

# VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

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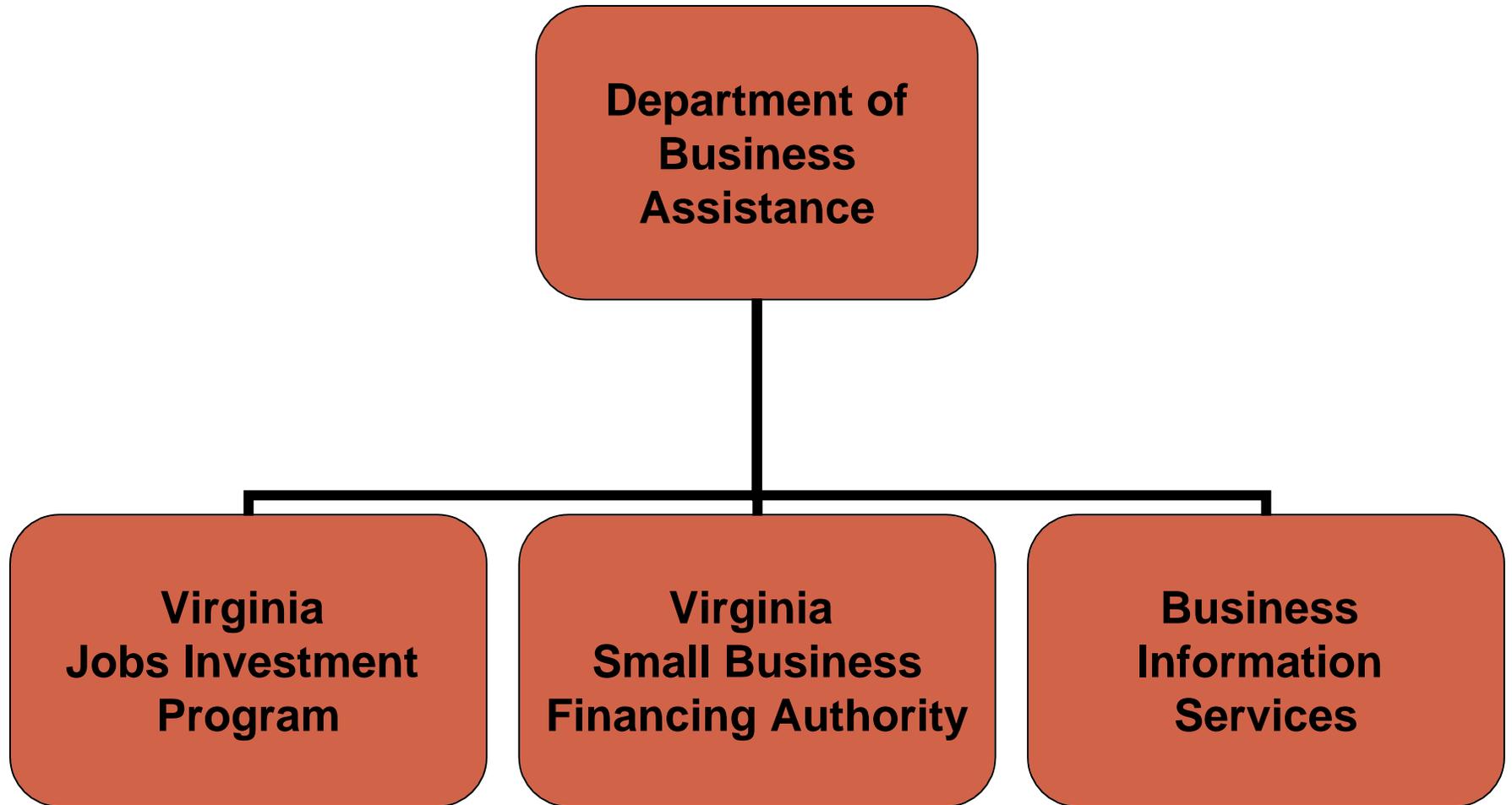
## PRESENTATION TO THE HOUSE APPROPRIATIONS COMMITTEE *Virginia House of Delegates*



January 24, 2011

# Department of Business Assistance

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# **ROLE OF THE VIRGINIA SMALL BUSINESS FINANCING AUTHORITY**

- **Per § 2.2-2280, the VSBFA works in partnership with private sector lenders to provide financial assistance to small and other eligible businesses in support of the Commonwealth's economic development efforts.**
- **We fulfill this role by providing loan participation, loan guaranty, loan loss insurance, and conduit bond financing programs, as well as technical assistance, to businesses and localities.**
- **We currently offer 9 financing programs, some of these are for other state agencies.**
- **We address a fundamental need for business growth: **Access to Capital.****

## **ECONOMIC DEVELOPMENT LOAN PARTICIPATION PROGRAM**

- **Low interest “gap financing” direct loans to businesses and/or localities to fund economic development projects.**
- **Typically loans are subordinate to financial institution’s loan.**
- **VSBF staff underwrites the loan request, disburses loan proceeds if approved, & collects monthly payments.**
- **We fill the “gap” financing need not filled by commercial bank loans and equity. We also lend to localities in support of economic development projects.**
- **Avg. loan size: \$547K**
- **No annual state appropriation. This is a revolving loan fund. Program funded through federal grants (1977, 1989, 1995).**
- **Some federal restrictions on usage apply. Cannot be used statewide.**
- **Default rate: 5.2%**
- **Avg. Leveraging (Private \$ to Public \$) per Project: \$10:\$1**
- **Leveraging of Public \$ on Portfolio basis: \$52:\$1**

## **LOAN GUARANTY PROGRAM**

- **VSBFA provides a deficiency guaranty to a financial institution on a loan by loan basis to support business loans that don't qualify conventionally.**
- **VSBFA staff underwrites the credit request, commits the guaranty to the financial institution if approved, & monitors the credit through the financial institution.**
- **Loans can be used for fixed asset purchases or working capital.**
- **Avg. loan size: \$203K**
- **Evergreen program with periodic state capital infusions. (\$900K in 1985 & \$1 million in FY '11) & VSBFA bond fees.**
- **This is a statewide program.**
- **Default rate: 1.7%**
- **Leveraging of Public \$ (Private \$ to Public \$) : \$21:\$1**

## **VIRGINIA CAPITAL ACCESS PROGRAM**

- **Financial institution makes the business loan and enrolls it in VCAP.**
- **Financial institution charges a loan enrollment fee to the borrower which is matched by the VSBFA.**
- **Enrollment fee & VSBFA match build a loan loss reserve pool for the financial institution.**
- **Can be used for fixed asset purchase or working capital.**
- **Avg. loan size: \$60K**
- **Program funded through periodic state capital infusions (\$350K - 1998, \$250K – 1999, \$250K – 2001, \$300K – 2005, \$500K - 2007) & VSBFA bond fees.**
- **This is a statewide program.**
- **Default rate: 6.9%**
- **Leveraging of Public \$ (Private \$ to Public \$) : \$41:\$1**

## **PRIVATE ACTIVITY BOND PROGRAM**

- **VSBFA is a conduit issuer of tax- exempt or taxable private activity bonds.**
- **Bonds can be used to assist small manufacturers or 501c(3) non-profit entities.**
- **Bond funds can be used for the acquisition, construction or expansion of facilities and for equipment purchases.**
- **Tax-exempt status provides for sub-prime pricing, long-term financing, and potential for 100% financing.**
- **No financial obligation of the Commonwealth or the VSBFA.**

## PROGRAMS FOR OTHER STATE AGENCIES

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### Other State Agencies Leverage VSBFA Expertise:

- **Dept. of Social Services – Child Care Financing Program (*Direct Loan Program*)**
- **Dept. of Environmental Quality – Environmental Compliance Fund (*Direct Loan Program*)**
- **Dept. of Minority Business Enterprise – PACE Program (*Capital Access Program and Loan Guaranty*)**
- **Tobacco Commission – TCAP (*Capital Access Program*)**
- **Virginia Tourism – Tourism Micro-Loan Program (proposed) (*Loan Participation & Loan Guaranty Program*)**

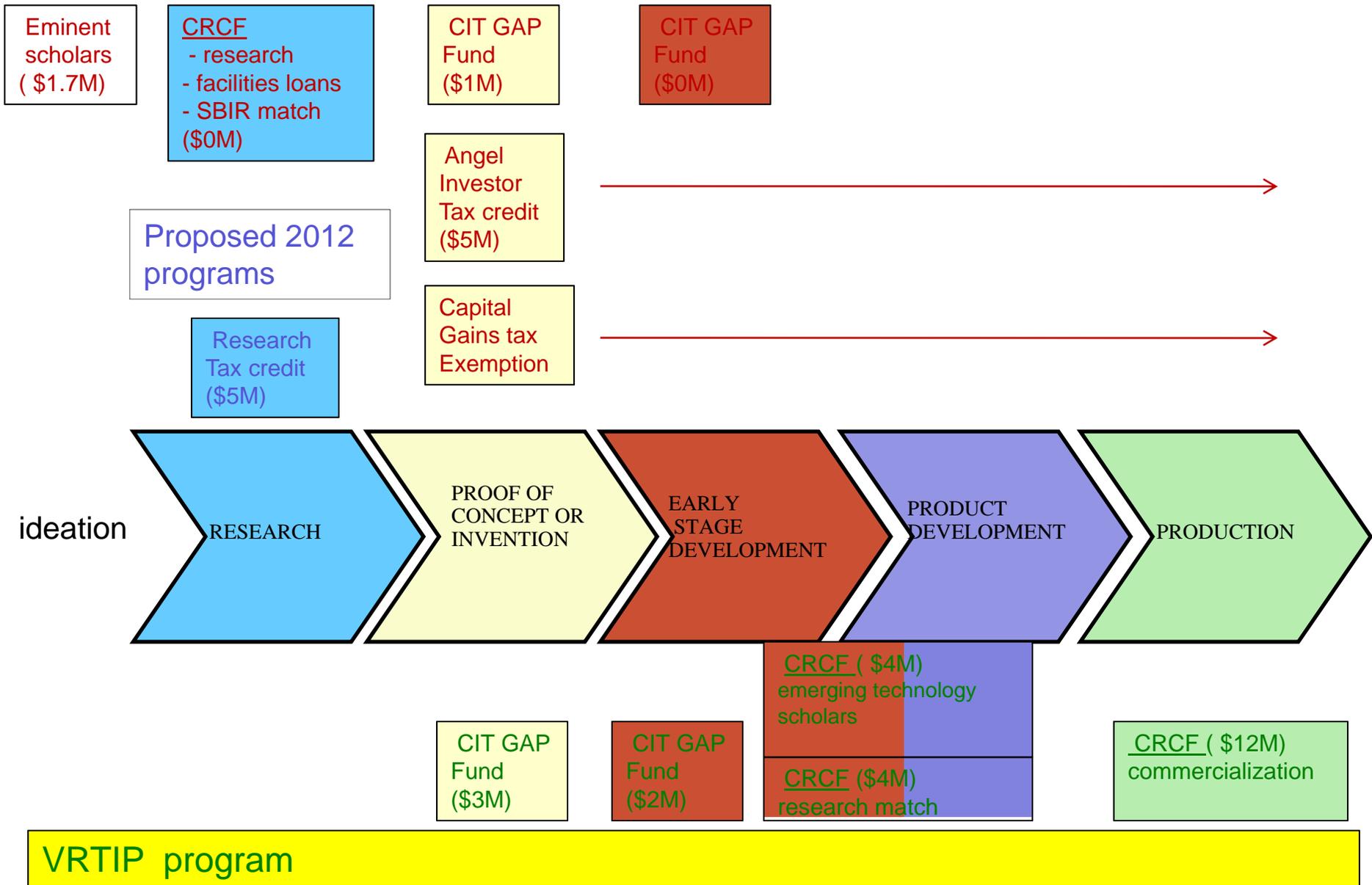
# RESULTS

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- **Since inception, we have made over 2,000 loans, which enabled over \$800 million in private financing, & helped businesses create and retain over 24,000 jobs**
- **Currently we have:**
  - **Over \$1 billion in bonds outstanding**
  - **Over \$16 million in loans outstanding**
  - **Over \$2 million in guaranties outstanding**
  - **Over 500 current loans & bonds on the books**
  - **Responded to 923 requests for technical assistance for the fiscal year and made over 400 referrals to financial institutions and equity providers.**

**Existing 2011 programs**

# The Innovation Continuum





# GAP Overview

## House Appropriations

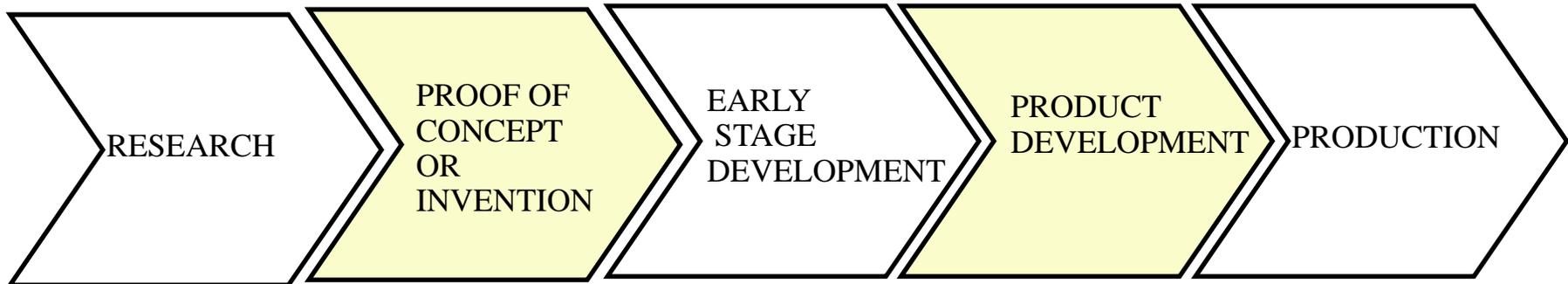
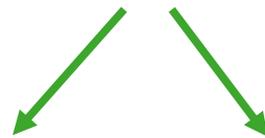
January, 2011

Peter Jobse

# CIT GAP Funds



CIT GAP Funds



GAP Tech Fund

GAP BioLife Fund

GAP Energy Fund

GAP Cyber Security Fund

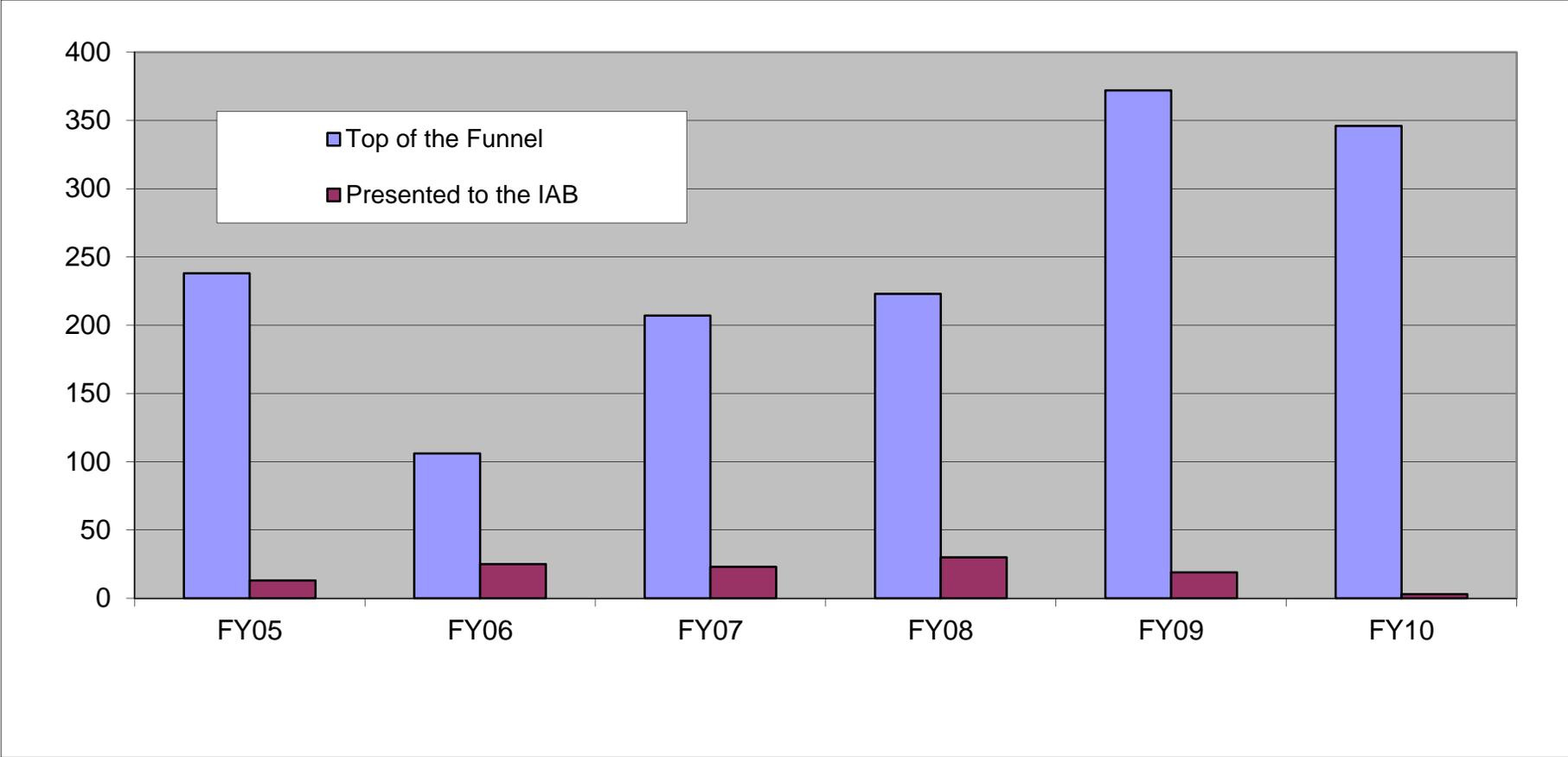


## Investment portfolio

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- 40 investments made to date
  - electrical components and materials
  - drug discovery
  - medical devices and medical testing
  - cyber security
  - bio fuels
  - business application software
  - mobile applications
- 35 companies active, 5 inactive
- Fiscal year 2010 – four investments
- Fiscal year 2011 – targeting 9 new investments
- Commonwealth potential - 35 new companies per year

# GAP Funds – Lead Analysis



# GAP Funds – University Spin-Outs

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## GAP Portfolio

### George Mason University

- Invincea

### University of Virginia

- Global Cell Solutions
- Soft Tissue Regeneration
- Tau Therapeutics

### Virginia Tech

- Airak
- Miserware
- NBE
- Piedmont BioProducts

## 2011 Pipeline

### University of Virginia

- Diagnostic for infectious diseases
- Ultrasound technology for spinal taps

### George Mason University

- Virtualization-based security solution

### William and Mary

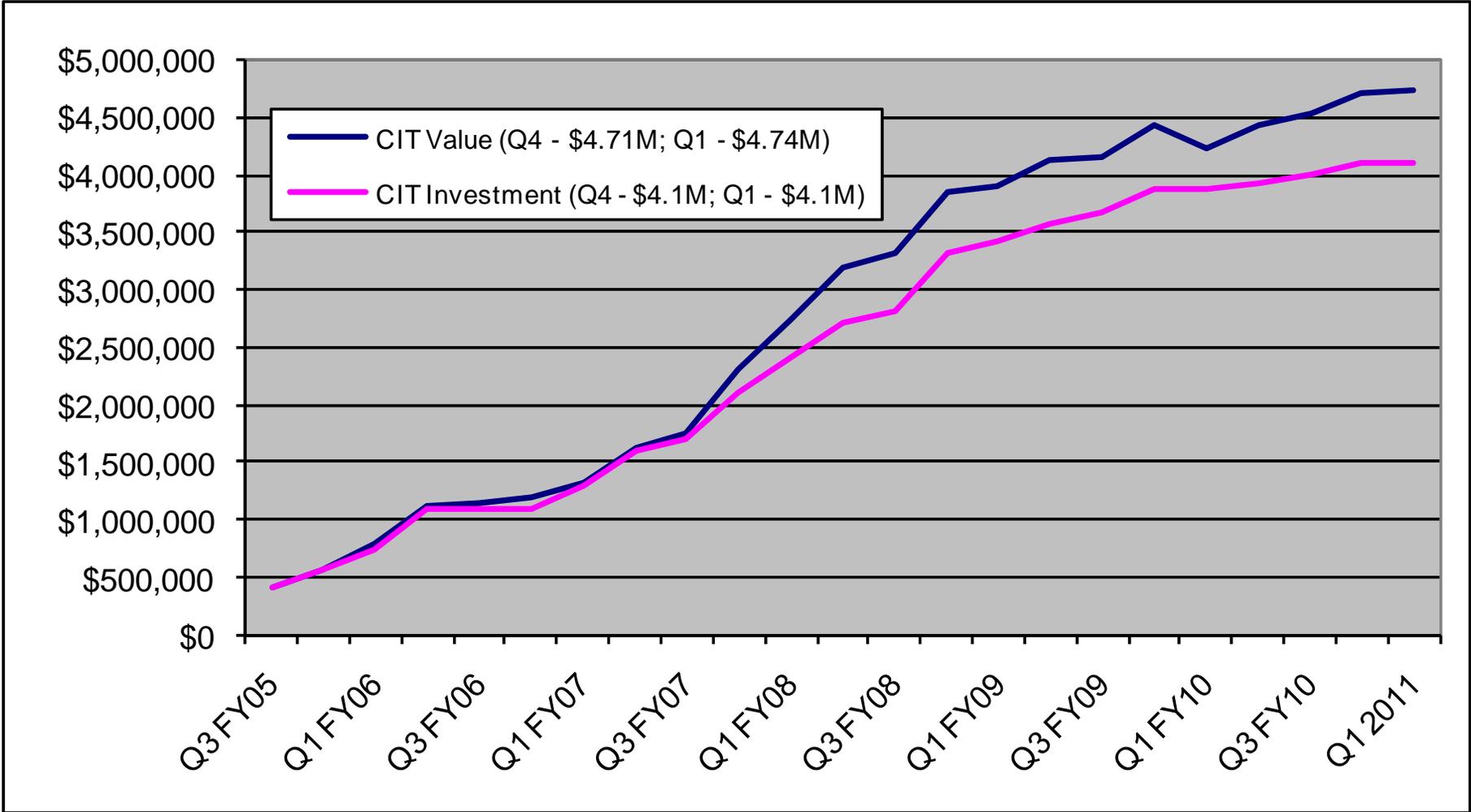
- Therapeutic for PTSD and anxiety disorders

### Virginia Tech

- Therapeutics for diabetes and inflammation
- Meniscus replacement technology

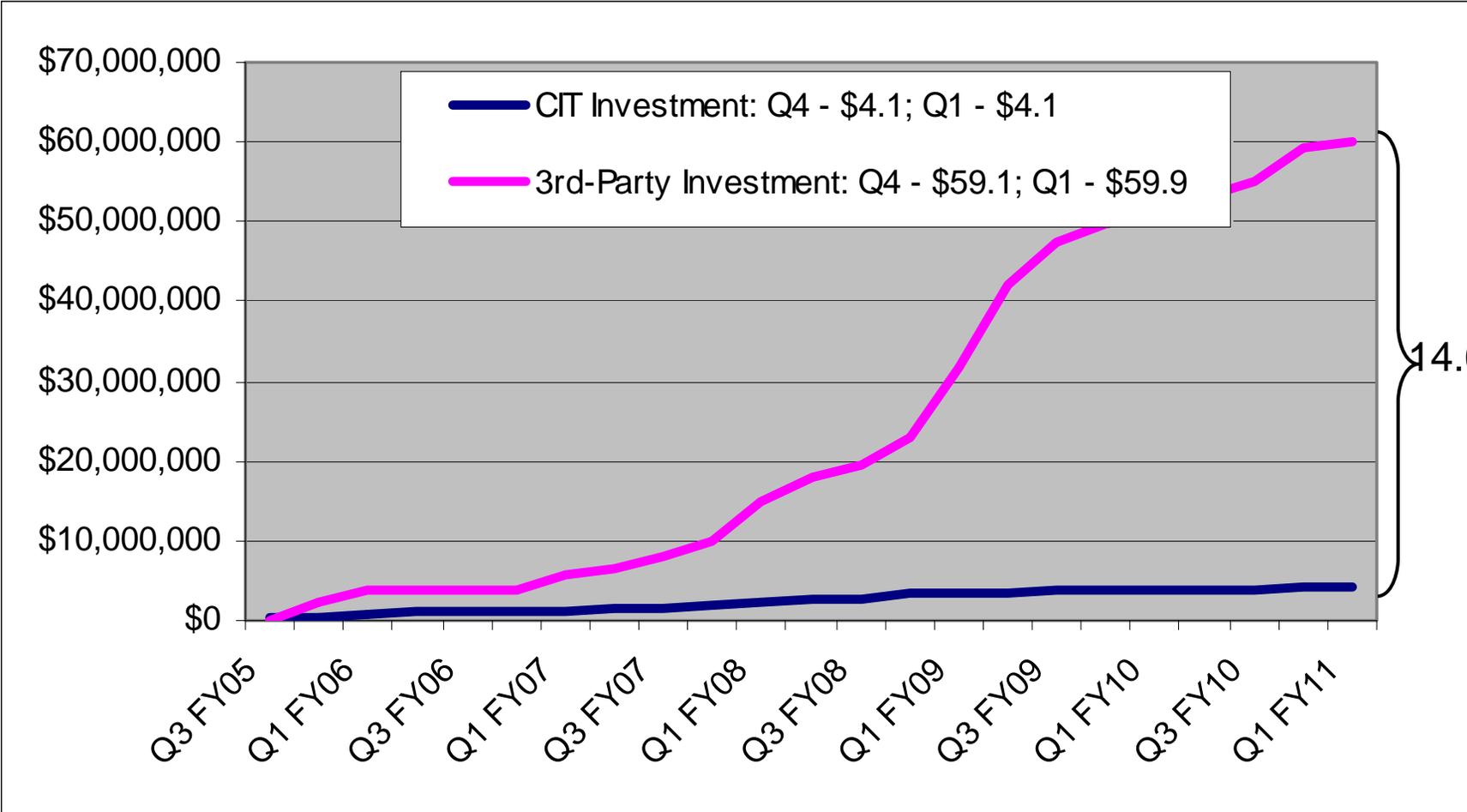


# GAP Funds – Investment to Date



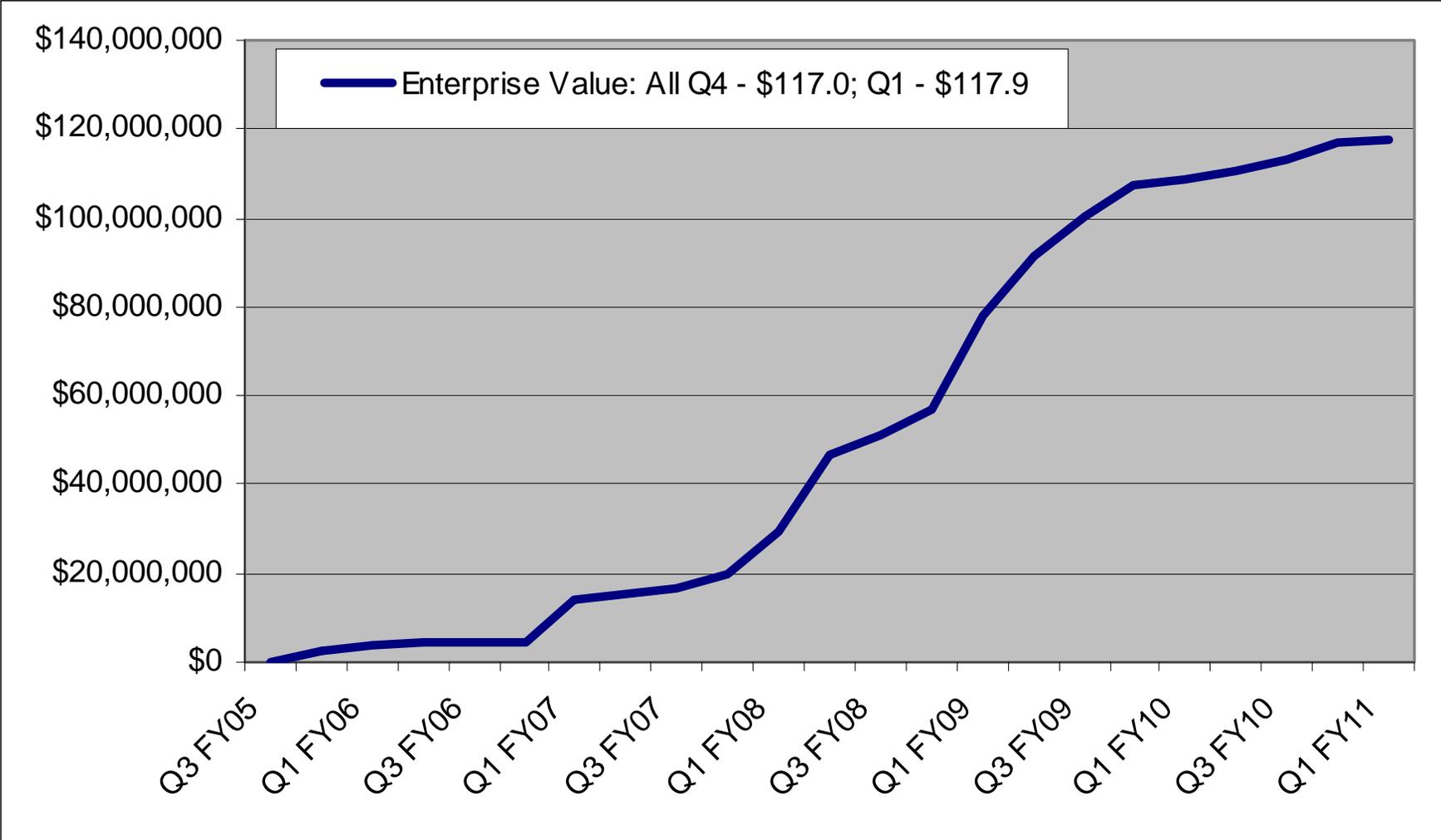


# GAP Funds – Leverage Value

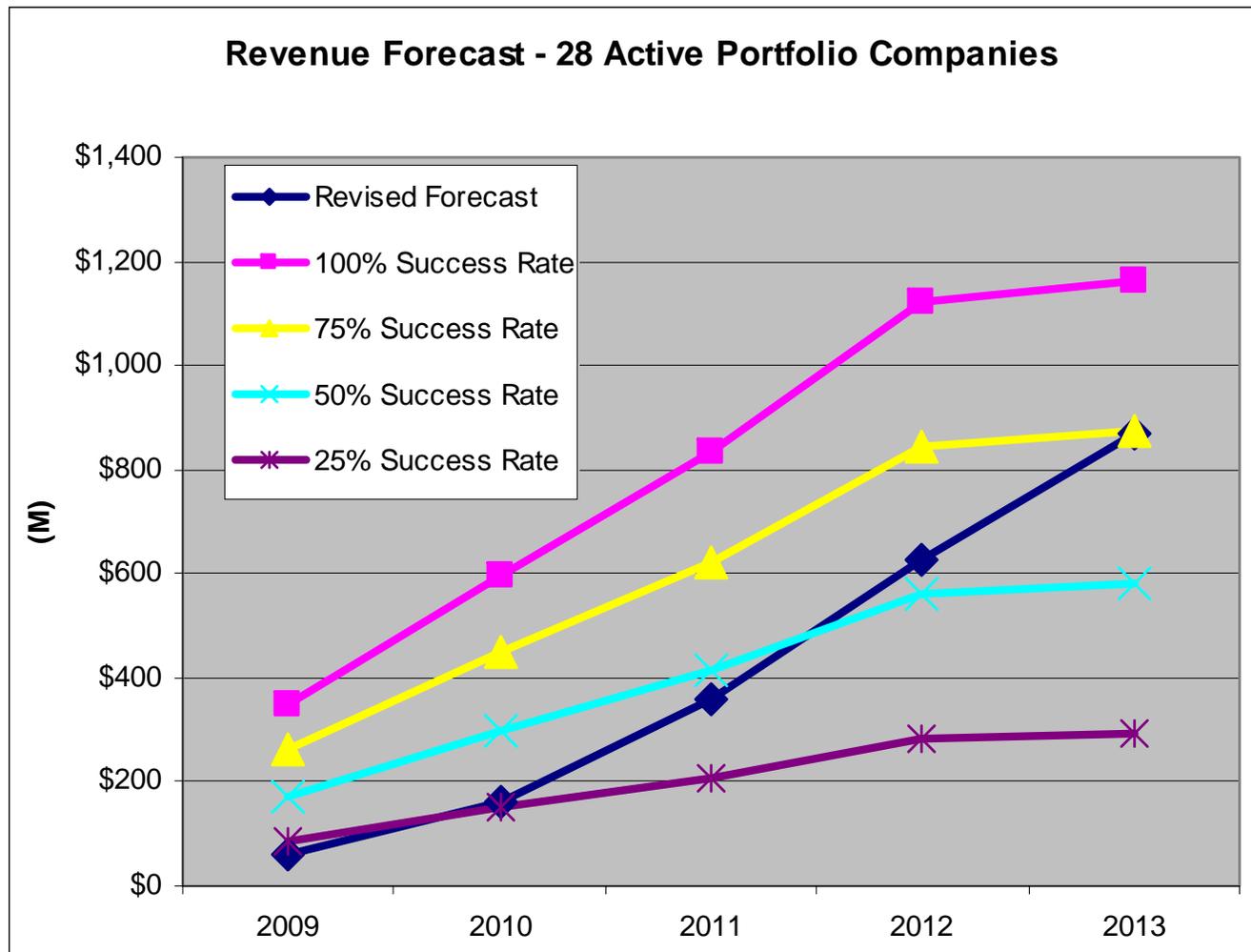




# GAP Funds – Enterprise Value



# GAP Funds – VA GSP Contribution







# Catalyzing Innovation in the Commonwealth of Virginia

**Study undertaken on behalf of the Virginia Economic Development Partnership**



May 5, 2010

# Benchmarking Virginia's Innovation Foundations

## Summary Results

	Weakness	Average	Strength
Financial Resources	<ul style="list-style-type: none"> <li>Small business loans (\$)</li> <li>VC investment (\$)</li> </ul>		<ul style="list-style-type: none"> <li>STTR awards (\$)</li> <li>SBIR awards (\$)</li> </ul>
Human Resources	<ul style="list-style-type: none"> <li>Advanced S&amp;E degrees</li> </ul>		<ul style="list-style-type: none"> <li>NAEP Science &amp; Math Scores</li> <li>S&amp;E degrees</li> <li>Labor force growth</li> </ul>
Innovation Resources	<ul style="list-style-type: none"> <li>Patents</li> <li>Academic R&amp;D expenditures (\$)</li> <li>Industrial R&amp;D expenditures (\$)</li> </ul>	<ul style="list-style-type: none"> <li>Academic R&amp;D productivity</li> </ul>	<ul style="list-style-type: none"> <li>Federal R&amp;D performance (\$)</li> </ul>
Innovation Economy Outcomes	<ul style="list-style-type: none"> <li>Business Start-Ups</li> <li>Entrepreneurs</li> <li>Exports (\$)</li> </ul>	<ul style="list-style-type: none"> <li>R&amp;D to GSP (\$ ratio)</li> </ul>	<ul style="list-style-type: none"> <li>Tech Fast 500 companies</li> <li>Real GSP growth</li> </ul>

# Summary Assessment



Global and national economic realities challenge forward-looking states to expand industries driven by technology and innovation.



Many of Virginia's high-tech industries serve the Federal market. While important, this narrow focus limits the state's diversity and overall ability to provide high value jobs.



Virginia possesses important assets and initiatives related to innovation, but the Commonwealth has not reached its potential.



An initiative to stimulate innovation and catalyze collaboration among industries, universities, laboratories, etc., can transform Virginia into a model innovation economy.

# Strategic Focuses for Virginia

Enhancing Research  
Excellence at  
Universities

Engaging Private Sector  
Collaboration Across  
Sectors And Disciplines

**Catalyzing  
Innovation**

Nurturing  
Entrepreneurship and  
Access to Capital

Making Smart  
Technology Choices

# Lessons from the Research

**Virginia needs a long term initiative to sustain innovation and catalyze collaboration among the private sector, universities, federal laboratories, etc., to transform Virginia into a Model Innovation Economy and provide high value jobs.**

**❖ “Must have” strategic elements include:**

- ✓ Engaged and sustained private sector leadership and collaboration.**
- ✓ Smart technology choices.**
- ✓ Elevated research excellence at universities.**
- ✓ Nurturing of entrepreneurship and enhanced access to capital.**

**❖ Create the Virginia Innovation Alliance.**

- ✓ Public/Private Partnership with greater research investment (focused and accountable for results).**
- ✓ Align existing state resources seamlessly.**
- ✓ Must transcend any given Administration.**

# VRTIP – Comprehensive Tool for Innovation Virginia

