

# oppaga

# Progress Report



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Report No. 02-60

## Space Financing Corporation Has Addressed OPPAGA Recommendations

### *at a glance*

The Florida Commercial Space Financing Corporation has addressed the recommendations made in a 2001 OPPAGA report. It has developed a strategic business plan to guide its activities through 2007 and has collected reliable data for its performance measures. The corporation needs to provide the Legislature with reports on its progress in arranging new financings, its overall financial condition, and the status of its efforts to address a problematic loan guarantee.

### Purpose

In accordance with state law, this progress report informs the Legislature of actions taken by the Florida Commercial Space Financing Corporation in response to a 2001 OPPAGA report.<sup>1,2</sup> This report presents our assessment of the extent to which the corporation has addressed the findings and recommendations included in our report.

<sup>1</sup> See Section [11.51\(6\)](#), *F.S.*

<sup>2</sup> *Program Review: Space Financing Corporation Is Still Gearing Up and Needs to Develop a Business Plan*, [Report No. 01-11](#), February 2001.

### 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 intended to improve services to businesses by establishing a single entity to handle financing services and enabling the other entities, such as the Florida Space Authority and Florida Space Research Institute, to concentrate on their primary responsibilities.<sup>3</sup>

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

<sup>3</sup> The Florida Space Authority is a public corporation created by the Legislature to help retain, expand, and diversify the state's space-related industry. The Florida Space Research Institute is a public-private partnership established by Florida's Governor and Legislature in 1999 to promote collaboration among the state's academic institutions, industry, and federal agencies to support statewide space-related education, training, research and technology development.

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Authority; the board of directors of the Florida Export Finance Corporation; the director of the Office of Tourism, Trade, and Economic Development in the Office of the Governor; the board of directors of Enterprise Florida, Inc.; and the Secretary of the Department of Transportation.<sup>4</sup> 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 Cocoa. Full-time corporate employees include a president and chief executive officer, a chief financial officer, a finance administrator, and an executive administrative specialist. In Fiscal Year 2001-02, the corporation was appropriated \$650,000 for funding aerospace infrastructure. As of June 30, 2002, the balance in the corporation's investment account was \$1,307,202. The Legislature appropriated \$300,000 for corporate operations for Fiscal Year 2002-03.

**Financial Assistance Activities.** The corporation can use the financial tools below to help its customers.

- **Loan Facilitations.** The corporation can provide loan facilitation services by assisting clients in obtaining loans from banks and other financial institutions.
- **Equity Facilitations.** The corporation assists clients in finding investors willing to provide venture capital for projects in return for part ownership of the clients' companies.
- **Creative Leases.** The corporation can set up "synthetic leases," which give a lessee of mortgaged property certain benefits of

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<sup>4</sup> The Florida Export Finance Corporation is a non-profit corporation created by the Legislature to help expand employment and income opportunities for state residents by supporting the export of goods and services from the state. The Office of Tourism, Trade, and Economic Development assists the Governor in working with other entities to provide economic opportunities to all Floridians. Enterprise Florida, Inc., is a public-private partnership created by the Legislature to serve as the state's principal economic development organization.

ownership, such as depreciation for income tax purposes, while allowing the company to keep the property off its financial statements. The corporation can also set up "lease backs" that allow an individual or company to sell property, and then lease the same property from the new owner.

- **Direct Loans.** The corporation can 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 can issue a loan guarantee for up to 90% of a loan to a qualifying company made by any United States bank or financing institution. A borrower must demonstrate that it could not qualify for the loan without the guarantee.

Florida law provides that the total amount of loans, loan guarantees, direct loan originations for sale, and insured transactions outstanding cannot be more than five times the balance of the corporation's account.<sup>5</sup> The law also provides that the credit of the state is pledged only to funds appropriated by law to the corporation and that the state is not liable or obligated in any way for claims on the account or against the corporation. The corporation may charge fees to help defray its operating expenses.

## Prior Findings

At the time of our 2001 review, the corporation had not yet assisted any companies with financing. Corporate employees said that a major factor contributing to the low level of financing activity was the absence of top-level executive leadership during much of the corporation's existence. During the period from December 1999 to April 2000, a member of the corporation's governing board served as an interim president on a part-time basis. Further, the position of corporation president was vacant from November 2001 to April 2002.

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<sup>5</sup> [Section 331.409\(2\), F.S.](#)

Our 2001 review concluded that the corporation needed to develop a strategic business plan to guide its activities and identify reliable data sources for its performance measures. At the time of our prior review, the corporation had been operating for less than one year. We noted that the corporation was slow to begin its operations primarily because of a lengthy search for its first president. Consequently, limited progress had been made in achieving the Legislature's intended results and outcomes. However, stakeholders were generally satisfied with the corporation's progress.

Our prior review also identified several areas in which the corporation could improve its performance.

- The corporation had not developed a strategic business plan to guide future activities. A strategic business plan would specify the corporation's mission, goals and objectives, performance measures, needed financial and staffing resources, detailed marketing strategy, and an action plan for improving the corporation.
- The corporation had submitted a research design to the Legislature as required by law. The research design included measurable goals and objectives for the corporation's activities. However, the corporation had not identified reliable data sources for many of the research design's performance measures.

We recommended 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.

## Current Status ---

The corporation has taken action to address our prior report's recommendations, such as identifying reliable data for its performance measures. For example, the corporation estimates the number of jobs and other economic benefits that each financing will create. Later, it contacts each company to determine if these benefits were actually achieved as a result of the financing.

The corporation also developed a strategic business plan to guide its activities through 2007. The plan includes a vision statement, a description of the current status and future direction of the space industry, and a summary of the corporation's financing history. The plan also includes goals and objectives for increasing and better leveraging the corporation's resources. For example, the plan states that one of the corporation's goals is to earn enough income from interest and fees to cover its operating costs and become financially self-sufficient within five years. The corporation's governing board approved the plan on September 19, 2002.

Since our prior review, the corporation has assisted some companies with financing. As of June 30, 2002, the corporation had assisted two companies in obtaining loans and had issued one loan guarantee. The corporation was paid a total of \$163,325 in fees for its services related to these financing activities. (See Exhibit 1.)

Corporation documents indicate that the corporation is currently in the process of completing eight more financings, including two loan facilitations, two loan guarantees, and three synthetic lease/lease backs. These documents also indicate that the corporation has received requests for financial assistance from eight other companies. Corporation employees are reviewing these requests to determine if the corporation can provide the desired assistance.

**Exhibit 1**

**The Space Financing Corporation Has Completed Three Financings Since 1999**

Company/Services	Financing Amount/Date	Fee Earned
Astrotech Space Operations / provides commercial payload processing services for space launch vehicles	Loan Facilitation/ \$20,000,000/ Completed December 10, 2001	\$100,000
Shaffer Aviation Industries/ provides aviation maintenance services for commercial airlines; company is located at Orlando International Airport	Loan Guarantee/ \$3,950,000/ Completed June 6, 2001	53,325
PrivateSky Aviation/ provides aviation maintenance services for private aircraft; the company is located at Southwest Florida International Airport in Fort Myers	Loan Facilitation/ \$5,000,000/ Completed March 3, 2002	10,000
<b>Total</b>		<b>\$163,325</b>

Source: Florida Commercial Space Financing Corporation.

This activity is encouraging. The \$163,325 in financing fees received by the corporation in Fiscal Year 2001-02 represents 54.5% of the appropriations it received for corporate operations during that year. However, the corporation will need to increase its activities to become self-supporting within five years as proposed by its strategic business plan.

**Other Issues** \_\_\_\_\_

The Florida Commercial Space Financing Corporation is facing a difficult situation in that a company whose loan was guaranteed by the

corporation has defaulted on the loan. Florida Commercial Space Financing Corporation managers stated that the corporation’s due diligence process determined that the company’s financial condition was good at the time the loan guarantee was issued. However, they said that permitting issues delayed the company in starting operations, and the terrorist attacks on September 11, 2001, reduced the company’s business base. As a result, the company experienced financial problems and stopped making loan payments after February 2002.

As part of its obligation under the guarantee, the corporation made payments on the loan totaling \$342,798 from March through July 2002. Corporation managers said they are working with the lending institution to address this problem. For example, they said that they are trying to find a buyer or a new investor for the company. They are also attempting to negotiate a forbearance agreement with the lending institution. While the corporation works out the details of a forbearance agreement with the bank, the corporation has suspended its loan guarantee program.

To help the Legislature make informed decisions on the corporation’s future, the corporation needs to provide the Legislature with reports on its progress in arranging new financings, its overall financial condition, and the status of its efforts to address the problematic loan guarantee.

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