

**REPORT OF THE
SECRETARY OF COMMERCE AND TRADE AND THE
SECRETARY OF HEALTH AND HUMAN RESOURCES**

**TO STUDY THE WAYS OF
ENCOURAGING SENIOR CITIZENS TO
ENTER INTO EXISTING BUSINESSES OR
START NEW BUSINESSES THROUGH
THE USE OF URBAN AND RURAL
DEVELOPMENT CORPORATIONS**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



SENATE DOCUMENT NO. 31

**COMMONWEALTH OF VIRGINIA
RICHMOND
1996**



COMMONWEALTH of VIRGINIA

Office of the Governor

George Allen
Governor

March 15, 1996

TO: The Honorable George Allen

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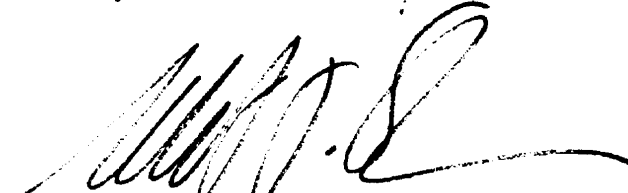
 The General Assembly of Virginia

The report contained herein is pursuant to Senate Joint Resolution 348, agreed to by the 1995 General Assembly.

This report constitutes the response of the Secretary of Commerce and Trade and the Secretary of Health and Human Resources "to study the ways of encouraging senior citizens to enter into existing businesses or start new businesses through the use of urban and rural development corporations."

Respectfully submitted,

Robert C. Metcalf
Secretary of Health and Human Resources



Robert T. Skunda
Secretary of Commerce and Trade

Preface

The 1995 General Assembly adopted Senate Joint Resolution 348, requesting the Secretary of Health and Human Resources and the Secretary of Commerce and Trade, to "study ways of encouraging senior citizens to enter into existing businesses or to start new businesses through the use of urban and rural development corporations." The study was prepared by Linda Scott and Robert Knox from the Department for the Aging, with assistance from Henry Cobb at the Center for Rural Development, Department of Housing and Community Development. The study found that micro enterprises are a promising field for some elderly and that there are several federal, state or regional resources available to assist them.

**Legislative Study Report
Senate Joint Resolution 348**

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Executive Summary

One of the chief problems facing the elderly is the prospect of financial dependence. Some seniors live on limited incomes, well below the income of their working years. Older women have significantly lower incomes than older men. To prevent financial dependence and to increase their financial security, an option for Seniors is to open their own business using the skills and knowledge they have gained over their lifetime. Many small businesses can be started with little financial investment and operated out of a shop or office in the home. Others may require more capital, but there are several resources that can help.

The study found that resources to empower Senior entrepreneurs include Virginia colleges and universities; the United States Small Business Administration; the Virginia Enterprise initiative, operated by the Virginia Department of Housing and Community Development; the Virginia Small Business Financing Authority, and Community Development Corporations. These agencies provide training in business skills, financial management and technical assistance, as well as loan guaranty programs. There are a number of success stories that demonstrate that for Seniors, retirement from one career offers the opportunity to start a second career and increased financial independence.

The study recommends that Seniors with modest incomes need to be made aware of their potential as entrepreneurs and small business owners. At the same time, agencies and programs that provide assistance to small businesses should be made aware of senior citizens as a pool of experienced, skilled workers who have the maturity and stability to see a business from start-up through completion. State and local agencies and organizations that work with the elderly should be more active in promoting retirement as an opportunity to begin a "second career" and increase financial self-sufficiency.

Entrepreneurship for Seniors

I. Purpose of the Study

The 1995 General Assembly adopted Senate Joint Resolution 348, requesting the Secretary of Health and Human Resources, in cooperation with the Secretary of Commerce and Trade, to "study ways of encouraging senior citizens to enter into existing businesses or to start new businesses through the use of urban and rural development corporations." Senior employment is a major preventive measure in promoting self-sufficiency and reducing financial dependence. It empowers the Seniors and increases their ability to take responsibility for their lives. There are numerous opportunities for part-time employment, especially in service industries and retailing, and many Seniors take advantage of them. However, some Seniors may want to work independently or work in another field in which they have interest and expertise. The purpose of this study is to explore the possibilities for self-employment through starting a new small business, often called a micro enterprise.

II. Why Should Seniors Start a Business?

Seniors may start a new business for a number of reasons but the most common is the desire for additional income. In Current Population Reports, the US Bureau of Census reports that in 1991, among males above age 65, about thirty-one percent had annual incomes below \$10,000. Among women age 65 or older, the number approaches sixty-two percent. Twenty-two percent of older women and seven percent of older men have income below \$5,000.

At the other end of the income spectrum, twenty-two percent of older men reported income above \$25,000 but only seven and one half percent of women did so. Income in old age is limited for many elderly, and especially so for women. Consequently, even a small, part-time business can produce a modest income which has a significant, beneficial effect on the financial welfare of many senior citizens.

Many of the elderly in retirement may now have the time to pursue an interest that they had deferred during their working and childrearing years. Sometimes what began as a hobby can become a source of needed income. For example, a retired investigator from the Bureau of Alcohol, Tobacco and Firearms began making picture frames for his own home, then for a few friends. As the requests grew, he moved from his garage to a 2000 square foot building in his back yard. Within five years, he was employing three workers and contemplating a second retirement with a second source of income. Another retiree who grafted fruit trees as a hobby began collecting "heirloom" varieties of apples from the seventeenth to nineteenth centuries. As his collection grew, other collectors wanted to buy his trees and a few years later he had planted his entire five acres in young trees. He said in the mail-order catalog he began publishing, "We're not trying to be the biggest company in the fruit tree business. After all, this is just a hobby that got a little out of hand."

For other retirees, a new business may offer the opportunity to continue a career from their working years. There are cooks who have become caterers, bookkeepers who have become tax preparers, and homemakers who have opened day care centers. Many skills that were developed around the home may be transformed into marketable skills for profit and supplemental income.

III. What Kind of Businesses Do Seniors Want to Operate?

Many opportunities exist for Seniors who want to start a new business. Age does not have to be a barrier. Ray Kroc, for example, sold restaurant equipment until he was in his mid fifties. Ready for a change, at age 54 he bought a hamburger stand in California but kept the name of it from the previous owners. It had a limited menu but it was popular in the neighborhood and he thought he could expand it to a second outlet if he was lucky. It was called McDonald's.

While some work may not be suitable for Seniors, such as construction work, a handy man around the house might find many customers in need of small home repairs, especially among his fellow elderly. It is important for Seniors to look first at what they already have an interest in. A weekend flower gardener at age 40 may start a lawn care business at age 65. An amateur mechanic might start a repair shop for lawn mowers and other small engines. Someone else might operate a neighborhood taxi service, a great need in most of the state. A nurse might recruit her retired colleagues to provide temporary health care workers.

The woman who has cared for her children and their children has many of the skills needed to operate a small day care center. A man who enjoys his vegetable garden may want to think about opening a produce stand. In Surry County, several gardeners served two useful purposes by carrying their produce to senior housing complexes in the area. Many elderly there who could not drive to the grocery were able to buy fresh produce on a regular basis. The growers were able to sell a large amount of their produce in a short period of time.

A surprising number of businesses can be established with a limited investment or even no investment. Tools and equipment that are already owned can be the start of a business that strengthens financial independence.

IV. Resources Available to Seniors Who Want to Open Businesses

Older Virginians have several government-supported resources they can draw on at little or no cost. These resources are in addition to more traditional sources of financing such as banks and other financial institutions which government should not seek to replace. These resources include:

1) Virginia Universities and Community Colleges

If Seniors need additional education, the Senior Citizens Higher Education Act allows them to audit courses without tuition at Virginia's state universities and community colleges. If they want to work toward a degree, tuition is reduced for senior citizens. However, the educational tools they need may not require a degree at all. Most community colleges and universities offer a wide range of courses in business management and technical skills that can lay the foundation for successful small businesses.

2) U.S. Small Business Administration

A useful resource from the Small Business Administration (SBA) is SCORE, the Service Corps of Retired Executives, which has over 400 chapters nationwide. It is an independent, national, non-profit organization of retired business men and women who volunteer their time to provide free counseling and low-cost training to small business owners and prospective entrepreneurs. In Virginia, there are over 250 volunteers located throughout the state in 18 local chapters. Through workshops and direct one-on-one counseling, SCORE provides the beginning entrepreneur a solid base of knowledge for launching a new business venture.

The Small Business Administration also provides other free or low-cost assistance. Video tapes and publications are available through the SBA *Office of Economic Development*. Topics include financial management, personnel management, marketing and financial planning. SBA's *Small Business Institutes* contract for long-term consulting services from colleges and universities to provide in-depth consulting and technical assistance to small businesses, free of charge. A team of students under the guidance of a faculty coordinator works with a small business for one semester, providing assistance with business and marketing planning, financial and management analysis, and overall problem solving. In cooperation with the Virginia Department of Economic Development, the SBA operates twenty-one *Small Business Development Centers* throughout the state. These Centers provide in-depth management training, counseling and technical assistance to existing or aspiring entrepreneurs. The SBDC's receive private financial support as well as state and federal funds. The SBA provides *Minority Business Assistance* and information to minority business owners. In addition, it helps small businesses owned by minorities and low-income persons to obtain federal contracts to support a carefully planned program designed to strengthen the competitive viability of the firm.

Financial assistance is also available from the SBA through its loan guaranty program. The maximum guaranty percentage of loans exceeding \$155,000 is up to 85%, while loans exceeding \$155,000 and maturities over 10 years are guaranteed up to seventy-five percent. The SBA can guarantee up to \$500,000 of the gross loan amount. To be eligible, the business must be operated for profit, except for sheltered workshops operated under the Handicapped Assistance loan program. Borrowers must meet other criteria such as good character, management expertise and ability to repay the loan.

3) Virginia Enterprise Initiative

The *Virginia Enterprise Initiative (VEI)* was created by the Virginia Department of Housing and Community Development to foster self-employment businesses or "micro enterprises" statewide. Typically, a micro enterprise employs fewer than five people, including the owner. National studies show that micro enterprise programs are an effective way to help entrepreneurs start a new small business. About eighty percent of micro enterprises are still in operation and default rate on loans is less than ten percent.

The VEI is coordinated by the Center on Rural Development (CORD). It takes a community-based approach to micro enterprise development by providing up to two years of grants and technical assistance to fifteen programs around the state. First year grants may be up to \$70,000 and second year funding may reach \$100,000 per site. An organization participating in the VEI will assess the needs of its community and demonstrate how it will meet those needs. VEI will help establish partnerships of local banks, businesses and educational institutions which will be able to leverage funds, capitalize loan pools and deliver micro enterprise services.

For the customer, the VEI provides access to training, business skills development, technical assistance and capital. Loans may range from \$500 to \$25,000. Loans are usually \$10,000 or below. For the potential older entrepreneur, this is usually adequate. The goal of the program is to "graduate" entrepreneurs from being reliant upon a micro enterprise program, enabling them to obtain traditional commercial financing, and to train them to operate a small business independently.

4) Virginia Small Business Financing Authority

Virginia began to respond to the financing needs identified by small businesses with the creation of the Virginia Small Business Financing Authority in 1984 within the Department of Economic Development. An important step to more effectively address the needs of small business was taken by the Allen Administration in consolidating all business financing programs within one state agency during 1995, with the transfer of the Virginia Economic Development Revolving Loan Fund programs (previously housed within the Department of Housing and Community Development) to the Financing Authority. This move has greatly enhanced access to Virginia's financing programs for businesses and economic development professionals by linking the technical expertise of the Authority staff closer to individual business prospects.

Since its inception, the Financing Authority has attempted to identify specific financing obstacles in the marketplace and design its financial products accordingly. All programs established by the Authority work to supplement and enhance private sector resources. The Authority does not attempt to act as a bank, but rather to fill gaps and serve as a catalyst for private sector investment. A summary of programs developed to date and a brief description of the market deficiency they seek to address is provided below.

Loan Guaranty Program - This 50% guaranty of bank loans or lines of credit directly addresses the difficulty of obtaining sufficient working capital financing. Companies experiencing rapid growth and/or opportunities to add product lines have received significant assistance through this non-bureaucratic, user-friendly state program. A number of companies that had obtained financing through this program presented compelling testimony to the Subcommittee regarding the importance of the program and the access to capital it provided at critical junctures in their business cycles. In the last year, demand for the program has exceeded the Financing Authority's guaranty capacity. The demand for access to working capital has been well-established and the Loan Guaranty Program has had a good deal of success, however, the Capital Access Program, as discussed later in this narrative, is a more cost-effective approach to meeting this financing need and generates a much higher return on the state's investment.

Child Day Care Financing Program - Offered in cooperation with the Virginia Council on Child Day Care and Early Childhood Programs, this program provides small direct loans to child day care centers and family home providers for quality enhancement projects or to meet or maintain child care standards. The program was developed to make financing available to day care providers that often find it difficult to obtain loans from conventional sources. Installment loans are made at a fixed rate of interest in amounts of \$1,500 to \$25,000. Loans may be used for a variety of purposes including:

- equipment for infant care
- providing access or services for the disabled
- renovations to plumbing and electrical systems, kitchens and bathrooms
- playground equipment purchases and installation of resilient surfaces
- vans, buses and other appropriate transportation equipment

The availability of quality child care and development programs is an essential facet of attracting and retaining businesses in the Commonwealth, building a competitive future workforce, and stabilizing economic growth within communities statewide.

Capital Resources Directory - In 1993, the General Assembly passed House Joint Resolution 649 requesting the Department of Economic Development to develop "certain programs to assist small businesses in locating and obtaining capital financing." In response, the Department, in cooperation with the Virginia Small Business Financing Authority and the Virginia Bankers Association, created the Virginia Capital Resources Directory which lists hundreds of sources of capital for small and emerging businesses. This directory, which was published in 1995, has become a useful tool for these businesses to locate both public and private sources of capital.

5) Community Development Corporations

Senate Joint Resolution 384 asked the Secretaries to particularly focus on the use of urban and rural community development corporations. A Community Development Corporation (CDC) is a nonprofit corporation which has the following characteristics:

- It serves an economically distressed, geographically defined community.
- It is governed by, and accountable to, low income residents and other grass roots representatives from the communities they serve.
- It has a vision of, and is committed to, comprehensive community change and focus explicitly on the empowerment of poor people.
- It pursues multiple strategies in the course of fulfilling their missions and a number have a strong emphasis on real estate development as one of their strategies.
- It has a strong commitment to developing grass roots leadership capacity.

CDC's generally are a unique combination of resident controlled community development and profit-oriented business development. For the most part, they are usually focused to specific geographic areas having high or persistent unemployment, low incomes and populations with low skills and job training.

Many CDC's were started by the Community Action Agencies or other community-based organizations. Once formed they generally develop an overall economic development plan for the community they intend to serve. In the implementation of their respective plans, the CDC undertakes various community and business development ventures, using venture capital provided by grants, bank loans and investment funds from foundations and other private sources.

The CDC generally invests directly in subsidiary, profit-making corporations or cooperatives. It may supplement its equity investments with loan guarantees. The goals of each CDC are unique to their respective situations. In general, however, their aim is to increase income, management and ownership opportunities, and to improve the special impact area which they serve. The CDC often hires poor people in a community and gives them job training. At the same time, it seeks to run profit-making businesses that will eventually become self sustaining. The ultimate goal of the CDC is to raise the economic level of the community to that of the more affluent areas which are often around it.

CDC's are unique in an organizational sense. While they are community-based nonprofits and draw their leaders from the communities they serve, many CDC's are somewhat dependent on public sector financing. Therefore, they must conform to certain governmental

funding regulations. There is often a constant tension between the desire to be self-directed and the regulations imposed by funding agencies.

Finally, CDC's are unique in that their economic development functions often cause them to take on the role of a financial institution such as a bank, credit union or venture capital firm. Many resident entrepreneurs who come to them have been turned down by traditional financial institutions because they were considered poor risks. Therefore, CDC's are often in the position of having to take financial risks other institutions would not take while maintaining the same level of financial stability and productivity as more traditional financial institutions.

Unfortunately, because there are so few CDC's in Virginia, and because of their competing interests as detailed here, the other resources offered by the state and the federal government may be better options for senior citizens to pursue when seeking financing to start or expand a business.

V. Success Stories

- 1) *Blossoming Branches Child Care Center* was started with a \$10,000 loan from the Lynchburg Business Development Center. Combined with a loan from the Virginia Small Business Finance Authority, the owner opened a child care facility and has developed the center to twenty children and three full-time employees.
- 2) *A Bundle From Heaven* was opened on a part-time basis for eighteen months. The owner realized that she needed additional skills to expand her venture into a full time operation. After attending a fifteen week training program and developing a business plan, it is now a full time job for the owner with a long range goal of becoming a franchise.
- 3) *The Second Time Around*, a consignment shop in Clintwood, was started by a couple who tried for a year without success to find jobs after relocating from Texas. Realizing that they needed to take control of their financial lives, they studied the needs of the community and the economy of the area and decided a consignment shop could do well in Clintwood. With their savings depleted, unemployment benefits about to run out, and a string of bad luck ruining their credit, they enrolled in a 12 hour Business Basics training class. With a \$7,000 start-up loan, they paid out almost \$20,000 in commissions in the first six months to people who brought in items. *The Second Time Around* has not only produced jobs for the area, but its economic impact on the community could exceed \$300,000 during the first year of operation.
- 4) *Grandmama's House*, a family based day care center is run by an older woman in Alexandria public housing's Berg community. Once a public housing resident herself, the owner received training, technical assistance and mentoring from the Alexandria Center for Economic Empowerment (ACEE). *Grandmama's House* was the first business launched out of ACEE's micro enterprise efforts and several more are in the process of following her success.

VI. Conclusions

The clear message in these success stories is that small businesses can be an option for seniors who want to start a second career in their later years. They also show that a small business can be especially valuable to older women who have not worked outside the home and may have little or no income from Social Security.

What seniors may lack in financial resources to initiate a business can be provided from programs like the Virginia Enterprise Initiative. What no government program can provide is the knowledge and wisdom that comes with age and the drive and optimism that grows out of lifetime experiences. Older Virginians have survived the Depression, World War II, along with experiences such as childrearing, working, and leading productive lives. While many of them may not see these as job-related skills, they can be easily transferred to organizing and running small businesses.

VII. Recommendations

Based on the need for additional financial security of some elderly, the resources that may be available to help them successfully start small businesses, and the successes that have been reported, the following recommendations are being made:

1) Seniors with modest income need to be made aware of their potential as entrepreneurs and small business owners. Agencies that support entrepreneurship, such as the Small Business Administration and the Department of Housing and Community Development, should consider a targeted program of outreach to the elderly through senior publications and the media.

2) Agencies and programs that provide assistance to small businesses should be made aware of senior citizens as a pool of experienced, skilled workers who have the maturity and stability to see a business start-up through to completion.

3) State and local agencies and organizations that work with the elderly, such as the American Association of Retired Persons and the National Council of Senior Citizens, should promote retirement as an opportunity to begin a "second career."

APPENDIX A

SENATE JOINT RESOLUTION 348

1995 SESSION

LD2047717

SENATE JOINT RESOLUTION NO. 348

Offered January 23, 1995

Requesting the Secretary of Commerce and Trade and the Secretary of Human Resources to encourage senior citizens to enter or start businesses through urban and rural development corporations.

Patrons—Miller, Y.B., Lambert, Lucas, Marsh and Maxwell; Delegates: Christian, Crittenden, Cunningham, Jones, D.C., Jones, J.C., Melvin, Robinson and Spruill

Referred to the Committee on Rules

WHEREAS, the elderly are expected to make up an increasing proportion of the population through the middle of the next century; and

WHEREAS, although the elderly as a group have about the same rates of poverty as the general population, blacks, women and those living alone have higher than average poverty rates; and

WHEREAS, Social Security benefits are and will continue to be the largest single source of income for most elderly citizens; and

WHEREAS, large numbers of senior citizens did not have the opportunity to accrue employer-paid pension benefits and had insufficient income for investments to supplement Social Security retirement benefits; and

WHEREAS, many senior citizens have significant life and business experience that can aid in the establishment of new businesses and the development of existing businesses; and

WHEREAS, many senior citizens have the desire and the ability to enter into small business ventures, thereby supplementing their retirement income and contributing to local economic development; and

WHEREAS, numerous Virginia localities boast development corporations intended to boost local economic development; and

WHEREAS, development efforts should make use of a wide variety of human resources and contribute to the economic well-being of all segments of the local community; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Secretary of Commerce and Trade in cooperation with the Secretary of Human Resources be requested to study ways of encouraging senior citizens to enter into existing businesses or to start new businesses through the use of urban and rural development corporations.

The Secretaries of Commerce and Trade and Human Resources shall complete their work in time to submit their final findings and recommendations to the Governor and the 1996 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Official Use By Clerks

Passed By The Senate

- without amendment []
with amendment []
substitute []
substitute w/amdt []

Date: _____

Clerk of the Senate

Passed By

The House of Delegates

- without amendment []
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Clerk of the House of Delegates

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