2013 Better Government Competition

Revving Up the Great American Job Engine

Compendium of Winning Entries

22nd Better Government Competition

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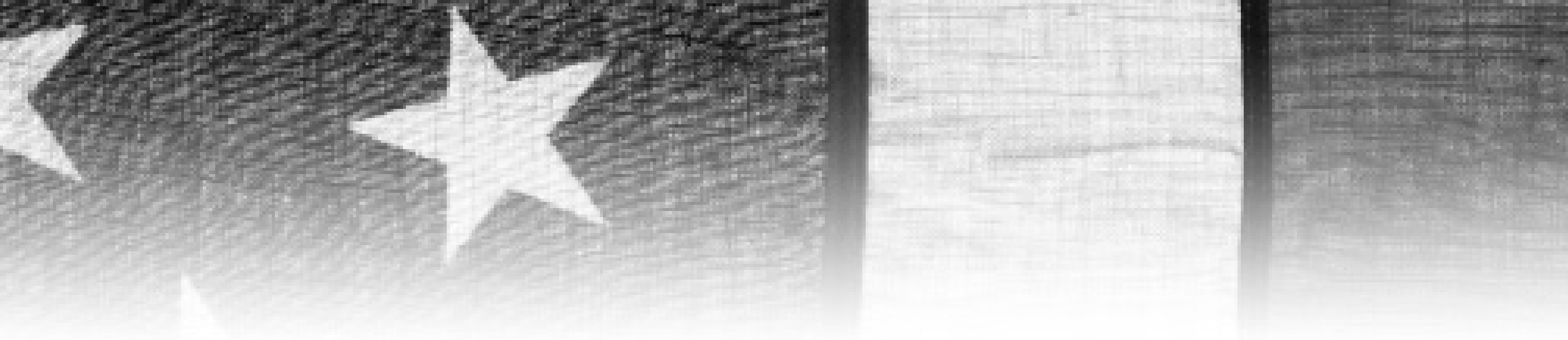

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2013 Better Government Competition

WINNER

RUNNERS-UP

SPECIAL RECOGNITION

Revving Up the Great American Job Engine

Americans like to think that recessions will be followed by bursts of energy, creativity and wealth creation that outstrip the pain of a downturn. The good times have produced remarkable growth, increased prosperity, and the greatest job engine the world has ever seen.

But where has that energy gone? Answering that question is the focus of the 2013 Better Government Competition (BGC), *How do we Rev Up the Great American Job Engine*?

About 90 million able-bodied Americans have left the workforce. That is a human tragedy, and it will define our country for a generation or more if we don't do something about it.

What is the right way to expand the reach of innovation, business creation and jobs? How do we get the chronically unemployed back to work? Besides adding to the deficit by throwing money at the problem, where are the ideas to propel the economy forward?

Clearly, the vast majority of jobs come from new businesses and the growth of existing ones. Even supporters of government subsidies for "sweet spot" industries admit that they are at best a bit player in job creation. In Massachusetts, subsidies for the life sciences sector that came with the promise of 250,000 new jobs have created no more than 9,000.

Massachusetts has a long-term job creation problem. Since 1990, our job base has grown by an anemic 6 percent, while the rest of the country has seen job growth closer to 25 percent. If we grew at a rate similar to the rest of the U.S., Massachusetts would have an additional 450,000 jobs. That's more wealth, more consumer demand and a virtuous cycle that lifts all boats.

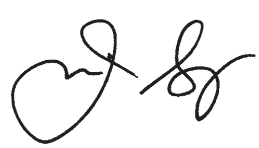
Sadly, we have more often focused on redistributing the pie than on growing it.

The BGC is an act of faith in people's ability to build a better mouse trap. *How to Rev Up the Great American Job Engine* is the challenge of our time, and entrants from around the country stepped up to the challenge. Taking top honors is Michael Munday of Arwood Machine Corporation right here in Newburyport, Massachusetts. He calls for tying unemployment insurance and job training together to provide new skills and a job rather than a handout.

Our runners-up present ideas to free entrepreneurs from Byzantine regulations, create new opportunities for innovation, drive urban redevelopment, and rein in and more effectively target government incentives for businesses.

We thank our Better Government Competition sponsors for their support and their interest in putting our friends and neighbors back to work. We further appreciate the excellent work of the competition judges. My personal thanks go to Shawni Littlehale, who continues to improve the Better Government Competition to ensure that it maintains its national scope and importance.

Cordially,



James Stergios, Executive Director

Better Government Competition

2013 WINNER

Manufacturing Revitalization

Michael J. Munday
President and CEO, Arwood Machine Corporation, Newburyport, MA

Problem Statement

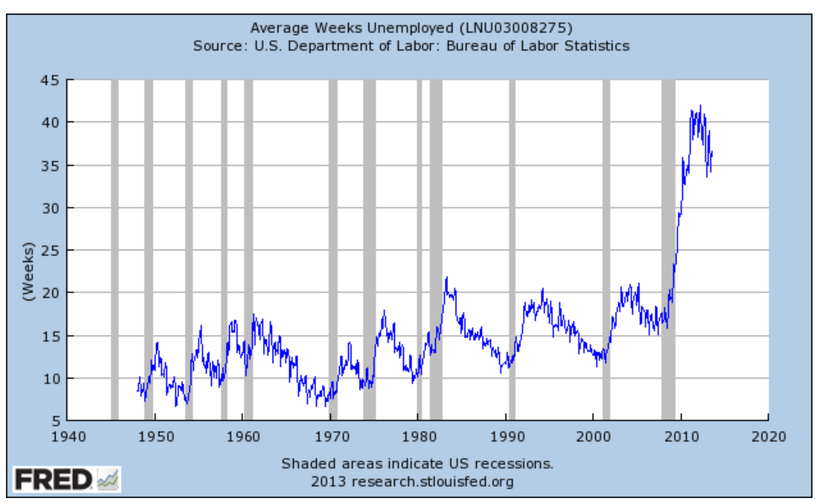
Manufacturing once lay at the heart of American prosperity. Technological innovation, productivity gains through automation, and the hard work and perseverance of the American workforce helped the United States become an economic super power.

In the 1980s, however, we began to see increased foreign competition as developing nations acquired technology and leveraged low cost labor to compete with the United States, Europe, and Japan. In response, many US companies sought the same priced labor and flocked, one by one, to low cost poles to regain a competitive advantage in their given markets.

For the next 20 years we would watch as our manufacturing base was dismantled and our position as the world's manufacturing leader threatened. We were inundated with negative media reports claiming that manufacturing would soon all but disappear in the United States. What we didn't know was that we had become self-fulfilling prophets. The negative media solidified in our minds the belief that American manufacturing was already dead.

This did not happen overnight. Rather it was the steady drip of bad news and pessimistic opinion over the course of many years that helped get us here. Consequently, even if we were to develop and implement the right solution tomorrow, it would take years to fully correct the situation. We need to understand this and be patient as we frame our plans to move forward. There is no quick fix.

The middle class was most severely impacted by the loss of American manufacturing. Jobs that were once middle class bastions dwindled. The United States now faces more persistent unemployment than we have seen in over 70 years. In fact, the average duration in weeks of unemployment has nearly quadrupled in recent years when compared to the period of 1950-2005.



Further, the current protracted period of unemployment has helped to skew the real unemployment numbers. Specifically, many employment seekers have become so discouraged about the prospects of finding employment they have given up looking altogether. These individuals may feel disenfranchised and helpless enough that they give up hope in the American dream and settle for a life of minimal subsistence.

But the good news is that manufacturing may, in fact, be returning to the United States. The past few years we have seen a move described as re-shoring. The low-cost labor in developing nations is beginning to cost more. In some cases offshore wages have increased as much as 15% per year for 5 consecutive years.[1]

There have been quality issues as well. There is widespread concern over counterfeit parts being shipped into the US, some of them making their way into military programs.[2] Finally, the cost of shipping and the length of time it takes to ship from overseas have begun to erode the margins gained by offshoring.

This silver lining comes with a gray cloud, however. Our country is ill-prepared to benefit from the return of manufacturing. We simply do not have a pipeline of qualified candidates to backfill the jobs lost over the last two decades. Most manufacturing workers today are between 50 and 70 years of age. Two of our largest, publicly traded OEM (Original Equipment Manufacturers) defense contractors concede off the record that they will lose 50% of their workforce to retirement over the next 5 years. And even if we could supply them with all the replacements they will need in the next 5 years today, due to the high level of skill required to perform their duties there wouldn't be enough time to train them before their predecessors retire.

Unemployment remains persistently high, manufacturing's return to the United States presents the opportunity of a generation, and, as a country, we are not prepared to capitalize.

Part of the problem lies in how we currently prepare workers for jobs outside the traditional education system. There are many dedicated men and women who work for regional WIBs (Workforce Investment Boards). They receive limited funds from the state and federal government and use those funds to provide training to people in need of skills necessary to become employed.

But worker training is a daunting task, not just due to limited funds, but because timing training programs to coincide with available opportunities is tricky at best. For WIB-sponsored training to be successful there need to be three pieces in place at the right time. Like the legs of a stool, if any one of the three is absent, the stool doesn't work.

The three components are:

1. candidates for training;
2. the right training program; and
3. available jobs upon the successful completion of training.

To coordinate the three components successfully you first need to forecast future job availability, which is difficult because data concerning what jobs will be in demand are not available in real time.

Next, you need to solicit bids from training providers. That is if there is even a developed curriculum available to match the needed skills. If there isn't, a curriculum will have to be developed or adapted. That curriculum will then have to be tested.

Finally, there needs to be a pool of qualified candidates to take the training. Unfortunately, this can be one of the highest hurdles to clear. One would think with unemployment as high as it is training slots would be easy to fill. But this is not the case. Candidates may want to pursue other careers that don't have current job demand. Because most training programs have minimum levels of education requirements, educational deficiencies or ESOL (English for Speakers of Other Languages) gaps also create barriers.

For employers, timing problems arise in the gap between when workers are needed and when they will be available. In most cases, when a company has the opportunity to expand its operations, the need to hire additional people is imminent and cannot wait several months to be satisfied. Conversely, employers cannot afford to hire additional employees in anticipation of additional work. Competition in manufacturing is fierce and as such margins are thin. Companies need to keep their operations lean.

Solution

What works are OJT (On the Job Training) programs. OJT programs are successful because timing problems are nearly eliminated. There is no need to simultaneously coordinate training, available candidates, and open positions. Training happens at the host company and is specific to the needs and skills required of said company.

OJT programs pay the host company a subsidy based on a percentage of the trainee's wages. The subsidy is typically 50-75% of the trainee's hourly wage and only paid to the employer during the employee's training period. The subsidy is designed to offset the cost associated with training the new employee. The host company will have one of their highly skilled employees train, mentor, and coach the new employee up until the point the new employee acquires adequate skills to perform their tasks independently.

The training can last 3 to 9 months, depending on vocation. The goal is that by the end of training the new employee, whom the company hired at some risk, has learned the skills needed to be productive. The shared cost makes it easier for the host company, which may otherwise be undecided about taking a risk on an unskilled or underskilled worker, to make the decision to hire.

Even when esoteric training is provided, the skills gained are transferrable. Therefore, trainees are gaining work experience that will help them pursue alternative careers at other companies if they so choose. It is important to note this when detractors argue that companies will just hire OJT candidates temporarily to receive the subsidies, and then turn around and lay the candidates off when the subsidies end.

OJT programs have an immediate impact on unemployment rates because the host company actually hires the trainee prior to the commencement of training. Once an employee/employer match has been made, the new employee/trainee comes off the unemployment rolls. This is preferable to the conventional model, in which a potential employee receives training upfront and then tries to find a job that matches the training. I have worked with WIBs for over 15 years and there have been times when our job placement rates have not been high due to the fundamental timing problems created by this model.

Funding need not be an issue. We can divert funds from UI (Unemployment Insurance) to OJT programs, because, ostensibly, state governments no longer pay unemployment to job seekers who have been hired through an OJT program. That money is available to offset the training subsidy.

Understandably, citizens often rely on unemployment insurance to survive when they or a loved one have lost a job through no fault of their own. However, unemployment insurance is an investment that won't pay dividends in the future. Why not use those same funds to provide subsistence and, at the same time, training? Education is indisputably the highest yielding venture we can invest in.

Guidelines for Implementing OJT Programs in Massachusetts

Policy

- Funds should be redirected from the Unemployment Insurance pool into the Commonwealth Corporation, which can, in turn, distribute the funds to OJT programs through local Workforce Investment Boards. The local WIBs will administer the funding at the host company level.
- Employers hire candidates at the inception of the OJT program and sign a contract with the local WIB to maintain the employee after the training is complete.

Eligibility

- In order to be eligible for an OJT program, candidates must be unemployed at the time of applying to and enrolling in the program.
- Even as they train to acquire the skills they need for the job for which they've been hired, candidates/employees must meet all other expectations of the host company and adhere to all company policies. Failure to do so could result in the candidate's/employee's dismissal and termination of the OJT program. Nothing will override employer/employee at-will statutes.

Accountability

- Host companies cannot hire back former employees through an OJT program.
- Each OJT program must be outlined in a comprehensive training curriculum.
- Companies that violate the contractual engagement with an employee may be barred from participating in future OJT programs and an appropriate clawback provision written into the contract to allow the Commonwealth Corporation to recoup training funds that have been misappropriated by the host company. Extenuating circumstances may be taken into consideration. For example, if a defense contractor, which hires an OJT employee with the expectation of a government contract, loses that contract due to sequestration or other circumstance outside its control, then the company would not be expected to repay the OJT subsidy even if it were to lay off the employee once he or she completed training.
- WIB administrators will interview candidates/employees upon completion of training, and again 6 months later, to determine training effectiveness and the overall efficacy of the program.
- Commonwealth Corporation will conduct annual assessments to determine best practices at the WIB and host company levels. Commonwealth Corporation will chronicle outcomes and make modifications to programming to ensure continuous improvement.
- Commonwealth Corporation will maintain a website that displays individual user ratings for each of the companies that receives funding through the OJT program. Company ratings will be based on data related to the number of hires the company has made through the OJT program and the successful maintenance of those jobs after the completion of training periods. The site will be accessible and easily navigated by the public. Redirecting unemployment insurance funds to underwrite private employment costs demands a level of HIGH public accountability.

OJT programs offer a solution to our unemployment problem, at the same time they will help secure our economic future by ensuring a pipeline of qualified workers for manufacturers whose operations are returning to these shores. OJT programs do not require additional government spending or the creation of a new agency to oversee their implementation. They can be administered through our existing infrastructure and, when implemented, they can have an immediate impact on our persistently high unemployment rate. They represent a pragmatic approach, one not fraught with exceptions or overly complex mechanisms, to address our current problems. Furthermore, OJT programs are, to use the failed parlance of earlier economic stimulus efforts, shovel ready. They can be launched quickly and effectively because most of the moving parts are already in place. We owe it to our citizens to act decisively and expeditiously in implementing them. OJT is a solution that works.

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Endnotes

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Runner-Up Awardees

2013 Better Government Competition

Better Government Competition

2013 RUNNER-UP

Freeing Entrepreneurs from Overreaching Government Regulation

Shira Rawlinson and Dana Berliner, Institute for Justice

Problem Statement

From the immigrants who come to this country in search of economic opportunity to the residents of urban neighborhoods that have been hardest hit by unemployment, new entrepreneurs often focus on services critical to their neighbors to start a business. For this reason, transportation service and food businesses often represent the first rungs on the economic ladder. Too often, however, state and municipal governments impose unreasonable and sometimes insurmountable barriers on those who seek to enter these markets. The result is a form of protectionism for entities already operating in them and the economic marginalization of countless would-be entrepreneurs.

Transportation

For immigrants, transportation is often the foothold by which they begin to pull themselves up.[1] After all, this only makes sense. For most people, transportation is a necessity. So there is always a market for safe, affordable and efficient ways of moving people around. That is, if municipal governments will allow it. Unfortunately, cities, including Philadelphia, Newark, Los Angeles, and Boston, too often constrain their transportation markets through restrictive taxi laws.

Taxi service in Philadelphia is regulated by the Philadelphia Parking Authority, which issues special permits called "medallions" for the operation of a taxi. To obtain a medallion, a prospective operator must first obtain a "certificate of public convenience," which is the Parking Authority's way of determining if the city needs a new taxi business. By law, the Parking Authority can only issue 1,600 certificates of public convenience, regardless of consumer demand. And because the Parking Authority has already issued 1,600 certificates, it is quite literally impossible to start a new taxi business.

Newark is divided into two separate taxi service areas. Taxis permitted to serve Newark Airport are not permitted to serve the rest of the city, but the city only licenses 200 taxis for the purpose. These taxis require airport medallions, which, because of the small supply, are bought and sold on a secondary market for approximately $300,000.[2] Therefore, drivers who want to pick up passengers at the airport must not only invest in a car, but purchase a scarcely-available and expensive medallion. But even a license to serve the rest of the city is difficult to obtain because the city has capped the number of these licenses at 400 and there are no plans to increase the number.

Los Angeles is one of the few large cities in the U.S. that regulates taxi businesses through a franchise system. In exchange for a monthly fee, a handful of powerful and politically-connected taxi companies are given exclusive geographically-based franchises by the city council. Since 2000, only 2,303 cabs across just nine franchises have been allowed to operate in the city.

George is one cab driver who has experienced the corrupt Los Angeles taxicab industry firsthand. He came to the United States in 1980 from Africa and worked hard to put himself through college. After graduation, he began driving a taxi in Los Angeles. George started out as a lessee, but later saved enough money to purchase his own vehicle and a share in the company for which he drove. It cost him nearly $40,000. By 2005, George had grown disillusioned with the industry and become a vocal advocate for reform, which did not sit well with the company. In 2007, the company's management pulled its sponsorship of George, which meant he could no longer drive his cab. Forced to sell his vehicle and share in the company, he has been unable to affiliate himself with another company because, as he's been told, he is too controversial. As a result, George has been unable to drive a cab since 2007.

The majority of cab drivers in Los Angeles do not own the vehicles they drive and it can be incredibly difficult to make the transition from lessee to owner.[3] Drivers have to find a shareholder in the company for which they drive willing to sell both vehicle and share and, because Los Angeles limits the number of taxis allowed to operate, that share alone can cost tens of thousands of dollars. In 2006, the median lease payment was $500 per week and it is estimated that leases currently run as high as $700.[4] As a result, drivers are forced to work long hours to cover their lease before they even begin to make a profit. Though they worked, on average, 72 hours per week in 2006, the monthly net income for lease drivers was only $2,313. On top of everything else, the city even dictates what drivers must wear: black dress pants, white dress shirt, black shoes and socks.

Boston's outdated taxi medallion system makes it extremely difficult for someone to start his or her own taxi company. The city only allows for 1,825 taxis to be on the road and one medallion costs $625,000.[5] Since there are more licensed drivers than medallions available for purchase, prices for medallions continue to increase. Drivers who can't afford to purchase a medallion can rent one for 12 hours at a time, but they can never become owners.

Pierre Duchemin and Bernard Sebago are two Boston drivers who lease their vehicles from an existing medallion owner. Before they can see a profit, they are required to pay a shift fee to the owner, pay for gas, any tolls they might incur if they bring a passenger out to the airport, airport fees, and insurance. Only after all of that has been accounted for do the drivers begin to earn any money. As a result, they often wind up earning less than minimum wage for a 12-hour shift.[6]

Commercial kitchens

Another sector of the economy that is often used as an entry point for new entrepreneurs is the food industry, but cities such as Milwaukee and Chicago, and states such as Massachusetts, ban them from using a home kitchen to prepare and make food, regardless of how clean, well-equipped or safe the kitchen might be. Instead, budding business owners must rent space in a commercial kitchen designed to meet all the city and state standards for health and sanitation.

For example, Chicago requires each entrepreneur to get a separate business license and food sanitation manager certificate and to undergo health inspections for his or her operation in a commercial kitchen. Before one cupcake can be sold, entrepreneurs must find a commercial kitchen that meets all applicable state and city health standards and spend $260 on a 33-hour long approved food sanitation manager certification course. Additionally, they must pay $35 to the city for each Food Sanitation Manager certificate and at least $660 for a two-year retail food establishment license. That is if they can even find a commercial kitchen out of which to operate. There are few communal commercial kitchens in Chicago and rents are extremely high.

Similarly, the Wisconsin Food Code dictates that "food establishments" may not be run from a home kitchen or private residence, giving Milwaukee's food entrepreneurs only three options. They can build a new commercial kitchen from the ground up, purchase and/or renovate a pre-existing space that is capable of serving as a commercial kitchen, or rent space at an existing kitchen that has already passed inspection under the Food Code. The first two options are particularly burdensome because there is no simple checklist for food entrepreneurs to use to ensure that the commercial kitchen they seek to build or renovate will meet Code standards and regulations dictate everything from hand sink location to washing machine design to lighting intensity. Moreover, regulations will differ based on the type of food business and, very often, at the inspector's discretion.

If an entrepreneur wants to bypass the maze of regulations and rent space in an already established commercial kitchen, they will still encounter difficulties. Due to issues of liability, there is little available commercial kitchen space, which drives up rental prices. Once space is found, budding chefs have to pay a separate occupancy permit to the city. Before a cake can be baked, one has to pay for a seller's permit, a food dealer permit, an occupancy permit, and rent.

Maria Miller, co-owner of Ball'N Biscuit Catering in Milwaukee, would like to operate her business full-time, but she and her business partner can only find a commercial kitchen to lease short-term. She does not think it is wise to leave her full-time job when they could lose their kitchen lease anytime. Maria is food-safety and sanitation certified by Wisconsin, and she and her business partner have more than 20 years of experience between them. But because they cannot produce food commercially in a home kitchen, they are unable to devote themselves full-time to their business.

Massachusetts' laws require food entrepreneurs to take a series of steps before they can sell any food. Entrepreneurs must spend $125 on a ServSafe Manager Course and complete a $10 allergen training course. All of the products a company plans to produce must be listed on the application, and in cases of products that might potentially be hazardous to customers with allergies, they must be tested by a lab to determine their safety. If any change is made to this product list in the future, including a change to one of the recipes of an already approved product (for example, less sugar and more raisins in the cookies), the operator must reapply for a permit. Before the new application is approved, the kitchen must also get reinspected by a health official.

Home-based businesses

Another way for aspiring entrepreneurs to start climbing the economic ladder is a home-based business. A home-based business can be as simple as canning jellies and preserves to sell at local farmers markets. Other home-based businesses include day care facilities, education centers, tailors, and crafts-related small businesses.

But many cities, such as Miami, Los Angeles and Boston, make it difficult, if not downright impossible, for businesses to operate out of homes. In Miami, entrepreneurs who want to start a home-based business must first get approval from the city. The process, which can take up to two months, includes acquiring original building plans for the home, taking photos of both the exterior and interior of the building and home office, and sending certified letters to neighbors and local homeowners associations to give them the chance to object to the business. Miami also limits a home-based business to architect, artist, broker, consultant, dressmaker, draftsman, engineer, interior decorator, lawyer, manufacturer's agent, notary public, teacher, or other similar occupation. Business may not be conducted by more than two people, even if all of them live on the premises, and any visible changes to the home as a result of the business are prohibited.

Cristina Maria Lloyd owns OuttaSpace, Inc. As a professional organizer, Cristina can usually accomplish paperwork on "autopilot," but even she found Miami's home-based business licensing process bewildering. Another person, an attorney, described it as a "horrible, horrible experience. I would never do it again." If lawyers and professional organizers find the process of starting a home-based business daunting, imagine how anyone else might feel.

In Los Angeles, the use of a garage in connection with a home-based business is severely restricted. They can only be used for "incidental storage." Additionally, Los Angeles flatly prohibits 37 categories of business from operating out of a home. These include the general practice of medicine, dog sitting, sewing, and makeup application. Yet even entrepreneurs who might be lucky enough to have an occupation that does not fall within one of the 37 prohibited categories are still at risk of being banned because the city's "home occupation" regulations *effectively* prohibit many more types of business.

Offering swim lessons in a backyard pool is illegal because it falls outside of the "main dwelling unit." Similarly, there can be no more than one client visit or one client vehicle per hour, which means back-to-back 30-minute piano lessons are not allowed. Even more problematic is the ban on listing the home's address on websites and phone book advertisements. Deliveries and pick-ups are limited to two per day, and only one person who does not live in the home is allowed to work there. Entrepreneurs who ignore these regulations could face a misdemeanor conviction punishable by a $1,000 fine and six months in jail.

Paul and Kristine are two entrepreneurs forced to deal with the city's intolerance for home-based businesses. In 2008, they launched a post-production film company called Cinelicious from their home's garage in the city's Wilshire neighborhood. In two short years, Cinelicious achieved incredible success, but launching the company from their garage earned Paul and Kristine a citation ordering them to shut down. To comply, they moved Cinelicious into a commercial space, borrowing money to make the move. Though Cinelicious continues to do well, the burden of paying both a home mortgage and commercial rent has been difficult. That burden is lost on the city, which has shown no sympathy for the couple.

Boston bans most home-based occupations, except for accountants, architects, attorneys, dentists, physicians and other "professionals." The city also bans potential entrepreneurs from employing anyone who doesn't reside in the home, forbids business owners from owning stock in their chosen occupation and also bans advertising for the purpose of attracting potential customers. Because, of course, why would a new business need to do that.

The Proposed Solution

Transportation

Would-be taxi entrepreneurs should be able to start businesses as long as they are fit, willing and able to do so, and their vehicles have been inspected and insured. Municipalities can save a substantial amount of money and staff time by implementing simple, predictable car inspection, insurance, and driver licensing processes. They should scrap everything else. Cities that grant franchises to select companies should terminate those franchises as they expire. Cities should lift caps on the number of taxis allowed to operate within their borders with an eye to eliminating all medallion systems. These measures would immediately result in greater taxi availability.

In 2007, Minneapolis opened its taxi market to great effect. The number of taxis allowed to operate in the city was increased by 180. In 2010, the cap was eliminated entirely. In 2012, the New York State Assembly authorized Mayor Michael Bloomberg, through New York City's taxi licensing authority, to unilaterally issue a new class of 18,000 non-transferable permits to for-hire livery vehicles authorized to pick up passengers by street hail anywhere outside of certain specified sections of the city. 20% of the new permits were set aside for wheelchair-accessible vehicles. The permits would last for three years and cost $1,500 each. In addition, the legislation authorized the city to sell at public auction 2,000 new transferrable taxi medallions, all of which will be restricted to vehicles accessible to the handicapped.

Though the steps Mayor Bloomberg took do not fully open New York City's taxi market to competition, they will help to make it more competitive, benefiting both entrepreneurs and consumers. Prior to passage of the act, livery vehicles in New York were prohibited from picking up passengers by street hail.

Much has been written in the last year about Boston's taxi licensing system. A suit has been filed in Superior Court that argues cab drivers should be designated employees of the companies for which they drive and not independent contractors. Redesignating cab drivers as employees could open the door to overtime and benefits, but, more immediately, it would eliminate the shift fees, sometimes as high as $150, that companies charge drivers to lease their vehicles.

More broadly, requiring medallion owners to treat drivers as employees and not as independent contractors is likely to bring down the cost of a medallion as speculators who have no interest in actually managing a workforce of drivers exit the market. If, however, Boston is truly interested in making its taxi market more competitive, it should attempt a scaled version of what New York did. This could include 2,000 hailable livery vehicles and 400 new taxi medallions.

Additionally, those cities and states that have mechanisms similar to the Philadelphia Parking Authority's "certificate of public convenience," by which a new business needs to prove it will not compete or take business away from an existing operator, should eliminate them. Systems for judging "public convenience and necessity" are particularly complicated and expensive to administer. More importantly, no business should have to prove it won't compete. Competition is essential to the efficient operation of any market. Ultimately, the marketplace, not politicians or bureaucrats, should determine how many taxis a city needs.

Commercial kitchens

Cities should streamline requirements for food businesses, and reduce the fees they charge for the permits they require food businesses to obtain. Permit food preparation in home kitchens as long as they pass a reasonable and objective inspection. Cities subject to state food laws should work with the state to develop rules that allow the use of home kitchens or commercial kitchens in a home for small food entrepreneurs, as long as they pass inspection and acquire sanitation certification.

Allow shared commercial kitchens so that many entrepreneurs can use the same kitchen and provide for a single license, instead of multiple ones. During the brief period in Chicago when it appeared the city would allow entrepreneurs to use shared commercial kitchens, they flourished, along with the small businesses they housed. When Chicago decided it would, instead, require permits for each individual business rather than permits for just the kitchens, the businesses closed.

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Home-based businesses

Cities should completely deregulate home-based businesses that do not cause neighborhood disruption and raise or eliminate the two-person cap on workers. Additionally, city officials must undertake a complete review of their home-based business regulations and eliminate most occupation-specific bans. Regulations that interfere with the ability to advertise a business and restrict where in the home business can take place should also be eliminated or amended.

Arbitrary licensing and permitting laws foreclose many occupations that are ideally suited to people of modest means. Changing restrictive regulations would encourage entrepreneurship, create more jobs and foster an environment of free-market based competition.

Restoring Creativity to the Soul of America

Promoting High-Impact Startups to Create a More Robust Economy

Jibran Malek and Veronica del Rosario, MassChallenge, Inc., Boston, MA

Problem

America was founded by entrepreneurs, for entrepreneurs. The core message of America's "pitch" to the rest of the world has traditionally been that here any citizen is free to engage in activities they believe will best lead to "life, liberty, and the pursuit of happiness." The capitalist foundations of the United States allow for any individual to effect change in their environment through disruption and innovation—converting their dreams to reality in that pursuit.

However, the currently prevailing attitude in America is antagonistic to entrepreneurism. A dangerous culture of value taking–a culture of greed–has taken hold at the expense of value creation. We're not growing the economy by promoting entrepreneurship and the innovative jobs that come with it. We're recycling tired ideas and algorithms to take more pieces of a rotting pie instead of baking more.

Progression goes hand in hand with innovative, high impact ideas. From the invention of the light bulb to the invention of sustained powered flight, American innovations that catalyzed compelling commercial development occurred in an environment that engendered entrepreneurial activity.

Novice entrepreneurs require advice, resources, and funding to bring their ideas to fruition, but in the current economic environment, there is a gap between the resources entrepreneurs need and the entrepreneurial ecosystem's ability to provide them. The gap between idea and action needs to be filled if true economic development is to be spurred and jobs created. America's entrepreneurial spirit needs to be revived to ensure our future economic prosperity.

Proposed Solution

MassChallenge is working to address the gap between idea and action through the world's largest accelerator program and startup competition. We use the power of competition to create urgency, and to identify and aggregate high-impact teams. We strengthen those teams by then providing them high-quality, personalized mentorship and connecting them to potential sponsors and customers.

Instead of developing predictive algorithms to make more money, a process that all but eliminates the human factor, we aim to restore creativity and humanity to the soul of capitalism. Job creation can't happen in a race to the top, one in which people are only trying to make as much money as possible. America needs more entrepreneurs who make money by creating value and, with it, jobs.

Organizations across the country have already recognized the need for promoting entrepreneurship. Incubators and accelerators, such as TechStars, Y Combinator, Angelpad, and Launchpad, are all providing startup companies with the connections and resources they need to get ahead.

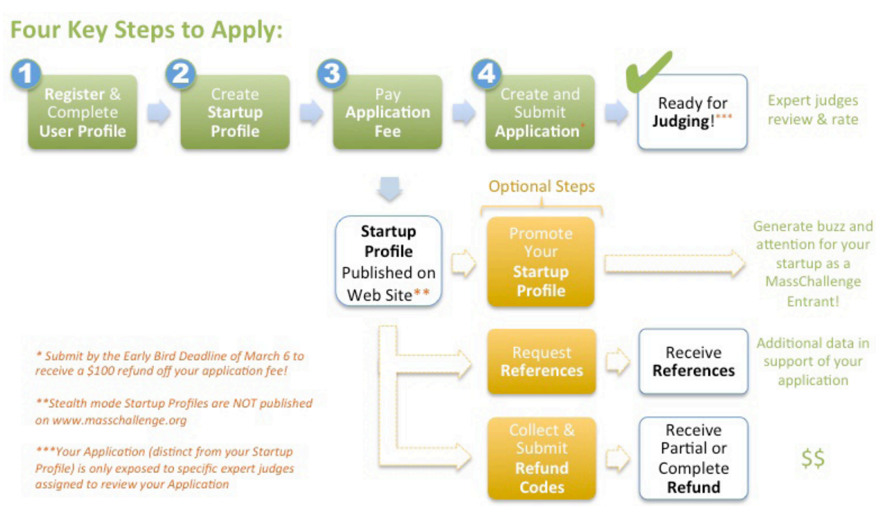
However, three factors distinguish MassChallenge from other startup accelerators. First, MassChallenge is a non-profit and does not take equity in the startups we support. Second, MassChallenge is significantly larger and supports more startups than any other program in the world. No other program accelerates 125 startups simultaneously—every summer. Lastly, MassChallenge is "industry agnostic"—any company, from any industry, may apply, provided they have raised less than $500,000 in equity investment and have less than $1 million in annual revenue.

Applying to MassChallenge is easy and inexpensive. The online application is short and the fee $200. There are ten questions about different aspects of the business—from customer needs and acquisition to industry and competitors to the founding team. The overall focus of the application process is for prospective entrepreneurs to demonstrate impact. The application's questions are inspired by the goal of MassChallenge: to accelerate startups that are most likely to catalyze lasting and high-impact change in the world.

MassChallenge does not define impact, but leaves that up to the applicants. Impact for one company might mean improving lives or curing a disease, while for another it might mean generating revenue.

The online applications are reviewed by MassChallenge judges, who are themselves innovators, experts and entrepreneurs from the Massachusetts startup ecosystem. Like the MassChallenge entrants, judges come from a wide range of industries and possess varying expertise. MassChallenge does its best to match the most relevant judges to appropriate startups.

After initial screening, approximately 300 startups are invited to a second round of judging, which consists of 20-minute pitches (typically 10 minutes for presentation, 10 minutes for Q&A) and are conducted in person or via Skype. 125 startups are then invited to join the accelerator as finalists. All applications receive written feedback from multiple judges, regardless of whether the application advances to the next round.



Once accepted into the MassChallenge program, entrepreneurs and their teams are expected, for the duration of the 4-month long program, to move to Boston, where they are matched with mentors. MassChallenge organizes several "mentor matching" events at the beginning of the accelerator to help facilitate connections. Luminoso software also helps identify potential matches by analyzing text of individual bios and company overviews. Startups and mentors mutually determine whether to work together. Like any of the resources and opportunities available, MassChallenge will never force a decision on a startup. MassChallenge finalists are free to have as many mentors as they want, but are required to designate one as a "primary mentor." Mentors must meet with their startups for a minimum of one hour per week.

In addition to the "official" mentorship pairings, MassChallege facilitates countless other meetings between experts and entrepreneurs. Mentors and speakers host "office hours" throughout the summer accelerator for entrepreneurs looking for advice or introductions, but not necessarily a full mentorship. Additionally, MassChallenge finalists have access to a full online database of active mentors and the hundreds of MassChallenge alumni startups.

On top of the mentorship program, we survey each of the finalists at the beginning of the accelerator to get a general idea of what we need to provide for them. Finalists also have access to a needs dashboard where they can sign up for events and receive a weekly newsletter that will notify them of workshops and panels that are relevant to their interests. These events may include one-on-one strategy sessions on customer acquisition.

Perhaps most importantly, throughout the summer MassChallenge actively connects finalists to Angel investors, Venture Capitalists and other strategic investors. In 2012 more than 30 venture firms and dozens of Angel investors participated in the program.

Previous finalists received investment from Accel Partners, Spark Capital, Google Ventures, Johnson & Johnson, the Gates Foundation, LaunchPad Angel Group, the Founders Collective, Jonathan Kraft, Jim Pallotta, Dave McClure, John Landry, Reed Sturtevant, and Katie Rae, among others.

In addition to the mentorship and access to investors, all MassChallenge finalists have access to over $10M of in-kind deals and support and compete for over $1M in cash grants. All support and grants are provided with no strings attached—MassChallenge takes no equity from any of its companies and places no restrictions on any of the entrepreneurs.

The in-kind support can range from software and hosting to airfare and shipping. Previous in-kind sponsors include Acquia, UPS, Zipcar, American Airlines, Microsoft, and Constant Contact, among others.

Cash grants are awarded in amounts of up to $100K. To be eligible, finalists must, after acceptance into the program, engage in various events and panels while also engaging in the mentor program. Engagement is tracked. Several rounds of further judging ultimately determine the cash winners—based on how well they have answered the questions posed in the initial application during the course of the accelerator. Winners are free to use their grants however they want, but most often they apply them towards operational costs, office space, and hiring new talent.

In addition to the $1 million in cash prizes, sponsors award additional grants in the form of Sidecar Prizes. In 2013, sponsors are offering a total of $125,000 in additional grants. The Center for the

Advancement of Science in Space (CASIS) will provide an additional $100,000 prize and the opportunity to use the International Space Station National Laboratory as the ultimate research or technology development platform. Startups will be challenged to develop projects that can use the unique microgravity environment and vantage point of the ISS to develop intellectual property and/or applications that provide significant benefit to U.S. citizens in the areas of life sciences, material and physical sciences, or earth observation and remote sensing technologies.

The John W. Henry Family Foundation will provide additional grants to support the startup or startups in the 2013 MassChallenge accelerator with the most compelling social impact potential. The Perkins School for the Blind will offer an additional $25,000 of grants via the Perkins Assistive Technology Prize to encourage participants in MassChallenge to develop new, low- and high-technology devices that can make a significant impact on the quality of life for people with disabilities.

Sidecar prize winners are determined by the organizations providing the prizes. During the accelerator, MassChallenge will help coordinate opportunities for startups to connect and engage with each organization. The sidecar prizes are then jointly awarded by the organizations and MassChallenge at our annual awards ceremony in October.

It is important to note that, in keeping with our “no-strings attached” model, there are no strict “accountability mechanisms” per-say. Nevertheless, these 125 or so startups are rigorously watched by the global startup ecosystem and there is reasonable expectation that they will use their grants exclusively for growing their venture, lest they endure scrutiny and censure from the entrepreneurial community.

Outcomes

In 2010, MassChallenge’s first year, we received 446 applications, of which we accepted 110, or roughly 25%. In 2011, we received 733 applications and accepted 125 finalists, a roughly 17% acceptance rate. In 2012, the numbers were 125 finalists selected from 1,237 applicants, a 10% acceptance rate. This level of selectivity ensures quality among the startups participating in our program. As a result, participating startups have, to date, created 2,912 jobs, raised $362.5 million in funding, and generated $96.1 million in revenue. Though startups are not required to stay in Massachusetts once the MassChallenge program is over, and often go back to their state or country of origin, nearly 2,000 of the 2,912 jobs created remain in Massachusetts.

In addition to the value they create, there is the value that MassChallenge’s participants clearly perceive they get from the program. Entrepreneurs make long-lasting connections at MassChallenge, and six months after the program approximately 79% of startups are still engaged in some way with it (whether it be with Mentors, other finalists, or MassChallenge staff) and over 2 years after the first competition in 2010, more than half (58%) of those startups are still active in the MassChallenge community.

Applicants hail from 39 states and 44 countries. To date, 245 international applicants have made their way to Massachusetts to take part in MassChallenge. We have formed official partnerships with Russia, Colombia, and Mexico, and launched MassChallenge Israel just this past March. MassChallenge abroad serves as an example and method of/model for reviving economies. We work with countries facing the same economic challenges the United States faces and looking to revive their economies through innovation, as we are doing here in Boston.

Even as we have grown since our inception in 2010, our program has changed over time. MassChallenge was originally positioned as a "competition," then as a "competition and accelerator," then as an "accelerator and competition," and now as simply an "accelerator."

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Funding Sources

MassChallenge is a public-private partnership, receiving funds from the Commonwealth of Massachusetts as well as such companies as Fidelity, Verizon, and Microsoft, and foundations such as the Blackstone Charitable Foundation. Specifically, funding sources for 2012 included:

Commonwealth of Massachusetts - $250,000

Fidelity - $250,000

Verizon - $198,000

Blackstone Charitable Foundation - $150,000

Microsoft - $100,000

Russian Venture Company - $100,000

Johnson & Johnson - $100,000

Desh Deshpande & Josh Boger - $125,000

Additionally, MassChallenge collects revenue from the following sources:

Application fees - $147,000

Awards Ceremony - $150,000

Sustainable Urban Redevelopment

Reinventing the Local Economy

Keith West and Ryan Johnson, City of North Charleston, SC

Problem

When the U.S. Department of Defense closed the Charleston Naval Base in 1996, the City of North Charleston faced a crisis. At its peak, the base employed more than 40,000 civilian and military personnel. North Charleston, long insulated from national economic cycles by government-generated employment, was on the verge of irreversible socio-economic decline.

With 99,727 residents, North Charleston is the third largest city in South Carolina. Even before the base's closure, the area had been deemed a 'dumping ground by state and regional governments,' a site of suburban sprawl dominated by strip malls, military bases, low-income housing and heavy industry.

The challenges were daunting. A declining property tax base made it impossible for many neighborhoods to support municipal services like garbage collection, and police and fire protection. By 2001, crime rates threatened the city's historic center, and the loss of the region's employment base prompted many political leaders to predict that North Charleston would become a 'ghost town.'

Proposed Solution

In 2001, to counter the loss of the naval base and the businesses that supported it, North Charleston Mayor Keith Summey and the City Council announced redevelopment of the base and Park Circle, a circa 19th-century residential neighborhood, into a 3,000-acre, sustainable community. Noisette Company, LLC was selected as the primary contractor for developing a master plan, in exchange for the sale of 350 acres at the former base at appraised market rates. The plan envisioned a makeover for Park Circle and commercial districts like East Montague Avenue, the city's original "Main Street," and included mixed-use commercial and residential development on the former base. The plan also included special incentive packages to lure private investment and workforce development programs for local residents.

Public Input

Cities throughout the US have undertaken similar revitalization plans, but North Charleston's Comprehensive Plan was designed with extensive public input. From 2002 to 2003, the city conducted 24 town-hall style community meetings to solicit input. More than 3,000 people attended the meetings, which were designed to create a community consensus around North Charleston's future, with the knowledge that, due to marketplace demand, the process of redevelopment could take decades. Priorities were set with public comments, targeting revitalization efforts along specific city corridors in an effort to drive a long-term recovery. By 2004, the Comprehensive Plan was complete.

Setting Priorities

The Comprehensive Plan targeted five sites within the 3,000-acre footprint for redevelopment:

- *Century Oaks* – The site of a largely abandoned low income housing project, Century Oaks was targeted for redevelopment as a public-private community (the city would retain ownership of the land and allow private developers to build on it) of 374 market-rate homes that would be renamed Oak Terrace Preserve.
- *Navy Base* – The plan for the base would include mixed-use development in the newly renamed Navy Yard, as well as a 13-acre waterfront park along the Cooper River, an area long cut off from the public's use by the base.
- *Garco Mill*s – A contaminated brownfield site which was once a 42-building asbestos plant and industrial park, the mills were targeted for mixed-use development of 300 apartments and retail space on a 23-acre site to be renamed Garco Park.
- *John C. Calhoun Homes* – A 44-acre parcel on Park Circle, formerly the site of low-income housing for the navy base, the Homes were targeted for 600 single and multi-family homes.
- *North Park Village* – Once the site of a low-income housing project, North Park was slated to be replaced by Horizon Village, a public-private project of 553 units spanning 68 acres and serving low-to-moderate income families, who would be able to receive down payment assistance if they were at or below 80 percent of local median income.

Initial Transformation

By 2005, construction of Riverfront Park was complete, giving North Charleston's residents access to the waterfront for recreation for the first time in 95 years. Complete with displays of public sculpture, the park is today the site of an annual July 4th celebration that draws more than 10,000 people.

In 2006, renovation of the East Montague Commercial District began, with renewed streetscape and urban design improvements recommended by the Comprehensive Plan. That same year, preliminary work began on the former Century Oaks site, for its transformation into the 374-home Oak Terrace Preserve. The first homes were sold in 2007.

By 2007, work on the East Montague Commercial District was complete. A once-blighted area with a 70 percent vacancy rate, the district is today 90 percent leased, complete with a community theater, bars, restaurants, offices and a day spa. New businesses included headquarters for Half Moon Outfitters, a regional outdoor supplies company.

The *Lone Sailor* at the Naval Base Memorial

That same year Clemson University established its Restoration Institute at the Navy Yard.

A research campus, home to the world's largest and most advanced wind turbine and drivetrain testing facility, the Institute serves as an anchor for recruiting other companies, with particular focus on energy research and development. The Navy Yard has lured new tenants, including Coast Brewery, a sustainable microbrewery now expanding its operations on the site of the former base.

In 2010 the conversion of North Park Village to Horizon Village was complete. It is comprised of five distinct communities: Barony Place, 250 family rental units in 103 home-style buildings; *The Manor*, 56 senior resident apartments for persons 55+, at or below 60% of average median income (AMI); *Marshside Village*, 45 senior resident apartments for persons 62+, at or below 50% of AMI; *Spring Creek*, 130 homes in 65 energy efficient, low maintenance buildings; and *The Villas*, 72 senior resident apartments designed as a commons. In addition, the development includes *The Club*, a 4,100 square foot Community Center with a swimming pool, fitness center, Laundromat and common hall with kitchen; and the *Mamie Fields Community Center*.

More recently, work would begin on new developments in the Park Circle area, Mixson and Hunley Waters, and continue in Oak Terrace Preserve, where Phase 2 began in 2013. New employers would continue to move into the Navy Yard, including Geocent, LLC and Lowcountry Innovation Center. Most notably, Boeing announced in 2009 that its 787 Dreamliner would be assembled in North Charleston, at a site adjacent to Charleston International Airport, bringing with it an estimated 3,800 jobs.

Ongoing Projects

In addition to the completion of Riverfront Park and Horizon Village, and the renovation of the East Montague Business District, work continues on:

- *Oak Terrace Preserve* – Phase 2 of construction is underway, with construction of 52 single family homes, and 16 town homes. All of the lots have already been sold. Currently, OTP has 110 homes completed, with Phase 3 set to begin in 2014.
- *Mixson* – Approximately 268 multi-family dwellings are under construction at this Park Circle development. 17 single family homes have already been completed, along with a Bath & Racquet Club, swimming pool, community center, and other amenities.
- *Hunley Waters* – A single family housing development in the Park Circle footprint, Hunley Waters has 6 of 37 homes left to be completed in 2014.

Future Goals and Initiatives

Despite the initial success of the city's redevelopment efforts, North Charleston has long term goals designed to create a new, technology-based employment base. Among these are the creation of a global aerospace manufacturing and research center to build on the success of Boeing's Dreamliner facility, and the city's pending sale of the former naval hospital for $9 million to investor *Chicora Holdings, LLC*, which plans to redevelop the surplus federal building into a bio-medical commercial project.

Chicora also plans to develop a nearby retail center, complete with a supermarket, in a neighborhood previously designated an urban "food desert" by the USDA. North Charleston has set aside $1 million in escrow towards the capital costs of building the new grocery store as a lure for potential tenants to help ensure the store's profitability, and thus long-term sustainability, within three years of opening its doors.

Elsewhere, the city is conducting a $100,000 feasibility study for the transformation of the abandoned, 60,000-square-foot Garco Mills building into an arts center, which would include work-live lofts for visual artists. Tenant artists would be required to participate in an outreach program, teaching residents sculpture, painting and craftsmanship. Initial plans call for gallery space, classrooms, and a black box theater. The project is expected to be a potential catalyst for the Garco Park project, one of the few remaining projects outlined as part of the original Comprehensive Plan yet to begin.

Nearby, the city is working with the South Carolina Hunley Commission to develop a $50 million maritime museum on the Cooper River waterfront. The museum would feature the fully restored, Civil War-era *H.L. Hunley*, the first submarine to successfully sink a warship in battle.

Beyond Redevelopment

The key to North Charleston's successful revitalization has from the outset been a focus on reinventing the region's economic base, with holistic planning that addresses more than just redevelopment. This ongoing effort requires an equal promotion of investment and job creation.

Promoting job skills training – Part of the South Carolina Technical College system, ReadySC designs programs for specialized job skills specific to employers' needs. ReadySC's curriculum is not 'standardized'; it is specifically designed for each manufacturer, which may have highly specialized assembly line techniques and customized materials. Its ADEX (Aerospace, Defense and Energy Excellence) program is designed for advanced manufacturing facilities like the Boeing 787 Dreamliner plant. Applicants accepted into the program are trained in specialized niche manufacturing jobs. In Boeing's case, that includes specialized training for workers in the use of advanced materials like titanium and inconel.

Collaborating with the public schools – As part of its redevelopment efforts, North Charleston built eight new public schools, including career academies, like the Garrett Academy of Technology and Stall High School. The academies prepare high school students for aerospace, technology, and other careers right out of high school, an effort coordinated by the city, private companies, and the Charleston County School District.

Impact – In Numbers

Boeing – Boeing employs some 6,000 aerospace workers at its $750 million manufacturing plant in North Charleston, with plans to add another 2,000 jobs and invest $1 billion in the existing Dreamliner plant on 320 acres adjacent to Charleston International Airport.

Boeing suppliers – The global holding company The Intertech Group, based in North Charleston, includes subsidiary TIGHITCO, which will produce 350 jobs in support of aircraft construction.

Technology companies – Private sector and US Department of Defense SPAWAR contractors now total 27,492 jobs. According to the Center for Business Research at the College of Charleston, the North Charleston tech sector is responsible for a $3.38 billion economic impact. A Forbes magazine piece in 2009 stated that the region had the fourth highest per capita concentration of computer research scientists and the seventh highest concentration of computer hardware engineers in the U.S.

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Tech incubators – Lowcountry Innovation Center is home to 20 firms, with some 300 knowledge industry workers who average $80,000-plus per capita in income.

Overall capital investment – $2,275,300,000 in private investment since 2007, generating 5,483 jobs during the same period.

Home Ownership – Concerned that declining property values paralleled declining rates of home ownership, which hit a low of 32% a decade ago, North Charleston decided to make it a point of emphasis. The homeownership rate today is roughly 45%. With the surge in employment and ongoing revitalization, average residential prices soared 127% from $64,000 in 2000 to $145,000 by 2010, according to estimates provided by the North Charleston Housing Authority.

Employment – According to the US Bureau of Labor Statistics, the unemployment rate for Charleston County stood at 6.3 percent in March 2013 – down from a peak of 9 percent in February 2009, and markedly less than the current state average of 8.7 percent. The Charleston MSA is now attracting an estimated 17,000 new residents each year, largely due to new economic opportunities.

Starting Up: The start-up costs related to public infrastructure improvements – designed to lure private economic investments – were addressed through the creation of Tax Increment Financing (TIF) districts.

In basic terms, TIF districts, both on and off the former naval base, allow financing of streetscape improvements and new infrastructure for commercial and residential neighborhoods. Under a TIF, future gains in tax revenues generated by growth in a specially designated area (referred to as the 'increment') are captured to finance the current cost of a redevelopment project. TIF-financed projects are ongoing in North Charleston; in infrastructure for Oak Terrace Preserve and the $3 million East Montague streetscape project.

Conclusion

According to the September 2012 *Massachusetts Job Creation Commission* report, the Commonwealth has witnessed the loss of manufacturing employment; however South Carolina, most notably North Charleston, is seeing a manufacturing renaissance. The approach by the MJCC seems driven by governmental action with periodic committee reviews.

Conversely, North Charleston's municipal leadership maintains that the appropriate role of government is in support of its citizens and private enterprise to create a framework for job creation. Its model is purely results-driven, a localized public-private effort designed to produce tangible economic growth and job creation in an effort to reinvent the regional economy.

Without question, North Charleston's revitalization, what amounts to the urbanization of once-decaying suburban neighborhoods and industrial areas, stands as an example for other declining U.S. cities looking to become competitive in the global economy.

Evaluating State Incentives for Business

Ben Zimmer, Connecticut Policy Institute, New Haven, CT

Problem

To a degree, every state does it: pay incentives to private companies to import or keep jobs in the state. Supporters of incentives say they are necessary to create jobs. Detractors call them corporate welfare, and nationwide they cost more than $80 billion a year.[1] So when are incentives sound economic policy, and when do they merely cater to specific, well-connected firms, lobbyists and politicians?

Job incentives always benefit the companies that receive them. But to pay for them, governments must either raise taxes on everyone else or issue new debt, which, in turn, must be paid back with higher taxes in the future. Either way, the additional burdens incentives create make it more difficult for companies not receiving them to import or keep existing jobs in the state. Moreover, by privileging certain companies, types of businesses (e.g. small business or manufacturing firms), or business activities (e.g. short-term hiring), rather than reducing business costs and inconvenience across the board, governments risk distorting the marketplace and undermining long-term economic growth and job creation.

This is not to say that providing incentives to employers is never warranted for keeping or creating jobs. But states need to establish clear limits on job incentives to ensure the costs associated with the incentives do not outweigh the benefits that accrue back to the states through expanded economic activity.

Proposed Solution

The Connecticut Policy Institute has developed a three-part test for distinguishing between job incentives that are net contributors to a state's economy and those that are merely handouts.

The test's first requirement is that the total cost of any incentive should not exceed the amount that would accrue back to the state through incremental income, sales and other tax revenue over 5 years. In most states, the revenue generated by a job is five percent of the compensation paid to the employee.[2] Using this formula, the threshold for a 5-year return is crossed when the total cost of an incentive rises above 25 percent of the annual compensation for jobs kept or created. For example, a payment to a company to bring to a state 100 jobs with average annual salaries of $100,000 would only make sense if the total cost of the incentive was less than $2.5 million, or $25,000 per job.

This requirement alone would disqualify a large number of state job incentives. In 2011 Connecticut agreed to pay Jackson Laboratories $300 million for a promise to bring 300 new jobs to the state.

The per-job cost was a whopping $1 million. The same year, Connecticut paid Alexion Pharmaceuticals $46 million to commit to hiring 200 new employees. At $230,000 per job, the incentive still far exceeded the threshold for a sound investment in the state's economy. Oklahoma's "Small Business Capital Formation Incentive Act" provides a 20 percent tax credit for investments in Oklahoma small businesses. In 2009 the Oklahoma Tax Commission reported that the program had cost the state $17 million but generated only 21 new jobs.

The test's second requirement is that after a payment or other incentive has expired, jobs created, imported or kept in a state must remain viable without any further government support. If a company threatens to leave or reduce jobs in a state, or claims it will not locate to a state or make new hires without an incentive, the company most likely cannot compete employing people in that location. If this is the case, the jobs will disappear as soon as the subsidy expires, rendering it entirely valueless to a state's long-term job growth.

In 2007, Michigan announced a film-industry incentive program that would reimburse 50 percent of production costs spent in the state. The program brought hundreds of jobs to Michigan, but, when the incentives expired in 2011, movie producers relocated and the jobs disappeared because there was no real economic reason for those jobs to be in Michigan in the first place.

The test's third requirement is that the incentives must provide only for jobs that would not otherwise come to the state, or would otherwise leave. Connecticut recently passed a "Job Expansion Tax Credit" awarding businesses a subsidy of up to $32,000 per employee for every new hire made between Jan. 1, 2012 and Jan. 1, 2014. This subsidy will induce businesses to hire some employees they otherwise wouldn't, but much of the cost will be wasted paying companies for hires they would have made anyway.

Meeting all three criteria will be difficult, but it can be done. In October 2012, Kentucky offered Berry Plastics $10 million to refurbish and reopen a manufacturing plant in Madisonville, about 150 miles southwest of Louisville. Berry committed to bring 400 jobs to Kentucky. The cost is a comparatively reasonable $25,000 per job. The plant originally closed in 2011 because what it manufactured could be more competitively produced elsewhere. The refurbished plant will manufacture a different product, one that can be competitively produced in Kentucky.

As most of the examples above illustrate, the vast majority of incentives fail to meet one or more of the criteria. Why, then, do states get away with offering them?

Good policy and good politics are often at odds. Politicians want to be re-elected, and a record of nominal job growth—regardless of cost—tends to be more important to officials' re-election prospects than is the prudent management of public funds. Indeed, most incentive programs are structured to yield job creation immediately while deferring costs until such time when the elected official who proposed them is no longer in office. The misalignment of politicians' self-interest and sound economic policy makes the implementation of our three-part test essential.

Implementation

Our three-part test for distinguishing between cost-effective job incentives that contribute to long-term growth and overly expensive incentives focused only on the short-term can be implemented through legislative action or an executive order requiring that any company wishing to receive a job incentive submit a formal application demonstrating how the incentive meets each of our three criteria. Each state's Department of Community and Economic Development, or version thereof, would be responsible for reviewing applications and administering incentives.

Reviewing applications and approving incentives would not be difficult. Assessing whether an incentive meets the test's first criteria is a straightforward mathematical calculation comparing how much money the state is being asked to spend and how many jobs the company would be contractually obligated to bring to or keep in the state and at what salaries.

Assessing the second and third criteria would be more challenging. For the second criterion, the viability of any proposed hires could be demonstrated by submitting a business plan or model that includes expected revenues, and the assumptions behind those revenues, from the endeavor the employees are projected to be involved in. The plan or model could also be expected to include the cost structure—labor costs, transportation costs, input costs, real estate costs, and otherwise expected tax costs absent any incentive—of locating the endeavor in various states to demonstrate the long-term cost-effectiveness of locating in the state they claim to be selecting for more than the incentive itself.

For the third criterion, the likelihood that any proposed hires would not move to or remain in a state absent the incentive would require a justification supported by data. For example, one justification might be high fixed costs of an operation leading to liquidity constraints. Such a justification would have been especially relevant in the aftermath of the financial crisis when private lending markets dried up. Another possible justification might be that a state isn't cost competitive for a particular operation yet, but trends indicate that it will be in the near future, due to possible new infrastructure in the state or other changes that would impact a business's cost model. A third possible justification might be that the state is cost competitive but lacks a properly trained workforce. The company might use the state funding or subsidy to provide workforce training.

Ultimately it would fall to the company to articulate how it met the second and third parts of the test and support its justifications with appropriate data. If a job incentive is anything more than a political handout, a company should be able to articulate a justification for it relatively easily.

However it is implemented, a formal application process---rather than the ad-hoc awarding of incentives based on politicians' whims, which is the norm today---places the burden of proof on companies seeking incentives. Incentives would *not* be awarded unless companies could prove that the jobs they are creating would not exist absent the incentive and will remain viable after the incentive has expired.

Even if not foolproof, the due diligence required by a more formal review would immediately eliminate a number of incentives that clearly fail to meet the three criteria. For example, in 2011 UBS simultaneously threatened to move its Connecticut headquarters to New Jersey and its New Jersey offices to Connecticut. It obtained generous incentive packages from both states to stay put. The simultaneous nature of UBS's threats suggests they were empty posturing, something each state government could have realized with appropriately formal application and review processes.

Indiana formally reviews companies' proposed job incentive packages to ensure they meet certain criteria similar to those outlined here. Tellingly, Indiana spends almost half as much per capita on job incentives as Connecticut yet has recovered jobs lost during the last recession at twice the pace of the Nutmeg State. Massachusetts currently spends or forgoes revenue of $2.26 billion per year on job incentives, among the highest in the country on a per capita basis. Although Massachusetts has a relatively strong record of job growth, implementing our criteria would allow it to more effectively manage economic development by creating jobs that are viable in the long term.

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Jobs Incentives and the Federal Government

Although the formal criteria for reviewing job incentives is designed with state governments specifically in mind, a similar review process would be relevant to the federal government as well. In recent years, the federal government has increasingly handed out its own job incentives to private companies. Many of the incentives suffered from the same types of shortcomings as the state incentives our test addresses.

President Obama's 2009 stimulus package awarded hundreds of millions of dollars to renewable energy companies that subsequently went bankrupt. Media investigations into the most infamous of these bankruptcies—that of the solar company Solyndra—reveal that the government continued to finance the company for political reasons even after receiving concrete evidence it might not be economically viable. This is exactly the sort of subsidy the second requirement of our test filters out.

Similarly, in his fiscal year 2013 budget President Obama proposed offering companies a 10 percent tax credit against the wages of any new hires (up to $500,000 per employer). Like Connecticut's "Job Expansion Tax Credit," this program might induce a few new hires, but most of the money will be wasted on jobs that would have been created anyway—a clear violation of the third requirement of the CPI's test.

Program Costs

Perhaps the best part of implementing our proposed test is that, unlike most job creation proposals, it wouldn't cost governments a dime. On the contrary, it will save state governments money they are currently wasting. In turn, savings could facilitate lower taxes across the board, prudent investments in education and infrastructure, and repayment of government debt, all more effective ways to spur job creation than wasteful subsidy programs.

Endnotes

1. *The New York Times*. Web. August 14, 2013. http://www.nytimes.com/interactive/2012/12/01/us/government-incentives.html?_r=0.

2. This estimate is based on the revenue from income, sales, and other taxes minus the incremental cost of having that individual in state.

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A Step-by-Step Solution to Massachusetts' Persistent Jobs Crisis

Mike Hruby, New Jobs for Massachusetts, Boxborough, MA

Massachusetts' labor force faces long-term stagnant job growth. According to the U.S. Bureau of Labor Statistics, Massachusetts' population has grown by 10.5 percent over the last 23 years, but the number of jobs has grown by only 6.9 percent. Yes, the official unemployment rate has declined, but in recent years the number of people who are underemployed or go uncounted by official unemployment statistics has climbed to startling levels. Adding up the categories that comprise the state's jobs shortfall, Massachusetts needs more than one million new jobs to fully use its workforce.

Figure One: 11 Categories of Persons Wanting Work

Beginning with Reported Unemployment

Category of Need for Work	Jobs Needed Right Now
1. Reported unemployment of 6.4 percent	222,124[1]
2. Underemployed persons, working one or more degree levels below their education level	308,891[2]
3. Part-time workers wanting full-time work	173,534[3]
4. Recently retired persons wanting either full-time or part-time work	141,503[4]
5. College graduates, Class of 2013	124,323[5]
6. Excess underemployed, aged 50-64	75,821[6]
7. "Marginally Attached" workers, facing a temporary practical obstacle	24,295[7]
8. "Discouraged" workers, who want work but haven't looked in 4 weeks	17,353[8]
9. Massachusetts high school drop-outs, at annual rate	7,051[9]
10. 2013 high school graduates not going to college	6,274[10]
11. Unemployed for fewer than 4 weeks	23,895[11]
Total Need for New Jobs:	**1,125,064**

Massachusetts has created effective legal barriers to job creation. Two of the leading barriers are its independent contractor law and its tax on business inventories.

Massachusetts' Independent Contractor Law (MICL) prevents 1.4 million people from contracting for work in their profession, trade, specialty, or craft. The MICL damages job growth by defining almost anyone who provides services as an employee. The only way a service entrepreneur can be legally considered an independent contractor is to meet three tests:

1) The worker must be "free of direction and control," but anyone buying services typically offers guidance such as "don't paint the gutters," or wants feedback on how things are going. The

law as written does not make clear whether guidance and feedback constitute direction and control.

2) The work must be outside the "usual course" of the service customer's line of business. This phrase might, for example, prohibit subcontracting sales work, since all firms must sell to survive. But sales is not most firms' "line of business" as the term is commonly used. The phrase's wording is open to broad interpretation by the courts, which creates uncertainty.

3) The individual must be "customarily engaged in" work of the same nature as the service performed. This test seems to prohibit contracting by anyone starting a business, since the individual is not yet customarily engaged in work of the same nature.

When a contractor arrangement fails to meet all three tests, it is considered a felony called "misclassification." Should the Attorney General or the courts determine, even after the fact, misclassification has occurred, the contract customer becomes liable for damages of three times all compensation and benefits affected.

In contrast, if individuals could easily and legally contract for work, those who wished to do so could readily employ themselves. To estimate the benefit of relaxing the MICL to permit legitimate contracting, New Jobs for Massachusetts identified 400 occupations, employing 1.391 million people, in fields that could be contracted out. Multiplying 1.391 million by the Massachusetts entrepreneurship rate, as reported by the Kaufman Foundation, of 260 startups per month per 100,000 persons employed, New Jobs estimates that eliminating the MICL barrier would allow 43,400 independent service startups to be created every year.

The "*inventory tax*" refers to the portion of the personal property tax that applies to business. Only eight other states tax inventory. Over the years, the tax has driven manufacturing and distribution jobs out of state, since inventory can be easily moved to where it isn't taxed.

New Jobs estimates that eliminating the inventory tax would trigger the creation of 56,400 new middle-class jobs.[12]

Figure Two: Summary of Job Growth from Removing Two Legal Barriers	
Massachusetts Independent Contractor Law	43,400
Inventory Tax	56,400
Total:	**99,800**

Of course there are other barriers to job creation in Massachusetts, but just two common-sense legal changes would create almost 100,000 jobs, in the process reducing the total amount Massachusetts needs to fully employ its workforce by nearly one-tenth.

Endnotes

1. Bureau of Labor Statistics, March, 2013, unemployment rate of 6.4% times Massachusetts workforce of 3,470,689.

2. Chmura Economics, Richmond, VA, Massachusetts' excess of degrees earned over number of degrees required, by occupation, totaled, of 8.9% times number of employed persons.

3. Bureau of Labor Statistics, Increment of U-6 over U-5, four-quarter moving average.

4. Based on AARP 2011 survey, compliment of 31% retiring completely, times Mass population aged 65 to 74 from US Census figures.

5. Association of Independent Colleges and Universities in Massachusetts (AICUM) study citing MASS Dept. of Education figures from Institute of Education Sciences' National Center for Education Statistics.

6. NJFM estimate based on 2011 telephone survey showing 14.5% (1 in 7) of those aged 50 to 64 are underemployed. Chmura study in line 3 accounts for 8.9% of these; line 6 shows count of individuals in excess of 8.9%.

7. Bureau of Labor Statistics, annual factor, increment of U-5 minus U-4.

8. Bureau of Labor Statistics, annual factor, increment of U-4 minus U-3.

9. From Mass Dept. of Education website, District/school admin/infoservices/Statistical Reports; Drop Out Rates.

10. Mass Dept. of Elementary and Secondary Education: District/school admin/infoservices/ Statistical Reports; Plans of HS Graduates. 67,460 HS grads in 2011-12 school year times 9.3%.

11. US Department of Labor, Employment and Training Administration Report R539CY; Line 11 is three times the median weekly new claims figure across the last six months' weekly reports.

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CropCircle Kitchen, Inc.

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During a time of chronic unemployment, the food sector—catering, specialty food production, and food trucks—is an area of the economy with the potential to provide a diverse range of entrepreneurs entry to market. As with any enterprise, however, start-up requires capital investment, the ability to navigate municipal and state permitting and licensing systems, and access to paying customers. CropCircle Kitchen, Inc. guides aspiring entrepreneurs from product through production to profit, all under one roof.

CropCircle Kitchen is a non-profit incubator of food sector businesses. With 3,000 square feet of cooking space, 300 square feet of cold and frozen storage space, and access to specialty equipment, such as stand mixers and a blast freezer, CropCircle Kitchen guides aspiring entrepreneurs from product concept to market by eliminating the need to fit out a commercial kitchen space and providing them with access to the broader marketplace through sourcing, warehousing, and distribution partnerships.

CropCircle Kitchen was founded in 2009 when it took over operations from the former Nuestra Culinary Ventures. While its focus is on small business incubation in the food industry, it also believes that economic development does not stand alone, but is rather inextricably linked to the economic and environmental health of the places people live, how they spend their hard earned dollars, and their support of sustainable, inclusive community development. In part, this means accessing nutritious, affordable food and providing opportunities to thrive for those among us facing the highest barriers to economic sustainability.

Specifically, the mission of CropCircle Kitchen is to help low-income individuals, especially women and people of color, and City of Boston residents with little business experience and access to capital to:

- Develop new, self-sustaining, and profitable food related businesses that will create permanent jobs in the Boston area;
- Enhance the revenue and profitability of existing food related businesses to increase employment;
- Encourage the use of local food products and services;
- Increase the quality of local food sources;
- Integrate environmentally sustainable business practices in all levels of the program.

CropCircle Kitchen currently supports 31 entrepreneurs and their fledgling businesses and has helped launch more than 100 businesses since opening, creating in the process 148 full time and 107 part time jobs, most of which have remained in the Greater Boston area. On average, it helps 3-4 new members launch their businesses every month with a goal of graduating 6 new stable companies per year.

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At present there is a backlog of possible entrepreneurs, and CropCircle continues to receive 25-30 applications per month. It is for this reason, as well as the current crop of entrepreneurs ready to graduate and move into their own space, that CropCircle is expanding its facilities. CropCircle Kitchen is working with the Dorchester Bay Economic Development Corporation to redevelop the former Pearl Meat Factory in the Grove Hall Section of Dorchester as "CCK Pearl." Expansion will provide 37,000 square feet of additional production space for larger and more stable companies in the program, providing a critical "middle step" between the incubator space they occupy and independent operation, for which very little production space exists in Boston. The vacancy rate in Boston for food production spaces less than 10,000 square feet is often under 5 percent. When successfully completed in 2014, this new facility will allow CropCircle to bring job growth through its mission of inclusive economic development to one of the poorest neighborhoods in the City of Boston.

Job Creation on a Budget
How Regional Industry Clusters Can Add Jobs, Bolster Entrepreneurship, and Spark Innovation

Mark Muro and Kenan Fikri, Brookings Institution, Washington, D.C.

Too often, state governments concentrate economic development efforts on business recruitment, but no more than 2 percent of annual state job gains can be attributed to business relocations nationally while more than 95 percent are due to expansion of existing businesses or the birth of wholly new ones.[1] Moreover, when states do look inward to foster "organic" growth, they tend to focus on the "black box" model of development, which assumes that jobs magically appear in the presence of the right inputs, usually defined as tax credits, R&D, training programs, and physical infrastructure.[2]

Supporting regional industry or innovation clusters—geographic concentrations of interconnected companies, suppliers, coordinating entities, and institutions like universities and community colleges—unleash powerful synergies and efficiencies among member firms that have the power to boost the performance of a state's economy.

Even to the extent that states currently pursue cluster-based approaches, their efforts are typically contained within the broader conventions of state-led economic development and often suffer from a variety of shortcomings. They are too broadly focused on such sprawling, amorphous categories as "life sciences," "high technology," and "clean energy."[3] They fail to build in sufficient data collection, market analysis, and impact measurement, and tend to be overly top-down, usually emanating from governors' offices. As a result, they don't flow from or connect to the industry and civic leaders who have the networks, experiences, and resources to galvanize regional buy-in and design and sustain interventions.

States also typically view their cluster efforts as stand-alone programs or invoke cluster concepts and terminology even as they continue to pursue typical business recruitment efforts. While targeted business attraction can be a part of a cluster strategy, particularly to fill a gap in a relevant supply chain, relocation efforts are rarely sufficient to catalyze regional cluster growth and remain largely antithetical to it.[4]

If states are to implement effective cluster programs, they need to prioritize data analysis. Specifically, they need to use objective market analysis to document the natural presence of clusters. They also need to use data to identify clusters' institutional or resource deficiencies to more effectively target proposed interventions. Lastly, they need to measure the performance of their cluster investments on key indicators such as jobs created, firms established or grown, exports increased, investment attracted, and market share grown.

Informed by strong market information, state leaders should consider providing modest grants on a competitive basis to support cluster initiatives across regions and industries with high export potential. Three different types of grants could be offered based on the development stage of the cluster:

- *Planning grants* of $40,000 to $100,000 would fund initial feasibility studies to evaluate the viability of any cluster initiative aimed at strengthening particular local and/or regional industry concentrations.
- *Start-up and technical assistance grant*s of $100,000 to $500,000 would be made to new and early-stage cluster initiatives to sharpen and energize management, facility, and program operations.
- *Competitive program grants* of $500,000 to $2.5 million would support well-defined, collaborative activities in areas like training, R&D, technology transfer and adoption, and marketing to overcome identified cluster gaps and documented constraints and help boost cluster performance.

Finally, state cluster strategies need not be confined to specifically titled "cluster" programs. Instead, they can and should be adopted as a paradigm for informing, drawing in, and organizing multiple activities. Thus, though the specific, targeted cluster-oriented initiatives outlined above are desirable, equal value may well come from drawing in other programs, whether it be R&D and tech transfer initiatives, export promotion, banking regulations and tax credits for venture capital, or education and workforce training policy.[5] Aligning existing cluster-relevant programs and initiatives horizontally would enable states to maximize the impact of their investments at no additional cost.

In sum, growth-minded governors should embrace the cluster paradigm as an organizing principle for state economic policy and implement specific cluster initiatives to support the competitiveness of the geographic concentrations of interconnected firms and supporting organizations that form the foundation of their states' economies. The steps outlined here promise not only to bolster innovation, entrepreneurship, and job creation but streamline state economic development policy for maximum efficiency in an era of scarce resources.

Read a full elaboration of this idea:
http://www.brookings.edu/~/media/research/files/papers/2011/1/19%20clusters%20muro/0119_clusters_muro.pdf

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Endnotes

1. Jed Kolko, "Business Relocation and Homegrown Jobs," (Sacramento: Public Policy Institute of California, September 2010). Studying the period 1992 to 2006, Kolko found that only 1.9 percent of job gains and 2.0 percent of job losses in a year in the average state were attributable to business relocations. By contrast, fully 41.8 percent of job gains come from the expansion of existing businesses, and a whopping 56.3 percent from the birth of new establishments.

2. Gregory Tassey, "Rationales and Mechanisms for Revitalizing U.S. Manufacturing R&D Strategies" (Washington, National Institutes of Standards and Technology, 2009). See also Mark Muro, "AmericaCOMPETES: Regionalize It?" *The Avenue*, a blog of *The New Republic*, April 21, 2010. Available at www.tnr.com/blog/the-avenue/america-competes-regionalize-it

3. A non-scientific survey of state economic development websites found that California, Colorado, Georgia, Florida, Illinois, Michigan, New Mexico, New York, Ohio, Oregon, and Washington—in other

words every state visited—all list "life sciences," "cleantech," and "information technology," or some close derivation thereof, as target industries.

4. Terry Buss, "The Case Against Targeted Industry Strategies," *Economic Development Quarterly* 13 (1999): 339–359.

5. See Mark Muro and Bruce Katz, "The New 'Cluster Moment.'"

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Step-Up Achieve

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Students of color make up 68 percent of the population of the Minneapolis Public Schools, but they are struggling to graduate high school and find work. The 4-year high school graduation rate for students of color is 28 percent lower than for their white peers. Likewise, though people of color make up 40 percent of the city's population, they hold only 17 percent of its jobs. Lack of employment only helps to further increase drop-out rates, which run higher in areas with high unemployment because students there are unable to see the connection between their education and future jobs.

A partnership between the City of Minneapolis and the nonprofit organization AchieveMpls, the STEP-UP Summer Jobs Program works to break this cycle by building a broad partnership of private, public, and nonprofit employers to give low-income students the opportunity to participate in high-quality, paid internships and experience the connection between academic performance and job opportunities.

The STEP-UP program is open to Minneapolis youth, ages 14-21, who come from low-income families or who face barriers to employment—including youth with disabilities, pregnant and parenting youth, and youth who have been part of the juvenile justice or foster care systems. In the summer of 2012, STEP-UP trained and matched 1,833 young people with paid internships. Of those, 97 percent were low-income according to HUD criteria, and 87 percent received free and reduced-price lunch. 93 percent were students of color; 48 percent were students from immigrant families; 15 percent of interns had a disability; 17 percent were English Language Learners; 5 percent were youth offenders; 4 percent were parents; and 3 percent were in foster care.

STEP-UP has three program options based on students' age, experience, and job training needs. **STEP-UP Explore** offers highly structured summer work opportunities to over 450 youth in targeted populations, including recent immigrants and students with special needs. **STEP-UP Discover** offers foundational, entry-level jobs in nonprofit organizations for youth with limited work experience. Interns in Explore and Discover are hired and paid by the City of Minneapolis and work at local nonprofits.

STEP-UP Achieve serves youth ages 16-21 who are ready for challenging, self-directed internships. Achieve interns are placed at over 140 private companies, educational institutions, and nonprofits and employed directly by those companies. AchieveMpls Job Coaches offer training and support both to interns and their supervisors.

Every spring, future interns receive a four-week Work Readiness Training focused on interview techniques, resume-building, professional communication, workplace expectations, networking, interviewing, and other job skills, such as how to fill out tax documents. The training emphasizes employer expectations of professional conduct and communication, an area where surveys have shown interns' self-perceptions often do not match their supervisors'. The training culminates in a series of mock job interviews with hundreds of volunteers from the city's professional community. All training graduates receive a credential certified by the Minneapolis Chamber of Commerce.

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One of STEP-UP Achieve's highest priorities is to increase students' 21st Century workplace skills. 93 percent of interns responding to the 2012 end-summer-survey said they had become better communicators and more responsible employees; 98 percent of interns said their job was a valuable experience; and 97 percent felt they had made an important contribution to their workplace. In addition, three-quarters of all interns said they had not only a supervisor, but a mentor in their workplace.

In every end-of-summer survey since the program's inception in 2004, at least 93 percent of students and 85 percent of supervisors agreed that the work students did over the summer was a valuable contribution to their workplace. And since 2006, at least 94 percent of supervisors have said they felt STEP-UP Achieve was a success at their organization, and 94 percent of interns have said the job was a valuable learning experience.

Further, a 2012 study conducted by researchers at the University of Minnesota, in conjunction with the Minneapolis Public Schools, found that STEP-UP has a measurable impact for students who complete their internship, including "modest increases in performance on the [Minnesota Comprehensive Assessment Math exam] and [school] attendance."

STEP-UP has grown from 200 internships in 2004 to 1,800 internships in 2012, a 900 percent increase in just eight years. It has given thousands of young, low-income, people of color the opportunity to practice job skills, gain work experience, identify their career goals, and build a professional network they will use for the rest of their lives.

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