

Written Statement Submitted in Lieu of In-Person Testimony
Concerning the Economic Development Executive Budget for 2015-2016

By David Hochman, Executive Director

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Thank you for the opportunity to submit a written statement. We are a 10-year-old, statewide, grassroots association of more than 35 dues-paying entities – mostly in the higher-education or nonprofit economic-development sectors. Our members offer regionally focused business-incubation services through more than 60 distinct incubator facilities and/or programs “without walls” in all 10 economic regions.

At any one time, our members are “incubating” hundreds of innovative seed-stage companies statewide, representing thousands of jobs. Each year our members graduate dozens of fast-growing firms into the commercial market, having helped these firms develop both investment and human capital. Business incubators in the sectors we represent are not generally investors themselves, but they all maintain close working relationships with investors of all sorts. Many investors regard incubators as a way to identify and develop the best opportunities in what is inherently a very high-risk sector. Therefore, incubators represent an inexpensive and cost-effective way to raise the profile of entrepreneurship across the state, and to make it easier for our best entrepreneurs to attract private capital and pursue their business-development visions.

We very gratified that the 2015-2016 Executive Budget for Economic Development includes \$5 million in full funding for both the Innovation Hot Spot and Certified Business Incubator programs that were merged in last year's budget agreement between the Governor and the Legislature. Until last year, there had been no programmatic support in the state budget for business incubation – only capital grants through the Regional Economic Development Councils or otherwise. The addition of these two programs has made a significant difference in our members' ability to operate programs that meet nationally recognized best practice standards for business incubation. Incubators in the Hot Spot program also provide a tax benefit that helps us promote the state as a place for entrepreneurial investment and activity. And the Innovation Hot Spots are emerging as region-wide coordinators of entrepreneurial assistance, so that no good idea falls between the cracks.

We are now far ahead of where we were two years ago thanks to the addition of these two programs. We commend Gubernatorial and Legislative leadership. However, the first year was a difficult one, because when the Governor's and the Senate's vision were merged, inadequate funding was provided. To make the funding last, designations and funding were phased in during the fiscal year, crimping the operation of both programs. The 2015-2016 Executive Budget at last provides funding for the 10 Innovation Hot Spots that are now in operation and the current set of Certified Business Incubators for full-year operation.

We urge continued growth in these programs in the years ahead. Both these NYSTAR-administered programs also enjoy statutory favor in the START-UP NY program: incubator space may be included in campus's zone applications, and graduates of Hot Spots and Certified Incubators may enter the

START-UP program and access its growth incentives on a preferred basis. In fact, tenant/clients of university-affiliated incubator programs often represent exactly the kind of close campus/company connection that START-UP was designed to enhance. But to make this transition between the two programs work optimally, all divisions of Empire State Development will need access to more and better-funded Certified Business Incubators.

In fact, we believe that NYSTAR should be empowered to “certify” even incubators for which there is no funding available. The power to grant and withdraw certification should be sufficient to encourage incubators across the state to meet the best practice standards embedded in the REDC-initiated selection process. The more well managed programs we have running, the better pool START-UP NY will have to draw from.

There are other transition issues to be concerned about. For example, ESD believes that the START-UP statute requires “graduation” to be recognized by physical exit from the incubator in question. For a number of reasons, this is a difficult constraint. In the first place, at some university campuses, the Hot Spot or Certified Business Incubator is the *only* START-UP certified space currently available for occupancy. This is a short-term condition that will be remedied as other space comes on line. In the meantime, flexibility is to be desired. It is possible to consider a firm graduated – that is, no longer provided with subsidized space or services – and eligible for the enhanced START-UP tax benefits without requiring a physical move for form’s sake alone. Above all, the Commissioner of Economic Development will and should retain the authority to reject START-UP applications from firms that do not appear to have been *successful* incubator graduates. There are ample safeguards to meet the statutory intent.

It is our understanding that lawmakers with interest in all three programs (Hot Spots, Incubators, and START-UP) are currently in discussion with senior ESD leadership on resolving the matter, and we urge all interested Legislators to monitor these discussions.

These transition issues suggest a broader challenge which we believe the Legislature should focus on. In the last several years, we have seen major changes in several realms: addition of the new Incubator, Hot Spot, and START-UP programs; ongoing revitalization of the Centers of Excellence and Centers for Advanced Technology Programs at NYSTAR; new tax credit and venture capital initiatives in Empire State Development; new programmatic support for entrepreneurship in both the New York State Energy Research and Development Authority (NYSERDA) and the Research Foundation for SUNY (RF); and, finally, aggressive new entrepreneurial programming (going well beyond business incubators and programs) within the state's independent colleges and universities.

What we have missed is a sustained and focused effort to knit these initiatives together into a coherent statewide strategy which can be customized as conditions require at the regional and institutional levels. We do urge the Legislature to work with the Governor on achieving that goal.

Although the Joint Budget Committee meets only at this time of year, I know that many of its members also sit on committees with jurisdiction throughout the year. Please let me know if any of you would like introduction to our members for purposes of testimony or site visits. We will be delighted to assist any Member of the Legislature.