

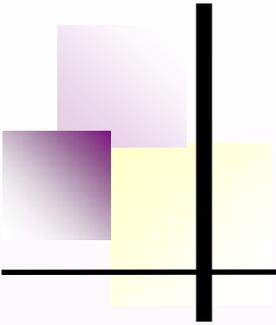


FAMILY ASSETS FOR
INDEPENDENCE
IN MINNESOTA

Economic Impact Report:

*How are FAIM Small Business
Owners doing in this Challenging
Economic Climate?*

February 2012



**Economic Impact of the
Family Assets for Independence in Minnesota Program
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This report was requested by members of the statewide Family Assets for Independence in Minnesota (FAIM) Council,, comprised of representatives from local Community Action Agencies, Bremer Bank, City County Federal Credit Union, Greater Twin Cities United Way, Leech Lake Tribal Government, and Emerge Community Development.

Primary researchers were Amanda Turnquist and Kayla Joachim of Gustavus Adolphus College, with support from Minnesota Valley Action Council staff member Ann Macgregor.

The authors wish to thank the individuals contacted throughout this survey for their participation and feedback that informs the conclusions of this study.



Family Assets for Independence in Minnesota (FAIM) Business Research Summary February 2012



The Family Assets for Independence in Minnesota (FAIM) program has assisted hundreds of Minnesotans in achieving their dreams of owning a small business. These recipients have used their earned and matched FAIM account funds to acquire assets and improve their business, while simultaneously building the knowledge and community relationships that will enable their businesses to improve and expand.

Approach

Research data was collected through a phone survey, using a list of 702 FAIM program graduates. The survey response rate was 18% (130 respondents of 702 surveyed). Efforts are underway to collect additional FAIM participant data from non-respondents. Telephone survey calls were conducted between January 3 through January 17, 2012 over the course of 176 hours. Collected survey data was then analyzed to investigate the economic success of small businesses launched by low income Minnesotans enrolled in the FAIM program.

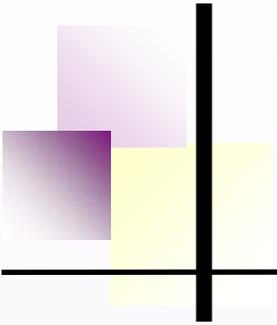
Findings

The overarching research finding is that the FAIM program has been a tremendous help to Minnesota's working poor population, as indicated by the following:

- **89%** of surveyed FAIM-sponsored businesses are still in operation after more than two years of business compared to a national average of 44%.
- **14%** of the survey population reduced their state assistance in low income heating assistance (LIHEAP), Food Support (SNAP), and Minnesota Care health coverage; resulting in an estimated savings to the state of **\$241,313 per year**.
- **65%** of businesses achieved an increase in their sales and income after applying their FAIM matched savings to improve their businesses.
- **22%** of businesses have added at least one additional employee since they launched their business.
- **\$26,681,504/year of total estimated income revenue** was generated for all FAIM recipients and their employees.
- **“Changed lives and successful businesses, thanks to FAIM”** according to by surveyed graduates.

Suggested Course of Action for Policymakers:

Support funding for Family Assets for Independence in Minnesota (FAIM) program that enables ongoing service provision, and draws one-to-one federal match funds for all non-federal resources.



Introduction



What is Family Assets for Independence in Minnesota (FAIM)?

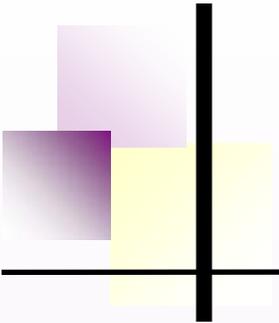
FAIM is a matched savings project launched in 1999 to help Minnesota low-wage earners build assets through purchase of a home, pursuit of higher education or the launch or expansion of a small business.

FAIM is part of a nation-wide initiative to promote Individual Development Accounts (IDAs). Similar to employer-based matched retirement accounts, IDAs reward work by requiring accountholders to deposit earned income into their accounts as they prepare for their asset purchase. The program requires participants to complete 12 hours of financial literacy classes prior to receipt of matched funds. FAIM seeks to break generational poverty through asset acquisition and parent role modeling of savvy financial skills.

Account holders deposit a total of \$960 into bank accounts at an average of \$40/month for two years. Minnesota has historically matched this with \$1440 per account holder and the federal government matches the other \$1440.

What is the purpose of this Economic Impact Report?

Difficult budget balancing in the 2011 legislative session yielded the elimination of a \$500,000 biennial state FAIM appropriation,, triggering the loss of one-to-one matching federal support. This report seeks to examine FAIM's positive return-on-investment and positive impact to Minnesota's economy.

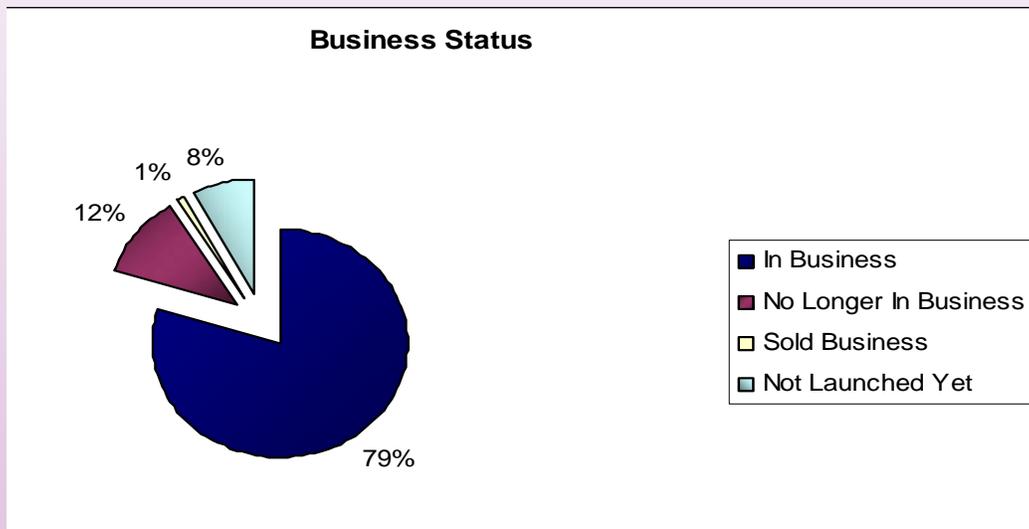


Economic Impact:

Business Status and Success Rates



Business Status	Number	Percentage
In Business	82	80%
No Longer In Business	12	12%
Sold Business	1	1%
Not Launched Yet	8	8%

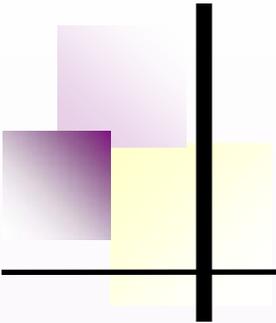


Success Rates	National ¹	FAIM Recipients ²
0-2 Years (2010-2012)	66%	86%
2+ Years Later (before 2010)	44%	89%

¹ Data from Bureau of Labor Statistics

² Data from collected information, does not include respondents who did not provide dates of business launch and/or close

The first two years are the most critical as this is when most businesses fail. The success rate of 86% for FAIM recipients is significantly higher than the national average of 66%. This may be attributed to the financial and business planning classes recipients complete prior to drawing down FAIM account funds.



Economic Impact:

Public Assistance and State Savings



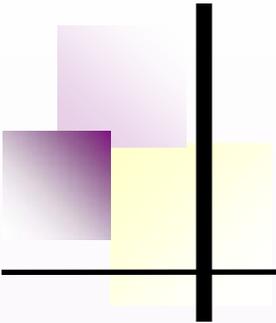
State Savings (FAIM Recipients Who Decreased State Assistance)	Average Cost Per Year Per Person	#	Estimated Savings
Home Heating Assistance (LIHEAP)	\$600	8	\$4,800
Food Support (SNAP)	\$1308	4	\$5,232
MN Care/Medical Assistance ¹	\$3684	7	\$25,788
Total Savings: Survey Respondents	—	19	\$35,820
Total Savings: Entire Population²	—	128	\$241,313

¹ Used the lowest cost Medical Assistance type (MN Care) to form the average cost per person. MN Care costs on average \$307 per month with 7% of the budget versus Medical Assistance at \$320 per month and 89% of the budget, and General Assistance Health Care at \$699 per month and 4% of the budget. Actual savings from decreased state assistance from MN Care and Other Medical Assistance types may be larger.

² $19 \text{ (recipients who decreased state assistance)} / 104 \text{ (contacted FAIM recipients)} = 18.2\%$; $18.2\% * 702 \text{ (total survey population)} = 128 \text{ (recipients estimated to have decreased state assistance)}$; $\$35,820 \text{ (estimated savings)} / 19 \text{ (people who decreased state assistance)} = \$1,885.26 \text{ (per person decrease in state assistance)}$ * $128 \text{ (recipients estimated to have decreased state assistance)}$; = $\$241,313.28 \text{ (total decrease in state assistance and the total savings for the entire population)}$

State Assistance ³	Number Count	Percentage
Never Received Assistance	60	59%
Decreased Assistance	14	14%
Same Level of Assistance	20	20%
Increased Assistance	7	7%

³ State assistance including LIHEAP, SNAP, and MN Care and Other Medical Assistance. Does not include other assistance

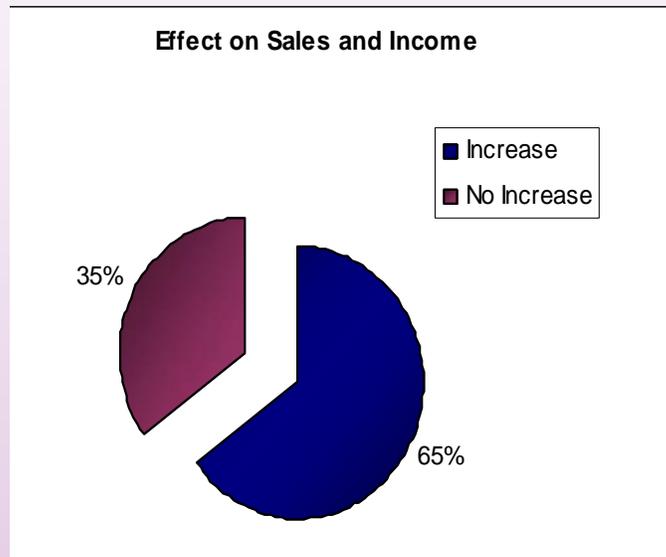


Economic Impact:

Effect on
Business Operations

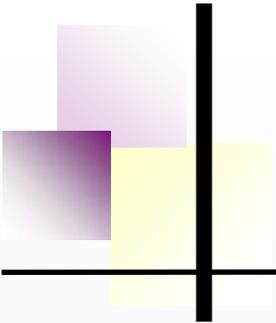


Effect on Sales and Income	Number Count	Percentage
Sales/Income Increased	45	65%
Sales/Income did not Increase	24	35%



Effect on Operational Hours	Number Count	Percentage
Expanded Hours	27	45%
No Expansion	33	55%

Business Growth due to FAIM Funding	Number Count	Percentage
Business Grew	45	67%
Business Maintained Stability	21	31%
Business Expects Growth Soon	1	1%



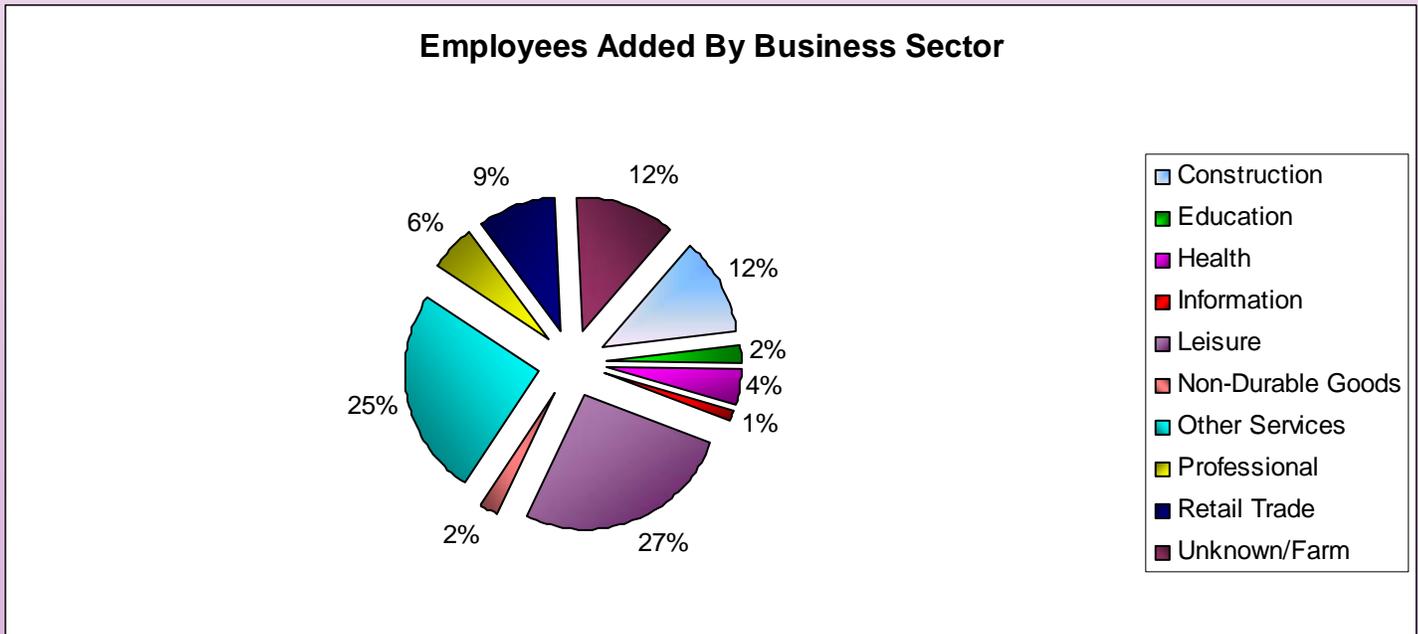
Economic Impact:

Employment and
Income Revenue



Employees	Number Count	Percentage
Self-Employed	68	78%
Paid Employees	19	22%
Total Number MN Jobs Added	123	—

- FAIM recipients surveyed with 0-4 employees have estimated total revenues of **\$4,384,720/year**, including employee revenue (national average of \$38,128/year/employee¹)
- FAIM recipients surveyed with 5-9 employees have estimated total revenues of **\$258,800/year** including employee revenue (national average of \$32,350/year/employee¹)
- Total estimated income revenue for surveyed FAIM recipients and their employees is: **\$4,643,520/year**
- Total estimated income revenue for all 702 FAIM recipients and their employees: **\$26,681,504/year**



¹ Source: US Census Bureau. Table 2b. National average income per employee computed by taking Annual payroll / Paid employees.

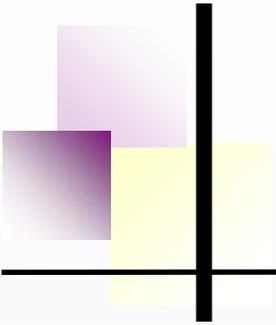
Local Use of FAIM Funds



Positive Impacts of FAIM for Participants	Number Count	Percentage
Materials/Supplies Purchased	58	69%
Start-Up Capital Provided	8	10%
Mentoring Support Assigned	6	7.5%
Business Expansion supported	3	4%
Learned to Save Money	2	2.5%
Stayed In Business	2	2.5%
Personal Fortitude Increased	2	2.5%
Paid Bills	1	1%
Land/Office Space	1	1%

This study exposed multiple positive effects on FAIM program recipients. Data analysis revealed nine categorical outcomes that describe these benefits, as follows (and above):.

- **Materials/Supplies purchased:** Helped purchase materials or supplies for their company including advertising and marketing. Example: Computers and software for business use.
- **Start Up Capital Provided:** Necessary start up capital was made available to participants.
- **Mentoring Support Assigned:** FAIM program provided a mentor that aided participants through the process they may not have otherwise been able to complete themselves.
- **Expansion:** Expanded their business.
- **Learned to Save Money:** Through both the matching funds process and financial classes.
- **Stayed In Business:** Provided that extra edge during this hard economic time.
- **Personal Fortitude Increased:** Empowered business owners and entrepreneurs to continue with the business even when it got difficult. One recipient stated, “It gave me a backbone that allowed me to go forward with my business.”
- **Paid Bills:** Paid necessary bills and interest to maintain a business (i.e. tractor repair bills).
- **Land/Office:** Helped purchase the land or the office space used for a business.



Research Methodology And Conclusion



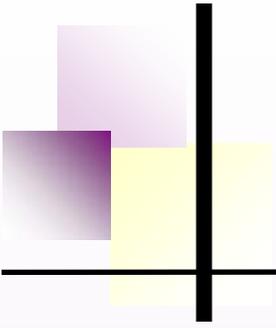
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Methodology

- **Phone survey of FAIM Business Asset population** (702 participants in small business asset track)
 - If the phone number was not available for a participant, a letter was sent to the given address stating the research purpose and requesting that they contact the researchers. If a letter was returned, project researchers searched online for an alternate phone number or mailing address.
 - If a participant phone number was unavailable or disconnected, an online search was conducted for a more recent phone number.
 - When possible, messages were left on answering machines requesting a call-back.
 - Each valid phone number was called at least twice in order to reach the maximum number of respondents.
 - The largest factor for behind the non-response rate was determined to be that participants were at their jobs when contacted. This non-response should not significantly influence the research data.
 - Survey Questions:
 - What is the name of your business?
 - What year did the business launch?
 - When did you receive FAIM funding?
 - Are you still in business?
 - Have you ever received state and/or federal assistance and if so, what kinds of assistance?
 - Are you currently receiving state and/or federal assistance and if so, what kinds of assistance?
 - Did your business see growth, expanded hours, or sales increases in after using the FAIM funding?
 - How did you use your matched FAIM savings account funding?
 - Do you have any additional comments about the FAIM program?
- **Response Rate:** 18%

Conclusion

FAIM has helped hundreds of low income and working Minnesotans stay afloat and acquire new assets while building knowledge, relationships and businesses that can positively impact Minnesota's future.



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