



THE AMERICAN INSTITUTE OF ARCHITECTS

*“Rebuilding and Renewing
America’s Communities”*

Statement of Mickey Jacob, FAIA

United States House of Representatives
Committee on Small Business

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The American Institute of Architects
1735 New York, Ave, NW
Washington, DC 20006
(202) 626-7507
govaffs@aia.org
www.aia.org

Introduction

Madam Chairwoman Velazquez, Ranking Member Graves, and members of the Committee, I am Mickey Jacob, FAIA, Managing Principal of Urban Studio Architects, a 7 person Architectural and Interior design firm located in Tampa, Florida and I want to thank you for giving me the opportunity to testify today on behalf of my firm and the American Institute of Architects.

As the global financial crisis continues to threaten the livelihood of American businesses and workers, the American Institute of Architects (AIA) strongly urges Congress to support policies that will stimulate and restore confidence in the United States economy. Given that small businesses are the lifeblood of the American economy and act as the primary source for domestic job creation, the AIA strongly supports the Committee in its efforts to pursue policies that will allow small businesses to prosper in these times of economic uncertainty.

A large majority of the AIA's 85,000 members own or work for small firms; America's architects, like the millions of small businesses around the country, have been particularly hard-hit by the recent economic downturn. Architecture firms in general and especially small firms rely heavily on short-term lines of credit to finance their operations. As banks have restricted lending, it has become increasingly difficult for firms to continue to make payroll and fulfill benefit obligations for their employees, let alone expand and pursue new projects. Further, the tightening of credit markets has put the financing behind many construction projects at risk, both residential and commercial, resulting in reduced work for architects and in some cases, the outright cancellation of ongoing projects.

The AIA's Architecture Billings Index, a leading economic indicator of the building industry, forecasts a significant reduction in activity for industries within the building sector over at least the next 12 months.¹ Conditions at firms are better now than they were last winter, but a recovery is still far away. However, architecture firms continue to

¹ http://info.aia.org/aiarchitect/thisweek09/0925/0925b_otb.cfm

report that clients are shopping projects around, meaning that firms are seeing many inquiries but few are translating into actual billable work. Firms with a residential specialization have been reporting increasingly higher scores since mid-spring, due in part to the \$8,000 first time home buyers tax credit. Fewer firms in both the residential and commercial sectors are now reporting declining billings than they did last winter when their all-time lowest scores were recorded. Business conditions remain weakest at firms with an institutional specialization, with little recovery anticipated in the near future.

As the building sector is responsible for about one of every ten dollars of United States GDP, continued stagnation within the building industry will only further magnify the overall struggles of our economy. The slowdown in building could not come at a worse time – when America’s infrastructure is deteriorating, with clogged highways stifling commerce, transit systems overwhelmed and underfunded, and energy prices on the rise.

Urban Studio Architects: One Firm’s Struggles

I want to take this opportunity to discuss my firm’s experiences in this economic climate, as they are emblematic of the larger challenges we all face. ...

As noted before, I am the Managing Principal of Urban Studio Architects, a 7-person Architectural and Interior design firm located in Tampa, Florida. Along with my partners, Richard Zingale, AIA and Brian Hammond, AIA, we celebrated our 20th year as a firm this past August. We formed the firm in 1989, working out of our homes as young entrepreneurs who wanted to generate excellence in architecture and serve the community both from a business standpoint and in a volunteer basis. Our business model was slow and steady growth in markets we had knowledge and expertise in. Over the years we added talented staff, moved to larger office space, won design awards and remained active and committed to the community.

We developed a strong business base in corporate interiors, office buildings and restaurants. Additionally, we became experts in residential projects including high rise

multi-family residential, garden apartments, affordable housing, community based housing and custom single family homes. The residential side of our practice represented about 65% of our total revenue. At the end of 2007 we had a staff of 33 people and were generating an average of \$300,000 per month in billings. The first signs of the real estate economic downturn came in January of 2008. Our two largest residential projects under contract that would have over \$1,000,000 in fee revenue for us were suddenly put on hold due to the inability to acquire financing. With no means to replace that level of revenue quickly we were forced to lay off 10 people in April 2008. The decline in the real estate market has made it almost impossible for clients, most of whom have a track record of successful projects, to finance and build projects. Although we work hard to be aggressive in responding to proposals and RFP's our revenue stream has continued to decrease.

Interestingly, all areas of our practice were being affected. The corporate Interiors portion of our business and the restaurant studio ground to a virtual halt. People are not investing in projects or office space due to a combination of the economic downturn affecting their business and the non-existent availability of credit from banking institutions. Additionally, the collapse of the housing market in Florida has stopped all residential projects in our office. Our revenue has gone from an average of \$300,000 per month to an average of \$30,000 per month.

We currently have over \$2.5 million dollars in proposals on our books that we consider realistic opportunities – none of which has turned into contracts. Our revenues have not been able to keep up with expenses for several months – a math equation that does not work. We have cut our expenses, renegotiated the terms of our lease, asked our employees to take 3 different pay cuts, the last of which reduced salaries to 50% of what they were earning just 15 months ago while the three partners receive no salary. Several of our employees have cashed in their 401K account in order to pay the monthly bills. It is a dire situation in the small business community.

Our firm is taking the measures that most small businesses are coping with in order to keep operating. In fact we have even resorted to selling excess furniture systems from our office to find additional revenue. Just yesterday we engaged in an agreement to merge with another architecture firm in order to survive and save the jobs of our employees. Our financial situation left us with no choice other than to exercise this option or close our business.

This downturn has a trickledown effect in our industry. Construction jobs have been lost, our product suppliers can't sell their materials, we don't do nearly the business we used to with our printing company, we are not investing in technology we desperately need as a small business to stay competitive and our employees are not spending money in their local businesses. The result of this real estate economic downturn is that our firm has laid off 25 people in the last 20 months representing 75% of our workforce. Most of those people have been unable to find work in the design industry due to the substantial job loss in the architecture profession and the still stagnant economy. Our health insurance costs have increased by 19% in 2009 and we are now required to pay 65% of the COBRA premium for those former employees who elect that coverage that comes out of our cash flow. Small businesses do not have the financial capacity to carry these kinds of cost burdens until tax credits are available. I am fortunate that my bank is working with us. However a colleague of mine in the architecture business just closed his firm of 64 years putting over 120 people out of work because a bank, that was a recipient of stimulus money, called in their line of credit. All small businesses live in fear of this situation.

I feel that the stimulus package developed by Congress is noble in gesture but its impact on the smallest firms is extremely limited. Small business is the backbone of the United States economy. In fact over 80% of the 85,000 members of the American Institute of Architects qualify as a small business. The stimulus package brings billions of dollars to specific industries to "create jobs" however it has yet to find its way sufficiently into the small business arena. Our firm was recently awarded a GSA Federal Courthouse Renovation project in Gainesville Georgia funded by stimulus dollars. The project is on indefinite hold due to the administrative process of trying to figure out how to get the

money, how much they really have to spend, budget it for the project and tie it to contracts. So we wait.

Sadly, my firm's story is not unique. Small design firms across the country are facing the same severe challenges.

Although the American Recovery and Reinvestment Act (ARRA) has provided some assistance, with as much as \$130 billion available in the recovery package for building-related projects, it is just a start. The crisis is deeper and more profound than any that my peers and I can remember. It will take more than just one piece of legislation, no matter how important as ARRA, to help us recover.

Principles for Economic Recovery

America's architects believe that this economic crisis presents an opportunity not only to build, but to build better—greener buildings, vibrant communities, and a 21st century transportation network that is good for both the environment and the economy. But in order to allow our nation's architects to rebuild America, Congress must take a number of critical steps to help bring us out of this economic downturn.

I am pleased to report that today the AIA is launching a new campaign to bring about both short- and long-term recovery to our nation's economy and communities by investing in our infrastructure and helping our critical economic sector lead the way. Our plan, which is available at www.aia.org/rebuildandrenew focuses on five key areas:

- Making financing available for design and construction projects;
- Providing needed relief to small businesses;
- Making tax policy work for recovery
- Helping to rebuild our nation's infrastructure;
- Building a new, green economy.

To achieve the aforementioned goals, the AIA has developed a number of policy ideas that, if pursued by Congress, will set the playing field for architects, their firms, and the

nation as a whole, to rebound from the worst economic marketplace since the great depression.

In particular, I want to note policy recommendations related to making financing available for design and construction projects and providing relief to small businesses:

Make Financing Available for Design and Construction Projects

Extend the Term Asset Backed Securities Loan Facility (TALF) through 2010.

Congress should extend TALF, which is scheduled to expire in December 2009, for at least one more year. This will promote design and construction activity by allowing the time needed for commercial mortgage backed securities to assemble TALF-eligible transactions.

Allow Public Private Investment Programs to Finance Sound Construction Projects.

Congress should expand the Public Private Investment Program's (PPIP) authority to provide for funding of new commercial real estate loans for worthy, solidly underwritten projects that will create jobs and revitalize communities.

Eliminate Disincentives on Global Investments in U.S. Commercial Real Estate.

In order to stimulate new investments in commercial real estate, Congress should amend the Foreign Investment in Real Property Tax Act to eliminate provisions that punish global investments in U.S. commercial real estate compared to the tax treatment of other forms of international investments in the U.S.

Encourage the Use of SBA Lending Authority to Help Small Owners Address Equity Issues

Many small businesses and homeowners who otherwise would be able to take out loans for retrofits are unable to because lenders have tightened equity requirements. The SBA can help increase the number of smaller design and construction projects – helping both small owners and small design and construction firms – by encouraging lending to homeowners and small business owners to improve their equity position.

Provide Relief to Small Businesses

Allow Sole Practitioners to Claim the Deduction for Qualified Architectural and Engineering Firms.

In 2004 Congress created a new deduction (Sec. 199) which allows architects and engineering firms deduct up to 9 percent of their qualified receipts. However, due to an unfair and inconsistent limitation within the code, some of the smallest design firms in the country – sole practitioners - are not allowed to claim this deduction. Congress should amend Sec. 199 to allow these firms to claim this deduction

Streamline Onerous Recovery Act Paperwork and Reporting Burdens on Small Businesses.

Congress should analyze and streamline paperwork and reporting requirements in the American Recovery and Reinvestment Act (ARRA) that, while well-intentioned, have created undue burdens on small businesses and have potentially exposed some small businesses to additional legal liability.

Repeal the Three-Percent Withholding Requirement.

Starting in 2012, federal, state and most local government agencies are required to levy a three-percent withholding on all government contracts, grants and other payments, coming into effect around the time that many economists believe that the economy will begin to recover. Congress delayed the withholding for a year as part of ARRA. They should now eliminate it completely.

Eliminate Retainage Rules on Architects and Engineers.

The AIA supports the elimination of a federal procurement regulation that allows federal agencies to withhold up to 10 percent of an architect's or engineer's fees until the end of a design project. This retainage places an unnecessary burden on small design firms trying to take part in the federal procurement process.

Hire Unemployed Design and Construction Professionals to Help Speed Recovery Act Implementation

Despite the best efforts of many agencies, billions of dollars of Recovery Act funding has not been obligated because of the sheer size of the program. Worsening the problem is the fact that many agency contracting officers do not have specialized understanding of design and construction. Congress should encourage agencies to contract, on a temporary basis, with design professionals currently out of work to help ensure that Recovery Act funding for infrastructure projects is distributed expeditiously and effectively.

Conclusion

To bring our nation out of the recession, the government and media continue to talk about creating jobs. We need to focus on measures that save jobs and allow small business to continue to operate and employ people, who pay taxes, spend money in the community and save for the future. I want to grow my business, hire young talented architects and designers and pay them an adequate salary. I want to stop the flow of money out of our economy to “offshore” companies providing services as a cheap alternative that eliminates jobs here in the US.

Small business does not want a bailout. We want access to low interest or no interest loans to bridge the economic downturn to help fund operational costs. These loans can be paid off over a long period of time or through pro bono services in the community to assist those out of work. We want relief from the premium costs of health insurance and the personal cost of deductibles used for preventive care. We want effective tort reform that eliminates frivolous lawsuits and liability insurance costs. We want the availability of small business grants that assist in the acquisition and implementation of new technologies to keep small business competitive in the world wide marketplace. We want Congress to hold the recipients of billions of dollars of stimulus money accountable for insuring it reaches down into the local marketplace as it was intended to do. We want faster implementation of stimulus investment in government and infrastructure projects earmarked for small businesses. These “wants” by small business is not a stimulus package. It is an investment of the future of the country.

My fellow architects and I are happy to invest our time to create realistic and attainable solutions to this problem. I thank you for the opportunity to participate today in the democratic process of voicing my opinions and thoughts to you my elected representatives. As a small business owner I am confident we can all work together to overcome the challenges of this economy and prosper as business and citizens.