



November 13, 2017

Hon. Robin Schimminger  
Member of Assembly  
Chair, Committee on Economic Development, Job Creation, Commerce and Industry  
New York State Assembly  
Albany, NY

Dear Representative Schimminger,

My testimony today is with the perspective as an Upstate native who moved away, built a Silicon Valley company then returned home where I have since committed to helping other people start and grow companies in Upstate NY.

- As an entrepreneur, I founded and grew TriNet, a Silicon Valley company that supports more than 10,000 emerging tech companies across the U.S. with cloud based HR services. TriNet employs about 3,000 people and is listed on NY Stock Exchange with an enterprise value of \$3 billion.
- I am a direct investor in 26 startup companies and also a limited partner in 13 funds that collectively invest in more than 120 startup companies. The combination of these investments makes me New York's largest individual investor in Upstate startup companies.
- My principle activity for the last seven years has been as Chairman of Upstate Venture Connect, a 501(c)(3) non profit public benefit corporation organized on the mission of helping first time entrepreneurs in the newer industries get connected to the resources they need to start and grow companies across the entire Upstate New York region.

I founded Upstate Venture Connect and volunteer on a substantially full time basis without compensation.

UVC's reach has grown to building a network that today numbers more than 15,000 people. This network includes aspiring and experienced entrepreneurs, capital and service providers, students and academics and a variety of startup community supporters across Upstate and beyond.

UVC helped start six different member managed seed capital funds involving local angel investors that have collectively invested \$20+ million in more than 80 companies. Our communication channels and custom built networks like [UNY50](#) support dozens of local startup

community organizations and activities that now spill across geographical and institutional boundaries to help entrepreneurs connect with resources not previously accessible to them.

My remarks today are related to the path of economic development which I believe holds the greatest promise for stimulating faster job growth Upstate – how to get more companies started in the newer industries with talent we already have here.

### ***What are startups and where do they locate?***

Startups are new companies with two distinguishing characteristics: 1) a product or service offering based on an innovation not yet established in the marketplace and 2) their customer audience is national or global.

These two characteristics put startups on a path with a distinctly different set of business challenges than a traditional small business that most NYS programs and reporting are set up for.

The vast majority of startups are not powered by heavy investment in plant or equipment assets. Just look at any list of unicorns (private companies valued at greater than \$1 billion) – none of them were launched with significant plant and equipment assets.

And with the high rate of startup activity in Silicon Valley, Boston and New York City, we know that entrepreneurs flocking to these cities to launch companies don't do so because there is cheap real estate, low wages or friendly tax and regulatory environments.

As a Silicon Valley entrepreneur who has served tens of thousands of such startups nationwide, I can tell you the key factors driving where startups actually locate has to do with a combination of access to specialized talent, seed capital and connections to experienced entrepreneurs.

### **Why should we want more startups Upstate?**

By definition, startups are working on tomorrow's industries – this is the direction that our country's economy is already going.

The second reason we should be embracing startup growth is that data shows innovation based companies have a much higher job multiplier than any other industry.

Documented by economist Enrico Moretti, for every one job created in an innovation based company, more than 5 jobs are created in the local community - this is triple the job multiplier of the manufacturing industry.

Moretti's research, profiled in his book "[The New Geography of Jobs](#)," also shows that cities with high concentrations of innovation based companies will drive up the average wage levels for other industries in that same local area.

The third reason to push faster startup growth Upstate is that we already have the requisite talent pool and many of the right ingredients in place.

Upstate's 100+ colleges enroll more than a half million college students - giving us a huge advantage as a constantly renewing talent factory.

We have the strongest base of STEM programs as any region in the country, and feature more than \$3 billion of corporate and academic R&D investment each year.

UVC's 2016 survey of just 115 such young innovation companies Upstate documented an economic footprint in this sample of 7,700 jobs, \$469 million in annual payroll and average pay at 90% of respondents at more than \$40,000 per year with 40% of respondents reporting average salaries greater than \$75,000 per year. The survey did not show any clustering of startups aligned with New York State's investment of capital infrastructure for targeted new industries. (See our [Venture CEO report at UVC.org](#))

While Upstate has the requisite assets, it is important to note these assets are dispersed over a broad geography and multiple communities that operate in isolation from each other. This is in sharp contrast to New York metro where the compact geography creates fewer boundaries so talent and resource density is visible and accessible to startup entrepreneurs there.

### **How well is Upstate doing in the startup rankings?**

Venture capital investment is the best gauge to view trends in startup activity. Venture capital is the sophisticated institutional equity funding going into the most promising high growth companies – and clearly the forward looking metric for where tomorrow's jobs will be located.

According to Price Waterhouse Coopers [Money Tree Report for 2016](#), New York State's \$8.2 billion in venture capital investment placed second in the country trailing only California.

But only \$75 million of that total was invested in Upstate startups. This means that notwithstanding Upstate's comparable population, scope of educational institutions and R&D with New York metro, this entire region received less than 1% of the total venture capital invested in the State.

We attribute the widely divergent gap between NY metro and Upstate startup activity to the aforementioned factors of 1) talent density; 2) accessibility to early stage risk capital; and 3) the ease at which first time entrepreneurs in the new industries can locate those willing and able to help them.

### **Four recommendations to increase startup activity in Upstate NY**

## ***#1. Stop advertising, incentives and taxpayer funded investing to attract startups***

My personal belief is that we should not be investing public funds in private companies as this puts the government in the position of picking winners and losers – something the private sector, not tax payers should bear the risk of.

Personal interactions with hundreds of Upstate startup entrepreneurs convinces me that advertising, subsidized real estate, tax incentives or small amounts of public investment in a company have no impact on an entrepreneur's decision of where to launch a high growth startup.

And since startups have insufficient assets to be clawed back for returning state funds if they missed hitting job creation targets, it is another reason to remove them from the business attraction category and put savings realized to other uses as described below.

[Note: For established businesses targeted for attraction, we should be setting accountable targets on job creation with each attraction incentive applied + specifying a claw back mechanism for the attracted company to return funds to NYS should the anticipated targets not be achieved.]

As attraction awards are made today, very few have any claw back mechanism, nor are reported on a taxpayer cost per job basis. Such information should be readily discernable to our elected officials and tax payers alike.]

## ***#2. Promote existing incentives to stimulate private capital investment in startups***

While public investment in startup companies is not recommended, I believe NYS has other options to encourage greater private sector investment in Upstate startups.

UVC helped start six local seed capital funds across the region that now have more than 200 private investors engaged in helping startups. That experience convinces me that adequate private sector capital is available – but too much of it remains on the sidelines including from individuals with both financial capacity and an interest in helping stimulate new business creation.

As detailed in the enclosed February 2015 letter to Senator James Seward, it was my finding that existing incentives to encourage startup investment are not having their intended affect due to inadequate resources being devoted to make investors and entrepreneurs aware of and able to access these incentives.

Additional incentives could be deployed that could encourage more investors to participate, but I would not begin to advocate for new incentives until we progressed in deploying the incentives currently available.

### ***#3. Make program investments that advance collaboration across boundaries***

With the billions of dollars we invest in economic development each year, it is surprising to me that pitifully few resources are allocated to the core reason our best high growth entrepreneurs leave Upstate to launch startups elsewhere: their perceived difficulty in getting connected to the people willing and able to help them here.

Programs that build networks, engage experienced entrepreneurs to help startups, celebrate startup successes and connect first time entrepreneurs to resources are all high impact areas – *particularly if they can be reaching across geographic and institutional boundaries.*

New York State’s penchant for doling out grants with a zip code or institutional focus has the unintended consequence of programs having too narrow a constituency and organizations battling for grants with a zero sum game mentality – all of which impede the region wide collaboration we need to accelerate startup progress.

Better to tie grants to initiatives that explicitly advance collaboration across the region by connecting entrepreneurs to people who can help them.

The New York State Energy Research and Development Authority (NYSERDA) has done much to advance both region wide collaboration and connecting clean tech entrepreneurs to resources. We believe some of NYSEDA’s approaches could be replicated across other programs.

### ***#4. Use your power to convene to build engagement and collaboration***

Whether you’re in a legislative or executive role, many of your constituents will respond favorably to your outreach and encouragement to help startups.

Our single biggest need to accelerate startup growth Upstate is to engage more experienced entrepreneurs to become involved as mentors, connectors and investors. You can start by becoming familiar with the startup scene, content on [UVC.org](http://UVC.org) website may help.

Attend some of the startup community events you’ll see [listed on the UVC site](#) – you’ll have a chance to feel the energy and passion people in these new industries are bringing to our economic future.

Ask successful business people if they have given thought to helping the next generation of entrepreneurs. Your knowledge and encouragement can make a big difference in stimulating engagement which in turn might lead to startup companies being launched right in your district.

In closing I would like to express my appreciation for the difficult work you do as legislators, especially your having chosen to be active in economic development through your participation in these standing committees.

No matter how bleak others may paint New York's economic future, I believe that the opportunity for startup growth has the potential to be the single biggest leverage point at your disposal. How much time and effort we expend to become familiar with the startup issues and opportunities will be up to each and every one of us.

But working together, our collective efforts can lead to a promising future that includes retaining our best talent and keeping our families together.

Thank you for the opportunity to share these views. I'll continue my efforts in spurring startup growth and welcome you to join me in that effort.

Warmly,

Martin Babinec  
Founder & Chairman  
Upstate Venture Connect

Other roles relevant to this testimony:

Founder/Board Member TriNet ([TriNet.com](http://TriNet.com))

Founder/Managing Director UpVentures Capital ([UpVentures.com](http://UpVentures.com))

Co-Founder/Chairman StartFast Venture Accelerator ([StartFast.net](http://StartFast.net))