

Governor's Task Force on Social Innovation, Entrepreneurship, and Enterprise

Report 3: January 2014



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I. Executive Summary:

The Illinois Task Force on Social Innovation, Entrepreneurship, and Enterprise was established by the Executive Order of Governor Pat Quinn on November 2, 2011.¹ The purpose of the Task Force is to provide recommendations on how Illinois can better foster an environment to: create, scale, and sustain innovative social programs; build the capacity of nonprofit organizations and government to pursue entrepreneurial ventures; and attract funding to Illinois to support these ventures.

To best support the realization of this purpose, the Task Force is organized by the following Committees, the first three substantive, and the fourth administrative: 1) Capital Formation, 2) Business Opportunities, 3) Governance and 4) Operations and Outreach. Central to the Task Force's mandate is to provide a series of reports to the Governor and General Assembly, with recommendations on how to position Illinois to achieve the aforementioned purpose. This represents the third such report.²

¹ The Executive Order can be found here:

<http://www.illinois.gov/Government/ExecOrders/Documents/2011/execorder2011-05.pdf>

² Previous Task Force reports can be found at the Task Force website here: <http://illinoistaskforce.com/>

II. Task Force Progress Last Report

1. Overview of Recent Testimony Provided to Task Force. The following experts have generously provided testimony to help shape and inform many of the policy recommendations found in this report.

a. Professor Cynthia Williams, a Professor of Law at the University of Illinois College of Law. Her most recent book, *The Embedded Firm: Corporate Governance, Labor and Finance Capitalism* (co-edited with Professor Peer Zumbansen), was published by Cambridge University Press in August of 2011 and was featured at the Society for Socio-Economics (SASE) Annual Conference in 2011 at MIT. She is also the co-author with Professor Gordon Smith of a widely-used casebook, *Business Organizations: Cases, Problems and Case Studies* (Wolters Kluwer 3d ed. 2012). Professor Williams offered testimony on her actionable policy recommendations to help position Illinois as the %Delaware of Social Enterprise.+

b. Ted Howard, the co-founder and Executive Director of The Democracy Collaborative at the University of Maryland. The Collaborative is recognized as a national leader in the fast growing field of community wealth building strategies and policy development. Its %Anchor Institutions+project focuses on the role universities, hospitals, and other place-based anchors can play in fostering inclusive economic and community development. Mr. Howard presented his actionable policy recommendations to help position Illinois as the nation's leader in community wealth building.

c. Dr. Byron Brazier, the pastor of the Apostolic Church of God. He is a Commissioner on the Cook County Sheriff's Merit Board and a member of McCormick Theological Seminary's Executive Board. He has also been a Commissioner of the Public Building Commission, Chairman of the Network of Woodlawn, a member of the Board of DuSable Museum, a Commissioner of the Metropolitan Planning Commission, and a member of the Civic Advocacy and Action Committee. A leader in addressing disproportionate minority incarceration within the Cook County judicial system, Dr. Brazier was also a member of the Governor's Commission on Re-entry.

d. Ralph Martire, the Executive Director of the Center for Tax and Budget Accountability. In February 2011, he was appointed to serve on the U.S. Department of Education Equity and Excellence Commission. He is a distinguished lecturer on public policy at Roosevelt University and has taught fiscal policy seminars for various universities and the International Fulbright Scholar Program. Mr. Martire has received numerous awards for his work on education policy reform, including the 2007 Champion of Freedom Award presented by the Rainbow PUSH Coalition to individuals whose professional work embodies Dr. Martin Luther King, Jr.'s commitment to equal educational opportunities.

e. William Burckart, the New York-based Managing Director of Impact Economy (North America) LLC. Impact Economy is a social finance and strategy firm based in Lausanne, Switzerland, with operations in both North and South America supporting sustainable

capitalism. Mr. Burckart offered his actionable policy recommendations to help Illinois support the impact investment industry by stimulating supply, directing capital and regulating demand.

f. Kristen Morse, the Executive Director of the New York City's Center for Economic Opportunity (CEO). CEO has helped drive systemic change across City agencies. Ms. Morse shared the lessons she has learned in tackling the daunting problems of poverty and unemployment.

g. Eric Weinheimer, President and CEO of The Cara Program (and a member of the Task Force on Social Innovation, Entrepreneurship, and Enterprise). Cara is a Chicago-based non-profit organization that provides comprehensive training, job placement and support services to individuals who are homeless and struggling in poverty. In 2013, Eric was awarded a competitive Fellowship from the Chicago Community Trust to travel and learn about innovations in social enterprise and social finance across the country and abroad. During his testimony, Eric described his experiences and lessons learned, and his recommendations for enhancing the social enterprise ecosystem in Illinois included defining the term "social enterprise", introducing a Social Value Act to include social impact in the state's procurement process, and encouraging investments in R&D.

2. Notable Updates on Previous Task Force Recommendations and Proposals

a. Social Impact Bonds. In April 2013, at the recommendation of this Task Force, Governor Quinn announced the state's launch of a Social Impact Bond (SIB) initiative, a performance-driven approach to fund programs designed to solve pressing community challenges by investing in prevention. Social impact bonds (often called pay-for-success contracts) advance evidence-based solutions and foster social innovation while limiting the risk to taxpayers if a program fails.

In May 2013, the Governor's Office of Management and Budget (GOMB) issued a Request for Information . an RFI . to explore potential policy areas in the state that could be appropriate for social impact bonds. The State received 41 responses, from a range of organizations, including service providers, community organizations, consultants, intermediaries, and financial institutions. There were also several joint responses. The RFI identified eight program areas of particular interest to the state: Education, At-Risk Youth, Adult Corrections, Public Health, Behavioral Health, Supportive Housing, Veterans, and Workforce Development. The submissions highlighted a diverse mix of potential target areas across all eight program areas. In July 2013, Illinois became the first state in the U.S. to publish responses to social impact bonds RFI. They are publicly accessible online in the RFI section of Illinois's Social Impact Bonds website (<http://sib.illinois.gov>).

On September 30, 2013, Governor Quinn announced that Illinois would moving forward with a set of issue areas for its first Social Impact Bond project that aims to provide better opportunities and improve outcomes for Illinois's most at-risk youth. The state issued a

Request for Proposals (RFP) for projects across two issue areas: increasing placement stability while reducing re-arrests for youth in Illinois Department of Children and Family Services with histories of justice-involvement; and improving educational achievement and living-wage employment opportunities for justice-involved youth at high risk of reoffending upon returning to their communities. *Illinois is the third state to pursue a social impact bonds procurement, and the RFP and selection process for the first SIB is ongoing at the time of this report's publication.*

b. Social Enterprise Survey.

In an effort to set the conditions to create a robust, interactive directory for consumers and businesses to identify social enterprises with which they may wish to collaborate or do business, the Task Force members have discussed ways to organize this data. After assessing who best had the capacity and credibility to manage this effort, the Task Force decided that Social Enterprise Alliance-Chicago would house the Social Enterprise Survey, starting with Chicago-area Social Enterprises, and eventually expanding across the State.

The survey can be accessed at <http://illinoissocialenterprise.org/>.

Data collection began in April 2013 and thus far we have collected nearly 500 survey responses. The next phase will be to export this data into a directory format which will ultimately go virtual; concurrently, the survey site will remain operational in order to continue gathering data and working toward our goal of 1,000 respondents by the end of the Task Force's 24-month term.³

III. Current Task Force Recommendations

1. Business Opportunities. The Business Opportunities Committee has made great strides in its first two Committee priorities: 1) mapping of Illinois Social Innovation, Entrepreneurship, and Enterprise-focused companies through a general survey, the data from which will be used to create an Illinois Social Enterprise Directory, and 2) drafting a Social Business Enterprise (SBE) contract procurement preference in the Illinois procurement code. In addition, the committee's attention is being focused on two new initiatives meant to build wealth and retain and create jobs, namely Employee Stock Ownership Plans (ESOPs) and Cooperatives (CO-OPs) and Investment and Housing.

a. Enterprise Business Procurement Preference: The Business Opportunities Committee encourages the Governor to seek the passage of a Social Business Enterprise contract procurement preference to provide a means to support the social business enterprises. The proposed procurement preference is modeled after the Veteran Business Program (VBP). Under the SBE procurement preference all State agencies and universities are encouraged to spend at least 3% of their procurement budgets with certified social business enterprises. The Committee has been drafting a recommended procurements preference and seeks the Governor's assistance in refining the proposed legislation. In addition, the Committee

³ The survey and the intellectual property therein is owned entirely by SEA-Chicago. This update is included in this report only by way of updating our earlier recommendation on the issue.

suggests that the Governor's office should convene practitioners, funders, potential customers and other stakeholders to help determine and establish eligibility requirements for a social business enterprise.

The Business Opportunities Committee also suggests exploring the establishment of a Social Business Enterprise fund from the Illinois Lottery proceeds (or other capital sources) to help fund the procurement set aside and to provide support and financial assistance to social business enterprises directly through grants and loans. This lottery fund would be modeled on Europe's Big Lottery Fund and similar to the existing Veteran Cash Grant Lottery. From this funding source, the committee suggests that the State of Illinois provide "soft" loans to eligible social business enterprises, including no or low interest loans, loans that are forgivable (or that their payments are significantly reduced) based on the number of jobs created for targeted populations, including, but not limited to economically disadvantaged persons and persons with mental illnesses and other disabilities.

b. ESOPs / CO-OPs: We recommend the creation of an Employee Ownership Center (EOC) for the state of Illinois. EOC's mission will be to promote wealth creation and employment opportunities within urban and rural Illinois through promoting development of community-owned businesses. EOC will achieve its mission through providing knowledge and resource support, in the form of educational programs, training, and government and private funding opportunities to community businesses that are built on a cooperative model. In doing so, Illinois EOC will 1) increase individual/family/community wealth in Illinois; 2) generate, retain and grow employment in Illinois; and 3) increase awareness of community wealth co-creation strategies through employee ownership throughout Illinois.

The EOC should consider using a 501c3 as the business structure to carry-out its services. The EOCs in Ohio and Vermont are 501c3 organizations receiving funds from public entities, foundations and individuals to support the work of the EOC. The EOC in Ohio is anchored within a university (Kent State University) to provide objectivity and stability.

c. Investment / Housing: This workgroup has been divided into three sub-categories to explore as fully as possible the main networks for wealth building through community investment: hospitals, universities, and affordable housing. For hospitals, State requirements on Community Benefits currently do not include specific set-asides or carve-outs. Currently, unpaid/free medical care for the uninsured (and others) accounts for the majority of Community Benefits. For most hospitals, unpaid care is expected to decrease as the Affordable Care Act extends coverage to more Illinois residents. This creates an opportunity for the State to allow and encourage Hospitals to include SE procurement and other support as Community Benefits. In terms of universities, we have drafted a script for making contact with organizations that included the SE survey link. We have also made contact with the creator of the Civic Engagement Roundtable, a central point of contact for a number of academic institutions and are developing a list of metropolitan universities and non-profits in close proximity to these. Moving along, we will work on identifying distribution partners comprising university/non-profit professional organizations. The affordable housing section of

this work group is exploring the use of CO-OPs and public-private partnerships to create or redevelop housing to be affordable and provide a means of wealth creation.

2. Capital Formation.

3. Governance. Prompted by input the Task Force received from Ted Howard of the Democracy Collaborative at the University of Maryland, the Task Force recommends that the State support co-operative business development by revamping the state's co-op law. With a hospitable legal framework, worker-owned co-ops, especially in economically disadvantaged areas of the State, might leverage relationships with place-based anchors institutions, including hospitals and universities, which would become customers of such co-ops.

The Illinois Cooperative Act (805 ILCS 310) is an antiquated co-operative law. It does not cover many concepts that are typically covered in a co-operative law (e.g., authorization or process to merge with another coop, details for member voting and member meetings, director indemnification, dissolution process). The Cooperative Act does authorize forming a co-operative made up of members desirous of uniting as laborers. But it also includes some provisions that could be restrictive and inconsistent with a worker-owned co-operative formed for economic development and wealth building as we have in mind. For example:

1. Section 1 requires that five or more members must sign the articles of incorporation. This may be inconsistent with the worker-co-op model where workers become members only after a probationary or candidacy period, as occurs with many worker co-operatives.
2. Section 2 limits the amount members can pay for membership stock to \$500, which may be inconsistent with minimum investment by members in the worker-co-op model.
3. Section 7 says that only members (shareholders) can be elected as directors (~~directors shall be elected by and from the shareholders~~). This could be inconsistent with the optimal governance model for the worker-co-op model.
4. Sections 15 and 19 address distribution of profits. Similar provisions in more modern co-op laws are better written and make clearer that distributions can be made in cash and/or patronage equity and based on separate allocation units.

One alternative would be to make modifications to the Cooperative Act to address these and other matters. Another, and perhaps better, alternative would be to explore adoption in Illinois of a more modern co-operative law. This has been done recently in both Wisconsin (Chapter 193 adopted in 2005) and Iowa (Chapter 501B adopted in 2010). These laws may serve as useful models for adoption of a more modern co-operative law in Illinois.

VI. Outlook and Prioritization of Task Force Recommendations

This 1-Year Report, the third report completed by the Task Force, represents the final mandated report before the *Statewide Comprehensive Strategy Plan*.⁴ The Strategy Plan will prioritize those recommendations whose costs in time and resources are most warranted given their expected benefits.

The Task Force has enjoyed healthy public participation, debate, and recommendations over the past year. In light of this engagement, the Outreach and Operations Committee is launching a renovated website that will better facilitate consistent interaction between the public and the Task Force. Also remaining mindful that the Task Force's tenure expires at the end of August 2014, the Outreach and Operations Committee will soon set in motion a campaign that will not only build on the momentum generated over the previous 12 months, but will more importantly set the conditions for an enduring focus on social innovation, entrepreneurship, and enterprise here in Illinois that will sustain the state's position as a leader in this field.

At the conclusion of the Task Force's term, and to carry on its urgent work, the Task Force recommends that an Illinois nonprofit corporation to be known as the Illinois Coalition for Social Innovation, Entrepreneurship, and Enterprise+ (or some similar name) be established as a voluntary association of businesses and organizations that seek to develop and execute innovative economic development strategies that may reasonably be deemed to benefit the State, generally tracking the Task Force's defined objectives.

Inasmuch as the Coalition would pursue advocacy and lobbying in furtherance of its purposes, it would seek recognition of tax exemption under §501(c)(6) of the Internal Revenue Code, and not under §501(c)(3) which constrains such activities. A §501(c)(6) organization, which is not so constrained, is a tax-exempt association of persons which promotes a common business interest, but does not conduct a regular trade or business for profit.

An Illinois precedent for such an organization is the Illinois Science and Technology Coalition, a §501(c)(6) voluntary organization of businesses and organizations that advocate for research commitments to national labs, universities, and businesses in the State of Illinois, as well as to develop and execute technology-based economic development strategies that may reasonably be deemed to benefit the State of Illinois. The Bylaws of the Illinois Science and Technology Coalition specify that the Director of the Illinois Department of Commerce and Economic Opportunity shall at all times be designated as an ex officio, non-voting member of the Board of Directors. The Task Force recommends that, similarly, the Illinois Coalition for Social Innovation, Entrepreneurship, and Enterprise include an appropriate State official within its governance structure.

The Bylaws of the Illinois Science and Technology Coalition provide that its members are intended to be Illinois businesses, universities and related (or interested) parties engaged in (i) various scientific disciplines including, but not limited to, nanoscience, biotechnology, energy,

⁴ The Executive Order requires the Task Force to complete a statewide comprehensive strategic plan to the general public, State and local officials, various public and private organizations and associations, businesses and industries, agencies, potential funders, and other community resources.+

engineering sciences, material sciences, computing and information technology sciences, and medical and agricultural sciences, (ii) identifying emerging scientific disciplines, and (iii) promoting advances in all areas of scientific research and infrastructure. Analogously, the membership of the Illinois Coalition for Social Innovation, Entrepreneurship, and Enterprise, would represent the diversity of Illinois and include nonprofit organizations that operate social enterprises, nonprofit management support organizations, universities, companies committed to the community, foundations, venture philanthropies, and others who have expertise that would be valuable to the Coalition - - essentially, the categories from which the Task Force members have been drawn.

The Illinois Coalition for Social Innovation, Entrepreneurship, and Enterprise would be a public-private partnership as the Illinois Science and Technology Coalition is. That entity is identified by name in the Technology Advancement and Development Act (20 ILCS 700) as an intermediary organization which furthers the purposes of the Act. The Task Force recommends that a complementary statute likewise be enacted to acknowledge and support the role and work of the Illinois Coalition for Social Innovation, Entrepreneurship, and Enterprise.

V. Task Force Membership

Marc J. Lane (Chairman), President, The Law Offices of Marc J. Lane, a Professional Corporation

Brandon T. Bodor, Executive Director, Serve Illinois Commission, Office of the Governor

Matthew Burnham, Operating Partner, Kamyron Capital

Linda L. Darragh, Executive Director, Levy Institute for Entrepreneurial Practice & the Heizer Center for Private Equity and Venture Capital of Kellogg School of Management, Northwestern University

Valerie S. Lies, President & CEO, Donors Forum

Ryan Maley, Board Member, Dunham Fund

Chinwe Onyeagoro, CEO & Co-Founder, O-H Community Partners

Brian Rowland, CEO, A Safe Haven LLC

Greg Wass, Chief Technology Officer, Illinois Central Management Services

Eric Weinheimer, President & CEO, The Cara Program

Elise Zelechowski, Executive Director, Rebuilding Exchange and Senior Director, Community and Economic Development, Delta Institute

VI. Acknowledgements

The Task Force deeply appreciates the strong interest of, and participation by, both members of the public and state government officials who have devoted their time, skill, and knowledge to the Task Force's work. They include:

Mavara Agha, former Dunn Fellow, Office of the Governor

Nora Moreno Cargie, Director, Global Corporate Citizenship, The Boeing Company

Representative Kelly M. Cassidy, 14th District
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Erin Huizenga, Founder and Executive Director, EPIC
Dennis Kelleher, Center for Workplace Democracy
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