



Rutland Beard Floral Group

Testimony of Rutland “Skip” Paal, Jr.

On Behalf of the Society of American Florists

Before the House Committee on Small Business

United States House of Representatives

“Making Washington Work For America's Small Businesses”

March 22, 2017

Rutland Beard Floral Group

5639 Baltimore National Pike

Baltimore, MD 21228

(888)316-8371

Mr. Chairman and distinguished Members, thank you for inviting me to present testimony before the Committee regarding my company.

I am a fourth generation florist. In 1923, my great-grandfather opened a flower shop and greenhouses outside Baltimore where he grew and sold flowers and plants. My grandparents took over the business in the 1950's and ran it until my parents took over in the 1970's.

When I joined the business in a full-time capacity in 2002, our family owned two retail flower shops and had just under 20 total employees, of which 8 were considered full-time. Soon thereafter, I realized there was an opportunity to grow our business by acquiring additional locations. In 2007, I purchased my first location and have continued to acquire retail flower shops.

In 2009, we expanded beyond traditional retail to include a wholesale florist and import division. Last year my company employed over 180 people and operated at 12 different locations in Maryland and New Jersey, including my great-grandfather's original location outside Baltimore.

My company employs about 90 people on any given day – about 25 full-time and 65 part-time. Seasonal increases for the peak periods of Valentine's Day, Mother's Day, and Christmas will almost double our daily workforce.

Our operation is multi-channel -- we service import, wholesale, and drop-ship segments of the floral industry. However, our main street retail existence remains our largest presence within the flower business. Through our local brands, we deliver smiles to the faces of nearly 100,000 people each year. Our company receives numerous awards every year at both the local level as well as the national level.

Our employees are the heart of our business. They are the ones who comfort grieving families, share hugs with new grandparents, and see true love between couples preparing for weddings. We have always taken care of our employees.

We were offering health care decades before Affordable Care Act (ACA) required us to. We established a company-sponsored retirement plan when we realized that Social Security might not be enough for our retirees. We have a paid leave program that is extremely competitive for retail business and nearly unheard of in the floral industry.

As a result, we have many valued employees who have made a lifelong career with us. It is important to note that our company attracts talent by offering competitive wages and benefits because we want to, not because we are forced to. Having the opportunity to set ourselves higher than required allows us to maintain a competitive employment environment.

While the overall economy is certainly in better shape than it was several years ago, it is important to understand that our industry and small businesses all over the nation are still experiencing significant challenges which are preventing entrepreneurs from fully attaining the American Dream.

Since several years have elapsed since full implementation of the ACA, we have had an opportunity to see firsthand the devastating impacts that have occurred as a result of the legislation. I want to share my experiences with the ACA in an effort to encourage Congress to pass legislation to correct the devastating impacts the ACA has had on my business and ability to offer quality health care insurance to my employees.

It is important to note that while I support employer-sponsored health care for true full-time employees as evidenced by my company's insurance offerings for multiple decades, the current mandate for employer-sponsored health care simply is not working.

I received renewal quotes from our health insurance broker a few weeks ago. Our premiums will be increasing by over 30%, and the past several years have seen similar surges. Increases of that magnitude are simply not sustainable. Since the enactment of the ACA, our monthly premiums have nearly doubled and our deductibles have nearly tripled.

In my opinion, it is not wise federal policy to force us to pay significantly more for substantially less coverage.

In addition to skyrocketing costs and reductions in benefits, the ACA has placed me at a competitive disadvantage because of the cost of insurance. The actual employer's cost to insure a full-time employee on our health insurance policy adds over \$2.00 an hour that ACA defined "small employer" competitors do not incur. This burden places me at a disadvantage since many other employers are not required to offer coverage to the same individual and can therefore afford to entice them with a higher salary.

For an hourly-based employee making \$14 an hour, that \$2 an hour is a significant monetary factor and often times makes the difference between working for us and taking a job elsewhere. Additionally, since many other employers are not required to offer coverage to their employees, the employee can still benefit from subsidies on the exchange which they would not have access to under employment with me. The result is a variance in net expendable income to an employee of thousands of dollars a year, which to someone making \$20,000-\$30,000 a year creates a significant difference of their income.

I ask Congress to fix the broken ACA system. It is detrimental to me and countless other main street businesses. If something is not done quickly, I fear that when I receive next year's health insurance quote it will simply be unaffordable to the point where we would no longer be able to offer that benefit to our employees.

I applaud the recognition by Congress and the Administration that the Tax Code, which seems to be so large that not even my accountant can fully understand it, needs to be drastically simplified.

Tax relief to small business is incredibly important. The complexity of the Tax Code and its associated case law is not something that I can even begin to understand. Payroll taxes are simple, straightforward to calculate, and easy to plan for – we need something just as uncomplicated for corporate and pass-through taxes.

The tax rate also needs to be lowered. The United States has the highest corporate tax rate in the developed world and is obviously too high. Our current tax system discourages hiring and growth. The high tax rate forces businesses to make decisions on how lower their net tax rate rather than how to grow their businesses and hire more employees.

While I highly commend efforts to reform our tax code, the border adjustment proposal would be devastating to my business. Eighty percent of the flowers sold in the United States are imported. Nearly 95% of the flowers used in my businesses are grown overseas. There is no domestic capacity to meet the demand. Flowers are not a necessity like food or housing - if our products are taxed at a higher rate, those costs will translate to higher prices and consumers will shift their spending to other products where flowers have traditionally been appropriate.

I ask that any border adjustment in tax reform exempt floral agricultural products to avoid significant harm to small floral businesses nationwide.

One of the greatest concerns that I and other members of my industry have is the sense of uncertainty and lack of clarity in legislation and regulations. It is impossible for small businesses to make decisions and plan when legislation and rules are constantly changing. I have discussed the challenges I face with several of my peers in different segments of the floral industry. Every single person told me their greatest concern was either uncertainty or lack of clarity.

For example, when regulations changing overtime policy were issued, I, along with many of my peers, recreated the entire compensation structures for our full-time employees to conform to the new regulations.

Being in a somewhat seasonal business, we had previously offered our salaried employees the opportunity to bank extra hours worked during peak weeks and redeem them as additional paid time off during other slower periods. Our employees had always viewed this as a benefit that allowed them to maintain consistency in their cash flow throughout the year.

Because the overtime rule forced us to restructure our compensation structure, our workplaces were highly disrupted. I even had one employee quit after we informed her that she would not be able to accrue comp time during peak weeks. Please try to imagine the frustration

after we redesigned our compensation plan only to have the regulation halted just days before it was scheduled to go into effect.

There needs to be certainty in legislation and regulation that allows small business owners to properly plan and prepare. The current environment creates economic chaos where we are unable to plan for payroll, benefits, or growth.

One of the greatest uncertainties that I have rests in the handling of non-hard assets during acquisitions. There has been little released about how assets such as trade names, phone numbers, websites, and goodwill – normally depreciated over a longer period of time, minimizing any benefit – would be handled under any of the tax reform proposals being considered. I am not comfortable continuing to expand my business without knowing how those assets will be treated under a reformed tax system. Constant political upheaval and shifting rules are counterproductive to business growth.

In an era where many people only criticize our government, I want to take an opportunity to say thank you. Recently a number of significant challenges have been overcome thanks to the support of our legislators. I urge the committee to celebrate these prior successes as we all work together to make the future brighter.

While the Affordable Care Act remains substantially intact, there have been some requirements under the ACA which have been reviewed and changed to assist small businesses. For example, the original ACA legislation required 1099 reporting requirements which would have been overly burdensome, especially on small business. Through bi-partisan cooperation, this burdensome provision was removed. I am hopeful that Members of Congress will continue to work to eliminate many of the other tedious reporting provisions with which small businesses have struggled.

The Estate Tax has been an ongoing issue for small business, especially in multi-generational businesses where the business itself sits upon real estate which has been passed down from one generation to the next.

I applaud the efforts over the years by legislators to keep Estate Tax levels at a level which allows for transition of small businesses from one generation to another without forcing family members to take out life insurance policies or loans just to pay the taxes which might occur as a result of the death of a family member. I urge Congress to continue to maintain a vigilant watch on Estate Tax levels and concepts to allow for small businesses to continue to grow and pass from one generation to the next without fear of losing the business from a tax liability incurred by the death of an owner.

Following the recession a decade ago, financing for my business became very difficult. Credit lines were cut or closed and it was nearly impossible to find a bank that was able to write a loan for small business. I have been fortunate to have a local community bank to work with – one who knows us as people and a business, not just an account number. Policies should encourage the continuity of small and local banks as a financing partner for small business.

While Congress has passed legislation over recent years to help small business, the work remaining is immeasurable. I implore the Committee to be our voice in Washington and to craft legislation to address some of the concerns that I have shared with you.

Small businesses should not be punished by their own government for contributing to economic growth and hiring employees.

I am hopeful that this Committee and this Congress will act to give a degree of certainty and clarity to business and to craft and pass legislation which will lead small business into a new era of prosperity. I am hopeful that my great-grandchildren will be able to take the reins of the family business 94 years from now. I know that my 5-year old is already considering joining the business.

Thank you again for giving me the opportunity to present this testimony before the Committee.