

Incubator Network and Startup Success Act (S.3329)

Senators Maggie Hassan and Josh Hawley

Section-by-Section

Section 2: Defining Startup Incubator Networks

Startup incubators provide critical resources to help entrepreneurs navigate the earliest and most difficult stages of starting a business. By combining individual incubators into a network, more resources are available for entrepreneurs across a larger geographic area. This section defines and recognizes the importance of startup incubators and incubator networks to the earliest stages of business development.

Startup incubators are defined as businesses or non-profit organizations which provide resources and services designed to accelerate the growth and success of startup companies, including:

- Physical workspace and facilities, including affordable and shared office space
- Access to capital, business education, and counseling
- Networking and mentorship opportunities
- Access to advanced tools and other technology

Startup companies, which must comprise 90 percent of the businesses served by eligible incubators, are defined as new businesses that have been started in the last 10 years, have been profitable for 5 or fewer years, and have less than \$10 million in annual revenue.

Startup incubator networks are groups of incubators that enter into an agreement to:

- Share resources among member incubators, including by:
 - Providing reciprocal access to facilities of incubators in the network
 - Granting common access to capital, business education, mentorship, and networking programs for member startups
- Share information and best practices among member incubators and startups
- Establish shared points of contact and a website for the network

Section 3: Establishing the Incubator Network and Startup Success Grant Program

Currently, though some federal grant programs support individual startup incubators, no federal programs incentivize the creation and expansion of incubator networks. This section would create a competitive grant program within the Economic Development Administration (EDA) called the Incubator Network and Startup Success Program.

Competitive awards: Under this program, each year the EDA would provide up to twenty awards of \$50,000 to the incubators within winning incubator networks. Each winning incubator would be required to raise \$50,000 to match these awarded funds 1-to-1, and to dedicate at least 25% of the award and matching funds to supporting or developing network activity and capacity. The total number of competitive awards would be capped at \$2 million a year.

Competition criteria: Each incubator network would be required to submit a single application on behalf of the entire network which demonstrates that the receipt of an award would increase access to and the variety of incubator resources within the geographical region of the network, including in rural areas specifically. Applications would also be required to demonstrate that an award would increase the number of businesses applying to and completing incubator programs, the number of businesses retained in incubator programs, the number of businesses in the network that successfully grow out of the startup phase, and the share of business served by the network that are owned by disadvantaged entrepreneurs. The EDA would award competitive grants to those networks that best demonstrate that the funds could be successfully leveraged to meet these goals, both immediately following the award and in future years. The EDA would also consider the economic impact of granting awards, including potential for job creation.

Eligibility: Both currently existing and planned networks would be eligible for grant awards. Startup incubators that are planning to form a network would be required submit a formal plan to the EDA to form a network within one year of receiving a competitive grant. Incubator networks that have received an award from the program within the previous three years would be ineligible to reapply.

Expanding access for disadvantaged entrepreneurs: The program would ensure that winning incubator networks use awards to expand access to all entrepreneurs – including socially and economically disadvantaged individuals, women, veterans, and entrepreneurs experiencing disabilities.

In grant applications to the EDA, incubator networks would provide good-faith estimates of the share of the businesses it serves that are owned by disadvantaged entrepreneurs. If less than 50% of the businesses served by a winning incubator network are estimated to be owned by disadvantaged entrepreneurs, then receipt of the grant award is conditional on satisfying further requirements. A business is defined as owned by a disadvantaged entrepreneur if 51 percent or more of the business is – either directly or through stock – owned by disadvantaged entrepreneurs and the business is managed by at least one disadvantaged entrepreneur.

Incubator networks with an estimated membership of 25% to 50% disadvantaged entrepreneurs would be required submit a formal plan to the EDA to increase access to the network by disadvantaged entrepreneurs. Incubator networks whose estimated membership is less than 25% disadvantaged entrepreneurs would be required to submit a plan to the EDA to increase disadvantaged entrepreneur membership by 5% over 5 years, and to use at least 5% of the award and matching funds to implement this plan. The EDA would have discretion to develop further criteria to tailor these requirements to the demographic makeup of an incubator network's geographic region. The plans of these incubator networks would also detail any previously successful efforts to expand service to disadvantaged entrepreneurs.

Section 4: Creation of Incubator Network Facilitator Positions at EDA

Incubators that form networks must coordinate amongst themselves to ensure the network functions properly and provides the full range of available services – such as equipment,

facilities, information, best practices, etc. – to its startups. Without individuals specifically dedicated to coordinating these activities, incubator networks often fall into disuse.

This section would create two additional positions within the Office of Innovation and Entrepreneurship at the EDA that focus solely on aiding startup incubator networks. The duties of these positions would include facilitating incubator network formation, organizing and maintaining current incubator network activities, assisting incubators with developing and implementing plans to increase service to disadvantaged entrepreneurs, and administering the Startup Incubator Network Success Grant Program.

Each state would be assigned an EDA facilitator responsible for assisting that state's incubator network. EDA facilitators would be charged with coordinating with each of their assigned states' economic development agencies, or other designees of their assigned states' governors.