

May 23, 2016

City Manager David L. Hansen
City of Virginia Beach
2401 Courthouse Drive, Building 1
Virginia Beach, VA 23456

Re: Improving The Small Business Environment
in the City of Virginia Beach

Dear Mr. Hansen:

I trust this finds you well. For the past two years The Small Business Subcommittee of the City-Council appointed Process Improvement Steering Committee has been studying the business environment in the City of Virginia Beach in an effort to identify barriers to small business development and expansion. The Subcommittee consisted of representatives from a number of organizations including the Asian Business Association of Hampton Roads, Virginia Beach Vision, The Professional Association of Businesses, The Minority Business Council, The Hispanic Chamber of Commerce, The Virginia Beach Taxpayer Alliance, and The Hampton Roads Chamber of Commerce. Additionally, from the academic community, distinguished professionals from the Business Departments of both Regent University and Old Dominion University participated in the Committee's work. The City of Virginia Beach was represented by The Honorable Robert Dyer, Catheryn Whitesell, Patti Phillips, and Jeff Smith.

Based upon the hard work of this distinguished group, it is my pleasure to present to you the findings of our study and recommendations on how the City might want to address the issues identified in the study. It is our hope that you and City Council will use this study to improve the small business environment in the City of Virginia Beach. We stand ready to address any questions or concerns you may have.

Respectfully,



Richard L. Bowie, Chair
Process Improvement Steering Committee

RLB/dyw

REPORT

Improving The Small Business Environment In
The City Of Virginia Beach

Small Business Subcommittee
Process Improvement Steering Committee

REPORT OF THE SMALL BUSINESS SUBCOMMITTEE
OF
THE PROCESS IMPROVEMENT STEERING COMMITTEE

We would like to state, first and foremost, that this report is in no way intended to be a criticism of the City of Virginia Beach, or of the current business environment. We know that the City has received well-deserved recognition, both regionally and nationally, as a good place to do business. That said, one reason it has been so successful is that leadership is constantly seeking ways to improve, and to maintain an edge in providing a diverse and thriving business community. To that end, we provide the following report for your consideration.

This subcommittee was formed to study the business environment in the City of Virginia Beach, identify barriers to small business development and expansion, and make recommendations on how the City might address these issues. The committee, with the participation of ODU and the City, developed and conducted a survey of businesses located in, or conducting business in the City. This survey employed a series of questions using both the Likert Scale and open questions. The open questions would be coded and categorized by accepted methodologies. Demographical data of the respondents was also collected for analysis. A series of interviews with small businesses was also conducted and incorporated with the research.

This research identified ten main points which ranged from very significant to less significant. However, it was noted that some industries or business sectors were adequately or even over-represented, while others were significantly under-represented. Accepting that the significance of any given issue would vary by industry, the data would have to be weighted. When the data is analyzed, considering the percentage of the total population of any particular business sector that is represented in the sampling, the ranking of these by the statistical score changes. Rather than relying simply on the rank of these ten issues to make blanket statements about issues confronting the general business community, it was decided to include all ten, and consolidate these into the five main categories that follow in this report. This not only ensures that no opportunities to address these issues are lost, but will engender the trust of the business community that they are being heard.

The following areas were identified through the research undertaken by the SBS as problematic or as areas in which the existing processes could be improved to facilitate a more business friendly environment.

- 1. The City gives preference to large businesses over small. When recruiting large business interests from out of town and offering incentives to relocate to or expand in the City, the impact on small existing businesses is often not considered. No steps are taken to mitigate the impact on these businesses, nor are incentives offered to encourage the expansion of these existing small businesses.**

RECOMMENDATIONS:

It's incumbent upon us at this point to acknowledge that the Economic Development Department (ED) has a number of initiatives that could benefit small business. The problem appears to be that these programs are not being adequately promoted, leaving the majority of small businesses unaware both of their existence or the requirements or procedures involved in availing themselves of these programs. ED needs to improve communication with small businesses, and potential new business startups. This would include improvements to the web site to increase its online profile, as well as publications disseminated when applying for, or inquiring about business licensing. ED should also consider a continuing series of well publicized presentations of these programs (such as the one conducted for the PISC) to the business community.

The following recommendation is made regarding efforts by the City and the Economic Development Department in the recruiting and incentivizing of new (particularly larger, out of state) businesses. The City should study the impact on existing small business when assisting new, out of city, or out of state, businesses in relocating to the city. While the impact of new business on the local economy may be a plus if considered in isolation, it could conceivably be detrimental to existing small businesses with whom they would compete. This impact study should address not only the total market available in which they are competing, but the available qualified labor in the market. There is no benefit to the City or the business community if such efforts result in market displacement rather than market expansion. The desired results of such efforts should be to level the playing field for those existing small business, and taking whatever measures deemed necessary to mitigate any negative impact.

Another specific, related recommendation is regarding public private partnerships or other undertakings by the City which would require public funding. Whenever the City enters into an agreement with a developer which requires the expenditure of public money, certain conditions to protect existing small businesses should be incorporated in such agreements. Chief among these conditions would be that the developer, or his leasing agent, would offer and make available space in any such new development, to existing, local, small businesses, at the same cost, and with the same incentives and benefits as any out of town business. Here again, as a matter of fundamental fairness, there should be a level playing field for small existing business. In reality, they are, at least in part, responsible for financing the development.

The City should also consider an incentive program that gives preference to businesses located in the City of Virginia Beach. Norfolk has a similar program which could be benchmarked. The City could also create an incentive program for city departments to purchase from small businesses in Virginia Beach.

Additional recommendations to assist small businesses, when competing with larger businesses, in providing goods and services to the City itself, require an assessment of, and possibly changes to the current procurement system. Based on the research, there exists the perception (if not the reality) that the application of the "no bond" requirement for some small business activity has been inconsistent. The City should revisit the rules governing this program to ensure they are clearly defined and being consistently applied, and that those involved in the interface with the concerned businesses are knowledgeable, and adequately explain the program. Where possible the City should seek to expand the use of the program and assist more small businesses to take advantage of the program. The City could start a program similar to the micro-business certification process which would eliminate bonding requirements. The City should also explore changes in procurement policy that would allow the use of City credit cards for small dollar goods and services. This streamlines the process and facilitates expedited payment to local small businesses. Assuming that adequate safeguards and an auditing regime are in place as part of this program, we feel this could actually result in savings to both the City and the small businesses. These steps should also result in a greater share of City goods and services being provided by small local businesses.

2. Information and services available to new businesses are not easily available or promoted. Information on available city and private sector resources are not adequately accessible through the City website or City personnel. These include resources such as licensing and regulatory requirements as well as financing resources and educational resources such as workshops, classes and mentoring for new entrepreneurs.

RECOMMENDATIONS:

The City should redesign its website to provide easier navigation and a more user-friendly experience. The site should provide a prominent link to a page(s) that would clearly delineate the steps necessary to open a business, by type of business, in the City. It should incorporate an up-to-date list of available resources available through the City, and an up-to-date list of available resources in the private sector. Resources available should include available financing programs and sources, zoning rules, services, programs, training, and mentoring programs to assist small business start-ups. Externally, this information, through some methodology (i.e. Google Words, ad links, etc.), should enable search engines to present the link to this information as a top listing when a prospective new business owner doesn't know where to locate the information. Equally as important, is for the City to develop and provide internal training for those employees that will be charged with providing information to and assisting new business owners. This training should stress the importance of small business to the community and attempt to inculcate a sense that their role is to assist in the process. Annual assessments should be revised to evaluate their progress in achieving this goal.

Additional recommendations are to explore the possibility of partnering with TCC or Regent University in the creation of a small business incubator as part of the business programs in those schools. The City should also start, or partner with an existing private sector, mentoring program. The program could provide volunteers, business owners, or retired business professionals, to mentor new and prospective business owners, and walk them through the bureaucratic processes.

- 3. The process of licensing and opening a new business is too cumbersome. The process needs to be streamlined and simplified, and the steps involved reduced and clearly outlined.**

RECOMMENDATIONS:

The City should create a "One-Stop" licensing process, eliminating the need to go from building to building, or department to department, or a multitude of city and state offices. All necessary paperwork, applications and instructions could be completed at one single location and then forwarded to the appropriate governing agency. This could include acting on behalf of state governing authorities, at least to the extent of accepting applications and forwarding them to the appropriate authority, (i.e. State Department of Taxation, Public Health, ABC, Circuit Court, etc.) as well as all concerned city departments. The additional handling costs involved would be defrayed by a percentage of the application and licensing fees. This would be similar to the arrangement the City has with DMV to collect City licensing fees for motor vehicles.

The city should create a flow chart (road map), specific to each industry, outlining all the steps necessary, information needed, documentation required, as well as any certifications required, and the costs involved with obtaining a license or licenses to open a business in the City. This could be made available through the website and publications available at city offices. There should be trained, knowledgeable personnel made available that can assist or answer any questions the business owner may have. This will help prospective business owners in their decision making process and enable them to be prepared when they start the process.

4. The regulatory environment, and the inspection regimes, both for the initial opening of, and the continuing operations of businesses, need to be improved. City departments seem more often interested in enforcement and penalizing than in educating and assisting businesses achieving compliance. Too often conflicts arise between the different City departments in the application of various regulations, leading to the confusion and frustration of the business owner.

RECOMMENDATIONS:

A number of efforts are currently underway to address some these issues. The PISC is working on issues with planning, and permits and inspection processes, and there is a concurrent study underway by the City Auditor's Office. Other groups, such as Virginia Beach Vision, are also involved in various efforts to resolve problems in this area. It is the intention of this subcommittee to confer with and, when completed, incorporate the results of these efforts in developing specific recommendations through the PISC. We would observe that in studying these issues, ultimately, a successful resolution would require a change in the culture throughout the City. A change from one of viewing themselves as solely a regulatory entity, to one which is a service oriented, and educational in assisting businesses with achieving compliance. They would be a partner, if you will, with the business community in the process, realizing that the City's success depends on the success of the business community.

In addition to the initial stages of opening a business, conflicts too often arise within the various city departments and their inspectors when dealing with the continuing operation of an existing business. For example, one inspector telling the business to make changes which are in direct conflict with what the business was told by an inspector from a different city department. Sometimes, businesses are given conflicting instructions by different inspectors within the same department. This uncertainty leads to confusion, frustration, and often unnecessary expense. To resolve these issues we recommend that department heads from these inspecting departments collectively review their codes, rules, regulations to identify those which may be in conflict, within their own departments, or with those of another department. Take whatever steps are necessary to resolve the conflicts, and potential conflicts, and make revisions to their rules. Once codified, evaluate their respective training programs, or develop new training programs, to ensure that there will be clear and consistently applied inspection regimes.

5. City administered tax laws, and the level of taxation need to be studied. The level of taxes and the regressive nature of some types of taxes can unintentionally inhibit the growth of business and the ability of the City to broaden its tax base.

RECOMMENDATIONS:

A number of proposed changes to the current business tax structure could be explored. For example, a graduated flat licensing fee in lieu of the current BPOL tax with smaller businesses paying a lower fee than larger, within the same industry. This rate structure could also include a decreasing abatement for the first five years of a new business. We realize that this would require changes to state law, as well as city, and would have to be studied in detail to ensure it would be revenue neutral. The current method of using gross revenues to assess taxes is not only obsolete, but counter-intuitive to promoting the growth of new, or small business. It does not consider in its calculation, the initial investment, and reinvestment in a new business, or the level of investment in promotion to kick-start a new business. Neither does it consider operating margins or the economies of scale with large versus small businesses. A flat fee system, on the other hand, would at least ensure a level starting point for each business of the same size in the same industry. The success or failure of the business would depend entirely on its management and operating expertise, and its success would not be penalized by additional taxation. The benefits to the business community are obvious, but by helping new small businesses achieve a greater rate of success, the increased economic activity would be beneficial to the City as well.

Now, to be sure, this is a very simple overview of but one potential change. There are a number of innovative ideas regarding tax policy in the business community depending on what type of business you own. Some would involve the need for further study of the level of trustee taxes when compared nationally to determine the extent to which they may inhibit the growth of the tourism and convention industries. One specific recommendation we offer to the PISC at this time would be to form an ad-hoc committee, study group, or a body in any form it deems appropriate to study business tax issues. This body should include members of the PISC, City Finance and Budget Offices, City Attorney's Office and members, or their representative, of our State delegation, City Treasurers Office, Commissioner of Revenue's Office and any other members required to address the feasibility of changes by all concerned governing entities. Members of the business community, and the academic community should also be included in the make-up of this group. Once draft proposals have been formulated, a series of forums should be conducted with all business owners invited to participate.

Consensus would be the goal, but at least, the business community would feel they have been included in the process, resulting in greatest acceptance of the outcome.

An ancillary recommendation to tax policy is to develop and implement an online tax return and tax payment system. We have been told for some time that such a system was in the works, but as yet is still not available. This should be implemented as soon as practicable, and enable the filing of business licensing, business property, and all of the trustee tax returns, and facilitate the payment of these online. Federal and State tax returns and payments, including Sales Tax and payroll taxes, have been online for a number of years now. While there is an expense involved in the initial implementation of the system, the cost savings in the long term for the City would be considerable. The system would save businesses time and money as well.

In conclusion, we reiterate that the City of Virginia Beach is, for the most part, an excellent city in which to do business. In fact, it scored high marks in the survey for being receptive to working with small business. The inescapable fact however, is that improvement is never the end, but just one step in the process. Constant reassessment and reevaluation is needed to maintain an edge in an ever-changing environment. For one example, we all recognize that the region and the City can no longer rely on the level of defense spending that we have enjoyed in the past. This will necessitate diversifying and growing the tax base through both existing business and attracting new business in an increasingly competitive environment. These recommendations are but a starting point towards that goal, and much more work needs to be done. We would add that the City should not be deterred in its efforts when considering recommendations that require changes to state law. The City should view this as an opportunity to once again prove that it is a leader in innovative thinking in the Commonwealth, and an example for other municipalities to follow. Government at all levels needs to replace "This is the way we have always done it" with "How can we make it even better" as an organizational philosophy. We congratulate the City in its willingness to include the Community in its efforts in this regard, and encourage the City to continue to do so.

Respectfully submitted:

Tom Etter

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Co-Chairman, Small Business Subcommittee
Process Improvement Steering Committee

David G. Browning

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