



MEMORANDUM

TO: Members of the Authority

FROM: Tim Sullivan
Chief Executive Officer

DATE: November 16, 2022

SUBJECT: New Jersey Innovation Fellows Program

Request:

The Members are asked to approve:

1. The creation of the New Jersey Innovation Fellows Program (“NJIF,” “*Innovation Fellows*,” “*Fellows*,” “*The Fellowship*”) in accordance with Sections 65 through 68 of P.L.2021, c.160 (C.34:1B-370 through 34:1B-373)).
2. The Utilization of the \$10 million appropriation in accordance with Sections 65 through 68 of P.L.2021, c.160 (C.34:1B-370 through 34:1B-373)) to capitalize the New Jersey Innovation Fellows Program.
3. The Utilization of 5% (or \$500,000) of the \$10 million appropriation to be used by the Authority to cover administrative and mentorship program costs that are needed to administer the New Jersey Innovation Fellows Program.
4. Delegation of authority to the Chief Executive Officer to determine the program application periods, which will be offered twice per 12-month period, approximately 6 months apart.

Background:

There is a high correlation between socioeconomic background and entrepreneurship¹. The chances for entrepreneurship increase when would-be entrepreneurs have access to capital that supports them to take calculated, business risks. About 80% of startup businesses are self-funded, and only about 24% of startups have been able to raise supportive capital from family and friends.² These earliest capital sources are crucial

¹ Groth, Aimee. “Entrepreneurs don’t have a special gene for risk—they come from families with money.” Quartz, Ubase, 17 July 2015, <https://qz.com/455109/entrepreneurs-dont-have-a-special-gene-for-risk-they-come-from-families-with-money/>.

² Okyle, Carly. “The Year in Startup Funding (Infographic).” Entrepreneur, Entrepreneur Media Inc., 3 January, 2015, <https://www.entrepreneur.com/article/241331>

to a healthy innovation and start-up economy, especially when considering that only about 6% of all startups³ receive any funding from Angels or institutional Venture Capital.

Due, in part, to these capital constraints, entrepreneurship lacks diversity. One study found that “84% of the incorporated self-employed are white, compared to 71% of the whole prime working-age population. They are also 72% male.”⁴

The Innovation Fellows program will support would-be entrepreneurs, particularly diverse entrepreneurs, with “income replacement” grants. This resource creates an opportunity to pursue a unique startup business venture with the security of initial income replacement funding in the two-year ideation and formation period of their business. Per program policy and in accordance with the legislation, approved teams will be qualified to receive \$200,000 as a base award, and up to \$200,000 in bonuses (resulting in a total \$400,000 award) – \$50,000 if any one team Entrepreneur resides in an Opportunity Zone within the State; and \$50,000 for each Entrepreneur leader on the Fellows team with a diversity self-certification or education bonus up to a three entrepreneurs for a maximum award potential of \$400,000. Furthermore, award disbursements are subject to teams meeting and maintaining compliance milestones. With satisfactory compliance milestones, funding will be disbursed over eight quarters.

The qualified team’s business venture must operate within the State’s “targeted industries,” (as outlined in the program spec sheet, Appendix B) and be based, as evidenced by the address of the business’ main office(s) or headquarters (which may be home based), in an eligible municipality, in pursuit of Governor Murphy’s Economic Development Strategic Plan and identified by statute to build a stronger and fairer New Jersey. “Eligible municipality” means a city of the first class, a municipality with a private research university, a municipality that is qualified to receive assistance under P.L.1978, c.14 (C.52:27D-178 et seq.), a municipality under the supervision of the Local Finance Board pursuant to the provisions of the "Local Government Supervision Act (1947)," P.L.1947, c.151 (C.52:27BB-1 et seq.), a municipality identified by the Director of the Division of Local Government Services in the Department of Community Affairs to be facing serious fiscal distress, a SDA municipality, or a municipality in which a major rail station is located. Appendix A is a list of Innovation Fellows’ Eligible Municipalities.

VALUE OF THE NJ INNOVATION FELLOWS PROGRAM

It is expected that this program will deliver the following benefits the State of New Jersey:

- Grow New Jersey’s Entrepreneur base and its Innovation Economy
- Support development of programmatic resources to bridge market gaps for underserved/under-resourced entrepreneurs.
- Drive the formation and growth of promising new ventures
- Help New Jersey achieve Governor Murphy’s goal to become the most diverse state of innovation in the country

Program Details:

³ Luni Librd, Michael. “Why Some Startups Get Funded and Thousands of Others Don’t.” Unreasonable, ..., ..., <https://unreasonablegroup.com/articles/why-some-startups-get-funded-thousands-others-dont/>

⁴ Weissmann, Jordan. “Entrepreneurship: The Ultimate White Privilege?” The Atlantic, Atlantic Media Group, 16 August 2013, <https://www.theatlantic.com/business/archive/2013/08/entrepreneurship-the-ultimate-white-privilege/278727/>

Governor Murphy’s Economic Development Strategic Plan, “The State of Innovation: Building a Stronger and Fairer Economy in New Jersey Economy” lists “creating the most diverse innovation ecosystem in the nation and doubling venture capital investment in the state” as its third goal. Similarly, the New Jersey legislature made findings and declarations relative to entrepreneurs that directed EDA “to invest in diverse talent critical to New Jersey having a vibrant ecosystem” through the New Jersey Innovation Fellows Program (N.J.S.A. 34:1B-371). In providing an increased amount of income replacement funding to diverse entrepreneurs, NJIF targets diverse entrepreneurs who are without the capital access that supports entrepreneurial risks. With the \$10 million appropriation, the program will function as a pilot program and is anticipated to support approximately 160 entrepreneurs in approximately 32 New Jersey based startup businesses.

PROPOSED PROGRAM DESIGN AND STRUCTURE

The following section delves into program design and structure to draw out elements from the legislation to form the program parameters in further detail. This section highlights selected definitions from the legislation and provides explanatory narrative and clarifying policy. The following bolded terms are provided as clarification to the statute.

Eligibility:

The New Jersey Innovation Fellows program will support teams of at least three entrepreneurs, of which half must be **first-time entrepreneurs**, with mentorship, training, and income-replacement capital over a two-year period. Staff proposes to define a first-time entrepreneur as an entrepreneur who has never been listed as a founder, co-founder, or owner of a business entity which operated in a targeted industry in the State of New Jersey, or has not received third-party, institutional, funding for past entrepreneurial opportunities as early as the ideation phase. Entrepreneurs who have received State and/or federal funding for past entrepreneurial opportunities with entities which did not operate in a targeted industry in the State of New Jersey are eligible for the grant’s consideration.

Legislation requires all grant recipients to pay gross income tax at the time of application, or demonstrate gross income tax paid within 60 days prior to application. “**Income-replacement**” capital is purposed to replace a stream of income an entrepreneur might forego to launch an early-stage business.

This support is expected to attract innovative ideas and entrepreneurs – who would otherwise remain unable to pursue the launch of new businesses due to socio-economic needs for income or, in the case of a recent graduate, who would choose to accept employment in lieu of entrepreneurship due to socio-economic constraints. A recent graduate, herein defined, is a student who completed their course leading to a degree or certification at a New Jersey County college, an independent New Jersey institution of higher education, a public research university, or a state college within the 6 months prior to the application date.

The NJIF legislation requires all members of the approved entrepreneur team (each an “entrepreneur fellow”) to participate in a mentorship program. The authority will seek to execute a Memorandum of Understanding (MOU) with third-party partners, NJIT’s *New Jersey Innovation Institute (NJII)* and Rowan University’s *Center of Innovation and Entrepreneurship (RCIE)* to provide this mentorship. This memorandum serves to notify the Board of the plan to pursue such an engagement, which, pursuant to Authority policy regarding MOU scope and cost, may be executed by the CEO.

NJIT and Rowan’s respective entrepreneurship and innovation centers have the capacity and expertise to execute the mentorship mandate for innovation fellows. Additionally, as the organizations are associated with State Universities, the need to pursue external procurement processes is mitigated, given the expertise exists within State resources. Both institutions have eagerly engaged to support this novel program. Part of the administrative expense provided from the program appropriation will pay for the cost of the mentorship program, estimated at a total cost of \$200,000.

These partners will build and administer a mentorship program that will provide technical training through a general-operations curriculum, as well as access to unique subject matter experts that may offer mentorship to fellow teams. NJIT and Rowan will partner and collaborate in the design and administration of the program based on their resources, technical acumen and deep networks of academic and professional advisors.

Entrepreneur fellows will be required to participate in the mentorship programs facilitated by NJIT or Rowan’s RCIE as a condition of their grant award, which will incorporate virtual and in-person meetings. They must also maintain satisfactory attendance throughout the duration of the mentorship program – which will last the two-year duration of the fellowship program.

The initial general-operations curriculum will train the entrepreneurs in the following subject matters:

- Managerial Finance, Accounting, & Financial Statements preparations
- Human Resources development & management
- Marketing & Customer Development
- Product design, development & management
- Capital sourcing & raise
- Vision Mapping
- Buyer Personas
- Business Model Design
- Contracts & Business structures (Legal studies)

While entrepreneurs today have wide access to these fundamentals, the unique access to advisors within the targeted sectors will effectively prepare the entrepreneurs with the technical skills to develop their ideas into functioning businesses. The organizations selected will provide technical training and advisor coverage across the state, with NJIT covering entrepreneur fellows if the northern proximity in the State is most accessible to them, while RCIE will cover entrepreneur fellows, if the Southern New Jersey location is more accessible to them. Entrepreneur fellows will be free to select either coverage, but must remain with selected coverage for the first year of the mentorship program

Staff requests using 5% from the \$10 million appropriation to partially cover EDA administrative expenses, as well as the payment for the mentorship programs. Approximately, \$200,000 of the expense will pay for the mentorship programs, while the balance will fund EDA administrative expense. Each partner’s current work and experience demonstrates its capacity and ability to deliver a robust and effective mentorship platform for NJIF fellows. As an example, RCIE’s “Accelerate South Jersey” programming incorporates an integrated, multifaced platform that NJIF can leverage. It involves six core elements:

- Training Programs
- One-on-One Consulting
- Mentoring
- Community Connect
- Microcredit

- Research and Tracking

The program, offered in partnership with the McKena Center for Human Development and Global Business at the University of Notre Dame, vies to foster the creation of new, profitable ventures by those facing economic and/other disadvantages.

Similarly, NJII, founded in 2014, “helps turn [entrepreneurs’] ideas into workable solutions by combining the vast resources of NJIT, strong and far-reaching industry and government relationships, with proven methods for building industry centric ecosystems. It has six concentration sectors: biopharma, data and advanced technology, defense and homeland security, entrepreneurship, healthcare delivery and human capital.”

Its *Entrepreneur In Residence (EIR)* program, which the exhibited curriculum is adapted from, shares similar goals with the NJIF program and is structured to:

- Build pathways into growth entrepreneurship for those without the socioeconomic means to begin entrepreneurship
- Create a stable program for underrepresented entrepreneurs including women, veterans, LGTBQ, and BIPOC.
- Create access to university owned intellectual property for enterprise creation.
- Engage the Newark and Essex County communities in the entrepreneurial ecosystem.

The Fellowship, with its \$10mm legislative appropriation, will support between 20 and 30 new entrepreneur teams selected through a competitive grant application process. Throughout the program’s two-year period, NJEDA anticipates at least 4 application periods (average 2 annually) until funds are exhausted. Fellows teams will attend seasonal training cohorts according to a prescribed curriculum per calendar year, with each cohort consisting of five (5) to eight (8) teams.

Legislated Funding and Bonus:

Under the proposed program structure, the Fellowship grant awards \$200,000 per team of no less than three (3), first-time entrepreneurs as a base award. Teams may access an additional \$50,000 award on top of the \$200,000 base award if one Entrepreneur verifies residency in a designated Opportunity Zone in New Jersey. Teams may be awarded an additional \$50,000 in legislated bonus for each Entrepreneur leader who self-certifies as a “diverse entrepreneur” (as defined in section 2 of P.L.1997, c.349 (C.54:10A-5.29) OR is a “graduate of a New Jersey college or university” (including 2yr, and 4yr schools) in the State, as evidenced by corresponding degree or certification documents. Qualifying teams may receive additional bonuses of up to \$150,000 in aggregate for certifying team members, resulting in a total \$400,000 award. The award will be apportioned according to the Team’s own compensation plans that will not be reasonably denied by NJEDA as part of the application.

The statute uses “**diverse entrepreneur**” as defined in the Angel Investor Tax Credit program: “a New Jersey based business that meets the criteria for a minority business or female business” for certification by the State. Although the statutory definition refers to a definition of “minority business” and “female business” in N.J.S.A. 52:32-19, which in turn require certain ownership percentages by the minority persons or women, the program statute only requires one member of the team to qualify as a “**diverse entrepreneur**.” Additionally, program applicants will consist of teams of entrepreneurs, not fully formed

businesses. Thus, the Authority will accept an individual entrepreneur’s minority self-certification, if the individual identifies as one of the ethnic and racial categories recognized for minority-owned businesses for the purposes of State certification or identifies as a woman. The ethnic and racial categories in the State business certification statute are “Black, Hispanic, Portuguese, Asian-American, American Indian or Alaskan natives.”

Assuming the program application is open twice annually, every six months, the eight (8) eligible applications with the highest combined scores in each application period will be recommended to the Authority’s board for the award of \$200,000 or up to \$400,000 each based on eligibility. The aggregate awards spread across 4 cohorts would exhaust the total \$10,000,000 appropriation (with the approved 5% administrative fee). Based on research into comparable programs, staff expects 75 - 100 applications per application period.

Given the limited individual award amounts to be disbursed to each recipient, it is important for entrepreneurs to understand each entrepreneurial team member’s potential gross pay. To that end, the program web page will include the following table to help convey possible gross earnings for each entrepreneur, subject to the number of entrepreneurs per team, award amount, and FT work hours during the program’s 2-year duration. As this chart is described in terms of gross pay, the calculation simply divides the total grant award by the number of team members and a set amount of hours per week for a full calendar year. Recipients will be solely responsible for determining all legal implications of receiving the grants, including tax implications.

Gross Even pay: \$200,000									
Entrepreneurs' Pay									
	3	4	5	6	7	8	9	10	
	\$33,333.33	\$25,000.00	\$20,000.00	\$16,666.67	\$14,285.71	\$12,500.00	\$11,111.11	\$10,000.00	
35 Hrs/Week	\$18.32	\$13.74	\$10.99	\$9.16	\$7.85	\$6.87	\$6.11	\$5.49	
40 Hrs/Week	\$16.03	\$12.02	\$9.62	\$8.01	\$6.87	\$6.01	\$5.34	\$4.81	

Gross Even pay: \$400,000									
Entrepreneurs' Pay									
	3	4	5	6	7	8	9	10	
	\$66,666.67	\$50,000.00	\$40,000.00	\$33,333.33	\$28,571.43	\$25,000.00	\$22,222.22	\$20,000.00	
35 Hrs/Week	\$36.63	\$27.47	\$21.98	\$18.32	\$15.70	\$13.74	\$12.21	\$10.99	
40 Hrs/Week	\$32.05	\$24.04	\$19.23	\$16.03	\$13.74	\$12.02	\$10.68	\$9.62	

Application Process:

There will be a total of four (4) distinct application periods over the course of the Fellowship’s two-year tenure, or until funds are exhausted. The application period will be preceded by a 30-day open Q&A period, followed by the, approximately, 60-day application period. The application period will be marked by the opening of the application window, available on the NJEDA website, and the active receipt of completed applications. Delegated Authority granted to the CEO of the Authority will provide staff sufficient flexibility to most optimally schedule and manage these application windows considering the required review timelines and coordinate with the mentorship program administrators.

There will be two application periods within a calendar year, open approximately six months apart. Each period, which includes application submissions, evaluation processes, board approval, and governor’s

veto period will take approximately 120 days leading to grant execution with approved NJIF program applicants. The application evaluation is based on criteria, identified in Appendix C, relying on the required accompanying business plan that will be provided by applicants. Authority staff will review applicant responses and supporting documentation to ensure application questions are answered accurately, and requested documents are submitted. Members of the Authority's staff will ensure qualified applicants meet all minimum requirements for program participation by reviewing a minimum requirement checklist and supporting documentation. The Qualifying Questionnaire will be made publicly available to allow potential applicants to self-assess alignment with program requirements and likelihood of qualification. These lists are provided in Appendix C.

Competitive Review

The Authority will form an evaluation committee comprised of the Authority staff and the Diversity Finance Advisory Board (DFAB) to be created. This volunteer body will be assembled by NJEDA, comprised of a diverse panel of experts with experience in finance and operations. The body members will be selected by the CEO of the Authority. It will function as a sounding board and ad hoc resource to support the NJEDA's efforts to develop the diverse innovation ecosystem in the State. Following receipt of application, Authority staff will conduct a completeness review to ensure all required documents are included. If required materials are missing, applications will be automatically declined. Applicants may provide clarifying information. Declined applicants may appeal the decision and may also reapply to subsequent cohorts. Approved applicants who receive grant funding from the program are ineligible for considerations in subsequent cohorts and awards of the program.

All complete applications will be evaluated and scored independently (for eligibility measures) and competitively (considered against other applications received during a distinct application period in aggregate). Those 20 with the highest scores will be shared to the NJEDA's Diversity Finance Advisory Board for final scoring. The Fellowship's evaluation committee will evaluate assigned applications on the bases of an applicant's idea, operations, and management acuties, as represented on the applicant's business plan, with a maximum of 28 points possible. Following review by evaluation committee, the top 20 scores will be submitted to DFAB members for additional ranking. The DFAB scoring criteria is included in Appendix E. The top 8 ranked applications will be submitted to the Board of the Authority for approval as fellows. All approved fellows will be notified of award and "to be formed" or unregistered businesses will be required to form and register as a New Jersey business within 30 days of notification. Unregistered applicants who fail to register the complete team as a new business and provide state registration documents, as evidenced by its subsequent tax clearance certificate, within the allotted time will be declined.

The business plan will be evaluated based on the identified problem, the total addressable market, competitive landscape, DEI considerations, go-to-market plan, and the proposed solution's value proposition, all of which considers the credibility and experience of the team to execute on their plan submitted. Also important in the business plan's evaluation is the operational structure where the plan's finance & accounting management plans, as well as, needed resources and delineated roles are considered and evaluated. Delineated roles are a critical part of the plan's evaluation. An entrepreneur's experience and abilities should align with their respective roles in the proposed venture. The Management evaluations will consider the team's years of professional experiences, including their respective experiences in the addressable industry and relevant experiences in sales, product development and finance. The full, detailed rubric is attached in Appendix E. The eight (8) applications with the highest combined scores (competitive evaluation) will be recommended to the Authority's board for the award.

Grant Disbursement and Compliance:

Awarded grants will be disbursed equally over the course of eight (8) quarters following board approval. The first disbursement will be issued upon the effective date of the grant agreement. Subsequent disbursements will be made quarterly upon the NJEDA's receipt, and satisfactory review, of required compliance documents that will confirm regular attendance and engagement of mentorship curriculum sessions, NJ-income tax payment, proof the business remains located in an eligible municipality as demonstrated by the business' registered address (Note: P.O. Boxes will not be acceptable business address), and certification of continued full-time status on the team's approved business venture, by documentation enumerated in Appendix C.

The term of the grant is to be 24 months from the effective date of the grant agreement. If awarded applicants fail to be comply with the terms of the grant agreement, the Authority may choose to terminate the grant agreement, nullifying committed future disbursements as part of the agreement or may trigger a clawback of disbursed grant funding of an amount up to the total previously disbursed. This clause may be triggered over the two-year duration of the program by activities that:

- Reduces the total number of the venture's entrepreneur leadership (i.e. , the minimum three entrepreneurs that will manage the new start-up venture)to less than three (3). This may be cured within 3 months of notification of default, so long as, the newly comprised team scores at least 90% of the board approved score for the original team of entrepreneurs.
- Reduces the entrepreneur leadership's weekly, hourly commitment to less than 35 hours, which may be cured following resumption of the minimum time commitment.
- Increases the entrepreneur leadership's weekly, hourly commitment to an outside venture to more than 20 hours per week (as may be evidenced by each entrepreneur leader's certification, which may be cured following the individual's recertification).
- Results in failure by the entrepreneur leadership to meet their respective mentorship requirements, which may be cured following resumption of mentorship.
- Results in the failure of payment of gross income tax to New Jersey by any of the entrepreneur recipients, which may be cured with resumption of gross income tax payments.
- Fails to maintain the business' primary operations in an eligible municipality, which may be cured following return to an eligible municipality within 30 days.
- Failure to utilize the grant funds for the intended purpose of advancing the business and income for the time investment of the entrepreneurs
- Failure of at least one Entrepreneur to maintain residency in an Opportunity Zone may result in the reduction or clawback of the \$50,000 bonus if not cured within 30 days of notice from the Authority.

Compliance will require the quarterly submission of the following, due 45 days following the end of each quarter.

- Certified organizational chart demonstrating at least three entrepreneurs are managing the business
- Quarterly management prepared financial statements

- Annual accountant prepared financial statements
- Verification of gross income tax withholding filed (for example, NJ WR-30)
- Individual NJ income tax payment as evidenced by tax filings that demonstrate reasonably equitable pay to the entrepreneurship team
- Mentorship attendance record for the entrepreneur leadership team, evidenced by signed program instructor/advisor form(s)
- Current Business' operating address

Following recognition by EDA of failure to perform may be cured within an additional 30 days. Non-compliance may result in termination of agreement at EDA's discretion as described above.

Delegated Authority:

The Members are requested to approve delegated authority to the Chief Executive Officer to determine timing to open and close the program application periods, which will be offered twice per 12-month period, approximately 6 months apart. Delegation will offer flexibility to ensure operational optimization and programmatic alignment with selected mentorship partners

Entities whose applications are denied will have the right to appeal. Appeals must be filed within the timeframe set in the declination letter. The Director of Legal Affairs will designate Hearing Officers who will review the applications, the appeals, and any other relevant documents or information. The Hearing Officer will recommend an administrative decision. Delegated authority is requested to accept final administrative decisions prepared by a Hearing Officer for appeals based on solely non-discretionary reasons.

Fees:

The authority will access an aggregate 5% fee (2% per year over two years) on the full appropriated amount of the program (i.e., \$500,000 in total or \$250,000 per year) to account for the Authority's administrative costs and additional out-of-pocket costs associated with engaging with the university mentorship partners and developing the mandated mentorship program. Additionally, EDA will charge \$250 per application. Assuming 50-70 applications are submitted per application period (4 application periods), this would generate \$50,000 - \$70,000 in fees. A \$250 fee differs from the standard \$1000 application fee. The program is built to support the formation of businesses by teams entrepreneurs without the typical financial wherewithal associated with the foundation of early-stage enterprises. A \$1,000 application fee may represent a hardship to individual applicants that must be un-employed and recent graduates at the time of application. Additionally, the businesses are not expected to generate revenue sufficiently near to the time of application.

The general operations curriculum and customized mentor & advisor modules (i.e., "mentorship program"), to be administered by NJIT's NJII and Rowan University's RCIE, has a combined estimated program budget of \$200,000 over the life of the program.

Recommendation:

The Members are requested to approve: (1) the creation of the New Jersey Innovation Fellows Program a program to support a team of at least three first-time entrepreneurs with mentorship, training, and income-replacement capital over a two-year period; (2) Utilization of the \$10 million appropriation in accordance with Sections 65 through 68 of P.L.2021, c.160 (C.34:1B-370 through 34:1B-373)) to capitalize the New Jersey Innovation Fellows Program; (3) The Utilization of 5% (or \$500,000) of the \$10 million appropriation to be used by the Authority to cover administrative and mentorship program costs that are needed to administer the New Jersey Innovation Fellows Program;.; (4) Delegation of authority to the Chief Executive Officer to determine the program application periods, which will be offered twice per 12-month period, approximately 6 months apart.



Tim Sullivan, CEO

Prepared by:

Emmanuel Esochaghi – Diversity Entrepreneurship & Finance Officer
Tim Rollender – Director, Venture Programs

Attachments:

Appendix A – Eligible Municipalities List

Appendix B – Proposed Product Specifications: New Jersey Innovation Fellows Program.

Appendix C – NJIF Qualifying Questionnaire

Appendix E – NJIF Grading Criteria and Matrix