Why SMALL BUSINESS *Matters*

What local government can do to support this vital economic engine

By Douglas Martin, ICMA-CM

One may ask: Why should local government managers be concerned about small business? In short: As the nation's economic engine, small businesses matter.

According to the U.S. Small Business Administration (SBA), small businesses with less than 500 employees constitute 99.9 percent of all businesses in the United States and 97.7 percent of all U.S. exporting companies. They also account for 48 percent of all employees within the private sector.

Maintaining the health of small businesses, however, is a complicated issue, one that encompasses demographic shifts, youth entrepreneurial education, financing options, economic development incentives, philanthropy, and much more. Perhaps it is a harbinger that Columbus, Ohio, has created a position just to focus on small business outreach.

A Status Report

The demographics. Millennials represent the largest demographic cohort of the current population in the United States according to the 2014 report "15 Economic Facts about Millennials" issued by the Council of Economic Advisers. Entrepreneurship, though, is not as high among millennials as Generation X and baby boomers. SBA notes that trends suggest entrepreneurship among millennials will remain relatively low for decades.

A critical element of the successful growth and retention of small business is ensuring that existing companies have succession plans deep in talent and resources, according to Anthony Chirchirillo, chief executive officer of Chirch Global Manufacturing, Cary, Illinois. A pipeline of talent is necessary to help sustain existing business due to retiring boomers and the larger millennial population.

Educational realities. In 2011, the organizations of Gallup and Operation HOPE created an annual index to measure student interest and aspirations in entrepreneurialism to meet future demands of competing in a global economic environment.

According to the 2015 Gallup-HOPE Index, approximately five in 1,000 people have ". . . exceptionally rare genius-level entrepreneurship talent." This translates to more than 90,000 students who can be a future resource and catalyst for the American economy. The index concluded that students in grades 5 to 12 aspire to be future entrepreneurs, but that there was limited education to nurture and promote entrepreneurialism.

The annual index results are a call to action. Both the public and private sectors, including local government, share responsibility in accepting this challenge to sustain and grow the economy for generations to come.

Innovative models. Margarita Geleske is executive director of the nonprofit organization INCubatoredu, a community grassroots effort created specifically by entrepreneurs and small business people and is financially supported by entrepreneurs. She explained that Barrington's community members collaborated with Barrington School District's 220 Educational Foundation and its educators "...to create a transformative year-long course for sophomores and juniors that will immerse student teams in entrepreneurship through an authentic business incubator start-up experience."

Michael Miles, cofounder of INCubatoredu and a Chicago-area entrepreneur, sought a way to integrate practical, hands-on entrepreneurship training with high school education. He collaborated with teachers and entrepreneurs, and they formulated the cutting-edge curriculum that focuses on startup practices and university examples and also uses local entrepreneurs to assist in mentoring.

The curriculum was launched in Barrington High School in 2013 and is a model that can be replicated and implemented anywhere, which is critical to its success.

Schools have adopted this incubator and accelerator model, which culminates in a real-world experience where teams pitch business plans and ideas to a diverse group of business experts. First STEP, a team from Dundee-Crown High School located in Carpentersville, Illinois, won the 2016 INCubatoredu National Pitch Competition. It was awarded seed money to pursue the team's idea of using restaurant food waste and turning it into an organic fertilizer.

The nonprofit organization scaled significantly. Since launching out of Barrington three years ago, INCubatoredu's curriculum was being taught to more than 2,000 students in 75 schools across eight states in fall 2016. It also has created entrepreneurial programs for elementary schools and is piloting an entrepreneurial program for middle schools.

Two locally based foundations financially contributed to make this program a reality in McHenry County, Illinois. The Foglia Family Foundation and the Domek Foundation, established by owners of successful local companies, exemplify the importance of philanthropy in local communities seeking to foster future economic growth by investing in younger generations.

Improving Suvival Rates

The difficult reality is that 50 percent of small businesses fail within five years according to SBA. One of the major factors in failure is financing and access to capital. Small businesses seek financing primarily to fund start-up costs, purchase inventory, and expand and increase their financial foundation.

SBA also states that approximately 73 percent of small businesses used financing in the past year. Fifty-seven percent of business startups were financed using personal savings and 22 percent of small business owners used personal

TAKEAWAYS

› Communities across the nation continue to adapt, invent, and reinvent strategies to address economic development goals in a dynamic economy.

› Education, innovation/entrepreneurialism, governmental collaboration, business advocacy, and leveraging public and private investment are being used to retain and create new businesses.

savings to expand their businesses. Small businesses are critical to new job creation, accounting for 63.3 percent of net new jobs (1992 to 2013).

SBA records show that survival rates are improving. Of the businesses that opened in 2014, 79.9 percent were still around in 2015, which is the highest percentage since 2005. This improved from 45.4 percent for businesses opening in 2006 (low) to 51.4 percent (high) survival rate for businesses opened in 2011.

Marketplace lending or crowdfunding is becoming increasingly popular to finance small business. In 2014, an estimated $8.6 billion in loans were financed through online lending platforms, an amount larger than all previous years combined. Therefore, it is incumbent upon local governments to foster business retention opportunities and assist businesses seeking financing to grow their business.

Role of Intergovernmental Collaboration

Consider the situation of Fabrik Molded Plastics, a family-owned international manufacturer of custom-molded plastic parts, which in 2015 evaluated options to undertake a $5 million expansion of its growing operation in McHenry County, Illinois. Fabrik, which employs 400 people and has been a locally based business for 35 years, contemplated relocating its existing operation, as well as expanding it, to Alabama, Indiana, or Kentucky.

Nine public-taxing entities to which Fabrik pays property taxes approved a property tax abatement using an underutilized property tax abatement and incentive program adopted by the city of McHenry. Collectively, these governmental entities and the McHenry County Economic Development Corporation worked to advocate for a tax abatement.

That is, if Fabrik purchased a 44,000-square-foot vacant building located to the west of its current building to expand, as opposed to closing its existing 113,000 square-foot operation and moving out of state, Fabrik would maintain its corporate headquarters at its current location. It would retain and grow its employment base in the city and county of McHenry, as well as assist in expanding the local and regional economies.

Through regional and state collaboration, more than 400 jobs were retained, 50 to 100 jobs will be created over the next three to five years, and a 44,000-square-foot building is now functioning as the expansion space Fabrik purchased to locally grow its business.

Indeed, fostering small business growth is a key component to communities' long-term success. Columbus (9,000 employees) established a small business concierge position in 2013 in order to be more proactive in supporting small businesses. It has a diversified economy with many technology-oriented companies. The concierge assists businesses with permitting, exploring financing options, and navigating public policy.

Ryan Schick holds the position of Columbus' concierge and serves as a direct liaison between businesses and city departments. He says that on a day-to-day basis, he spends 80 percent of his time outside of the office.

"I really try to bring all city resources to them. It is extremely important, but not the only answer to economic development (entrepreneurialism)," he says. "What's important is that a city focuses on all businesses and not take them for granted."

He also notes that the city was awarded a $40 million Smart City grant in June 2016 to create a test market system for technology-related infrastructure. An additional $100 million was leveraged from private and other public partners, including Ohio State University and the state of Ohio.

Columbus will receive up to $40 million from the U.S. Department of Transportation and up to $10 million from Vulcan, Inc., to supplement the $90 million that the city has already raised from other private partners.

Using these resources, the city will work to reshape its transportation system to become part of a fully-integrated city that harnesses the power and potential of data, technology, and creativity to reimagine how people and goods move throughout its borders.

Job creation and intergovernmental cooperation are also vital for the long-term economic viability in rural areas. The goal of Stronger Economies Together (SET), launched in 2009 by the U.S. Department of Agriculture (USDA) Rural Development Department in partnership with four regional development centers and university partners, is to complete a Comprehensive Economic Development Strategy (CEDS) Plan across multiple rural areas (cities and counties).

The goal includes identifying the economic assets of these rural communities and bringing all the partners to the same table to strengthen the regional economy.

Since its inception, SET has expanded to 30 states across 90 regions. Bo Beaulieu, director of the Purdue Center for Regional Development and assistant director of the Extension Community Development Program, explained that the program provides an opportunity to "compete more effectively on a global level with regional cooperation."

To date, USDA reports that $115 million in grants, loans, and regional participation has been leveraged over a six-year period through intergovernmental cooperation.

Measuring Effectiveness

Measuring economic development strategies and programs is a critical necessity for local governments. Use of public funds for incentives and retaining a high-level of fiscal transparency and accountability are essential. In 2010, *PM* magazine published the article "Economic Gardening—Is It Right for Your Community?" It centered on Littleton, Colorado, and its efforts in shifting from business recruiting to business creation and growth.

According to Littleton Economic Development Director Denise Stephens, since 2010, Littleton has placed more em-

RESOURCES Here are websites for sources noted in this article:

2015 Gallup-HOPE Index: http://www.operationhope.org/images/uploads/Files/OperationHope_Final_2015.pdf

Barrington 220: http://incubatoredu.org/site/wp-content/uploads/INCubatoredu-white-paper.pdf

ChicagoInno: http://chicagoinno.streetwise.co/2016/10/10/high-school-business-incubator-class-incubatoredu-expands

Council of Economic Advisors: https://www.whitehouse.gov/sites/default/files/docs/millennials_report.pdf

Daily Herald, Chicago, Illinois: http://www.dailyherald.com/article/20160927/news/160928742

Government Finance Officers Association: www.gfoa.org

INCubatoredu: http://incubatoredu.org/site/wp-content/uploads/INCubatoredu-white-paper.pdf http://chicagoinno.streetwise.co/2016/10/10/high-school-business-incubator-class-incubatoredu-expands; http://incubatoredu.org

McHenry, Illinois (city of), Underutilized Property Tax Abatement and Incentive Program: http://www.ci.mchenry.il.us/vertical/sites/%7B32BA702A-197A-429A-BC8D-0F4D5E307CAD%7D/uploads/UnderutilizedVacantProperties.pdf

Public Management (PM) magazine, ICMA, Washington, D.C.: http://webapps.icma.org/pm/9209/public/cover.cfm?title=Economic%20Gardening%20-%20Is%20It%20Right%20for%20Your%20Community%3F

Purdue Center for Regional Development: https://www.pcrd.purdue.edu

Stronger Economies Together (SET): http://www.rd.usda.gov/about-rd/initiatives/stronger-economies-together

U.S. Department of Agriculture (USDA), Rural Development, Stronger Economies Together: http://www.rd.usda.gov/about-rd/initiatives/stronger-economies-together; http://www.rd.usda.gov/programs-services

U.S. Department of Transportation: https://www.transportation.gov/briefing-room/us-department-transportation-announces-columbus-winner-unprecedented-40-million-smart

U.S. Economic Development Administration: https://www.eda.gov

U.S. Small Business Administration (SBA): https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2016_WEB.pdf; https://www.sba.gov/sites/default/files/advocacy/Millenial_IB.pdf; https://www.sba.gov/sites/default/files/Finance-FAQ-2016_WEB.pdf

U.S. White House: https://www.whitehouse.gov/the-press-office/2015/09/14/fact-sheet-administration-announces-new-smart-cities-initiative-help

U.S. White House Smart Cities Initiative: https://www.whitehouse.gov/the-press-office/2015/09/14/fact-sheet-administration-announces-new-smart-cities-initiative-help

phasis on business attraction, specifically to diversify the city's economic base; however, 60 percent of staff time remains on retaining existing businesses.

Littleton maintains a database of 2,700 businesses and tracks all aspects of business outreach using the database. Through August 2016, staff members have engaged 313 companies as part of city business retention efforts and 200 companies have been contacted as part of the business attraction effort. These engagement efforts include assisting companies with locating an appropriate site and discussing potential economic incentives that may be available.

The Government Finance Officers Association (GFOA) approved a best practice on "Monitoring Economic Development Performance." in September 2015. GFOA recommends that all governmental entities that use incentives include performance measures to evaluate their effectiveness and to ensure the governments' economic development objectives are being accomplished.

GFOA also recommends that communities implement a monitoring process to establish metrics to accurately monitor and report the fiscal impacts of the incentives.

Fostering Strategic Success

Successful economic development strategies should be adaptable, promote intergovernmental cooperation, encourage the leveraging of private and public investment, promote business retention and expansion, and foster innovation and entrepreneurialism.

Philanthropy can also play an integral role in economic development programs. Education through the establishment of incubator and accelerator programs can foster the support and the engagement of our youth.

Local government leaders, however, must remain informed and work with local, state, and national legislators to educate themselves about the complexities associated with business retention and growth, along with business creation.

Policies and regulatory reforms can hinder and place an undue burden on existing and future businesses and impede a community's economic development strategy.

Relationships, collaboration, and social capital are critical in achieving success in economic development. Residents, businesses, stakeholder groups, and governmental entities need to play an integral role and remain engaged in continuing to formulate economic development strategies for the 21st century. PM

DOUGLAS MARTIN, ICMA-CM, is economic development director, McHenry, Illinois (dmartin@ci.mchenry.il,us).