

The Minneapolis Small Business High-Road Labor Standards Intervention Pilot Project: Year One Review

The Workplace Justice Lab @ Rutgers University

May 2024

Executive Summary

The problem we aim to solve

On average, immigrant, black, indigenous, and people of color (I/BIPOC) owned businesses operate on smaller margins, with significantly less capital and support, than white-owned businesses. These challenges, many of which stem from past and ongoing discrimination, also mean that I/BIPOC small businesses face more challenges complying with labor laws and account for a significant percentage of total complaints coming into local offices that enforce labor standards.

Traditional government approaches to labor law enforcement typically rely primarily on sanctions and fines. This punitive model doesn't account for the lack of capacity and resources faced by I/BIPOC small businesses when attempting to come into compliance. This means that the systemic problems that give rise to labor violations are not addressed, and violations persist. I/BIPOC small business owners, their workers, and the communities in which they operate are largely failed by this approach. City labor enforcement agencies recognize this problem but don't have an alternative model. Our project aims to address the systemic racial equity issues that lead to non-compliance among these businesses before complaints reach the offices of labor standards enforcement.

Unique Pilot project

The Labor Standards Enforcement Division (LSED) was created in 2017 to change how Minneapolis approaches the issue of labor standards enforcement to reflect the changes in the economy and the nature of modern firms. The Workplace Justice Lab at Rutgers, a nationally recognized center focused on labor law compliance, has partnered with LSED to develop strategies to more effectively achieve their mission.

While LSED seeks to address the root causes and primary actors of labor violations which drive down employment standards in the local economy, they have found their work dominated by complaints against small businesses, many of which are I/BIPOC. While some of these cases involve businesses operating in bad faith, many of these businesses do not

comply because of a lack of administrative capacity, know-how, and access to standardizing tools such as payroll software which make compliance easier.

To address this problem, LSED partnered with the Workplace Justice Lab on our innovative Small Business Pilot project. Over 100 small businesses applied and 50 largely I/BIPOC owned small businesses in Minneapolis were accepted into the program. The Pilot is supported by the City of Minneapolis, the W.K. Kellogg Foundation, and WorkRise.

Support offered to pilot businesses included:

- 1) Education on local labor regulations and how to come into compliance.
- 2) Technical assistance training on proper bookkeeping using Quickbooks Online (QBO).
- 3) Eight additional hours of consulting with bookkeepers with experience in the city's I/BIPOC communities to master their transition to QBO.
- 4) Paid subscription access to Quickbooks Online, Gusto payroll, and Deputy scheduling software for a year as well as dedicated staff to support onboarding.
- 5) On-going case management and technical assistance with issues that came up during the program and to connect them to additional support services as needed.

Key findings and recommendations:

After a year of the pilot, we have identified key findings regarding the struggle of small businesses, their experiences with government agencies, program implementation, and coordinating across government agencies

Small business struggles with labor compliance

- **Small Businesses want and need this program.** Many in our program were quite candid about what they did not know about current labor law. They were quick to tell us that they are not in compliance and did not know how to get there.
- **Disparities are apparent by race and ethnicity.** The I/BIPOC businesses in our study, when compared to the white owned businesses in our study, reported greater hurdles in accessing capital, fewer support networks, and worse relationships with City government and local agencies.
- **Small businesses think they are buying compliance with online products.** Businesses believed that payroll programs automatically provided compliance with local labor law; and were surprised to learn that compliance was not built in; and lacked the technical and legal knowledge to properly set up these systems to ensure compliance.
- **Important but not urgent.** With numerous competing demands on small business owners, labor law compliance is seen as important, but often not urgent, compared with other pressing issues.

Small business experiences with government agencies

- **Current Small Business support programs are difficult to access for I/BIPOC businesses.** Many of the businesses in our program had accessed or attempted to access City or NGO support programs in the past and had mixed to negative experiences.
- **I/BIPOC businesses expressed persistent mistrust.** Deep-rooted issues of distrust were made worse by experiences with government support during the uprising after the George Floyd murder. These negative experiences highlight the importance of engaging trusted community intermediaries in program implementation.

Program implementation

- **Outreach and uptake is difficult.** The I/BIPOC small businesses in our program - many of them highly motivated to come into compliance - faced numerous challenges completing each step of the program. This highlights the need for future iterations of this program to have the lowest possible barriers to entry, minimal changes in software systems, and maximal flexibility in terms of accessing training and support on their own timeline.
- **Ongoing support key for small businesses.** Most small business support programs operate on a 'one-and done' service model. Past research and our pilot program confirm that providing support to I/BIPOC business requires ongoing mentoring which offers administrative technical assistance in a culturally competent manner. Minneapolis' Business Technical Assistance Program (BTAP) is structured such that providing this support would be possible, (they allow 50 hours of support each year per provider) but our interviews indicate few businesses know about and are taking advantage of this structure.
- **The importance of community bookkeepers.** When Minneapolis enacts new local labor laws, large employers in the City turn to their HR departments to ensure compliance; while small businesses often turn to their community bookkeepers for help and support. Program implementation through community bookkeepers promises greater scalability of this support program. Recent plans to add community bookkeepers as BTAP providers could go a long way to making this a reality and should be built upon in the next phase of the pilot.

Coordinating support and enforcement across government agencies.

- **Government agencies are siloed and not working together to address the scale of the problem.** In Minneapolis, and many other cities, government offices that enforce labor standards are siloed from government business technical support functions meaning

that support for achieving compliance is structurally limited. Minimum wage violations in the Minneapolis St Paul metro area **cost workers an estimated \$886 million over the past decade**, an average of nearly \$90 million a year.¹ The scale of this problem suggests the need for a coordinated strategy that reaches across agencies. LSED and BTAP have already made strides in beginning this cross-agency dialogue. Additional areas to explore are below.

- **Coordinated outreach, education and technical assistance.** The City's Small Business and Business Technical Assistance Program (BTAP) program focuses on small businesses support through a network of trusted community partners. LSED has the mandate and deep technical knowledge to enforce the City's labor laws. We recommend that the agencies evaluate current points of contact with small business owners and identify opportunities for stronger coordination. An assessment of which small business owners are **not** currently being reached by either program is also needed, as well as an assessment of additional resources or policies needed for improved coordination and a pro-active outreach program to small businesses about labor law compliance. Coordinated messaging about the consequences of non-compliance and/or the community and business benefits of compliance should be pursued.
- **Referrals.** We recommend exploring the creation of a joint business outreach/service provider referral program between LSED and the small business office. LSED receives emails from multiple businesses each week with questions about current labor law. In addition to sharing information on what the law is, a referral to a BTAP provider to review and support successful implementation would help ensure compliance.
- **Diversion program.** We also recommend that the referral program include a diversion program component. When complaints are filed against a small business, LSED's current tools are limited to education, fines and penalties. We recommend the establishment of procedures and inter-agency agreements for LSED to refer businesses to BTAP providers when they appear to need basic business support to comply with labor regulations.
- **Training.** BTAP providers we interviewed expressed an interest in knowing more about labor law they can share with their small business clients. We recommend strengthening and deepening labor standards support into BTAP community agency services. This includes formalizing roles and practices to educate and train BTAP providers and staff who work directly with small businesses about basic labor

¹ Barnes, Jake, Galvin, Daniel J., Round, Jenn, and Fine, Janice. 2023. "Minimum Wage Non-Compliance in Minneapolis." *Workplace Justice Lab-Rutgers University*. November. Accessed at https://smlr.rutgers.edu/sites/default/files/Documents/Centers/WJL/Minneapolis_Wage_Theft_Report_Nov2023.pdf

standards compliance. And ensuring BTAP providers know who at LSED can address more detailed technical issues. BTAP and LSED are now working on an initial training for BTAP providers.

- **Monitor and expand bookkeeper business technical assistance program.** In an exciting development, the Small Business office is adding community bookkeepers as technical assistance providers this year. LSED and the project helped with recruitment. These two agencies should continue and expand their existing collaboration on getting community intermediaries and those with labor standards and business service administration expertise certified at BTAP providers.
- **Labor Standards Certification Program.** Community bookkeepers we interviewed as part of the pilot expressed interest in a Labor Standards Certification program to deepen their knowledge of labor law and so that they could then market themselves as completing a formal labor compliance support training. Such programs are common within the field of tax compliance. We recommend exploring the development of such a formal certification program for labor law compliance.
- **Tiered Enforcement Across Agencies.** Many other Minneapolis city agencies are in contact with, and provide needed services to, small business owners. Explore creating policies and data sharing processes across agencies to broaden city labor law enforcement mechanisms. For example, identified violators are first offered technical assistance support from a BTAP provider to update systems for compliance. While employers with repeated LSED violations may be prohibited from receiving city subsidies, contracts, and/or renewing an operating license until compliance is initiated.
- **Structure to support ongoing collaboration.** Last, but not least, we recommend a structure to support ongoing communication between the city small business office and LSED. Experience shows that formal structures and policies are needed to maintain effective collaboration across changes in relationships and administrations. The City could take proactive steps to encourage and support this cross-agency collaboration through an interagency task force with dedicated staff.

For more information, the full white paper is available [here](#) and additional background on the project is available [here](#).