High Growth Entrepreneurship Strategy

November 12, 2012

CHARLOTTE.
NEIGHBORHOOD & BUSINESS SERVICES

Background

In May 2011, City Council directed staff to begin work on a high growth entrepreneurship strategy for their review and consideration. Since that time, staff has worked with leaders in the community to understand and determine the appropriate role for the City, and to develop a strategy that helps grow the local economy through support of high growth enterprises.

The Kauffman Foundation defines high growth enterprises as those that *"despite their relatively small numbers, nonetheless account for a disproportionate share of job creation*[1]". In a 2010 analysis of high growth firms, Kauffman showed that generally speaking, "*the top-performing one percent of firms generates roughly 40 percent of new job creation. Many of these are fast-growing young firms, between the ages of three and five and comprising less than one percent of all companies, which generate roughly 10 percent of new jobs in any given year*[1]*".*

Historically, the City has focused on all small businesses, not specifically high growth enterprises. Past efforts include:

- Administration of the Small Business Opportunity Program, which helps small businesses, many of whom are minority or woman-owned, do business with the City.
- Creation of a Small Business Strategy, which focuses on coordinating the efforts of community resource partners and managing a one-stop web portal for small business information and events (CharlotteBusinessResources.com).
- Administration of lending programs such as the Equity Loan Fund and the SBE Mobilization Loan Fund, and participation in community loan pools such as the Charlotte Community Capital Fund, and a micro-lending program with Grameen Bank.

Policy Objectives

Economists project a long, slow economic recovery, and Charlotte's unemployment rate continues to be above state and national averages. This requires a diverse approach to economic growth. The intended outcome of this policy is to strengthen Charlotte's position as an ideal place to start and grow a business in order to:

- Attract and keep high growth enterprises and entrepreneurs in Charlotte,
- Attract more venture capital investment into Charlotte-based enterprises, and
- Increase the amount of federal research dollars to our local universities.

[1]*High Growth Firms and the Future of the American Economy, March 2010 – The Kauffman Foundation*

Recent Activities

Over the past two years, there has been significant activity from our partners to help develop an environment conducive to growth, including:

- UNC-Charlotte's Ben Craig Center develops a strategic plan for Ventureprise, a new regional approach to entrepreneurism.
- Packard Place, a community center for high growth entrepreneurs opened.
- The Charlotte Entrepreneur Alliance (CEA) was created by local entrepreneurs to support, coordinate, represent and inspire high-growth enterprises in Charlotte.
- The CEA launched two sector specific incubators for start-up companies: CLT Joules Energy Incubator and a Financial Services Payment Incubator.
- Queen City Forward, a social entrepreneurship model founded in Durham, opened in Charlotte with a full time executive director.
- The Chamber of Commerce included entrepreneurial support on its work program with a goal of gaining private sector support for local start-ups.
- The Charlotte Venture Challenge, the University's business plan competition, received triple the number of applicants and raised over $100,000 in prize money.
- A proposal for the Charlotte Regional Foundation for Entrepreneurship (CRFE) was developed with a goal of developing Charlotte's entrepreneurial ecosystem.
- A proposal for a $25 million statewide venture capital fund was created to raise funds to support high-growth enterprises.

Challenges & Opportunities

Despite the increased activity in support of high growth entrepreneurship, we have observed the following challenges and opportunities.

- Charlotte remains largely unknown for high growth entrepreneurism.
- There is a lack of understanding for high growth entrepreneurism as a driver of job growth.
- Charlotte start-ups would benefit from stronger connections to large corporations.
- There is limited start-up capital in North Carolina and the Charlotte region
- UNC-Charlotte is emerging as a major research university, but currently receives only a small fraction of the research dollars that come to the state.
- Charlotte has several organizations supporting high growth entrepreneurism, which struggle with funding.
- There is an opportunity to identify potential office space locations for high growth enterprises in the business corridors, and if opportunity arises, vacant city facilities.

Recommended Activities for the City

There are several appropriate ways the City of Charlotte can lead or assist our partners' collective efforts to grow the economy through support of high growth enterprises. These are outlined in the following pages.

Near-Term Activities (to be complete by end of FY13) -

1. Develop a communications plan for the Mayor and City Council that promotes Charlotte's history and spirit of entrepreneurship, and seeks opportunities to raise the profile of the City on the topic statewide and nationally. The plan may include activities such as:

    - Recognizing successful high growth entrepreneurs at Council meetings and on GOV Channel.
        - Work with City staff and others to identify and tell the stories of high growth entrepreneurs from Charlotte's recent and distant history.
        - Collaborate with economic development partners, such as the Charlotte Chamber, to send a clear and consistent message that start-ups are important to Charlotte's economy.
    - Supporting the attraction of angel/venture capital-related conferences and events to Charlotte.
        - Partner with Charlotte Entrepreneurs Alliance, economic development partners, Charlotte Regional Visitors Authority, and others to identify appropriate events to invite to Charlotte.
    - Attending and participating as hosts and/or speakers at local start-up events and awards or attending business openings and writing thank-you notes to job creators.
        - City staff will present to Council opportunities, as they arise, where they can show support through donation of time at upcoming events.
    - Advocating for the development and adoption of tax and regulatory changes identified by the high growth entrepreneurial community that foster high growth enterprises.
        - Partner with the Charlotte Entrepreneur Alliance to maintain dialogue with Charlotte's high growth entrepreneurial community regarding challenges and opportunities current tax code and other regulations present.
        - Work with the City's lobbyist to prioritize the tax and regulatory needs of high growth enterprises and potentially align efforts with those of partners such as the Charlotte Chamber.
        - State and federal tax and regulatory changes identified by the high growth entrepreneurial community may include:
            - Improved immigration policies allowing foreign citizens who have the means to start a business in the U.S.
            - Extended student loan deferment
            - Making research and development tax credits more permanent to remove the need to re-authorize repeatedly
            - Creating simple, fast, and flexible, processes and paperwork
            - Streamlining navigation of government requirements
            - Making it easier to license and use technology
            - Simplifying and accelerating the process of securing patent rights
            - Streamlining exporting processes
        - Local tax and regulatory changes identified by the high growth entrepreneurial community may include:
            - Creating simple, fast, and flexible, processes and paperwork
            - Streamlining navigation of government requirements

2. Capitalize on the expertise, products and services of local high growth-potential enterprises in City operations through a plan that includes activities such as:

   - Encouraging City departments, where feasible, to seek solutions from local start-ups with innovative products and services.
     - Identify training for City staff, especially procurement departments, on entrepreneur principles - such as innovation, creativity, sustainability, and experimentation - in order to increase understanding of these companies' abilities to create innovative solutions.
     - Explore the costs and benefits of an entrepreneur in residence program to spur innovation, responsiveness, and a proactive approach to problem solving in public service.
   - Working with local start-ups to understand the technical products, services and expertise available locally that can be made available to City staff.
     - Leverage the relationship with Charlotte Entrepreneur Alliance to explore co-sponsoring start-up meet and greets and vendor fairs tailored to public service needs and challenges.
     - Work with partners to create a draft catalog/matrix of typical products or services high growth entrepreneurs provide such as technology, energy, or financing solutions.
   - Making it easier for local start-ups to find Requests for Proposals or other areas of opportunity to do business with the City.
     - Post solicitations/opportunities on *CharlotteBusinessResources.com*.
     - Perform targeted outreach to the start-up community when relevant opportunities to do business with the City arise.

3. Partner with the Foundation for the Carolinas (FFTC), the private sector, and local institutions to establish the Charlotte Regional Foundation for Entrepreneurship (CRFE) to develop local high growth entrepreneurial organizations, events, and programs.

   - On September 24, 2012, the City received a request from Paul Solitario, organizer of the CRFE, to contribute $500,000 in the form of a "community challenge" grant to the FFTC to establish the CRFE. The request was accompanied by a letter of support from the Charlotte Entrepreneur Alliance. The proposal is for the City's contribution to be matched by private or institutional funds.
   - The CRFE's objective is to provide grant funding to qualified non-profit organizations and initiatives that support high growth entrepreneurship and enhance the high growth entrepreneurial ecosystem in the Charlotte Region.
   - CRFE grants will be used to address community issues, such as business incubation and acceleration, startup and business plan competitions, research and technology commercialization, and venture capital/angel network formation.
   - CRFE grants may also be used to fund research that informs and educates the public about the benefits of high growth enterprises, such as economic impact studies and business surveys, or to sponsor panels and conferences for business leaders, economic experts, public officials and other constituencies concerned with economic development.
   - CRFE Grants will not be used as equity or seed capital investments.

- CRFE grants will be distributed by the FFTC, based upon the approval of a CRFE Advisory Council.
- The members of the CRFE Advisory Council will be appointed by FFTC and will include up to eleven (11) members, consisting of:
    - Two representatives of the City of Charlotte, with one member representing the City Council (appointed by the Mayor), and one member representing Neighborhood & Business Services (appointed by the City Manager).
    - Four representatives from major donors.
    - Four representatives of the entrepreneurial community.
    - One economic developer from the Region.
- Organizations represented on the CRFE Advisory Council are not eligible for grant funding.
- A Technical Review Panel, consisting of local entrepreneurs and representatives of entrepreneurial support agencies, will review grant applications and provide recommendations to the CRFE Advisory Council.
- Grant applications will be evaluated on the extent to which they contribute to the following outcome goals of the CRFE:
    - Increased number of high growth enterprises in the Charlotte Region;
    - Improved pathways to capital and an increased investment in startups;
    - Increased recognition of the Charlotte Region as having a thriving and dynamic entrepreneurial ecosystem and culture;
    - Private corporations engaged with and supportive of the Region's startups.
- If Council approves the funding request, staff recommends that the City's grant be paid in minimum increments of $100,000 (up to a maximum of $500,000), upon notice from FFTC that matching funds have been secured.
- In addition, FFTC has agreed to fund 50% of the cost for a community strategy that prioritizes community needs and assists with private fundraising efforts. Staff proposes using a portion of the City's challenge grant to fund the other 50%, up to a maximum of $20,000.
- The recommended source of funds is the Business Corridor Fund, which has a current balance of $16.5 million.

Longer-term activities (to be further developed and considered within 1 – 2 years):

4. Partner with area colleges and universities, with a particular focus on the Charlotte Research Institute at UNC-Charlotte, to **accelerate Charlotte as a center of major research and innovation**.

5. As the need arises, **help identify potential facilities** that can support high growth enterprises, including sites that align with other Council policies such as the Business Corridor Strategy.