

**The Top Small Business Priorities for the
Mayor of Cleveland**

A COSE White Paper

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Executive Summary

Cleveland's Small Businesses have Four Priorities for the Next Mayor: *Improve Schools; Revitalize the City; Cut Red Tape and Lower Taxes*

In June 2005, the Council of Smaller Enterprises (COSE), the small business arm of the Greater Cleveland Partnership, surveyed its members whose businesses are located within the City of Cleveland on **their top priorities for Cleveland's Mayor in the next four years**. The survey reflects the singular role that the Mayor of the City of Cleveland plays as a champion for the more than 17,000 small business owners and more than 170,000 employees of small businesses in our city.

We surveyed a randomly selected and representative cross section of the city's business spectrum from construction and manufacturing to retail to professional services. Indeed, the sample closely mirrored the demographics of COSE's overall small business membership.

While no Mayor comes to the table with a box of "silver bullets," any Mayor must be willing to take aim at the key issues that face our city and push for the efforts of many parties to make change. **This white paper identifies some of those key issues, and suggests an action agenda for Cleveland's Mayor.**

I. Small Businesses' Top Priorities for Cleveland's Mayor

These business leaders unquestionably see Cleveland as **a viable, major-league metropolis** with great access to markets, a solid infrastructure, impressive health care services and, in many instances, a good pool of qualified workers. But the path to business success today is unacceptably rocky – **small business needs the next Mayor to commit to four kinds of actions to help small business succeed.**

1. **Improve the Schools:** Across every industry group, improving the city's schools is clearly the most urgent priority. Overall, 65.5% of all responding companies rated improving the schools as the #1 priority for the next Mayor.
 - We need to align the region's education with the workforce needs of a 21st Century economy. For example, the Greater Cleveland Partnership and COSE, already support *T.E.A.M. Academy at Max Hayes High School and the Entrepreneurship Academy*, each with academically rigorous curriculums matched to today's workplace realities.
2. **Revitalize Downtown and the Neighborhoods.** Every industry sector identified downtown and neighborhood revitalization as key to the city's economic renewal. 60% of all respondents ranked revitalization as their #1 or #2 priority. 53.8% ranked neighborhood revitalization as #1 or #2.
3. **Make it Easier to do Business with the City:** 53% of the businesses rated cutting City Hall red tape as the #1 or #2 priority.

- More than 40% of respondents saw a small business ombudsman as an important advocate.
4. **Modernize the Municipal Tax Structure:** Half of the overall sample (49.6%) ranked lowering taxes among their top two priorities. Less than 20% of any industry considered the tax structure “excellent” or even “adequate.”

II. The Urgency of Action Now: Between one-third and one-half of all respondents had doubts about keeping their businesses in Cleveland in the years ahead -- about as many as said they would definitely stay. Wholesale and retail businesses acknowledged they were most likely to move within five years, or were on the fence (65% and 60%, respectively).

III. Five Action Steps: Engaging Small Business in the Success of Our City

1. **Establish a cabinet-level Small Business Ombudsman to be the champion for small business owners and investors in the City of Cleveland.**
2. **Develop Cleveland’s first Small Business Advisory Council.** Small businesses do not have the representation or voice in City government commensurate with their importance. A small business council should be utilized by the Mayor and the advocate to hear the needs of small businesses and to advise the Mayor and Administration.
3. **Commit to supporting the Workforce Investment Board (WIB) and ensure that more of its seats are committed to small business.**
4. **Create a collateral investment pool for small business lending that mimics similar successes in Toledo and Youngstown.**
5. **Extend the “CBD Job Creation Incentive Grant Program” to smaller businesses.** Most small firms have far too few employees to meet the current legislation’s tax rebate threshold requirements. However, by lowering the threshold for firms that expand their workforce by as few as two jobs within a set period could have significant impact on retaining, attracting and growing Cleveland “one small business at a time.”

In the eyes of these business leaders, this is a great American city, one not without hope and not without prospects. But their Mayor must seize the day.

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I. Introduction: **Cleveland’s Mayor, Small Business and the Future of the Region**

It is indisputable that the health and vitality of the small business sector is a key pillar to success for the economy and community of northeast Ohio. Our smaller businesses are responsible for virtually all of the net new job growth in this decade. Continued investment and support of this sector converts directly to benefits for the residents, institutions and neighborhoods of the City of Cleveland.

The Mayor of the City of Cleveland plays a singular role in the civic life of our region. That role includes serving as champion for the more than 17,000 small business owners and more than 170,000 employees of those small businesses in our city. The Mayor shapes public debate and sets our overall direction.

Over the last two decades, much progress has been made revitalizing the city and its surroundings to make Cleveland a vibrant place to live and work. Over the last eight years, however, there has been a growing concern about the long-term vitality of our community. With the recognition that we are a city with a declining population, a

significant poverty issue and one struggling to convert to an economic base based on future opportunities and not past successes, the need for real leadership and comprehensive unity focused on progress is vital.

Cleveland is on the precipice of major change—indeed Cleveland is on the edge. Over the last four years there have been significant efforts at many levels to mobilize people, ideas and support for long-term change. While no Mayor will come to the table with a box of “silver bullets,” any Mayor must be willing to take aim at the key issues that face our city and push for the efforts of many parties to make change.

The small business community stands ready to be a part of those changes. The Council of Smaller Enterprises (COSE) has identified a number of opportunities for assistance and support to these businesses so that they can partner with the City’s leadership to create jobs and increase wealth for our city.

Small businesses are as diverse as the population of the city. Indeed their owners and employees are often residents of the city—they are this city and they are its future. Recognition of their role and their willingness to be involved in the changes that need to occur is critical for any candidate for the leadership of this city.

In June 2005, COSE surveyed its members who have businesses located in the City of Cleveland on their top priorities for Cleveland’s Mayor over the next four years. We asked our members what they thought needed to be done and what they thought about the prospects for their business in Northeast Ohio.

Overwhelmingly these business owners indicated that Cleveland is a viable, major-league city with great access to markets, a solid infrastructure, impressive health care services and, in many instances, a good pool of qualified workers. While optimistic about the resources and positioning of the City today, without progress on the important issues these businesses face, doubt exists among these leaders about their ability to keep their business in the city long term. In fact, 40 percent of those surveyed indicated that without positive change, they had doubts about being able to continue to keep their business in the City of Cleveland. This doubt underlines the urgency required to take immediate action.

II. The Council of Smaller Enterprises Survey of Small Business’ Priorities for Cleveland

The survey consisted of a randomly selected, representative sample that reflected a cross section of the City’s business spectrum from construction and manufacturing to retail to professional services. The sample closely mirrored the demographics of COSE’s overall small business membership. The findings largely corroborated priorities and civic directions in prior research and interviews with Cleveland’s small business leaders.

The respondents had strong, clear views on four **administrative, legislative** and **long-term strategic** steps the Mayor must take to return small business to the growth engine of the region’s economy it has been historically:

- 1. Improve Cleveland’s Schools**
- 2. Revitalize Downtown and the Neighborhoods**
- 3. Make it Easier to Do Business with the City**
 - **Appoint an effective Small Business Ombudsman**
- 4. Modernize the Municipal Tax Structure**

A. Cleveland Today in the Eyes of Small Business:

Nearly three-quarters of the respondents called Cleveland’s access to markets “excellent” or “adequate” – including 78% of manufacturing respondents, 87% of those in Wholesale Trades and 88% of those in finance, insurance or real estate. Similarly, over half of the firms overall and two-thirds of those in the trades and finance, insurance and real estate industries give good marks to the City’s access to suppliers. And most industries do not see a problem with the available pool of qualified employees.

B. Small Business’ Four Top Mayoral Priorities:

Despite the economic advantages cited above, these small businesses see themselves facing an unacceptably rocky path to business growth and success today. These small business leaders do see the Mayor’s Office as a key focus

of effective action. Cleveland's Mayor must clearly commit to four priorities, each of which will propel small business growth and success:

1. Improve the Schools:

Without question, across every industry group, improving the City's schools is clearly the most urgent priority. Overall, 65.5% of all companies rated improving the schools as the #1 priority for the next four years.

By their responses, it seems clear that these leaders approve the larger civic commitment to improving Cleveland's schools. They see the city's future harnessed directly to an available, sufficient, reliable pool of educated young people, intellectually equipped for the workforce needs of the 21st Century.

What might that mean? Cleveland's business leaders have long advocated, and worked with local schools and educators, to develop **experimental innovations in workforce education** that align curricula with workplace requirements in our fast-changing, global economy.

The Greater Cleveland Partnership, for example, recently has helped develop several innovative approaches, each of which ties rigorous academics to a career focus. The *T.E.A.M.* (Technology, Engineering, and Advanced Manufacturing) *Academy* at the Cleveland Schools' Max Hayes High School will take a select group of qualified Cleveland School 10th graders through a sophisticated pre-engineering curriculum that closely reflects the workplace.

Employers have been closely involved in designing the T.E.A.M. curriculum – one which includes computer-aided drafting and design, engineering welding, computer numerical machining and robotics. These are the skills at the heart of the workforce needs of the high-tech advanced manufacturing center that Cleveland has become. The program is a collaboration of the Cleveland Schools, Cuyahoga Community College and the Greater Cleveland Partnership. It will begin with the 2006-2007 school year and, at capacity, will graduate 100 students per year.

The Council of Smaller Enterprises itself has supported another ground-breaking educational initiative, in this case one that turns a rigorous academic program in the direction of business and idea creation. *The Entrepreneurship Academy* is a charter secondary school in which young men and women will match high academic expectations with a culture of entrepreneurial training and real-world decision-making. The Entrepreneurship Academy will open in the summer of 2006.

There are fresh, imaginative programs out there. These are just a sampling of the ways that the City, working with the private sector, can expand our economy by strengthening our workforce.

2. Revitalize Downtown and the Neighborhoods.

Considered nearly as important for the City's rebirth and success as improving the schools, **every industry sector zeroes in on downtown and neighborhood revitalization as key to the city's economic revitalization.** Well over half -- 60% -- of all respondents ranked revitalizing *downtown* as their #1 or #2 priority. Indeed, while its average (mean) rank was slightly lower than that of school improvement, slightly more respondents considered the quality of life in the city the top priority. Over half -- 53.8% -- ranked *neighborhood revitalization* as #1 or #2.

These findings are a resounding vote of confidence in the direction of Cleveland's economic development. They are also an indication of encouragement to continue the wide-ranging and exciting efforts which are transforming Cleveland's downtown and neighborhoods.

While "improving the schools" and "revitalization" are large-scale and long-term civic solutions, these business leaders also identified two sets of specific actions that would improve their economic fortunes. These involved cutting City Hall red tape and modernizing the municipal tax system.

3. **Make it Easier to Do Business with the City:**

That a survey question about making it easier to do business with City Hall would score as high as it did – among the top three priorities for these small business leaders – was something of a surprise. It is, after all, not as prominent or publicized an aspect of the life of the city as are the schools, urban revitalization or even the question of taxes. But its unexpectedly high rank underscores both the frustration small business owners feel working with the city, and the **powerful role City Hall could play in the growth and prosperity of Cleveland's small businesses.**

More than half (53%), of the businesses in this study rated cutting City Hall red tape as the #1 or #2 priority.

More than 40% of respondents saw a **small business ombudsman** as an important resource to cut City Hall red tape.

While the City's Department of Economic Development describes itself on its web site as "a small business ombudsman," the City has no official ombudsman position. *The next Mayor needs to address this issue promptly. **The Administration needs to raise the status, prominence and authority of the position so that an ombudsman can be a true champion for small business.***

Indeed, given the undisputed pre-eminence of small business as the engine of job and business growth in the American economy, **the Mayor should consider a Cabinet-level status for the City's small business advocate.** Such a move would send a powerful message that Cleveland's Mayor acknowledges **the indispensable role of small business in the City's economic future and intends to harness that promise.**

4. **Modernize the Municipal Tax Structure:**

After schools, urban revitalization and cutting red tape, these business leaders listed fixing Cleveland's tax structure among the top business-related issues in need of addressing.

The "tax question" had two facets to it. One concerned whether taxes were too high. Half of the overall sample (49.6%) ranked lowering taxes among their top two priorities. The other facet concerned Cleveland's "tax structure." Fewer than 20% of any industry considered the tax structure "excellent" or even "adequate."

Analogous to the recently passed H.B. 66 modernizing Ohio's state taxes, the City needs to lower the tax barriers to small businesses and include them in the tax and job-creating and investment incentives offered to larger businesses. A municipal tax code matched to Cleveland's economy at the beginning of the 21st Century can be a major incentive to forging a more attractive investment climate, to more investment in jobs and to job-creating innovations in the city and region.

In fact, City Council already has used its taxing authority in innovative ways to help create jobs and businesses in the City. **But it does not help the overwhelming majority of small businesses in the city or offer incentive for small businesses to relocate to the city.** Earlier this year, Council passed an innovative job-creating solution, the "*CBD [Central Business District] Job Creation Incentive Grant Program,*" to reward businesses that move into Cleveland and those that expand their workforces here.

The ordinance encourages businesses to move into the city and to expand their payrolls by letting them keep a portion of the payroll income tax these new jobs generated. Similar legislation in Columbus, Ohio has been quite successful in both creating jobs and expanding businesses in that city.

However, as forward-thinking as Cleveland's current ordinance is, most small firms have far too few employees to meet its requirements. Currently, to earn the tax incentives, an employer new to the city must bring in 25 new employees, while an existing employer needs to add 10 new employees.

In a more typical scenario, a small business owner in a good year may add 5 new employees – and that may well double the size of the business. Yet the business will not qualify for these tax incentives. **If our leaders are serious that small business is the backbone of our economy and the new economy, they should extend these tax incentives to the micro-businesses in the City.**

This legislation promises to be a powerful tool. In the Columbus legislation, businesses that create a net of 10 new jobs in downtown keep 50% of the income tax withholding from the new jobs. The three-year results:

780 jobs in downtown Columbus, an additional 104,000 square feet of newly leased office space and more than \$44.5 million in office space real estate transactions. It is a tool that should be put into the hands of our City's smallest businesses as well.

C. A Final Note of Urgency:

As mentioned in the Introduction, one additional finding underscored the urgency with which Cleveland's Mayor must commit to, and act on these small business priorities: **Between one-third and one-half of all respondents had doubts about keeping their business in Cleveland in the years ahead.** With no regard to how long they have had their business in the city, between one-third and one-half of these business leaders had doubts about keeping their business in the city. That proportion almost equaled those who said they definitely would stay.

In other words, these four key priorities are as much tools in a business retention strategy as they are engines of economic growth.

D. In Summary:

These small business leaders, representative of COSE's overall membership, urged Cleveland's Mayor in the next four years to continue the civic determination **to improve the schools and revitalize its downtown and the neighborhoods** as keys to strengthening the City's economy. The survey respondents were also in support of the Mayor changing City Hall's ways to help small business by **making it easier to do business with the City, create and raise the stature of a small business advocate and modernize its antiquated tax structure**

III. Five Action Steps: Engaging Small Business in the Success of Our City

COSE understands that change and progress are long-term investments. In the shorter term, what is important is the Mayor's commitment to the practical requirements for success. The future may not be discernible, but some steps are clear to prepare us for whatever might happen next. To that end, these survey findings and much discussion among members and community leaders suggest the following agenda for action by the next Mayor of the City of Cleveland.

1. **Establish a cabinet-level Small Business Ombudsman to be the champion for small business owners and investors in the City of Cleveland, to be accountable for responding to their issues and to engage them in resolving problems.**

In the past, the City has attempted to include members of the small business community in civic improvement initiatives, but not with any consistency. Often, small business is mixed with all sizes and kinds of enterprises. In such circumstances, it is natural that the City and its leadership concentrate on the "big dreams" with thousands of jobs at stake. As a result, the chance to advance the smaller businesses gets lost. An equal focus on the needs of small business will produce results that are far more consistent and sustainable for our community.

The Ombudsman would have the authority and responsibility to lead initiatives and be the voice of the small business community in Cleveland on every issue and priority of importance for the Administration. Although in many cases, a desired resolution may not always be available, through an effective advocate, the Mayor can assure that the concern is heard and responded to in a timely manner. The City is close to major action on a number of important issues that require the views of small business – in support of or against those actions.

2. **Develop Cleveland's First Small Business Advisory Council**

While employing more than 200,000 Clevelanders, small businesses do not have the representation or voice in City government commensurate with their importance. Even if not granted decision-making authority, a small business council should be convened and utilized by the Mayor and the advocate to hear the needs of

small businesses and to advise the Mayor and Administration. Meeting quarterly, this group would serve as a voice to the Mayor -- and a conduit to other small businesses in the City. We would see this council composed of real small businesses, with real issues that can lead to real progress for Cleveland – and in the same proportions, sizes and geography as those in the City itself.

3. Commit to supporting the Workforce Investment Board (WIB) and ensure that more of its seats are committed to small business.

Over the last 18 months, Cleveland and Cuyahoga County have been working to create a joint authority for workforce needs. While the utility of this joint effort is commendable, we need to guarantee its leadership by, and accountability to, the employers that it serves. The Mayor can ensure that small business employers are a prominent part of the WIB and that employers are seated in 51% or more of the active voting board seats. In addition, the ombudsman would periodically convene the employers in their own caucus to ensure the ability of employers to have an impact on the agenda and function of the WIB.

The Mayor of Cleveland will commit to strengthening the process of sourcing, orienting and keeping business members up to date on workforce investment issues, while COSE continues to support and facilitate a queue of nominees for the WIB from among eligible city and county businesses. COSE will also support the semi-annual expense of convening the caucus.

4. Create a collateral investment pool for small business lending that mimics similar successes in Toledo and Youngstown.

The creation and growth of small businesses in the City requires investment. Clearly, the entrepreneurs with the ideas and commitment to succeed must invest in themselves. Nevertheless, too often, those entrepreneurs lack the ingredients for success, including an inability to acquire the capital and collateral to succeed.

The City of Cleveland should work to develop a program in conjunction with the Small Business Administration and the local banking community to improve the ability of entrepreneurs to collateralize lending. In the other communities, the entrepreneur would commit 10% of the funds, with 15% collateral funding from the City and a 75% guarantee from the SBA. As jobs are created and income and property taxes accrue, the city benefits and forgives the loan made for collateral.

5. Extend the “CBD Job Creation Incentive Grant Program” to smaller businesses.

Taxes continue to be of significant concern to small businesses in the City of Cleveland. Half of the small businesses surveyed listed reducing the burden of taxes as one of the top issues important to their growth and success. As we discussed earlier, City Council and the Mayor have already used the City’s taxing authority in innovative ways to help create jobs and businesses in the City. But the benefits do not extend to smaller firms.

Most small firms have far too few employees to meet the legislation’s threshold requirements. However, extending the employee income tax rebate benefit to firms that expand its current workforce by as few as two jobs within a set period of time could have significant impact on retaining, attracting and growing Cleveland “one small business at a time.”

In conclusion, in the eyes of these business leaders, this great American city is not without hope and not without prospects. But their Mayor must seize the day.

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