NFIB
The Voice of Small Business®

CONNECTICUT

TESTIMONY OF
NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB)
BY
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SUPPORTING

SB-22, AN ACT CONCERNING SMALL BUSINESS ASSISTANCE;
SB-23, AN ACT ESTABLISHING A QUALIFIED SMALL BUSINESS JOB CREATION TAX CREDIT;
SB-450, AN ACT ESTABLISHING A REVOLVING LOAN FUND;
SB-452, AN ACT ESTABLISHING METRICS TO MEASURE THE OUTREACH EFFORTS OF THE STATE'S ECONOMIC DEVELOPMENT AGENCIES;
SB-453, AN ACT CONCERNING THE STATE'S REGULATORY ENVIRONMENT;
HB-5498, AN ACT CONCERNING MICRO BUSINESSES;
HB-5499, AN ACT CONCERNING THE PROMOTION OF BUSINESS;
HB-5500, AN ACT CONCERNING THE OFFICE OF SMALL BUSINESS AFFAIRS AND ESTABLISHING THE SMALL BUSINESS ADVISORY BOARD

BEFORE THE
COMMERCE COMMITTEE
MARCH 16, 2010

A non-profit, non-partisan organization founded in 1943, NFIB is Connecticut's and the nation's leading small-business association. In Connecticut, NFIB represents thousands of members and their employees and membership is scattered across the state and ranges from sophisticated high technology enterprises to single-person "Mom & Pop" shops that operate in traditional ways. NFIB's mission is "*To promote and protect the right of its members to own, operate, and grow their businesses.*" On behalf of those small- and independent- job-providers in Connecticut, I thank the Chairs, Ranking Members, and the Committee for raising and hearing the aforementioned bills and I offer the following comments:

NFIB/Connecticut supports the entire package of bills heard today as an attempt to assist struggling small businesses. We applaud the proponents' desires to help small businesses and the recognition that small businesses and entrepreneurs are indeed the engine that drives the state's economy. As state lawmakers work towards solutions to help turn the economy around and focus on helping small businesses, whether through this bill or other pending legislation, it should also be noted that in addition to what many think of as a traditional small and micro businesses, it's actually the "midsize" small and independent businesses that will lead us out of the recession (See *Hartford Courant*, "Midsize Companies Key To Economic Recovery", 2/14/10).

NFIB/Connecticut applauds the proponents for taking various initiatives contained in these bills to tackle issues relative to small business and credit. Small businesses caution, however, that these types of proposals unfortunately sometimes miss the mark and are often widely regarded as some type of "silver bullet" solution to what is a very complex problem.

A first-of-its-kind survey released last month by the NFIB Research Foundation titled "Small Business Credit In A Deep Recession" (Executive Summary Attached), found that *51 percent of small-business owners reported a lack of sales as their greatest challenge. Only 8 percent cited a lack of loans. Many small-business owners say they're still grappling with a more basic problem: They don't have enough customers.*

Additionally, the problem is even more complex. The drop in home prices has made it harder for many small-business owners to qualify for loans because they can no longer pledge their homes as collateral, an extremely common approach for many small businesses.

The survey's findings show that while obtaining credit has become more difficult, declining sales and/or depressed real estate values typically lie at the base of credit problems. That means current small business problems will not be solved by simply focusing on lending issues. Lawmakers need to tackle weak demand and real estate.

Tackling weak demand requires growth in the economy and a stable state legislative environment in which small business owners can enjoy some sense of certainty without fear of the next mandate or tax hike. More liquidity in financial markets won't necessarily solve the problem. Weak demand will also not be cured by government spending initiatives.

While all of the bills in this package are very well-intentioned and we support them, NFIB/Connecticut members suggest that there are numerous additional and perhaps even more impactful measures that state government can take that will help small business, including, but not limited to: 1) Demonstrating fiscal responsibility and reducing state government spending; 2) Refraining from adding any more government mandates on business, small and large alike; 3) Ensuring that workplace freedom continues to thrive; 4) Enacting responsible reforms to the state's unemployment insurance compensation system to prevent or mitigate tax increases as result of the fund's insolvency; 5) Reducing the regulatory burden on small businesses in the state; 6) Focusing on positive healthcare reform measures that reduce costs and increase choice and competition; 7) Enacting meaningful tax relief for small businesses.

Again, NFIB/Connecticut thanks all of the proponents of these bills and the entire Commerce Committee for hearing them and making small business issues a priority this session. As such, we would also like to offer the following specific comments on some of the bills before the Committee today.

SB-23

While for most small businesses, the availability of this tax credit will not be a deciding factor in whether to expand and hire new employees, in the current time of economic uncertainly, enactment of this important tax incentive sends a positive message about our state's business climate will hopefully encourage our small-business community to invest and expand here in Connecticut.

SB-450

NFIB/Connecticut is supportive of the intent of this bill; however, we do have concerns about some of the specific funding mechanisms called for in the legislation.

Regarding Sections 1 & 2 of the bill, NFIB is generally not supportive of any tax policy that would impose new or higher taxes on a particular group even when the revenue would be directed toward a small business benefit. While NFIB/Connecticut members, like many American taxpayers, are concerned about the bonuses paid out by TARP recipient entities, small businesses can and do benefit from the economic activity generated from bonus recipients. It is not necessarily a bad thing in this economy for people to have additional money in their pocket, so-to-speak, to spend and invest in their communities. Bonus recipients spend money in local restaurants and retail establishments. They hire local contractors to landscape or remodel their homes. They patronize professional service firms, etc. Punishing those individuals who have rightfully earned bonuses from their employers sets bad precedent for all employees, including those who work for small businesses, and sends an economic chill through the state.

Regarding Sections 3 & 4 of the bill, NFIB/Connecticut members are concerned about and would caution against using state bonding to fund a small business assistance account. Connecticut has one of the highest indebtedness in the country. Unfortunately, because revenues continue to drop, our percentage of debt in relation to how it funds the overall budget has increased. Recently proposed bond projects have been canceled in order to comply with state law and prevent a downgrade of our bond rating. Small business owners suggest that the state should only be borrowing what it can afford to pay back. Our state bond indebtedness only adds to the current economic uncertainty being felt by all. Again, NFIB/Connecticut cautions that weak demand will not be cured by government spending (or borrowing) initiatives, no matter how well-intetioned they may be. (These same aforementioned concerns also apply to **SB-22** relative to bonding).

SB-453 & HB-5499

NFIB/Connecticut supports these bills as a common sense approach that not only will provide for a better understanding of the regulatory process and its impact on small business, but can also ultimately result in better drafted and administered regulations, to the benefit of small businesses and regulators alike.

A problem most frequently cited by small business is complying with regulations, many with unclear or confusing instructions. Overall, small businesses need to know how a particular regulation will impact their business and be able to recognize what they must do to comply with a regulation. Regulatory simplicity can save small business and the State of Connecticut time, effort and money. Cumbersome regulations have the effect of a hidden tax, discouraging expansion and causing expensive delays for both start-up and existing companies.

In the 2008 edition of "*Small Business Problems & Priorities*" by the NFIB Research Foundation, "Unreasonable Government Regulations" ranked as the 6th greatest problem of concern from small business owners, up from its 9th position in 2004. Much like taxes, this generic problem category costs small businesses in several ways: understanding and keeping up-to-date with compliance requirements, costs of consultants, employee time, management time, direct outlays, lost productivity and/or sales, forgone opportunities, etc. The federal government alone proposes approximately 150 new rules every year that cost business owners over $100 million per rule in compliance costs. Adding state and local laws and regulations that sometimes duplicate federal regulations, merely raise the cost and frustration level for small business.

Lawmakers often ask small business to point to specific regulations which are particularly burdensome, however, that can sometimes prove to be a difficult task. The burden and impact of regulations varies greatly by industry. Additionally, for many small businesses, it is the cumulative effect of regulations that proves to be the biggest burden.

A few specific categories of regulations can be easily cited. For example, one of the foremost concerns of NFIB members is the amount of paperwork they are required to file with various levels of government. NFIB members believe that owners ought to be spending their time working on and in their business, not filling out forms for the government. Other categories of regulatory problems frequently cited by small business owners include "frequent changes to tax laws and rules"; "applications for licenses and permits"; "environmental regulations"; "health/safety regulations"; and "finding out about regulatory requirements."

Additionally, a consideration of the regulatory impact on small business would not be complete without concurrent consideration of the impact of taxes. With regard to taxes, "tax complexity" now ranks as the 5th biggest problem of concern in the 2008 "*Small Business Problems & Priorities*". This problem is deemed "critical" by 23 percent of small business owners. Tax complexity has reached a point where 88 percent of small business owners opt to pay a tax preparer or accountant to do their tax returns on business income. In addition to "tax complexity", three other tax-related issues make the top 10 list of problems of greatest concern for small business owners. "Federal taxes on business income" ranks 3rd; "Property Taxes (Real, Inventory or Personal Property)" ranks 4th, up from 6th in 2004; and "State Taxes on Business Income" ranks 6th, up from 9th in 2004.

A Program Review & Investigation study of the impact of the state's regulatory environment on small businesses as called for in SB-453, as well as the changes contained in Section 1 of HB-5499 will go a long way toward creating a better regulatory environment and ultimately, hopefully provide some relief for Connecticut's struggling small businesses who are mired to death in "red-tape" as well as time and money spent on regulatory compliance.

HB-5498

NFIB/Connecticut specifically supports Section 3 of this bill as an attempt to assist struggling small businesses that face some of the highest electrical and other energy costs in the nation. In the 2008 edition of "*Small Business Problems & Priorities*" by the

NFIB Research Foundation, two energy-related topics ranked in the top 10 problems faced by all small business owners nationally. "Energy Costs, Except Electricity" ranked as the 2nd greatest problem of concern from small business owners, up from its 4th position in 2004. This problem is deemed as "critical" by 43 percent of small business owners. "Electricity Costs (Rates)" ranked 9th in 2008, up from 10th in 2004 and 19th in 2000. Anecdotally, however, we know that this problem is indeed greatly exacerbated for Connecticut's small businesses.

Generally, small business owners use energy for a number of purposes essential to their business, including lighting, heating and/or cooling and operating equipment. Rising electricity costs in particular have great consequences for small businesses.

Start-ups and new businesses, however, are particularly vulnerable to not only the high cost of energy, but also the fluctuating rates. Recent surges in energy costs, combined with the current credit crunch, form a barrier that many businesses cannot afford. Entrepreneurs, who are already risking their own capital in trying to get a business off the ground, are often faced with restricted cash flow and view large security deposits for utilities as one more impediment to their success.

Section 3 of HB-5498 will go a long way to help entrepreneurs get their businesses off the ground and help them and regulators alike understand one of the many economic challenges small businesses are facing.

Regarding Section 4 of HB-5498, NFIB/Connecticut suggests that in subsection (b), subpart (1), line 320, that the minimum number of employees should be 1 or more, up to any specified maximum. If the intent of this section is to truly benefit the smallest of small businesses and those who can not receive loans through traditional lenders, it does not make sense to put a minimum threshold on the criteria which must be incorporated into the development of the regulations as specified by statute. As currently written, a struggling entrepreneur with 3 employees, for example, would not be eligible for the loan program.

SB-452

NFIB/Connecticut supports this bill as a means of promoting transparency and fiscal accountability within state government; specifically, those agencies responsible for providing small business assistance. Small business owners routinely utilize metrics and perform a cost-benefit analysis when making business decisions, it only makes sense that all state agencies and programs are subject to such.

HB-5500

NFIB supports this bill, much like we supported the Governor and the Legislature for their original creation (and subsequent elimination) of the Office of the Business Advocate. At the time, the creation of the OBA moved Connecticut forward in assisting and promoting small businesses, having joined fellow New England states Rhode Island, Maine, and Massachusetts in having a full-time advocate to work on behalf of small business. This legislation, fortunately, attempts to move back in that direction by providing for single points of contact relative to small business assistance, etc., something which small business owners are constantly asking for. Additionally, NFIB/Connecticut applauds and supports the creation of a state Small Business Advisory Board, and we would be willing to lend our organization's expertise and service to the board as representatives of a business association (line 51). As the only statewide and national association exclusively dedicated to small and independent businesses, NFIB would be able to provide a unique and necessary perspective to the Small Business Advisory Board.

Executive Summary

- Many policymakers misidentify the fundamental bases of small business problems, leading to promotion of faulty policy. The principal immediate economic problem for 51 percent of small employers remains slow or declining sales, six percentage points more citing the problem than one year ago. Uncertainty was identified by over one-fifth (22%) as theirs, followed by access to credit (8%) and falling real estate values (8%), virtually the same as last year. Even among owners who report they cannot get credit, twice as many cite poor sales as cite credit access.

- The percentage of small business owners holding a business loan or credit line each fell almost 20 percent in the last year, though the number of loans and lines outstanding per owner with at least one loan or line remained almost constant. The percentage holding a business credit card(s) fell by about 10 percent. Sixty-two (62) percent pay off their card balances monthly, leaving 38 percent using business cards as a source of credit.

- The financial institution extending a line of credit changed the terms/conditions of the line(s) during 2009 for 29 percent of small employers having at least one. About 10 percent with a business loan had the same experience as did 22 percent with a business credit card. The most frequent change was increased interest rates.

- Fifty-five (55) percent of small employers attempted to borrow in 2009; 45 percent did not, although five percent of owners, so-called discouraged borrowers, did not try because they did not think they could obtain credit.

- Forty (40) percent of small business owners attempting to borrow in 2009 had all of their credit needs met; 10 percent had most of their needs met; 21 percent had some of their needs met; and, 23 percent had none of their credit needs met. The current level of borrowing success is significantly lower than in the mid-2000s when up to 90 percent had their most recent credit request approved.

- In 2009, about 20 percent of small employers attempted to obtain each of the following types of credit: vendor loans, credit lines, renewal of credit lines, business loans, and business credit cards. The least difficult to obtain was a credit card (73% successful); the most difficult was a new line of credit (38% successful).

- The best predictors of success in meeting credit needs were: higher credit scores, customers of banks with less than $100 billion in assets, more properties collateralized for business purposes, and fewer second mortgages held. Owners of larger small firms, older businesses, and businesses located in states with relatively few home foreclosures are also frequently good predictors of success in obtaining certain types of credit.

- Overwhelmingly, the most common planned purpose of credit rejected was to fill cash flow needs. Though many prospective borrowers had multiple planned purposes for rejected credit, about one in three sought at least some money to replace plant, equipment and vehicles with a non-mutually exclusive third intending to invest in additional plant, etc.

- Falling real estate values (residential and commercial) severely limit small business owner capacity to borrow and strains currently outstanding credit relationships. Ninety-five (95) percent of small employers own real estate, including a primary residence, the business premises (commercial), or investment real estate that is neither of the two. Twenty (20) percent hold one or more mortgages on real estate that finances other business assets and 11 percent use real estate as collateral for business purposes. A non-mutually exclusive 20 percent hold a second mortgage on a property. Thirteen (13) percent report at least one property upside down.

- Broad and deep real estate ownership is a major reason why small businesses have not yet begun to recover, why larger businesses have been able to recover more quickly than small businesses, and why this recession is different, at least for small business owners, from recent ones.