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# Program Review



*February 2001*

*Report No. 01-11*

## Space Financing Corporation Is Still Gearing Up and Needs to Develop a Business Plan

### *at a glance*

The Florida Commercial Space Financing Corporation has been in operation for less than one year. The corporation has yet to complete any financings but corporate staff are working with customers that need financing services. The corporation is developing a marketing strategy, but needs to develop a strategic business plan to guide its activities. It also needs to identify reliable data sources for its performance measures.

### Purpose

In accordance with state law, this report provides the Legislature with a review and evaluation of the Florida Commercial Space Financing Corporation.<sup>1</sup>

This review reports on the status of the corporation's efforts to provide financing assistance to Florida businesses. It also reviews the

corporation's performance measurement system.

### Background

The Legislature established the Florida Commercial Space Financing Corporation in 1999 to expand the employment and income opportunities of Florida residents and increase the development of commercial aerospace products, activities, services, and facilities. These goals are to be achieved by providing information, technical assistance, and financial assistance to space-related businesses in the state.

The corporation is organizationally independent of other state entities that the Legislature has established to attract and retain space related businesses.

- ***The Spaceport Florida Authority***, established in 1989, is primarily responsible for developing and implementing strategies for accelerating space-related economic growth and educational

<sup>1</sup> Section 331.419(3), *F.S.*

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development within the state. The authority owns and operates rocket launching facilities and other space-related infrastructure. Although not specifically established for this purpose, it has also been involved in financing some space-related projects. For example, the authority recently financed \$300 million for a large aerospace company's Atlas V rocket launching complex.

- ***The Technological Research and Development Authority***, established in 1987, sponsors programs that enhance education, space research, and economic development within the state. The authority provides grants to schools and small businesses for education programs and business start-ups.
- ***The Florida Space Research Institute***, established in 1999, is a research center intended to support the expansion and diversification of Florida's space industry, and the commercialization of space-related technologies.

The Florida Commercial Space Financing Corporation is intended to improve services to businesses by establishing a single entity to handle financing services and enabling the other entities to concentrate on their primary responsibilities.

The Florida Commercial Space Financing Corporation's governing board consists of seven voting members and two non-voting members. Voting members include a representative

appointed by each of the following entities: the board of supervisors of the Spaceport Florida Authority; the board of directors of the Florida Export Finance Corporation; the director of the Office of Tourism, Trade, and Economic Development; the board of directors of Enterprise Florida, Inc.; and the Secretary of the Department of Transportation. The Governor appoints two additional voting members. Non-voting members include a member of the House of Representatives selected by the Speaker of the House of Representatives and a member of the Senate selected by the President of the Senate.

The corporation's office is located in Titusville. Full-time corporate staff consists of a president, a chief financial officer, and a finance administrator. In Fiscal Year 1999-2000 the Legislature appropriated \$1 million to implement the corporation's statutory responsibilities and \$500,000 for corporate operations. The Legislature also appropriated \$300,000 for corporate operations in Fiscal Year 2000-01. The corporation has requested \$300,000 for corporate operations in the Executive Office of the Governor's Fiscal Year 2001-02 Long-Range Program Plan. As of November 30, 2000, the balance in the corporation's account was \$1,162,974.

***Financing tools.*** The corporation plans to use the following financing tools to serve its customers.

- ***Creative Leases.*** This category of financing tools includes a "synthetic

lease,” an instrument that gives a lessee of mortgaged property certain benefits of ownership, such as depreciation for income tax purposes, while allowing the company to keep the property off its financial statements. A “lease back” is another type of creative lease that allows an individual or company to sell property, and then lease the same property from the new owner.

- **Direct Loans.** Florida law authorizes the corporation to make direct loans to Florida’s space-related firms. However, a direct loan cannot exceed 90% of the cost of a project. A borrower must demonstrate the capacity to repay the loan.
- **Loan Guarantees and/or Enhancement.** The corporation’s draft credit/lending policies and procedures provide for a loan guarantee of up to 90% of a loan from any United States bank or financing institution. A borrower must demonstrate that it could not qualify for the loan without the guarantee.

The total amount of loans, loan guarantees, and other instruments cannot be more than five times the balance of the corporation’s account. The corporation may charge fees to help defray its operating expenses. As the corporation has not yet issued such loans, no fees have been generated to date.

## Findings

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### *Corporation slow to begin operations*

The corporation was slow in beginning operations following the passage of its enacting legislation.<sup>2</sup> The corporation’s board of directors first met in October 1999, appointed an interim president in December 1999, and then conducted a search for a president. The board selected a president in April 2000. However, contract negotiations with the president continued through July 2000, more than one year after the legislation was enacted. The president then hired two other full-time staff in the fall and began to identify projects for financing.

The corporation had been operating for only six months at the end of our fieldwork in December 2000. Although corporation staff have been working with six prospective clients, they have not completed any financing projects.<sup>3</sup> Consequently, limited progress had been made in achieving the Legislature’s intended results and outcomes.

Accordingly, we focused on assessing the status of the corporation’s efforts to provide financing assistance to Florida businesses and to develop a performance measurement system. We determined that

- stakeholders are generally satisfied with the corporation’s progress;

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<sup>2</sup> The law establishing the corporation became effective on July 1, 1999.

<sup>3</sup> Corporate documents and discussions with staff indicate that the corporation has set a target of two or three financings during its first year of operation and five financings per year thereafter.

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- corporation staff are attempting to attract customers seeking financial services;
- the corporation needs to create a business plan to guide future activities; and
- the corporation developed a research design, but needs to identify reliable data sources.

### *Stakeholders generally satisfied with corporation's progress*

Corporation stakeholders generally believe that the corporation is now on track in providing financing to space-related business and is meeting their expectations. Some indicated that they believe the corporation is essential for Florida to remain competitive in the commercial space-launch industry.

### *Corporation staff attempting to attract customers seeking financial services*

Corporation staff are conducting several activities to promote the corporation's financial assistance services and attract space industry businesses. For example, the corporation's annual report covering calendar year 2000 indicates that staff contacted several companies, including an aerospace firm seeking to finance a new payload processing facility in Titusville and another firm requesting financing for a launch vehicle and satellite. Corporation staff also contacted representatives from commercial banks and the United States Air Force. In addition, they made presentations to space industry representatives during a symposium in November 2000. The corporation's agreement with the Governor's Office of Tourism, Trade,

and Economic Development requires corporation staff to contact at least six space-related firms during the first six months of 2001.

The corporation has also entered into agreements with other entities that may serve as third parties in financial arrangements, including the Spaceport Florida Authority and the Florida Export Finance Corporation. It also plans to use the Florida Export Finance Corporation's expertise in performing due diligence to establish the extent to which potential customers are creditworthy and capable of repaying loans.<sup>4</sup>

### *Business plan needed to guide future activities*

The corporation is developing a marketing strategy, but needs to develop a strategic business plan to guide its future activities. A strategic business plan would specify the corporation's mission, goals and objectives; performance measures; needed financial and staffing resources; a detailed marketing strategy; and an action plan for improving the corporation.<sup>5</sup> By creating a strategic business plan, the corporation would help address concerns raised by several stakeholders who said that while they supported the corporation's purpose

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<sup>4</sup> For prior OPPAGA reviews of the Florida Export Finance Corporation, see *Review of the Florida Export Finance Corporation*, [OPPAGA Report No. 97-59](#), March 1998, and *Progress Report: The Florida Export Finance Corporation Has Improved Its Performance Measurement System*, [OPPAGA Report No. 99-55](#), June 2000.

<sup>55</sup> Although the corporation developed a research design that includes some of the elements of a business plan, such as a brief discussion of strategies for developing financing products and performance measures, the research design does not include a detailed business plan describing the corporation's long-range objectives or other descriptions of its future direction.

and goals, they were uncertain as to the corporation's marketing strategy and its plans for future financing activities.

***Research design adopted, but reliable data sources needed***

Florida law requires the corporation to submit a research design, including measurable objectives and performance measures, to the Legislature after consulting with OPPAGA. After consultation with OPPAGA staff, the corporation adopted a research design in January 2001 that includes measurable objectives for annually increasing the number of jobs created and retained, and an outcome measure indicating the percentage increase in the number of jobs created and obtained by companies receiving the corporation's assistance. The research design also specifies that one of the corporation's goals is to become financially self-supporting.

Nevertheless, the corporation has still not identified reliable data sources for many of the research design's performance measures.

## Conclusions and Recommendations —

The Florida Commercial Space Financing Corporation has conducted business for less than one year. The corporation has yet to complete any financings, but corporate staff are working with customers that need financing services. Corporate staff have developed financing policies and procedures. However, they have not

developed a strategic business plan specifying the corporation's mission, goals, and objectives; performance measures; needed financial and staffing resources; a detailed marketing plan; and an action plan for improving the corporation. The corporation also needs to identify reliable data sources for many of its performance measures.

Given that the Legislature established the corporation to expand employment and income opportunities for the state's residents by providing financial assistance to space-related businesses, we recommend that the corporation take two actions.

- Improve its performance measurement system. Specifically, it should complete revising its research design and identify reliable data sources for its performance measures.
- Develop a strategic business plan to guide future activities.

The Legislature may want to consider directing OPPAGA to conduct another evaluation of the corporation in the future. It may be several years before the corporation's financing programs would be expected to generate measurable outcomes.

# Agency Response

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## Florida Commercial Space Financing Corporation

February 16, 2001

Mr. John W. Turcotte  
Director, OPPAGA  
111 West Madison Street, Room 312  
Claude Pepper Building  
Tallahassee, FL 32399-1475

Re: Draft OPPAGA Program Review

Dear Mr. Turcotte:

Thank you for your letter of February 1, 2001 and the opportunity to respond to your draft report. As you are aware, we have had the pleasure of working with Darwin Gamble of your offices over the past several months. We have worked closely with Dr. Gamble to insure that all the information he has requested has been made available to him in a timely manner. He was kind enough to pass on a copy of the draft report via e-mail a few days ago and we have been in touch with him on corrections and comments. With the changes made to the draft report, we find it to be factually accurate. We would be pleased to have anyone from your group take another look at us in the future.

Over the past few months we have been working with several clients that need our financial services. We are currently working with six clients on their financing needs and those projects are in various stages. We have a signed agreement with one, and are working on agreements with the other clients at this time. The current status of our business plan is that we have contracted with the Volpe National Transportation Systems Center and with Capitol Alliance Group to design and develop our business plan. Our contract with them requires completion no later than March 31, 2001.

Please let me know if you need any further information or data at this time.

Sincerely,

/s/

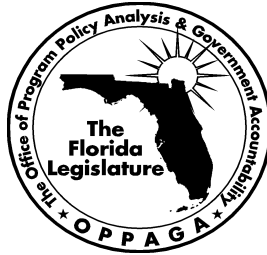
James D. Leary, Esq.  
President & CEO

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# The Florida Legislature

## Office of Program Policy Analysis and Government Accountability



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- [Florida Government Accountability Report \(FGAR\)](#) is an Internet encyclopedia of Florida state government. FGAR offers concise information about state programs, policy issues, and performance. Check out the ratings of the accountability systems of 13 state programs.
- [Best Financial Management Practice Reviews for Florida school districts](#). OPPAGA and the Auditor General jointly conduct reviews to determine if a school district is using best financial management practices to help school districts meet the challenge of educating their students in a cost-efficient manner.

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Project supervised by Tom Roth (850/488-1024) and conducted by Darwin Gamble (850/487-9247)

John W. Turcotte, OPPAGA Director