STATE OF FLORIDA

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REVIEW OF THE ENTERPRISE FLORIDA CAPITAL PARTNERSHIP

PURPOSE OF REVIEW

The Office of Program Policy Analysis and Government Accountability (OPPAGA) conducted this review of the Enterprise Florida Capital Partnership (EFCP) as required by s. 288.9616(2), F.S. [1] The Capital Partnership is statutorily required to develop a research design for its evaluation. OPPAGA is to use this design in performing its review. The objectives of our review were to: review and evaluate the Capital Partnership using the research design it developed pursuant to s. 288.9616(1), F.S.; report on the implementation status of Capital Partnership programs; and identify alternatives that could make the Partnership more efficient and cost-effective.

[1] The Office of Program Policy Analysis and Government Accountability is a unit of the Office of the Auditor General but operates independently and reports to the Legislature.

BACKGROUND

The Capital Partnership was established by the Florida Legislature in 1993 (s. 288.9611, F.S.) as a public-private partnership with the mission of building access to financial markets for small and medium-sized manufacturing firms deemed essential to creating a Florida economy characterized by better employment opportunities leading to higher wages. To achieve its mission, the Capital Partnership has two major initiatives: (1) the Florida Development Finance Corporation (FDFC); and (2) venture capital funds.

The Florida Development Finance Corporation (FDFC) was created by the Legislature in 1993 (s. 288.9604, F.S.) to issue tax-exempt and taxable bonds to be sold in publicly traded markets or to large institutional investors. The bonds are guaranteed by investors and the state. Funds from the sales of these bonds are to be used to make loans at competitive rates to small-sized Florida manufacturers.

The Capital Partnership intends to create a sustainable venture capital industry in Florida that will help start or expand businesses. Enterprise Florida's Strategic Plan for 1993-94 indicated the Capital Partnership planned to obtain commitments of $150 million from private and public investors over several years for investment in three venture capital pools.

For fiscal year 1993-94, the Capital Partnership was appropriated $520,000 in general revenue by the Legislature and was transferred an additional $467,000 in general revenue from the Enterprise Florida Innovation Partnership. For fiscal years 1994-95 and 1995-96, the Capital Partnership was appropriated $520,000 and $1,045,000, respectively. Funds were not transferred from other Enterprise Florida partnerships.

RESEARCH DESIGN

The Enterprise Florida Capital Partnership's Research Design Does Not Include Baselines, Methodologies for Collecting Performance Data, or Intermediate Outcome Measures.

The Capital Partnership adopted its initial research design in September 1993 after receiving suggestions and comments from the Office of the Auditor General as required by s. 288.9616, F.S. The initial research design specified several input, output, and outcome measures applicable to the FDFC. Examples of outcome measures specified in the research design include: increasing the dollar value of loans to manufacturing firms in Florida by 80% by the year 2000 and by 85% by 2005; financing 500 new and high quality jobs by 1996, and 35,000 new and existing high quality jobs by 2005; and realizing a 15% increase in the real average wages of all FDFC clients within three years of delivery of financing.

However, the research design did not incorporate other measures we recommended for the FDFC, such as the dollar amount of bonds sold; the number of private commercial banks committing start up reserves and the dollar amount invested; the number of loan applicants and the percentage receiving loans; the dollar amount of loans made; and the percentage of loans that are non-performing.

Furthermore, the research design did not include any output or outcome measures for evaluating the Capital Partnership's venture capital funds. The goal of the Partnership's first venture capital fund, the Cypress Equity Fund, is to help build a venture capital industry in Florida. According to Capital Partnership documents, the Cypress Equity Fund's investment objective is to achieve a rate of return net of fees above the industry average for the Fund's investment.

On June 30, 1995, the Capital Partnership requested OPPAGA to review a revised draft research design that included objectives and performance measures related to the FDFC and the Partnership's venture capital funds. The draft research design, however, did not include baselines for evaluating progress, nor did it specify methodologies and information systems for collecting needed performance data. Furthermore, it did not include intermediate outcome measures that can be used to assess performance on an interim basis.

OPPAGA provided the Capital Partnership with its comments and recommendations on the draft research design, and the Partnership is in the process of revising it.

Implementation and Results

The Capital Partnership Has Begun to Put in Place the Florida Development Finance Corporation's Infrastructure. However, the Corporation's Implementation Has Been Slower Than Planned. The Corporation Expended $163,000 in State Funds in Fiscal Years 1993-94 and 1994-95, but Has Not Sold Any Bonds nor Made Any Loans to Small Florida Manufacturers.

The Capital Partnership has begun to put in place the FDFC's infrastructure for making loans to Florida manufacturers. The Florida Supreme Court validated the FDFC's first bond issue in February 1995. In addition, the FDFC hired a president effective September 1, 1995, whose responsibilities will include establishing formal guidelines and procedures for FDFC loans, including developing criteria for selecting companies for loans and establishing arrangements with banks and bank lending officers. These guidelines and procedures must be put in place before the FDFC can make loans to Florida companies. The Capital Partnership expended $132,000 and $30,846 on planning and legal consultants for the FDFC in fiscal years 1993-94 and 1994-95, respectively.

However, the FDFC's implementation has been slower than planned, with the achievement of key milestones taking longer than originally anticipated. Several factors contributed: lack of Partnership staff; reliance on a volunteer board and legal and planning consultants; the board confirmation process; and the Supreme Court bond validation process.

Further, the FDFC has not sold any bonds or made any loans. Consequently, no progress has been made toward achieving program outcomes related to financing new and existing high quality jobs or increasing the wages of FDFC clients specified in the initial research design. (See Exhibit 1.) Our review of similar programs administered by other states indicates that it usually takes five to seven years for loan-type programs to generate measurable outcomes.

Exhibit 1: Florida Development Finance Corporation's Implementation and Outcomes

	Planned	Actual
Finance 500 new and existing jobs	1996	No jobs created as of August 1995
Increase wages of FDFC clients by 15%	Within three years of financing	No clients as of August 1995
Increase value of loans to Florida manufacturers by 80%	2000	No loans made as of August 1995

Source: Enterprise Florida Capital Partnership records.

The Capital Partnership Expended $1.1 Million in State Funds Establishing Its First Venture Capital Fund, Which Received Commitments of $31 Million From Four Private Investors and One Public Investor. However, This Fund May Potentially Provide Little Benefit to Florida Businesses Since Investments Are Not Targeted In-State.

The Capital Partnership's first venture capital fund, the Cypress Equity Fund (CEF), closed in June 1995, with commitments of $31 million from four private investors ($16 million) and one public institutional investor ($15 million). The CEF is to invest in national private venture capital funds that, in turn, are to invest in companies with high potential growth. The Capital Partnership expended $478,088 and $665,305 on investment, planning, and legal consultants for its venture capital initiatives in fiscal years 1993-94 and 1994-95, respectively.

In June 1995, the CEF's investment manager entered into agreements to invest with two national venture capital funds. However, as of August 1995, no actual moneys had been invested with these funds. Consequently, the CEF has not yet produced any measurable return on the state's investment.

Furthermore, the CEF as presently designed may potentially have little direct impact on the Florida economy or provide little benefit to Florida businesses since its investments are not targeted to in-state companies. Our review of other states' business venture capital programs determined that they generally limited investments to in-state, start-up, technology-based companies. [2] Enterprise Florida's Strategic Plan calls for the Capital Partnership to develop a second venture capital fund targeted to Florida companies.

[2] We interviewed venture capital program administrators from the following states: Connecticut, Kansas, Montana, Massachusetts, New York, and Utah. We also reviewed reports from these states and program descriptions from additional states.

Conclusions and Recommendations

The Enterprise Florida Capital Partnership's research design does not include outcome measures for evaluating the Partnership's venture capital initiatives. The Capital Partnership has not developed baselines for evaluating its progress, as well as methodologies and information systems for collecting needed performance data. It has also not developed intermediate outcome measures that can be used by the Legislature to assess its performance on an interim basis.

The Partnership has begun to put in place the FDFC's infrastructure for making loans. However, the FDFC's implementation has been slower than planned. Furthermore, the FDFC has not sold any bonds or provided any loans to Florida companies as of August 1995. Consequently, the FDFC has not produced outcomes or returns on the state's investment in terms of providing financial support to Florida businesses. It may be several more years before FDFC outcomes can be reasonably assessed.

The Capital Partnership's Cypress Equity Fund (CEF) received commitments of $31 million from four private investors and one public institutional investor. However, it has not yet provided a return on investments. The CEF as presently designed may potentially provide little benefit to Florida businesses since investments are not targeted in-state.

We recommend that if the Legislature continues funding the Capital Partnership, the Partnership should:

- Complete revising its research design. Specifically, it should develop:
  - -- Baselines for its performance measures;
  - -- Methodologies and information systems for collecting performance data; and
  - -- Intermediate outcome measures that can be used to assess performance on an interim basis.
- Develop and implement strategies to provide funding support to small and medium-sized Florida manufacturers.

CAPITAL PARTNERSHIP RESPONSE

The President of Enterprise Florida Capital Partnership responded that "[t]he Capital Partnership (CP) places a high priority on the completion of the revised research design which was briefly delayed to allow for the input of the new president.

Although somewhat delayed, the CP has successfully created two market driven, institutional structures to accomplish its stated mission. Per the original plan, the CP then hired a president to develop and implement CP's programs.

For a modest investment, the CP created the FDFC, a market driven economic development vehicle. A detailed plan is in effect to render the FDFC operational in order to fund small manufacturing companies in 1996.

The CP's venture capital initiatives are designed to establish a sustainable venture capital industry in Florida comprised of institutional and individual investors, investment managers, networking organizations and service providers. The Cypress Equity Fund (CEF) established Florida based institutional venture capital investors for the first time and will provide Florida's promising technology companies direct access to the nation's leading venture firms. The CP will work closely with Enterprise Florida's affiliates to identify companies to refer to CEF investees.

Other states whose sole focus was a state targeted fund failed to 1) establish a sustainable venture industry due to poor results (Kansas) or 2) had nominal impact on capital access and employment growth (Connecticut). The CP board believes its strategy will result in providing long term access to capital for technology-oriented Florida companies resulting in significant high wage employment growth.

The CP is developing other programs including a Florida targeted venture capital fund, educational and informational programs and statewide networking activities."

This review was conducted in accordance with generally accepted government auditing standards and included appropriate performance auditing and evaluation methods. Copies of this report in alternate accessible format may be obtained by contacting Report Production at (904) 488-0021 or FAX (904) 487-3804.

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