

**DEVELOPING A SUSTAINABLE FINANCIAL SUPPORT MODEL FOR BUSINESS OWNERSHIP
Minnesota DEED – Vocational Rehabilitation Services**

**SECOND MILESTONE REPORT: GOAL II
Submitted: June 1, 2010**

Notes Related to Project Goals I & III:

Goal I was completed with submission of the 1st Milestone Report on March 19th and associated conference call

Goal III has been in progress throughout Goals I & II, and requires scheduling an onsite meeting in Minnesota per **Goal III: Activity B (re: page 14 of this report)**

SECOND MILESTONE REPORT: GOAL II

Goal II: Conduct Structured Interviews with Self-Employment Experts in various VR agencies, as well as stakeholder groups across the United States.

Activities A & B:

- **Activity A.** Generate a list of national VR self-employment experts and experienced stakeholders to interview for feedback and recommendations on self-employment.
- **Activity B.** Develop interview questions for experts maintaining a focus on: financing options and opportunities, policy that works, counselor TA and training approaches, VR structural and management considerations, fidelity with the VR Act, critical partnerships, et al.

Activity A: List of Experts

CSC staff secured interviews from the following self-employment experts throughout the country. All interviewees have demonstrated excellence in developing or implementing statewide or national self-employment initiatives and/or providing self-employment services to customers with disabilities. Interviewees represented a wide variety of agencies, including the following: State VR agencies, Small Business Development Centers, Community Rehabilitation Providers, National Employment Services consultants, and University representatives.

Experts from Wisconsin, Washington, Ohio, and Florida work in states that have developed comprehensive DVR policy to support all customers in the pursuit of self-employment, including customers receiving supported or customized employment services. Responses and recommendations from these experts, therefore, were more comprehensive in nature and covered both self-employment and customized/supported self-employment policies, procedures, and services. State VR agencies in Maryland and Texas also have developed comprehensive self-employment policy for customers on the supported/customized employment tracks. Links to policies for all of these states are provided at the end of this report.

- **Abby Cooper**- Employment for All
- **Gary Shaheen**- Burton Blatt Institute (NY)
- **Jim Huston**- Accountant & Small Business Consultant (KY)
- **Ray and Janet Steffy**- Parents of Entrepreneur (KS)
- **Sean O'Brien**- Alaska VR
- **Jackie Stewart**- Start-Up Alaska, Virtual Incubator Manager
- **Pat Higgins**- Small Business Development Center (NY)
- **Terri Millican**- Parent of Entrepreneur (FL)
- **Pam Hinterlong**- Florida DVR
- **David Cox**- Entrepreneur
- **Danny Freund**- Entrepreneur
- **Carol Rydell**- Kaposia
- **Joan Distler**- RISE, Inc.
- **Shannon Munn**- Progressive Community Services (WI)
- **Kimberly Barber**- IA VRS
- **Dennis Bogenrief**- IA VRS
- **Russell Sickles**- Job Squad, Inc. (WV)
- **Corey Smith**- Via of the Lehigh Valley (PA)
- **Molly Holsapple**- Office of DD Services, WA
- **Doug Crandell**- Cobb County Community Services Board (GA)
- **Nancy Brooks-Lane**- Cobb County Community Services Board (GA)
- **Dennis C. Rizzo**- NJ Council on Developmental Disabilities
- **Bill Wersell**- VR Self-Employment Consultant (OH)

Information for this report was also gathered through facilitated interviews with a group of 80 participants attending the Linking Discovery and Job Development training provided by the Minnesota Employment Training and Technical Assistance Center (MNTAT) for the MN Habilitation Coalition (MHC) on April 27-28, 2010. Additionally, feedback from a Needs Assessment conducted with Texas DARS counselors, parents, and CRPs at a conference in Houston on 5/11/10 has been incorporated into this report.

Additionally, CSC staff reviewed the brief developed following The Entrepreneurship Partners Dialogue Meeting held in Albany, NY in December 2009. This meeting was attended by NY state VR agencies (VESID and CBVH) representatives as well as

representatives from all state generic business resources including the Small Business Development Centers, the Entrepreneurial Assistance Programs, and the Women's Small Business Centers. During the meeting, CSC staff facilitated a needs assessment relating to the expansion of self-employment outcomes for individuals with disabilities.

Activity B: Interview Questions

All interviewees were asked to provide feedback and recommendations on the following topics:

- Financing options/opportunities related to self-employment
- Policy recommendations (VR or otherwise)
- Concerns related to providing SE services
- Opportunities for increasing successful closures
- Staff Development/Resource Needs
- Critical Partnerships for increasing SE Outcomes
- Other thoughts, considerations, recommendations

Participants in the NY Entrepreneurship Dialogue Meeting answered questions relating to the following areas: program barriers, collaboration, training needs and access to technical assistance, funding, program innovations, moving forward, disseminating and sharing information, and critical partnerships.

Activity C. Interview potential partners and collaborators regarding financial and technical assistance opportunities, including SBDCs, Micro-lenders, other state agencies, etc.

All experts interviewed stressed the challenges of connecting entrepreneurs with disabilities to existing funding sources. Though many did cite an array of funding opportunities available in their states, few had worked with entrepreneurs with disabilities who were actually able to access these resources. All agreed that credit scores, FICO scores, exclusions related to past bankruptcies, and lack of collateral were the biggest barriers to accessing more traditional business financing sources as well as for some of the more "user-friendly" sources such as micro-loan funds.

Recommendations for how to address these challenges included working directly with the funders to develop policy around these issues that would make the funds more

accessible to entrepreneurs with disabilities or to develop state VR policy where VR funds could be used to guarantee loans. One expert, Jim Huston (KY), pointed out that RSA policy specifically allows state VR agencies to guarantee loans to customers. In spite of this, however, no experts worked in states where VR policy allowed for guaranteed loans and few (if any) reported success with changing policy to make conventional funding sources more accessible to entrepreneurs with disabilities. More frequently, experts instead actively sought detailed information on the various funding opportunities available in their states, and then matched the best potential candidates with these funding sources. The result is that few entrepreneurs with disabilities were able to access the more traditional funding sources.

In spite of these challenges, most of the experts interviewed had successfully supported some entrepreneurs with disabilities to access business financing beyond what was available through their state VR agency. One of the most striking revelations from these interviews was how little knowledge these experts had of what others were doing in states beyond theirs to address these same barriers and challenges. Most are still creatively navigating the process on a person-by-person, state-by-state basis. As a result, the opportunities listed below are not necessarily consistent across states but represent avenues that have proven successful in at least one of the states represented.

Financial Opportunities

Blending and Braiding of Funding

One recommendation from the majority of experts interviewed related to the importance of blending and braiding funding sources. Each of the funding opportunities listed below is described as a distinct and discrete source of funding. While this is accurate in that all described are, in fact, independent programs with their own rules, regulations, and application criteria/process, when speaking about access to funds experts frequently highlighted the need to support entrepreneurs to access multiple funding sources. Doing so not only increased the financial basis for the business itself, but in many cases the access to one funding stream also resulted in an increased likelihood of accessing additional funding streams.

Several interviewees, for example, described using PASS funds to access additional diverse funding streams. In states where the VR agency requires a funds match, PASS funds were able to serve as the match and used to draw down funding from the VR program. PASS funds were also used to repay conventional loans in two of the states represented. When applying for the loan, the entrepreneur and team members were able to demonstrate that as a result of the PASS funds, loan repayment was essentially guaranteed, which greatly strengthened the application. IDA dollars have been used in similar fashion in NY, where the IDA funds have been used to draw down VESID (the NY state VR agency) funding.

CRPs also used blended funding on a larger scale in several states. One CRP in PA, for example, negotiated with the state of PA to contribute \$25k to a revolving loan fund to support entrepreneurship for individuals with disabilities. Once these funds were secured, the CRP then used the fund to secure a Community Development Block Grant (CDBG) to contribute another \$25k to the fund. The CRP matched the funds at a 10% rate. Additionally, CRPs in GA were able to successfully establish a revolving loan fund through contributions from participating CRPs. Once the fund was established, the CRPs successfully negotiated with several small, local foundations to contribute to the fund as well.

It is important to note that all of the CRPs interviewed (nationally and within the state of MN) responded that they would be willing to contribute to a fund to support entrepreneurship if the fund could be utilized to access additional city or state dollars. The blending and braiding of resources has proven to be a critical and viable strategy across the nation and is therefore one of the hallmarks of the customized employment process.

Plan for Achieving Self-Support (PASS)

PASS and IDAs were the most commonly cited sources for additional self-employment funding across all experts. PASS is a work incentive available through the Social Security Administration (SSA) that has the net impact of increasing operating capital in a small business. PASS funds are available to many SSA beneficiaries, depending on their income and individual benefits picture. Each state has a Work Incentives Planning and Assistance (WIPA) project funded by SSA. Individuals working for the WIPA project are called Community Work Incentives Coordinators (CWICs) and are available to assist any beneficiary who is working or is considering going to work. CWICs can assist with PASS development; however, the states that use PASS for self-employment most frequently tend to have additional experts (beyond the CWICs) that have been specifically trained in self-employment, SSA benefits, and PASS development/management. PASS was cited as a significant source of small business funding in Iowa, West Virginia, Pennsylvania, New York, Alaska, Oregon, Wisconsin, and Georgia.

Individual Development Accounts (IDAs)

IDAs were cited as a significant source of funding in Washington, Oregon, and New York. Experts from Georgia reported that IDA usage was strong until 2005, when the state IDAs changed their policy to only support home ownership instead of home ownership and self-employment. Experts from West Virginia and Wisconsin cited a specific lack of IDAs within their states as well as difficulty relating to state match requirements to fund the IDAs.

As detailed in the previous report, general recommendations for increasing IDAs and access to funds include (see initial DEED report for full details):

- Start with federal IDAs... try to partner specifically with those receiving AFIA funds who need state match
- Use SSA reimbursement dollars to fund the match
- Build strong coalition interested in supporting development of state IDAs
- Research current AFI options (new grant coming out, pilot projects targeting asset development, etc.)
- Plan for support needs in managing IDAs (at individual level)... strategies for identifying individuals for whom this would be a good option
- Include component of teaching financial literacy to VR counselors

Revolving Loan Funds/Community Development Block Grants

Revolving loans were cited as a source of funding for entrepreneurs with disabilities in several states. In PA, one CRP is supporting with 3 entrepreneurs with disabilities who accessed funding through the City of Bethlehem's Revolving Loan Fund. Two of the three entrepreneurs receiving these funds are currently repaying their loans ahead of schedule. That same CRP negotiated with the state of PA to contribute \$25k to a revolving loan fund and then secured a Community Development Block Grant to contribute another \$25k to the fund. The CRP provides a match of 10% (a contribution of another \$5000). Repayment of the loans are linked to profitability: entrepreneurs repay the loan at a 2% interest rate once their business turns a profit. Borrowers whose businesses have not yet generated a profit are not required to repay the funds until such time as the business becomes profitable.

In Georgia, several CRPs worked together to establish a small revolving loan fund. Participating CRPs all contributed to the fund, and additional funds were secured from a few small foundations as well. Experts from Georgia recommended connecting with the National Microenterprise Association for support in establishing revolving loan funds.

As previously stated, all of the CRPs interviewed (nationally and within the state of MN) responded that they would be willing to contribute to a fund to support entrepreneurship if the fund could be utilized to access additional city or state dollars.

Microloans

Experts from several states mentioned microloans as a viable source of funding for entrepreneurs with disabilities. The state of Iowa has a statewide microloan fund (www.iowamicroloan.com) that has provided funding to at least one customer served

by IA VRS. Additionally, a CRP in West Virginia was able to establish an agency microloan program. The CRP provides the loan, and the customer then develops a PASS and repays the loan through PASS funds.

Microloan funds were established in several communities throughout Wisconsin in response to the limited number of financing opportunities for community members with poor credit. These funds were established through a network of community foundations and banks. Currently these programs are available in Madison and Lacrosse, while others are being developed to serve residents of the northern part of the state. One particular note of interest: WI DVR Supervisors serve as committee members for these funds in order to champion access for entrepreneurs with disabilities. Additionally, the WI Women's Business Initiative offers a microloan program specifically targeting women-owned businesses.

Investment Groups

Bill Wersell, a former SBDC self-employment advisor to Ohio VR, reported that in a few cases he was successful at lobbying community organizations such as the United Way to develop a small investment fund for entrepreneurs with disabilities. This effort was replicated in other states in some manner by recruiting community organizations to contribute to revolving loan funds (discussed below). While this was not a large scale effort, the fact that it proved a viable source of funding for several entrepreneurs suggests there could be merit in further exploration.

Medicaid Waiver Self-Directed Funds

Experts from three states: Wisconsin, Ohio, and Pennsylvania reported that entrepreneurs utilizing self-directed Waiver funds were able to use some of these funds to launch or support their businesses.

AK Mental Health Trust Fund

The state of Alaska administers a Mental Health Trust Fund. Parameters for eligibility are fairly broad and include people who experience mental health issues, alcoholism, and/or substance abuse. Partners in the Start-Up Alaska project (including AK DVR and the AK SBDC) have successfully supported numerous entrepreneurs to access these funds and then use them to draw down additional DVR funds. Individuals can receive a maximum of \$15k in funding from the Mental Health Trust Fund. While this fund is state specific, it has been a widely used source of funding. It is recommended that MN DEED work with other state agencies to identify if any similar opportunities exist.

Self-Directed IRAs

Jackie Stewart from the AK SBDC specifically identified self-directed IRAs as one potential source of funding for small business. Entrepreneurs, family members, and/or friends have the option of investing in the business through this avenue. Money can be rolled into an IRA and then loaned from the IRA fund. Jackie recommended a 48 page Ebook located at PenscoTrust.com for more information on this funding source.

Funding Opportunities: Conclusion

While there is no global, universally accepted method for increasing financing opportunities for entrepreneurs with disabilities, leaders throughout the country have demonstrated success at developing and utilizing a variety of resources. CSC staff have developed and submitted a comprehensive resource blog for MN DEED to serve as a starting point for identifying potential partners and opportunities.

Activity D. Interview current and potential vendors of self-employment services regarding their concerns, opportunities for increasing successful closures, and staff development/resource needs.

All experts, regardless of background or agencies represented, interviewed agreed that self-employment offered a very promising avenue for increasing successful closures. One CRP in West Virginia cited self-employment and resource ownership as the best avenues for increasing outcomes given the rural nature of the communities and the exceptionally high unemployment rates throughout the state. A representative from AK DVR stated cited self-employment as one of the most promising trends in employment. Numerous recommendations for establishing a strong foundation for self-employment for customers with disabilities were provided and will be summarized in a bulleted list below.

Interview Responses: Opportunities for Increasing Successful Closures

- Through work with national self-employment consultants, AK DVR now has system in place for additional resources and people and consistency (infrastructure) systemically in place to write high-quality, viable business plans as well as a method for building longer term team not only around writing the business plan but also sustaining the person in the plan over the long-term. As a

result, AK DVR has achieved high success with customers pursuing self-employment and see “huge opportunities” in self-employment.

- Self-employment presents great opportunities in rural areas, with significant possibilities for increasing outcomes through self-employment
- Partnering with other businesses can be very successful and mutually beneficial in small communities with small businesses. Many other small businesses are undercapitalized, so partnering with them creates win-win opportunities.
- Developing a business within a business not only creates win-win situations, it also limits financial risk
- Poor, rural areas need self-employment need the most because the ability to create something really opens door to possibilities
- Wage jobs don’t always work well for some people. Self-employment can help create opportunities to develop something that really fits the person. SE is “one big accommodation.”
- Self-employment frequently leads to higher income than wage employment.

Interview Responses: Challenges with Self-Employment for Entrepreneurs with Disabilities

- DVR Counselors and CRPs need more capacity, training, and information to be able to support self-employment on a larger scale
- Very difficult to do SE in the absence of VR support... PASS can work but takes time
- Lack of knowledge about SSA benefits and self-employment is significant barrier
- “Myth of the entrepreneur” prevents many people from pursuing self-employment and/or from receiving the necessary supports to do so
- Self-employment is typically perceived as risky
- Supported self-employment is sometimes mistakenly viewed as the family “making money off of the entrepreneur”
- Suffered with funders, push the system because it seems right for the person, get some retribution
- CRPs not adequately funded to provide self-employment services- if they are funded at all
- SBDC performance is measured by economic impact, so this can be a disincentive when supporting someone who is starting a relatively small business. However, SBDC “impact” can also be measured by counseling hours (amount of time spent with clients). Understanding how to work with the SBDC system can open door to greater interest in inclusive entrepreneurship.
- Long-term commitment to the business can be a challenge (entrepreneur, family, support structure, etc.)
- Must have guardian buy in.

Interview Responses: Staff Development and Resource Needs

- Discovery is fundamental piece of the puzzle. Crucial because not only foundation of business plan blueprint, but also the blueprint for saying this may not be the best path.
- CRPs need onsite technical assistance, mentoring, and support. Technical assistance needs to be frequent (at least every other month) over a period of time. General training is insufficient to build capacity.
- Forming a local coalition or cadre of CRPs could be beneficial
- SBDC staff needs training to understand that individuals with disabilities can be successful entrepreneurs. Showcasing examples of successful people extremely helpful in eradicating stereotypes.
- Business resources such as the SBDC need tools for supporting entrepreneurs with disabilities. Tools should address Discovery and also allow for a modified business plan.
- People sometimes ask for self-employment before looking at whole world of options. There is a need to help self-advocates think about opportunities and responsibilities in self-employment both realistically and comprehensively.
- Leadership for all entities (CRPs, DVR, SBDC) must be involved and stay involved. Leadership has to assume responsibility around outcomes in terms of staff development and to be willing to coach as necessary and show that they support it.
- Training for DVR counselors is critical. Most don't have an employment or business background, and some struggle with concepts of self-employment and/or resource ownership and/or perceive it as exploitation.

Additionally, providers attending the Linking Discovery and Job Development training by MNTAT identified the following resource/training needs:

- A general outline of the step-by-step process
- A mentor to help with the process and details
- Funding: a resource that can research and coordinate it, e.g., grant opportunities
- Writing business plans
- An understanding of all the federal and state law on developing your own business
- A listing of the people and resources that know these things (e.g., a good lawyer and accountant)
- How to make that first sale... and then the second one
- Determining your target market
- Basic computer skills

- Transportation needs
- Identifying and utilizing your stakeholders – someone who believes in it and will support it
- Financial management

Interview Responses: Policy Recommendations

- DVR policy should provide a foundation for how to support self-employment, e.g., keep the door open and provide some structure, but then leave it open to flexibility
- State VR agency policy around assessment frequently stands in the way of self-employment and can be problematic. Psychological assessment and/or traditional vocational evaluations frequently screen out customers who would in fact be strong candidates for self-employment.
- State VR agencies should explore developing policy that supports guaranteeing loans to customers, given that doing so is allowed by RSA
- DVR counselors should not have to become experts in self-employment. System should develop the resources so that counselors have an effective referral source throughout the state.
- Differences in policy between wage employment expenditure and self-employment expenditure causes confusion for counselors. State VR wage employment and self-employment policies need to be as closely linked as possible (e.g., assistive technology should not be considered a “start up expense” in a self-employment case).
- Policy should support efficiency with timelines in self-employment cases. Business plans can fall apart while waiting for approved items to be purchased.
- Policy should allow CRPs to refer customers they are already serving who indicate an interest in self-employment.
- Good VR policy is written broadly, opens up the concept of self-employment, helps link to non-dollar resources (SCORE, etc.), helps to stabilize things; does provide start-up funding.
- Bad VR policy does not adequately support the timelines associated with business plan research and development, and is frequently only as good as the local counselor.
- In many VR policies, individual subjective interpretation of policy frequently overrides bureaucracy.

Interview Responses: Critical Partnerships

- Generic business resources such as the SBDC are critical partners.
- Long-term support picture must be developed for all entrepreneurs. Can require partnership with generic business resources, CRPs, Medicaid payment structures, etc. Entrepreneurs must have support and structure for planning process and for launch and sustainability.

- Better linkages with Community Action Coalitions. Almost all offer in-house business planning for individuals with low-income and have a microenterprise focus.
- SSA Benefits specialists should be utilized, recruited, and/or trained and funded.
- Need to build real relationships with other groups, community organizing as way to build real strategic partnerships and alliances
- If systems aren't responsive, may be political...
- Buy-in from non-service oriented groups, e.g., groups that are held in high esteem, respected
- 3 tier mentoring piece is important: individuals, families, providers
- One-Stop Center

Activity E. Interview service consumers, advocates, and families regarding their recommendations for creating a sustainable self-employment model.

The primary concern echoed by parents from around the country throughout these interviews related to the general lack of knowledge about self-employment as a viable option for individuals with disabilities, regardless of disability type. Most indicated that during their initial meetings with DVR, self-employment was not recommended, promoted, or even offered as an option. Those who knew about the opportunities associated with self-employment and requested self-employment services reported that they were frequently met with skepticism. Many parents voiced concerns that they were regarded with suspicion and viewed as trying to work the system (e.g., use VR funds to start a family business versus being a support to their child launching a business). Parents interviewed saw themselves as a critical resource and support and believed there were significant opportunities for working collaboratively with VR counselors.

Additionally, parents spoke of the lack of coordination between state VR agencies and the school systems during transition. One parent in Florida commented that opportunities for partnerships existed but were negated by agency policy. If, for example, FL DVR had been able to purchase some basic equipment for her son, the school system would have provided the employment supports to launch the business in the community. FL DVR policy does not allow for financial support for businesses, however, until the customer has exited the school system.

In conversations with entrepreneurs with disabilities around the country, frequent challenges included the timelines associated with navigating the state VR agency self-employment programs and with accessing funds for their businesses. Others indicated that policy requirements frequently prevented a range of customers from pursuing self-employment. The requirement to match VR funds in some states was cited as a significant barrier to self-employment. All interviewed identified that state DVR counselors needed more training and support on the opportunities associated with self-

employment and to see the potential in self-employment for any DVR customer, regardless of disability. Additionally, entrepreneurs identified that they needed more support with areas such as IDA or PASS development and writing the business plan. One entrepreneur suggested that DVR state agencies should develop a flow chart to better assist customers to navigate the self-employment process.

All interviewed agreed that there was tremendous potential in working with state VR agencies when pursuing self-employment outcomes. The opportunity to receive both technical assistance in developing the business plan as well as funding for the business were seen as unparalleled by any other system. Recommendations, therefore, centered around access to services.

Summary of Recommendations from Interviewees:

- Design policy that opens the door to self-employment for a wide variety of customers (e.g., avoid policy requirements such as background experience in the field that screen potential candidates out of self-employment)
- Provide self-employment training and technical assistance to DVR counselors and staff
- Incorporate self-employment as one of the range of options available to all customers when working with state VR agencies; ensure all customers are told that this is an option
- Work with other systems to better educate parents on the opportunities associated with self-employment
- Incorporate SSA benefits planning into all self-employment services
- Develop policy that minimizes timelines associated with self-employment programs and particularly with securing funding (e.g., WI policy which has strict guidelines around purchasing approved items within a specific timeline)
- Educate DVR counselors and staff to understand the potential in working closely with parents and family and to see families as strong collaborators and resources
- Ensure that all customers have access to necessary technical assistance and expertise in identifying ideas and developing business plans. Some customers need more support than is available through the generic business resources such as SBDC. FL DVR has developed a comprehensive certification training program for vendors of self-employment services. Other states such as TX are replicating this process.
- Design programs and policies that are in alignment with other statewide systems. The KS Development Disabilities Council, for example, has funds specifically available for microenterprise but there is limited interaction between the DD Council and the state VR program.

Notes on next Goal III:

Goal III has been in progress throughout Goals I & II, and requires scheduling an onsite meeting per Goal III: Activity B, noted below.

Goal III. Report on findings and generate a Self-Employment Business Plan.

- **Activity A.**
 - Generate a draft report on findings that: identifies financial models and structures used by other states to create successful self-employment;
 - identifies policy, practice, and legislative initiatives needed to sustain successful entrepreneurship;
 - identifies staff capacity building needs and recommended training and technical assistance resources and implementation approaches;
 - and recommends and offers a design for a statewide, collaborative framework for implementing sustainable financial and programmatic models for self-employment. No fewer than 3 comprehensive models will be presented.
- **Activity B .** Present our findings to a meeting of VR leadership and their invited guests/stakeholders. Conduct an Open Space Technology (OST) planning during this meeting time to refine, amend, and sculpt a draft business plan for implementation.
- **Activity C.** Develop a Minnesota VR Self-Employment Business Implementation Plan