

New York State Legislature's
Joint Fiscal Committees Hearings
On Economic Development Policy in the
2005-2006 Executive Budget Proposal

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I would like to thank the distinguished members of the Senate Finance and Assembly Ways and Means Committees for the opportunity to speak here today. My name is Ron Deutsch and I am the Executive Director of the Statewide Emergency Network for Social and Economic Security (SENSES). SENSES is a statewide non-profit organization that works on promoting community economic development programs and policies that better the lives of all New Yorkers.

Recently SENSES, working with microenterprise development organizations from around the state, developed MicroBizNY. *MicroBizNY, formally launched December 10, 2003, is a newly founded statewide association devoted to furthering microenterprise development in New York State.*

In the summer of 2003, a broad spectrum of upstate and downstate microenterprise organizations responded to the need for New York State to take a leading, role in the growing national microenterprise movement. A Steering Committee, comprised of microenterprise organizations that provide training, lending and other enterprise opportunities to individuals and communities in New York State began this process; with the support of such national organizations as the Association for Enterprise Opportunity (AEO) and the Corporation for Enterprise Development (CFED). SENSES has served as an organizing force behind MicroBizNY, coordinating and contributing to the association's development.

Together, these organizations realized that the growing field of microenterprise needed a strong voice to advocate, educate and provide leadership at a statewide level. The development of MicroBizNY marks a turning point, providing a voice and a vision for microenterprise development in New York State.

MicroBizNY is an association of microenterprise development organizations, practitioners, and supporters dedicated to promoting enterprise opportunities for people and communities in New York State. MicroBizNY provides a forum, information, and a voice to its members and constituents.

Economic Development: Building Assets, Businesses and Revenues

Microenterprise Development

The microenterprise development industry has defined a microenterprise as a business with five or fewer employees requiring \$35,000 or less in start up capital, and does not have access to the traditional commercial banking sector.

Microenterprise development is seen as a holistic approach, embracing poverty alleviation, human development and economic development strategies. For this reason, a wide range of institutions - including stand-alone microenterprise development organizations, community development corporations, organizations with loan funds, community action agencies, women's organizations, community development banks and credit unions, housing and social service programs, and government agencies at the local, state, and national levels - are involved in microenterprise development.

After a decade of operation, microenterprise development programs in the U.S. are creating jobs, generating income, building assets, and enhancing skills. These results are particularly impressive considering the fact that a significant proportion of assisted microentrepreneurs are individuals facing obstacles presented by race, gender, ethnicity, income, and location barriers as well as job market fluctuations. Whether the business is the sole source of family income or a crucial supplement to family earnings, microenterprise development has put many low-income families on the road to self-sufficiency.

By generating new economic activity, microenterprise also increases public tax revenues and private incomes, thereby reducing dependence on public assistance, which in turn helps to shrink public budgets. These significant social and economic benefits far outweigh the cost of public and private investment in microenterprise development.

Why Fund Microenterprise Development? According to the U.S. Census, Microenterprises account for fully 88% of all businesses in NYS and employ approximately 20% of the state's workforce. Sole proprietorships (a business without employees) account for 72% of all businesses in NYS and have had an average annual growth rate of 3.36% between 1997 and 2003 (equates to an average of 45,000 new businesses per year). There are currently 1.6 million microenterprises operating in New York generating approximately \$58 billion in revenues annually. **Microenterprise development should be viewed as an economic development priority not an afterthought.** The emphasis of New York's economic development policy is on attracting and retaining large businesses while small business development gets only a fraction of the resources.

Empire State Development Corporations Annual Report to the Legislature (2000) on the state funded microenterprise development program suggested the following:

- State funded programs conservatively generate \$2 in tax revenue for every state dollar invested in the program;
- Program costs the state only \$1,585 per job created (Compared to the Jobs Now Program which averages \$10,000 per job and the Job Development Authority that averages \$35,000 per job);
- Programs should be expanded to areas of the state that currently lack coverage and grants to these training organizations should increase to maximize federal matching dollars.

Microenterprise development is one of the most promising strategies to lift people out of poverty and assist them in developing assets. New York State currently lags the rest of the country in providing support to microenterprise practitioner and training organizations. Consider these facts from the Corporation for Enterprise Development's Asset Development Report Card:

- New York's small business development rate: 11% of New York's workforce owns the business at which they work (New York ranks 32 out of 50)
- Minorities own businesses at only 12% the rate that whites own businesses in New York
- 4% of women own their own business
- The average minority-owned business in New York had sales and receipts of \$437,171 in 1997 (the value of those businesses is much less than the value of minority businesses in other states)
- The average women-owned business in New York had sales and receipts of \$15,100,000 in 1997

Small business development is the lifeblood of the New York State economy. The Entrepreneurial Assistance Program (EAP) is one of the most successful small business development programs run by New York State. EAP is operated

by the Empire State Development Corporation and provides intensive training and technical assistance to persons wanting to start their own small business. EAP is different than other small business development programs in that it focuses its outreach to women, minorities, individuals with disabilities, and dislocated workers. There are 22 EAP Centers located strategically around the state. These centers provide training that takes participants from the inception of a business idea, through the formulation of a business plan and finally to securing funding for start-up. The technical assistance provided to these businesses does not end when the business is started. EAP centers stay with their start-ups for a period of five years. If the business encounters problems they can always turn to the EAP Centers for assistance.

From 1996-1999 EAP Centers have (most recent data available since ESDC no longer provides a program evaluation):

- Helped Start 1,590 businesses
- Increased sales at 2,192 firms by \$67 million
- Created 3,661 jobs at a miniscule cost of \$1,600 per job
- Accessed \$37.8 million in start up capital for more than 913 businesses

Client Demographics

- Most EAP participants were mature individuals, between the ages of 35 and 50
- 62% of all clients served by the centers were women. 40% were minorities. Of those 40%, 47% were Black, 14% were Hispanic, 4% were Asian and 1% were Native American
- 32% have attained at least a trade school or 2-year college education, 23% have a 4-year college or university degree, while over 8% have a graduate or professional degree
- 2,130 clients were served by EAP Centers, an average of 97 per Center
- 1,351 of these were new clients; the other 779 were clients who enrolled in EAP prior to 1998 and continued with the program to access follow-up services and/or advanced technical assistance

Business Characteristics

- 772 clients were categorized as existing businesses
- 63% were in the service sector, 25% were in the retail sector, 4% were in manufacturing, 4% were in wholesale/distribution, about 3% in construction, and only about 2% in finance, insurance, and real estate
- The vast majority (over 85%) of EAP client firms were microenterprises (small businesses that employ fewer than five people)

Employment Impacts

- 181 client existing firms increased employment by 405.5 jobs
- 127 start-up businesses created 231.5 jobs during the same period

- The total reported increase in employment was 637, an average of 2.1 per business
- Since employment was created for the owners of the 404 start-up businesses, total job creation from the program year is considered to be 1,041 thus far

A 2000 ESDC cost benefit analysis of the program revealed conservatively that New York State received \$2 in personal income and sales tax for every \$1 invested in the program. Every year, without fail, the Governor proposes to eliminate funding for this vital and cost effective program.

Another program operating in New York State is the **Business Outreach Center (BOC) Network**. The BOC network is a microenterprise development organization that has a 14 year record of delivering microenterprise services to disadvantaged entrepreneurs in New York City. BOC Network was developed as an innovative, collaborative approach linking micro-enterprise growth with community-based economic development. The impetus behind the creation of the BOC Network model was the understanding that the survival and growth of thousands of microenterprises across New York City is handicapped by limited access to credit and technical assistance services. This problem is particularly evident for BOC's target client base: minority, immigrant and female entrepreneurs who often operate in isolation from mainstream markets, doing business in "hard-to-reach," self-contained communities.

BOC Network began in 1990 as a program serving immigrant and minority entrepreneurs in Brooklyn and Queens. In 1992 the BOC Network expanded citywide through the BOC Replication Project which created an alliance among seven low income communities spanning all five New York City boroughs, representative of New York City's minority, refugee, and immigrant populations. In 1996 BOC Network became a 501 C (3) membership organization dedicated to community-based small business development and multi-community collaboration.

Today, the BOC Network is a formally incorporated, not-for-profit membership organization with seven centers in New York City, which has achieved significant benefits for microentrepreneurs, and recognition for its model and accomplishments.

Recent BOC Network Accomplishments include:

Developing businesses and jobs:

- In 2003, BOC Network provided individualized technical assistance to 1,598 small business clients, a 50% growth compared to 2001.
- A recent outcomes survey yielded 510 jobs created/saved in a one year period and 160 new businesses started.

- In FY 2003 BOC Network helped 48 small businesses create/save over 300 jobs through access to over \$1.2 million in wage subsidies.

Helping emerging entrepreneurs access the many resources and programs available through both government and the private sector:

- Since its inception, BOC Network overall has provided one-on-one technical assistance to more than 9,000 clients and helped small businesses access over \$28 million dollars in loans and grants.
- In 2003, BOC Network facilitated access to grants and loans totaling \$4,559,662.
- In 2003, BOC Capital Corp. made 29 microloans loans totaling over \$245,000.

Facilitating the sharing of capacity and resources among and for communities, small businesses and new entrepreneurs:

- BOC Network provides management and capacity-building for eight local BOCs in collaboration with community-based organizations in all five boroughs of NYC and one in Newark, NJ.
- In 2003, local BOCs conducted 197 small business seminars and workshops, attended by over 1,900 participants.
- In 2003, BOC expanded to the North Bronx in collaboration with the Bronx Business Alliance.
- In 2003, BOC launched the **Fort Greene Fashion Group**, an apparel business mentoring/training program in collaboration with a veteran urban fashion designer.

Extensive help to small businesses and disadvantaged entrepreneurs is crucial not only for initially attracting needed capital into these isolated communities, but more importantly, laying the foundation to keep the capital invested in these communities.

There are also other programs operating throughout the state that are doing incredible work. There are numerous partnerships between Community Loan Funds, CDFIs, Academic Institutions, Community Action Programs, Community Development Corporations, County Governments, Credit Unions, Banks, and other microenterprise development organizations. These partnerships allow organizations to maximize community resources and avoid duplication of services.

Policy Recommendations:

The Governor, in his SFY 2005-2006 Executive Budget, has once again proposed eliminating one of the most successful micro-enterprise training programs in the state. The Entrepreneurial Assistance Program (EAP), which

was funded at \$1.3 million in SFY 03-04, is zeroed out in the Governor's budget proposal.

Entrepreneurial Assistance Program

We recommend that the Entrepreneurial Assistance Program (EAP) be funded at \$4 million annually. The Governor's Executive Budget Proposal eliminates funding for this program (\$1.3 million in SFY 04-05). Additional funds would allow for the creation of new centers to meet the growing demand for these services. Each EAP Center should receive a minimum allocation of \$100,000 to operate the program. EAP Centers are accumulating waiting lists for their services and now is the time to increase funding for this program and to **expand it** to others areas of the state not currently served by the existing centers.

TANF Funds to support Low-Income Microenterprise Development

We would urge County Governments to include provisions for microenterprise development in their county bi-ennial employment plans. We believe that all counties (under the proposed FFFS Block Grant) should include financial support for microenterprise development as the federal government has deemed it an eligible use of TANF Funds. National research indicates that low-income people can and do open and operate successful small business ventures and approximately half of the clients served by EAP would be eligible to receive services under the TANF eligibility guidelines. These funds could also be used to develop child-care businesses that would help meet both the need for affordable child-care in our state and provide low-income women the opportunity to develop profitable businesses.

Improving the Performance of Microenterprise Development

Organizations: We recommend that the state implement a program to enhance the performance of microenterprise development programs. A coordinated program of capacity-building, technical assistance and performance evaluation for microenterprise/small business development organizations offers the potential to enhance the impact of microenterprise development services across New York State. Microenterprise programs benefit NYS through new business creation, business expansion and job creation. Capacity-building and technical assistance will guarantee performance and the achievement of these objectives. This is an important time to invest in quality microbusiness development services, to strengthen existing service providers, and to maximize the return of NY's investment in entrepreneurial training and technical assistance services throughout the state.

Individual Development Accounts (IDAs)

Many Americans work hard to get an education, purchase a home, or start a business. But they usually have help along the way from family, professional networks, and the myriad other opportunities that come with economic

advantage. Even the federal government subsidizes asset accumulation for the non-poor via mortgage interest deductions, preferential capital gains, and pension fund exclusions. For the significant number of Americans who lack the resources to take advantage of those opportunities, basic goals like education, home ownership, and meaningful employment remain an elusive dream.

IDAs are dedicated savings accounts similar in structure to IRAs. Generally, the account holder chooses to save toward one of three goals: purchasing a first home, continuing education or job training, or starting or expanding a small business. Community development organizations use funds from public and private sources to match the account holder's deposits. Within a few years, the account holder can accumulate sufficient assets to invest in the chosen goal. In addition to matching funds, account holders receive credit counseling, help with budgeting, and economic literacy training.

IDA programs have varying levels of eligibility requirements. Some include households living at less than or equal to 150 percent or 200 percent of the federal poverty level, while others require that the account holder's household income not exceed 80 percent of the area median income. Organizations also determine eligibility for IDA programs using household net worth. IDAs are designed to help individuals and families who have both low income and low assets. Funds from government appropriations and private sources match the account holder's deposits at a rate ranging from 1:2 to 9:1. Programs place limits on the amount that will be matched each year.

Asset-building strategies represent an increased emphasis on developing self-sufficiency. Some IDA holders rely on public assistance. Traditional public assistance programs address only income maintenance and consumption. Such programs do not support the transition to self-sufficiency, and strict asset limits for recipients of public assistance create a barrier to savings. Asset-building programs complement income maintenance programs by providing a realistic vehicle through which individuals and families can improve their economic well-being. Many of the IDA holders who participate in income maintenance programs will be able to move off public assistance.

New York State currently allows individuals to open IDA accounts, but the State does not provide funding. Although New York legislators voted to disregard funds in TANF recipients' IDA accounts when determining eligibility for public assistance, New York has no comprehensive IDA legislation. New York continues to lag many other states in the support of Individual Development Accounts.

A number of other states have made significant strides in developing IDA programs. Indiana has backed its IDAs with \$6.5 million from the state general fund and another \$500,000 annually in tax credits to contributors to an IDA program. Anyone who contributes to an Indiana IDA will receive a fifty percent

tax credit on contributions between \$1,000 and \$50,000. The match rate is 6:1 total, composed of 3:1 by the state and 3:1 required of administering organizations. In Pennsylvania, the State has appropriated \$1.25 million for a Family Savings Account program. North Carolina has appropriated \$300,000 a year for the next two years for IDAs, and the State has set aside \$250,000 of Community Development Block Grant funds for home ownership IDAs. Iowa has allocated \$50,000 to support a five-year demonstration known as the Family Investment Program. Other states give tax benefits to contributors to IDA programs. A total of more than forty community-based organizations and twelve states are running or supporting IDA programs.

At the federal level, Congress has passed the Assets for Independence Act. The Assets for Independence Act set up a national IDA demonstration project, funded over four years with \$100 million. In order to access these funds states and local groups must provide a non-federal match.

Childrens Savings Accounts – Sowing the SEEDs of Change

The Harlem Children's Zone has also just launched a new project offering SEED Accounts. Savings for Education, Entrepreneurship and Downpayment (SEED) accounts are similar in structure to IDAs but are focused on helping children build assets. SEED accounts can make a substantial difference in the life a child by helping them accumulate assets for when they become adults. They will have been able to save thousands of dollars for the purpose of purchasing a home, starting a business or getting a college education. These programs will also work with the children to give them the educational tools they need later in life that will help them not only manage money but their future as well.

The Harlem Children's Zone is one of only a few organizations nationally chosen to offer these accounts as part of a demonstration project. The Harlem Children's Zone intentionally develops programs where other agencies are not located and poor children and families have nowhere else to turn for help. The Harlem Children's Zone is offering SEED accounts to Children in its Harlem GEMS Universal Pre-Kindergarten Program.

Active IDA Programs in New York State

Affordable Housing Partnership, Albany
Alternatives Federal Credit Union, Ithaca
Brooklyn Ecumenical Credit Union, Brooklyn
Challenge Industries, Ithaca
Chautauqua Opportunities Inc., Dunkirk
Genessee Co-Operative Federal Credit Union, Rochester
Homesteaders Federal Credit Union, Manhattan
Lower East Side Peoples Federal Credit Union, Manhattan
Mount Hope Housing Company, Bronx
Neighborhood Housing Services, Brooklyn

Neighbors Helping Neighbors, Brooklyn
New York Association for New Americans, Manhattan
NEXUS Project/NYC Partnership, Manhattan
Northfield Local Development Corporation, Staten Island
PEACE Inc. (Onondaga CAP Agency), Syracuse
SEEDCO/Non-Profit Assistance Corporation, Manhattan
St. John United Federal Credit Union, Buffalo
Westchester Housing Fund, Hawthorne
Westchester Residential Opportunities, White Plains
Wildcat Services Corporation, Manhattan
YWCA of Rochester and Monroe County, Rochester

Note: There are numerous other programs in the developmental stages throughout the state.

Policy Recommendation:

The Governor has made no allocation for the creation of these accounts. The Legislature should allocate \$5 million in economic development funds to foster the promotion and creation of IDAs. These funds should be used for a pilot project to provide funding to existing IDA programs and to create new programs.

Community Development Financial Institutions (CDFIs)

CDFIs are diverse organizations that meet a need for credit and financial services in disinvested and low wealth communities. A CDFI is a financial institution with a primary mission of community economic development, providing credit and/or investments in urban, rural, and reservation-based communities inadequately served by banks. There are six basic types of CDFIs: community development credit unions, banks, loan funds, micro-enterprise funds, community development corporation-based lenders and venture funds. CDFIs offer loans and savings opportunities to small and micro-businesses, first-time homebuyers, organizations developing affordable housing or community facilities and individuals seeking to improve their economic options.

A distinguishing feature of a community development financial institution is community control of local investment. Community ownership and control allow these institutions to be more responsive to the needs of their members and therefore effective in their lending and investment strategies. Because of this community control, the commitment to the neighborhoods and consumers they serve will endure.

New York CDFI Facts and Figures

The **106 CDFIs** in New York State have almost **\$676 million in financing** outstanding. New York CDFIs serve predominantly low-

income individuals (77.1%), minorities (70.5%) and women (59%). In just one year, CDFIs in New York:

- Provided asset-building savings and financial services to more than 64,000 people.
- Closed more than 8700 loans and investments
- Financed 887 businesses and microenterprises, creating and supporting 2,673 jobs.
- Created or renovated 11,621 affordable housing units

Our research indicates for every \$1 of state investment, CDFIs are able to leverage up to \$24 in federal and private sector funding. Thus, a dedicated state fund that allows CDFIs to raise state capital will vastly expand the level of lending and financing services that they are able to provide throughout the state. We also believe a dedicated fund will enable new CDFIs to form in areas that lack adequate service and existing CDFIs to expand their activities to reach more communities.

Policy Recommendations:

The New York Coalition of Community Development Financial Institution (CDFIs) seeks:

- Passage of a bill to establish a state fund to channel investment into community-based financial institutions in urban and rural, upstate and downstate communities.
- An appropriation of \$4 million to expand the Empire State Development Corporation's CDFI program to provide the capital and loan loss reserves for CDFI business lending.
- Increase investments to up to \$100,000 for CDFIs by Empire State Development Corporation.

The New York Legislature worked with the CDFI Coalition to establish the New York CDFI program housed at Empire State Development Corporation in 1997. This program has funded in excess of \$8 million to 35 CDFIs statewide (through 2004) for business lending. Funding under this program has enabled CDFIs to significantly increase lending to minority and women-owned businesses by community development credit unions, loan funds, and banks.