



Legislature Should Consider Options for the Role of the Florida Black Business Investment Board

at a glance

The Legislature created the Florida Black Business Investment Board to support the creation and expansion of black-owned businesses in the state. The board also allocates capitalization funds to independent regional black business investment corporations and a statewide corporation that provide loans and loan guarantees to black business owners.

The black business investment corporations have implemented reasonable controls for providing loans and loan guarantees. However, there has been considerable ongoing controversy regarding the relationship between the board and the investment corporations.

To address this controversy, the Legislature should consider several options: maintaining the board's current role; refocusing its role to serving as a statewide advocacy and networking entity; or eliminating the board. If the Legislature continues to provide financial assistance for black businesses, it could earmark funds for the investment corporations or provide grants to minority business development organizations. In our opinion, the best combination of options would be to

- change the board's role to serving as a statewide advocacy and networking entity for the various entities that assist qualified black-owned businesses; and
- make the Department of Community Affairs or OTTED responsible for awarding grants to minority business development organizations, distributing funds, and monitoring grant recipient performance.

Scope

The Legislature directed OPPAGA and the Auditor General to jointly review the performance of the Florida Black Business Investment Board (board) and the regional black business investment corporations in carrying out their responsibilities to support the development of black business enterprises as specified in ss. 288.707-714, *Florida Statutes*. This report also examines the board's and the investment corporations' use of state funds in supporting their activities and explores options for the role of the board.

Background

Florida Black Business Investment Board. In 1985, the Legislature created the Florida Black Business Investment Board to support the creation and expansion of black-owned enterprises in Florida.¹ The board is a non-profit corporation that operates under a contract with the Governor's Office of Tourism, Trade, and Economic Development (OTTED).

The board's goals are to

- increase the number of qualified black business enterprises,
- increase employment opportunities,
- establish networks for black entrepreneurs, and
- increase the access of black businesses to capital.

¹ Chapter 85-104, *Laws of Florida*.

To accomplish these goals, the board performs various activities, including facilitating procurement opportunities for minority businesses through a subsidiary company, Indigo Key, Inc., and sponsoring forums.²

The board also disburses capitalization funds appropriated by the Legislature to assist black-owned businesses in obtaining capital that may not be available to them in the private market. The board allocates this funding among eight regional black business investment corporations and a statewide investment corporation.

Black Business Investment Corporations. The board contracted with eight regional black business investment corporations to provide services to black-owned businesses in 31 of the state’s 67 counties. The investment corporations are located in Daytona Beach, Fort Lauderdale, Jacksonville, Miami, Orlando, Riviera Beach, Tallahassee, and Tampa. Each investment corporation operates independently of the board, and has its own board of directors, president and staff, service networks, business plans, and organizational priorities.

The investment corporations provide black-owned and managed companies with financial assistance, primarily in the form of direct loans or loan guarantees. They also provide companies with business training and various types of technical assistance. Some investment corporations also are involved in community development activities, such as providing affordable housing. Three of the eight investment corporations are federally

² Indigo Key, Inc., provides Internet-based matchmaking between minority business firms and potential customers.

certified community development financial institutions.³

In addition, the Florida Black Business Support Corporation, which previously operated as a subsidiary of the board, serves as a statewide investment corporation. This corporation mostly provides products and services, such as loans, loan guarantees, and technical assistance, in the 36 counties not covered by the regional investment corporations. In May 2006, the board voted to divest itself of the Florida Black Business Support Corporation. As of January 1, 2007, the Florida Black Business Support Corporation operates as an independent organization with its own board of directors and staff.

Board funding sources. From Fiscal Year 1985-86 through Fiscal Year 2005-06, the Legislature appropriated a total of approximately \$27.8 million to support the board’s operations and provide capitalization funds. Of this amount, approximately \$10 million was allocated by the board to the regional investment corporations. Other sources of funding for the board have included interest income and fees. Exhibit 1 shows the amount of operational and capitalization funding appropriated to the board from Fiscal Year 2001-02 through 2005-06.

³ A community development financial institution (CDFI) is an organization certified by the U.S. Department of the Treasury, whose primary mission is community development and the development of programs and strategies to meet the needs of low-income communities. CDFIs make loans to entities unable to get approved by traditional banking institutions. CDFIs also provide comprehensive credit, investment, banking and development services.

**Exhibit 1
Legislative Appropriations for Board Operations and Capitalization Funds for
Fiscal Years 2001-02 -2005-06 Totaled \$8.6 Million**

	Fiscal Years					Total
	2001-02	2002-03	2003-04	2004-05	2005-06	
Appropriations for Board Operations	\$ 458,480	\$ 451,210	\$ 451,210	\$ 451,210	\$ 451,210	\$2,263,320
Appropriated Capitalization Funds	1,200,000	1,200,000	1,200,000	1,560,000	1,200,000	6,360,000
Total Appropriation	\$1,658,480	\$1,651,210	\$1,651,210	\$2,011,210	\$1,651,210	\$8,623,320

Source: General Appropriations Acts for Fiscal Years 2001-02 to 2005-06. No funds were appropriated in Fiscal Year 2006-07.

From July 1, 2002, through June 30, 2005, the board did not release capitalization funds to the regional investment corporations. According to board and OTTED managers, these funds were not released for various reasons, such as incomplete and untimely performance reporting. However, in September 2005, the board, in consultation with OTTED, agreed to release approximately \$1.8 million to the regional investment corporations, which represented the amount of capitalization funds appropriated, but not released to them during the three-year period. The board released these funds in December 2005.

The board was not appropriated any state funds in Fiscal Year 2006-07. A proviso in the appropriations conference report would have made state funding for the board contingent on passage of certain legislation.⁴ This proviso also specified that in the event the legislation did not pass, the appropriated funds were to be transferred to Department of Community Affairs for the Front Porch Florida Program.

As this legislation did not pass, no state funds were appropriated for the board. Further, as a result of the Governor vetoing the appropriation and the proviso, funds were not transferred to the Department of Community Affairs. In the absence of state appropriations, the board has continued to operate using funds from other sources, including cash reserves, fees, and interest earnings.

Board staffing. For most of Fiscal Year 2005-06, the board had four employees, including a president who served as the chief operating officer for both the board and the Florida Black Business Support Corporation and three other staff who supported both the board's and the corporation's operations. However, the board currently only employs a president.⁵

Findings

The regional and statewide investment corporations have used state funds to provide loans and loan guarantees

An issue of legislative concern has been how state capitalization funds have been used by the regional investment corporations and the statewide corporation to assist black business owners. Neither the statutes nor the contracts between the board and the investment corporations clearly and consistently address how the corporations are to account for state funds. As a result, the corporations accounted for and reported the funding received from the state in a variety of ways in their financial statements (see Appendix A).

Investment corporation annual financial statements and loan file documents indicate that the regional and the statewide investment corporations have used state capitalization funds to provide loans and loan guarantees. However, state funds were often commingled with non-state resources. As a result, it was not always possible to determine the specific amount of loans and loan guarantees that were funded with state money.

As shown in Exhibit 2, during Fiscal Years 2004-05 and 2005-06, the regional and the statewide corporations closed on 19 loans and 12 loan guarantees totaling \$1.8 million and \$605,000, respectively. As of June 30, 2006, the corporations reported 120 loans outstanding with loan balances due totaling approximately \$5.8 million and 47 loan guarantees totaling approximately \$4 million.

⁴ Fiscal Year 2006-07 appropriations for the Florida Black Business Investment Board were contingent on the passage of Senate Bill 2096 or House Bill 1553. These bills did not pass.

⁵ Following the board's decision to divest itself of Florida Black Business Support Corporation, two of its employees transferred to the corporation.

**Exhibit 2
Loan and Loan Guarantee Activity Varied Among Entities**

	Florida Black Business Support Corporation	Regional Investment Corporations								Total
		BAC	Northwest Florida	Central Florida	Tampa Bay	Metro Broward	First Coast	East Central Florida	Palm Beach County	
Number of Loans as of June 30, 2006¹	4	13	5	4	29	22	36	7	0	120
Original Loan Closing Amount	\$592,829	\$890,218	\$723,792	\$900,000	\$792,308	\$1,359,038	\$2,335,663	\$123,077		\$7,716,925
Current Loan Balance (June 30, 2006)	\$570,903	\$627,614	\$687,122	\$850,344	\$714,326	\$964,601	\$1,329,449	\$98,983		\$5,843,342
New Loan Clients for the period July 1, 2004, through June 30, 2006	2	5	1	2	2	2	5	0	0	19
Original Loan Closing Amount	\$375,919	\$256,681	\$24,000	\$325,000	\$240,805	\$175,000	\$410,400			\$1,807,805
Number of Guarantees as of June 30, 2006¹	3	0	10	0	16	0	0	0	18	47
Loan Guarantee Amount (June 30, 2006)	\$283,000		\$341,406		\$963,363				\$2,432,049	\$4,019,818
New Loan Guarantee Clients for the period July 1, 2004, through June 30, 2006	1	0	1	0	9	0	0	0	1	12
Original Loan Closing Amount	\$100,000		\$57,500		\$220,000				\$227,500	\$605,000

¹ These loans and loan guarantees may include renewals, restructures, loans, or loan guarantees to previous clients requiring a similar level of effort by investment corporation staff as loans or loan guarantees to new clients.

Source: Florida Black Business Investment Board, Florida Black Business Support Corporation, and regional investment corporation loan files and loan reports.

Regional and statewide black business investment corporations have implemented reasonable controls for providing loans and loan guarantees

For the period reviewed, the Florida Black Business Support Corporation and the regional investment corporations appear to have developed and implemented reasonable control processes for providing loans and loan guarantees to black-owned businesses. As discussed below.

- The corporations used loan policies and procedures that were comparable to those of commercial lenders. Key factors considered by the corporations included a borrower’s ability to repay (capacity), credit history, equity, collateral, and experience. Corporation representatives indicated, and the loan files confirmed, that less weight was given to credit scores than may be applied by commercial

lenders. However, this would be consistent with the corporations using state funds as intended to help black business owners who would not be able to obtain financing from conventional financial institutions.

- Reasonable controls had been established over loan disbursements and collections. Loan records tested at each investment corporation were complete and verifiable. Further, loan collection processes appeared to be appropriate and reasonably applied. The corporations had various collection procedures in place, including calling and sending letters to business owners, and assigning loans to collection agencies. Loans in default were periodically written off.
- Most corporations had developed and implemented controls to reasonably ensure the avoidance of conflicts of interest in corporation investment decisions. However, three investment corporations did not have

written policies in place to address potential conflicts of interest (Northwest Florida, East Central Florida, and Palm Beach).

- Investment corporation loan records and loan-related reports subjected to audit testing were accurate, complete, and reliable. Corporation loan balance amounts included in portfolio activity reports for the quarters ended September 30, 2004, and September 30, 2005, could be traced to supporting documentation, such as payment history reports. Further, sampled payments for various loans could be traced to the corporation's bank statements. In addition, the status of loans could be verified by reviewing payment history reports and loan file records.

Relations between the board and the regional investment corporations have been problematic

There has been considerable ongoing controversy regarding the relationships between the board and the regional investment corporations.

The board withheld distribution of appropriated funds to the investment corporations from Fiscal Year 2002-03 through Fiscal Year 2004-05 due to concerns that the regional investment corporations did not report required performance information. The corporations were contractually required to report to the board on the number of businesses that participated in corporation programs; the number and manner of assistance provided; the status of businesses assisted; and the number of jobs represented by black business enterprises participating in programs or receiving assistance. Board managers said that without this information, the board could not comply with performance reporting requirements in its contract with OTTED.

However, some regional investment corporation presidents asserted they had provided the board with the contractually required performance information during this same time period. Nonetheless, the board did not disburse capitalization funds to the compliant corporations.

Some investment corporation presidents also expressed concern about changes in the board's mission and role. They noted that the board was initially intended to serve as an advocacy and networking body that disbursed funds to the

investment corporations. However, over time, the board's role evolved to include providing funding support to black-owned businesses through the Florida Black Business Support Corporation, which was a subsidiary of the board. Some presidents also expressed concern that the board's decision to withhold state funding from the investment corporations from July 2002 through June 2005 could have been due the board's desire to retain such funds for the Florida Black Business Support Corporation, which they viewed as a competitive entity.

Investment corporation presidents also asserted that the board sought to exercise supervisory control over the regional corporations, which was not consistent with the organizational relationships between the entities. As noted previously, although the board allocates state funds to the corporations, it does not have statutory authority to exercise direct supervisory control over them.

The controversy regarding the entities' relationships culminated in the Legislature's decision to include proviso language in the appropriations conference report for Fiscal Year 2006-07 that made the board's funding contingent on passage of certain legislation. As a result of the legislation failing to pass, the board was not appropriated any state funds in Fiscal Year 2006-07.

The Legislature could consider several options for supporting black-owned businesses in the state

We assessed options the Legislature may wish to consider for (1) the role of the Black Business Investment Board and (2) providing funding support to entities that offer financial and technical assistance to black business owners. Options for the board include

- maintaining the board's current role;
- refocusing the board to serve as a statewide advocacy and networking entity for black-owned businesses; or
- eliminating the board.

If the Legislature wished to provide funding to assist black business owners, it could do so by

- continuing to provide funds for the regional and statewide investment corporations; or

- providing capitalization funds through grants to qualified minority business development organizations.

Options for the role of the Florida Black Business Investment Board

Option 1 - Maintain the board’s current role. Under this option, the board would continue performing its current responsibilities, which would include sponsoring forums and workshops; facilitating procurement opportunities for minority businesses; disbursing funding to the regional and statewide investment corporations; and reporting on the corporations’ performance. The Legislature may wish to consider this option because of the board’s recent decision to divest itself of the Florida Black Business Support Corporation; this action addressed one of the factors that contributed to poor relations between the board and the regional investment corporations. It also has the advantage of not disrupting the current system.

However, this option would not address other issues that have contributed to problematic relations between the board and regional investment corporations, such as disagreements regarding performance reporting, the organizational relationships between the entities, and concerns regarding the proper use of state funds. If the Legislature selects this option, it should consider amending the law to clarify

- the appropriate use of state funds and interest earnings on such funds; and
- the processes to be used to segregate state funds from other funding sources.

Option 2 - Refocus the board to serve as a statewide advocacy and networking entity. Under this option, the Legislature would amend the law to specify that the board’s role is to serve as a statewide advocacy and networking entity for the various entities that assist black-owned businesses.

In this role, the board would focus its efforts on coordinating and networking economic development resources that serve black business owners. These resources include those offered by the regional investment corporations; services provided by the Small Business Development Center Network; training and workforce programs provided by community colleges; related programs offered by state, federal, and local agencies;

community and business development programs administered by Enterprise Florida, Inc.; business development activities offered by Florida’s financial institutions; and services provided by community-based organizations.

The major advantages of this option are that it would

- focus the board’s efforts on serving as a statewide coordinating entity rather than having it compete with local or regional organizations; and
- eliminate the board’s role in disbursing funds to the regional investment corporations.

A disadvantage of this option is that it could take some time to inform public and private stakeholders regarding the changes in the board’s responsibilities and to establish working networking and partnering efforts. There also could be some business owner confusion regarding which entities to contact for assistance.

If the Legislature chooses this option, it should require the board to provide an annual report on its activities, which would assist the Legislature and OTTED in overseeing the board’s performance. The board should also be required to provide the Legislature with recommendations for addressing issues affecting black-owned businesses in the state.

Option 3 - Eliminate the board. Under this option, the Legislature would amend the law to eliminate the board. If this option was adopted, black entrepreneurs would still be able to obtain financial support and assistance from regional and local entities, such as the investment corporations and the Small Business Development Centers. It would also reduce state costs by eliminating annual funding for the board’s operations (\$451,210 in Fiscal Year 2005-06). A disadvantage of this option is that there would not be a statewide entity with responsibility for advocating on behalf of black business owners or networking and coordinating service providers throughout the state.

Options for state funding support of entities providing financial assistance to black-owned businesses

If the Legislature wished to provide state funding to entities that provide financial assistance, such as loans or loan guarantees, to black business owners, it should consider

- continuing to provide funds for the regional and statewide investment corporations; or
- providing capitalization funds through grants to qualified minority business development organizations.

Continue to provide funds for the regional and statewide investment corporations. Under this approach, the Legislature could continue to provide state funds to the regional investment corporations and the statewide corporation to assist black business owners, but would appropriate these funds directly rather than to the Florida Black Business Investment Board. This option would continue the state's role in providing capitalization funding to these entities, but would also require the corporations to continue their relationships with the state. Due to problematic relationships with the board, some regional investment corporation presidents indicated they would prefer to sever their corporations' relationships with the state.

Provide funding through grants to qualified minority business development organizations. The Legislature could also provide state assistance to black-owned businesses through grants to qualified local or regional minority business development organizations rather than earmarking such funding to the regional investment corporations and the statewide corporation. Such grants could be awarded through a competitive award process. An October 2006 report by the Senate Committee on Commerce and Consumer Services identified several public agencies and private non-profit organizations in Florida that provide technical and financial assistance to minority-owned businesses.⁶

A potential advantage of this approach is that it would allow more entities to compete for funding, which might help improve the services provided to black business owners. While some regional investment corporations may not be selected as grant recipients, these entities continued to operate without state capitalization funds for several years when such funding was withheld by the board. Further, some investment corporation presidents noted that the amount of state funds

that they received (for example, approximately \$87,500 for each corporation in Fiscal Year 2001-02) was relatively small and funded loans to only one or two businesses. Consequently, the loss of state funds would not have a major effect on their ability to provide services.

Given the past difficult working relationship between the board and the investment corporations, we recommend that the Legislature not assign responsibility to the board for disbursing funds, and that these funds be appropriated to the Department of Community Affairs or to OTTED. Both of these entities have familiarity with small business development initiatives and have experience in distributing funds to local entities and monitoring the performance of funding recipients.

Based on the advantages and disadvantages of the various options and funding approaches, we believe that the best combination of options and funding approaches would be to

- amend the law to change the board's role to serving as a statewide advocacy and networking entity for the various entities that assist black-owned businesses; and
- provide any future state funding supporting black-owned businesses as grants to local or regional minority business development organizations rather than to the board. Either the Department of Community Affairs or OTTED could be made responsible for competitively awarding grants, distributing funds, and monitoring grant recipient performance.

Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the director of the Governor's Office of Tourism, Trade, and Economic Development, the president of the Florida Black Business Investment Board, and the presidents of the regional investment corporations. The written responses are reproduced in their entirety in Appendix B on page 11.

⁶ *Survey of Resources for Minority-owned Small Business Development*, Committee on Commerce and Consumer Services, The Florida Senate, [Interim Report 2007-104](#), October 2006.

¹ The Florida Black Business Investment Board also received operating funds totaling \$6,958,393 prior to June 30, 2001, and another \$2,263,320 from July 1, 2002, through June 30, 2006. The funding includes funds allocated for the Florida Black Business Support Corporation which was a subsidiary of the board during the period reviewed.

² We could not determine through a review of financial statements the Metro-Broward Black Business Investment Corporation's accounting treatment of state funds.

³ The First Coast Black Business Investment Corporation reported investment certificates totaling \$694,516 in its 2004-05 fiscal year audited financial statements and \$1,537,500 in its 2003-04 fiscal year audited financial statements. The amount was decreased to account for loans written off or guarantees required to be paid as disclosed in Note 6 - Change in Accounting Estimate in its 2004-05 fiscal year audited financial statements.

⁴ Since the distribution of state capitalization funds totaling \$218,333 occurred in December 2005 after the corporations' fiscal year end, this amount is not reflected in the audited financial statements.

⁵ The only mention of East Central Florida Black Business Investment Corporation's receipt of State capitalization funds totaling \$87,500 occurred in its 2001-02 fiscal year audited financial statements. The amount was disclosed in Note O - Black Business Investment Corporation Match.

⁶ Each regional investment corporation received \$218,333 in December 2005 from funds that were appropriated in Fiscal Years 2002-03, 2003-04, and 2004-05.

⁷ Investments also include funds received from Front Porch Florida grants as well as unencumbered funds.

Source: Florida Black Business Investment Board/Florida Black Business Support Corporation and regional investment corporation contracts and audited financial statements.

Appendix B



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VIA HAND DELIVERY

January 24, 2007

Mr. Gary R. VanLandingham, Director
Office of Program Policy Analysis and
Government Accountability (OPPAGA)
111 West Madison Street, Room 312
Tallahassee, Florida 32399-1475

Dear Mr. VanLandingham:

Thank you for providing the Florida Black Business Investment Board, Inc. (FBBIB) the opportunity to review the preliminary findings and conclusions of OPPAGA’s draft report titled, “Legislature Should Consider Options for the Role of the Florida Black Business Investment Board.” The FBBIB generally concurs with the preliminary findings and options outlined in the draft report and looks forward to working with the Legislature as the options are considered during the legislative process. However, the FBBIB has the following exceptions with the draft report.

Amplification on Background Discussion

The FBBIB would like to amplify and expand on the information contained in the background discussion of the report, specifically as it relates to (1) the black business investment corporations; and (2) FBBIB funding sources.

Regarding the report’s discussion of the investment corporations and the Florida Black Business Support Corporation (FBBSC), the report correctly indicates that as of January 1, 2007, the FBBSC operates as an independent entity with its own board of directors and staff. However, the report did not indicate that the FBBIB divested itself of the FBBSC to mitigate the potential for conflict with the regional investment corporations and at the Board of Directors governance level. Additionally, the FBBIB felt that divestiture would allow the FBBSC to serve the public in a more efficient manner and qualify as a community development financial institution, as defined in footnote 3 of the report.

Regarding the report’s discussion of funding sources, Exhibit 1 sets forth legislative appropriations for FBBIB operations and capitalization funds for Fiscal Years 2001-02 through 2005-06. The exhibit indicates that the Legislature appropriated \$1,560,000 in capitalization funds in 2004-05 and \$1,200,000 in 2005-06. The FBBIB believes that it is important to note that of the \$2,760,000 appropriated for capitalization funds in these years, the FBBIB only received \$390,000 because of restrictions contained in legislative budget proviso and the inability to comply with contractual requirements with the Governor’s Office of Tourism, Trade and

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Economic Development (OTTED) (due to issues related to contract performance with the black business investment corporations). Lastly regarding discussion of this point, the report also indicates that despite the absence of state appropriations, the FBBIB has continued to use funds from other sources, including cash reserves, fees and interest earnings. As FBBIB has never directly engaged in lending activities, the FBBIB does not operate on fees and interest earnings generated from these activities. However, it is important to note that the FBBSC, which in the past has received operational support from the FBBIB as its lending subsidiary, uses funds from cash reserves, fees and interest earnings to continue to assist black business enterprises.

Augmentation on Discussion of FBBIB-BBIC Relationship

The report correctly states that there has been considerable ongoing controversy regarding the relationships between the FBBIB and the investment corporations. The FBBIB believes that much of this controversy is due in large part to two factors: (1) disbursement of capitalization funds; and (2) conflicting expectations of the program stakeholders created by the statutes.

Regarding disbursement of capitalization funds, the report indicates that the FBBIB did not disburse capitalization funds to those investment corporations in compliance with their agreements with the FBBIB. It is important keep in mind the Legislature’s performance based budgeting requirements. The failure by some investment corporations to timely report performance results led to the FBBIB not being able to comply with requirements in its contract with OTTED. Consequently, the FBBIB did not always receive funds to disburse to the investment corporations. For example, as indicated above in Fiscal Years 2004-05 and 2005-06 the FBBIB did not receive \$2,760,000 in legislatively-appropriated capitalization funds because of the inability to comply with reporting requirements. Notwithstanding this, in December 2005, the FBBIB acted in good faith and disbursed \$1,746,664 in capitalization funds to the investment corporations in consideration of their compliance with all outstanding reporting requirements. Worth noting is that legislative budget proviso did not require the FBBIB to disburse these funds, which staff estimates would have generated approximately \$100,000 in investment income to support FBBIB and FBBSC operations.

Regarding conflicting expectations, the FBBIB believes that such expectations have played a role in the deterioration of the relationship with the investment corporations. It appears that the expectations of the state and private stakeholders (primarily financial institutions who, like the FBBIB, are members/shareholders in the investment corporations) of the program have been that the role of the FBBIB is to administer the program. This belief is supported by many current statutes, such as section 288.71, Florida Statutes (requiring the FBBIB to adopt policies to prescribe the criteria to evaluating applications for financial assistance by black-business enterprises), and section 288.7091(1), Florida Statutes (requiring the FBBIB to establish certification criteria for the investment corporations and certify the corporations at least once every five years). The belief contrasts with the discussion contained in the report that some investment corporation presidents felt that the FBBIB was to serve as an advocacy and networking body that disburses funds to the investment corporations. Current statutes seem to support their view. For example, section 288.7091(2), Florida Statutes, requires the FBBIB to disburse capitalization funds to the investment corporations in a manner prescribed by the Legislature, and section 288.7091(6), Florida Statutes, requires the FBBIB to facilitate the creation of investment corporations in communities not currently served by one. The FBBIB encourages the Legislature to consider amending the current statutes to clarify the role of the FBBIB as it relates to oversight and accountability over capitalization funds appropriated to the

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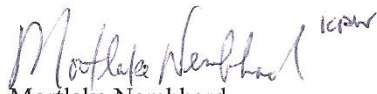
investment corporations. One possible option might be for the Legislature to convert part or all of past capitalization funds to grant funds and absolve the FBBIB of any accountability over these funds.

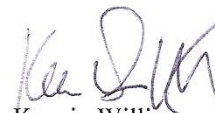
Consideration of Options

The FBBIB strongly believes that it can continue to play a viable role in any future economic development efforts undertaken by the state. Indeed, OPPAGA's appears to feel similarly as it states in the report its belief that the best combination of an option and funding approach is to amend the law to change the FBBIB's mission and provide support to economic development entities supporting black-owned business enterprises through grant funds appropriated to either OTTED or the Florida Department of Community Affairs (DCA). Discussions at recent FBBIB Board of Directors meetings have centered on a mission focused on advocacy, networking and creating procurement opportunities for black business enterprises. Attached to this letter as "Appendix A" is a white paper titled, "A Model for Increasing Growth of Black Business Enterprises in Florida," which details a solution proposed by the FBBIB that addresses current program issues and creates an economic development model that increases job creation and growth of black business enterprises.

Again, thank you for the opportunity to review and comment on the draft report. If you have any questions please do not hesitate to contact either of us at (850) 878-4566.

Sincerely,


Mortlake Nembhard
Chairman


Keevin Williams
Interim President

Attachment

APPENDIX A

A Model for Increasing Growth of Black Business Enterprises in Florida

By The Florida Black Business Investment Board, Inc.

INTRODUCTION & HISTORICAL OVERVIEW

In 1985 the Florida legislature created the FBBIB to support the creation and expansion of black business enterprises in Florida. The FBBIB addressed its legislative mandates by, among other things, disbursing legislatively appropriated capitalization funds to the regional black business investment corporations to operate revolving loan funds in their communities. In most years, the FBBIB has been able to disburse a relatively modest \$87,500 to the investment corporations to provide loans and loan guarantees to black business enterprises. As a condition for receipt of capitalization funds, the investment corporations agreed to report certain performance data to the FBBIB. Over the years, issues related to reporting and funding disbursements have led to the current problems between the FBBIB and the investment corporations.

Since 2003, the Florida Legislature and the Governor’s Office have expended significant and arguably disproportionate time, human and financial resources to review and improve the relationship between the FBBIB and the investment corporations. In that time, the organizations have undergone two interim legislative studies, an audit by the Governor’s Office of the Chief Inspector General and most recently, a joint audit by the Legislature’s Office of Program Policy Analysis & Government Accountability (OPPAGA) and the State Auditor General. In the OPPAGA Report to the Legislature, to which this paper is included, auditors assessed several options to resolve this problem and believed that the best option is a blend of two options that would:

1. Amend current law to change the role of the FBBIB to serve as a statewide advocacy and networking entity for black business enterprises; and
2. Provide future grant funding to black business enterprises as grants to economic development organizations supporting black business enterprises, with such funds to be appropriated and disbursed through a grant program administered by the Florida Department of Community Affairs (DCA) or the Governor’s Office of Tourism, Trade and Economic Development (OTTED).

Although the FBBIB agrees with the auditors that there should be a continuing role for FBBIB in the Florida’s future economic development efforts, it offers a slight variation on the option favored by the auditors. Set forth below is this option.

A MODEL FOR THE LEGISLATURE TO CONSIDER

Creation of an OTTED Administered Grant Program

A grant program administered by OTTED, in collaboration and contract with the FBBIB, may provide the Legislature with the solution to the problematic relationship between the FBBIB and the black business investment corporations, while also creating an economic-development model that increases the growth of black business enterprises and provide Florida taxpayers with a

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measurable return on their investment. Under the program, the Legislature would create and appropriate grant funds to be administered by OTTED. OTTED would be responsible for the (1) direct disbursement of any legislatively-appropriated funds under this program to economic development entities providing assistance to black business enterprises; and (2) collaborating with the FBBIB to establish a uniform, open and competitive application and annual certification process for economic development entities that seek funds to support the development of black business enterprises. Through a contractual relationship with OTTED, FBBIB would (1) collaborate on the development of policies related to the program; (2) report on a quarterly basis to OTTED the performance results of each economic development entity participating in the program; (3) annually certify that each economic development entity participating in the program is in compliance with the terms of its contract between the recipient and OTTED; and (4) annually report to the Governor and the Legislature on the performance results and return on the investments from the performance activities.

Refocus of FBBIB Statutory Duties

In addition to collaborating with OTTED on the administration of the grant program, the FBBIB would continue to aid in the development and expansion of black business enterprises by carrying out the following new statutory duties:

1. Advise appropriate state entity, currently the Governor's Office of Supplier Diversity, on the Minority Business Loan Mobilization Program;
2. Collaborate with Enterprise Florida, Inc. (EFI) and other state and local economic development entities and public and private sector partners to seek out available resources to aide in the development and expansion of black business enterprises;
3. Serve as a clearinghouse for information resources for black business enterprises and facilitating technical assistance through this clearinghouse, which should include:
 - ✓ Financing and technical assistance offered by the investment corporations;
 - ✓ Technical assistance services offered by the Small Business Development Center Network;
 - ✓ Training and workforce programs provided by community colleges;
 - ✓ Business development programs administered by Enterprise Florida, Inc.;
 - ✓ Business development programs administered by the financial services industry; and
 - ✓ Services offered by community-based organizations.
4. Collaborate with faculty members of universities within the State University System to evaluate and provide a 5-year projection on the unmet need for capital by black-owned businesses in the state to the Governor and Florida Legislature; and
5. Provide to the Governor and Legislature within 6 months of the end of the fiscal year an annual audit of the FBBIB's accounts and records, to include an explanation of administrative costs.

Notably absent from the enumeration of new statutory duties is the requirement that FBBIB directly disburse legislatively-appropriated funds to the investment corporations or any other

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entities providing support to black business enterprises. As previously stated and also commented on by the auditors, the problematic relationship between the FBBIB and the investment corporations stem in part from disbursement of past funds.

This proposal is similar to a solution offered by Representative Jennifer Carroll and others during the 2006 legislative session and substantially similar to the blended option favored by auditors. The FBBIB believes that OTTED would be the proper entity to administer the grant program. Many of the economic-development entities currently providing support to black business enterprises also partner with OTTED's many public-partners like EFI and others. Moreover, many of the state's leaders engaged in economic development activities, such as those in the financial services industry, are active participants on the boards and commissions of OTTED's public-private partners. It would seem that the forums for partnerships created by OTTED's public-private partners would allow for a more immediate leverage of state grant funds appropriated to OTTED. The continuation of an OTTED-FBBIB relationship would be particularly important if the FBBIB's mission is to be refocused and would seemingly mitigate one of the disadvantages identified by the auditors – the time it would take to inform public and private sector stakeholders regarding the changes in the FBBIB's responsibilities and to establish working networking and partnering efforts. In contrast, with the exception of the Office of Urban Opportunity's micro-loan program which no longer exists, it appears that much of DCA's programmatic activities are focused on developing Florida communities through affordable housing initiatives, community development block grants and other community development tools. Based on its focus, the DCA would not be as good of a fit as OTTED.

Structurally, FBBIB's solution would operate similar to the Urban Initiative Loan Program operated by the State of Minnesota's Department of Employment and Economic Development (DEED). This program was established in 1995 to assist in the creation of jobs in economically distressed parts of the Twin Cities metro area (Minneapolis, St. Paul and 22 surrounding suburbs) and increase the number of minority-owned businesses.¹ DEED administers the program through a network of 10 to 12 certified nonprofit lending organizations that enter into annual performance contracts. The program targets growth industries that include construction, transportation, services, manufacturing, retail and agriculture.² Bart Bevins, administrator of the program, indicates that to date over \$11.3 million in state funds have been leveraged with approximately \$46 million in non-state funds to aide 580 minority-owned businesses that created over 1000 jobs paying an average of \$11.35 per hour. Program data also indicates that the vast majority of the loans, 84 percent, were to people of color. The U.S. Census Bureau estimated that slightly over 100,000 African Americans lived in the Twin Cities area in 2005. Per capita, it appears the State of Minnesota invested approximately \$8.40 per African American resident in targeted economic development.³

By comparison, the U.S. Census Bureau estimated that 17,789,864 people resided in the State of Florida during the same period, with 15.7 percent or 2.8 million residents being African American. Factoring an average annualized legislative appropriation of \$1.2 million in capitalization funds to support the growth of black business enterprises, the State of Florida has invested approximately \$0.43 per African American resident. A 2002 Feasibility Study conducted by KPMG estimated that the unmet capital needs of black business enterprises in the State of Florida at \$90.8 million. The FBBIB estimates that an annual appropriation of approximately \$3.6 million is needed to have the same impact as funds appropriated in 1985.⁴

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SUMMARY

Although the auditors present several options for the Legislature to consider and favor an option that appears to be substantially similar, the FBBIB believes that the option proposed here is the best option. While both options attempt to address issues that have led to the problematic relation between the FBBIB and investment corporations – disbursement of capitalization funds and conflicting expectations, the option presented here preserves an ongoing and long-established relationship with OTTED. In considering its options, the FBBIB encourages the Legislature to also consider overall program funding levels

¹ The U.S. Census Bureau estimated that approximately 653,592 people resided in the twin cities area in 2005.

² Similarly, section 288.7091(5), Florida Statutes requires the FBBIB to target high growth jobs as identified by the Workforce Estimating Conference.

³ DEED data indicates that it funds approximately \$1 million per year in loans.

⁴ In reaching this estimate, the FBBIB utilized factors of 3.0% inflation rate for the period 1985 to 2006 (the U.S. had an estimated annualized inflation rate of 3.03 % for the same period) and an estimated African American population growth of 7% from 1985 to 2005 (based on U.S. Census Bureau estimates).

Florida Black Business Support Corporation

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VIA HAND DELIVERY

January 23, 2007

Mr. Gary R. VanLandingham, Director
Office of Program Policy Analysis and
Government Accountability (OPPAGA)
111 West Madison Street, Room 312
Tallahassee, Florida 32399-1475

Dear Mr. VanLandingham:

Thank you for providing the Florida Black Business Support Corporation (FBBSC) the opportunity to review the preliminary findings and conclusions of OPPAGA’s draft report titled, “Legislature Should Consider Options for the Role of the Florida Black Business Investment Board.” There are three key areas that relate to the FBBSC that OPPAGA should be aware: The New Board of the FBBSC, The New Mission of the FBBSC and The FBBSC’s Commitment to Work With The FBBIB.

The New Board of the FBBSC

In direct response to a recommendation set forth in the Florida Senate Committee on Commerce and Consumer Services “Review of the Florida Black Business Investment Board and the Black Business Investment Corporations” dated September 2005, the Florida Black Business Investment Board (FBBIB) Board of Directors divested itself of the statewide BBIC (the FBBSC), making it a separate entity, outside of the purview of the FBBIB.¹

This was accomplished via a transition plan that was put in place by the FBBIB in May 2006. The FBBIB Chairman established an interim Board of Directors for the FBBSC at that time with responsibility to the FBBIB. The last and most important task of the interim Board of Directors was to recommend an independent, permanent Board of Directors for the FBBSC. This was done and ratified by the FBBIB Board of Directors in December 2006. The independent FBBSC Board of Directors sat effective January 1, 2007.

The New Mission of the FBBSC

The FBBSC (d/b/a Access Florida Finance Corporation) serves as a statewide investment corporation and provides the following services:

1. Provides loan guarantees, venture capital, technical assistance and direct loans,
2. Serves as the clearinghouse for the Preferred Lender Finance Program (PLFP) (explained below).
3. Promotes special programs, i.e. Front Porch Florida.

¹ This language was taken directly from the Florida Senate Committee on Commerce and Consumer Services “Review of the Florida Black Business Investment Board and the Black Business Investment Corporations” dated September 2005, page 33.

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FBBSC was expanded in 2000 to provide financing to 32 counties. In 2005, FBBSC began serving the entire State of Florida. With a dedicated board and management, the following results are expected:

- a. An effective and efficient management of the PLFP.
- b. Increases in the number of minority business owners assisted.
- c. Increases in the number of minority businesses created in Florida.
- d. Increases in the number of minority companies still in business, 1, 2 and 5 years after receiving financial support.
- e. Increases in the number of jobs in targeted high growth areas by companies receiving financial support.

The objectives of the PLFP are to 1) identify viable minority-owned business clients with growth potential; 2) facilitate the establishment of long-term relationships between clients and financing institutions; 3) promote the profits and growth of minority-owned business and economic developers while diversifying and supporting Florida's economy; and (4) to raise the level of successful business ventures within its client base to a rate above the generally accepted average of successful ventures. Additionally, the PLFP seeks to help diversify Florida's economy by encouraging the expansion of innovative businesses and by supporting high-wage job creation and retention.

The PLFP is an innovative collaborative among users and suppliers of financial capital. It will direct a vision and a strategic financing objective of adding value to Florida's minority-owned businesses. The PLFP will focus on the core needs of minority businesses that include capital access, technical assistance, legislative support, information sharing, procurement opportunities and mentoring.

The PLFP will serve its clients as a trusted ally, providing them with the loyalty of a business partner and the economics of an outside vendor. It will ensure that its clients have what they need to run their businesses, with maximum efficiency and reliability while introducing those clients to potential capital sources to execute expansion plans and capture opportunities. PLFP is dedicated to building clients who will establish long-term relationships with financial institutions through high quality training and technical support, and aims to be recognized as the preeminent Florida minority-owned business advocate.

The FBBSC's Commitment to Work With The FBBIB

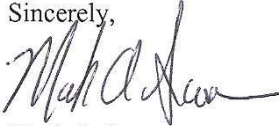
The new Board of the FBBSC met for the first time in January 2007 and expressed its desire to work with the FBBIB now and in the future to provide not only the PLFP products to the black business owners in Florida, but to be the catalyst for economic development in the State that the program has been lacking over the past 22 years.

The new Board recognizes the fact that, while it is independent, the FBBSC can be a valuable cog in the FBBIB's mission and it is desirous for the FBBSC to do so.

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Thank you for the opportunity to review and comment on the draft report. If you have any questions please do not hesitate to contact me at Mark.Scovera@AccessFloridaFinance.com or (850) 878-0775.

Sincerely,



Mark A. Scovera
President

FLORIDA CONSORTIUM OF BBIC'S, INC.
2105 N. NEBRASKA AVENUE
TAMPA, FLORIDA 33602
(813) 274-7925

January 18, 2007

Mr. Gary VanLandingham
Director
Office of Program Policy Analysis
& Government Accountability
111 West Madison, Room 312
Tallahassee, Florida 32399-1475

Dear Mr. VanLandingham:

Please accept our collective thanks for the open and professional manner in which OPPAGA and the Auditor General's Office performed its research to ascertain a first hand assessment of the quality and quantity of economic development that BBICs provide to the Black business community in Florida – and it is with great pride and pleasure that we offer a response to your report.

During the audit period the report reflects that BBICs provided a combined total of loans and guarantees of \$11.735 million representing 147 loans/guarantees. During the audit period, the state's collective appropriations to the BBICs were \$2.760 million. BBIC performance during this period was the leverage effect of \$4.25:1. For every \$1.00 dollar of state appropriations, BBICs produced \$4.25 dollars in loans. Additionally, it should be noted that the state appropriated \$2.760 million which was withheld from the BBICs during this period; therefore, the BBIC performance was without state assistance. It should also be noted that BBICs have never received any operational dollars from the state of Florida.

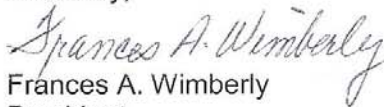
During the lifetime of the program the BBIC organizations have received a total of \$9 million dollars in appropriations from the state of Florida and have produced \$71 million dollars in loans and loan guarantees, thus providing a 7.89:1 leverage effect (\$7.89 dollar produced for every \$1.00 dollar appropriated). BBICs have provided superior leveraging of state dollars into communities throughout the state of Florida thus creating millions of dollars in economic impact. Unlike all other such entities which have received appropriations by the state of Florida, BBICs have been held obligated to these dollars for well over 20 years; remaining subject to auditor review of these aged appropriations. In the history of

the state, there has never been a funding formula that has declared such historical appropriated funds as a "perpetual obligation" for any state funded organization. It is the collective opinion of the BBICs that BBICs should be treated as other similar funded entities by the state of Florida. All future BBIC appropriations should be as annual contractual obligations and all historical appropriations should be declared as a one time grant by the legislature through the passage of legislation.

It is the collective desire and recommendation of the Black Business Investment Corporations (BBIC's) that, if the Legislature intends to substantiate its commitment to African American businesses thereby strengthening the overall economic condition in communities Statewide, the following approach to black business support should be adopted: The foundation of this approach is that the state would provide funding to entities that provide financial assistance, such as direct loans or loan guarantees, to black business owners, and it would continue to provide funds for the investment corporations.

The BBICs recommend that first, the existing BBICs which have performed and adequately leveraged State funding, that all state appropriations to these BBICs thru 2006 be considered as "seed capital" for black enterprise and economic development in the state of Florida; that is, that these dollars are declared as a grant. Second, those BBICs are considered for direct line item funding or direct appropriation funding by the legislature to the collective BBICs. Third, BBICs should be able to enter into annual funding contracts with one year expiration dates with the State for this funding. Fourth, performance on such funding contracts should be based on specifically outlined compliance and reporting measures. Fifth, reporting on these performance measures should be made directly by the BBIC to the legislature. Sixth, and last, the Florida Black Business Investment Board (FBBIB) and any other competing interest entity should not have any governance over the BBIC's.

Sincerely,



Frances A. Wimberly
President

FLORIDA CONSORTIUM OF BBIC'S, INC.

- cc: Richard Moreira, Auditor General-State of Florida
Michael Carn, Metro-Broward Capital Corporation
Gerald Chester, East Central Florida BBIC
John Howard, Palm Beach County BBIC
Inez Long, BBIF of Central Florida
Edwin Miller, BAC Funding
Tony Nelson, First Coast BBIC
J.B. Williams, Northwest Florida BBIC

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



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Gary R. VanLandingham, OPPAGA Director