

JOB CREATION AND MUNICIPAL VENTURE CAPITAL FUNDS

INTRODUCTION

Of all the priorities facing Syracuse and Central New York, there is none more important than job creation. It is the fundamental requisite for our community's success. The sad history of closings and downsizing of businesses, the loss of jobs to our region and the out-migration of the younger workforce have all too often been chronicled. To turn the tide, we need to develop the most aggressive job creation initiative ever taken by any region. We need to do this as a comprehensive plan embracing the total community, with leadership by the City of Syracuse, together with participation by businesses, universities, lenders, non-profits and municipalities. We also need to be open to new ways of addressing job creation.

The intention of this proposal is to point out ways in which other municipalities and countries have approached job creation and entrepreneurship with the hope that Syracuse City and others will invest in further research to analyze how a **municipal venture capital fund** can be implemented in the Syracuse and Central New York community to spur job growth and entrepreneurship.

MUNICIPAL VENTURE CAPITAL FUNDS IN THE UNITED STATES AND ELSEWHERE

While **municipal venture capital funds** are not common in the United States, they can be an innovative and creative solution to the challenges of the current economic climate. Though our government and public institutions do not ordinarily make venture capital investments, there are still many examples across the country. The Illinois Municipal Retirement Fund has assets of 14.3 billion dollars and routinely has 2 – 6% of its assets invested in “buyouts / corporate finance / private equity / mezzanine and venture capital.”

(investing.businessweek.com 7.18.10.) Research done by the SBA found that about .6% of all U.S. pension funds were invested in small businesses. (sba.gov 1996) They specifically cite the Massachusetts Pension Investment Management Board, which has focused on in-State investments and the Virginia Retirement System that has a significant amount in early-stage investing. Generation of equity through tax credits for projects advancing public purposes (e.g., low income housing and alternative energy) is common at the Federal level. Governmental loans that are forgivable upon satisfaction of certain conditions are also common.

Municipal capital funds have also been a useful tool in many other countries. For example, Canada has developed several programs in conjunction with its Provinces and the Bank of Canada. In a Bank of Canada study, entrepreneurship is cited as a key factor in promoting growth in output and employment. Venture capital programs are supported by the Business Development Bank of Canada (BDC). “The BDC does not offer grants or subsidies; rather it seeks to earn a return from business financing it provides while extending financing into market niches that would not otherwise be served.” (marketwise.com 9.1.09). Southern Ontario will receive 50 million dollars more capital in venture monies through Canada’s Federal Economic Development Agency (FedDev), which is a consortium of Federal, Provincial and private entities.

There have also been several examples of municipal venture capital funds in the UK and London, England. The Capital Fund.uk.co provided over 50 million pounds to small and medium sized enterprises. Its approach was a consortium which included the London Department of Business, European Investment Trust, Corporation of London, Royal Bank of Scotland, Brent Council, London Development Agency and Barclay’s Bank. Its objective was to invest in small and medium enterprises with high growth potential. (thecapitalfund.co.uk)

Even China has looked west for economic models to stimulate its economy. In fostering entrepreneurship and job growth, China recognized the need for innovation capital. After studying the most effective approaches of western models, they adopted a consortium approach to venture capital funding in the Shenyang Province. They describe it as the “. . . coexistence of variable capital, that is, government-led fund, government’s venture capital, joint-venture, domestic

venture capital organs and private angel fund, etc.” (cscanada.net – *Developing the Venture Capital Industry and Financing in Shenyang*)

The concept of joint-venture, private and public partnership has definitely entered the national scene. The most obvious and recent example of the U.S. government’s willingness to take an equity interest in a business resulted from the housing bubble recession that threatened the viability of banks, automotive and insurance companies. To help stabilize the economy and bring order to the marketplace, the federal government took the extraordinary step of taking equity interests in GM, Chrysler, AIG, Bank of America, Citicorp, Goldman Sachs and J.P. Morgan Chase, among others. The take-away here is that under certain circumstances, municipal and governmental agency acquisition of an equity interest in a corporation is justified, necessary and an innovative solution.

SMALL BUSINESSES IS THE BASIS FOR LOCAL ECONOMIC STIMULUS

As stated in The Essential New York Initiative, 80 % of new jobs are created by small businesses. Turning the question around, then, how does a community create an environment most friendly to small businesses, start-ups and entrepreneurship? New York State has enacted several programs to address the economy, but they have fallen short of changing the environment for Syracuse and Central New York. The Federal Government has undertaken several loan programs, mainly through the SBA, most recently adding \$30 billion to a nationwide program in conjunction with community banks, but as much as the intentions are good, the bureaucracy and loan criteria exclude potential participants that could be a positive stimulus to the community. CenterState CEO, has several programs supporting business development, particularly the CORE competition sponsored by M&T Bank, technology grants and the Tech Garden. These are the kinds of programs the community needs, but we need greater participation from the whole community. In addition, the above programs are loans and grants, not seed money, or venture capital funds for start-ups and new business.

The importance of venture capital for job creation has clearly been made by prior studies. The Essential New York Initiative substantiates the low level of venture

capital in Central New York, citing the region as ranking 112th out of 134 with respect to success in fostering start-ups and new businesses and having venture capital at the rate of \$81 per capita, whereas the average is \$541. There are few points of access for venture capital, one distinct one being the Upstate Venture Association of New York.

Loans and grants are not sufficient to have a robust environment for creation of new businesses and jobs. What is needed for the creation of small businesses is: (1) seed money and venture capital, (2) advice of legal counsel to navigate the guidelines and obligations, and (3) experienced business advice to maximize the success rate for the businesses.

A MUNICIPAL VENTURE CAPITAL FUND WILL SPUR THE
DEVELOPMENT OF SMALL BUSINESSES AND BE A RESOURCE FOR
THE COMMUNITY TO BENEFIT FROM THE SKILLS AND EXPERTISE OF
THE IMMIGRANT POPULATION

While the present offerings to support business opportunity might work in traditional settings, they are not effective enough for our central New York region. Syracuse and Central New York have the potential to benefit from the skills and expertise of immigrant populations. Given the decline in new jobs within the local manufacturing industry, the age-old paradigm of newly-arrived immigrant groups providing labor in manufacturing settings does not fit our local business model. Further, many of the immigrants have come to this country with substantial skills and entrepreneurial spirit, and if given a chance, these individuals could successfully start their own businesses.

This is where a municipal venture capital fund can be very useful. The current mechanisms present too many barriers and are not aggressive enough in reach to meet the challenges. The loan guidelines of banks and the SBA do not work for these newest immigrants to our community. They have the skills and abilities to be successful, but they have no economic track record. In addition there are barriers of language and a lack of understanding of federal and state laws. We need to take down these barriers and replace them with avenues of opportunity. With seed

money, legal guidance and business advice, many of these new immigrants can become participants and contributors to our local economy.

BY ESTABLISHING A MUNICIPAL VENTURE CAPITAL FUND AND
MARKETING IT EFFECTIVELY, SYRACUSE AND CENTRAL NEW YORK
CAN BECOME KNOWN AS A PLACE WHERE ENTREPRENEURSHIP IS
REWARDED AND NEW BUSINESS AND START UPS ARE WELCOME

We need to take every aggressive step possible to become known as a place where new businesses and entrepreneurship are welcome. Much of the justification has already been set forth in The Essential New York Initiative. Since the great preponderance of job creation is fostered by new businesses, we need to cultivate an environment friendly to new businesses. We need to provide incentives for entrepreneurs to stay in this community by offering affordable space, available counsel for legal advice as well as business advice. The entrepreneurship departments of Syracuse University and Cornell University should be an integral part of this plan.

The City of Syracuse and CenterState CEO should commission a law firm to study the best way to create, fund and operate a Municipal Venture Capital Fund. It might be through the use of existent organizations or the creation of a new legal entity with a board and advisory committees composed of representatives drawn by CenterState CEO, from the City, County, banks, businesses, universities, non-profits and other like-minded institutions to oversee the fund and support its advisory services. The criteria for awarding venture capital would be developed and the equity interest held by the fund uniquely defined by the nature of the business. An award would be conditioned on the commitment of the recipients to participate in the business planning and management support services offered by the consortium. The exit strategies where the business could transition to traditional bank relationship and the fund would be able to recapture a profit would be structured in the projections. Though statistically not every business will succeed, the ability to plow the equity interest profits of the successful businesses back into the fund would keep it intact and growing.

We need to develop an approach that is unfettered by bureaucracy, one that is straightforward, direct and connected to the community. The availability of the fund should be marketed to the community, particularly the immigrant community, minority and women owned businesses and other small businesses. The end goal should be to create an identifiable image of Syracuse and Central New York being known as an Entrepreneurial Zone and market that image statewide and beyond, as one that is friendly to new ventures, attractive to new ideas and where entrepreneurship is recognized and rewarded.