



OFFICE OF ECONOMIC &  
DEMOGRAPHIC RESEARCH

# Evaluation of the State Small Business Credit Initiative

Florida Capital Access Program  
Florida Venture Capital Program  
Florida Small Business Loan Support Program  
Florida Export Support Program

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## EXECUTIVE SUMMARY

The federal Small Business Jobs Act of 2010 created the State Small Business Credit Initiative (SSBCI) to strengthen state programs that support lending to small businesses. SSBCI was funded with \$1.5 billion which was allocated among 57 states, territories, and local governments, to be used in new or existing small business development programs. Florida was granted \$97.7 million of SSBCI funding, which is being used in four state programs. The Florida Capital Access Program and the Florida Loan Support Program were newly created to take advantage of SSBCI funding opportunities, while the Florida Venture Capital Program and the Florida Export Support Program already existed in the state and are using SSBCI funds to expand the number of investments and loans provided to small businesses.

The federal SSBCI program requires a 10:1 leverage ratio within 5 years. Overall, Florida's SSBCI programs have achieved a 4.2:1 leverage ratio through the end of Fiscal Year 2013-14, but still have time to reach the 10:1 goal. SSBCI programs are still relatively new in Florida; as they mature and initial loans are repaid, funds will be available to recycle, thereby optimizing leveraging over time. The average amount of SSBCI funds per recipient is very similar across all programs, but the total financing per project is higher for venture capital than it is for the loan programs, resulting in a higher leverage ratio for the venture capital program of approximately 7:1 compared to the loan programs which are approximately 3:1.

EDR was directed by Chapter 2014-218, L.O.F., to evaluate the return on investment for SSBCI. In previous analyses, EDR calculated the state's return on investment as state revenues generated by a program, minus state investment in that program, all divided by the state's investment. Since SSBCI is entirely federally funded, there is no state investment from which to calculate a return on investment. For this analysis, economic benefits to the state will be reported as increases in state revenues as well as changes to other economic indicators such as personal income and state Gross Domestic Product (GDP).

Economic benefits generated from activity in the Florida Loan Support Program and the Florida Venture Capital Programs were estimated as part of this evaluation. Both programs generated economic benefits for the state, and the estimates are reported in detail in the Analysis and Findings section of this report. The venture capital program generated the highest level of economic benefits among the approved programs. This is primarily due to the specific targeted industries represented by businesses participating in this program, which tend to be in technology-related and high-skilled sectors. In addition, the wages for the jobs created by venture capital businesses are substantially higher than those jobs created in the industries represented in the loan programs, which leads to a higher level of related output, and therefore more economic benefits to the state. Two SSBCI programs – the Florida Capital Access Program and the Florida Export Support Program – have had little or no activity within the study timeframe, so there is no estimate of economic benefits for those programs in this report.

## OVERVIEW OF SMALL BUSINESS LENDING

The US Small Business Administration (SBA) defines a “small business” as a business with less than 500 employees. The Census Bureau, the Bureau of Labor Statistics, and the Federal Reserve have all adopted the same definition, which encompasses most businesses in the nation. It is estimated that more than 99 percent of all employer businesses are small businesses and that they employ half of the nation’s private-sector workforce. These companies have wide-ranging products and goals, and are in varying stages of development. A small business could be a well-established local grocery store or a high-tech start-up.

Most small businesses have less than 20 employees. According to the latest Census Bureau data, there are 5.7 million businesses with less than 500 employees in the US, and 5.1 million (or nearly 90%) of them have less than 20 employees. In Florida, there are approximately 396,000 small businesses, 365,000 (92%) of which have less than 20 employees.

Lending to small businesses is inherently riskier than lending to large businesses. There are several reasons for this. First, small businesses are more sensitive to economic uncertainty and recessions. This can be illustrated by looking at loan delinquency rates, which tend to be slightly higher at banks that focus on small business lending compared to those that do not. This was particularly evident during the Great Recession. According to the Federal Reserve, the loan delinquency rate at small-business-lending-intensive banks was between 2% and 4% from 2004 through 2007, increased to between 4% and 6% in 2008 and 2009 and then leveled out at about 4% in 2010 and 2011. The delinquency rate at other banks remained below 2% in 2004 through 2007, increased to between 2% and 4% in 2008 through 2010, and declined to less than 2% again in 2011.

It is also more difficult for lenders to assess the creditworthiness of small businesses because they do not have access to the same type of public information that is available for large businesses, such as financial statements or publicly traded equity or debt. It has been difficult to develop general standards to assess creditworthiness of small businesses because they span a wide range of industries and the use of borrowed funds varies greatly. This variety also makes it difficult for banks to pool small business loans and securitize them.

Small business startups are also risky investments because their survival rate is relatively low, meaning they are less likely to succeed and remain in operation over the long-term. There have been several studies that analyze the probability of success of new businesses. The SBA reports that only about half of new establishments survive five years or more and only one-third survive ten years or more. The actual rates vary by industry, but this general trend remains the same. The probability of an individual firm’s survival increases with the firm’s age. For example, one study reports survival rates for a cohort of new businesses over 7 years: 81.2% first year, 65.8% second year, 54.3% third year, 44.4% fourth year, 38.3% fifth year, 34.4% sixth year and 31.2% seventh year. Another way to view this is through the survival rate of the previous year’s survivors. In that study, 81.2% of businesses survived the first year and 81.0% of those businesses survived the second year. This ratio is stable until the fifth, sixth and seventh years where it begins to increase to 86.3%, 89.9%, and 90.5%, supporting the conclusion that a business has a

higher probability of success as it becomes more established, particularly once it passes the five-year mark.

A small business loan is typically considered to have a value of less than \$1 million, but many loan applicants are seeking financing for a much smaller amount. According to the Federal Reserve's 2013 Small Business Credit Survey, 39% of applications for small business loans were for loans with a value of less than \$50,000, another 12% were for loans between \$50,000 and \$100,000, 31% were for loans between \$100,000 and \$500,000 and 18% were for loans with a value exceeding \$500,000. The transaction costs to process various sized loans are similar, but smaller loans generate less profits. This causes some banks, especially larger banks, to reduce their small business lending activity by setting dollar thresholds for loans or setting minimum revenue requirements for prospective borrowers. For example, banks may reduce or eliminate loans with a value of less than \$100,000. This is problematic because about half of all small business loans requested in 2013 were under that threshold.

The Great Recession negatively affected credit flows to all businesses for several reasons, including tighter lending standards, decreased demand for funds due to a reduction in investment opportunities, and general decline in financial health/creditworthiness of borrowers. Since the Great Recession ended, credit conditions have improved for large businesses more quickly than for small businesses. Within the population of small businesses, those that are relatively larger and older tend to have better access to credit than those that are smaller and newer. For example, a recent Federal Reserve survey found that 73% of loan applications were approved for businesses that had been operating for more than 5 years, whereas only 46% of loan applications were approved for businesses less than 5 years old. While small business activity has improved since the Great Recession, it has not rebounded to pre-recession levels.

There are several indicators that illustrate the tight market for small business lending. The Federal Deposit Insurance Corporation (FDIC) reports that small business loans as a portion of total loans has declined steadily from 51% in 1995 to 29% in 2012. A recent National Federation of Independent Businesses survey indicates that small business owners believe that credit is still harder to get now than it was before the Great Recession. According to the Federal Reserve Senior Loan Officer Survey, the percentage of bankers reporting tightening of loan conditions was higher for small businesses than large businesses between 2008 and 2010, and the loosening of credit conditions was more common for large businesses than small businesses in 2011 through 2014.

In addition, the market for small business loans tends to be local, as smaller banks are more accessible and linked to the community where the borrower is located. The percentage of small business loans approved at community banks was 48% as of May 2014, whereas the approval rate at big banks was 13%. During the Great Recession, failure rates for community banks reached nearly unprecedented levels, and newly chartered local banks since then have not nearly made up for the loss of accessible institutions. The FDIC also reports that community banks have been consolidating into big banks over time, with the number of community banks falling from 14,000 in 1985 to 7,000 in 2010.

There are many existing federal, state, and local government programs that focus on small business development by providing loan assistance or credit enhancement opportunities for borrowers. The US

Small Business Administration (SBA) has a variety of established loan programs for small businesses. The Community Reinvestment Act (CRA) is another long-standing program that encourages FDIC institutions to support local communities, particularly in low-income areas. More recently, the American Recovery and Reinvestment Act of 2009 (ARRA) and the Small Business Jobs Act of 2010 (SBJA) created programs that provide additional resources to small businesses.

ARRA strengthened SBA lending programs by temporarily eliminating lender and borrower fees and raising the maximum guarantee amount for its largest loan program from 75% to 90%. As a result of the program, SBA loan volume increased substantially in 2010 as compared to 2009.

The Small Business Jobs Act has three major components. The first component extended the fee waivers from ARRA, permanently increased SBA loan size limits from \$2 million to \$5 million, and streamlined the loan paperwork process in order to improve turnaround times. In 2012, the number of financial institutions that made an SBA-guaranteed loan was up 41% compared to 2009. The second component of SBJA, the Small Business Lending Fund (SBLF) is designed to infuse capital into smaller banks and encourage small business lending. The SBLF invested \$4 billion in over 300 institutions, 68% of which increased their lending to small businesses by at least 10%. The third component of SBJA is the State Small Business Credit Initiative (SSBCI), which was funded with \$1.5 billion to support state programs that provide loans to small businesses. As of August 2014, SSBCI has funded more than 150 programs, including capital access programs, loan participation programs, loan guarantee programs, and venture capital programs.

Small businesses may also take advantage of several credit alternatives in lieu of traditional loans, such as lines of credit, credit cards, and trade credits. In addition, crowdfunding is an emerging method used to finance start-ups. There are two types of crowdfunding. The first type is the “donation model” where entrepreneurs post an idea online, and interested parties respond with funding contributions. The donors usually receive a gift which varies in value depending on the size of their contribution. The most popular example of this model is Kickstarter, a crowdfunding site that has funded 67,000 projects since 2009. The second type is called “equity crowdfunding.” In this model, entrepreneurs sell shares in their startup to investors that hope to see a financial return. The federal Jumpstart Our Business Startups Act was enacted in 2012, to allow small startups to use equity crowdfunding nationwide. However, there has been a delay in passing SEC rules for this program, so some states have passed their own regulations allowing this type of financing. Since equity crowdfunding is such a new concept, it has been slow to start, and there is still uncertainty regarding its growth potential. However, if national standards and regulations are enacted, it may become a viable financing option for small businesses in lieu of traditional credit options.

## **STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI)**

The federal Small Business Jobs Act of 2010 created the State Small Business Credit Initiative (SSBCI) to strengthen state programs that support lending to small businesses. SSBCI was funded with \$1.5 billion which was allocated among 57 states, territories, and local governments, to be used in new or existing

small business development programs. There are four types of loan programs that SSBCI supports, including: loan participation programs, loan guarantee programs, collateral support programs, and capital access programs. These programs allow lenders to provide financing to small businesses that would not have otherwise been qualified for traditional loans. SSBCI funds may also be used to support venture capital programs.

Existing programs focused on small business development vary across states, so there is not a uniform program description or set of standard requirements that apply to all recipients of funds. However, to qualify for federal dollars, there are three private leverage requirements, including:

- for every transaction, the lender/financial institution must have a “meaningful amount of its own capital at risk”;
- for each program, at least one dollar of private capital must be loaned or invested for every federal dollar; and
- across all programs for a state, a reasonable expectation that \$10 of private capital can be leveraged for each federal dollar.

All participating states are required to report the use of SSBCI funds annually to the federal government. Each year, the US Department of Treasury compiles the information and publishes the “Summary of States’ Annual Reports.” In the most recently released summary report, the US Department of Treasury reports that states have expended \$590 million of SSBCI funds through the end of calendar year 2013, which has resulted in the distribution of \$4 billion to more than 8,500 businesses. Across all programs and states, a leverage factor of nearly 7:1 has been achieved, meaning that nearly \$7.00 in private sector loans or investments have been generated from every \$1.00 of SSBCI funds. A leverage factor of 10:1 must be achieved within 5 years.

Job creation is another goal of SSBCI. The US Department of Treasury reports that 32,000 jobs have been created and 63,000 jobs have been retained as a result of SSBCI funds. The following table provides more details about the activity and performance of SSBCI broken out by program type for calendar years 2011 through 2013. The size of loans granted varied greatly, from around \$50,000 to over \$10 million. Loans with values of less than \$100,000 made up 60% of all transactions, but only 4% of the total dollar amount loaned. Fifteen percent of loans had a value of \$500,000 or more, but those larger financings made up 83% of the dollar amount loaned. Almost 80% of SSBCI-supported loans were made to businesses with 10 employees or less, and half of all loans were to businesses less than five years old.

**Table 1. US SSBCI Program Activity**

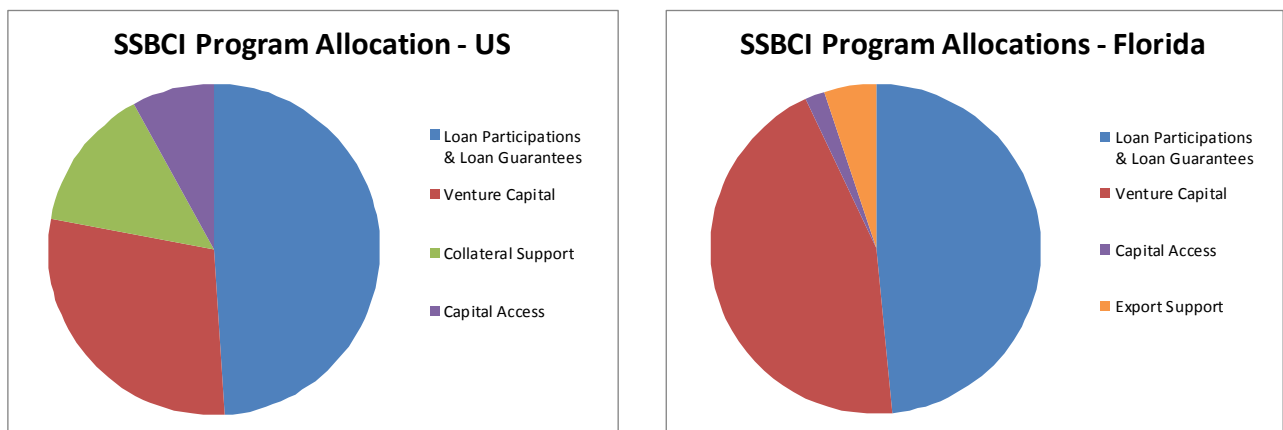
<b>Program Type</b>	<b>Number of States Participating</b>	<b>Value of Loans Supported</b>	<b>Average Size of Financing</b>	<b>Leverage Factor</b>
Loan Participation	38	\$1.5 billion	\$1.6 million	6.4:1
Loan Guarantee	18	\$0.5 billion	\$0.5 million	5.3:1
Venture Capital	33	\$1.3 billion	\$2.2 million	8.5:1
Collateral Support	17	\$0.6 billion	\$1.2 million	5.5:1
Capital Access	24	\$0.3 billion	\$0.05 million	25.3:1

Source: US Department of Treasury, Summary of States’ Annual Reports, September 2014.

Florida was granted \$97.7 million of SSBCI funding that was distributed in four lump sums over the course of three fiscal years (payments were received in June 2011, June 2013, November 2013 and September 2014). Florida is using SSBCI funds in several programs, some of which are new and some that were already active in the state. The Department of Economic Opportunity (DEO) is the initial recipient of funds. DEO directly administers the Capital Access Program (CAP), and contracts with Enterprise Florida, Inc., (EFI) to manage the Other Credit Support Programs (OCSPs) such as loan participations, loan guarantees, and venture capital.<sup>1</sup> In addition, DEO contracts with the Florida Export Finance Corporation (FEFC) to manage the Florida Export Support Program. Florida’s SSBCI program does not have a collateral support component.

The following charts illustrate how SSBCI funds have been allocated by program type in the US and in Florida. In both cases, approximately half of SSBCI funds have been assigned to loan participation and loan guarantee programs. Relative to the nation, Florida has allocated a substantially larger share of its funds to venture capital.

**Table 2. SSBCI Funding Allocation**



Source: US Department of Treasury and Florida Department of Economic Opportunity.

## FLORIDA SSBCI PROGRAMS

There are four programs in Florida that qualify for SSBCI funding. The Florida Capital Access Program and the Florida Loan Support Program were newly created to take advantage of SSBCI funding opportunities, while the Florida Venture Capital Program and the Florida Export Support Program already existed in the state and are using SSBCI funds to expand the number of investments and loans provided to small businesses.

<sup>1</sup> EFI further subcontracts with other entities such as Florida First Partners for the Venture Capital Program and the Florida First Capital Finance Corporation for the 504 Bridge Loans.



### ***Florida Capital Access Program (CAP)***

The Florida Capital Access Program (CAP) is a loan portfolio insurance program that allows lenders to make loans to small businesses that are creditworthy but may not otherwise have access to credit. The Florida CAP is administered by DEO and has been allocated \$2 million (2%) of the \$97.7 million in SSBCI funds. Any Florida business with less than 500 employees is eligible for a loan of up to \$5 million, and loan proceeds must be used for a business purpose. This program uses a loan loss reserve fund to insure a portion of each loan. Each participating financial institution must have a separate loan loss reserve fund which is made up of fees from the lender and borrower, which are matched by the state's CAP funds. For example, if the CAP loan amount is \$100,000, and the fees are 2%, the lender and borrower are required to contribute \$2,000 each, the state will match that amount by providing \$4,000 from CAP funds, which results in a total of \$8,000 for the loan loss reserve account. The lender and borrower fees are determined by the lender but must be between 2% and 7% of the amount of an approved CAP loan. The fees and matching funds generated from all loans in the program are pooled into the reserve account and are used to make loan payments in the case of a default. As the reserve account grows with program participation, there is more cash available to cover losses on the entire CAP loan portfolio. The reserve account balance is not reduced when loans within the portfolio are paid off; in fact, the account may grow over time as it collects more fees and generates interest earnings. The borrower does not recoup the fees it contributes to the reserve fund at any time. This program can generate revenue for participating lenders, especially as a reserve fund becomes well established over time. If the CAP program ends, the state receives half of the funds in the reserve account, effectively recovering its SSBCI funding contributions.

The CAP program has been slow to take off in Florida and many other states. In fact, in many cases, states have decreased the amount of SSBCI funding allocated to their CAP programs and shifted it to other programs. Florida's CAP program started with \$20 million, but it has since been decreased to \$2 million, with the remaining \$18 million shifted to the OCSPs. Compared to the Other Credit Support Programs, the portion of the loan that is insured under the CAP is relatively small. For example, the maximum CAP guarantee amount is 14%, while the maximum guarantee for the Small Business Loan Support Program is 50%. This is one reason that the CAP may be a less attractive option for borrowers and lenders. Loan terms in the CAP are expected to be longer than the OCSPs; the maximum CAP loan term is 10 years, while the maximum term under the Small Business Loan Support Program is 5 years. For the loan guarantee programs, the shorter loan terms allow the same funds to be recycled in order to achieve leverage. Conversely, the CAP program achieves its leverage when the required match is provided by the lender and borrower.

### ***Florida Venture Capital Program***

The Florida Opportunity Fund (FOF) is a not-for-profit corporation that was established in 2007 to promote venture capital investments in Florida. The FOF is directed by a 5-member board that is appointed by EFI. The FOF was initially appropriated \$29.5 million of non-recurring general revenue to be invested on a fund-of-funds basis. Venture capital investments are made in the early stages of new businesses, and it typically takes 5-10 years before investors see a return, as it takes time for these

businesses to develop. In order to minimize risk, the portfolios of venture capitalists include investments in a variety of start-up businesses. EFI selected experienced venture capital firms to manage the state's investments, essentially minimizing risk by diversifying across many businesses and establishing a fund-of-funds. The venture capital investments must be focused on Florida firms, and must be matched with private funds. The businesses must also be in targeted industries such as: aerospace and aviation, alternative and clean energy technology, financial and professional services, homeland security and defense, information technology, life sciences, and manufacturing.

In 2009, Florida's venture capital program was expanded by authorizing direct investments in start-up companies. These companies must be in one of the targeted industries listed above, and the outcomes generated by the investments must be reported to the state, but there are no specific requirements on how funds can be spent. To date, there have been no state funds used for direct investments in venture capital companies; however, beginning in Fiscal Year 2011-12, SSBCI funds have been used for this purpose. The Florida Venture Capital Program was allocated \$43.5 million (44.5%) of the \$97.7 million in federal SSBCI funds, all of which is being used in the direct investment portion of Florida's existing venture capital program.

#### ***Florida Small Business Loan Support Program***

The Florida Small Business Loan Support Program has two components: loan participations and loan guarantees. These programs provide credit enhancements for small businesses that would not otherwise have access to capital. The Small Business Loan Support Program is administered by EFI through a contract with DEO, who is the initial recipient of funds. This program has been allocated \$47.2 million (48.3%) of the \$97.7 million in SSBCI funds.

In the loan participation program, SSBCI funds are used as a portion of the loan provided to a business by a lending institution. The maximum loan participation amount is 50% of the total value of the loan, but the loan participation amount is usually between 5% and 20% in Florida's program. The total loan value may not exceed \$5 million, and the term of the loan must be 5 years or less. The lender determines the terms of the loan, and EFI monitors re-payment performance as the funds are at risk in the case of a default. There is limited opportunity for leveraging under the loan participation program because funds are not pooled and cannot be recycled until the loan is repaid. There is a subset of loan participations in this program called bridge loans, which are interim loans given to small businesses for specified real estate or heavy equipment purchases, that are repaid once they receive their SBA 504 Loan.

In the loan guarantee program, SSBCI funds are held in reserve at lending institutions, providing additional security for loans that may not have otherwise been available to recipients without this type of credit enhancement. The maximum value of each guarantee is \$1 million, and the term is typically 3 years in Florida's program. There are currently 25 banks participating in these programs, most of which are local community-based banks. The lender determines the interest rate and terms of the loan as well as whether the borrower needs an SSBCI credit enhancement. The lender is assessed additional fees for SSBCI loans, which are in turn passed on to the borrower. There is an up-front fee of 1.5% of the

guaranteed portion of the loan as well as a 1% annual fee. Most borrowers are for-profit small businesses, but about 10 to 20% are non-profits.

Funds for all loan guarantees are pooled together into a single guarantee fund that is managed by EFI. This allows for optimal leveraging as funds are recycled and used for new guarantees as loans are paid down. The guarantee amount is calculated as a percentage of each loan, so as borrowers pay off the principal, the amount of funds needed for the guarantee declines until the loan is paid off. At that point, all funds are available to guarantee other loans. The risk associated with the loan guarantee program is minimal, as funds would only be paid out in the case of a default on one of the loans. According to EFI, there have been no defaults to date.

### ***Florida Export Support Program***

The Florida Export Support Program is designed to expand employment through increased exports of goods and services by providing loan guarantees in support of export transactions. The Florida Export Support Program is administered by the Florida Export Finance Corporation (FEFC) through a contract with DEO, who is the initial recipient of funds. This program has been allocated \$5.0 (5.2%) million of the \$97.7 million in SSBCI funds. The maximum loan guarantee under this program is 90% of the value of the loan, with 49% of that amount guaranteed with SSBCI funds, and 51% of that amount guaranteed with existing FEFC funds. The maximum value of a guarantee under this program is \$500,000. In order to be eligible to participate, the borrower must be a business with less than 250 employees, which is smaller than the definition of a small business under the other SSBCI programs.

The FEFC is a not-for-profit corporation that was established in 1993 to provide loan guarantees for small businesses that export goods. Borrowers that use this program tend to be riskier than other small businesses, as they generally produce and/or sell specialized products to niche markets. The typical term for FEFC lines of credit is one year, and usually borrowers will go through three cycles with FEFC before they are able to transition to traditional financing options.

The SSBCI funding is being used to enhance the existing FEFC program by assisting a greater number of small businesses, but within the existing program design. The Florida Export Support Program launched on August 24, 2014, when DEO transferred all allocated SSBCI funds to the FEFC. DEO contracts with FEFC to ensure compliance with SSBCI requirements and to ensure accessibility to SSBCI funds if needed.

## **METHODOLOGY, ASSUMPTIONS, AND DATA**

EDR was directed by Chapter 2014-218, L.O.F., to evaluate the return on investment for SSBCI. In previous analyses, EDR calculated the state's return on investment as state revenues generated by a program, minus state investment in that program, all divided by the state's investment. Since SSBCI is entirely federally funded, there is no state investment from which to calculate a return on investment. For this analysis, economic benefits to the state will be reported as increases in state revenues as well as changes to other economic indicators such as personal income and state Gross Domestic Product (GDP).

### ***Statewide Model***

EDR used the Statewide Model to estimate the economic benefits generated from the federally funded SSBCI programs. The Statewide Model is a dynamic computable general equilibrium (CGE) model that simulates Florida's economy and government finances. Among other things, it captures indirect and induced economic activity resulting from investments in state programs. This is accomplished by using large amounts of data specific to the Florida economy and fiscal structure. Mathematical equations are used to account for the relationships (linkages and interactions) between the various economic agents, as well as likely responses by businesses and households to changes in the economy. The model also has the ability to estimate the impact of economic changes on state revenue collections and state expenditures in order to maintain a balanced budget by fiscal year.

When using the Statewide Model to evaluate economic programs such as the ones in this analysis, the model is "shocked" using static analysis to develop the initial or direct effects attributable to the investment. The annual direct effects (shocks) include increased outputs based on jobs and payroll estimates. Output per job is estimated through RIMS II multipliers and wage data. Since actual wages were not available, the analysis was dependent on Florida average wage data available by NAICS code.

The model was then used to estimate the additional—indirect and induced—economic effects generated by the programs, as well as the supply-side responses to the new activity, where the supply-side responses are changes in investment and labor supply arising from the new activity. Indirect effects are the changes in employment, income, and output by local supplier industries that provide goods and services to support the direct economic activity. Induced effects are the changes in spending by households whose income is affected by the direct and indirect activity.

All of these effects can be measured by changes (relative to the baseline) in the following outcomes:

- State government revenues
- Jobs
- Personal income
- Florida Gross Domestic Product
- Gross output
- Household consumption
- Investment
- Population

### ***Key Assumptions***

The following key assumptions are used in the Statewide Model to determine the outcome of the SSBCI programs.

1. The analysis assumes that recipients of SSBCI loan participations and loan guarantees would not have otherwise had access to credit, and that venture capital investments would not have been available from other sources.

2. The analysis assumes all data provided by DEO related to loan participations, loan guarantees, and venture capital investments was complete and accurate. The data was not independently audited or verified by EDR.
3. The analysis does not include any economic benefits that may have been generated from construction or capital investments, as there was no data available for these expenditures.
4. The analysis assumes businesses received the full value of the loan or investment and that related costs due to fees or taxes are immaterial to the decision making process.
5. The analysis assumes that given the time span under review, applying discount rates would not be material to the outcome.
6. The analysis assumes the relevant geographic region is the whole state, not individual counties or regions.
7. The analysis assumes that the output from SSBCI projects included in the calculations of economic benefits did not displace the market for goods and services of existing Florida businesses. To do this, output associated with the businesses was assumed to be exported to the rest of the world. The “rest of the world” is defined as other states or the international market.

### ***Data***

The following data was used to estimate the economic benefits generated from the SSBCI programs.

- DEO provided data for the SSBCI programs for fiscal years 2011-12, 2012-13 and 2013-14, including the amount of funding by recipient, the industry classification of companies, and the number of jobs created. The analysis includes all loan participations, loan guarantees, and venture capital investments that were approved and disbursed to recipients through June 30, 2014.
- RIMS II input-output multiplier data indicated how local demand shocks affect total gross output, value added, earnings and employment in the region.
- Average Florida Wages by North American Industry Classification System (NAICS) Code were used.

### ***Market or Resource Dependent***

If a business' clients are primarily based in Florida or the business is dependent on Florida's resources to produce its products or services, it is considered market or resource dependent. Some of the businesses that received SSBCI funding were determined to be market or resource dependent and are therefore excluded from the calculation of economic benefits. In these instances, no new net economic expansion was generated from the projects since the businesses are already tied to Florida. Essentially, no activity was induced that otherwise would not have occurred – if not by the recipient business, then by someone else. EDR's evaluation found that 93.5% of businesses receiving Venture Capital funding were not market or resource dependent, as these businesses tend to be in targeted industries such as technology. However, a large portion of loan participations (64.5%) and loan guarantees (54.2%) have been excluded from the estimates of economic benefits due to their market or resource dependence. Many of these businesses are in industries that rely on their clientele who live in Florida, such as retail,

food, and healthcare, while others rely on resources unique to the state such as commercial or residential real estate.

## ANALYSIS AND FINDINGS

The economic benefits generated from the investment of SSBCI funds in Florida’s Venture Capital and Small Business Loan Support Program are included in this analysis. The economic benefits resulting from SSBCI-funded investments and loans are generated by new jobs created and related outputs.

Two of the SSBCI programs have had little or no activity within the study’s timeframe, so there is no estimate of economic benefits for those programs in this report. The Florida Export Support Program first received SSBCI funds in August 2014, so there is no program activity within the timeframe to evaluate. In addition, because there has been very little activity in the Capital Access Program through June 30, 2014, this report does not include an estimate of economic benefits generated from it. Since implementation, \$6,386 of SSBCI funds has been used to support four CAP loans with a total value of \$212,000. An input of this size would be undetectable in the statewide model.

It is important to note that since the SSBCI programs have only been active in Florida for a little over two years, results will change and likely improve as the program matures. The first portion of SSBCI funds were transferred to Florida in August of 2011, but funds were not distributed to recipients until April of 2012. The federal SSBCI program requires a 10:1 leverage ratio within 5 years. Overall, Florida’s SSBCI programs have achieved a 4.2:1 leverage ratio through the end of Fiscal Year 2013-14, but still have time to reach the 10:1 goal.<sup>2</sup> The following table provides summary statistics on SSBCI activity in Florida. The average amount of SSBCI funds per recipient is very similar across all programs, but the total financing per project is higher for venture capital than the loan programs. This results in a higher leverage ratio for the venture capital program.

**Table 3. Florida SSBCI Program Activity**

	Number of <u>Loans/Investments</u>	Average <u>SSBCI Funds</u>	Average <u>Total Financing</u>	<u>Total SSBCI Funds</u>	<u>Total Financing</u>	<u>Leverage Ratio</u>
Venture Capital	31	\$0.6	\$4.2	\$18.1	\$131.1	7.2
Loan Participations	31	\$0.8	\$2.1	\$25.2	\$64.7	2.6
Loan Guarantees	<u>24</u>	<u>\$0.7</u>	<u>\$2.2</u>	<u>\$16.2</u>	<u>\$52.8</u>	<u>3.3</u>
Total	86	\$0.7	\$2.8	\$59.5	\$248.6	4.2

Source: EDR Analysis of DEO data.

<sup>2</sup> The leverage ratio of 4.2:1 was calculated using all loans and investments that were approved and disbursed within the study’s timeframe. If the loans that were approved but not disbursed were included, the leverage ratio would differ slightly.

**Florida Venture Capital Program**

As of June 30, 2014, thirty-one venture capital investments have been awarded to 10 companies in 8 industries. Two of the investments were not included in the estimate of economic benefits for this program because they were found to be market or resource dependent. The two investments that were excluded from the analysis were granted to one company in the phosphate mining industry, and since Florida is a national leader in that industry, it was assumed that activity would have taken place regardless of the additional investment from the venture capital program. The following table details the venture capital investments that were made in fiscal years 2011-12 through 2013-14. Based on SSBCI funds invested and total financing, this program has achieved a leverage ratio of 7.2:1 as of June 30, 2014.

**Table 4. Venture Capital Investments Fiscal Years 2011-12 through 2013-14**

<u>NAICS code</u>	<u>Industry Description</u>	<u>Number of Investments</u>	<u>SSBCI Funds Invested</u>	<u>Total Financing SSBCI &amp; Private</u>	<u>Jobs Created</u>
517110	Wired Telecommunications Carriers	2	\$600,007	\$33,046,746	29
518210	Data Processing, Hosting, & Related Services	6	3,181,692	13,007,096	180
511210	Software Publishers	4	1,526,924	4,515,396	104
334510	Electromedical and Electrotherapeutic Apparatus Manufacturing	3	5,000,000	19,000,000	111
311412	Frozen Food Manufacturing	9	1,505,000	3,634,591	51
524291	Claims Adjusting	4	1,475,000	4,750,000	50
212392	Phosphate Rock Mining	2	785,359	18,477,000	52
488999	other support services	<u>1</u>	<u>4,000,000</u>	<u>34,700,000</u>	<u>45</u>
	Total	31	\$18,073,982	\$131,130,830	622

Source: EDR Analysis of DEO data.

The following table reports estimated economic benefits to the state resulting from SSBCI-funded venture capital investments in fiscal years 2011-12, 2012-13, and 2013-14. Net state revenues increased by \$5.5 million as a result of the \$17.3 million in venture capital investments included in the calculation of economic benefits. State GDP increased by a total of \$81.4 million, or \$27.1 million on average per fiscal year. In addition, total employment increased by 583 jobs over the three fiscal years. Personal income and consumption also saw positive impacts.

[SEE TABLE ON FOLLOWING PAGE]

**Table 5. Statewide Economic Model Impact of Florida Venture Capital Program**

	2011-12	2012-13	2013-14	Total
State Payments in the Window \$ (M)	0.0	0.0	0.0	0.0
Total Net State Revenues \$ (M)	0.7	2.0	2.7	5.5

		2011-12	2012-13	2013-14	Total		Average per Year
Personal Income	Nominal \$ (M)	21.8	65.0	90.8	177.6		59.2
Real Disposable Personal Income	Fixed 2009 \$ (M)	18.1	53.7	74.1	146.0		48.7
Real Gross Domestic Product	Fixed 2009 \$ (M)	0.3	21.0	60.0	81.4		27.1
Consumption by Households and Government	Fixed 2009 \$ (M)	0.0	17.0	50.0	67.0		22.3
Real Output	Fixed 2009 \$ (M)	0.0	31.6	91.4	123.0		41.0
		2011-12	2012-13	2013-14	Total		Average per Year
Total Employment	Jobs	95	236	251	583		194
Population	Persons	0	48	174	222		74

**Florida Small Business Loan Support Program: Loan Participations**

Over the past three fiscal years, SSBCI has financed 31 loan participations for 31 businesses in 12 industries. The total amount of SSBCI funds loaned under this program as of June 30, 2014 is \$25.2 million. This amount represents a portion of the total amount borrowed by recipient businesses, as the SSBCI funding allowed the businesses to secure \$64.7 million in total financing. This results in a leverage ratio for the loan participation program of approximately 2.6:1 based on the value of the loaned SSBCI funds and the additional dollars loaned from other sources. The following table provides details regarding the SSBCI loan participations that have been approved and disbursed within the timeframe of the analysis. Many of these projects were excluded from the calculation of economic benefits in the statewide model due to their market or resource dependence. In all, 20 of the 31 businesses participating in the loan participation were determined to be market or resource dependent. The businesses that were removed were in industries such as food service, real estate, contracting, and healthcare as well as other service-oriented industries that rely on customers who live in Florida.

[SEE TABLE ON FOLLOWING PAGE]



**Table 6. Loan Participations Fiscal Years 2011-12 through 2013-14**

NAICS code	Industry Description	Number of Loan	SSBCI Funds	Total Loan Amount	Jobs Created
		Participations	Loaned	SSBCI & Other	
621111	Offices of Physicians	3	\$2,611,977	\$5,916,632	26
236220, 237110, 236220	Construction, Contractors, etc.	4	312,500	625,000	49
541611	Management Consulting Services	2	300,000	600,000	61
531120, 531390, 531210	Real Estate, Leasing, etc.	7	7,983,661	22,839,537	113
524210	Insurance Agencies and Brokerages	1	194,000	436,500	3
721110	Hotels and Motels	4	8,914,964	22,083,670	104
722110	Full-Service Restaurants	5	3,230,054	8,465,883	207
312120	Breweries	1	516,508	1,254,377	10
561730	Landscaping Services	1	134,000	301,500	3
326199	All Other Plastics Product Manufacturing	1	754,840	1,697,580	14
561611	Investigation Services	1	75,000	150,000	5
812112	Beauty Salons	1	160,000	360,000	3
Total		31	\$25,187,504	\$64,730,679	598

Source: EDR Analysis of DEO data.

The following table provides details of the estimated economic benefits to the state resulting from the SSBCI loan participation program in fiscal years 2011-12, 2012-13, and 2013-14. Net state revenues increased by \$1.7 million as a result of the \$11.0 million of loan participations included in the estimate of economic benefits. State GDP increased by \$15.4 million over the time period, while several other economic indicators such as income and consumption also saw positive impacts resulting from this program's activity.

**Table 7. Statewide Economic Model Impact of the Loan Participation Program**

	2011-12	2012-13	2013-14	Total
State Payments in the Window \$ (M)	0.0	0.0	0.0	0.0
Total Net State Revenues \$ (M)	0.1	0.6	0.9	1.7

		2011-12	2012-13	2013-14	Total	Average per Year
Personal Income	Nominal \$ (M)	2.3	11.8	20.4	34.5	11.5
Real Disposable Personal Income	Fixed 2009 \$ (M)	1.8	9.7	16.7	28.2	9.4
Real Gross Domestic Product	Fixed 2009 \$ (M)	0.2	3.1	12.1	15.4	5.1
Consumption by Households and Government	Fixed 2009 \$ (M)	0.0	2.1	9.5	11.6	3.9
Real Output	Fixed 2009 \$ (M)	0.0	3.3	16.8	20.1	6.7
Total Employment	Jobs	34	115	161	309	103
Population	Persons	0	0	16	16	5

**Florida Small Business Loan Support Program: Loan Guarantees**

Between December 2012 and June 30, 2014, \$16.1 million of SSBCI funds have been provided as loan guarantees that businesses have used to secure \$52.8 million in loan financing. Based on the amount of funds reserved to guarantee loans and the total value of the loans, this results in a leverage ratio of 3.3:1. Twenty-four businesses received financing assistance through this program representing 13 different industries. The table below provides detailed information regarding the loan guarantee recipients. It is important to note that 13 out of the 24 businesses were found to be market or resource dependent and were therefore excluded from the economic benefit estimate for this program. As can be seen in the table below, the industries represented by loan guarantee recipients are similar to those represented in the loan participation program, many of which are reliant on clientele based in Florida.

**Table 8. Loan Guarantees Fiscal Years 2011-12 through 2013-14**

NAICS code	Industry Description	Number of Loan	SSBCI Funds used for	Total Loan	
		Guarantees	Loan Guarantees	Amount	Jobs Created
445110, 445291	Grocery Stores, Prepared Food Stores	2	\$1,356,250	\$2,712,500	24
812990	All Other Personal Services	2	430,000	1,535,000	70
621111	Offices of Physicians	4	1,650,000	3,750,000	51
531120	Lessors of Nonresidential Buildings	2	778,600	3,767,200	14
813410	Civic and Social Organizations	2	1,330,064	2,660,127	15
424310, 423740, 423860	Merchant Wholesalers	3	1,650,000	4,550,000	38
238990, 236200	Specialty Trade Contractors, Industrial Building Construction	2	837,500	1,675,000	20
624190	Other Individual and Family Services	1	2,250,000	6,070,000	20
512191	Teleproduction and Other Postproduction Services	1	475,000	950,000	4
332999, 337124	Metal Product Manufacturing	2	1,875,000	17,550,000	68
561440	Collection Agencies	1	1,000,000	2,500,000	20
446120	Cosmetics, Beauty Supplies, and Perfume Stores	1	2,400,000	4,800,000	70
562219	Other Nonhazardous Waste Treatment and Disposal	1	125,000	250,000	15
	Total	24	\$16,157,414	\$52,769,827	429

Source: EDR Analysis of DEO data.

The following table displays the estimated economic benefits to the state resulting from the SSBCI loan guarantee program by fiscal year and in total. State revenues increased nearly \$1 million as a result of economic activity generated from the \$10.3 million of loan guarantees included in the analysis. There was also a slight increase to state GDP, personal income, and consumption, as well as an increase to total employment of 228 new jobs.

[SEE TABLE ON FOLLOWING PAGE]

**Table 9. Statewide Economic Model Impact of the Loan Guarantee Program**

	2011-12	2012-13	2013-14	Total
State Payments in the Window \$ (M)	0.0	0.0	0.0	0.0
Total Net State Revenues \$ (M)	0.0	0.2	0.7	0.9

		2011-12	2012-13	2013-14	Total		Average per Year
Personal Income	Nominal \$ (M)	0.0	7.2	25.7	32.9		11.0
Real Disposable Personal Income	Fixed 2009 \$ (M)	0.0	5.9	20.8	26.6		8.9
Real Gross Domestic Product	Fixed 2009 \$ (M)	0.0	0.1	6.1	6.2		2.1
Consumption by Households and Government	Fixed 2009 \$ (M)	0.0	0.0	5.2	5.2		1.7
Real Output	Fixed 2009 \$ (M)	0.0	0.0	7.6	7.6		2.5
		2011-12	2012-13	2013-14	Total		Average per Year
Total Employment	Jobs	0	51	177	228		76
Population	Persons	0	0	16	16		5

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