

A close-up photograph of a yellow hard hat and a pair of brown work gloves resting on an American flag. The hard hat is in the upper left, and the gloves are below it. The flag's stars and stripes are visible in the background and foreground.

INSIGHT AT
PACIFIC COMMUNITY VENTURES

Public Policy and Investments in Quality Jobs

APRIL 2017

IDEAS FOR POLICY CHANGE

ABOUT INSIGHT AT PACIFIC COMMUNITY VENTURES

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[PCV InSight](#) is the impact investing research and consulting practice at Pacific Community Ventures, a U.S. Community Development Financial Institution and nonprofit organization. PCV InSight provides information and analysis to investors and policymakers with the goal of driving capital to social purpose. PCV InSight's work has provided the basis for national and international policy initiatives, including the U.S. National Advisory Board, White House Impact Economy Forum, and the Social Investment Taskforce established under the U.K.'s presidency of the G8. PCV InSight clients include the California Public Employees' Retirement System (CalPERS), The Rockefeller Foundation, The Ford Foundation, Omidyar Network, Humanity United, Citi, PG&E, Hamilton Lane, Mercy Partnership Fund, Northern California Community Loan Fund, the Northwest Area Foundation, Oportun, The California Organized Investment Network (COIN), The California Endowment, and The Annie E. Casey Foundation. PCV InSight evaluates the social and economic impacts of over \$40 billion of institutional investments across asset classes.

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EXECUTIVE SUMMARY

While wages for American workers have nearly recovered to pre-Recession levels, a longer-term economic trend represents one of the most troubling issues of our time: a small segment of the population has captured the lion's share of U.S. economic growth, and most working Americans have been unable to improve their standard of living for a generation. Since 1980, the average income of the bottom half of wage earners remained stagnant even as income for those in the top one percent has tripled.^{1,2} This troubling trend of widening income and wealth inequality will only accelerate, as the U.S. economy is expected to create more low-wage, poor-quality jobs: over the coming decade, more than 75 percent of the occupations expected to have the largest employment growth require a high school diploma or less.³

America's jobs problem—driven largely by globalization and technological advances that reduce the need for human labor—is too large and complex for individual businesses and investors to confront on their own. Indeed, research has shown that businesses can reap financial rewards by offering higher quality jobs—namely, attracting and retaining talented employees, improving work quality and productivity, and boosting a company's public image, to name but a few advantages. Given the importance of legal standards and innovative public programs that ensure fair and safe business practices, promote public welfare, and increase economic opportunity, policymakers have a powerful role to play in improving the quality of American jobs. Without a concerted effort by the government to improve job quality in partnership with businesses, investors, and the social sector, we cannot credibly expect to see any changes in the economic trends that have left many American workers behind for decades.

Research Objectives

This paper is the second of two reports intended to enhance the capacity of Community Development Financial Institutions (CDFIs), the broader impact investing industry, policymakers, and business owners to support the creation of quality jobs.

Our first report, [*Moving Beyond Job Creation*](#), answered two critical questions: what is a quality job, and how can job quality be measured? We identified five core dimensions of a quality job: a living wage, basic benefits, career-building opportunities, wealth-building opportunities, and a fair and engaging workplace. Investors can measure job quality by asking investees a series of qualitative and quantitative questions pertaining to each of these five dimensions, and should develop scoring criteria to determine whether a company offers jobs that embody some or all five dimensions of a quality job.

Public Policy and Investments in Quality Jobs explores the potential for smart, targeted public policies to encourage private sector investments in quality job creation. The research seeks to answer the following questions: how can policy direct more capital (primarily private, but also public) toward quality job-creating businesses? Which existing federal programs and regulations already facilitate investments that lead to quality job creation? And how could these policies be altered most effectively to encourage the creation of more—and higher quality—jobs?

Findings

Through research and interviews with leading experts in economic development policy, capital market regulation, impact investing, and the small business sector, we identified five existing federal programs and regulations (collectively referred to as “policies” throughout the report) that could be modified to direct more capital to businesses offering high-quality employment opportunities, particularly for people facing barriers to employment:

- 1. New Markets Tax Credit (NMTC):** This program incentivizes community development and economic growth through tax credits that direct private investment to distressed communities. Recommended changes include modifying tax credit selection criteria, varying loan terms, and creating a tax credit set-aside to favor quality job-creating businesses. Further suggestions include requiring financed businesses to report on job quality metrics and meet job quality standards.
- 2. Community Reinvestment Act (CRA):** This policy encourages banks and other financial institutions to invest capital to meet the credit needs of the communities in which they operate. Recommended changes include creating a public dashboard with data from the CRA examinations and adding a statement to CRA rating guidelines affirming that examiners may take quality job creation into account when determining a bank’s rating.
- 3. Small Business Administration (SBA) Programs:** These programs provide a diverse range of financial and advisory support to entrepreneurs and small businesses. Recommended changes include collecting and analyzing data on the quality of jobs supported by SBA programs, introducing job quality provisions to existing loan programs by tying loan eligibility to job quality standards, and providing larger guarantees or reduced fees for quality job creating businesses.
- 4. Federal Government Procurement:** The federal procurement system encompasses all of the government’s purchases of goods and services from the private sector. Recommended changes include prioritizing quality job-creating companies when awarding government contracts, adopting a set-aside for companies that offer quality jobs, and requiring all federal contractors to adhere to quality jobs standards.
- 5. Securities and Exchange Commission (SEC) Disclosure:** These regulations require companies to make financial and operating information available to the public. Recommended changes include adding provisions that would require certain U.S. based publicly traded companies to report on quality jobs metrics.

Defining a Quality Job in the Policy Context

In [Moving Beyond Job Creation](#), we proposed a flexible definition of a quality job to accommodate the diversity of job types supported by CDFIs and impact investors across a variety of sectors and business sizes. The paper defined a quality job as one that embodies at least three out of five dimensions of job quality. Over the course of this research project, however, policy experts and regulators expressed concern regarding the feasibility of employing a flexible definition in the policy context, particularly with regards to the government's ability to effectively monitor businesses' compliance with commitments to create quality jobs. Unlike investors, who choose which types of companies and jobs they seek to support—and therefore can employ customized approaches to quality jobs measurement—government policies that foster job creation apply to a larger, more diverse group of businesses, and so must be assessed using a generalizable, rather than industry-specific, quality job definition. For this reason, many interviewees emphasized that to encourage quality job creation effectively with government incentives and regulation, the definition of a quality job would need to be concrete and rely on existing data already collected by businesses.

Based on these findings, we offer a streamlined definition of a quality job to be used within the U.S. domestic policy context, which includes the most essential and feasibly-measured dimensions of job quality:

- **A living wage:** a wage that could support a single working parent with one child.
- **Basic benefits:** at minimum, two weeks of paid leave annually, employer-subsidized health insurance, and a retirement savings plan offered to all full-time employees.
- **A fair and engaging workplace:** workers are given their schedules at least two weeks in advance and undergo regular performance reviews.

Translating Research into Action

Despite increasing political polarization, business leaders and policymakers on both sides of the aisle share a commitment to building an economy that creates quality jobs and grows the nation's middle class. Our aim is to raise awareness and catalyze informed discussions with investors, businesses, policymakers, and advocates about key opportunities for policy change that would enhance investors' and businesses' ability to create quality jobs. In so doing, this report will serve as a key resource in formulating a policy agenda that revives the American Dream: the ideal that everyone should have equal opportunity to achieve success and prosperity through hard work, determination, and initiative.



PURPOSE OF THIS PAPER

In April 2016, PCV Insight published the first in a series of research papers intended to support the efforts of Community Development Financial Institutions (CDFIs), the broader impact investing industry, policymakers, and business owners to create more and higher quality jobs, and thereby counter growing income and wealth inequality. The report, *Moving Beyond Job Creation*, answered two critical questions:

1. What is a quality job?
2. How can quality job be measured?

Through this research, we identified five core dimensions of a quality job: a living wage, basic benefits, career-building opportunities, wealth-building opportunities, and a fair and engaging workplace. Investors can measure job quality by asking investees a series of qualitative and quantitative questions pertaining to each of these five elements, and should develop scoring criteria to determine whether a company offers jobs that deliver some or all five elements of a quality job. A more detailed summary of key research findings is outlined below.

Moving Beyond Job Creation: Defining and Measuring the Creation of Quality Jobs

KEY FINDINGS

What is a Quality Job?

Given that the specific elements of a quality job vary by industry, business size, job function, and employee demographics, we offer a flexible definition: a quality job provides at least three (3) of the following five (5) key elements:

1. **A living wage** sufficient to support a decent standard of living—or, at minimum, exceeds the median wage offered within the employer’s industry.
2. **Basic benefits** that increase economic security, improve health, and promote work-life balance among workers. These include paid leave, health insurance, and a retirement savings plan.
3. **Career-building opportunities** that help employees develop the skills, networks, and experiences necessary to launch a career or advance along a career path. These opportunities can include training and mentorship—both formal and informal—and avenues for advancement within the company.
4. **Wealth-building opportunities** that enable and incentivize employees to build the assets they need to manage financial emergencies and achieve long-term financial security for themselves and their families.
5. **A fair and engaging workplace** that balances the priorities and wellbeing of employees with the needs of the business. Examples include offering flexible and predictable schedules, treating all staff with respect and dignity, actively soliciting employees’ ideas to improve the business, and helping staff understand how their work contributes to the business’s success.

How can job quality be measured by investors?

1. **Select questions that pertain to each of the five core components of a quality job**, and include these questions in surveys provided to companies at the time of investment and thereafter annually.
2. **Decide how your organization will determine whether a job embodies each of the five dimensions of job quality.** Each investor should develop its own “scoring criteria,” so it can quantitatively assess companies’ responses to job quality-related questions.
3. **Determine the number and percentage of all jobs supported that exemplify some or all of the five core components of a quality job.** This calculation should be determined first at the individual company level, and then aggregated to the portfolio level.

For impact investors targeting the issue of income and wealth inequality, it is essential not only to assess the quality of jobs supported through one’s investments, but also to determine the demographics of the employees at financed organizations. While outside of the scope of this paper, we recognize that the societal value of creating a job is determined not just by the quality of that job, but also the extent to which a new employee faces barriers to attaining economic opportunities elsewhere. All else equal, an employer that creates quality jobs for disadvantaged populations such as low income individuals, members of racial minority groups, immigrants, women, the formerly incarcerated, and the LGBTQ community is doing more to tackle income and wealth inequality than an employer creating quality jobs for individuals who face fewer structural barriers to opportunity.

By synthesizing a clear definition of a quality job and practical approaches for measuring job quality, *Moving Beyond Job Creation* provides a conceptual foundation that investors and others can use to better understand the extent to which their efforts are supporting quality jobs. However, the challenge before us—improving job quality across the U.S.—will require the concerted efforts of many diverse stakeholders pursuing complementary strategies.

Government plays a critical role in shaping how capital markets function. Public policy can directly influence whether and how financial and commercial activities mitigate—or exacerbate—environmental or social problems, including income and wealth inequality. Policy, therefore, plays a significant role in determining the extent to which investors and the businesses they finance are creating higher quality jobs.

This report focuses on the role that public policy could play to encourage private sector investments in quality job creation, and seeks to answer the following questions:

- **How can policy direct additional capital (primarily private, but also public) toward businesses and projects that create quality jobs?**
- **Which existing policies facilitate investments that lead to quality job creation?**
- **How could these policies be altered most effectively and feasibly to encourage the creation of more—and higher quality—jobs?**

We have identified five existing federal programs and regulations (collectively referred to as “policies” throughout the report) that could be modified so as to direct more capital to businesses that offer high-quality employment opportunities, particularly for people from disadvantaged populations:

1. New Markets Tax Credit (NMTC)
2. Community Reinvestment Act (CRA)
3. Small Business Administration (SBA) Programs
4. Federal Government Procurement
5. Securities and Exchange Commission (SEC) Disclosure

All of the policy ideas we propose build on established government programs, and have the potential to move the needle significantly toward nationwide adoption of quality jobs standards. This report is not exhaustive in that it does not explore all of the myriad policies relevant to domestic job creation. Furthermore, it does not seek to present every detail of potential policy changes. Rather, our objective is to raise awareness and catalyze concrete, informed discussions about key opportunities for policy change, as well as to invite advocates and policymakers to develop a deeper understanding and critically assess the feasibility and potential impact of modifying existing policies to incentivize more investments in the creation of quality jobs.

RESEARCH APPROACH AND METHODS

Literature Review

The available literature on policies that direct capital toward the creation of quality jobs is very limited as this is an emerging area of research and policymaking. Nevertheless, we consulted a broad range of resources on policies relating to employment standards, job creation, and investment in underserved communities. Academic literature, social and economic impact reports, interpretive guidance from regulatory agencies, public comments, and publicly available reports on the performance of financial institutions and businesses all contributed to our understanding and selection of the policies highlighted in this paper.

See **Appendix B** for a comprehensive list of resources examined as part of our literature review.

Identifying Policy Opportunities

The literature review and initial exploratory interviews included research and discussion on a broad range of policy areas. We narrowed our focus to include only policies that meet the following three criteria:

1. Policies with broad reach and where changes are likely to support the creation of a significant number of quality jobs.
2. Policies that have directed large amounts of capital successfully to underserved markets.
3. Policies with a demonstrated link to job creation or a precedent for modifications that adapt to evolving community needs.

Once we identified five policy areas that met these criteria, we engaged in additional research and interviews in order to identify and assess specific policy changes and assess their feasibility. For a broader discussion of the policy landscape, refer to page 17.

In-Depth Interviews

We conducted in-depth interviews with over 30 experts and leaders across the nonprofit, public, and private sectors, including individuals directly involved with creating, implementing, and regulating public policy programs. We approached these interviews with the following objectives:

- Gain an in-depth understanding of the history of each policy and how it works in practice.
- Identify which aspects of each policy could be revised in order to direct more capital toward the creation of quality jobs.
- Understand the policy revision process and evaluate the feasibility and potential impact of each policy change.
- Investigate how various stakeholders, including investors, intermediaries, business owners, regulators, and employees, would be impacted by proposed policy changes.
- Identify potential barriers to success as well as best practices for designing effective policies.

See **Appendix C** for a list of interviewees.

INTRODUCTION

Despite a 5.2 percent increase in real household income in 2015, trends demonstrate that most Americans lack quality job opportunities, as the income and wealth gap between the rich and everyone else has only grown larger over time.^{5,6} Since 1980, the average income of the bottom half of wage earners in the U.S. remained stagnant, even as income for those in the top 1 percent has tripled.⁷ This trend is expected to continue—even accelerate—as the U.S. economy produces relatively more low-wage, poor-quality jobs. Over the next decade, more than 75 percent of the occupations expected to have the largest employment growth require a high school diploma or less.⁸ With the rise of the “Gig Economy,” in which workers have greater flexibility but less financial stability and security, combined with the increase in automation technology in the workforce, many of the traditional avenues for obtaining a quality job in America are disappearing.⁹ Self-driving trucks, for instance, could destroy several million middle class, living wage trucking jobs over the coming decade.¹⁰

Dwindling quality employment opportunities affect not only individuals and families, but also the public at large. Just as good jobs with benefits, living wages, and flexible workplace policies have been shown to produce positive impacts for workers, employers, and local economies, poor quality jobs come at significant public cost. A 2015 University of California, Berkeley study found that low-wage jobs cost American taxpayers \$152.8 billion per year in public services that support struggling families.¹¹ These services include programs like Medicaid, Supplemental Nutrition Assistance Program (SNAP), and Temporary Aid to Needy Families (TANF). The UC Berkeley study found that 73 percent of individuals enrolled in such programs are members of working families.¹²

While changing workforce dynamics have given many Americans cause for concern, there is also reason to hope. A number of community development and small business-focused government initiatives have already successfully driven public and private capital to areas of economic need. By updating these policies with new, targeted regulations, incentives, impact measurement, and information sharing, policymakers have the potential to promote quality job creation throughout the U.S.

Despite the highly polarized political climate in the U.S., citizens and elected officials across the political spectrum agree on the importance of building an economy that creates quality jobs and grows the nation’s struggling middle class. This report identifies five existing policies that could be modified to encourage greater investments in quality job creation. With smart federal policies that measure success not only in the number of jobs created, but in the *quality* of those jobs and their impact on families and communities, we can ensure the continuation of the American Dream: the ideal that everyone should have equal opportunity to achieve success and prosperity through hard work, determination, and initiative.

Defining a Quality Job in the Policy Context

In *Moving Beyond Job Creation*, we articulated a *flexible* definition of a quality job to accommodate the diversity of job types supported by CDFIs and impact investors across a variety of sectors and business sizes. The paper defined a quality job as one that embodies at least three out of five dimensions of job quality. Over the course of this research, however, policy experts and regulators expressed concern regarding the feasibility of employing a flexible definition in the policy context, particularly with regards to the government's ability to monitor and evaluate effectively whether businesses were in fact complying with their commitments to create quality jobs.

Unlike investors, who choose which types of companies and jobs they seek to support—and therefore can employ customized approaches to quality job measurement—government policies that foster job creation apply to a larger, more diverse group of stakeholders, and so must be assessed using a generalizable, rather than industry-specific, quality job definition. For this reason, many interviewees emphasized that to encourage quality job creation effectively with government incentives and regulation, the definition of a quality job must be concrete and rely on existing data already collected by businesses.

Based on these findings, we offer the following *streamlined* definition of a quality job to be used in the policy context, which includes the most essential and feasibly-measurable elements of job quality as cited by many of the 60+ individuals interviewed over the course of this two-year research initiative.

In the Context of U.S. Domestic Policy, a Quality Job Should be Defined as One that Provides:

- **A living wage:** a wage that could support a single working parent with one child.
- **Basic benefits:** at minimum, two weeks of paid leave annually, employer-subsidized health insurance, and a retirement savings plan offered to all full-time employees.
- **A fair and engaging workplace:** workers are provided their schedules at least two weeks in advance and undergo regular performance reviews.

The definition above forms the basis for the policy proposals laid out in this paper.

While career- and wealth-building opportunities are core elements of job quality, we have removed them from this streamlined definition for several reasons. First, it is more difficult to assess, at scale and using a standardized approach, whether an employer has offered opportunities to workers that would help them advance in their career.¹³ Second, while wealth-building opportunities such as profit sharing enhance job quality, interviewees did not rank them highly in importance to job quality relative to wages, benefits, and scheduling concerns. Lastly, including career- and wealth-building opportunities as required components of a quality job would make the definition too stringent: if a quality job was required to embody all five dimensions of job quality, a large number of good jobs in the U.S. would not be considered quality jobs. Incorporating an overly stringent definition of job quality could inhibit policymakers' ability to encourage the creation of quality jobs effectively. Indeed, if a business or investor believes it is too challenging to create quality jobs, they may be less likely to try.

The Role of Policy

The idea of utilizing government programs to address public ills certainly has its critics in the United States. However, the U.S. also has a long record of instituting policies to make financing available to previously underserved communities, helping to revitalize economies and spur job creation as a result. The Community Reinvestment Act (CRA), for example, was passed in 1977 to help end discriminatory lending practices within banks that left many Americans unable to access financial services. The result after nearly 40 years has been a vast expansion of capital and credit to low-income and minority communities across the country. This expansion has in turn increased economic activity in low- and moderate-income communities by allowing more individuals in these areas to borrow, buy homes, and start businesses.¹⁴

Updating CRA and other key policies to incentivize the creation of higher quality jobs stands to generate significant change, especially for low- and moderate-income (LMI) workers. Investors, business owners, and (in the case of procurement) government buyers wield tremendous power through their ability to contribute directly or indirectly to job creation. Each of these players makes decisions about where to commit or seek capital. Effective policy can facilitate the creation of quality jobs by changing the conditions under which these decisions are made, resulting in the channeling of additional capital toward businesses that offer benefits and living wages. Investors, business owners, employees, and their communities can all benefit from such changes.

For example, because of the additional returns investors can earn in the form of tax credits, many have decided to invest in business opportunities in LMI communities through the New Markets Tax Credit (NMTC) program. Between 2003 and 2012, \$31.1 billion was invested in real estate development and businesses operating in low-income communities across the United States.¹⁵

Modifications to NMTC could direct a portion of these investments, which in 2015 alone supported the creation of over 44 thousand jobs, to employers that are committed to offering high-quality jobs.¹⁶ Other policies explored herein have harnessed similarly significant amounts of investment, supporting the creation of hundreds of thousands of businesses and many more jobs in the process. In 2014, financial institutions lent over \$52.5 billion to LMI communities under the CRA, the SBA lent nearly \$29 billion to small businesses unable to access traditional bank financing, and the federal government spent over \$447 billion procuring goods and services from the private sector.^{17,18,19}

Given the reach and historic impact of these programs and regulations, the opportunity presented by incorporating quality jobs standards into existing policy is tremendous. It is time that investors, community development advocates, employers, and policymakers join together to elevate the national conversation on job quality in America and undertake collective action to address wealth and income inequality.

Changes to broader federal policies have the potential to reach millions of workers throughout the U.S., yet both creativity and expertise is needed to implement meaningful policy changes. Creating effective policy can be likened to putting your thumb on one side of a scale to balance it out: nuance is required to get the right touch. In this paper, we will not propose fully fleshed-out policy changes, but will describe several policies in detail and explore several potential modifications that would improve job quality in the United States. The next two sections describe some of the broader, contextual challenges to policy design and some specific approaches to policy change for quality job creation.



Challenges

When effective, economic development, and more specifically the creation of quality jobs, alleviates poverty and fosters local economies that allow businesses and residents to thrive. Any quality jobs-related policy recommendations ought to align with these aims. Our research highlights certain aspects of business, the economy, and community investment that should be considered in order to avoid potentially negative and unintended consequences of policy changes.

A central question for policymakers will be how to design policies that are good for both businesses and their workforces. In order to survive, and in order to expand high quality employment opportunities, businesses must maintain their competitive advantage in the market. Business owners continually contend with powerful market forces that may make implementation of higher wages, more inclusive benefits, or other quality job components difficult. Several of the policies we examine in this paper are already successfully drawing significant amounts of capital into low-income communities, resulting in job creation and other economic benefits. Given this existing impact, care must be taken to create policies that provide incentives and support for businesses to improve job quality, rather than policies that punish businesses for failing to meet job quality standards. Such changes could inadvertently lead to disinvestment from low-income communities or loss of support for existing, successful policies.

Similarly, tension exists in some regions between the need for employment and the need for quality jobs. With regard to economically blighted cities facing high unemployment rates, some community development experts have argued that enabling the creation of even low wage jobs is more feasible—and therefore, more worthwhile—than focusing on generating jobs with benefits and living wages. In the long-run, quality jobs bring more wealth and stability into communities because they support workers in being productive and healthy, advancing in their careers, and planning for the future. However, it may be appropriate to grant exemptions to any new, across-the-board quality jobs standards in geographic areas with extremely high rates of unemployment.

Additionally, in some communities a gap exists between the educational attainment of job seekers and the level of education and skills required by employers. While issues like education or skills gaps are complex, and ultimately lie beyond the scope of this paper, they merit continued dialogue and investigation.

Components of Effective Policy Change

In addition to insights about particular policies, how they operate, and how they could be revised, several themes emerged that inform our approach to making policy recommendations in this paper. We found that effective policy change involves:

- 1. Clear standards.** The research we conducted for *Moving Beyond Job Creation* demonstrated that many different factors contribute to the quality of a job. We have therefore determined that at least three of the five elements must be present for a job to be considered “quality.” Ideally, employers aspire to improve job quality on a continual basis, integrating additional and more comprehensive quality components over time. While this aspirational frame is useful when considering how to support individual businesses in developing best practices, policymakers are charged with setting clear, consistent, and enforceable standards. For this reason, we offer a simplified definition of a quality job for use in the context of developing policy.
- 2. Public participation.** The role of regulatory agencies is to interpret and enforce policy in a way that aligns with the needs of the public, as expressed through legislation or public comment. It is therefore vital that stakeholders speak up about the precedents, standards, and definitions that are important to them. This includes advocating for higher job quality standards at the local level, such as through community benefit agreements or city ordinances, understanding federal legislation like the CRA to advocate for community needs, and engaging in the national conversation about job quality and the policy change process.²⁰

4. Appropriate incentives. Policies must be designed so that they align the interests of all stakeholders to the greatest extent possible. It is important to consider the amount of control that each stakeholder has on the desired outcome and to identify incentives that are meaningful to each stakeholder.

5. Greater transparency, leading to greater compliance. The act of reporting on performance metrics (such as quality jobs metrics) can in itself drive behavior change. Reporting brings internal awareness of performance and provides external players such as regulators and community members the opportunity to exert greater influence on businesses. In all of the policies highlighted in this paper, accurate, accessible public reporting of quality jobs metrics is important.

6. Optimism. We encountered two types of pessimism in the course of our research: 1) the view that defining and creating mandates around the quality of jobs offered by businesses throughout the U.S. is beyond the scope of government's authority, and 2) the view that while these issues may be in the purview of policymakers, it will be challenging to "get the right touch" and create policies that will effectively and substantially improve the quality of jobs across the country. Countering this pessimism, we are guided by the following beliefs: first, that public policy has tremendous power to drive social change, as evidenced by a number of the policies we have examined in this report and in past studies; second, that government can be a powerful ally to private enterprise, and has historically promoted economic interests alongside social good in myriad ways; and third, that adding quality jobs metrics to economic development policies furthers the existing aims of the programs.²¹ When public dollars are spent on community development, these funds ought to result in the greatest possible benefit for the public. Quality jobs make individuals and their communities healthier and more resilient, and should therefore be a key outcome for community development initiatives.

Policy Framework

In [*Impact Investing: A Framework for Policy Design and Analysis*](#), a 2011 report by PCV InSight and the Initiative for Responsible Investment at Harvard University, we proposed a policy framework for the role of government in impact investing. The framework identifies three types of relevant policies:

1. Policies that **develop the supply** of capital available for impact investments.
2. Policies that **direct available capital** toward impact opportunities.
3. Policies that **develop the demand** for impact investments.

The latter two are particularly relevant in this context. The majority of the policy recommendations that we make in this paper can be categorized as directing capital toward the creation of quality jobs, as they focus on transactions between investors, intermediaries, and employers. While these policies can support the flow of capital, it is equally important to support businesses in building their capacity to offer high quality employment opportunities, and thus their capacity to receive capital earmarked for high quality jobs. This kind of support is **demand development**.

Business advising and workforce development are two important strategies for demand development. CDFIs, the SBA, and other intermediaries should develop and share best practices for improving job quality in the most effective and efficient way. With advising, businesses may be able to incorporate best practices, improve job quality, reduce employee turnover, and become eligible for additional sources of capital.

Workforce development programs give individuals the opportunity to enhance their skills, knowledge, and in some cases, experience, so that they are better prepared for employment. As we support businesses in creating higher quality jobs, we must also prepare individuals to develop career-advancing skills.



Current Policy Landscape

We have elected to focus on five federal programs and regulations with the potential to direct more capital toward the creation of quality jobs. However, there is a multitude of other local, state, and federal policies designed to improve job quality for American workers. There are still others that could be modified in order to serve this aim. Here we offer a brief portrait of this overall policy landscape.

Perhaps the most visible effort has been a series of campaigns operating at a local, state, and national level **to raise the minimum wage or provide a living wage for all workers**. Whereas before 2012, only five cities or counties had minimum wage ordinances, as of March 2017 there were forty-two.²² Twenty-nine states and Washington D.C. have set the minimum wage above the national wage of \$7.25 per hour. Eleven states link their minimum wage to the consumer price index.²³ In addition to local and state ordinances, federal legislators have been involved in efforts to raise the national minimum wage.

Senator Patty Murray and Representative Robert Scott, for example, introduced the Raise the Wage Act of 2015 in April of that year. If passed, it would raise the federal minimum wage incrementally to \$12 per hour by 2020, at which point the minimum wage would be indexed to median wages.²⁴

A second aspect of quality jobs—basic benefits—is gaining traction through legislation mandating that employers **offer retirement accounts**. In January 2015, Illinois became the first state to pass a state-sponsored program that requires private-sector employers to offer employees an IRA (Individual Retirement Account). Similar legislation is in process in twenty-eight other states.²⁵

Though some features of a “fair and engaging workplace” such as “worker engagement” may be harder to legislate, there are concerted efforts underway to promote the practice of **offering scheduling that is flexible and predictable**. For example, in 2014, the City of San Francisco passed the “Retail Workers Bill of Rights,” which includes a requirement that retail employers post schedules at least two weeks in advance.

If employers change the schedule with less than a week’s notice, employees are compensated for one to four hours of pay, depending on the amount of notice given.²⁶ In July 2015, Senator Elizabeth Warren introduced the “Schedules that Work Act,” which, although unlikely to be passed, would give employees the right to request changes in the number of hours or times they are required to work, the amount of notification given, and the amount of monthly fluctuation in hours.²⁷ Employers would have to make a good faith effort to meet employee requests.²⁸

In addition to policies designed to ensure the delivery of certain components of quality jobs, there also exists a wide variety of policies linking financial incentives to the creation of jobs, with variance in how specific they are as to the quality of the jobs. One of the most high-profile is the **EB-5 Visa Program**, which enables foreign investors to gain a permanent visa to reside in the United States in exchange for making a significant investment of capital in an American business that will create at least ten additional jobs. While the program has been applauded for attracting investments totaling \$6.5 billion in the decade between 2005 and 2015 and supporting 130,000 jobs, it has also been criticized for lack of oversight and its inconsistent record of directing dollars to communities that need them most.²⁹ Because of these concerns, and because the program was set to expire in the fall of 2016 (though it was subsequently extended through 2017), we did not select it as one of the policies explored in this paper.³⁰

Many states offer **financial incentives to corporations that relocate and create jobs in-state**. For example, Arizona offers a tax credit of \$9,000 per job created, disbursed over three years. Companies must meet minimum requirements for the number of jobs created and the amount of capital invested in the state. They must also pay 100 percent of the median county wage and cover 65 percent of the health insurance costs of each employee.³¹ While these programs have in some cases proven effective in supporting local job creation, they have been criticized as simply incentivizing companies to operate in locations which reduce their tax burden without demonstrably increasing the *net* number of new quality jobs in the United States.

Community Benefit Agreements (CBAs) are a tool used by local governments to ensure that private businesses that receive tax credits or other benefits from the city conduct business in a way that benefits the community. Common terms of CBAs include the creation of jobs, offering a living wage and healthcare programs for employees, local hiring, apprenticeship or job training programs, as well as other non-employment related benefits such as the creation of affordable housing or community facilities.³²

Finally, **benefit corporations**, a new legal structure that allows businesses to incorporate social aims explicitly into their mission, and which requires them to consider the impact of all business decisions on a broader set of stakeholders—including shareholders, employees, customers, their local community, and the environment—has the potential to contribute to the creation of higher quality jobs. Since 2010, thirty-one states have passed benefit corporation legislation and seven are in the process of doing so.³³ Many benefit corporations seek third-party certification through a nonprofit, B Lab.³⁴ B Lab assessment requires companies to answer over one hundred questions, including some that pertain to job quality. As more businesses seek the designation of certified “B Corp,” greater attention will be brought to the importance of quality jobs. Nevertheless, without publicly available data on job quality among B Corps, it is difficult to track or influence the degree to which benefit corporations and B Corps create quality jobs.



POLICY CASE STUDIES IN BRIEF

The following section includes summaries of in-depth case studies focused on five federal policy initiatives and regulations that, if modified, have the potential to support the creation of quality jobs. These include: New Markets Tax Credit (NMTC), the Community Reinvestment Act (CRA), the Small Business Administration (SBA) Programs, Government Procurement, and SEC Disclosure.

Each case study includes a policy summary followed by an exploratory discussion of several opportunities to increase investment in quality job creation. Full case studies of the five policies examined in this research can be found in **Appendix A**, which is only included in the online version of this report.

Quality Jobs Policy Checklist

Here we offer a practical tool for verifying whether policy changes will likely be effective in promoting investment in the creation of quality jobs. This checklist would be applicable in the context of modifying sections of NMTC, the CRA, SBA programs, or government procurement policies, as well as designing a broad range of local, state, or federal policies governing investment in quality jobs.

- ✓ Does the policy include **adequate and clear quality jobs standards for employers?**
- ✓ Is there a clear **clawback* mechanism?**
 - » Is the clawback **mandatory?**
 - » Is the clawback **pre-defined?**
- ✓ Does the policy require **adequate transparency in reporting?**
 - » Are employers, intermediaries, and/or investors required to report on both their **intended impact** (as it relates to the creation of quality jobs) and their **actual impact** at regular intervals?
 - » Are regulators required to report to the **public** on the **intended impact, actual impact, and award of subsidies/enforcement of claw backs** for each employer, intermediary, and/or investor?

* A clawback is an action whereby an employer or benefactor takes back money that has already been disbursed, sometimes with an added penalty.

NEW MARKETS TAX CREDIT (NMTC) PROGRAM

POLICY OVERVIEW

Through the New Markets Tax Credit Program, the federal government allocates tax credits totaling \$3.5 billion annually for qualified investments made to support the development of low-income communities. The tax credits are distributed through certified community development entities (CDEs), which serve as intermediaries between investors supplying capital and community groups applying for loans. Investors receive a tax credit of thirty-nine cents for each dollar invested and CDEs are often able to offer better loan terms than those generally available elsewhere.

RECOMMENDATIONS & IMPLEMENTATION

RECOMMENDATION	IMPLEMENTATION
A. Change the selection criteria for CDEs applying for NMTC allocations so that CDEs that make a commitment to quality job creation are more likely to receive an allocation of tax credits.	There is a precedent for modifying the selection criteria in order to encourage investment in highly distressed communities. Because the application process is highly competitive, this policy change is likely to have a significant impact on CDE behavior. This change could be accomplished through an internal process at the CDFI Fund within the U.S. Department of the Treasury.
B. Vary loan terms based on the business' implementation of quality jobs components.	This change could be accomplished through an internal process at the CDFI Fund.
C. Allocate a certain percentage of tax credits for investments committed to the creation of quality jobs.	There is a precedent for allocating a portion of tax credits to particular communities. This requires an act of Congress.
D. Mandate reporting on quality jobs measures (e.g. using Impact Reporting Investment Standards metrics). ³⁵	This change could be accomplished through an internal process at the CDFI Fund.
E. Revise definition of qualified active low-income community business (QALICB) to reference quality jobs.	This requires an act of Congress.

POTENTIAL IMPACT

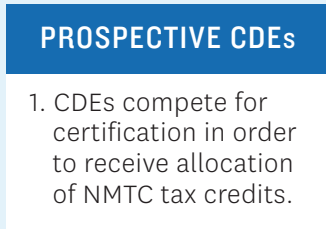
A total of 44,992 total jobs were created or retained by NMTC projects that closed in 2015 including 26,288 full-time jobs and 18,704 construction jobs.³⁶ Depending on the details of the policy revisions made, there is a potential to improve job quality for tens of thousands of individuals each year through NMTC.

NEW MARKETS TAX CREDIT PROGRAM

Policy Recommendations

A

Change the selection criteria for CDEs applying for NMTC allocations so that CDEs that make a commitment to quality job creation are more likely to receive an allocation of tax credits.



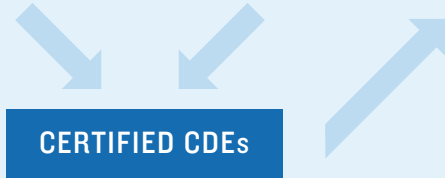
C

Allocate a certain percentage of tax credits for investments committed to the creation of quality jobs.



3. Investors contribute capital to CDEs.

5. Investors claim tax credit of \$.39/dollar invested.



B

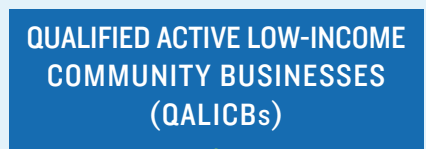
Vary loan terms based on business' implementation of quality jobs components.

4. CDEs Issue loans.

6. QALICBs repays loan

D

Mandate reporting on quality jobs measures.



E

Revise definition of QALICB to reference quality jobs.

OUTCOME OF POLICY REVISIONS



THE COMMUNITY REINVESTMENT ACT (CRA)

POLICY OVERVIEW

The Community Reinvestment Act was passed in 1977 largely in response to the practice of redlining.^{37,38} Since its passage, the law has been successful in ensuring that financial institutions provide credit and financial services to all demographic segments of a community regardless of race, socioeconomic status, or other demographic factors. Under CRA regulations, qualifying banks must demonstrate each year that they have provided sufficient services to their community either directly, or via a financial intermediary (such as a CDFI). Financial institutions governed by the CRA (which include FDIC-insured depository institutions, such as national banks, savings associations, and state-chartered commercial and savings banks) undergo regular examinations and receive ratings to ensure compliance.

RECOMMENDATIONS & IMPLEMENTATION

RECOMMENDATION	IMPLEMENTATION
A. Add a statement in the “Interagency Questions and Answers Regarding Community Reinvestment” (Q&A) stating that examiners may take quality job creation into account when determining a bank’s rating. The Q&A serves as a set of examples and guidelines for banks to ensure compliance with the law. To encourage more investment in job quality, the Q&A could include examples of acceptable quality job metrics that would factor into CRA ratings.	The regulatory agencies governing the CRA periodically revisit the Q&A in order to ensure that interpretation of the CRA regulations is in line with the current business environment. The agencies ask for public comment, consider proposed alterations, and issue changes to the Q&A where appropriate. While this is a slow process (often taking several years), regulators are responsive to stakeholder needs.
B. Create a public dashboard with data from the CRA examinations, including data relating to the quality of jobs created or supported, granting the public access to additional information on banks’ performance.	This change could be achieved through an agency action or an executive order.

POTENTIAL IMPACT

Each year, a large amount of capital is invested in the form of loans to businesses in low-to moderate-income communities and community development loans. In 2014, financial institutions under CRA invested over \$52.5 billion and over \$74.6 billion, respectively.^{39,40} The combination of administrative guidance and public visibility enabled through changes to the Q&A and/or the creation of a public dashboard of bank activity and impact would likely encourage banks to invest more in businesses and projects that create quality jobs.

COMMUNITY REINVESTMENT ACT

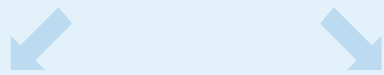
Policy Recommendations

A

In the Q&A, state that examiners may take quality job creation into account when determining a bank's rating.

FEDERAL REGULATORS

The Q&A issued by the regulators guide banks and examiners in determining what activities constitute compliance with the CRA



B

Create a public dashboard with CRA examination data

EXAMINER

Assesses bank compliance with CRA, issues a rating and report

BANKS

Strive to meet needs of the community

COMMUNITY

OUTCOME OF POLICY REVISIONS

Banks support the creation of more quality jobs.

Community hold banks accountable for supporting quality jobs and businesses providing high quality jobs are able to access more capital.

SMALL BUSINESS ADMINISTRATION (SBA)

POLICY OVERVIEW

The Small Business Administration (SBA) is a government agency devoted to advancing the small business sector and creating jobs in the U.S. They provide a range of services including facilitating the provision of debt or equity financing to small businesses, supporting small business owners with technical assistance, increasing opportunities for small businesses to secure government contracts, and advocacy. Though the SBA has made some efforts to promote elements of quality jobs (e.g. flexible scheduling and healthcare benefits) among the businesses it works with, it has not incorporated quality jobs standards in a consistent way across its programs. Research suggests that while the SBA has had great success in creating jobs and promoting economic growth, particularly through its microloan program and among low-income and minority communities, many of those employed by SBA-supported businesses do not earn a living wage.⁴¹ Further research is needed to assess the prevalence of other job quality standards among SBA supported businesses.

RECOMMENDATIONS & IMPLEMENTATION

RECOMMENDATION	IMPLEMENTATION
A. Collect data on implementation of job quality standards among all businesses participating in SBA programs and create and maintain public database with this information.	Project could be initiated by the SBA or through an executive order.
B. Introduce new job quality provisions to the SBA 7(a) Community Advantage (CA) and 504 loan programs. ¹ <ul style="list-style-type: none">a. Offer larger guarantees for loans made to businesses that provide quality jobs.b. Reduce or eliminate loan fees paid to the SBA for quality job providers.c. Tie loan eligibility to job quality standards.	Requires an act of Congress. There are precedents for similar policy changes.

* These proposed changes intentionally exempt the Microloan Program, which produces critical social and economic outcomes and for which the implementation of quality jobs standards would likely adversely affect already vulnerable microenterprises who often lack the resources and capacity to offer quality jobs.

POTENTIAL IMPACT

In 2015 alone, the SBA oversaw the delivery of \$33 billion in loans through its 7(a) and 504 programs, collectively supporting over 680,000 jobs.⁴² Adding provisions to its loan programs has the potential to improve job quality for as many as 700,000 American workers, while changes to its other programs could further expand this impact. While only a fraction of all small businesses in the U.S. work directly with the SBA, this agency is an important source of information and resources for small business owners, and is positioned to develop and disseminate best practices and set new precedents for improving job quality. Given that over 56 million Americans were employed by small businesses in 2015, this is a critical arena for the improvement of job quality in the U.S.

SMALL BUSINESS ADMINISTRATION

Policy Recommendations

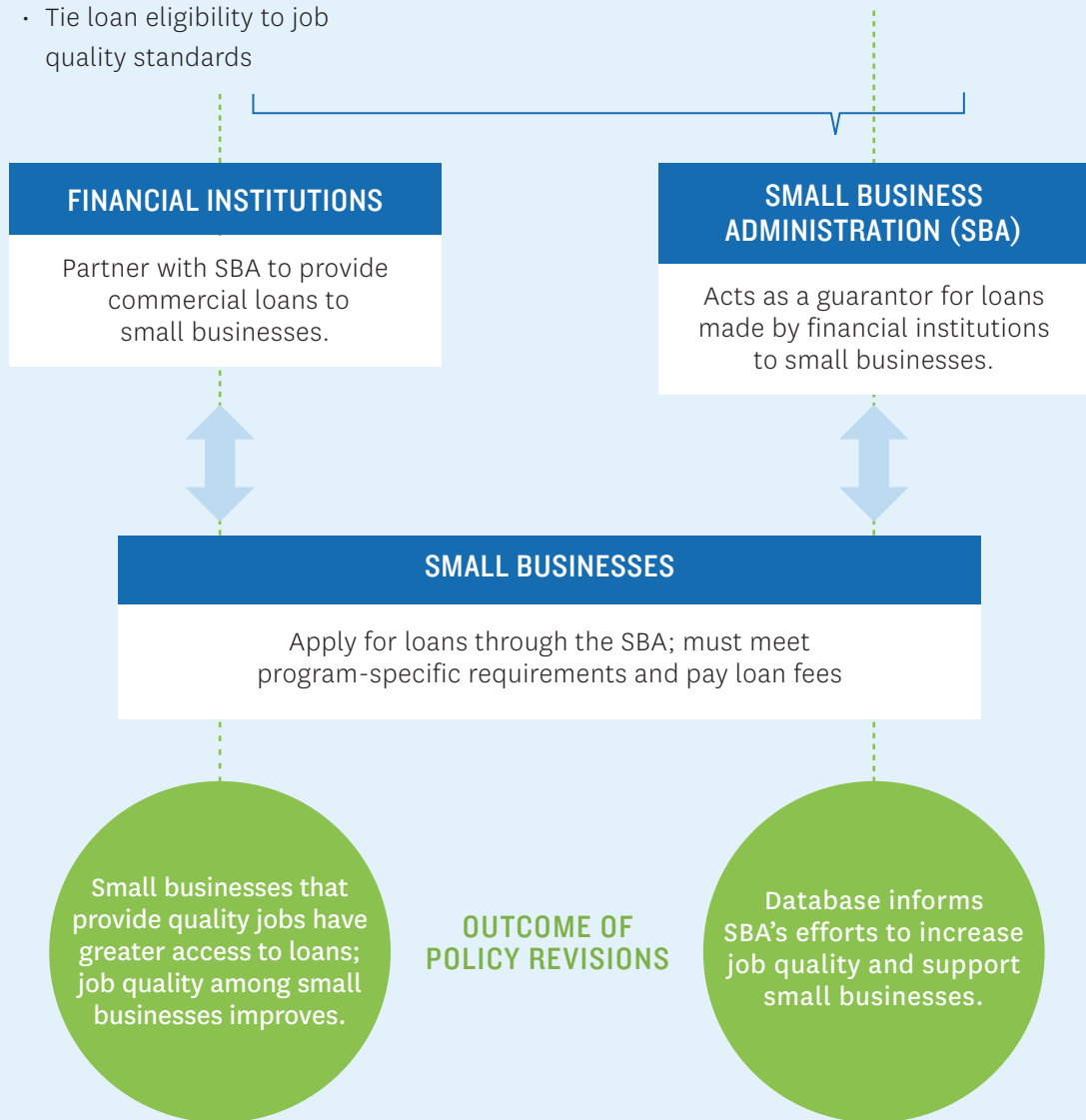
A

Offer larger guarantees for loans made to businesses that:

- Provide quality jobs
- Reduce or eliminate loan fees for quality job providers
- Tie loan eligibility to job quality standards

B

Collect data on implementation of job quality standards among all businesses participating in SBA programs and create public database.



GOVERNMENT PROCUREMENT

POLICY OVERVIEW

The U.S. federal government purchases (or “procures”) an estimated \$400 billion per year of goods and services from the private sector.⁴³ Through procurement, the government supports job creation and contributes to economic development, with the potential to spur growth in underserved markets. Various regulations guide government spending, including provisions to allocate a certain percentage of bids to small businesses, with specific targets for women- and minority-owned businesses, and mandates for federal contractors to pay a higher minimum wage (\$10.10 per hour) to their employees.⁴⁴ Due to the sheer volume of government purchases, revisions to procurement policies encouraging or requiring businesses to implement higher job quality standards have the potential to improve job quality for millions of Americans.

RECOMMENDATIONS & IMPLEMENTATION

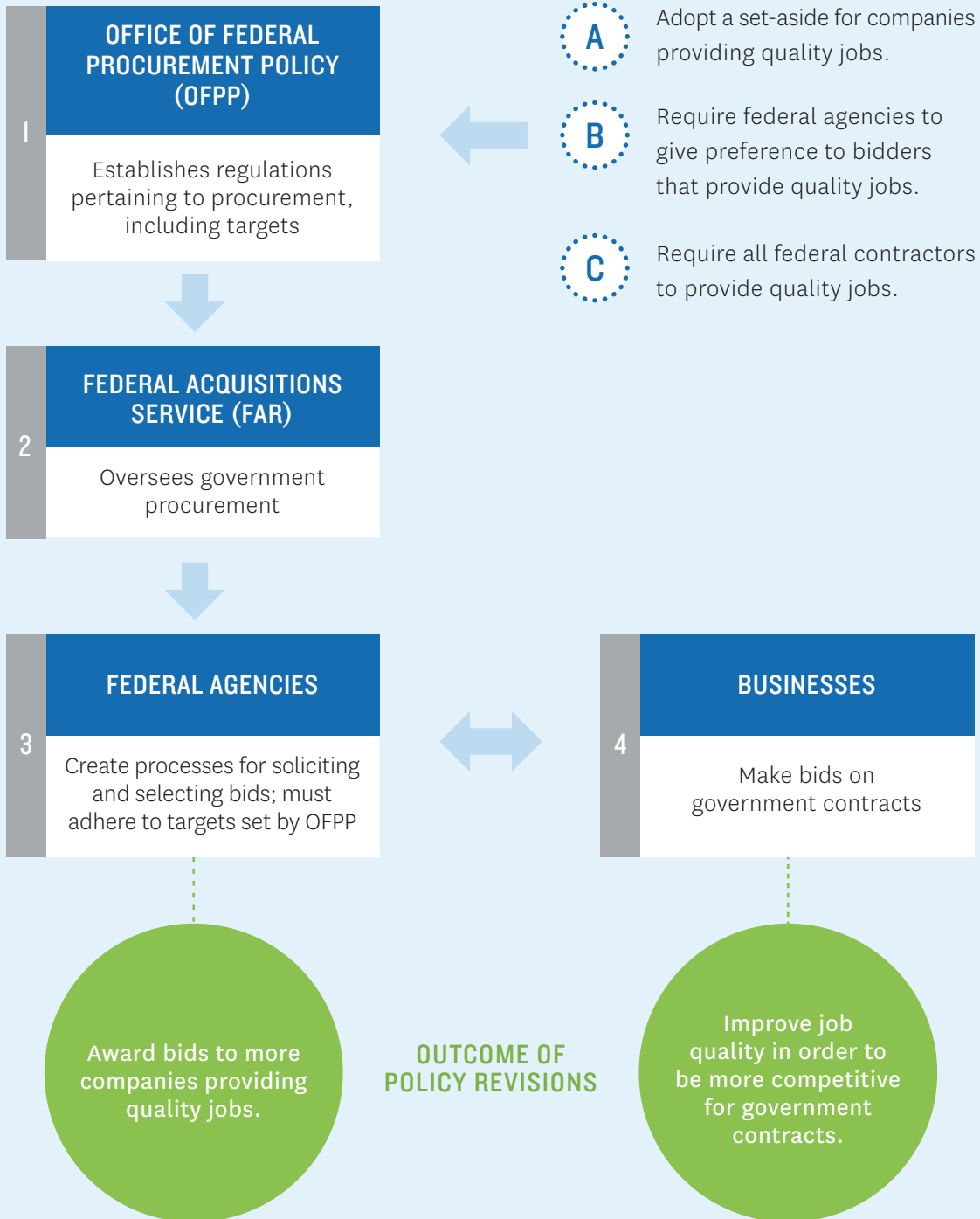
RECOMMENDATION	IMPLEMENTATION
A. Adopt a procurement set-aside for companies that provide high quality jobs. Like existing set-asides (e.g. for small businesses, women- or veteran-owned businesses, etc.) this mandate would allocate a given percentage of all government contracting opportunities to businesses that meet specific impact targets.	Guidance would be provided by the Office of Federal Procurement to federal government agencies.
B. In the selection process to award government contracts, give priority to companies that provide high quality jobs	Guidance would be provided by the Office of Federal Procurement to federal government agencies.
C. Require all federal contractors to adhere to additional quality jobs standards.	Requires an act of Congress or an executive order, similar to those issued by the Obama Administration in 2014 and 2015.

POTENTIAL IMPACT

While no comprehensive estimate has been made of the total number of people employed through government contracts, we do know that in 2014, over 90,000 companies won government contracts and that collectively these companies employed millions of workers.⁴⁵ Applying higher job quality standards to all federal contractors would have the broadest impact, but even creating a set-aside or giving priority to companies that provide high quality jobs will direct a significant amount of federal dollars toward quality jobs providers and generate increased impetus for businesses seeking to do business with the government to improve job quality. Furthermore, these policy changes would signal the government’s commitment to higher labor standards for all Americans.

GOVERNMENT PROCUREMENT

Policy Recommendations



SEC DISCLOSURE

POLICY OVERVIEW

The Securities and Exchange Commission (SEC) was created in 1934 in response to unscrupulous investment activity that contributed to the 1929 Stock Market Crash. Its aim is to ensure transparency in securities transactions and promote a fair, efficient U.S. economy, in part by providing investors (and the public at large) with up-to-date information about publicly traded companies' business activities and financial status. The SEC requires companies that meet certain qualifications to regularly file disclosures containing specified financial and non-financial information. Currently, disclosure requirements relating to labor practices are extremely limited. However, given the growing acknowledgment that employment practices can have a material effect on a company's productivity and sustainability, job quality metrics may take on greater importance in SEC reporting requirements.

RECOMMENDATIONS & IMPLEMENTATION

RECOMMENDATION	IMPLEMENTATION
Update SEC reporting requirements to include job quality metrics for certain U.S.-based publicly traded companies.	Changes to disclosure requirements are under the purview of the SEC's authority. The SEC adopts new rules with input from the public, and through acts of Congress, such as the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

POTENTIAL IMPACT

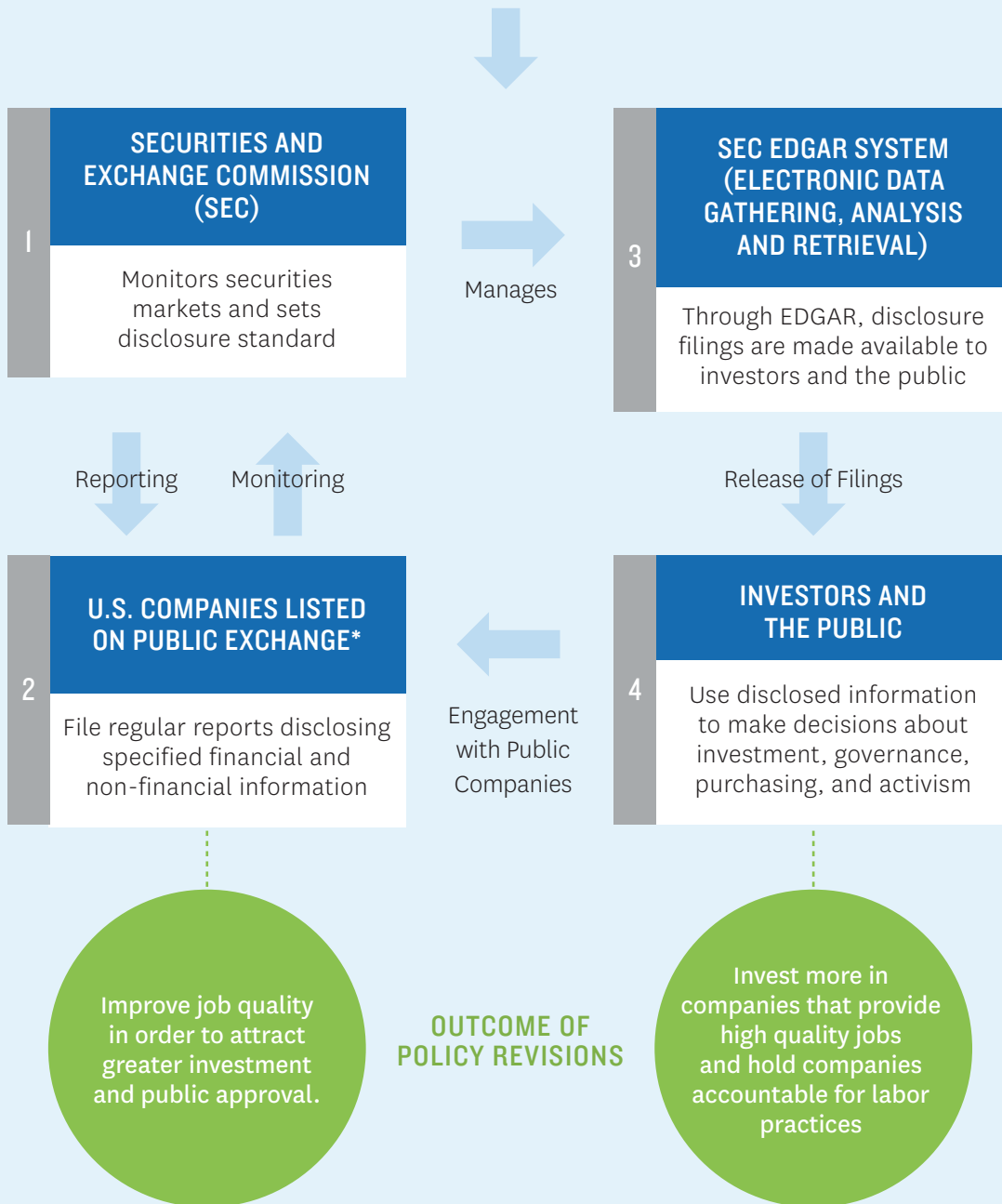
Incorporating job quality metrics into the disclosure requirements for publicly traded companies in the U.S. would bring greater attention to the labor practices of thousands of companies, which collectively employ a significant portion of all those employed in the U.S. To the extent that investors recognize that providing high quality jobs improves the productivity and sustainability of a business' workforce, making information about labor practices available will drive capital toward companies that offer high quality jobs. While the exact numbers of employees or businesses affected by such changes is difficult to gauge, consider that there are approximately 3,700 companies currently traded on U.S. stock exchanges.⁴⁶ Although employment data for all such companies is not available, companies listed on Standard & Poor's 500 Index—representing a subsection of large, publicly traded companies—together employ an estimated 24 million workers.⁴⁷

SEC DISCLOSURE

Policy Recommendations



Update SEC reporting requirements to include job quality metrics for certain U.S.-based publically traded companies.



*And companies meeting certain other qualifications.

CONCLUSION

Recent history shows that aggregate national economic growth alone is not an indicator of economic gains for most Americans, as the vast wealth generated by the U.S. economy over the last thirty years has benefited a fraction of the country's population.⁴⁸ Globalization, in combination with technological advances, has contributed to the large-scale outsourcing or elimination of many American jobs, particularly those not requiring a college education. This trend has, in turn, diminished workers' ability to demand higher wages and better benefits.⁴⁹

While the negative impacts of globalization and technological progress on U.S. labor markets cannot be entirely mitigated by creating more quality jobs, close cooperation across the public and private sector in support of quality job creation is essential to addressing the issue. The benefits businesses can reap by offering higher quality jobs are manifold—namely, enhancing their ability to attract and retain talented employees, improving the worker performance and productivity, and boosting their public image among consumers and investors. Given the federal government's role in enforcing labor and regulations, facilitating favorable conditions for economic growth, and promoting the public good, policymakers must play a leading role in supporting the creation of quality jobs for all Americans. Without a concerted effort by policymakers, businesses, and charitable organizations to improve job quality standards nationwide, we cannot credibly expect to see substantive changes in the decades-long economic trends that have left millions of American workers behind.

By conducting detailed interviews with over thirty researchers and policy experts, alongside a review of the relevant literature, we learned that to facilitate the creation of higher quality American jobs, policymakers must employ a clear, enforceable and standardized definition of a quality job based on data available to business owners.

For this reason, we adapted the flexible definition of a quality job proposed in our first paper, *Moving Beyond Job Creation*, to meet the needs of the policy context: a quality job must offer a living wage, paid leave, health insurance, a retirement savings plan, predictable scheduling and performance reviews.

After assessing the policy landscape at the federal, state, and municipal level, we identified five government programs and regulations that could be modified so as to facilitate greater private investment into the creation of quality American jobs. These included the New Markets Tax Credit Program, the Small Business Administration, the Community Reinvestment Act, federal government procurement, and the Securities Exchange Commission regulations. We have proposed several modifications to these policies and assessments of potential impact in order to inform advocates and policymakers seeking to improve Americans' access to jobs that provide a decent standard of living.

Next Steps

To enact these or other quality jobs initiatives, policymakers, advocates, regulators, impact investors and business leaders committed to improving the quality of American jobs must convene to discuss and prioritize potential changes to existing policies, and develop roadmaps for enacting policy changes. Forging consensus on how to create more American jobs and improve job quality—often seen as mutually exclusive options—will certainly pose a challenge in the divisive political climate in the U.S. at present. Furthermore, the new presidential administration's resistance to introducing any new regulations on businesses is also likely to halt progress.⁵⁰ We offer this report despite these hurdles in the hope that it will serve as a helpful resource in formulating a coordinated policy agenda to foster high quality job creation in the U.S.—even if such steps are unlikely to be taken at the federal level within the near future.

While this report has identified federal-level policies that could be modified to encourage investments in quality jobs, similar policies exist at the state, county and municipal level—as well as within other countries—that could be adapted to support quality job creation. Additional research focused on identifying high-potential policies, relevant stakeholders, and the government entities responsible for changing them would increase the likelihood and pace of changes occurring in policy in support of quality job creation.

In addition to utilizing policy as a means to support the creation of quality jobs, it is essential that investors and businesses are equipped with the necessary information and tools to create and invest in quality jobs. Critical next steps include:

1. BUILDING AWARENESS OF THE FINANCIAL BENEFITS ASSOCIATED WITH QUALITY JOB CREATION THAT CAN BE REALIZED BY BUSINESSES AND THEIR INVESTORS

To spur the creation of higher quality jobs in the U.S., more investors and businesses must become aware of the significant financial benefits associated with investing in human capital.⁵¹ Improving job quality does not represent solely added costs to business. Rather, allocating human and financial resources to creating higher quality jobs has been shown to increase employee productivity, reduce turnover and hiring costs, enable companies to recruit more talented staff, and bolster a company's reputation with its customers and key stakeholders.⁵² These outcomes can lead to better financial returns for businesses and their investors.

2. DEVELOPING PRACTICAL TOOLS AND RESOURCES OFFERING ACTIONABLE GUIDANCE TO BUSINESSES AND INVESTORS SEEKING TO CREATE HIGHER QUALITY JOBS

While business owners and investors may be interested in enhancing the quality of the jobs they create or support, many do not know where to begin. Access to practical tools and resources would allow stakeholders to gain an understanding of how they can concretely improve the quality of the jobs they create or support. Such toolkits, crafted in consultation with existing quality jobs providers and leading human resource specialists, could include information regarding the selection of appropriate employee training programs, the availability and assessment of no- or low-cost retirement plans, steps for introducing profit-sharing programs, best practices for providing advanced notice to employees regarding scheduling changes, tools to develop effective performance evaluation systems, and other guidance.

3. CREATING SYSTEMS TO CAPTURE AND MANAGE JOB QUALITY INFORMATION TO ENABLE DATA-DRIVEN DECISIONS

In addition to understanding the practical steps required to improving job quality, investors and business owners will require systems that capture and manage job quality data, allowing stakeholders to assess whether and how they are creating quality jobs. For investors, these systems are particularly important in establishing a baseline to identify the approaches and tools that are most effective in supporting quality job creation. By collecting and regularly analyzing job quality data, investors and business owners will be better equipped to make data-driven decisions that advance quality job creation.

APPENDIX A

POLICY CASE STUDIES IN FULL

1. NEW MARKETS TAX CREDIT PROGRAM

Since its inception in 2000, the New Markets Tax Credit (NMTC) Program has successfully drawn private sector capital into low-income communities across the U.S., resulting in job creation and the development of real estate for manufacturing, office space, and retail. The program was designed to counteract the dearth of financing available to distressed communities and has succeeded in leveraging \$8 of private capital for every \$1 of government investment.⁵³ It continues to enjoy bipartisan support, with a number of legislators seeking permanent authorization for the program.⁵⁴

The CDFI Fund allocates \$3.5 billion annually (from 2015-2019) for tax credits, which are distributed through community development entities (CDEs). CDEs are domestic corporations or partnerships that serve as intermediaries between investors and low-income communities by raising capital and managing loans supporting community development. A CDE must be certified by the CDFI Fund and is accountable for serving the needs of the residents of its targeted low-income communities. Investors receive a tax credit of thirty-nine cents for each dollar invested as equity in a CDE, which is distributed over a seven-year period. CDEs are almost always able to offer loans with more flexible terms and/or better rates than other lenders.

KEY TERMS		
CDE	Community Development Entity	Financial intermediary certified by the CDFI Fund to raise capital from private investors and invest it in low-income communities
QEI	Qualified Equity Investment	An investment made by investors into a CDE
QLCI	Qualified Low-Income Community Investment	An investment made by a CDE in the community (or in another CDE).
QALICB	Qualified Active Low-Income Community Business	Businesses eligible to receive investments from CDEs as part of NMTC.

NMTC and Quality Jobs

Due to the strong financial incentive for investors and the competitive nature of the CDE application process to receive tax credit allocations, NMTC has the potential to serve as an effective vehicle to direct more capital to businesses creating quality jobs. Over its history, projects receiving financing through NMTC have created 750,000 jobs. Moreover, given its wide reach in low-income communities, revising NMTC so that it promotes quality job creation has the potential to improve employment opportunities significantly for those in greatest need.⁵⁵

Recommendations

A. Change the selection criteria for CDEs applying for NMTC allocations so that CDEs that make a commitment to quality job creation are more likely to receive an allocation of tax credits.

The CDE application process to receive tax credit allocations is highly competitive, with six times more demand than the available supply.⁵⁶ CDEs are evaluated across four dimensions: community impact, business strategy, capitalization strategy, and management capacity. They strive to earn the highest possible score on their applications, and can, for example, earn more points by agreeing to serve highly distressed communities in addition to the basic requirement of targeting low-income communities. Given that there are far more applications for allocations than available allocations, revising the application process to include quality jobs metrics could be a viable strategy for encouraging CDEs to focus on improving job quality. The CDFI Fund could award more “points” to CDEs that commit to investing in projects that will create quality jobs and/or improve the quality of already existing jobs.

For example, consider two CDEs in different regions of the country, each applying for an allocation of NMTC tax credits with the intention of providing financing for community revitalization projects. In both cases, their vision is to transform an urban area suffering from neglect and economic depression by redeveloping it as a mixed-use district with residential, retail, and office space. Both CDEs intend to work with the local community to incorporate needs such as low-income housing units and employment opportunities. However, only one specifically addresses the need for high quality jobs by committing to work with developers to ensure that both the temporary construction jobs and the permanent jobs (e.g. retail positions) created by the project will provide a living wage, basic benefits, fair scheduling and other components of a quality job.

APPENDIX A

POLICY CASE STUDIES IN FULL *(continued)*

This CDE's application would be viewed more favorably by the CDFI Fund and, all other things being equal, would receive an allocation of tax credits in place of the other one.

While the intentions expressed by CDEs as part of their applications are not in themselves binding, the allocation agreements that they sign if they are awarded tax credits often reflect the content of their applications. CDEs that do not follow through on the commitments made in the allocation agreement (with some margin for variation due to circumstance) are less likely to be awarded additional allocations in the future. There is thus an incentive for CDEs to convey their intentions accurately with regard to quality job creation as part of their application and to follow through accordingly.

B. Vary loan terms based on business implementation of quality jobs components.

While changing the allocation application process represents an incentive for CDEs or exerts pressure on CDEs to focus on improving job quality, it would not provide clear incentives for investors or employers. Our research suggests that it may not be effective to alter the financial incentives for those who provide capital to CDEs, but it is important to create an incentive for borrowers to adopt quality jobs practices.

In the current program, the tax credit is an incentive for investors that provide capital to CDEs. Theoretically, this incentive could be altered to encourage additional investment in projects that create quality jobs. For example, the program could be modified to offer a reduced credit for investments that do not result in quality jobs over the seven-year period and an increased credit for those that do. However, this policy concept is flawed. Many banks and other investors will make investment decisions based on the guaranteed (i.e. lower) tax credit amount. Given that they do not have control over borrowers' activities, they may only invest in CDEs if the guaranteed tax credit amount is high enough, with the possibility that altering the tax credit incentive could actually drive capital away from NMTC.

On the other hand, developers and employers receiving capital through NMTC are in a position to improve the quality of jobs associated with a project, and could be influenced by a financial incentive. Currently, businesses receiving loans through NMTC frequently benefit from better loan terms than are otherwise available from other lenders.

These terms could be modified contingent upon employers' fulfillment of job quality requirements. For example, many loans under the NMTC program have an "AB" structure, actually consisting of two loans made simultaneously. In some cases, the second loan has a "put" option, which in essence means that it is forgiven if certain conditions are met. This provision could be made contingent upon the creation of quality jobs. In order to implement this change, the CDFI Fund would modify the CDE application process to include questions about the loan structure and their intention to link the put option to quality jobs. These commitments would be formalized in the allocation agreement. Again, care must be taken to alter the terms in such a way that they will reward the creation of quality jobs but will not exclude businesses in low-income communities from accessing needed capital. There are many factors that could force a business to move, decrease in size, etc., and it is important to take this uncertainty into consideration when designing an incentive structure.

Depending on how the incentives are altered, changes may be a matter of policy and/or protocol. In addition to (or perhaps in place of) legally changing the types of loans available as part of the NMTC program, the CDFI Fund could alter their protocol by asking CDE applicants whether or not they financially incentivize borrowers to create and maintain quality jobs.

C. Allocate a certain percentage of tax credits for investments committed to the creation of quality jobs.

There is a precedent for modifying NMTC allocation awards according to the needs of particular communities. In the early years of NMTC, there was a preponderance of investments made in metropolitan areas. In 2006, in response to a mandate from Congress, the CDFI Fund created a process to reserve a certain proportion of allocations for nonmetropolitan areas.⁵⁷ Similarly, the CDFI Fund could reserve a certain percentage of tax credit allocations for investments tied to quality job creation, either by admitting a certain proportion of CDE applicants who are committed to quality job creation or by mandating that each CDE use a certain portion of its tax credits for investments with quality job standards.

APPENDIX A

POLICY CASE STUDIES IN FULL *(continued)*

D. Mandate reporting on quality jobs measures.

There is some evidence that mandated reporting itself impacts behavior, both because greater transparency allows various stakeholders to exert pressure on businesses to improve, and because it raises business owners' awareness about their own practices and how they compare to peers.⁵⁸ Requiring CDEs to report on quality jobs (as defined previously) for all investments would bring greater attention to this aspect of community development with or without other policy revisions.

CDEs must submit quarterly reports called Quarterly New Markets Reports (QNMRs) once they have begun to make loans and distribute tax credits. The reporting requirement currently includes the number of full time equivalent jobs created or retained.⁵⁹ The QNMRs would be a natural place to require reporting of the number of quality jobs supported.

E. Revise definition of QALICB to reference quality jobs.

A more comprehensive policy option is to revise the definition of a qualified active low-income community business (QALICB) such that *all* investments through the NMTC program would be subject to quality jobs standards. Currently, a business is considered a QALICB if “at least 50 percent of the total gross income of such entity is derived from the active conduct of a qualified business within any low-income community” and if a “substantial portion of the use of [the entity’s] tangible property” and a “substantial portion” of the services performed by the employees of the entity are within a low-income community. Further provisions requiring a QALICB to create only quality jobs could be added.

Businesses continually seek to develop and maintain their competitive advantage, which can exert powerful pressure against activities that affect the bottom line, such as increasing wages or benefits. In some cases, a tension exists between a community’s immediate need for job creation due to unemployment and a community’s long-term need for quality jobs that can increase the wealth and wellbeing of workers and their families for years to come. It may be prudent to include an exception to the expanded definition of QALICBs in communities experiencing unemployment above a certain level, where quality jobs mandates or incentives would serve only to direct needed capital away from businesses. Another option is to introduce a graduated process of implementation, in which an additional element of job quality is added each year over the course of the investment.

Potential Impact

The NMTC program has supported the creation of 750,000 jobs since inception through billions of dollars of investment in low-income communities. A total of 44,992 jobs were created or retained by NMTC projects that closed in 2015, including 26,288 full-time jobs and 18,704 construction jobs.⁶⁰ Investments totaled \$31.1 billion from 2003 to 2012, with over \$4.4 billion made in 2012 alone.⁶¹ Policy revisions to the NMTC program have the potential to direct billions of dollars toward the creation of thousands of quality jobs each year.

Furthermore, the potential impact of these policy changes transcends the number of dollars or jobs. The NMTC program explicitly targets low-income communities where the potential impact of quality job creation is enormous. Jobs that pay a living wage and include benefits and retirement options can help end cycles of poverty and reduce reliance on public welfare programs, cutting down on public spending in the long-run. Beyond the creation of quality jobs itself, this set of policy changes has the potential to serve as a model for investors, intermediaries, and employers across the country.

2. THE COMMUNITY REINVESTMENT ACT

In the 1960s and 1970s the federal government passed a series of legislative measures that addressed the discrimination faced by low-income and minority communities in relation to housing, financial services, and other critical economic resources and opportunities. Among them was the Community Reinvestment Act (CRA) of 1977, which set the expectation that FDIC-insured depository institutions, including national banks, savings associations, and state-chartered commercial and savings banks, would intentionally meet the credit needs of their entire community. Whereas many banks had participated in redlining, a discriminatory practice in which financial services were denied to residents of particular neighborhoods based on assumptions about their credit-worthiness, the CRA requires banks to periodically demonstrate the extent to which they are engaging with and serving the low- to moderate-income (LMI) communities within their geographic area. The law has worked well, granting millions of Americans and businesses access to financial services they would have otherwise been denied. Nevertheless, enforcement of the law has required periodic updating—mostly in the form of changes to the Interagency Question and Answers—in order to ensure that the CRA keeps pace with new financial practices and the needs of consumers.⁶²

APPENDIX A

POLICY CASE STUDIES IN FULL *(continued)*

In order to maintain compliance with the CRA, financial institutions undergo regular examinations conducted by one of three regulatory agencies: the Office of the Comptroller of Currency (OCC), the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (FDIC). Depending on their classification as a small bank, intermediate small bank, large retail bank, or wholesale or limited-purpose institutions, each financial institution is evaluated according to a particular schedule and is based on their lending, investing and/or service activities. The public has an opportunity to provide feedback about how a particular bank is or is not serving community needs and these comments are incorporated into the examiner's evaluation. Financial institutions earn a rating of "outstanding," "satisfactory," "needs to improve," or "substantial noncompliance." While some parts of the evaluation remain confidential in order to protect banks' proprietary methods, the rating and a narrative explanation of the bank's activities are made available to the public. Aside from contributing to a bank's reputation, CRA ratings become salient when a bank submits an application to merge, add a branch, make an acquisition, or expand its powers. Applications can be denied if the bank does not have a satisfactory rating.

The CRA and Quality Jobs

The CRA has broad reach and by definition is focused on the development of low-income communities through increased access to financial services and investment. This makes it an appropriate arena in which to incorporate quality jobs standards. Though some critics believe that the threat of receiving a less than outstanding rating is not as strong a deterrent as it once was for banks, others argue that many banks are actually paying more attention to the ratings, given the critical environment they are operating in. Ninety-seven percent of banks evaluated under the CRA receive a satisfactory or outstanding rating each year.⁶³ While some critics point to this fact as evidence that the examination is "too easy," it may be more accurate simply to see banks for what they are: institutions operating in a highly regulated environment, working to meet the legal mandates imposed on them. Thus our research suggests that the CRA is still a powerful regulatory tool. Furthermore, it operates within a long-established regulatory framework and enforcement process.

Because of the CRA's power to influence the activity of banks, adding new requirements through the examination process may seem like a promising strategy. Yet our research suggests that this is not likely to be the most impactful or most feasible approach. While the impetus to earn a satisfactory or outstanding rating shapes the behavior of financial institutions *generally*, it is less clear the extent to which it successfully incentivizes *particular* activities. Many factors are taken into account when determining a bank's rating, and it is rational for banks to concentrate their resources (financial and otherwise) on the activities with the largest impact on their score at the least expense. Given that investment in the creation of quality jobs would only be one among many factors contributing to a bank's score, adding jobs criteria to the assessment would not be likely to lead to significant behavioral change. Furthermore, changing the requirements for compliance would require an act of Congress.

Recommendations

A. Add a statement in the Q&A stating that examiners may take quality job creation into account when determining a bank's rating. Give examples of acceptable quality job metrics.

The Federal Financial Institutions Examination Council (FFIEC) publishes "Interagency Questions and Answers Regarding Community Reinvestment" (Q&A) released by the OCC, the Federal Reserve System, and the FDIC in order to provide guidance to financial institutions, examiners, and the public about CRA compliance. The Q&A provides an opportunity for regulators to respond to the ever-shifting landscape of banking by providing guidance about how to interpret CRA requirements appropriately and how to conduct examinations for compliance.

We recommend the regulators issue a statement explaining that the creation of quality jobs ought to be considered positively when evaluating a bank's compliance with the CRA. The narrative portion of the rating allows examiners to highlight particular initiatives of the financial institution being evaluated and would be a natural venue for drawing attention to initiatives focused on the creation of quality jobs. According to several interviewees, there is a "flavor of the month" culture associated with CRA compliance and if banks know that their efforts will be recognized, there is a good chance that many will take the opportunity to focus on quality job creation. Unlike amending the legal requirements of the CRA, which would require legislative changes, additions or changes to the Q&A result from agency action and are thus more feasible.

APPENDIX A

POLICY CASE STUDIES IN FULL *(continued)*

There are already several references to job creation in the Q&A. For example, one comment clarifies the point that in order to “count” as an economic development activity, a loan, investment, or service, must not only meet a size test (supporting a company below a certain size), but also a purpose test, meaning that it promotes economic development: “These activities are considered to promote economic development if they support permanent job creation, retention, and/or improvement for low- or moderate-income persons; in low- or moderate-income geographies; in areas targeted for redevelopment by Federal, state, local, or tribal governments [etc.]”⁶⁴ In another section of the Q&A, the regulators clarify that “stabilizing” activities include job creation, with a preference for those that create permanent jobs rather than temporary construction jobs. Thus there is a precedent for considering job creation within the scope of CRA activity and prioritizing certain types of investments (i.e. in permanent job creation) over others.

Nevertheless, regulators have not yet articulated that supporting quality job creation should be considered as an important aspect of a bank’s lending activity. In 2014 the regulators asked for public comment on a number of questions, including whether or not “there are particular measurements of impact that examiners should consider when evaluating the quality of jobs created, retained, or improved.”⁶⁵ Despite a number of comments indicating that quality jobs metrics should be included, the regulators published the following comments on July 15, 2016:

*The Agencies recognize that the term “quality” is subjective, not easily defined, and heavily influenced by local economic conditions, needs, and opportunities. The amount of time, resources, and expertise needed to fairly evaluate the quality of jobs created, retained, and/or improved for low- or moderate-income individuals could be overly burdensome for examiners, financial institutions, and small businesses or small farms. However, the Agencies note that examiners are not precluded from considering qualitative factors relative to a particular financial institution’s performance context, including, at the institution’s option, any information provided on the quality of jobs created, retained, or improved through any of the types of activities listed in the Q&A’s description of the purpose test as promoting economic development.*⁶⁶

While noting that examiners are not “precluded” from considering the quality of jobs created is a step in the right direction, we recommend that the regulators assert the importance of quality jobs and incorporate the streamlined definition of a quality job we articulated in the body of this report into the assessment guidelines.

B. Create a public dashboard with data from the CRA examinations.

Currently, only the narrative portion of the assessment and the overall score are made public. However, examiners collect a great deal of data as part of the evaluation process. Making this information available to the public in an accessible format would empower communities by enabling them to directly track the activities of their financial institutions directly, and to benchmark their performance against other banks.

Potential Impact

The CRA governs a large number of financial institutions and therefore a huge amount of capital. The CRA requires banks with assets above a threshold of approximately one billion dollars to make annual reports on their lending activity. In 2014, these financial institutions made loans to businesses in LMI areas totaling over \$52.5 billion (out of a total loan amount of over \$214 billion for all census areas combined).⁶⁷ Additionally, these banks made community development loans totaling over \$74.6 billion.⁶⁸ Because our policy recommendations do not include a mandate that would comprehensively promote quality job creation associated with all of these loans, the expected impact will be substantially less. Still, given the scope of the CRA, if even a fraction of this lending activity is tied to creating and maintaining quality jobs, the potential reach is significant.

Further demonstrating its potential to encourage investments in quality jobs is the role that the CRA has played in growing the CDFI industry, which has created thousands of jobs in underserved communities throughout the United States.⁶⁹

APPENDIX A

POLICY CASE STUDIES IN FULL *(continued)*

3. SMALL BUSINESS ADMINISTRATION

The Small Business Administration (SBA) is a government agency devoted to advancing the small business sector and creating jobs in the U.S. Core SBA services include Access to Capital, or facilitating the provision of debt or equity financing to small businesses; Entrepreneurial Development, or the provision of technical assistance and advice to small business owners and entrepreneurs; Government Contracting, or connecting small businesses with opportunities to provide goods and services to the world’s largest customer—the U.S. government; and Advocacy, or identifying needs and providing a voice for the small business community.

Founded under President Eisenhower in 1953, the SBA grew out of earlier government programs designed to respond to the needs of small business owners impacted by the economic upheavals of the Great Depression and World War II. In addition to supporting small business lending, the SBA’s founding charter dictates that the agency must guarantee a certain portion of government procurement opportunities for small businesses.^{70,71} Since its founding, the SBA has provided millions of loans, contracts, guarantees, and other support services to businesses across the country, creating or sustaining millions of American jobs in the process.⁷²

While the SBA is not a direct lender, it oversees loan programs designed to meet the needs of small businesses that do not have access to traditional bank financing. The SBA partners with financial institutions (private lenders certified under the SBA as Small Business Investment Companies (SBICs); community development organizations; and microlending institutions), which extend SBA-guaranteed funding to small businesses in their communities. The SBA backs all qualified loans and equity investments, decreasing the risk exposure for its partner financial institutions. According to the SBA, “when a business applies for an SBA loan, it is actually applying for a commercial loan, structured according to SBA requirements with an SBA guaranty. SBA-guaranteed loans may not be made to a small business if the borrower has access to other financing on reasonable terms.”⁷³

The SBA operates a number of different services for small businesses,⁷⁴ including overseeing the administration of various types of loan products. These products include general small business loans (SBA 7(a) loans), real estate and equipment loans (SBA 504/CDC loans), microloans, and disaster loans.

It has also launched a number of special initiatives in recent years in response to both business concerns and national policy priorities, including supporting businesses located in rural or LMI areas, and those owned by LGBT individuals, immigrants, women, veterans, and members of ethnic minority groups.⁷⁵ Collectively, these SBA programs serve to promote inclusive entrepreneurship, business growth, and job creation.

KEY TERMS		
SBA	Small Business Administration	Government agency created in 1953 to protect and advance the interests of the small business community in the U.S.
SBIC	Small Business Investment Company	Privately owned investment intermediaries certified by the SBA to provide SBA-backed loans or equity investments to small businesses.
7(a) Loan Program	General Small Business Loans	Under SBA 7(a), borrowers receive access to capital (up to \$5 million) and technical assistance without having to meet traditional collateral standards required by most banks.
CDC/504 Loan Program	Real Estate and Equipment Loans	Loans provided for the purchase of real estate or equipment; loan amounts determined by businesses’ compliance with certain job creation targets and public policy goals.
7(a) CA Program	Community Advantage Program	Loan program designed to help small businesses in underserved communities gain access to affordable credit and technical assistance.

APPENDIX A

POLICY CASE STUDIES IN FULL *(continued)*

SBA Services and Quality Jobs

While they do not have the financial resources and infrastructure of larger, more established companies, small businesses constitute a major engine of economic activity and new employment opportunities in the U.S. According to the SBA, small businesses are currently responsible for the creation of two thirds of all net new private sector jobs in the country, and small business jobs comprise nearly half of the labor force of the private sector.⁷⁶ As a mainstay of the American economy, the small business community is a crucial player in the effort to create and maintain quality jobs throughout the U.S., with the potential to improve the lives of millions of working Americans—both employers and employees. Beyond the social and economic benefits to workers, higher quality jobs have been shown to improve worker productivity and reduce turnover, lowering long-term costs for business owners.⁷⁷

The SBA has acknowledged the business advantages of offering workers benefits like flexible scheduling and paid time off. As part of its Workplace Flexibility initiative, the SBA noted, “Given the high costs associated with recruitment, hiring, training and unnecessary absenteeism, flexible work policies can potentially pay for themselves.”⁷⁸ Furthermore, small businesses have been found to be more likely than large firms to offer workplace flexibility policies.⁷⁹

Despite evidence that a better-compensated workforce is good for businesses, much of the job growth in the U.S. since the 2009 Recession—including among small businesses—has been in low-wage sectors, with workers paid below a living wage and offered few or no benefits.⁸⁰ A 2013 study by the policy research organization Demos estimated that 206,000 workers employed by SBA borrowers received less than a living wage in 2012.⁸¹ Given that the SBA loan programs supported over 609,000 workers that year, Demos’ research suggests that more than a third of those workers did not receive sufficient income to cover basic costs of living in the U.S.⁸²

With regard to basic benefits, the SBA has made public detailed information about incentives for small businesses offering health insurance to their employees under the 2010 Affordable Care Act (ACA). For example, the ACA includes a tax credit program for employers with fewer than 25 full-time employees to offset the cost of providing healthcare coverage for workers.⁸⁴ However, despite the provisions of ACA designed to help small businesses, a 2013 survey conducted by the Agency for Healthcare Research and Quality found that only 33 percent of businesses with fewer than 25 employees offer health insurance to their workers.⁸⁵

The study also found that 65 percent of businesses with fewer than 50 employees do not offer health insurance at all.⁸⁶ The majority of these employers—65 percent, according to the survey—cite cost as the major reason for not offering health insurance.⁸⁷ Given their resource constraints, many small business owners need additional support in extending these kinds of benefits to their workforce.

The SBA has successfully worked throughout its history to spur entrepreneurship and job creation in communities suffering from underemployment, and has produced enormous economic and social good as a result.⁸⁸ Despite these important efforts, however, the agency has the potential to produce even greater impact by focusing its attention on the creation of higher quality jobs across all the small businesses it supports. By adopting a quality jobs focus, the agency could help small business owners who are not already investing in the wellbeing of their employees to implement policies and practices designed to help employees thrive. This effort has the potential to bolster small business workers’ productivity and efficiency, reduce low-income workers’ reliance on publicly-funded welfare programs, and spur increased economic activity in cities and rural areas across America.

Recommendations

A. Collect data on implementation of job quality standards among all businesses participating in SBA programs and create and maintain public database with this information.

While it is widely acknowledged that the majority of new jobs created since the Recession have been non-permanent, low-wage or offering few (if any) benefits, effective policy responses require accurate data on the extent to which small businesses have played a role in supporting higher quality job creation. As the SBA has stated, small businesses are more likely than larger companies to offer benefits like flexible scheduling and paid leave.⁸⁹ However, because small business owners face much greater resource constraints than larger companies, paying workers a living wage and offering benefits like health insurance or wealth-building opportunities can mean the difference between keeping their doors open and shutting down.

More research is required to understand the precise role that small businesses have played in quality job creation in the U.S. We suggest SBA or a qualified third party evaluator conduct a study of the businesses supported by SBA programs to determine what percentage of employees supported have quality jobs, according to the streamlined definition we offer in the body of this report.

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POLICY CASE STUDIES IN FULL *(continued)*

Specifically, researchers should identify the percentage of U.S. small businesses receiving SBA support that offer a living wage and basic benefits to some or all their employees, and the financial costs and benefits of implementing higher job quality standards. This information would help policymakers better understand differences in the quality of jobs across sectors and business types, which would in turn provide insights into how government programs could offer more targeted support for the creation of quality jobs.

The data would also allow the SBA to develop a more comprehensive and nuanced understanding of its social and economic impact. By tracking quality job creation, the SBA could see the extent to which its programs support the creation of jobs that offer living wages, encourage employee retention and productivity, and enable employees to support themselves and their families.

B. Introduce new job quality provisions to the SBA 7(a) Community Advantage (CA) and 504 loan programs.²

The SBA could take steps to adopt a clear commitment to quality job provision through its various lending programs. Adding detail on job quality to its existing 7(a) Community Advantage and 504 loan programs could constitute one important step in ensuring that a greater portion of loans made to small businesses support quality job creation.

The Community Advantage (CA) loan program is one ideal avenue for facilitating the creation of higher quality jobs. CA loans target borrowers in underserved communities. As such, the loans are made through nonprofit, mission-oriented lenders, such as Community Development Companies (CDCs) and community development financial institutions (CDFIs), which are specifically designed to create economic and social impact alongside financial return.⁹⁰ Many of these institutions have in-house expertise in targeting, meeting, and tracking specific social impact goals achieved through their lending activities. For some mission-oriented lenders, these goals already include quality job creation, and many have taken active steps to focus on quality job creation with their borrowers (see PCV InSight's report, *Moving Beyond Job Creation*, and the Opportunity Finance Network's report, *Reducing Income Inequality: How CDFIs Promote Job Quality*, for examples).^{91,92} Given that CDFIs and other community lenders are well placed to create and track social impact through their financing activities in underserved communities, institutions already operating under the CA program are ideal players to facilitate investments in quality job creation.⁹³

Under the SBA 504/CDC loan program, small businesses can receive loans for the purchase of real estate and equipment. The program already has certain job creation requirements tied to the receipt of funding: generally, eligible businesses must create or retain one job for every \$65,000 in loans backed by the SBA. For small manufacturers, the requirement applies for every \$100,000 offered in guaranteed loan funds.⁹⁴

Furthermore, the 504 Loan program has been utilized to target companies that help meet certain "public policy goals," including energy reduction or alternative fuel production.⁹⁵ Since the Recession, job quality has become a key legislative issue at both the federal and state levels, perhaps most notably in debates about raising the federal minimum wage.⁹⁶ Given rising income and wealth inequality and public cost of low-wage work, job quality was a clear policy priority for the Obama Administration.⁹⁷ The SBA is well placed to continue to advance this critical public policy goal through its lending programs.

Changes to the 7(a) CA and 504 loan programs could take various forms, affecting either the lender or the borrower. In all cases, "quality jobs" should be clearly defined and measurable. We offer our own definition outlined in the body of this report, and developed in consultation with CDFIs, impact investors, labor and business specialists, and policy experts. Additionally, any changes to lending practices would need to incorporate size thresholds and geographic specifications for affected businesses. Microenterprises and businesses located in extremely economically depressed areas, for example, should be exempted so as to avoid directing capital away from particularly vulnerable small businesses.

In order to incentivize and support the creation of quality jobs across all businesses supported through its loan programs, the SBA could undertake the following:

1. Offer larger guarantees for loans made to businesses that provide quality jobs.

The SBA could guarantee a larger percentage of loans made to a business with demonstrated high job quality or a commitment to enhancing the quality of its employees' jobs. At present, the CA program offers guarantees of 85 percent for loans up to \$150,000, and 75 percent for loans ranging between \$150,000-250,000.⁹⁸ The SBA could extend government guarantees for up to 90 or even 100 percent of loans made by qualified lenders to borrowers that demonstrate they offer high quality jobs to some or all of their workforce.

POLICY CASE STUDIES IN FULL *(continued)*

Raising the guarantee rate would offer greater protection for lenders, allowing them to make loans to businesses willing to take on the added costs of investing more in their workforce.

This change would not be easy to implement, as it would require an act of Congress. However, important precedents exist for increasing SBA loan guarantees. Under the American Recovery and Reinvestment Act (such as ARRA) in 2009, the SBA increased 7(a) loan guarantees up to 90 percent in an effort to prevent small business lending from halting during the Recession.⁹⁹ The 2010 Small Business Jobs Act extended this guarantee for a second year.¹⁰⁰ Of course, these increases were made in response to a historic recession, and not to address a longer-term economic trend. However, because boosting job quality would have a significant impact on other major areas of economic concern—income inequality and wage stagnation, among others—SBA loan guarantee rates could be raised as part of a larger policy initiative (like ARRA) designed to bolster the national economy.

2. Reduce or eliminate loan fees for quality job providers.

The SBA charges guarantee fees on its loan products, assessed according to the loan's maturity and the size of the guarantee.¹⁰² The fee is paid upfront by the lender to the SBA, but the charge can be passed on to the business owner if the lender so chooses.¹⁰³ In order to help offset the added cost to small business owners of creating quality jobs, the SBA could reduce or eliminate the fees that it receives associated with applying for and receiving 7(a) CA or 504 loans. It could also retroactively reimburse fees for borrowers that demonstrate they have created quality jobs or improved the quality of existing jobs. This move would not only help offset costs to lenders and borrowers, it could also act as an incentive, prompting both lenders and small business owners to explore ways to facilitate the creation of higher quality jobs in order to qualify to receive the fee reduction.

This change would also require an act of Congress. As the change would mean a loss in fee revenue to the SBA, it could increase the federal funds needed to support the affected SBA loan programs. However, as with raising guarantee rates, important precedent exists for reducing fees on SBA loan products. The ARRA and Small Business Jobs Act temporarily eliminated loan fees to small business owners in a further effort to increase lending activity among small businesses during the Recession.¹⁰⁴

The policy helped ensure that lending activity did not falter, despite the economic downturn. Applying the fee reduction to businesses that either provide or take steps to provide quality jobs could help boost quality job creation among businesses receiving SBA-backed loans, improving the standard of living for workers across the U.S. and potentially reducing reliance on publicly funded welfare programs.

3. Tie loan eligibility to job quality standards.

To ensure that all of its businesses either provide quality jobs or take steps to improve the quality of their employees' jobs, the SBA could alter the requirements for loan eligibility to include certain job quality standards. Specifically, the SBA could require businesses of a designated size, age, geography, and revenue level to offer quality jobs to a certain percentage of its workforce in order to qualify for SBA-backed funding. For example, in order to qualify for a 504 loan, an eligible company would need to create one or more *quality* jobs for every \$65,000 in loans backed by the SBA.

This move would likely require an act of Congress, and would constitute the most sweeping change to SBA lending. It would therefore be very challenging to implement. To increase the feasibility of implementing the change, the new provisions ought to apply only to businesses with reasonable means for improving job quality for their employees (as determined by business size, age, and revenue level), so as not to discourage lending to micro- and emerging enterprises, especially in economically distressed areas.

Potential Impact

As of 2014, small businesses—defined as companies with fewer than 500 employees—represented over 99 percent of all employer firms in the U.S., and collectively accounted for almost half of all private-sector employment. In 2015, small businesses employed over 56 million Americans, or about 29 percent of the U.S. working-age population (or individuals between 18 and 65 years old).¹⁰⁶ Given the size of the small business community in the U.S., improvements in small business job quality would impact a large segment of the U.S. population, creating a ripple effect out from employees to their families and broader communities. Raising wages would increase economic activity in cities nationwide, giving workers greater buying power. Extending basic benefits to a larger share of the American workforce—especially in traditionally low-paying, service sector jobs—has the potential to reduce millions of low-income Americans' reliance on taxpayer-funded welfare programs.

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POLICY CASE STUDIES IN FULL *(continued)*

Undoubtedly, the SBA has created immeasurable social and economic benefit in its more than 60-year history, supporting the development of some of the nation’s top companies, creating millions of jobs, and spurring economic activity in areas that need it most. However, considering that the majority of jobs created since the Recession have been in low-wage sectors, and that the nation now finds itself facing a troubling income gap, the SBA has the potential to create even greater social and economic impact by adopting an explicit commitment to improving job quality for small business employees.¹⁰⁷

In 2015 alone, the SBA oversaw the delivery of \$33 billion in loans through its 7(a) and 504 programs, collectively supporting over 680,000 jobs.¹⁰⁸ This job estimate does not include the SBA’s non-lending programs: equity investments, government contracting services, and technical assistance programs, suggesting that the actual reach of the agency is far greater. Adding provisions to its loan programs has the potential to improve job quality for as many as 700,000 American workers, while changes to its other programs could impact even more.¹⁰⁹ The SBA is uniquely positioned to facilitate these changes among small business owners by lowering fees, offering higher guarantees for loan capital, or extending other incentives designed to make it easier for small businesses to adopt quality job standards. Such incentives could help defray the costs associated with offering higher wages and/or benefits to workers.

4. GOVERNMENT PROCUREMENT

Government procurement entails the purchasing of goods and services from private companies by public agencies. By soliciting the labor and products of private companies, government bodies use public funds to employ private sector actors in exchange for construction services, research and development projects, education, food services, and many other types of work that agencies need. More than just expanding employment opportunities in the private sector, procurement holds the potential to put public funds directly to use in spurring economic development, especially in underserved markets.¹¹⁰

Though procurement policies operate across the municipal, state, and federal government levels, they will be explored here at the federal level. The Office of Federal Procurement Policy (OFPP), housed within the White House, establishes federal agency targets and sets certain government-wide regulations for procurement practice. These regulations are described in the Federal Acquisitions Regulation (FAR), a section of the Code of Federal Regulations (CFR).¹¹¹

On the implementation side, the General Services Administration (GSA) houses the Federal Acquisitions Service, which oversees the provision of real estate and goods and services from the private sector for use by government agencies, among other activities.¹¹² Beyond adhering to these overarching laws and regulatory bodies, each federal agency generally has the authority to determine its own procurement needs and solicit businesses accordingly.

In 2012, the System for Award Management (SAM) was designated under FAR to serve as a major database for registered vendors currently doing business with the federal government, and others seeking new contracting opportunities.^{113,114} Many different online platforms exist to connect businesses with contracting opportunities.¹¹⁵ Federal agencies design and implement their own processes for reviewing and selecting bids. Under FAR, agencies are given broad authority to evaluate applications as they see fit, so long as they adhere to certain general rules and standards, including evaluation of costs to find the best value for government spending.¹¹⁶ Generally, applications are reviewed, scored, and ranked according to the extent that they both meet preset criteria for the work opportunity outlined in the agency’s RFP and comply with relevant federal, state, and program regulations.¹¹⁷

KEY TERMS		
OFPP	Office of Federal Procurement	White House office that oversees federal procurement practice and sets guidelines and targets across federal agencies.
FAR	Federal Acquisitions Regulation	System of rules within the Code of Federal Regulations (CFR) that regulate federal procurement practice.
CFR	Code of Federal Regulations	Full set of rules governing federal agencies.
GSA	General Services Administration	Federal agency that facilitates the delivery of supplies and working space for government employees, including through federal purchasing of goods and services from the private sector.
SAM	System for Award Management	Major database for registered vendors currently doing business with the federal government, and others seeking new contracting opportunities.

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POLICY CASE STUDIES IN FULL *(continued)*

Procurement and Quality Jobs

Research has shown that federal spending on contractors has historically supported companies that pay their workers less than a living wage and offer few benefits. A 2013 study by the policy research institute Demos found that out of more than 2.2 million workers employed under direct federal contracts in 2012, an estimated 560,000—or about one out of every four employees—were paid \$12 an hour or less.¹¹⁸ Given the purchasing power of the federal government, federal agencies have enormous potential to direct public dollars toward businesses that promote social and economic benefit for their employees and communities.¹¹⁹

There is significant precedent for utilizing federal procurement practices to advance social and economic goals, including spurring job creation. Small business advocates, for example, have successfully pushed for federal dollars to be directed toward small business owners, especially in underserved demographics. The OFPP works with the Small Business Administration (SBA) to set and monitor progress toward procurement goals for each category of small business as a percentage of overall federal procurement dollars.¹²⁰ Currently, the government aims to meet a statutory goal of allocating 23 percent of all prime federal contracts to small businesses.¹²¹ Targets have also been set for women- and veteran-owned small businesses, among other underserved business types.¹²² Moreover, various presidential administrations have embraced procurement as an avenue for achieving certain policy goals. In 1965, President Lyndon Johnson issued an executive order banning employment discrimination on the basis of gender, race, religion or national origin among companies that contracted with the federal government.¹²³ The law has since been amended to prohibit discrimination based on sexual orientation or gender identity.¹²⁴

More recently, President Obama utilized his executive authority to set higher labor standards in federal contracting, beginning with the setting of a wage floor for contractors. In February 2014, the former President issued Executive Order 13658, “Establishing a Minimum Wage for Contractors,” mandating that all construction and service businesses contracting with the federal government pay their employees at least \$10.10 per hour.¹²⁵ The move constituted a government effort to promote not only higher job standards, but also cost-savings and efficiency in federal spending. Better-paid government contractors, the Administration’s Council of Economic Advisors found, are more productive, motivated, and efficient—and thus better stewards of public funds.¹²⁶

Relatedly, also in 2014, the Obama Administration issued Executive Order 13673, “Fair Pay and Safe Workplaces,” requiring businesses applying for federal contracts of \$500,000 or more to disclose whether they have violated any labor laws—and if so, whether they have taken steps to remedy the violations.¹²⁷ The following year, the Administration issued two more orders in close succession: the Fair Labor Standards Act (FLSA)—Overtime Exemptions, and the Paid Sick Leave for Federal Contractors Act (PSLFC). FLSA Overtime Exemptions significantly increased the salary threshold for employees to be considered exempt from overtime pay under federal contracts, while PSLFC ensures that federal contracting employers provide one hour of sick leave for every 30 hours worked for all covered employees.¹²⁸ These policies constitute important steps in the right direction for securing higher job quality across all companies that do business with the federal government.

At the executive level, the Obama Administration demonstrated their understanding that federal procurement dollars are best spent on businesses that invest in the wellbeing of their employees. Setting specific goals and standards for federal procurement opportunities in this way ensures that a large segment of the nation’s workforce is assured a basic standard of job quality. It also constitutes a powerful signal to the broader market to invest in employee wellbeing by spurring increased competition among businesses vying for government contracts and—more generally—establishing job quality as an essential public good.¹²⁹

There have also been some recent, municipal-level initiatives to extend government contracting opportunities to businesses that meet certain impact standards, including the provision of quality jobs. The City of San Francisco is one prominent example (see box below).¹³⁰ In recent decades, city authorities have implemented policies designed to reward companies that invest in the welfare of their employees.

POLICY CASE STUDIES IN FULL *(continued)*

MUNICIPAL PROCUREMENT AND JOB QUALITY: SAN FRANCISCO, CA

The City of San Francisco has taken several key steps to ensure that it supports the provision of quality jobs through its procurement programs. The following are some of the job quality ordinances passed by the City in recent years:

- The **Minimum Compensation Ordinance (MCO)** issued in 2000 requires that eligible for-profit businesses with more than five employees and receiving \$25,000 or more in City contract work must pay Covered Employees a minimum wage (set on a yearly basis. As of August 2016, the minimum hourly wage is \$13.34, or 34 cents above San Francisco legal minimum wage). Contractors must also provide 12 paid and 10 unpaid days of leave per year.
- The **Health Care Accountability Ordinance** issued in 2001 mandates that companies with more than 20 employees and doing at least \$25,000 per year in business with the City must provide Covered Employees with health insurance benefits, or else pay a fee to the City's Department of Public Health
- The **Equal Benefits Ordinance** issued in 1997 (the first ordinance of its kind in the U.S.) prohibits the City and County of San Francisco from contracting with companies that discriminate in the provision of benefits between employees with spouses and those with domestic partners.

Additional initiatives like those undertaken by San Francisco could be adopted at the federal level, with a focus on companies that provide quality jobs, or else actively take steps to *improve* the quality of their employees' jobs. By prioritizing quality job providers in their selection process, federal government agencies would ensure that federal money is *directly supporting* the provision of good jobs, setting the standard for businesses across the country.

Recommendations

A. Adopt a set-aside for companies that provide high quality jobs.

In the past, the federal government has created procurement set-aside programs for certain segments of the business community, including women-owned, minority-owned, and veteran-owned businesses. Since the creation of the SBA in 1953, the government has been required by law to provide opportunities for the small business community in the U.S.¹³¹ When it is demonstrated that small businesses have the capacity to provide certain services or goods that a government agency needs, the government must allocate a certain amount of contracts for small businesses—a policy also known as a Small Business Set-Aside.¹³²

Likewise, the Women-owned Small Business (WOSB) Federal Contracting Program, adopted in 2011, mandates that all federal agencies set aside five percent of their contracting dollars to WOSB's.¹³³ The government has yet to meet that target, but came close in 2014, with WOSBs receiving 4.68 percent of federal contracting dollars, or about \$17.2 billion.¹³⁴ The SBA carefully specifies what "women-owned" means under the terms of the program. Agencies must, for example, verify that a female business owner makes long-term decisions for the company, and that a woman "holds the highest officer position in the company."¹³⁵

Federal agencies could adopt a similar set-aside program to support quality jobs, mandating that a certain percentage of contracting dollars go to quality jobs providers (according to the basic standards outlined in the body of this report), or to companies that demonstrate a commitment to improving job quality. Since a five percent set-aside was created for WOSBs, we suggest an identical, modest set-aside across federal government agencies to start, with the goal of increasing the percentage over time.

B. In the selection process to award government contracts, give priority to companies that provide quality jobs.

As competition for government contracts is often fierce, business owners are likely to implement changes that would give them a leg-up in the selection process. Federal agencies could award priority consideration to companies that demonstrate they offer more or higher quality jobs than their competitors, according to a pre-set standard. As with any of these amendments, a clear, appropriate standard for assessing job quality would need to be in place so that all businesses could compete fairly, with full knowledge of the specific for receiving priority consideration. However, the standards would also need to allow for some flexibility in how businesses of different sizes are assessed.

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POLICY CASE STUDIES IN FULL *(continued)*

The challenges in offering such an incentive would be in establishing an effective scoring system for assessing competing businesses, ensuring accurate self-reporting by business owners, and making sure otherwise qualified small businesses are not pushed aside by larger companies with less financial need or community impact potential. Such a policy could inadvertently cause federal agencies to favor bigger, more established companies with greater means to invest in their employees, but less need for government business. To address this issue, federal agencies would again need to adopt nuanced, flexible standards for different types of businesses. Qualifications could vary by industry type and size: for example, a smaller business with limited resources could receive more credit for offering the same number of quality job components as a larger competitor in the same industry.

C. Require all federal contractors to adhere to additional quality jobs standards.

Adopting higher employment standards across all federal contracting programs would constitute the most sweeping change to the current system. The move would require an act of Congress or an executive order, like those issued by the Obama Administration between 2014 and 2015. The new job quality regulation could require federal agencies to work *exclusively* with those businesses that provide quality jobs.

Data on whether employers offer some or all of these benefits could be captured in the SAM system. When companies register with SAM in order to be placed in the federal contractor database, they are required to provide information about their company, including number of employees and average annual sales.¹³⁶ Categories and questions could be added to the SAM system, allowing companies to self-report information about the number or percentage of their employees that have quality jobs. This data could be verified by the same means used to verify other information reported via the SAM system. By incorporating a quality job standard into its selection criteria for all federal contractors, the federal government would ensure that it uses public funds to support businesses with a clear commitment to employee welfare. Furthermore, as federal contracts are highly sought after, such a mandate could incentivize companies to adopt new quality job standards in order to improve their chances of winning a bid.

Individual agencies would need to tailor quality jobs standards for the specific business types with which they work, as the nature of work varies across industries. Additionally, if a business does not provide any elements of a quality job for its employees, it could be credited for *taking active steps* toward meeting a certain standard.

One way of going about this is to approach quality job creation as an ongoing process for businesses, and not as a black-and-white mandate. Companies could be awarded contracts not only for demonstrating successful compliance with a given set of standards, but for proving they have *taken steps* toward improving job quality among their employees (for instance, by adopting a plan to raise wages over time or to take advantage of a tax credit for providing subsidized health insurance to employees).

Like all proposed policy changes, compliance and measurement present challenges. In the case of procurement, these issues include the limited capacity of government agencies to measure businesses' compliance with certain standards, and the accuracy of self-reported information. To circumvent these issues, one option is for federal agencies to partner with a third party evaluator – an organization that already possesses a set of nuanced impact metrics and a system for facilitating businesses' accurate self-reporting on job quality.¹³⁷

Potential Impact

As the “world’s largest customer,” the U.S. federal government wields enormous purchasing power, spending an estimated \$400 billion per year on goods and services from the private sector.¹³⁸ By OFPP estimates, more than one out of every six dollars of federal spending goes to contractors.¹³⁹ Where federal agencies direct their spending, therefore, stands to generate significant impact. Federal contracting has been on the decline in recent years, with fewer public dollars spent on a decreasing number of contractors each consecutive year since 2009.¹⁴⁰ Companies winning federal contracts numbered just over 97,000 in 2014, down from over 128,000 in 2012. Budget constraints have been cited as the main reason for the decline.¹⁴¹

Unfortunately, official data on the total number of workers employed under federal contracts has not been compiled, despite a 2015 effort by the Congressional Budget Office to calculate the total.¹⁴² It is therefore difficult to draw precise conclusions about the number of workers that would be impacted by higher quality jobs standards under federal procurement law. However, in a 2014 Demos study, researchers estimated that 8 million workers are employed under federal contracts in low wage positions. From this number, they project 21 million people (workers and their families) are reliant on poor quality, federally funded jobs.¹⁴³

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POLICY CASE STUDIES IN FULL *(continued)*

Raising standards of labor for federal contractors should be a national priority, especially as changes to procurement practice directly impact millions of individuals employed under government contracts.¹⁴⁴ Past procurement initiatives have successfully directed federal dollars to businesses that produce a targeted social or economic impact. Thanks to set-aside programs, certain underserved segments of the business community have received increased access to federal contracting opportunities, despite the overall downward trend in federal spending. Small businesses have received an increasing share of dollars in recent years, making up nearly 25 percent of all procurement spending in 2014.¹⁴⁵ WOSBs have received a growing share as well, receiving 4.68 percent of total spending in 2014, up from 3.18 percent in 2012.¹⁴⁶ The success of these programs in driving up the amount of federal dollars going to underserved businesses demonstrates the potential impact of adopting new selection standards—either across all contracting opportunities, or even just for a certain percentage.

Ensuring that all federal contracting jobs are *high quality* jobs would not only improve the livelihoods of millions of American workers, it would also increase the quality of work performed on behalf of the U.S. government. Finally, it would signify the government's commitment to higher labor standards for all American workers.

5. SEC DISCLOSURE

In response to unscrupulous investment activity and failures in market transparency that led to the 1929 Stock Market Crash,¹⁴⁷ the U.S. passed two pivotal pieces of legislation: the Securities Act of 1933 and the Securities Exchange Act of 1934. The former, known as the “truth in securities” law, mandated public disclosure of certain financial and other information regarding securities for sale on public exchanges¹⁴⁸ and made illegal the misrepresentation of data with the intention to mislead investors. The next year, Congress passed the Securities Exchange Act, which created the Securities and Exchange Commission (SEC) and endowed it with authority and disciplinary powers to oversee securities trading activities.¹⁴⁹

For over 80 years, the SEC has monitored organizations and individuals operating in securities markets, striving to ensure transparency in securities transactions and promote a fair, efficient U.S. economy. The commission enforces company public disclosure, monitors corporate takeovers, and investigates any fraudulent activities intended to mislead investors or unfairly manipulate the market.¹⁵⁰

Under the Exchange Act, a company must disclose information if it meets at least one of three qualifications: 1) it lists a class of securities on a public exchange; 2) its total assets exceed \$10 million and its non-exempt equity investors meet a certain numerical threshold; or 3) it makes a public offering without listing on a securities exchange.¹⁵¹ Companies subject to the law are required to file annual and quarterly reports with the SEC, disclosing certain financial and non-financial information about their business activities to both investors and the broader public.

In the words of the SEC, “The laws and rules that govern the securities industry in the United States derive from a simple and straightforward concept: all investors, whether large institutions or private individuals, should have access to certain basic facts about an investment prior to buying it, and so long as they hold it.”¹⁵² This commitment to transparency and to creating a shared repository of information for investors is central to all of the SEC's activities.¹⁵³ Utilizing its rulemaking authority, the SEC can adopt or reform disclosure requirements when it determines it is in the interest of investors or the public to do so.¹⁵⁴

As of 1993, all registrants that meet the requirements under SEC regulations submit their data via the SEC EDGAR system (Electronic Data Gathering, Analysis and Retrieval). Companies are also required to file and maintain a set of forms issued by the SEC, including an annual report (Form 10-K), a quarterly report (Form 10-Q), and a current report (Form 8K).¹⁵⁵ The information SEC registrants are required to submit on a yearly or quarterly basis includes financial documentation, as well as other non-financial data mandated under SEC Regulation S-K.¹⁵⁶ To determine what should and should not be reported, the SEC relies on assessments of “materiality”: that is, whether “there is a substantial likelihood that a reasonable investor would consider the information important in deciding how to vote or make an investment decision.”¹⁵⁷ Given that investors' views on the determinants of financial returns have evolved over the years in a shifting financial landscape, the definition of “materiality” has also evolved and is regularly re-evaluated.

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POLICY CASE STUDIES IN FULL *(continued)*

From an accounting standpoint, material information has largely been regarded as anything that could affect net income by five percent or more.¹⁵⁸ However, in 1999, the SEC issued interpretive guidance stating that a strict reliance on a numerical threshold “has no basis in the accounting literature or the law,” and clarified that *qualitative* assessments are also necessary to determine whether certain information is material to investors.¹⁵⁹ The 2002 Sarbanes-Oxley Act added rigor to this nuanced interpretation of materiality by strengthening the process through which companies and third party evaluators comply with financial disclosure and certify the information they report.¹⁶⁰

While most disclosure requirements are confined to a strictly financial definition of materiality, there is a precedent for including social and environmental dimensions. In these instances, non-financial information is often tied to Congressional mandates. For example, the SEC added environmental compliance and litigation disclosure requirements in response to the National Environmental Policy Act of 1969, which stated that all federal agencies must “include consideration of the environment in regulatory action.”¹⁶¹ More recently, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 mandated that registrants report on mine safety and health.¹⁶² In 2012, the Iran Threat Reduction and Syria Human Rights Act was passed, requiring companies subject to SEC regulation to report on businesses activities in connection with Iran.¹⁶³

While acts of Congress can impose new mandates for the SEC, the Commission itself strives to identify needs or gaps in its disclosure requirements, and regularly calls for changes by seeking public input. Most recently, in April 2016, the SEC issued a concept release calling for public comment on several topics related to the dual disclosure systems under Regulation S-K.^{164,165} In addition to inviting comment on the existing reporting system, the SEC sought feedback on expanding the ways that companies report on environmental considerations, sustainability, and corporate citizenship. By August, 2016, the SEC had received 26,512 public comments in response to its concept release, placing it within the top four percent of SEC proposals made since 2008 in terms of public feedback received.¹⁶⁶

KEY TERMS		
SEC	Securities and Exchange Commission	Agency created in 1934 in response to unscrupulous investment activity that led to the 1929 Stock Market Crash. Designed to eliminate information asymmetries between investors and firms. The Commission monitors organizations and individuals operating in securities markets.
EDGAR	Electronic Data Gathering, Analysis and Retrieval	Online repository of SEC disclosure statements, created in 1993.
Regulation S-K	Reporting system under the SEC	Adopted in 1977, S-K merged separate systems of reporting under the Securities Act and the Exchange Act. As of 1982, Regulation S-K serves as the central repository for all non-financial statement disclosure requirements.
Materiality	Basis for determining which data ought to be disclosed to the SEC	According to the Supreme Court, information is material – and therefore must be disclosed publicly – “if there is a substantial likelihood that a reasonable investor would consider the information important in deciding how to vote or make an investment decision.”

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POLICY CASE STUDIES IN FULL *(continued)*

The SEC and Quality Jobs

Since the SEC's creation, disclosure of information about companies' policies and practices has demonstrably raised public awareness of important governance issues and has helped change business, investor, and consumer behavior. Altering SEC disclosure policy to include more information on job quality could influence the behavior of these stakeholders in important ways; that is, public disclosure of employment practices could put pressure on companies to adopt higher job standards, or influence investor and consumer decision-making with regard to supporting companies that treat their workers well. Notably, current SEC disclosure policy does not require businesses to report on wages, benefits, or other components of job quality, with the exceptions of executive compensation, and the new pay ratio disclosure.^{167,168}

At present, the SEC requires companies to report on executive compensation for the CEO, CFO, and the three other most highly paid executive officers.¹⁶⁹ Companies must disclose executive salaries as well as stock options, pension plans, and other financial incentives. In 2015, the SEC adopted a pay ratio policy in compliance with a mandate under the Dodd-Frank Act. According to the new rule, registrants must disclose the ratio of their CEO's compensation to the median compensation of their employees.¹⁷⁰ The rule—an extremely contentious one adopted five years after Dodd-Frank became law—was designed in the aftermath of the 2009 financial crash with a view to keeping investors informed about exorbitant executive compensation.¹⁷¹ The rule took effect on January 1, 2017, but whether it will remain law is uncertain. It has been called into question by acting SEC Chairman Michael Piwowar, and the Trump Administration has already taken measures to undermine Dodd-Frank measures.^{172,173}

Because the majority of SEC registrants provide detailed information only on executives' compensation, investors receive only a limited view into how the company invests in its employees. Despite some existing rules surrounding non-financial disclosure, current SEC rules do not require registrants to disclose information about the extent to which they provide employee benefits, a living wage, or internal training programs. However, disclosing such programs and expenditures can provide a more detailed view for investors into whether and how a company has taken steps to reduce the risks associated with poor job quality, including high rates of turnover, low productivity, and absenteeism among employees.¹⁷⁴

As a case in point, several major corporations have publicly recognized the strategic value of investing more in their workforce in recent years. Wal-Mart Stores, Inc. made the decision in 2015 to raise wages for employees of its U.S. stores, in part as a result of growing recognition that the high turnover rate of its floor workers was ultimately more costly to the company than providing above-minimum wage pay and career opportunities designed to keep employees engaged.¹⁷⁵ Wal-Mart's decision—and others like it—indicates growing acknowledgement among corporations that better job quality correlates to greater shareholder value.¹⁷⁶ More significantly, such moves support indicate that a company's strategy for promoting the retention and productivity of its workforce is in fact material to investors.

Recommendations

Update SEC reporting requirements under Regulation S-K to include job quality metrics for certain U.S.-based publicly traded companies.

With the increasing interest of investors in socially responsible and impact investing, labor concerns, and Environmental, Social, and Governance (ESG) considerations, as well as the growing recognition of the material risks of poor job quality, the SEC could require U.S.-based public companies to disclose additional factors relating to employee compensation, benefits, and advancement opportunities for their employees based in the U.S.¹⁷⁷

Implementation would involve amending Regulation S-K to require the reporting of additional jobs data in company proxy statements and annual reports. Because of the variety of company types, the amendment should exclude smaller reporting companies, emerging growth companies, and foreign private issuers. As in the Dodd-Frank Pay Ratio Disclosure Act, certain classes of employee should likewise be exempted from job quality reporting requirements, including independent contractors and workers not directly employed by the registrant, but rather by a contracted third party organization.¹⁷⁸

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POLICY CASE STUDIES IN FULL *(continued)*

We offer the following as a working model of such job quality disclosure:

1. Wage data. With the pay ratio disclosure under Dodd-Frank in effect, investors may soon have access to the median employee wage at a given company. This information will provide a better—though far from complete—picture of a company’s employee compensation. However, the median wage across employees does not grant investors any insight into whether employees are compensated at a rate that promotes or discourages retention and high performance. We therefore suggest that registrants report one or both of the following:

a. Percent of U.S. Employees Receiving a Living wage.

Registrants could be required to report on the percentage of their U.S. employees receiving a *living wage*, or pay that allows them to afford the minimum costs of living, subject to geography. To determine this percentage, companies could utilize the Living Wage Calculator created by MIT.¹⁷⁹

b. Percent of U.S. Employees Paid Above-Minimum Wage.

Employers could be asked to report on the percentage of their workforce that receives more than minimum wage, as determined by state law. Under the Fair Labor Standards Act (FLSA), the federal government sets the minimum hourly rate at which an employee can be paid. In cases where non-exempt employees are subject to both federal and state minimum wage laws, they are entitled to the higher of the two.¹⁸⁰ As such, companies could determine this percentage by benchmarking wage data against the state level wage (except in cases where the state does not have its own minimum wage law).

2. Benefits. The PCV InSight 2016 report, *Moving Beyond Job Quality*, describes basic benefits as those “that are likely to increase economic security, improve health, and promote work-life balance among workers. These include paid leave, health insurance, and a retirement savings plan.”¹⁸¹ In the interest of limiting new disclosure requirements to elements of job quality that are most easily and quantitatively measured, and that are likely to affect the largest share of workers, we recommend registrants disclose the following:

a. Percent of U.S. Employees Receiving Paid Leave.

Companies could disclose the percent of their total employees that is guaranteed paid leave every year, regardless of the amount of time.

b. Percent of U.S. Employees Receiving Company-Sponsored Healthcare.

Employers could be required to list the percent of their workforce that receives access to company-sponsored insurance plans as a percentage of their total employees.

3. Career-building Opportunities. To grant investors even more nuanced insight into the extent to which a company prioritizes employee retention and workforce development, registrants could be required to submit data on the following:

» *Percent of U.S. Employees Eligible for Formal Training Programs.* Companies could report the percent of their U.S.-based workforce that can or does receive access to formal training programs, including time off from work and/or tuition assistance to acquire certifications or develop relevant job skills.

Of course, making this type of reporting compulsory for registrants would not be an easy or straightforward process. As with any additional requirements, mandates to provide more detailed jobs data will lengthen the reporting process for registrants—a reality that raises objections whenever new rules are proposed. Any new reporting standards should be flexible enough to fit the different registrant sizes and types, as specified by the SEC, so as not to place undue burden on smaller companies.

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POLICY CASE STUDIES IN FULL *(continued)*

Additionally, any new disclosure would need to be detailed enough to grant interested parties the ability to assess a company's broad commitment to providing quality jobs, but general enough to protect private company and employee information. By reporting on medians, percentages, and/or summary descriptions of job quality factors—as opposed to specific amounts—companies can safeguard sensitive information about employees, while granting the public a reasonable means of assessing their commitment to job quality and employee retention.

Other challenges to the proposed change include ensuring compliance and accurate self-reporting. As noted in the 2014 Ceres report on environmental disclosure, certain companies habitually report inadequate information on their impact, and some large companies simply do not report at all.¹⁸³ Enforcement is difficult, and there is a certain amount of “wiggle room” in the law that allows registrants to claim their environmental impact has been negligible. Without effective monitoring and enforcement, new regulations surrounding job quality could face a similar fate. Notably, however, data on wages, benefits, and employee training programs would be comparatively easier for company management and auditors to determine and report than environmental externalities.

Finally, skeptics of job quality disclosure have pointed out that several public platforms already exist for individuals to access wage data and information about the workplace practices of a company. Websites like Glassdoor.com allow employees to post information about their salary and working conditions. While some of this information is highly subjective and none of it is subject to official review, platforms like Glassdoor offer the advantage of allowing employees—rather than executives—to present information about their work environment. However, without official oversight and regular reporting, this kind of data hardly paints a comprehensive picture of a company's job quality standards. Requiring job quality disclosure in SEC filings would ensure that jobs data is made public for all U.S. publicly traded companies on a regular basis, thereby improving the accuracy, amount, and visibility of data for investors.

Potential Impact

Adding quality jobs metrics to the annual reporting requirements for public companies has the potential to bring attention to the employment practices of an estimated 3,700 public companies traded on U.S. stock exchanges.¹⁸⁴ While the total number of employees affected by such disclosure is difficult to calculate, considering Standard & Poor's 500 Index companies alone provides some perspective: these companies collectively employ an estimated 24 million American workers—or about 17 percent of the national workforce.^{185,186} Given the more than 3,000 other public companies listed on U.S. exchanges and subject to SEC rules, the reach of the added disclosure would provide information about job quality for a far greater number of workers.

Adding the job quality disclosure requirements outlined above would give investors a far more detailed picture of the extent to which companies value and invest in their employees. Making this data publicly available has the potential to drive capital toward businesses that offer high quality jobs, safeguarding long-term financial interests by reducing employee turnover and increasing productivity. Such disclosure would also allow socially minded investors to more easily identify companies that align with their values by adhering to high labor standards, and ultimately develop new investment products. For example, an exchange-traded fund (ETF) could be created that tracks companies that demonstrate they offer high quality jobs, similar to an existing ETF that tracks companies with a high proportion of women in executive positions.¹⁸⁷ Finally, disclosing data has the potential to improve company performance. Should companies be held publicly accountable for how they invest in their workforce, we are likely to see improvements in job standards for millions of Americans.

APPENDIX B

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APPENDIX C

INTERVIEWEES

Frank Altman, *President and CEO, Community Reinvestment Fund*

Andrea Armeni, *Executive Director, Transform Finance*

Noelle Baldini, *Community Engagement Associate, Philadelphia Federal Reserve*

Greg Bischak, *Program Manager, Financial Strategies and Research, CDFI Fund, U.S. Department of Treasury*

Thomas Cafcas, *Research Analyst, Good Jobs First*

Michael Chodos, *Senior Fellow, Impact Investing, Beeck Center for Social Impact and Innovation, Georgetown University*

Jim Coburn, *Senior Manager, Ceres*

Christine Curella, *Assistant Vice President, New York City Economic Development Corporation*

Annie Donovan, *Director, CDFI Fund, U.S. Department of Treasury*

Diana F. Epstein, *Evidence Team, White House Office of Management and Budget*

José Garcia, *Program Officer, Strong Local Economies, Surdna Foundation*

Ed Gorman, *Chief Community Development Officer, National Community Reinvestment Coalition*

Katie Grace, *Assistant Director, Initiative for Responsible Investment, Hauser Institute, Harvard University*

Janine Guillot, *Director of Capital Markets Policy and Outreach, Sustainability Accounting Standards Board*

Robert Hiltonsmith, *Senior Policy Analyst, Demos*

Alya Kayal, *Director of Policy and Programs, US SIF: The Forum for Sustainable and Responsible Investment*

Conan Knoll, *Vice President, Entrepreneurship, Small Business Majority*

Chauncy Lennon, *Managing Director and Head of Workforce Initiatives, Global Philanthropy, JPMorgan Chase*

Erika Liliedahl, *Evidence Team, White House Office of Management and Budget*

Andrea Luquetta-Kern, *Deputy Director, California Reinvestment Coalition*

Mark Popovich, *Director, Good Companies Good Jobs Initiative, Aspen Institute*

Dory Rand, *President, Woodstock Institute*

Benson F. “Buzz” Roberts, *President and CEO, National Association of Affordable Housing Lenders*

Josh Silver, *Senior Advisor, National Community Reinvestment Coalition*

Paul Thanos, *Director, U.S. Department of Commerce, Office of Finance and Insurance Industries*

Amy Traub, *Associate Director, Policy and Research, Demos*

Mark Walsh, *Head of Innovation and Investment, U.S. Small Business Administration*

Barry Wides, *Deputy Comptroller for Community Affairs, Office of the Comptroller of the Currency*

Mark Willis, *Resident Research Scholar, NYU Furman Center for Real Estate and Urban Policy*



ENDNOTES

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² See: <http://equitablegrowth.org/research-analysis/economic-growth-in-the-united-states-a-tale-of-two-countries/>

³ Ibid

⁴ See Zeynep Ton's work, *The Good Jobs Strategy* (2014).

⁵ See: <https://www.whitehouse.gov/blog/2016/09/13/income-poverty-and-health-insurance-united-states-2015>

⁶ See: <http://equitablegrowth.org/research-analysis/economic-growth-in-the-united-states-a-tale-of-two-countries/>

⁷ Ibid

⁸ See: <http://www.aspenwsi.org/wordpress/wp-content/uploads/Build-Ladders-and-Raise-Floor-concept-brief.pdf>

⁹ For more on the "Gig Economy," see the U.S. Bureau of Labor Statistics analysis: <https://www.bls.gov/careeroutlook/2016/article/what-is-the-gig-economy.htm>

¹⁰ See: <https://medium.com/basic-income/self-driving-trucks-are-going-to-hit-us-like-a-human-driven-truck-b8507d9c5961#.6eu9tanm8>

¹¹ See: <http://laborcenter.berkeley.edu/pdf/2015/the-high-public-cost-of-low-wages.pdf>

¹² Working families defined as families with at least one family member working 10+ hours per week for 27+ weeks per year. See: <http://laborcenter.berkeley.edu/pdf/2015/the-high-public-cost-of-low-wages.pdf>

¹³ For example, asking whether an employer offers a formal training program could be one approach, but no generally-accepted definition for a formal training program exists, which could lead some companies to overstate the training they provide to workers.

¹⁴ See: "Empirical Evidence Regarding the Impact of the CRA" in Ludwig, et. al. *Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act*, for detailed summaries of several studies done on the impact of the CRA since its passage: http://www.frbsf.org/community-development/files/cra_past_successes_future_opportunities1.pdf

¹⁵ See: <https://www.cdfifund.gov/Lists/CDFI%20News/DispForm.aspx?ID=143>

¹⁶ See: https://www.novoco.com/sites/default/files/atoms/files/nmtc_2016_progress_report_060616.pdf

¹⁷ See: <http://www.ffiec.gov/CraAdWeb/pdf/2014/N2-2.pdf>

¹⁸ See: <https://www.sba.gov/sites/default/files/aboutsbaarticle/1-FY%202014%20Agency%20Financial%20Report.pdf>

¹⁹ See: <http://www.ncmahq.org/docs/default-source/default-document-library/pdfs/exec15---ncma-annual-review-of-government-contracting-2015-edition>

²⁰ Community Benefit Agreements (CBAs) are a tool used by local governments to ensure that private businesses that receive tax credits or other benefits from the city conduct business in a way that is beneficial to the community.

²¹ See, for example, the discussion paper authored by PCV InSight, The Initiative for Responsible Investment, and Enterprise Community Partners in 2015: <https://www.pacificcommunityventures.org/2015/07/28/financing-social-innovation-analyzing-domestic-impact-investing-policy-in-the-united-states/>

²² See: <http://laborcenter.berkeley.edu/minimum-wage-living-wage-resources/inventory-of-us-city-and-county-minimum-wage-ordinances/>

²³ See: <https://www.dol.gov/whd/minwage/america.htm#Consolidated>

²⁴ Introduced in the House and Senate, currently under review in subcommittees as of February 2017. See: <https://www.congress.gov/bill/114th-congress/house-bill/2150?>

²⁵ See: <http://www.pensionrights.org/issues/legislation/state-based-retirement-plans-private-sector>

²⁶ See: <http://sfgov.org/olse/formula-retail-employee-rights-ordinances>

²⁷ Information about the status of the "Schedules That Work" Act can be found at <https://www.govtrack.us/congress/bills/114/s1772>

²⁸ See: <https://www.congress.gov/bill/114th-congress/senate-bill/1772>

²⁹ See: <https://www.bostonglobe.com/business/2015/04/14/investor-visa-program-gains-foothold-massachusetts/IqXvoYbV5jicJJKhThgdGP/story.html>

ENDNOTES *(continued)*

³⁰ A bill was introduced in January 2017 by Senator Dianne Feinstein to terminate the program. See: <https://www.govtrack.us/congress/bills/115/s232>

³¹ See: <http://www.azcommerce.com/incentives/quality-jobs>

³² See: http://www.law.tulane.edu/uploadedFiles/Institutes_and_Centers/Public_Law_Center/Summary%20and%20Index%20of%20%20Community%20Benefit%20Agreements.pdf

³³ See: <http://benefitcorp.net/>

³⁴ See: <https://www.bcorporation.net/what-are-b-corps/about-b-lab>

³⁵ See: <https://iris.thegiin.org/>

³⁶ See: https://www.novoco.com/sites/default/files/atoms/files/nmtc_2016_progress_report_060616.pdf

³⁷ See: https://www.federalreserve.gov/communitydev/cra_about.htm

³⁸ See: <http://www.investopedia.com/terms/r/redlining.asp>

³⁹ See: <http://www.ffiec.gov/CraAdWeb/pdf/2014/N2-2.pdf>

⁴⁰ See: <http://www.ffiec.gov/CraAdWeb/pdf/2014/N3.pdf>

⁴¹ See: <http://www.demos.org/sites/default/files/publications/UnderwritingBadJobs-Final-2.pdf>

⁴² See: <https://www.sba.gov/sites/default/files/files/SBA-SPFI-Report-2015.pdf>

⁴³ See: <https://www.sba.gov/contracting/government-contracting-programs/what-small-business-set-aside>

⁴⁴ See: <https://www.dol.gov/whd/flsa/nprm-eo13658/factsheet.htm>

⁴⁵ “U.S. Government Contracting on the Decline,” <http://www.ncmahq.org/docs/default-source/default-document-library/pdfs/exec15---ncma-annual-review-of-government-contracting-2015-edition>

⁴⁶ See: <https://www.bloomberg.com/view/articles/2015-06-24/where-have-all-the-publicly-traded-companies-gone->

⁴⁷ See: <http://www.businessinsider.com/sp-500-employment-vs-smaller-businesses-2015-6>

⁴⁸ See: <http://equitablegrowth.org/research-analysis/economic-growth-in-the-united-states-a-tale-of-two-countries/>

⁴⁹ See: Economic Policy Institute: Globalization has lowered wages for American workers. <http://www.epi.org/press/globalization-lowered-wages-american-workers/>. Also: Automation technology and its impact on jobs. <http://www.nasdaq.com/article/automation-technology-and-its-impact-on-jobs-cm526937>

⁵⁰ For example, see the administration’s plans to roll back pieces of the Dodd-Frank Act: <https://www.bloomberg.com/politics/articles/2017-02-03/trump-to-halt-obama-fiduciary-rule-order-review-of-dodd-frank>

⁵¹ See PCV InSight’s report, Moving Beyond Job Creation, which summarizes the existing literature on the financial benefits that small businesses can reap by offering higher quality jobs. <https://www.pacificcommunityventures.org/2016/04/14/defining-and-measuring-the-creation-of-quality-jobs/>

⁵² For more information on how investments in human capital have bolstered business performance among retailers, see Zeynep Ton’s The Good Jobs Strategy: <https://hbr.org/2012/01/why-good-jobs-are-good-for-retailers>

⁵³ See: https://www.cdfifund.gov/Documents/NMTC%20Fact%20Sheet_Jan2016v2.pdf

⁵⁴ See: <http://www.prnewswire.com/news-releases/new-markets-tax-credit-leaders-applaud-5-year-extension-of-community-development-tax-credit-300193992.html>

⁵⁵ See: https://www.novoco.com/sites/default/files/atoms/files/nmtc_2016_progress_report_060616.pdf

⁵⁶ See: http://www.novoco.com/new_markets/resource_files/reports/nmtc_2016_progress_report_060616.pdf

⁵⁷ See: <http://www.occ.treas.gov/topics/community-affairs/publications/insights/insights-new-markets-tax-credits.pdf>

⁵⁸ See: Topping, Nigel, How Does Sustainability Disclosure Drive Behavior Change? (Spring 2012). Journal of Applied Corporate Finance, Vol. 24, Issue 2, pp. 45-48, 2012.

⁵⁹ See: <https://www.cdfifund.gov/Documents/QNMR-FAQs-6-17-2010.pdf>

⁶⁰ See: https://www.novoco.com/sites/default/files/atoms/files/nmtc_2016_progress_report_060616.pdf

ENDNOTES *(continued)*

⁶¹ See: <https://www.cdfifund.gov/Lists/CDFI%20News/DispForm.aspx?ID=143>

⁶² For example, see the October 2016 letter to Janet Yellen signed by 13 senators seeking to modernize CRA to reflect new financial practices: https://www.booker.senate.gov/?p=press_release&id=484

⁶³ See: <https://www.fas.org/sgp/crs/misc/R43661.pdf>

⁶⁴ See: https://www.ffiec.gov/cra/pdf/2016_QA_Federal_Register_Notice.pdf

⁶⁵ See: <https://www.gpo.gov/fdsys/pkg/FR-2014-09-10/pdf/2014-21560.pdf>

⁶⁶ See: https://www.ffiec.gov/cra/pdf/2016_QA_Federal_Register_Notice.pdf

⁶⁷ See: <http://www.ffiec.gov/CraAdWeb/pdf/2014/N2-2.pdf>

⁶⁸ See: <http://www.ffiec.gov/CraAdWeb/pdf/2014/N3.pdf>

⁶⁹ In 1995, evaluation standards in the CRA were revised so that banks were evaluated more on their actual lending and investment performance in LMI areas rather than on their marketing and outreach efforts. These new evaluation standards are credited as an incentive for lenders to discover and develop products for underserved markets. From 1994 to 2013, the number of CDFIs quintupled from 42 to 209. See: Opportunity Finance Network (2015, November 10). 20 Years of Opportunity Finance, 1994-2013: An Analysis of Trends and Growth. See: http://ofn.org/sites/default/files/OFN_20_Years_Opportunity_Finance_Report.pdf

⁷⁰ See: <https://www.sba.gov/about-sba/what-we-do/history>

⁷¹ See: <https://www.sba.gov/about-sba/what-we-do/authority>

⁷² See: <https://www.sba.gov/about-sba/what-we-do/history>

⁷³ See: <https://www.sba.gov/loans-grants/see-what-sba-offers/what-sba-offers-help-small-businesses-grow>

⁷⁴ To qualify as a small business under the SBA, businesses must not exceed certain financial and workforce size thresholds, varying by industry. For more information on how the SBA defines small businesses, see: <http://www.sba.gov/size>.

⁷⁵ See: <https://www.sba.gov/about-sba/sba-initiatives>

⁷⁶ See: <https://www.sba.gov/about-sba/sba-initiatives/workplace-flexibility-and-small-business>

⁷⁷ See, for example, the case studies presented in Zeynep Ton's 2014 book, *The Good Jobs Strategy*: <http://zeynepton.com/book/>

⁷⁸ See: <https://www.sba.gov/about-sba/sba-initiatives/workplace-flexibility-and-small-business>

⁷⁹ See: <https://www.sba.gov/about-sba/sba-initiatives/workplace-flexibility-and-small-business>

⁸⁰ In a 2014 study, the National Employment Law Project (NELP) found, "lower-wage industries accounted for 22 percent of job losses during the recession, but 44 percent of employment growth over the past four years. Today, lower-wage industries employ 1.85 million more workers than at the start of the recession." See the NELP data brief, "The Low-wage Recovery," : <http://www.nelp.org/content/uploads/2015/03/Low-Wage-Recovery-Industry-Employment-Wages-2014-Report.pdf>

⁸¹ See: <http://www.demos.org/sites/default/files/publications/UnderwritingBadJobs-Final-2.pdf>

⁸² See: <http://www.demos.org/sites/default/files/publications/UnderwritingBadJobs-Final-2.pdf>

⁸³ See: <https://www.sba.gov/managing-business/small-business-health-care>

⁸⁴ See: <https://www.sba.gov/managing-business/small-business-health-care/employers-fewer-25-employees>

⁸⁵ See: <http://www.nfib.com/content/issues/healthcare/small-business-and-the-cost-of-health-insurance-49514/>

⁸⁶ See: <http://www.nfib.com/content/issues/healthcare/small-business-and-the-cost-of-health-insurance-49514/>

⁸⁷ See: <http://www.nfib.com/content/issues/healthcare/small-business-and-the-cost-of-health-insurance-49514/>

⁸⁸ For information on the impact of SBA lending activities, see: <https://www.sba.gov/blogs/sba-partners-library-congress-analyze-sbics-economic-impact>

⁸⁹ See: <https://www.sba.gov/about-sba/sba-initiatives/workplace-flexibility-and-small-business>

⁹⁰ For more information about qualified CA lenders, see: <https://www.sba.gov/sites/default/files/files/CA-Participant-Guide-4-December-28-2015.pdf>

ENDNOTES *(continued)*

⁹¹ See: <https://www.pacificcommunityventures.org/2016/04/14/defining-and-measuring-the-creation-of-quality-jobs/>

⁹² See: https://static1.squarespace.com/static/569701fda12f449c6e7f8472/t/580dbb3cbebabf840ado1f94/1477294909489/QualityJobs_FINAL_101916.pdf

⁹³ For example, Moving Beyond Job Creation profiles Craft3, a Washington-based CDFI that designed and implemented a system for measuring the number of living wage jobs supported by its lending activities. See: <https://www.pacificcommunityventures.org/2016/04/14/defining-and-measuring-the-creation-of-quality-jobs/>

⁹⁴ See: <https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/real-estate-equipment-loans-cdc-504/cdc-504-loan-amounts-interest-rates-fees>

⁹⁵ See: <https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/real-estate-equipment-loans-cdc-504/cdc-504-loan-amounts-interest-rates-fees>

⁹⁶ See for example, the Raise the Wage Act proposed in 2015: <https://www.congress.gov/bill/114th-congress/house-bill/2150?>

⁹⁷ For example, President Obama issued an executive order in 2014 setting a minimum wage (\$10.10/hour) for employees contracted by the federal government in service and construction jobs. See: <https://www.dol.gov/whd/flsa/nprm-e013658/factsheet.htm>

⁹⁸ See Community Advantage Basic Loan Features, CA Participant Guide, December 2015: <https://www.sba.gov/sites/default/files/files/CA-Participant-Guide-4-December-28-2015.pdf>

⁹⁹ See: <http://www.decodedscience.org/the-u-s-small-business-administration-impact-overall-economy/16000/2>

¹⁰⁰ See: <https://www.congress.gov/bill/111th-congress/house-bill/5297>

¹⁰¹ “SBA loan guarantee requirements and practices can change as the Government alters its fiscal policy and priorities to meet current economic conditions. Therefore, you can’t rely on past policy when seeking assistance in today’s market.” See: <https://www.sba.gov/loans-grants/see-what-sba-offers/what-sba-offers-help-small-businesses-grow>

¹⁰² See: <https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/general-small-business-loans-7a/7a-loan-amounts-fees-interest-rates>

¹⁰³ See: <https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/general-small-business-loans-7a/7a-loan-amounts-fees-interest-rates>

¹⁰⁴ See: <http://www.decodedscience.org/the-u-s-small-business-administration-impact-overall-economy/16000/2>

¹⁰⁵ See: https://www.sba.gov/sites/default/files/FAQ_March_2014_o.pdf

¹⁰⁶ Number of workers employed by small businesses in 2015 taken from: https://www.sba.gov/sites/default/files/advocacy/SB%20Profiles%202014-15_o.pdf. Number of small business employees as a percentage of all working-age persons calculated from US Census 2015 estimates (<https://www.census.gov/quickfacts/table/PST045215/00>), which lists the total U.S. population at 321,418,820 as of July 1, 2015. Working-age population determined by subtracting persons under 18 years of age (24 percent of total population) and over 65 years of age (14.9 percent of total population), leaving 61.1 percent of the total population, or 196,386,899 persons.

¹⁰⁷ See the Financial Times illustration charting the rising income inequality in the U.S.: <http://www.latimes.com/business/hiltzik/la-fi-hiltzik-ft-graphic-20160320-snap-htlmlstory.html>

¹⁰⁸ SBA Summary of Performance and Financial Information, Fiscal Year - 2015. See: <https://www.sba.gov/sites/default/files/files/SBA-SPFI-Report-2015.pdf>

¹⁰⁹ Estimated based on upward trajectory of number of jobs supported from SBA 7(a) and 504 loans between FY2012 to FY2015. This number does not take into account additional companies served by SBA technical assistance programs.

¹¹⁰ The Role of Small Business in Economic Development of the United States: From the End of the Korean War (1953) to the Present. See: https://www.sba.gov/sites/default/files/rs372tot_o.pdf

¹¹¹ See: <https://www.fas.org/sgp/crs/misc/RS22536.pdf>; To access FAR information, see: <https://www.acquisition.gov/?q=browsefar>

¹¹² See: <http://www.gsa.gov/portal/category/21354>

¹¹³ See: https://www.acquisition.gov/far/html/Subpart%204_11.html

¹¹⁴ To access SAM, visit: <https://uscontractorregistration.com/>

¹¹⁵ Websites like FedConnect.net and FedBizOpps.gov allow businesses to identify viable contracting opportunities by pooling government requests for proposals (RFPs) and making them available and searchable online.

ENDNOTES *(continued)*

¹¹⁶ For example, agencies are required under FAR 13.106-2, “Evaluation of quotations or offers,” to evaluate all quotations or offers submitted in an impartial manner, taking into account all costs to be incurred and, should they desire, customer or other government agency feedback. See: <https://www.acquisition.gov/?q=browsefar>

¹¹⁷ For an example, see the process detailed by the Department of Veterans Affairs in “Grant Application and Review Process,” Volume X, Chapter 4 (October 2014). See: <http://www.va.gov/finance/docs/va-financialpolicyvolumexchaptero4.pdf>

¹¹⁸ Underwriting Bad Jobs: How Our Tax Dollars Are Funding Low Wage Work and Fueling Inequality, Demos (2013). See: <http://www.demos.org/sites/default/files/publications/UnderwritingBadJobs-Final-2.pdf>

¹¹⁹ As noted in <https://www.fas.org/sgp/crs/misc/RS22536.pdf>; to access the MBDA, see: <https://www.sba.gov/contracting/government-contracting-programs/what-small-business-set-aside>; <http://www.hubzonecouncil.org/clubportal/ClubStatic.cfm?clubID=528&pubmenuOptID=37970>

¹²⁰ See: https://obamawhitehouse.archives.gov/omb/fedreg_ofpp99-1/

¹²¹ See: <https://www.sba.gov/contracting/contracting-officials/goaling>

¹²² See: <https://www.sba.gov/contracting/contracting-officials/goaling>

¹²³ Demos, 2013. Underwriting Bad Jobs, p. 18.

¹²⁴ See: <https://www.gpo.gov/fdsys/pkg/FR-2014-07-23/pdf/2014-17522.pdf>

¹²⁵ See: <https://www.dol.gov/whd/flsa/nprm-eo13658/factsheet.htm>

¹²⁶ See: http://www.nytimes.com/2016/08/14/us/politics/obama-era-legacy-regulation.html?_r=0

¹²⁷ See: <https://web.archive.org/web/20170301184343/https://www.acquisition.gov/?q=Fair-Pay-EO>

¹²⁸ See: Miles & Stockbridge, Baker Tilly (2015) Understanding How the Department of Labor Impacts Your Governmentwide Contract.

¹²⁹ See: <https://ourfuture.org/20140619/the-case-for-making-federal-contract-jobs-good-jobs>

¹³⁰ See Sidebar for more information. For detail on the San Francisco ordinances, see: <http://sfgov.org/oca/qualify-do-business>

¹³¹ See: <https://www.sba.gov/contracting/what-government-contracting/overview?interiorpage2015>

¹³² See: <https://www.sba.gov/contracting/government-contracting-programs/what-small-business-set-aside>

¹³³ See: WOSB Program Program Overview: http://www.sba.gov/sites/default/files/files/2016_WOSB_Federal_Contract_Program_Module_1_-_Program_Overview_FINAL.pptx

¹³⁴ See: https://www.sba.gov/sites/default/files/wosb_study_report.pdf, p. 2

¹³⁵ See: WOSB Program Program Overview: https://www.sba.gov/sites/default/files/wosb_study_report.pdf

¹³⁶ See: https://www.sba.gov/sites/default/files/wosb_study_report.pdf

¹³⁷ Such as B Lab.

¹³⁸ See: <https://www.sba.gov/contracting/government-contracting-programs/what-small-business-set-aside>; <http://www.hubzonecouncil.org/clubportal/ClubStatic.cfm?clubID=528&pubmenuOptID=37970>

¹³⁹ See: https://web.archive.org/web/20170110190319/https://www.whitehouse.gov/omb/procurement_default

¹⁴⁰ National Contract Management Association and Bloomberg Business (2015). “U.S. Government Contracting on the Decline,” Annual Review of Government Contracting, 2015 Edition. See: <http://www.ncmahq.org/docs/default-source/default-document-library/pdfs/exec15---ncma-annual-review-of-government-contracting-2015-edition>

¹⁴¹ U.S. Government Contracting on the Decline,” See: <http://www.ncmahq.org/docs/default-source/default-document-library/pdfs/exec15---ncma-annual-review-of-government-contracting-2015-edition>

¹⁴² See: <https://www.cbo.gov/publication/49931>

¹⁴³ Demos (2013) Underwriting Good Jobs. See: http://www.demos.org/sites/default/files/publications/UnderwritingGoodJobs_2.pdf

¹⁴⁴ The FLSA Overtime Exemption alone is expected to impact 5 million workers, while the minimum wage floor is projected to impact over 200,000. See: Miles & Stockbridge, Baker Tilly (2015) Understanding How the Department of Labor Impacts Your Governmentwide Contract.

¹⁴⁵ See: <https://www.sba.gov/content/federal-government-achieves-small-business-procurement-contracting-goal-second-consecutive>

ENDNOTES *(continued)*

¹⁴⁶ See: https://www.sba.gov/sites/default/files/wosb_study_report.pdf, p. 2.

¹⁴⁷ “Creation of the SEC,” SEC.gov. See: <https://www.sec.gov/about/whatwedo.shtml>

¹⁴⁸ See: <https://www.sec.gov/about/laws.shtml>

¹⁴⁹ See: <https://www.sec.gov/about/laws.shtml>

¹⁵⁰ See: <https://www.sec.gov/about/whatwedo.shtml>

¹⁵¹ See: <http://media.mofo.com/files/uploads/Images/FAQ-Periodic-Reporting-Requirements-for-US-Issuers-Overview.pdf>, p. 1-2.

¹⁵² See: <https://www.sec.gov/about/whatwedo.shtml>

¹⁵³ See: <https://www.sec.gov/about/whatwedo.shtml>

¹⁵⁴ “History of Regulation S-K.” See: <https://www.sec.gov/rules/concept/2016/33-10064.pdf>, p. 13.

¹⁵⁵ See: <http://media.mofo.com/files/uploads/Images/FAQ-Periodic-Reporting-Requirements-for-US-Issuers-Overview.pdf>, p. 3.

¹⁵⁶ Regulation S-K was originally adopted in 1977 to merge two separate systems of reporting under the Securities Act and the Exchange Act—a principles-based system, and a rules-based system, respectively. The principles-based system relies on company managers to determine whether certain non-financial information is “material” for investors, and if so, to disclose it to the SEC. The rules-based system utilizes a “bright-lines” test, or objective reporting requirements that leave no room for registrant interpretation, but mandate that companies report specific information if they meet certain thresholds for disclosure. As of 1982, Regulation S-K became the “central repository for non-financial statement disclosure requirements.” See: <http://www.bakerbotts.com/ideas/publications/2016/04/corporate-update-big-disclosure-changes-ahead> and <https://www.sec.gov/rules/concept/2016/33-10064.pdf>

¹⁵⁷ According to the U.S. Supreme Court. See: <http://www.bakerbotts.com/ideas/publications/2016/04/corporate-update-big-disclosure-changes-ahead>

¹⁵⁸ “The New Importance of Materiality,” *The Journal of Accountancy* (2005). See: <http://www.journalofaccountancy.com/issues/2005/may/thenewimportanceofmateriality.html>

¹⁵⁹ SEC (1999), “SEC Staff Accounting Bulletin: No. 99—Materiality.” See: <https://www.sec.gov/interp/account/sab99.htm>

¹⁶⁰ See: <http://www.journalofaccountancy.com/issues/2005/may/thenewimportanceofmateriality.html>

¹⁶¹ See: <https://www.sec.gov/rules/concept/2016/33-10064.pdf>

¹⁶² See: <https://www.sec.gov/rules/concept/2016/33-10064.pdf>

¹⁶³ See: <https://www.sec.gov/rules/concept/2016/33-10064.pdf>

¹⁶⁴ See: <https://www.sec.gov/rules/concept/2016/33-10064.pdf>

¹⁶⁵ See: <http://www.ecfr.gov/cgi-bin/text-idx?SID=8e0ed509ccc65e983f9eca72ceb26753&node=17:3.0.1.1.11&rgn=div5>

¹⁶⁶ See: http://www.ussif.org/Files/Public_Policy/Comment_Letters/Sustainable_Economy_Report.pdf

¹⁶⁷ See: <https://www.sec.gov/news/pressrelease/2015-160.html>

¹⁶⁸ Another minor exception does exist within Regulation S-K, under §229.402 (Item 402), “Executive Compensation.” This clause dictates that non-executive employee compensation should be provided in the form of narrative disclosure only “to the extent that risks arising from the registrant’s compensation policies and practices for its employees are reasonably likely to have a material adverse effect on the registrant...as they relate to risk management practices and risk-taking incentives.” See: http://www.ecfr.gov/cgi-bin/text-idx?SID=8e0ed509ccc65e983f9eca72ceb26753&node=17:3.0.1.1.11&rgn=div5#se17.3.229_1402

¹⁶⁹ See: <https://www.sec.gov/answers/excomp.htm>

¹⁷⁰ See: <https://www.sec.gov/news/pressrelease/2015-160.html>

¹⁷¹ See: <http://www.npr.org/sections/thetwo-way/2015/08/05/429628037/sec-to-vote-on-requiring-companies-to-disclose-ceo-pay-ratio>

¹⁷² See: <https://www.sec.gov/news/pressrelease/2015-160.html>

¹⁷³ See: <http://www.reuters.com/article/us-usa-sec-ceopay-idUSKBN15L2BY>

¹⁷⁴ For more on the financial costs of poor job quality, readers are encouraged to consult the publications listed in “The Business Case for Quality Jobs,” in *Beyond Job Creation* (PCV InSight, 2016): https://www.pacificcommunityventures.org/wp-content/uploads/sites/6/2016/04/Quality-Jobs_Moving-Beyond-Job-Creation.pdf

¹⁷⁵ For more detail, see the Wall Street Journal coverage of the decision by Wal-Mart Stores, Inc. executives: <http://blogs.wsj.com/atwork/2015/02/19/one-reason-wal-mart-is-raising-pay-turnover/>

ENDNOTES *(continued)*

¹⁷⁶ Gap Inc. made a similar decision in 2014, citing shareholder value as one of its motivations for raising employee pay in its U.S. stores: http://www.gapinc.com/content/gapinc/html/topnavtoolbar/faqo/frequently_asked_questions_do_more.html

¹⁷⁷ We do not propose that new job quality disclosure regulations be applied to foreign private issuers, investment companies, mutual funds, investment advisors, or broker dealers, as—unlike publically traded, U.S.-based companies—these are not likely employ large, American workforces subject to poor quality job standards.

¹⁷⁸ See section B.1.a.i. “Proposed Rule” in the Dodd-Frank Pay Ratio Disclosure rule: <https://www.sec.gov/rules/final/2015/33-9877.pdf>.

¹⁷⁹ See: <http://livingwage.mit.edu/>

¹⁸⁰ See: <https://www.dol.gov/general/topic/wages/minimumwage>

¹⁸¹ See: <https://www.pacificcommunityventures.org/2016/04/14/defining-and-measuring-the-creation-of-quality-jobs/>

¹⁸² See “Categories of Filers of Periodic Reports,” p. 3, for more on SEC registrant size categories: <http://media.mofo.com/files/uploads/Images/FAQ-Periodic-Reporting-Requirements-for-US-Issuers-Overview.pdf>

¹⁸³ Ceres, 2014. Cooling Off: The SEC & Corporate Climate Change Reporting. See: <https://www.ceres.org/resources/reports/cool-response-the-sec-corporate-climate-change-reporting/>

¹⁸⁴ As of June 2015. This number excludes investment funds and trusts traded on U.S. stock exchanges. See: <https://www.bloomberg.com/view/articles/2015-06-24/where-have-all-the-publicly-traded-companies-gone->

¹⁸⁵ Defined as “the 500 largest corporations by market capitalization listed on the New York Stock Exchange or Nasdaq Composite.” See: <http://www.investopedia.com/ask/answers/040215/what-does-sp-500-index-measure-and-how-it-calculated.asp#ixzz4lZqilpJl>

¹⁸⁶ See: <http://www.businessinsider.com/sp-500-employment-vs-smaller-businesses-2015-6>

¹⁸⁷ See: <http://www.institutionalinvestor.com/inside-edge/3554005/she-the-etf-that-trades-on-female-empowerment.html>



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