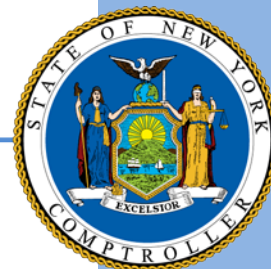


The Economic Impact of Small Business in New York State

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller



MARCH 2016

Message from the Comptroller

March 2016



Small businesses play a big role in the New York State economy.

There are more than 451,000 small businesses in the State, covering a vast spectrum of firms from neighborhood coffee shops and homegrown construction businesses to specialized tech firms and nonprofit service providers. Together, these enterprises add up to an economic powerhouse with over \$950 billion in annual receipts based on the latest available Census data. These companies, employing fewer than 500 individuals (using the Small Business Administration's most common designation of a small business), provide nearly 3.9 million jobs in New York. That's just over half of all private sector employment, generating total payroll of almost \$190 billion annually.

Even if we look only at businesses with fewer than 100 employees – those considered small under the State's Economic Development Law – the economic impact is still great. These businesses are responsible for more than 2.7 million jobs, with payrolls totaling nearly \$127 billion a year.

The Great Recession hit businesses of every size in our State and across the country. Overall, small businesses in New York fared better than those elsewhere in the United States during and immediately after the downturn. Over the decade ending in 2013, New York's small businesses performed better than the national average on three key metrics – numbers of firms, the jobs they provide and total payrolls.

The economic impact of small businesses varies from region to region. In two parts of the State – Long Island and the North Country – these firms are responsible for well over half of all business payrolls and receipts. In every region, the impact is substantial. The Appendix to this report provides data on small businesses in each county of New York State.

State government has a responsibility to help make it possible for small businesses to prosper and create jobs. The Office of the State Comptroller plays a role in that important task – not only in our overall work to promote effective use of taxpayer dollars, but through initiatives such as our In-State Private Equity Program, which has committed \$1.3 billion of Common Retirement Fund resources for private equity investment in New York, and the Fund's support of loans for small businesses through the New York Business Development Corporation.

However we measure their impact, small businesses are critical to New York's economy and integral to the fabric of life in the Empire State and a major reason New York remains the Empire State. Appreciating the scope, diversity, and contributions of our small businesses can help the State formulate well-calibrated policies to promote prosperity in every region of New York.

Thomas P. DiNapoli
State Comptroller

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I. Introduction

A business can be classified as a small business based upon its number of employees, its annual income, or both. The U.S. Small Business Administration (SBA) primarily defines a small business as one with fewer than 500 employees.¹ SBA also classifies certain companies as small businesses based upon the amount of income. In New York, the State's Economic Development Law defines a small business as one that has fewer than 100 employees and is independently owned and operated.² This report will focus primarily on businesses with fewer than 500 employees.

However defined, small businesses comprise a large majority of all employers and are a vital part of New York's economy. Businesses with fewer than 500 employees account for more than 99 percent of all businesses both nationally and in New York.

Overall, New York's small businesses generated \$954 billion in receipts in 2012, the latest figures available. They accounted for approximately 43 percent of all business receipts in the State, nearly 3.9 million jobs and almost \$190 billion in payroll. Nationwide, such businesses provided nearly 57 million jobs and had nearly \$12 trillion in receipts.³ Businesses with fewer than 500 employees provided 50.6 percent of all private-sector jobs in New York, compared to just over 48 percent nationally.

Businesses with fewer than 100 employees account for 98.2 percent of U.S. businesses and 97.4 percent in the State. In this group as well, small businesses employed a slightly larger share of all private sector workers in New York than in the country as a whole – just less than 36 percent in the State compared to 34 percent nationwide.

¹ The SBA uses various standards for determining small business status based on numbers of employees, ranging from 50 to 1,500 depending on industry sector.

² See Section 131 of the Economic Development Law.

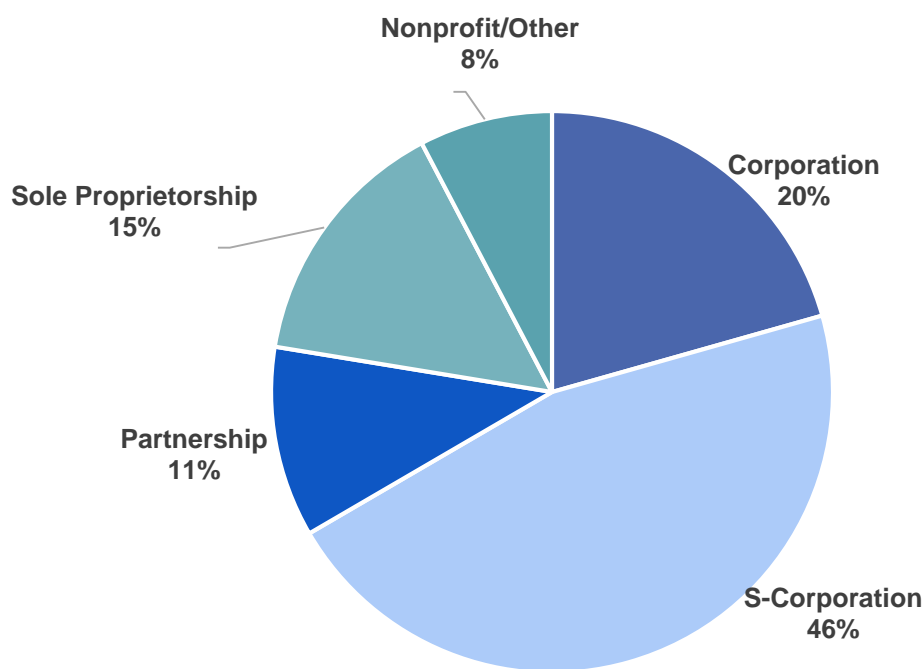
³ Data for this report is drawn primarily from the U.S. Census Bureau, Statistics of U.S. Businesses (latest annual data 2012 and 2013), and supplemented by the U.S. Census Bureau, Nonemployer Statistics.

II. Small Business Structures

Small businesses are often thought of in terms of sole proprietorships, such as the corner grocer or local hardware store with a single owner. Such companies are an important element of the economy, yet they are not the most common type of small business, accounting for 15 percent of such businesses nationwide. S-corporations are the most dominant organizational structure, accounting for 46 percent of all U.S. small businesses, as shown in Figure 1.⁴ While similar figures are not available at the state level, New York's small-business sector also represents a varied mix of enterprises.

Figure 1

U.S. Small Businesses by Organizational Structure, 2012



Source: U.S. Census Bureau

⁴ S-corporations are firms that elect to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes. For further information, see the explanation from the Internal Revenue Service, available at <https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/S-Corporations>.

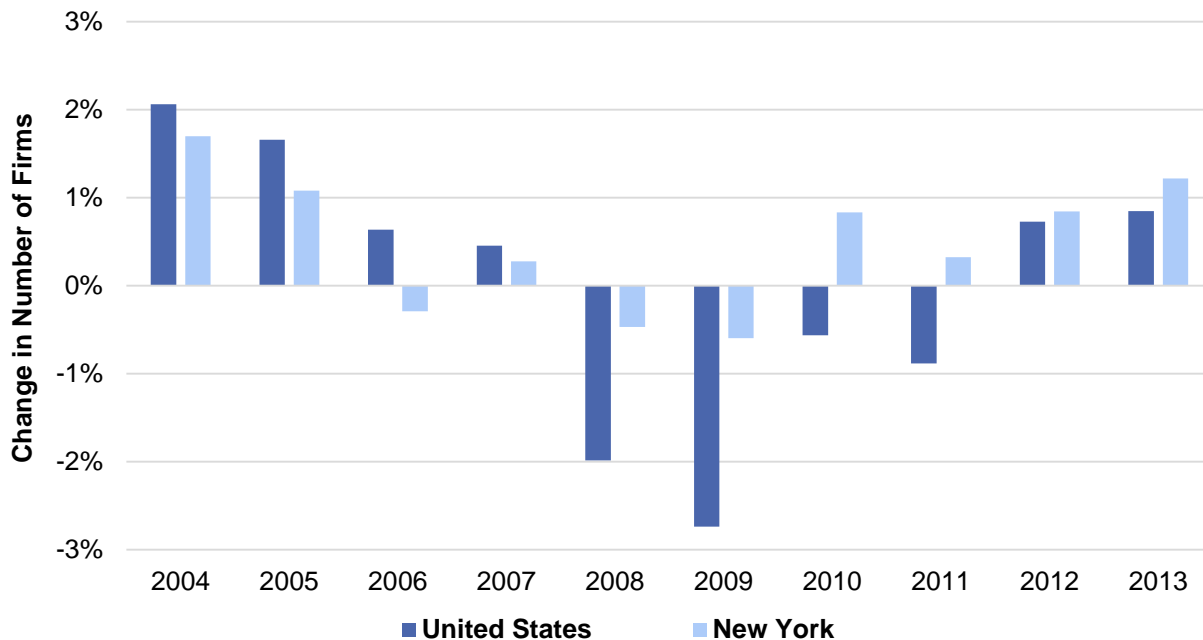
III. Small Business Trends

The number and economic impact of small businesses vary from year to year due to numerous factors, such as changes in demand for their products or increased costs of operations. For example, the financial market crisis of the last recession weakened the capital markets. With more limited access to bank loans and other financing, many existing small businesses were not able to obtain the necessary capital to make improvements to their operations or even to remain in operation. Start-ups or emerging entrepreneurial firms may find their existence dependent upon the success of a particular product or service they have created, and thus may be especially susceptible to changing market conditions. In contrast, some businesses may simply outgrow their small business status as they achieve success in the marketplace.

In each of the four years before the last recession, the number of small businesses grew at a faster pace nationally than in New York, as shown in Figure 2. However, while the Great Recession hurt small businesses at both the national and State levels, the decline in New York was much smaller. Over 2008 and 2009, the number of small businesses declined by 1.1 percent in New York, compared to almost 5 percent nationally.

Figure 2

Annual Change in Numbers of Small Businesses, U.S. and New York, 2004-2013



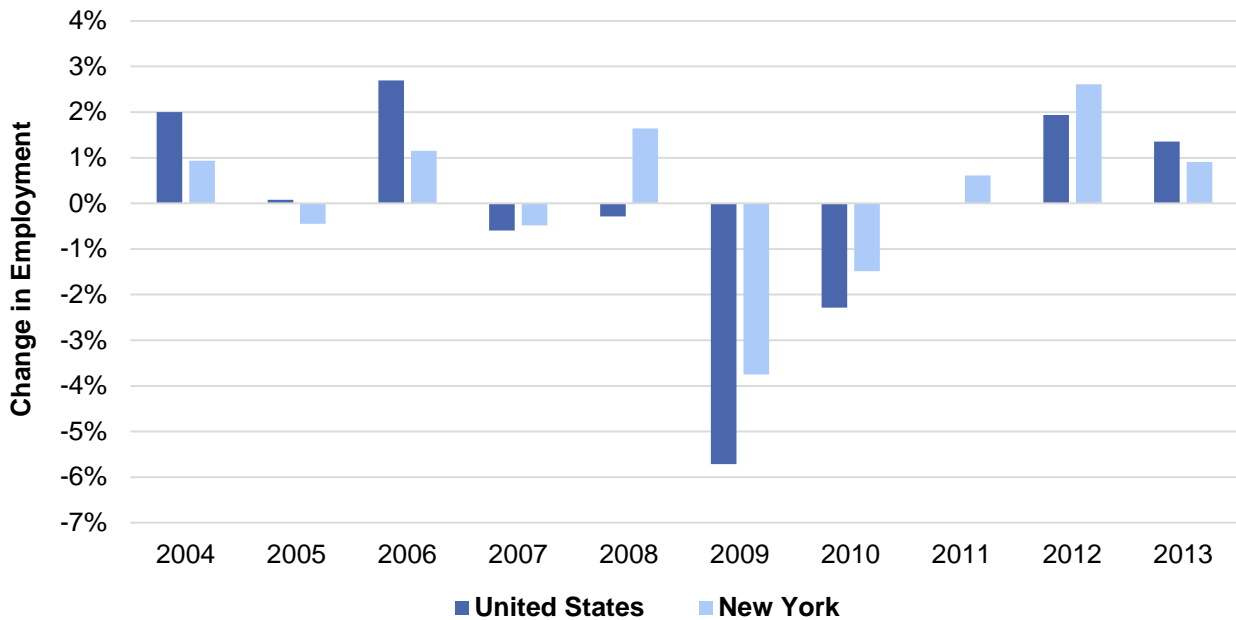
Source: U.S. Census Bureau

Even after the recession officially ended in June 2009, the U.S. economy continued to lose small businesses. Declines in the number of such enterprises extended over four calendar years, and small business growth did not return until 2012. In contrast, New York saw just two years of decline associated with the recession, with the number of small businesses exceeding prerecession levels by 2011.

However, employment trends at these businesses were very different, especially in the years just before the recession, as illustrated in Figure 3. Small businesses, both nationally and in New York, started to shed jobs in 2007. While New York realized a rebound in small business employment in 2008, it lost jobs in 2009 as the number of small businesses continued to decline. Similar to the change in the number of firms, the decline in small business employment in New York was smaller over 2008 and 2009, with employment declining by 2.2 percent in New York as compared to 6.0 percent nationally.

Figure 3

Annual Change in Small Business Employment, U.S. and New York, 2004-2013



Source: U.S. Census Bureau

Note: In 2011, U.S. small business employment was virtually unchanged from 2010.

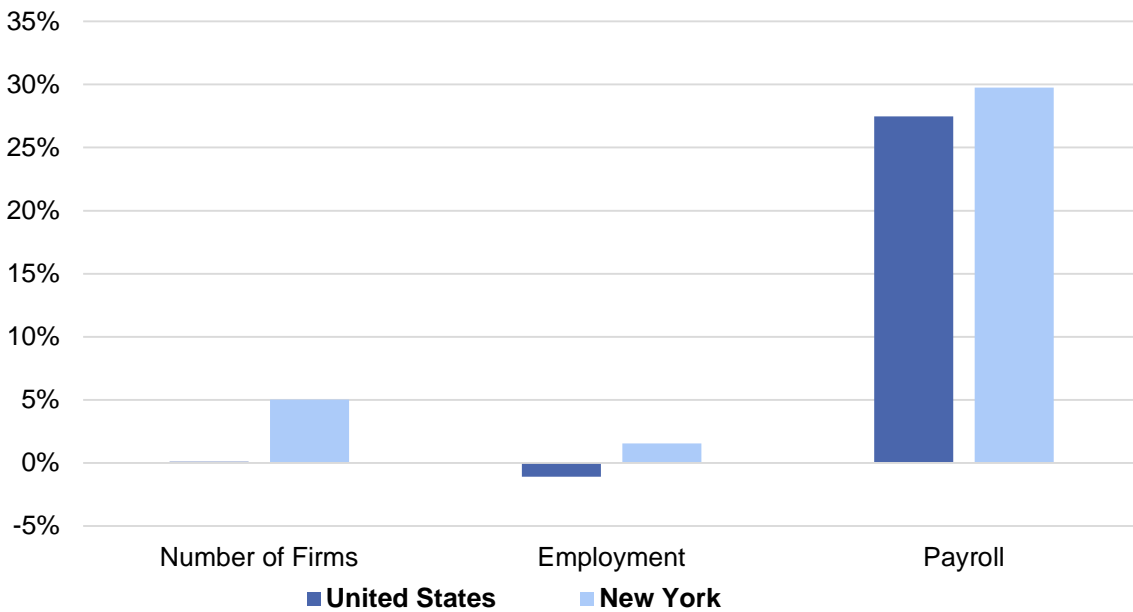
While New York saw growth in the number of its small businesses in 2010, these new firms were primarily those with less than five employees. Firms with between 100 and 500 employees continued to have decreased employment, as did the State’s small business sector overall.

After 2010, small business employment followed a similar trend as small business creation at both the national and State levels. In 2013, growth in small business employment in New York lagged the nation modestly. New York’s disadvantage that year was concentrated in firms with between 100 and 500 employees, while the State’s growth was higher than the nation’s in businesses with fewer than five employees.

As shown in Figure 4, over the most recent decade for which figures are available, New York’s small businesses fared better than the nation’s on three key metrics – number of firms, employment, and total payroll. Small business employment in the State rose by a net 1.6 percent, or 59,000 jobs, in the ten-year period through 2013, while declining nationally by 1.1 percent. The number of such firms fluctuated over the period, ending virtually unchanged nationally but rising 5 percent in the Empire State. And total payrolls at small businesses rose 29.7 percent in New York, modestly more than the national average.

Figure 4

Ten-Year Change in Small Business Firms, Employment and Payroll



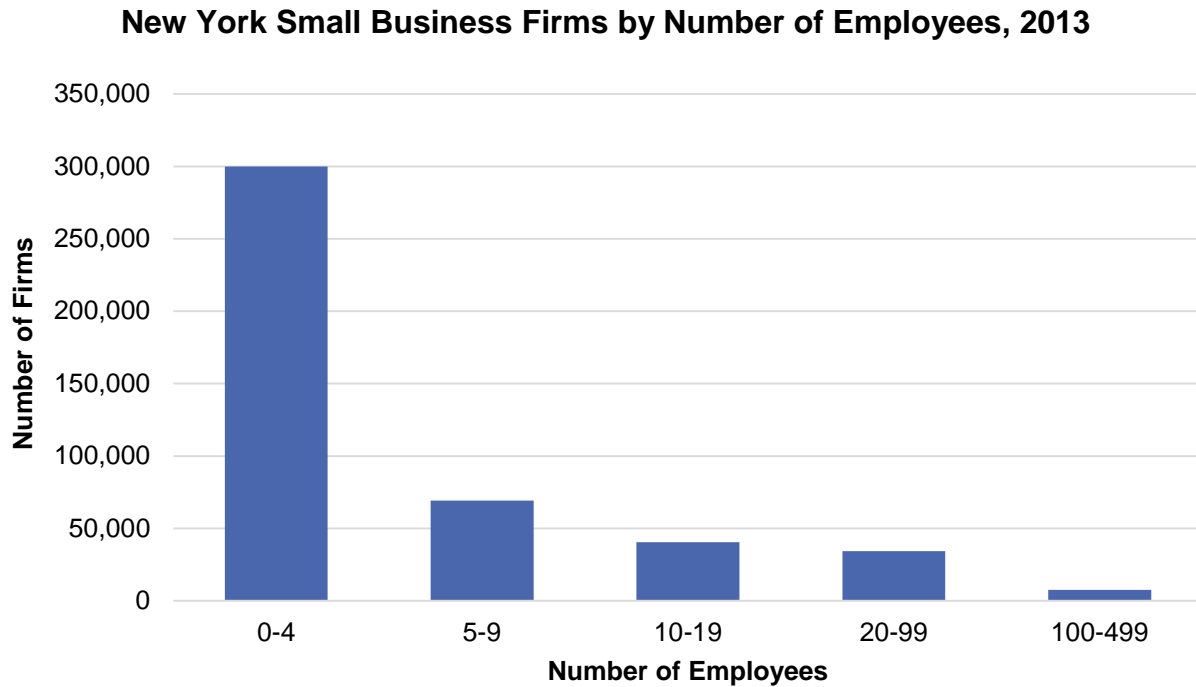
Source: U.S. Census Bureau

IV. Small Businesses in New York

Among the more than 455,000 businesses in New York, over 451,000 are small businesses. In addition, there are over 1.6 million non-employer businesses in New York, which are primarily self-employed individuals.⁵

Of the small businesses with paid employees in 2013, almost two-thirds had fewer than five employees, with over 80 percent having fewer than ten employees, as shown in Figure 5. These 369,000 microbusinesses provided nearly 943,000 jobs with total payroll close to \$40 billion.⁶ Businesses with fewer than 20 employees reported total employment of nearly 1.5 million, with total payroll of \$63.2 billion.

Figure 5



Source: U.S. Census Bureau

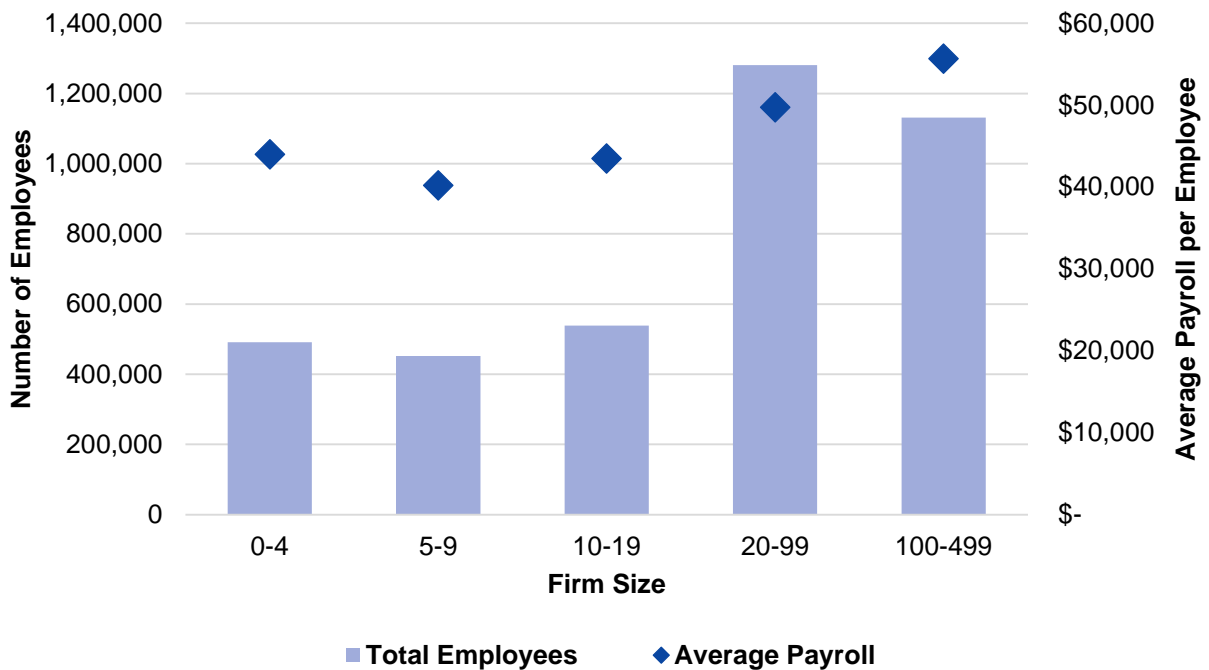
⁵ As defined by the U.S. Census Bureau, a non-employer business is one that has no paid employees, has annual business receipts in excess of \$1,000, and is subject to federal income taxes.

⁶ The U.S. Bureau of Labor Statistics defines microbusinesses as those with fewer than ten employees.

Overall, small businesses in New York employed nearly 3.9 million workers in 2013, accounting for a little over half of all private sector employment in the State. In addition, these businesses had almost \$190 billion in payroll, approximately 41 percent of total payroll.⁷ Firms with 20 to 99 employees comprised approximately one-third of the total small business employment, over 1.2 million employees, as shown in Figure 6. The larger firms (those with 100 to 499 employees) had the highest average payroll per employee, nearly \$56,000 per year.

Figure 6

Total Employees and Average Payroll by Firm Size in New York, 2013



Source: U.S. Census Bureau and Office of the State Comptroller

⁷ As defined by the U.S. Census Bureau, payroll includes all forms of compensation paid to all employees, such as salaries, wages, commissions, bonuses, vacation allowance, and sick leave pay.

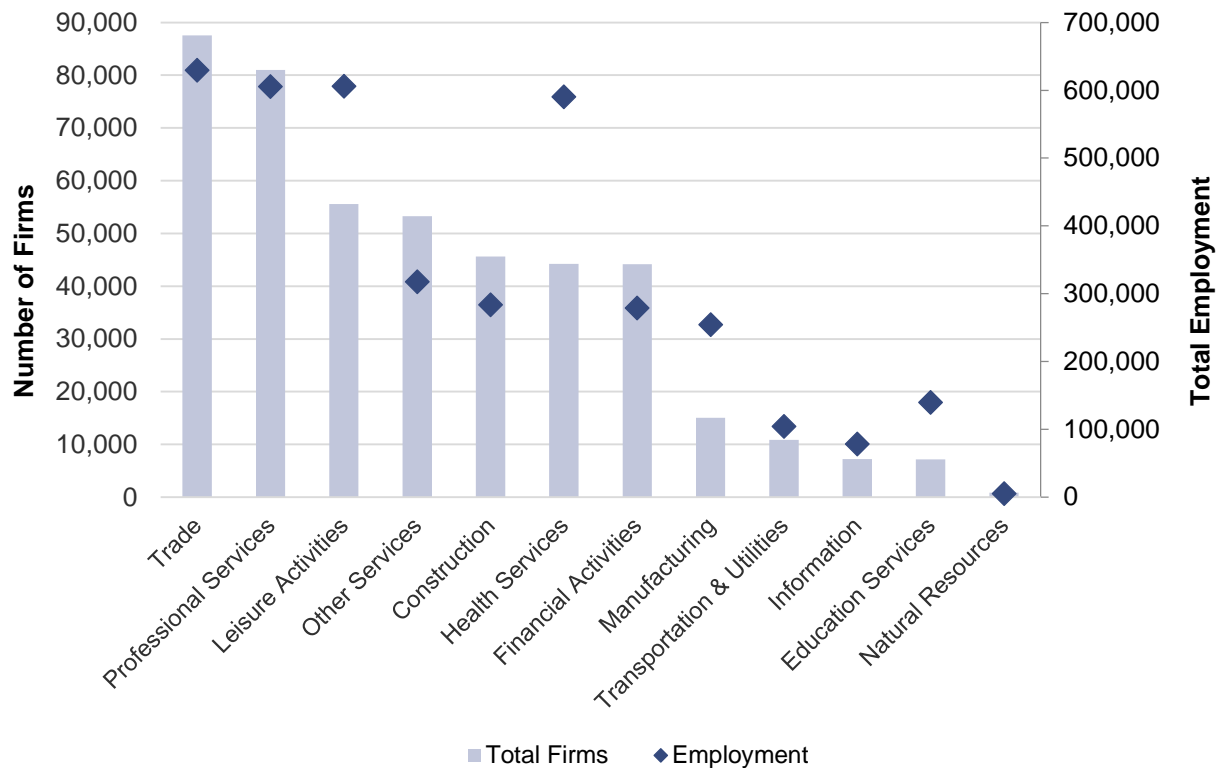
V. Small Businesses by Industry

Small businesses exist in every industry sector, but are more prevalent in some sectors than in others. Over 90 percent of the small businesses in half of the industry sectors have less than 20 employees, and businesses of this size comprise at least three-quarters of the small businesses overall. The sector with the highest percentage of small businesses with less than 20 employees is the Other Services sector, which includes such services as personal care, dry cleaning and laundry, and equipment repair.

As shown in Figure 7, four sectors dominate New York’s small business economy, each providing more than half a million jobs: wholesale and retail trade; professional services; leisure activities; and health services.

Figure 7

Small Businesses in New York by Industry Sector, 2013



Source: U.S. Census Bureau

Key indicators of their contributions include:

- Small businesses in wholesale and retail trade provide more than 629,000 jobs and have an annual payroll of over \$27 billion, averaging over \$44,000 per employee.
- Small companies in professional and business services, which include accounting, law, and architectural firms as well as those in research and development and computer design, employ over 605,000 workers. These small businesses have the highest total annual payroll of all sectors, over \$37 billion, and the second-highest payroll per employee, almost \$62,000.
- Small businesses in leisure activities employ more than 605,000, with total annual payroll of \$14.9 billion and average payroll of \$24,600. This industry includes restaurants and hotels, as well as museums and theaters.
- The small businesses in the health services industry, such as doctor's offices and nursing homes, have the fourth-highest level of employment, employing over 590,000 workers. This industry has an average annual payroll of \$24.3 billion, amounting to over \$41,000 per worker.

The sector with the most small business firms in New York is the trade sector. This sector encompasses both wholesale and retail trade, from the corner grocery store to the specialty boutique store. Another sector with a large number of small business firms is the professional services sector. As mentioned above, this sector includes not only small accounting and law firms, but also high technology start-ups and scientific research and development firms.

The sectors with the lowest number of small businesses in New York are the natural resources and the educational services sectors. The natural resources sector includes forestry and mining, which are not prevalent in the State. As a result, its share of total firms in New York, regardless of size, is rather small. The educational services sector includes private elementary and secondary schools, as well as colleges and universities (it excludes public education institutions, which are counted under the government sector). Businesses in this industry sector tend to be larger employers, with nearly 80 percent of the total employment in this industry at firms with over 100 employees.

Among smaller businesses in the overall economy, the sector generating the highest overall payroll in New York is financial activities. Just over 44,000 firms in this sector, with nearly 279,000 jobs, provided total pay of almost \$31 billion in 2013.

The construction and accommodation/food services sectors stand out as industries where smaller businesses provide a large share of total payrolls. Construction firms with fewer than 500 employees employed more than 283,000 workers with total payroll of \$17.2 billion. Smaller companies represented more than 85 percent of total construction employment and total construction payroll in New York. Among firms providing accommodation and food services (included in leisure activities in Figure 7), the 504,000 jobs and \$10.4 billion payroll provided by small businesses in this sector both represented about two-thirds of their industry totals.

Certain industry sectors have a higher level of employment in relation to the number of businesses, such as leisure activities and health services. While the number of small businesses in these sectors is significantly less than in the top two industry sectors, they provide approximately the same level of employment.

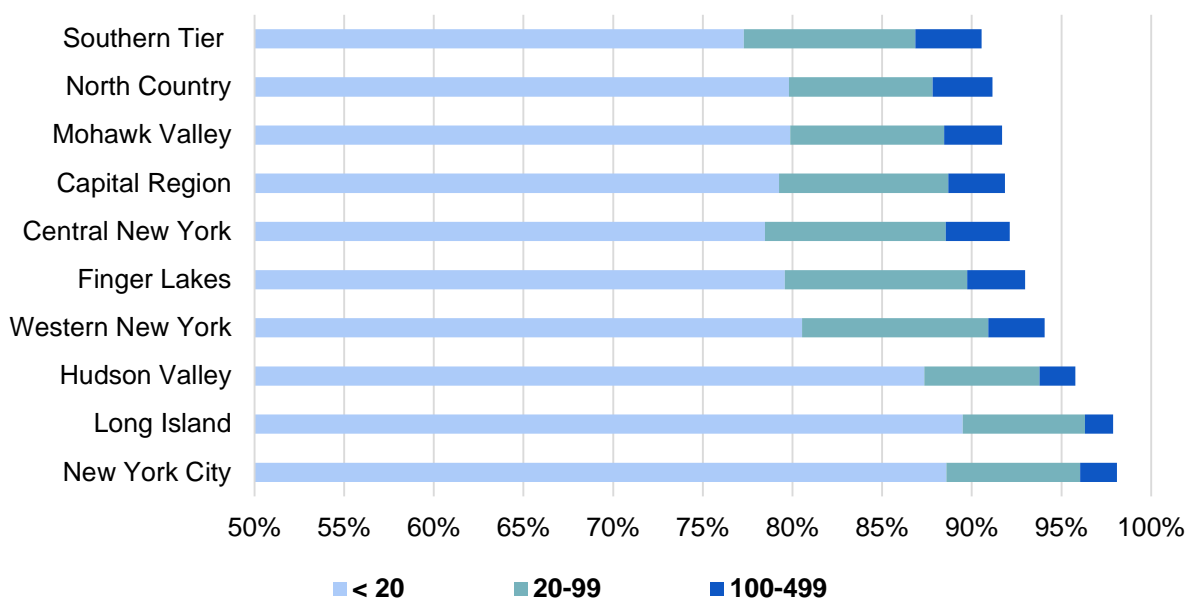
For example, the health services sector has the second highest number of businesses with 100 to 499 employees, resulting in the higher overall employment. Similarly, the leisure activities sector, which includes hotels and restaurants, has the largest number of businesses with 10 to 19 employees and of businesses with 20 to 99 employees. In comparison, construction and the other services sector have a large number of businesses with less than 5 employees, resulting in lower total employment than in those industries with fewer small businesses.

VI. Small Businesses by Region

Small businesses constitute the majority of the businesses in every region of the State, comprising at least 90 percent of total businesses in each region.⁸ While New York City has the most small businesses as a result of having the largest share of the State's population and economic activity, it is also the region with the highest concentration of small businesses; over 98 percent of firms in New York City reported fewer than 500 employees. In every region, businesses with fewer than 20 employees made up more than three-quarters of all firms.

Figure 8

Small Businesses as a Percentage of Total Businesses by Region, 2012



Source: U.S. Census Bureau, Office of the State Comptroller analysis

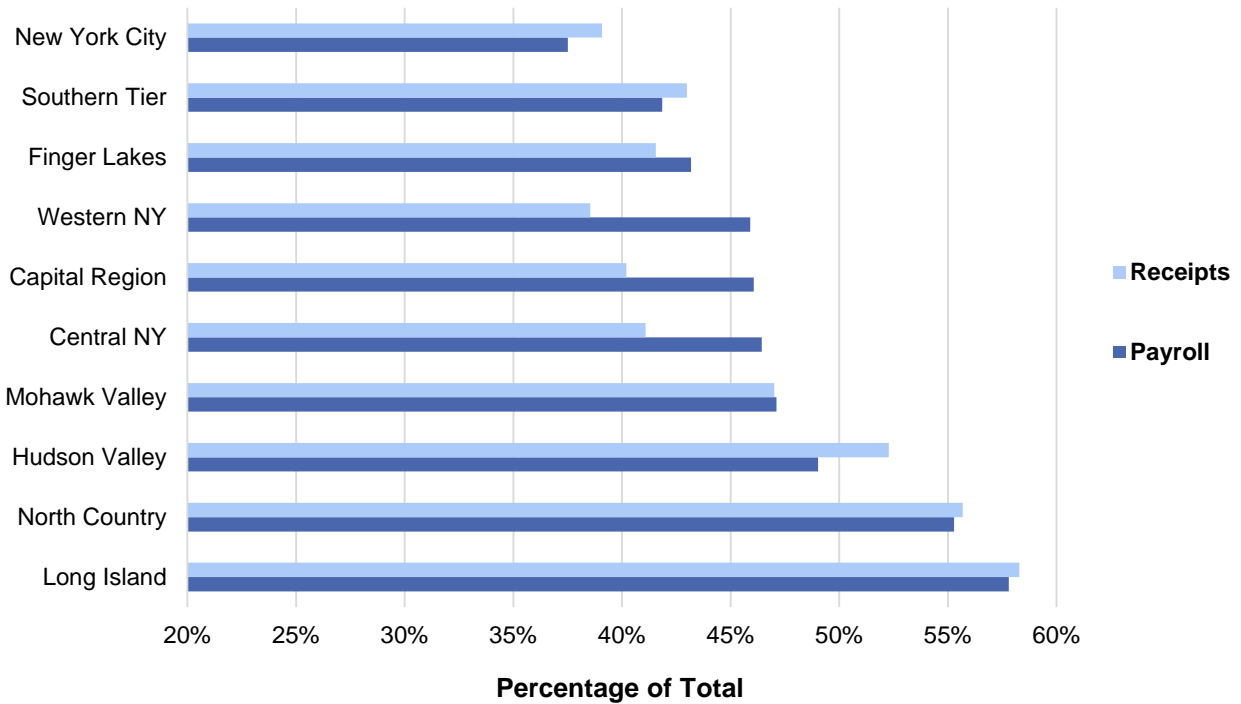
In all three downstate regions, small businesses encompass more than 95 percent of all firms, as shown in Figure 8. In addition, businesses with fewer than 20 employees comprise especially high proportions of all businesses in these three regions, with the largest share being in the Long Island region. Compared to other regions, those in the Central and Western part of the State have somewhat larger shares of businesses with 20-99 employees. Small businesses with 100 to 499 employees constitute a smaller share in every region; the highest proportion in this category is in the Southern Tier.

⁸ Regional data may not add to reported statewide totals due to disclosure provisions under Federal law that restrict Census Bureau publication of data that could identify the operations of individual employers.

While small businesses generated 43 percent of total business receipts and provided 41 percent of the total payroll statewide, in some regions of the State, they are even more powerful contributors to the local economy. Although small businesses in the North Country make up a smaller share of overall firms than elsewhere in the State (as shown in Figure 8), they account for over 55 percent of total payrolls and receipts in the region, as illustrated in Figure 9. In contrast, small businesses in New York City account for a little over one-third of total payroll and receipts, even though 98 percent of the businesses are small businesses.

Figure 9

Small Business Share of Total Receipts and Payroll by Region, 2012



Source: U.S. Census Bureau, Office of the State Comptroller analysis

VII. Investing in Small Businesses

The Office of the State Comptroller invests in New York's small businesses through a variety of programs.

Through its In-State Private Equity Program, the New York State Common Retirement Fund (CRF) has committed \$1.3 billion to private equity investment in New York as of December 31, 2015. Some \$844 million has been invested in 322 companies, putting public pension fund dollars to work in startup, emerging and established businesses in every region of the State, with a concentration of investments in New York's burgeoning high-tech sector.⁹

The CRF's lending partnership with the New York Business Development Corporation (NYBDC) provides capital for small business loans throughout the State. As of March 31, 2015, 1,082 loans had been made through NYBDC totaling \$362 million to companies providing a total of more than 22,000 jobs.

The Department of Economic Development (DED) and the Urban Development Corporation (doing business as the Empire State Development Corporation) are New York State's chief economic development agencies, and have been charged with the administration of dozens of programs intended to spur economic activity, stimulate job creation and encourage business investment in the State. DED's Division for Small Business administers a variety of these financial assistance programs for small businesses including: the Excelsior Linked Deposit Program; the Minority and Women Revolving Loan Trust Fund Program; and the Entrepreneurial Assistance Program.¹⁰

⁹ Information on the Office of the State Comptroller's In-State Private Equity Program is available at <http://www.osc.state.ny.us/pension/instate/index.htm>.

¹⁰ Information on the Division's programs is available at <http://esd.ny.gov/SmallBusiness.html>.

VIII. Conclusion

Small businesses generate major economic activity in every industry sector, from construction and manufacturing to educational services and high technology. While their organizational structures vary widely, smaller companies often face similar challenges in a continually changing marketplace. These include finding and keeping skilled employees, controlling health care costs and other expenses, and meeting the competitive demands of an increasingly global economy.

This report is intended to enhance understanding of the broad economic impact of smaller businesses in New York. While Census data on such businesses are not readily available for years after 2013, statistics from the U.S. Bureau of Labor Statistics, Bureau of Economic Analysis and other sources indicate that growth in employment and other indicators of economic activity has continued into the current year.

Encompassing a large majority of enterprises and providing nearly half of private employment, small businesses drive economic growth and contribute to the quality of life in communities across New York and the nation.

IX. Appendix

Small Businesses in New York: Key Indicators by County

County	Number of Businesses	Employment	Annual Payroll (thousands)	Receipts (thousands)	Average Payroll
Albany	7,022	78,988	\$ 3,317,643	\$ 14,528,957	\$ 42,002
Allegany	682	3,935	\$ 93,702	\$ 498,010	\$ 23,812
Bronx	14,764	118,394	\$ 4,288,001	\$ 24,194,737	\$ 36,218
Broome	3,262	37,136	\$ 1,256,270	\$ 6,552,607	\$ 33,829
Cattaraugus	1,313	12,569	\$ 378,046	\$ 2,182,850	\$ 30,078
Cayuga	1,385	12,286	\$ 408,887	\$ 2,068,198	\$ 33,281
Chautauqua	2,361	24,290	\$ 741,099	\$ 3,800,468	\$ 30,510
Chemung	1,301	16,884	\$ 616,507	\$ 3,475,400	\$ 36,514
Chenango	752	6,131	\$ 165,940	\$ 611,462	\$ 27,066
Clinton	1,481	14,316	\$ 461,144	\$ 2,729,046	\$ 32,212
Columbia	1,525	10,343	\$ 353,881	\$ 1,640,795	\$ 34,215
Cortland	838	8,163	\$ 239,181	\$ 1,254,577	\$ 29,301
Delaware	866	6,761	\$ 211,450	\$ 1,192,930	\$ 31,275
Dutchess	6,333	47,319	\$ 1,726,887	\$ 7,591,175	\$ 36,495
Erie	17,396	206,756	\$ 7,305,346	\$ 36,021,816	\$ 35,333
Essex	963	6,718	\$ 209,343	\$ 849,668	\$ 31,162
Franklin	771	5,790	\$ 161,017	\$ 955,337	\$ 27,809
Fulton	944	7,335	\$ 237,027	\$ 1,553,518	\$ 32,315
Genesee	1,098	10,822	\$ 342,887	\$ 2,022,504	\$ 31,684
Greene	1,011	5,896	\$ 168,754	\$ 906,857	\$ 28,622
Hamilton	183	736	\$ 20,931	\$ 100,366	\$ 28,439
Herkimer	955	8,198	\$ 246,987	\$ 1,145,130	\$ 30,128
Jefferson	1,894	18,091	\$ 630,140	\$ 4,263,022	\$ 34,832
Kings	47,736	323,196	\$ 11,128,841	\$ 58,600,746	\$ 34,434
Lewis	470	2,859	\$ 87,858	\$ 554,360	\$ 30,730
Livingston	1,041	8,540	\$ 276,135	\$ 1,754,761	\$ 32,334
Madison	1,179	9,750	\$ 296,733	\$ 1,436,220	\$ 30,434
Monroe	13,505	149,845	\$ 5,645,638	\$ 26,849,208	\$ 37,677
Montgomery	840	8,079	\$ 257,087	\$ 1,357,176	\$ 31,822
Nassau	42,440	309,965	\$ 14,421,411	\$ 70,863,100	\$ 46,526
New York	89,586	917,739	\$ 71,810,317	\$ 339,751,031	\$ 78,247
Niagara	3,653	34,242	\$ 1,050,769	\$ 6,171,946	\$ 30,687
Oneida	3,851	40,074	\$ 1,330,513	\$ 6,957,987	\$ 33,201
Onondaga	9,001	103,138	\$ 3,995,493	\$ 23,476,675	\$ 38,739
Ontario	2,277	23,364	\$ 861,391	\$ 4,324,469	\$ 36,868
Orange	7,585	59,113	\$ 2,085,290	\$ 11,457,972	\$ 35,276
Orleans	566	5,228	\$ 150,543	\$ 1,006,801	\$ 28,796
Oswego	1,827	14,096	\$ 379,843	\$ 2,113,311	\$ 26,947
Otsego	1,159	8,586	\$ 240,688	\$ 1,373,003	\$ 28,033
Putnam	2,627	15,362	\$ 606,747	\$ 2,651,740	\$ 39,497
Queens	41,269	278,555	\$ 10,829,354	\$ 56,068,813	\$ 38,877
Rensselaer	2,476	20,681	\$ 802,632	\$ 5,245,414	\$ 38,810
Richmond	7,620	51,362	\$ 1,796,858	\$ 8,482,473	\$ 34,984
Rockland	8,246	60,410	\$ 2,443,283	\$ 13,243,293	\$ 40,445
St. Lawrence	1,568	12,706	\$ 424,551	\$ 2,234,270	\$ 33,413
Saratoga	4,131	34,030	\$ 1,238,184	\$ 5,639,420	\$ 36,385
Schenectady	2,431	22,737	\$ 872,619	\$ 4,086,791	\$ 38,379
Schoharie	476	3,603	\$ 113,920	\$ 553,831	\$ 31,618
Schuyler	320	2,751	\$ 92,062	\$ 463,860	\$ 33,465
Seneca	555	4,605	\$ 134,716	\$ 818,009	\$ 29,254
Steuben	1,428	13,164	\$ 376,458	\$ 1,706,291	\$ 28,598
Suffolk	42,266	327,508	\$ 16,190,542	\$ 83,876,575	\$ 49,436
Sullivan	1,661	12,410	\$ 374,899	\$ 2,242,635	\$ 30,209
Tioga	693	6,045	\$ 167,997	\$ 1,291,915	\$ 27,791
Tompkins	1,959	18,796	\$ 637,046	\$ 2,733,314	\$ 33,893
Ulster	4,045	29,274	\$ 947,569	\$ 4,710,651	\$ 32,369
Warren	1,856	15,595	\$ 558,404	\$ 2,303,383	\$ 35,807
Washington	916	7,176	\$ 248,919	\$ 1,586,473	\$ 34,688
Wayne	1,474	12,534	\$ 382,171	\$ 1,937,087	\$ 30,491
Westchester	27,428	207,983	\$ 10,842,635	\$ 71,103,748	\$ 52,132
Wyoming	680	6,086	\$ 188,390	\$ 1,038,781	\$ 30,955
Yates	484	3,313	\$ 91,660	\$ 472,685	\$ 27,667

Source: U.S. Census Bureau and the Office of the State Comptroller



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