

City of Sacramento City Council Hearing

June 10, 2024

Testimony on Public Hearing Item 23

Proposed Increase to Sacramento's Home Occupation Permit Fees

Mayor Steinberg and Members of the City Council:

Thank you for the opportunity to submit public comment on Public Hearing Item 23, particularly as it relates to increased home occupation permit fees. My name is Jennifer McDonald and I am an Assistant Director of Activism at the Institute for Justice (IJ). IJ is a national nonprofit law firm that has been advocating for entrepreneurs for over 30 years. I am an expert on how local policies impact small businesses and have published extensive research on home-based businesses specifically.¹ I also lead IJ's Cities Work initiative, which partners with cities to increase access to entrepreneurship by reducing regulatory barriers and streamlining business licensing processes.² A California native, I started my career in Sacramento and care deeply about its residents.

We applaud the Mayor and City Council for taking proactive steps to expand and clarify the home-based business law in Sacramento by amending Section 17.228.230 of the Sacramento City Code. These efforts, separate from the budget discussions being heard tomorrow, will create countless opportunities for home-based businesses to thrive. However, we believe additional reform is needed and are concerned that the two fee increases for home occupation permits proposed in the FY24/25 budget will severely inhibit Sacramento's home-based entrepreneurs' ability to earn a living and must be reconsidered.

Small businesses are crucial to Sacramento's economy. They represent roughly half of all small businesses in the country,³ create well-paying jobs,⁴ lift families out of poverty,⁵ reduce the racial

¹ McDonald, J. (2022). *Entrepreneur from Home: How Home-Based Businesses Provide Flexibility and Opportunity—and How Cities Can Get Out of Their Way*. Arlington, VA: Institute for Justice. <https://ij.org/wp-content/uploads/2022/01/entrepreneur-from-home.pdf>; McDonald, J. (2019). The relationship between cottage food laws and business outcomes: A quantitative study of cottage food producers in the United States. *Food Policy*, 84, 21-34, <https://doi.org/10.1016/j.foodpol.2019.01.012>; McDonald, J. & Menjou, M. (2017). *Finding the American Dream at Home: How Home-Based Businesses Benefit Entrepreneurs and Their Communities*. Arlington, VA: Institute for Justice. <https://ij.org/wp-content/uploads/2017/11/Nashville-HBB-Fact-Sheet-FINAL.pdf>.

² Learn more about Cities Work at www.citieswork.org.

³ U.S. Small Business Administration Office of Advocacy. (2020). *Frequently asked questions*. <https://cdn.advocacy.sba.gov/wp-content/uploads/2020/11/05122043/Small-Business-FAQ-2020.pdf>; U.S. Census Bureau. (2012). *2012 survey of business owners*. <https://www.census.gov/data/developers/datasets/businessowners.html>.

⁴ Association for Enterprise Opportunity. (n.d.). *Bigger than you think: The economic impact of microbusiness in the United States*. Washington, DC: https://aeoworks.org/wp-content/uploads/2019/03/Bigger-than-You-ThinkReport_FINAL_AEO_11.10.13.pdf

⁵ Edgcomb, E. & Thetford, T. (2013). *Microenterprise development as job creation*. Washington, DC: The Aspen Institute. <https://www.aspeninstitute.org/wpcontent/uploads/2013/03/MicroenterpriseDevelopmentAsJobCreation.pdf>

wealth gap,⁶ and reinvest dollars in the local economy.⁷ But a national survey by entrepreneurship advocate Right to Start reported that 53% of people who decided against starting their dream business chose not to, at least in part, because government fees were too high.⁸

My research shows that home-based business owners are more likely to be women, minorities, single, and renters—and half of home-based entrepreneurs started their business with less than \$1,200 in capital.⁹ Getting started from home is a safe, non-capital-intensive way to get a business off the ground and start earning income. This option is especially important given that research suggests women and minorities tend to find it more difficult to secure traditional loans or venture capital.¹⁰ For some, running their business from their home may be their only option.

Requiring entrepreneurs to pay high permit fees negates the financial advantages of starting their businesses from home and can rob enterprising individuals the chance to achieve their dreams and support their families. Increasing the home occupation permit fee from \$154 to \$234 is more than a 50% increase. While \$234 may not seem like a large amount to some, it is nearly 20% of the median \$1,200 in starting capital that entrepreneurs can't spend on supplies, equipment, or other startup costs.

Increasing the fee for a special exemption permit by 40% from \$3,780 to \$5,265 is similarly drastic. In a 2022 study, my team quantified the fees to start a home-based business in 20 large and mid-sized cities across the country; the highest we found were \$1,588 in Jacksonville, Florida—and those fees included the cost of a conditional use permit and public hearing.¹¹ While not every home-based business owner in Sacramento will be required to obtain this expensive special permit, many will. For example, a home-based jewelry maker would be required to get this permit if she wanted to hire two people part-time to help her pack and ship her products from her home because only one non-resident employee is permitted under the ordinance. Over \$5,000 in permit fees may put this microenterprise out of business.

The changes to Sacramento's home occupation ordinance currently pending will help reduce this financial burden for many nascent entrepreneurs by removing unnecessary restrictions on certain business activities, thus decreasing the number of situations in which a home-based business

⁶ Association for Enterprise Opportunity. (n.d.). *The tapestry of black business ownership in America: Untapped opportunities for success*. Washington, DC: https://aeoworks.org/wp-content/uploads/2019/03/AEO_Black_Owned_Business_Report_02_16_17_FOR_WEB-1.pdf

⁷ Robinson, N. (Sept. 2010). *Why buy local? An assessment of the economic advantages of shopping at locally owned businesses*. Michigan State University Center for Community and Economic Development. <https://ced.msu.edu/upload/reports/why%20buy%20local.pdf>

⁸ Right to Start. (2022). *Entrepreneurial dreams: Key findings from Right to Start's bipartisan voter poll on entrepreneurship*. <https://www.righttostart.org/poll>.

⁹ McDonald, 2022.

¹⁰ Fairlie, R. W., & Robb, A. M. (2010). *Disparities in capital access between minority and non-minority-owned businesses: The troubling reality of capital limitations faced by MBEs*. Washington, DC: U.S. Department of Commerce Minority Business Development Agency. <https://www.mbda.gov/sites/default/files/migrated/files-attachments/DisparitiesinCapitalAccessReport.pdf>.

¹¹ Meleta, A. & Montgomery, A. (Feb. 2022). *Barriers to business: How cities can pave a cheaper, faster, and simpler path to entrepreneurship*. Arlington, VA: Institute for Justice. <https://ij.org/report/barriers-to-business/>

owner would need to apply for a special exemption to run their business. We applaud those changes and encourage you to vote to adopt them. But we strongly urge you to—at the very least—not increase the fees required to be paid by people who are less likely to be able to afford such fees than owners of traditional businesses.

We would also like to offer assistance as staff consider how to treat parking for home occupations. The current limit of having no more than one vehicle weighing one ton or less related to the business is outdated.¹² We understand that the intent of the ordinance is to prevent large commercial vehicles from being parked in residential neighborhoods, but the average weight of a vehicle in the United States is roughly 4,300 pounds.¹³ Instead, we recommend a different threshold. One option would be to simply increase the weight allowance to 10,000 pounds, as is done in Kansas City, Kansas. Another would be to prohibit the parking of vehicles that require a commercial driver's license, as is done in Bismarck, North Dakota.¹⁴ Furthermore, it is crucial that the ordinance be amended to clarify that a household's personal vehicles (including personal vehicles also used for the business) not be included in the limit on one business-related vehicle. We would be happy to work directly with staff to find a solution to the parking question.

It is crucial that Sacramento ensures operating a home-based business is accessible for residents from all socioeconomic backgrounds and provides home-based entrepreneurs the opportunity to thrive. My team and I would be happy to partner with you to address these and any other regulatory hurdles facing Sacramento's small business owners.

Thank you for your consideration,

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¹² It is possible the ordinance is instead referring to a payload rating rather than weight of the vehicle. If that is the case and that standard is ultimately kept, we recommend being more explicit in the statute so that a lay reader can easily understand the requirements.

¹³ Insurify. (2024). *How much does the average car weigh?* <https://insurify.com/car-insurance/knowledge/how-much-does-a-car-weigh/>

¹⁴ IJ's Cities Work team has recently worked with both Kansas City and Bismarck to update their home occupation ordinances.