



**U.S. House of Representatives Committee on Small Business Hearing:
“Small Business Priorities for the 116th Congress”
February 13, 2019**

**Statement of Sabrina Parsons
CEO, Palo Alto Software
Eugene, OR
Main Street Alliance Member**

Chairwoman Velázquez, Ranking Member Chabot, and members of the committee:

Thank you for the invitation to testify today about the needs and policy priorities of Main Street small businesses around the United States.

My name is Sabrina Parsons. In 2001, my husband and I founded a software company, which we subsequently sold to Palo Alto Software. I became CEO of Palo Alto Software in 2007 and have grown the business from 30 employees to over 70 full-time employees. Our software products, which focus on helping small businesses do better financial planning and management, are used in over 180 countries.

I also am an active supporter of entrepreneurs in Oregon and beyond, and am a member of Main Street Alliance, a national network of over 30,000 small business owners. Through MSA, owners of businesses like Palo Alto Software share their perspectives on critical public policy issues.

Main Street small businesses are embedded in communities -- communities composed of our employees, our customers, and the neighborhoods where we operate. We also recognize the importance of family in sustaining our success. Family and community are not just numbers in our bottom line, but they are *part* of our bottom line, and small business will be made stronger by policies that level the playing field and allow us to compete with large corporations on terms that benefit all the people small businesses serve.

The policy priorities I am going to discuss with you today support the family life of both small business owners and employees, invest in the entrepreneurship of women and people of color, boost wages, and protect the immigrant members of our communities.

I. Small businesses need a national paid family and medical leave program.

Eighty-three percent of the U.S. workforce lacks employer provided paid family leave to care for a new child or a seriously ill loved one, and more than 60 percent do not have employer-provided temporary disability insurance to protect them when they need time away from their jobs to address a serious health issue or injury.ⁱ

At Palo Alto Software, as we have grown our business we have the resources to provide paid family and medical leave at 100 percent of salary. This benefit helps us recruit and retain talented, loyal employees. It attracts women professionals to a male-dominated industry, and it reduces turnover. It is a benefit that allows our company to respect our employees as whole people giving them paid time to take care of themselves and their families. Replacing employees is very expensive: turnover costs are estimated to average one-fifth of an employee's annual salary.ⁱⁱ

One of our employees recently had a parent undergo cancer treatment. This employee was able to go home to Los Angeles and take care of her mother, with job-protected paid leave and 100 percent of her salary during the time she was away. We had another employee who took medical leave to recover from an accident, and we were able to provide him with nearly four months of paid leave at 100 percent of his salary. We also offer fully-paid maternity and paternity leave.

Although Palo Alto now is able to provide paid leave, most small businesses lack the scale, expertise, and resources for such a policy. When my company was smaller, we couldn't afford the comprehensive paid leave we can today. And in other industries it's even harder. For example, it's very difficult in the restaurant industry, and in retail, where profits margins are very narrow.

Access to paid leave should not depend on the size of a business, or where a person lives or works. We need a federal program that give all workers and small business owners the kind of leave that Palo Alto Software offers. For that reason, I ask you to support the **FAMILY Act**, which would create an affordable, self-sustaining national family and medical leave insurance program, making paid leave affordable and feasible to implement for small businesses.

II. Small businesses need a strong public investment in child care.

As the mother of three, I know the impact of family responsibilities on employees and small business owners alike. The dearth of affordable child care, provided by well-compensated professionals, frequently stands in the way of small business success and growth. Lack of dependable, quality child care problem contributes to employees missing work, causes stress that hampers productivity, and pushes talented people out of the labor pool.

The astronomical costs of child care (ranging anywhere from \$5,300 a year in Mississippi to \$20,400 Massachusettsⁱⁱⁱ) put parents in a bind. Nearly one in three families (33 percent) report spending 20 percent or more of their annual household income on child care,^{iv} and the average annual cost of sending a preschooler and an infant to a child care center equals 42 percent of the median income for Black families.^v In 28 states, including in my home state of Oregon, child care costs more than in-state public college tuition.^{vi}

Families need two incomes to pay for child care, but even that second income often does not cover enough of the cost to make it worth it. It is no wonder that so many couples decide one parent -- usually a mother -- should withdraw from the workforce. Large businesses can absorb the shocks of turnover. For small businesses, this is much harder.

The public subsidies now available for child care do not come close to addressing need or demand in the face of an shortage of licensed child care providers.^{vii} These subsidies also do not remedy the fact that child care providers -- the people caring for our children -- make so little, even after obtaining early childhood education degrees. Almost 40 percent of early childhood teachers turn to public assistance at some point.^{viii}

By investing in high-quality child care, we can help small businesses retain valued employees and improve productivity. We can support small business development by freeing up time for entrepreneurs, particularly women entrepreneurs, to launch and establish their businesses. Again, this is also a matter of gender and racial equity, as women and parents of color in are forced to make especially difficult choices when it comes to balancing work and caregiving.

We ask you to support the **Child Care for Working Families Act**, which would make an unprecedented investment to ensure all children have access to high-quality early education, and ensure that the people who work in child care earn a living wage.

III. Boosting wages helps small business.

The starting salary for any employee at my company, is \$16 an hour. We have employees in customer service, which generally pays very low wages, who make significantly more. Given what it takes for a family to make ends meet in Eugene, I feel strongly that people need to be paid living wages.

Raising wages is also better for business. When you pay \$7.00 or \$8.00 an hour, you experience employee turnover over a period of two or three years that ultimately can devastate a small business's bottom line. Higher wages, on the other hand, reduce turnover, result in stronger, more loyal workers, and yield a more loyal customer base. Looking at all the factors, I personally support raising the wage to \$15 and eliminating the tip credit.

This does not mean that the transition to higher wages is easy for small businesses. My company specializes in software to help entrepreneurs and small businesses conduct better financial planning and financial management and are well versed in the lack of expertise, tools and resources available to small businesses owners. We know that most Main Street businesses are run by people with expertise in their particular products or services -- but they generally do not have MBA's or degrees in finance and accounting. They need proper training, access to better tools and support to manage this transition.

Large businesses have human resources, finance departments, and financial planners to adjust to much-needed change in the wage floor. Small businesses do not have this kind of support. They could use this kind of assistance to help them with such things as determining how to adjust prices, understand the real cost of employee turnover or other expenses. There are, for example,

technical tools that can provide financial modeling to help businesses, including high-turnover businesses like restaurants, succeed with new wage floors, and be more profitable as a result.

I understand that raising the minimum wage is a source of fear for many small businesses. However, the financials will work out and make businesses stronger, and I believe this area is one of tremendous opportunity for the SBA and others to provide better financial management training and assistance to small business.

IV. Fair treatment of immigrants is a small business issue.

I am the daughter of an immigrant mother and a U.S.-born father. I was born in Mexico City, lived there until I was seven, and spoke Spanish before I spoke English. My mother recently became a citizen of the United States. Humane and just immigration policy is important to me as the daughter of an immigrant, as a mother and community member, and as a businesswoman.

Immigrants, including Latinx immigrants, are woven into the fabric of our small business sector and our country as a whole. Almost 20 percent of business owners in the U.S. are immigrants,^{ix} and DACA recipients are opening businesses at a faster rate than people in the U.S. overall.^x Immigrant business owners are especially important in our Main Streets, where they account for more than a quarter of business.^{xi} Like all small business owners with a commitment to community, immigrant business owners help make our neighborhoods and towns stronger.

We owe it to all immigrants and ourselves to adopt an immigration policy that respects family and the basic tenets of freedom. Please put an end to family separation. Please do whatever possible to bring healing to the families torn apart by this policy. And please ensure that immigrant business owners, other immigrants in our communities, and those who are seeking refuge here have a fair opportunity to live, work, and develop their businesses here. The facts show that these immigrants bring more positive than negative to our country and are an integral part of who America is.

V. Lack of equitable access to capital continues to hamper small businesses, particularly for entrepreneurs who are of color and/or women.

A study by the Woodstock Institute found that businesses located in neighborhoods where people of color predominantly live are less than half as likely to receive Community Reinvestment Act (CRA) reported loans under \$100,000 compared to businesses in white neighborhoods.^{xii} Lending to business owners of color has also likely worsened since the recession. The *Wall Street Journal* reports that Black-owned businesses received 11 percent of Small Business Administration (SBA) loans in 2008, and only 2.3 percent of SBA loans in 2013.^{xiii} Women entrepreneurs also experience disparities. A study by Biz2Credit found that women-owned firms had a loan approval rate that was 15 to 20 percent lower than their male counterparts.^{xiv}

Lack of affordable capital is a formidable barrier to business formation and growth for women and people of color, presenting a real Catch-22. Banks and SBA backed lending programs won't provide capital unless you have been in business for two years, with \$250,000 in annual revenue. Anyone starting a business clearly does not meet these requirements and instead has to fall back

to personal assets and personal wealth in order to start their business. This method of financing excludes many women, people of color, and underserved communities as they typically do not have the personal wealth necessary to finance a start-up. Unsurprisingly, many people turn to predatory loans, or put up their own assets, to the extent they have any.

I urge you to pass measures to eliminate racial and gender discrimination in small business lending and recognize that there is a need to open access to affordable capital for small businesses, particularly those owned by entrepreneurs who are of color and/or women. I also ask you to bring transparency, oversight, and fair terms to all forms of small business lending, whether bank or non-bank loans.

VI. Closing

I appreciate the opportunity to share the concerns and policy priorities of small business owners and entrepreneurs. Small business is an essential part of every community, and we need policies that support both small businesses and the communities that we sustain, and that sustain us.

Thank you, and I look forward to answering your questions.

For additional questions, please contact Sapna Mehta, Legislative and Policy Director, at sapna@mainstreetalliance.org.

-
- ⁱ <https://www.bls.gov/ncs/ebs/benefits/2018/ebbl0061.pdf>
- ⁱⁱ <https://www.americanprogress.org/wp-content/uploads/2012/11/CostofTurnover.pdf>
- ⁱⁱⁱ <http://usa.childcareaware.org/advocacy-public-policy/resources/research/costofcare/>. Refers to center-based care.
- ^{iv} <https://www.care.com/c/stories/2423/how-much-does-child-care-cost/>
- ^v www.americanprogress.org/issues/early-childhood/reports/2017/09/07/438428/blueprint-child-care-reform/#fn-438428-16
- ^{vi} <https://info.childcareaware.org/hubfs/appendices%2010.19.18.pdf>
- ^{vii} www.americanprogress.org/issues/early-childhood/reports/2017/08/30/437988/mapping-americas-child-care-deserts/
- ^{viii} www.americanprogress.org/issues/early-childhood/reports/2018/02/14/446330/child-care-dollar-go/#fn-446330-4
- ^{ix} <http://fiscalpolicy.org/wp-content/uploads/2015/01/Bringing-Vitality-to-Main-Street.pdf>
- ^x www.americanprogress.org/issues/immigration/news/2017/08/28/437956/daca-recipients-economic-educational-gains-continue-grow/
- ^{xi} <http://fiscalpolicy.org/wp-content/uploads/2015/01/Bringing-Vitality-to-Main-Street.pdf>
- ^{xii} Woodstock Institute, “Patterns of Disparity Small Business Lending in Fresno and Minneapolis-St. Paul Regions,” www.woodstockinst.org/wp-content/uploads/2017/11/Patterns-of-Disparity-Small-Business-Lending-in-Fresno-and-Minneapolis-St.-Paul-Regions-1.pdf, p. 33. Includes CRA-reported loans under \$100,000.
- ^{xiii} <https://ncrc.org/wp-content/uploads/2014/08/recommendations-to-cfpb-on-small-business-loan-data.pdf>
- ^{xiv} <https://ncrc.org/wp-content/uploads/2014/08/recommendations-to-cfpb-on-small-business-loan-data.pdf>