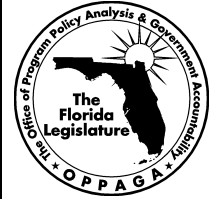




Office of Program Policy Analysis And Government Accountability



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Follow-Up Report on the Enterprise Florida Capital Partnership

Abstract

- As we previously recommended, the Enterprise Florida Capital Partnership has improved its system for evaluating program performance and has developed programs to provide additional funding support to Florida manufacturers.

Purpose

In accordance with s. 11.45(7)(f), F.S., this follow-up report informs the Legislature of actions taken by the Enterprise Florida Capital Partnership in response to Report No. 95-09, issued October 18, 1995. This report presents our assessment of the extent to which the Capital Partnership has addressed the findings and recommendations included in our report.

Background

The Enterprise Florida 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.

The Capital Partnership's two original initiatives were the Florida Development Finance Corporation (FDFC) and the Cypress Equity Fund. The Legislature created the FDFC in 1993 to issue tax-exempt and taxable bonds, and use the bond proceeds to make loans at

competitive rates to small- and medium-sized Florida manufacturers.

The Capital Development Board developed the Cypress Equity Fund to be the first step in creating a sustainable venture capital industry in Florida. The Cypress Equity Fund was designed to obtain commitments from Florida's institutional investors and invest them in national private venture capital firms, that would in turn invest in companies with high potential growth. These high growth companies could be located anywhere in the country.

Subsequent to our October 1995 report, the Capital Development Board expanded its initiatives to include additional debt and equity-related business financing programs. For example, since January 1997, the Capital Development Board has offered energy conservation loans, recycling development loans, and subordinated mortgage loans through an arrangement with Florida First Capital Finance Corporation, a certified development corporation of the U.S. Small Business Administration. In addition, the Board has sponsored conferences that bring companies seeking venture capital and potential investors and published a venture finance directory that helps Florida's entrepreneurs and small businesses find sources of financing.

Prior Findings

As noted in our previous report, the Capital Partnership's research design did not include outcome measures for evaluating the Partnership's venture capital initiatives. In addition, the Capital Partnership had not developed baselines for evaluating its progress, as well as methodologies and information

systems for collecting needed performance data. It also had not developed intermediate outcome measures needed by the Legislature to assess its performance on an interim basis.

The Partnership began to put in place the FDFC's infrastructure for making loans. However, the FDFC's implementation was slower than planned. Furthermore, the FDFC had not sold any bonds or provided any loans to Florida companies as of August 1995. Consequently, the FDFC had not produced outcomes or returns on the state's investment.

The Capital Partnership's Cypress Equity Fund received commitments of \$31 million from four private investors and one public institutional investor. However, it had not yet provided a return on investment. Finally, our previous report noted that the Cypress Equity Fund, as structured, may potentially provide little benefit to Florida businesses since investments are not targeted in-state.

Current Status

In 1996, the Capital Partnership was renamed the Enterprise Florida Capital Development Board and brought under the umbrella of Enterprise Florida, Inc., the state's primary economic development organization.

As of September 30, 1997, the Capital Development Board had issued approximately \$3.3 million in FDFC tax-exempt bonds (called Enterprise Bonds) to make loans to three companies. According to a Program official, the Capital Development Board is now in the process of restructuring the FDFC Program to address problems that may limit the Program's intended impact. The reported problems include FDFC's lack of bond issuance capacity, difficulty in assembling bond pools of sufficient size, and need to broaden the Program by including somewhat less creditworthy but attractive bond applicants.

Also, as of June 30, 1997, the Cypress Equity Fund had invested a total of \$3.9 million in eight national venture capital firms. This fund remains a concern to OPPAGA since the fund is not designed to directly benefit Florida companies. The Capital Development Board planned to create a second venture capital fund that would target its investments to Florida companies, but has not done so as of the completion of this follow-up report.

The Enterprise Florida Capital Development Board has implemented all of the recommendations contained in OPPAGA's previous report. Specifically, the Board has:

- established baselines for its performance measures;
- developed methodologies and information systems for collecting performance data on its programs;
- developed intermediate outcome measures that can be used to assess program performance on an interim basis; and
- implemented strategies to provide funding support to small and medium-sized Florida manufacturers. These include the Enterprise Bonds Program, business loan programs through Florida First Capital Finance Corporation, and Venture Network Development programs.

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