

**TESTIMONY OF RAY LEACH  
CHIEF EXECUTIVE OFFICER, JUMPSTART INC.  
BEFORE THE SUBCOMMITTEE ON ECONOMIC POLICY  
UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING,  
AND URBAN AFFAIRS HEARING ON  
“WEATHERING THE STORM: CREATING JOBS IN THE RECESSION?”  
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Mr. Chairman and members of the Subcommittee, thank you for taking the time to engage in a broad dialogue regarding the current U.S. economy’s economic challenges, and for inviting me to testify on behalf of non-profit organizations located throughout the U.S., who work with and are supported by public, foundations and private sector partners who are all focused on creating economic wealth and jobs via the acceleration of the transformation of state and regional economies under significant economic and employment distress.

All of us are encouraged by the recent news regarding a slight reduction in total U.S. unemployment, yet I believe everyone also recognizes that we have a long way to go in order to create at least 6 million jobs which economist tell us would equal full employment. While it appears that perhaps the worst of the recent recession might be behind us, I would strongly encourage this committee to use this crisis as an opportunity to reconsider our national economic policy regarding the federal government’s role in support of the formation of new, highly disruptive technology businesses that have the potential to create significant white, green and blue collar jobs as well as completely new industries.

I would be remiss if I did not share that I believe the recent expansion of small business loan guarantees is a positive action that I would strongly recommend Congress to continue to support. I would also strongly encourage Congress to dramatically expand high-skill immigration quotas to enable the world's brightest and most capable individuals to stay in or come to the U.S. to work for the benefit of the U.S. economy. I also believe that a wide range of tax credits, not only for hiring new employees, but also to individuals making angel investments in very small, high-technology startup businesses is something that Congress should support and encourage.

Yet, today I wanted to share with you, an approach that has not been discussed to my knowledge, to date, with this committee and that is how the federal government can partner with communities, states and regions of the country to accelerate the formation of entrepreneurial ecosystems that have the potential to produce sustained long-term economic transformation, growth and wealth creation. This approach hones the ability to quickly and efficiently create, support and grow new technology-based companies. Recent reports from the Kauffman Foundation and others tell us that over 75% of the new jobs in our economy are done so by firms which are less than 5 years old. The balance of my testimony today will focus on how the Congress can leverage current programs, partnerships and organizations to accelerate the creation and growth of firms that have the potential to employ hundreds, thousands and tens of thousands of workers in the years ahead.

In order to begin explain this approach; I would like to introduce you to my organization, JumpStart Inc. We are a 501(c)3 non-profit organization headquartered in Cleveland, Ohio, whose mission is to recreate a robust and active entrepreneurial ecosystem in Northeast Ohio, which encompasses over 4 million residents and has been a major center for manufacturing over the last six generations.

Going back to a 50-year period of time between 1875 and 1925 years ago, cities in our region of Ohio including Cleveland, Akron, Youngstown, Lorain and Canton were centers for innovative entrepreneurs who created globally competitive companies that were incredible wealth and job creators. Due to these significant successes, communities like Northeast Ohio found that they no longer needed to rely on new innovative firms for their own economic vitality throughout the majority of the 20<sup>th</sup> century. Unfortunately, over time the principal firms in Northeast Ohio ultimately became victim of new disruptive innovations that became products of new domestic and internationally-based firms and the increasing challenges of globalization. As result of this process, which began to accelerate in the last thirty-five years, not only did Northeast Ohio's significant firms who employed hundreds of thousands of citizens begin to lose their competitiveness and shed employment, but at the same time this economic condition exposed the Northeast Ohio region for its lack of a public or market-based entrepreneurial ecosystem. These entrepreneurial ecosystems are critical to wealth creation based on the formation of new businesses as their function is to engage and assist innovators and aspiring entrepreneurs to help them perfect their inventions, access financing to help take their products to market and to help the company's founders find

manufacturing, sales and management talent to join the company that would enable the new business to grow and therefore more significantly benefit society by creating increasing employment and tax receipts.

As a result of the absence of an entrepreneurial ecosystem in Northeast Ohio, the region has struggled with this critical economic transition and has found itself near the bottom of many national economic rankings. In fact, *Entrepreneur Magazine* ranked Northeast Ohio as the worst large regional economy for entrepreneurial performance for almost twelve years in a row from 1990-2002.

This is when a new chapter in the economic history of Northeast Ohio began to emerge as corporate and philanthropic leadership in Northeast Ohio came together in 2003 to begin to better understand what needed to be done to recreate a new set of actors and initiatives that could accelerate the re-creation of a robust entrepreneurial ecosystem that could promote, support and invest in disruptive technologies being created at local universities, centers of research and from the inventive and industrious citizens of Northeast Ohio.

Bringing together a broad group of partners, including local, regional and state government as well as the corporate and philanthropic community resulted in a broad-based strategic plan to create JumpStart Inc., an non-profit entity that would work and invest to help re-create an entrepreneurial ecosystem and assist new innovators and entrepreneurs but do so in a way that would seek not a maximum financial return from its activities, but instead work to realize the greatest economic outcomes that could result

from the creation of new firms based on disruptive, globally competitive innovation that had the potential to create hundreds, thousands and perhaps tens of thousands of new jobs in the coming decades.

I am encouraged to report that since the creation of JumpStart in 2004 it has generated significant economic results to date and has been able to demonstrate the promise to help accelerate the economic transformation of the Northeast Ohio economy. Since 2004, JumpStart has engaged with over 7,000 first-time innovative entrepreneurs providing them with approximately 100,000 hours of *pro-bono* technical assistance delivered by experienced, serial technology entrepreneurs from JumpStart's team. It has made significant direct investments in 42 high potential startup companies that have already created over 600 jobs and are anticipated to create at least another 3,000 positions in the next few years. JumpStart has also helped to create a broad-based group of community-driven as well as private sector, profit-motivated investors that are making an average of 60 investments in new companies annually which have resulted in a total investment of over \$1 billion in Northeast Ohio startup firms since 2004.

JumpStart's business model has recently become nationally recognized, as it has been discussed by media outlets including the *New York Times*, the *Wall Street Journal*, *BusinessWeek*, *Forbes*, *PARADE Magazine* and the *Chronicle of Philanthropy*. It also has won numerous national awards including the Economic Development Administration's 2009 Excellence in Economic Development Award for Urban or Suburban Communities as well as the State Science and Technology Institute's 2009 Excellence in TBED

(technology-based economic development) Award for Increasing Access to Capital. Yet, at this same time JumpStart estimates it could make an even greater economic impact. We estimate that there are at least another 50 firms located in our region that deserve investment from the ecosystem in Northeast Ohio each year, but are currently having to wait until more resources are either secured by non-profit, economical development organizations, like JumpStart, or the less likely outcome of being able to access private for-profit resources are attracted to the region.

There are a handful of critical components to JumpStart's success but none of them are as important as the public/private and foundation partnership that has been formed in Northeast Ohio in order to aggregate the resources required in order to build an organization with the ambition and outcomes of JumpStart. In Northeast Ohio, we are fortunate to have a group of over 80 foundations who have come together to form what is the called the Fund for Our Economic Future. This collaboration of regional foundations has pooled together over \$60M in total resources to focus on a wide range economic development initiatives including over \$20M focused on the creation of an entrepreneurial ecosystem that can accelerate Northeast Ohio's transformation.

As critical as this group is, an even more important player in the emerging economic transformation is the State of Ohio's Third Frontier Program, a \$1.6 billion dollar public-sector initiative that has made an incredible impact on the technology, research and innovation commercialization economy in Ohio. A recent assessment of the program performed by SRI International, found that after State expenditures totaling \$681 million

to date, over \$6.6B of economic activity and 41,300 jobs have been created resulting in \$2.4 billion in employee wage and benefits. This leverage represents a 22% return on investment per annum to the state and nearly a \$10 return for every dollar of State investment. The projects that this program has helped to fund have also helped increase Ohio's gross domestic product by \$440M per annum and these annual revenues are anticipated to continue to grow to at least \$900M by 2013. At this same time, high tech employment growth in Ohio has outpaced almost all other Midwestern states and venture capital investment in Ohio has grown over 20% since 2003 versus only an average increase of 8% nationally increase during this period of time.

The combination of these two actors – Northeast Ohio-based philanthropic foundations and the State government has created a powerful collaboration that is making a tremendous difference to Northeast Ohio's current and future economy. This leadership in Ohio provides a great demonstration of what leverage can do to accelerate the growth and formation of new businesses that create opportunities and jobs.

To ensure that new and innovative businesses continue to be created by entrepreneurs not only in Ohio but across the U.S., a broad set of Federal programs should be developed that focus on accelerating technology commercialization, increasing access to technical assistance, education, mentoring and training for entrepreneurs and improving access to risk capital. Unfortunately, current Federal programs have particular limitations that often times do not achieve job-creation outcomes. These limited existing programs include the following:

- The SBIR and STTR research-support programs which have a limited focus on commercialization, especially when the economic outcomes are to occur via the creation of new firms or the deployment of federal research into young, less mature firms.
- Current Small Business Administration's (SBA) loan programs that are principally focused on less innovative, incumbent firms that benefit from secured loans (which are typically more helpful to maintain jobs versus dramatically growing new jobs).
- Technical assistance programs provided via the SBA's Small Business Development Center programs which tend to focus on even smaller firms that do not have the capacity, in general, to generate a significant number of jobs in the next 5-10 years.
- The current Small Business Investment Company (SBIC) programs which are focused on providing mezzanine capital to investment firms who invest in established firms, the SBA needs to strongly consider new equity-focused programs that would support non-profit venture development and venture capital funds that are looking to bring substantial co-investment to new innovative firms that have the potential to create significant wealth and jobs.
- The Economic Development Administration needs more regional strategic planning and high-growth innovation-focused resources to support technical assistance programs run by non-profit regional intermediaries who are focused on innovation-based, high growth firms and industries.

- The absence of robust State, foundation and private-sector partnerships is preventing and limiting the Federal government's ability to accelerate the creation of new technology-based companies and jobs. Many states have made substantial investments in organizations who are perfectly suited to partner with the Federal government agencies and programs yet there exists no strategic, tactical and robust collaboration amongst the practitioners and experts in the States that focus on assisting innovative, principally technology-based, firms who have the potential to dramatically grow regional and ultimately our national economy.

In order to address the shortfalls of the federal programming outlined above, Congress should create a \$2B, 4-year initiative from currently available funds from the original ARRA bill in order to create the **Federal Innovation, Commercialization and Job Creation Network** program where *existing proven* non-profit organizations and/or institutions who have been able to demonstrate significant commercialization and economic outcomes could serve as individual Centers within the network as well as to collaborate with parts of the country that do not have established and proven partners already in place to create new Centers. Each of these organizations would be required to provide matching non-federal resources from local, state, or regional public and/or private sector partners. Key attributes of the new approach would include:

- Federal resources would be immediately matched and aligned to parties that have a similar vision and prioritization on commercializing disruptive innovation and supporting high-potential innovators and entrepreneurial firms.

- The program will have a special focus on the commercialization of innovation which has the promise to create a small number of jobs immediately but also has the potential to create at least 25 new jobs within 36 months.
- The program would be additive and complimentary to the support and assistance currently provided by NIH, SBIR, SBDC, and SBA programs.
- The program would provide a logic framework to build partnerships to support significant economic outcomes including increased private sector investment, revenue and employment growth in the next 4 years.
- We believe that there are at least 40 non-profit organizations in the U.S. that could meet the requirements to become a federally supported Center. Each partnering non-profit would have to be able to demonstrate a history of delivering significant economic outcomes (job creation, capital attraction, increased revenues) from its work preceding federal support.
- Regions of states that do not have existing non-profit organizations or collaborations that could qualify as a Center would be encouraged to build new strategic plans and collaborations that would have the ability to realize the goals of the program. Once these initiatives are formed and non-federal resources are secured, the federal government could consider supporting these organizations.

Mr. Chairman, I believe that the economic outcome of such a program outlined above would make a dramatic impact on all regions of the country – urban, suburban and rural. By partnering with established, proven organizations that can bring significant leverage to the table, anticipated benefits and economic outcomes would include:

- Leveraging existing infrastructure and expertise.
- Accelerating technology commercialization of federal, industrial and community-based R&D.
- Dramatically strengthen technical resources for high-potential technology entrepreneurs.
- Create innovation and commercialization infrastructure in areas that currently are underserved.
- Increase the United States Global competitiveness in high growth entrepreneurial innovations.
- Increased private sector investment of at least \$4B from private sector investors across the globe within 4 years in firms created and/or supported from the Federal Program.
- Creation of at least 260,000 new jobs within 6 years at 1.25x the current national average annual wage. An additional 1,000,000 U.S. jobs to be created as a result of the work of the work of the network by 2020.

I greatly appreciate the opportunity to present to this committee. I look forward to the opportunity to continuing the dialogue on how we can dramatically increase programs that support commercialization and entrepreneurial progress so that we can create an increasing number of globally-competitive and wealth-creating jobs in the U.S.