Business Incubator Association of New York State, Inc.

WRITTEN TESTIMONY Offered by Marc Alessi, Executive Director of BIANYS

Joint Legislative Budget Hearing on Economic Development

The Business Incubator Association of New York State, Inc. (BIANYS) is a not for profit membership driven association comprised of over 100 Business Incubators and Accelerators from across New York State, who collectively mentor and house over 2000 startup companies throughout our great State every year. Our membership is made up of both university affiliated incubators, and independent, private sector incubators.

It is in the interest of New York State to support Start-ups and the job creation that results from these young companies. As a former member of the New York State Legislature, this was my main area of policy interest. I had worked with a number of my former colleagues including many of the Chairpersons of these committees to hold hearings around the state as the former Chair of the Sub Committee on the Emerging Workforce to find out how best to position this state for job creation.

After leaving office I became involved with the early stage financing of start-up companies before launching a biomedical device start up myself. And for the past three years I have had the privilege of working with many of the men and women who help startup companies navigate the many obstacles they encounter on the role to creating sustainable, companies that generate jobs and economic activity within New York State.

It is important to understand that a true startup is an enterprise in search of a replicable business model, and when that model is found, when there is a fit between product or service and marketplace, the startup grows up to a traditional company with revenue and exponential growth. The startups I am speaking of, are not to be confused with many of the small businesses that are started in our community every day, that will have revenue almost immediately after their doors open. A business like a local deli, or insurance brokerage, etc. For these types of companies, some assistance on business planning and a personal guaranteed loan will suffice in helping to derisk the enterprise.

The large majority of startups I am speaking of within our State's incubators and larger innovation ecosystem, may not have any revenue for months or most likely years, however they are testing and commercializing a product or service that has an enormous opportunity to scale and generate faster and greater growth that the startups on the bankable side of the spectrum. If we only create deli's, bakeries and financial service companies in our community, we will lose the ability to generate and produce new products that are the basis of our GDP. We will never be the cheapest place to do business, so creating a factory to produce a cheap plastic producible, can only work here though innovative methods and or products.

But those innovative methods and products in and of themselves are a product that we are uniquely position as a state to produce because of the investment we make in our people and communities through our primary and higher education systems.

We are ripe for a vibrant innovation economy, and we are well on our way to having this innovation economy that we began investing in just a decade ago. Lets not stymie our progress, let's not starve this opportunity, we need to continue our investment and continue down this path which plays to our strength as a state and has begun a diversification in every regional and local economy of this great State.

Kaufmann Foundation Paper- "The Importance of Start Ups in Job Creation and Job Destruction" 2010

Summary:

It's well understood that existing companies of all sizes constantly create – and destroy – jobs. Conventional wisdom, then, might suppose that annual net job gain is positive at these companies. This study, however, shows that this rarely is the case. In fact, net job growth occurs in the U.S. economy only through startup firms.

The study bases its findings on the Business Dynamics Statistics, a U.S. government dataset compiled by the U.S. Census Bureau. The BDS series tracks the annual number of new businesses (startups and new locations) from 1977 to 2005, and defines startups as firms younger than one year old.

The study reveals that, both on average and for all but seven years between 1977 and 2005, existing firms are net job destroyers, losing 1 million jobs net combined per year. By contrast, in their first year, new firms add an average of 3 million jobs.

Further, the study shows, job growth patterns at both startups and existing firms are pro-cyclical, although existing firms have much more cyclical variance. Most notably, during recessionary years, job creation at startups remains stable, while net job losses at existing firms are highly sensitive to the business cycle.

Because startups that develop organically are almost solely the drivers of job growth, job-creation policies aimed at luring larger, established employers will inevitably fail, said the study's author, Tim Kane, Kauffman Foundation senior fellow in Research and Policy. Such city and state policies are doomed not only because they are zero-sum, but because they are based in unrealistic employment growth models.

And it's not just net job creation that startups dominate. While older firms lose more jobs than they create, those gross flows decline as firms age. On average, one-year-old firms create nearly one million jobs, while ten-year-old firms generate 300,000. The notion that firms bulk up as they age is, in the aggregate, not supported by data.

So what kind of programming do we need to help foster job creation?

The kind of programming that helps to de-risk the start up. Programming that is provided by our incubators and accelerators throughout this state to ensure that entrepreneurs have access to the best practices and institutional knowledge that exists from generations of successful companies in this state.

Incubators that offer consistent programs to train entrepreneurs on how to succeed are of paramount importance. But when I mention incubators, I am not necessarily just advocating for more bricks and mortar in this state. I am advocating for supporting the programming that happens inside of these incubators. One of the most vital sources of economic development funding is the operational funding that is provided to New York State Certified Incubators that helps to provide appropriate levels of support staff within our incubators that can assist entrepreneurs struggling with the Start Up process. A continuation and expansion of this type of funding is needed. According to the International Business Innovation Association, for every $1 a State invests in the operational funding of an incubator, clients and graduates of that incubator generate $30 in local tax revenue. Additionally, 84 percent of incubator tenants remain in the local community after graduating an incubator program. (https://www.inbia.org/resources/business-incubation-faq)

HotSpot Economic Impact:
In the 2018-2019 contract year, $6.7Million was spent on 27 different HotSpot Incubator locations that coordinate incubator services in each region of the State (the number of HotSpot incubators has now been increased to 30 incubators in each corner of the State, these incubators services of 1700 startup up companies, resulting in the creation of 770 and retained 712 jobs, generating more than $193.8 Million in economic activity. Remember that despite these numbers that already show a great multiplier effect, this is merely an investment in companies that will eventually grow very fast generating an exponential amount of even great activity. (ESD 2019 Annual Report)

StartUP New York Program:
As of October 31, 2019 a total of 303 businesses have been approved for participation in the START-UP NY Program. The 303 businesses project the creation of 5,332 net new jobs and more than $275 million in investment. Of these, 52 businesses were approved in 2018, projecting the creation of 669 new jobs and $37 million in investment. Since the program's creation, businesses in the STARTUP NY Program have generated more than $421 million in economic activity, with investments of $102.2 million, paying

$319 million in wages, and utilizing $21.1 million in business and PIT tax benefits. Again these are immediate projections and metrics, take into account that many of the companies attracted to the program have a mission of exponential growth. As start ups, these companies (ESD 2019 Annual Report)

NYSERDA Incubation Programs:

NYSERDA supports six cleantech incubators across the State, assisted 271 startups, helping them raise more than $378 million in private capital and almost $105 million in non-NYSERDA grant funding. This generated 1,590 jobs and made dozens of new clean energy and clean technology products widely available.

It is important to note that State investment in early stage programs like the Hotspot program or Startup New York needs to be viewed with a different lens then our traditional Economic Development Programs, because you are not investing in operating companies that already have revenue, where that investment will result in immediate hiring. The State instead is creating an environment where the companies of tomorrow can take root here in the State, these companies have a 5-10-year product development cycle, it often takes 5-10 years for these companies to see any sales and revenue at all, but historically, those companies that survive grow at an exponentially higher rate than the traditional companies supported by other economic development programs. Similar to a traditional investment portfolio recommended to New York families, you need to diversify your investments, and part of your investments should be in the high growth tech sector to balance your portfolio, and as a State, diversify your economy while planting the seed for tomorrow.

We have many examples of companies that have gone from Startup in our incubators and became large unicorns (companies with greater than $1B in valuation) all within 5 years, hiring hundreds and thousands of employees, generating Billions in sales and economic activity. We have seen this happen time and again in New York City which has surpassed all other innovation ecosystems throughout the Country in VC activity and startups to compete head to head (dare we say we can also collaborate) with the Silicon Valley.

But what is truly inspiring is to see these unicorns appearing in our State in cities like Buffalo (AVR Auctions).

The risk to this growing innovation economy is investor retrenchment and cuts to the State programs that help to support the incubators and accelerators that help derisk them.

I implore you to not cut, but double down on these programs. And consider our Association as a private sector partner in this effort.

As an association we have launched:

- an education program to help ensure that incubator managers understand the best practices of mentoring companies and implement those practices.

- A soft landings program to attract international companies to locate here in New York's incubators to launch their US operations
- Statewide programs like Innovate to Ventilate that convenes all of our incubators and economic development partners to crowdsource resources to scale companies from our entire statewide ecosystem. We helped over 50 companies with COVID19 solutions here in New York State, solutions like new paired down ventilators that can be deployed very quickly, to new pharmaceuticals to treat COVID19, to new Antibody testing, to new COVID19 vaccines. From this program we have learned the value of our collective efforts when needed quickly. We plan to do this again after this crisis for other industries.

BIANYS is advocating for the following in the current budget:

1.) Continued Funding for the Certified Incubator and Hotspot Incubator programs at $2.5M each as per the Governor's Proposed Budget
2.) An additional $250,000 in funding to fund BIANY's efforts to coordinate a Statewide Hotspot programming initiative to tie all of the efforts of the State's incubators together.
3.) A fix to the Startup NY issue that has arisen due to COVID19- where reporting companies can't report jobs that are temporarily working remotely from home instead of the hotspot location, due to COVID19 social distance requirements.

We also ask that the State look to incentivize investment in startups by:

- advancing additional risk capital through the Seed Fund program launched in 2011, and through the New York Ventures program.
- pass legislation to enable local IDA's to utilize some of their funds to invest in the startups in their community.
- Pass legislative for a startup investment tax credit
- Continue funding for the State's Centers of Excellence and Centers of Advanced Technology.

We ask the Legislature and the Governor's office to continue to engage us, an association that is uniquely positioned to give data and advice on what is truly happening within our innovation ecosystem and how we can grow it.

Thank you for your consideration.