, which offers a free "mini MBA" in business operations, presents a promising model. Such programs could be made available to owners and managers of companies at all stages of development, with a special focus on the challenges of scaling up.

Identify new opportunities for tracking small businesses into underutilized real estate and for creating small business spaces in new developments.
One of the greatest challenges facing small businesses in New York is finding the right facilities to build and grow acompany. Although there are many opportunities for start-ups and new companies, including an ever-expanding ecosystem of incubators and accelerators, it is extremely difficult for small businesses to secure the physical space necessary to scale up.

The city should begin by countering the long, steady decline in Class B and C office space, which offers ideal places forsmall businesses to expand once they have outgrown coworking environment and smaller offices. Since the turn of the century, the city has lost more than 1.6 million square feet of Class B and C space. Rather than allow these buildings to be converted to high-end Class A offices, luxury apartments, and hotel buildings—sometimes supported by tax breaks and subsidies—the city could offer incentives for both owners and tenants to improve these spaces.

The city could also develop a strategy for repurposing hundreds of storage buildings that dot the city from the Bronx to the Hudson Yards area to the BQE corridor. The city should explore incentives to convert these spaces to more varied commercial uses.

The city might also consider a linkage policy for commercial real estate, similar to that used in affordable housing development. In exchange for providing 20 percent of their floor space to below-market rents for small business, developers could enjoy certain tax, regulatory, and land benefits from the city. Such a program could be used to incentivize cluster development in isolated parts of the city that need boosts in business and employment.

Leverage the infrastructure investments of the state and city to foster better opportunities for small businesses.
The state of the city's infrastructure poses both a barrier and an opportunity for small businesses.

New York's rapid growth shows in the congestion of major streets and arteries. Small companies waste countless hoursstuck in traffic on local roads as well as major arteries and highways, making it a struggle to get deliveries and to ship their products. Some of this congestion is unavoidable. But better street design, maintenance, and traffic flows could improve the system dramatically. The city should work with local business and community organizations to identify the hot spots of traffic congestion and implement changes that could improve traffic flow. Sometimes minor changes—like curb cuts, signal changes, changing speed limits, and policing—can dramatically improve circulation. Other problems are more difficult, requiring long-term planning for street design. In both cases, state and city authorities should work to reduce the times needed to get goods on and off the highways.

The design and management of street flows is a tricky business in all major cities. Adjusting traffic patterns can take years to achieve. Spurred by PlaNYC, the city has redesigned more than 70 plazas over the past decade—including Times Square in Manhattan, Jackson Heights in Queens, and Fulton Street in Brooklyn—to improve traffic and safety. Because these projects were labeled "interim" and used simple materials like paint and planters—and were supported by partnerships and strong data analysis—they required less bureaucratic wrangling than previous efforts. Partnering with business improvement districts and other community groups, the city should pilot such high-reward/low-risk projects to improve traffic flows and

street traffic for small businesses.

At the same time, the state and city's long-term transportation planners should consider creative ways to get New York's small businesses involved with building 21st-century infrastructure. The city should actively reach out to small businesses—in design, materials, construction, and manufacturing, as well as finance and support services—to participate in the ongoing construction and maintenance of the city's built environment. This outreach effort should begin with procurement, but not end there. Competitions, with substantial awards, could incentivize "moonshot" breakthroughs to make 3D-printed infrastructure parts, subway cars, energy-efficient buildings, and more. The DARPA challenge for self-driving cars could be a model. When designing the competition, the city can incentivize "coopetition"—a mix of competition and cooperation—by making key breakthroughs open to all participants in the process.

Center for an Urban Future (CUF) is a catalyst for smart and sustainable policies that reduce inequality, increase economic mobility, and grow the economy in New York City. An independent, nonpartisan policy organization, CUF uses fact-based research to elevate important and often overlooked issues onto the radar of policymakers and advance practical solutions that strengthen New York and help all New Yorkers participate in the city's rising prosperity.

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