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THE
LITTLE
BUSINESS
OWNERS

HELPING FLORIDA MICRO-
ENTERPRISES TRANSITION INTO
SMALL BUSINESSES

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JUNE 11TH 2018 - JULY 19TH
2018

Introduction

The research team hypothesized that there was not enough funding for micro-enterprises in Florida. Micro-enterprises are identified as independently-owned businesses with less than 4 employees, whereas a small business employs 5 to 500 employees.

Florida ranks number one in micro-enterprises per capita in the country and only number 44 in the amount of small businesses (Prosperity Now Scoreboard). Micro-enterprises are no doubt abundant in the state of Florida. However, micro-enterprises are not transitioning into small businesses in Florida. Small businesses are stimulating the economy by providing many jobs. Therefore, it is vital for micro-enterprises to acquire funding for them to become small businesses.

Research revealed that funding was not the only major factor, but there were other factors affecting the transition of micro-enterprises. These factors include Florida's unique economy, personal choices, and fear of the high risk. All these factors can be organized into two major categories: Motivation and Funding.

Florida Economic Background

Florida's unique economy provides the perfect environment to generate a lot of specific job types, generally in hospitality and tourism with attractions that are placed all over the state of Florida. The most recent recession in 2007 caused by the crash of the real estate market left citizens across the nation **unemployed**¹ and **underemployed**².

This immensely impacted Florida negatively with the unemployment rate peaking at 11.6% (Bureau of Labor and Statistics). This data is in comparison to Montana ranking number one in the country for small business (Scorecard), having its unemployment rate only peak to 7.4% (Bureau of Labor and Statistics) in the same time frame. The unemployment rates and small business ranking has led to the conclusion that because the lack of jobs, citizens of Florida had to find other ways to supplement their income. That is where the micro-businesses and small business come into play.

Average Number of Unemployed Citizens

2007-2017

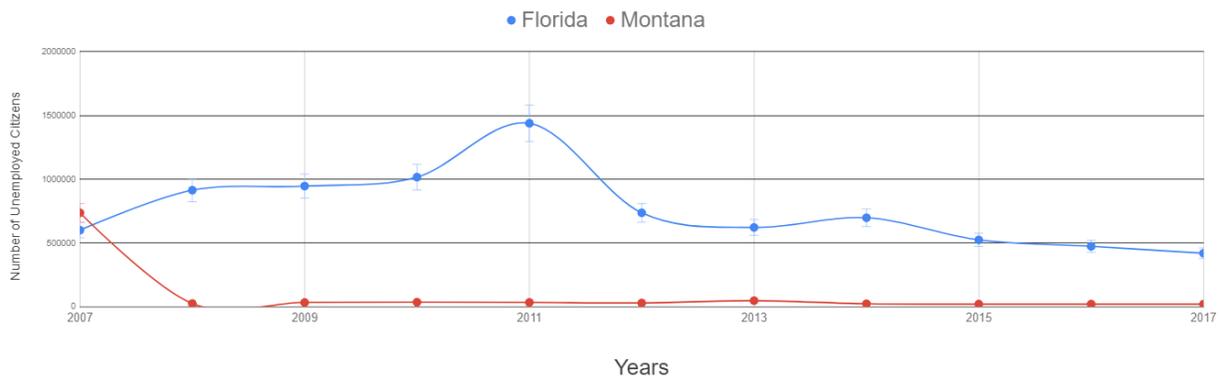


Figure 1: This is the compiled average of number of citizens that were unemployed each year all the way up to 2007.

¹ (of a person) without a paid job but available to work.

² (of a person) not having enough paid work or not doing work that makes full use of their skills and abilities.

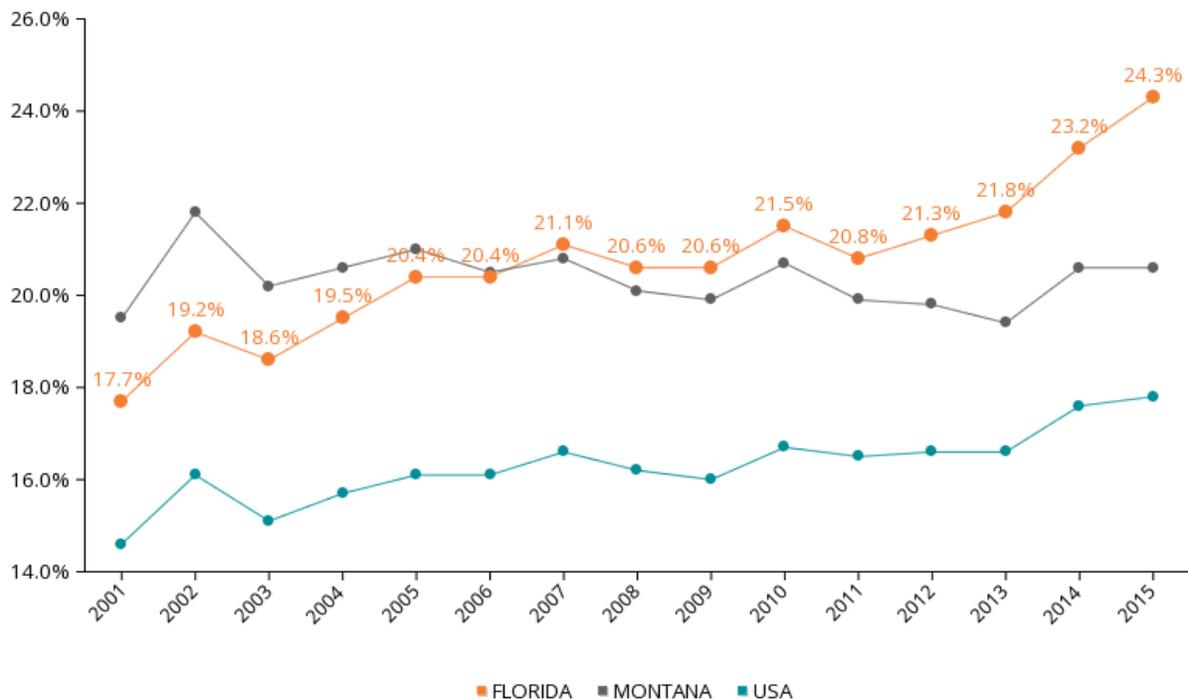
KEY CONCEPTS

Motivation

The recession set fear in many. So, citizens started to find other forms of income. Most turned to the gig economy. Within the Scorecard database, it shows the rate of change from the time of the recession.

Florida had reached a high percentage of micro-enterprise ownership of 21.1% in 2007 and then started to gradually increase in 2010 to 21.5% (Figure 2).

Change in Microenterprise Ownership Rate



PROSPERITY NOW
SCORECARD

Source: Business Dynamics Statistics & Non-Employer Statistics, 2001-2015

The average family of 4 cannot sustain in Florida with the minimum wage at \$8.25. With the average cost of living being \$6,541 monthly for a family of four, this includes the cost of rent for a four-bedroom dwelling, the cost for food, utilities, and miscellaneous expenses.

This furthermore encourages many to have a micro-enterprise to obtain more household income. Even more so with the current unique tourism-based economy in Florida. Through the research, the team found some other unappealing factors, such as taxes, that discourage people from moving forward with their business. This includes having to match the Federal Taxes (Social Security, Medicare, and Federal Unemployment Tax) that are taken out of each employee payroll check.

Funding is another major factor as to why micro-enterprises are not moving forward. To move forward with a business venture, funding is needed. Through research, it was discovered that there is, in fact, adequate funding available.

Organizations that currently provide funding include central banks, retail and commercial banks, internet banks, credit unions, savings and loan associations, investment banks, investment companies, brokerage firms, insurance companies and mortgage companies.

One type of funding available is loans from the Small Business Administration (SBA). They have 2 types of loans, the 7(a) and 504. Both loans provide long-term financing and are ideal for “business with a net worth below \$15 million and average net income below \$5 million” (Wells Fargo). Most micro-enterprise should qualify for these loans.

However, there are additional requirements that do not apply to most micro-enterprise owners. In order, to qualify for SBA loans, that applicant has to be for-profit and meet the SBA size guidelines, which includes the maximum number of employees and the amount of revenue they can have to be called a small business. Different industries have different requirements. And the business owner should not have any blemishes on their criminal record, particularly finance and fraud-related (Fundera.com).

The business also has to compile a business resume, which is where the owner can showcase their business experience and the business background. The applicant also has to include a business plan, which is where the owner explains their product and/or service. The owner has to have a personal and

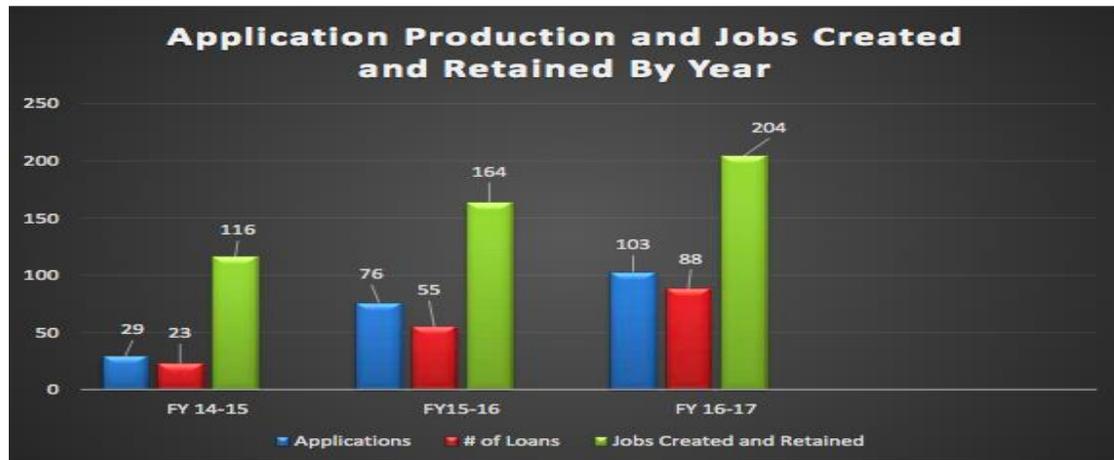
business credit report. It is advised that if the applicant's credit score is below 700, it would be hard to qualify (Fundera.com).

However, this requirement is discouraging for Floridians, as the average credit score is 639. The owner has to include personal and business income taxes, which become barriers, as many micro-enterprise owners do not record their taxes accurately; mostly because they do not know the tax implications regarding their business, or are not aware that they are supposed to claim their business as a source of income. As a consequence, the taxes submitted are incomplete or inaccurate. The owners also have to include Business Financial statements, profit and loss statements, and a business debt schedule. Overall, these requirements are not going to be easily achievable for owners of micro-enterprises because of the complexity and longevity.

Another source of income is the state-run micro-financing funding program. Florida's micro-financing program has two programs under its umbrella. It has the loan program, where the state funds two lenders and those lenders match the fund. It then provides micro-loans to those who usually would not qualify for a traditional loan. However, the business has to take mandatory business classes, and this program is only offered in certain areas in Florida. Figure 3 shows that this program between the years 2016 to 2017 created and retained 204 jobs. According to the Florida Department of Economic Opportunity, "small businesses benefited from micro-loans totaling \$1,459,200." Overall, this program created more jobs and gave over a million dollars towards helping small businesses; however, in order to gain the loans the businesses had to go through business classes. The classes helped the businesses learn about professional development and business management, but, these programs only reach certain areas of Florida. Many businesses are not able to participate because of accessibility.

Then there is the Guarantee Program, which guarantees up to 50% of a loan and it allows businesses to build their credit and enable them access to larger loans. For both programs, the requirements are not as rigorous as a traditional loan. Due to these requirements, most micro-enterprises would qualify for these programs. The business has to have 25 or less employees, must be located in Florida, does not get more

than half of its revenue from lending, that revenue must be less than \$1.5 million, with no pyramid sales, not involved in anything illegal, and not involved in gambling activities (Florida Department of Economic Opportunity). Unfortunately, these programs were terminated in 2017.



With business banking, most banks offer financial services for business owners, who need to differentiate their professional and personal finances. Different types of business banking services include:

- Business loans
- Checking accounts
- Savings accounts
- Debit and credit cards
- Merchant services (credit card processing, reconciliation and reporting, check collection)
- Cash management (payroll services, deposit services, etc.)

Legislature

Florida is currently leading all states in the rate of increase in the number of non-employer businesses, according to the most recent statistics from the U.S. Census Bureau.

Non-employers are currently lobbying for states to pass laws that would permanently classify most gig workers as independent contractors. Currently, the distinction between a contractor and an employee hinges on the idea of control. Telling a worker when and how to perform a job, providing training or supplies, monitoring their activity and determining the rate of pay are all factors that would support a finding that the worker is an employee (money.cnn.com).

The laws non-employers are trying to get passed by the states would enable employers to do many of those things without having to call the worker an employee. That frees them from having to pay workers' compensation premiums and unemployment taxes or obeying state anti-discrimination and minimum wage laws. They will likely be off the hook for federal labor standards and Medicare and Social Security taxes as well, since federal enforcement is sparse (money.cnn.com).

The bills have been particularly alarming for the National Domestic Workers Alliance. Palak Shah, the director of social innovations at the National Domestic Workers Alliance, recently went to Tennessee to caution lawmakers that the bill would permanently carve many workers out of rights to which they would be entitled as employees (money.cnn.com).

Generally, the IRS favors classifying workers as employees. When workers are classified as independent contractors, the company does not pay employment taxes or withhold income taxes. Instead, the workers have to pay the full amount of employment taxes and pay income taxes, usually through estimated payments. Moreover, as independent contractors, workers are not entitled to unemployment, retirement, and health benefits offered through the hiring company or many of the protections afforded to employees through the various federal acts which protect employees. As such, misclassification has a profound effect on the ability of the IRS to collect all taxes that should have been paid, and it denies workers the ability to

participate in employee benefit plans and receive legal protections to which they may otherwise be entitled (Baker Donelson).

The most recent data provided by the Office of Advocacy of the U.S. Small Business Administration shows that in 2010, 21.7 million U.S. businesses were without employees, while only 5.6 million had them. This is very unfortunate as small businesses contribute to our nation by providing employment activities.

Recommendations

Through research, it was discovered that most financial institutions that are currently providing business loans are gaining new clientele through referrals, tradeshow, and outdated phone books. A few suggestions are made to these institutions regarding publicizing their services on a wider scale through various mediums such as billboards, flyers, radio and television.

Another recommendation would be a loan fair. This loan fair would consist of financial organizations, coming together in one location to offer loans and educate those who would like to start their own business. The event would be held in various areas in Florida, specifically in low-to moderate-income cities where citizens have the vision and potential to operate a successful business but do not qualify for traditional loans. This would allow people to receive money to advance their business even if their credit score is below 700.

It's also recommended that the micro-financing program be restored. On a small scale and in a small amount of time, this program positively impacted businesses while also creating jobs. If restored, then more jobs would be created, and more businesses would be able to advance. When restored, it should be implemented in more areas around Florida and be advertised more frequently. For example, have representatives do workshops around Florida to reach more people.

About the Research Team

The research team for this topic are Angie Deranvil, Shaniela Gentles, and Kiara Velazquez. They are all part of a financial think tank run by Florida Prosperity Partnership. Each member applied their skills and experience into making this project successful.

Angie Deranvil

Age: 17

School: Ocoee High School Senior

Who also dual-enrolls at Orange County Technical College's Westside campus in the medical assisting program. She volunteers at Health Central Hospital and is an athletic trainer at her high school, because she has a passion to help others. This research project was especially important to her because it enables her to help those in her community.

Shaniela Gentles

Age: 17

School: Edgewater High School

A rising senior at Edgewater High School, she currently enrolls at Orange County Technical College's Orlando campus in the accounting program.

Kiara Velazquez

Age: 17

School: Senior at Cypress Creek High School

Kiara is aspiring to be a financial advisor. This program has further encouraged her to move forward with her dreams. She has been a part of the Business Professionals of America for three years, and is currently the President. This experience she gained from this club brought her great success within this project.

