

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

Six Month Report: April 2013



Table of Contents

- I Introduction**
- II Measuring Progress of the Task Force**
- III Committee Reports and Recommendations**
- IV Task Force Membership**
- V Acknowledgements**

I. Introduction

The Task Force on Social Innovation, Entrepreneurship, and Enterprise was established by Executive Order on November 2, 2011, and officially began operations in the summer of 2012. The purpose of the Task Force is to make recommendations on how Illinois can 1) create, scale, and sustain innovative social programs; 2) build the capacity of nonprofit organizations and government to pursue entrepreneurial ventures; and 3) attract funding to Illinois to support these ventures. The Preliminary Report released in January of 2013, the first of a series of mandated reports to the Governor and General Assembly, outlined the social enterprise landscape in Illinois, as well as specific recommendations ahead of the legislative session. This Six-Month Report

provides the status of those recommendations and describes the ongoing initiatives of the Task Force as it seeks to position Illinois as a hub for social innovation in the nation.

II. Measuring Progress of the Task Force

In the Task Force's Preliminary Report from January 2013, submitted before the current legislative session, the Task Force put forth three substantive recommendations: 1) explore a Social Impact Bond strategy state-wide, 2) amend the LLC Act to expand the purposes of L3Cs in Illinois, and 3) allow for the creation of Benefit LLCs in Illinois. We are pleased to report on the progress of each of these recommendations.

Social Impact Bonds: In January 2013, the Governor's Office acted on the Task Force's recommendation that Illinois take a leading role in the nation, by seeking technical assistance from Professor Jeffrey Liebman and the Harvard Social Impact Bond Technical Assistance Lab.¹ Through sponsorship from both the Rockefeller Foundation and the Aurora-based Dunham Fund, the Lab selected Illinois as a recipient for assistance, making us the third state in the nation to actively explore this model.

In March of 2013, Professor Liebman and his team began providing technical assistance to the state to lay the framework required to develop and implement a strategy for this innovative funding model. As early as May of 2013, the Lab will place a full-time Government Innovation Fellow in the Governor's Office of Management and Budget (GOMB) to help the state perform further technical analysis, navigate any barriers to implementation, and launch the first iteration of a statewide social impact bond in Illinois.

As mentioned in the Task Force's Preliminary Report, this pay for success contract model parallels the goals of the bipartisan Budgeting For Results (BFR) process. While implementation challenges may arise, a model such as this bears the potential to effectively fund critical preventive programs in an accountable and transparent manner, just at the time when these programs face the greatest risk of losing funding.

On April 9, 2013, Governor Quinn made the first of several formal announcements about this promising initiative at the annual Council on Foundations Conference in Chicago. Currently, a Request for Information is being finalized for wider distribution.

¹ Liebman is the Malcolm Wiener Professor of Public Policy and an expert on tax and budget policy, social policy, and program evaluation techniques. During the first two years of the Obama Administration he was the Executive Associate Director and then Acting Deputy Director of the Office of Management and Budget.

LLC Act Amendment: For background purposes, the low-profit limited liability company, or “L3C,” is a hybrid business form that combines aspects of the traditional for profit LLC and socially beneficial aspects of nonprofit organizations. As of April 16, 2013, the Secretaries of State of the nine states and two Indian tribes that authorize them reported that 802 active L3Cs are in operation, of which 128 are organized in Illinois.² Because of the statutorily required social purpose and other features of the form, the L3C is able to facilitate private foundations’ program-related investments (PRIs) in for-profit social ventures, including those affiliated with nonprofit, tax-exempt organizations.

The Task Force recommended in its last report that legislators embrace a more expansive description of the purposes for which L3Cs can be created, beyond just the current charitable or educational purposes. The recommended clause would also permit religious, scientific and literary organizations, organizations that foster national or international amateur sports competition, and organizations which seek to prevent cruelty to children or animals to be created as L3Cs. This amendment, which was drafted by Task Force Chairman Marc J. Lane, would be consistent with the proposed examples of PRIs set forth by the IRS in 2012,³ thus inviting other social-purpose ventures- which see the L3C as an attractive business form for governance, branding, or otherwise- to select Illinois as their domicile.

On February 15, 2013, Senator Heather A. Steans (D-7th District) . who sponsored the original act authorizing L3Cs in Illinois⁴ -- filed this amendment as S.B. 2359. The bill passed the Senate 54-0 on April 17, 2013, and has been referred to the House Rules Committee.⁵ Representative Kelly M. Cassidy (D-14th District) is the bill’s chief sponsor in the House.

Creation of Benefit LLCs: In its Preliminary Report, the Task Force encouraged the General Assembly to consider a bill, also drafted by Chairman Lane, that makes available to limited liability companies the same opportunities afforded to Illinois corporations under the state’s new Benefit Corporation Law (which took effect January 1, 2013).⁶ Doing so would establish a new type of entity called the “benefit LLC.”⁷

The objective of benefit LLC legislation is to give LLC members the option to require LLC managers to consider non-financial interests. The legislation would accomplish this

²InterSector Partners L3C, Latest L3C Tally, available at http://www.intersectorl3c.com/l3c_tally.html.

³Examples of Program-Related Investments, 77 Fed. Reg. 23429, 23430 (2012).

⁴ S.B. 0239, 96th Gen. Assem. (Ill. 2009) (Senate vote 59-0, House vote 116-0).

⁵ S.B. 2359, 98th Gen. Assem. (Ill. 2013) (Updates to bill activity: [LLC Low Profit Purpose](#)).

⁶ 805 ILCS 40/1 to 40/5.01.

⁷ Maryland is the only state which currently authorizes the creation of benefit LLCs. See Md. Corps. & Assqs Code §§ 4A-1101 to 4A-1108.

by creating a new LLC form and, through that, a new class of LLCs whose purpose requires them to create benefit for society generally as well as members. As the Preliminary Report highlighted, the passage of such a bill would make Illinois the first state to offer a social enterprise the opportunity to be a benefit L3C.

On February 15, 2013, Senator Heather A. Steans (D-7th District) filed the bill as S.B. 2358; it has received its first reading and been referred to the Senate Assignments Committee.⁸

Other Progress- Task Force Fiscal Agent:

In addition, the Task Force has made progress in strengthening relationships with external organizations by securing a formal fiscal agent for the body. The Donors Forum, a premier resource for networking and education, information and knowledge, and leadership and advocacy on behalf of philanthropy and nonprofits in Illinois, has graciously offered its services to the Task Force and will serve as the fiscal agent on a pro bono basis.

III. Committee Reports and Recommendations

A. Business Opportunities

The Business Opportunities Committee is focusing its attention on two promising initiatives: 1) mapping of the Social Innovation, Entrepreneurship, and Enterprise focused Illinois companies through a broad survey that will lead to an Illinois Social Enterprise Directory,⁺ and 2) drafting a Social Business Enterprise (SBE) contract procurement preference in the Illinois procurement code.

1. Social Innovation, Entrepreneurship, and Enterprise Survey: The initial survey captures general company data to enable more substantive outreach and research as a follow-on phase of analysis. The survey's results will be used as a site development platform to create an online *Illinois Social Enterprise Directory* which will provide information and facilitate networking. The directory has tremendous potential to increase the awareness and visibility of Social Business Enterprises (SBEs) to consumers, other businesses (B2B), government, higher education and investors. As the data becomes richer, the Business Opportunities Committee will seek to augment and complement the cataloging efforts being carried out across the country, such as the *Great Social Enterprise Census* run by Pacific Community Ventures. The Business Opportunities Committee expects the directory created by the survey to provide insight on the strengths and needs of social innovation in Illinois. It is important to note that the

⁸ S.B. 2358, 98th Gen. Assem. (Ill. 2013) (Updates to bill activity: [Benefit Limited Liability Co](#)).

Task Force survey is constructed to include companies that may not self-identify as "social enterprises" or even be familiar with the term, but nonetheless deliver social benefit through business activities.

The Business Opportunities Committee tested the survey within the committee and finalized the method and process. Sample reports generated from committee members completion of the survey show meaningful data capture and lead to the next step of distribution to the other Task Force Committees Chairs for distribution to their members. The BOC has formed workgroups to develop the channels of survey distribution. In addition to the far-reaching personal networks of the Task Force and committee members, the lead channels for distribution are:

- Government agencies (e.g, Department of Commerce and Economic Opportunity, county farm bureaus)
- Public registries (e.g. of L3Cs, B-Corps)
- Trade associations (e.g, chambers of commerce)
- Academic institutions (including public, private, 2- and 4-year colleges, and graduate programs)

Data collection began in April 2013, and is expected to be complete in time for the Task Force's One-Year Report in the Fall of 2013.

2. Small Business Enterprise Set-Aside Preference: The Business Opportunities Committee is exploring the recommendation to establish a Social Business Enterprise procurement preference modeled after the Veteran Business Program (VBP). Under the VBP, all State agencies and universities are encouraged to spend at least 3% of their procurement budgets with certified Veteran Owned Businesses. The Committee will continue to explore the viability of such a set-aside preference, and will provide an update in the 1 Year Report.

B. Capital Formation

The Capital Formation Committee suggests that the following policy recommendations receive consideration as a means to strengthen the social sector environment in Illinois:

1. Stimulate investment into social enterprises by allocating existing government funding, developing new and creative investment vehicles, and reviewing and restructuring certain regulations. Specifically, the Capital Formation Committee recommends that the Governor:

- a. Set aside a sizable tranche from the Invest Illinois Venture Fund (IIVF) to support social enterprises and ventures showing high potential. These

investments would encourage private venture capital into social enterprises, giving them opportunities to scale.

- b. Engage the Director of Securities in Illinois and other state regulators to review and ensure regulations are more favorable for social entrepreneurs and enterprises to access crowdfunding.
- c. Establish a capital source (such as Medicaid funds) to build supportive housing and enable people with mental illness and other disabilities to move out of nursing homes. This would create a market for non-profit and for-profit entrepreneurs to build supportive housing franchises, creating competition that would spur improved housing design over the long run.
- d. Determine the viability of creating health enterprise zones, similar to those in Maryland and other states.
- e. Review laws regulating cooperatives so that they stimulate growth and expansion in agriculture, education and other sectors (similar to Minnesota, Wisconsin and Iowa).

2. Develop a culture of social entrepreneurship . or an entrepreneurial ecosystem -- in the state of Illinois that stimulates innovation, impact investing, and shared best practices. Most notably, the Capital Formation Committee recommends that the Governor move forward with the hiring of the Deputy Director for the Office of Entrepreneurship, Innovation and Technology. This Director's office should build an infrastructure to gather and disseminate information throughout the state, promoting ideas for the creation and growth of social enterprises. In addition, this office should convene practitioners, funders, potential customers and other stakeholders on a regular basis to share ideas and build connections, and actively identify new business opportunities with state government agencies for new and existing social enterprises (i.e. sheltered workshops).

The Committee also encourages the Governor to select private sector partners and/ or universities to become "think tanks" and leading educators about various funding vehicles in the state. These partners would research and compile information about best practices for funding, legal structures, collaborations, and social enterprises from other states and municipalities. They would also conduct regular workshops and trainings so there is clear understanding of the types of funding available in various circumstances and stages of development (including PRIs, crowdfunding, donor advised funds, angel investor groups, etc.) Partners would organize an annual state-endorsed event- perhaps the "Taste of Social Entrepreneurship in Illinois" in which all of the accelerators and universities present their best new social venture and have a competition in front of a panel of judges for start-up capital, infrastructure support and advisory services. This event would serve to highlight Illinois as a national and

international leader, thereby attracting new social enterprises to seek Illinois as their home.

C. Governance

Upon consideration of the testimony of Professor Cynthia A. Williams of the University of Illinois College of Law, the Governance Committee respectfully recommends that the Secretary of State promote Illinois as the nation's most hospitable state for mission-driven and blended purpose businesses. The Committee specifically suggests that the Secretary produce and widely distribute brochures, identifying Illinois as the hub of social innovation and social enterprise for both private and public companies. Further, we urge that this website clearly identify the opportunities that Low-profit Limited Liability Companies (L3Cs) and Benefit Corporations afford social entrepreneurs.

Whereas Delaware has a quasi-monopoly on company incorporations and has developed a cottage industry in attracting corporations to that state (corporate filing fees and franchise fees represent about 25% of the state's revenue), it is far less friendly to mission-driven or blended purposes businesses than Illinois is: at this writing, Delaware has neither an L3C nor a Benefit Corporation law. While Illinois boasts a broadly drafted "other constituency" statute, protecting directors who make decisions for the benefit of stakeholders other than shareholders, Delaware offers no such protection. In fact, a recent Chancery Court case there (*eBay Domestic Holdings v. Newmark*, 16 A.3d 1 (2010) *Chandler, Ch.*) reaffirms the "shareholder primacy" rule which is antithetical to the organization and operation of blended purpose companies. Given the appropriate commitment, Illinois could and should become "the Delaware of Social Enterprise," with the opportunities, state revenue and jobs that would follow.

V. Task Force Membership

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

Brandon T. Bodor, Executive Director, Serve Illinois Commission

Matt Burnham, Operating Partner at Kamyron Capital

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

Valerie S. Lies, President & CEO, Donors Forum

Ryan Maley, Board Member, Dunham Fund

Patty Huber Morrissey, Head of Social Innovation, Groupon

Chinwe Onyeagoro, CEO & Co-Founder, FundWell

Brian Rowland, CEO, A Safe Haven LLC

Greg Wass, Senior Advisor to Governor Pat Quinn
Eric Weinheimer, President & CEO, The Cara Program
Elise Zelechowski, Executive Director, Rebuilding Exchange and Senior Director, Community and Economic Development, Delta Institute

VII. Acknowledgements

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

- Donors Forum
- Senator Heather A. Steans, 7th District
- Representative Kelly M. Cassidy, 14th District
- Professor Jeff Liebman, Malcolm Wiener Professor of Public Policy
- Stephen Konya, Chief of Staff for the Illinois Department of Public Health
- Ryan Maley, Board Member at the Dunham Fund
- Dr. James Galloway, former Assistant US Surgeon General of United States
- Nora Moreno Cargie, Director of Global Corporate Citizenship for the Boeing Company
- Francia Harrington, Senior Vice President of Global Philanthropy of JP Morgan Chase
- Christina Hachikian, Director of the Social Enterprise Initiative at the University of Chicago Booth School of Business
- Professor Cynthia Williams, University of Illinois School of Law
- Jacob Stuckey, Management Analyst at Governor's Office of Management and Budget
- Mavara Agha, Dunn Fellow at the Office of the Governor
- Kathy Wroblewska, AmeriCorps Member, Greater Chicago Food Depository
- Anastasia Golovashkina, Intern for the Serve Illinois Commission
- Sheri Gibson, Grants Director at A Safe Haven Foundation
- Erin Huizenga, Founder and Executive Director, EPIC
- Gordon Dymowski, Consultant
- David Weisberger, Consultant