



## Office of Program Policy Analysis And Government Accountability



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### Review of the Florida Export Finance Corporation

#### Abstract

- The Florida Export Finance Corporation (FEFC) has effectively leveraged its resources with those of the private sector and federal government to provide financing assistance to Florida exporters.
- The FEFC reports that since its inception in 1993, it has supported \$308 million in export sales value and over 4,400 jobs. However, the FEFC's methodology for estimating jobs supported may not be appropriate.
- Although its customers pose a higher risk than typical bank borrowers, FEFC has not yet suffered a loan default.
- The FEFC reports that it will become financially self-sufficient in Fiscal Year 1998-99 and will no longer require state funding support.
- The FEFC needs to improve its performance measurement system to provide better methods for collecting performance information.

#### Purpose

Section 288.7772, F.S., requires the Office of Program Policy Analysis and Government Accountability to review and evaluate the performance of the Florida Export Finance Corporation prior to the 1998 regular session of the Legislature.

This review evaluates the corporation's performance in providing financing assistance to Florida businesses seeking to export goods and services. It also reviews the corporation's performance measurement system.

#### Background

The Legislature created the not-for-profit Florida Export Finance Corporation (FEFC) in 1993 to expand employment and income opportunities for residents of Florida through increased exports of goods and services. The FEFC's activities include:

- providing loans and loan guarantees to small- and medium-sized Florida businesses in support of their export sales;
- disseminating information and technical assistance to Florida businesses on exporting and export-related financing; and
- coordinating with various state and federal entities designed to provide export assistance.

The FEFC's office is located in Miami. It is governed by a 15-member board of directors and currently has five full-time employees. While it conducts a wide range of activities ranging from holding export-related seminars to arranging credit insurance, the majority of FEFC's activities are focused on providing short-term financing (one year maximum) to exporters. The FEFC provides three major types of financing assistance:

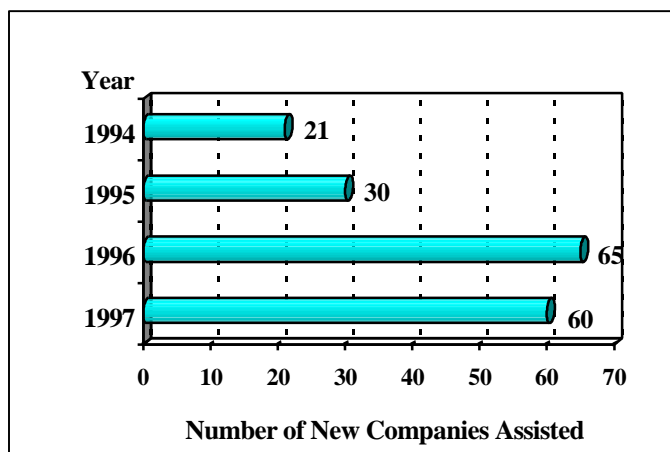
1. **Loan Guarantees.** The FEFC will guarantee up to 90% of a bank loan or \$500,000, whichever is less. To qualify for a FEFC guarantee, a business must demonstrate that it is unable to qualify for a conventional bank loan;
2. **Direct Loans.** If an exporter cannot obtain a loan even with a guarantee, FEFC can provide a direct loan of up to \$500,000; and
3. **Coordination With the Ex-Im Bank and SBA.** The FEFC works with two federal entities that also provide export-related financing assistance: the Export-Import Bank of the United States (Ex-Im Bank) and the U.S. Small Business Administration (SBA). The FEFC is a member of the Ex-Im Bank's City/State Program, which allows Florida exporters

to access the Ex-Im Bank's and the SBA's financial assistance programs through the FEFC. As a City/State Program partner, the FEFC helps exporters prepare and submit applications to the Ex-Im Bank and SBA for loan guarantees that exceed the FEFC's maximum size (\$500,000). In addition, the FEFC has the ability to jointly guarantee loans with the Ex-Im Bank or SBA.

Since its inception in 1993, the FEFC has assisted 176 companies (see Exhibit 1). According to its President, over 80% of the FEFC's customers are repeat customers. FEFC provided the following examples of its assistance:

- A small Florida exporter had an opportunity to obtain an \$11.5 million contract to export powdered milk in specialty packages. However, the supplier of the powdered milk would not extend credit to the exporter. The FEFC directly guaranteed \$500,000 to the powdered milk supplier on behalf of the exporter, enabling the \$11.5 million contract to be completed in seven months;
- A small Florida company was exporting about \$1 million per year in electrical yard and gardening products. The FEFC offered a guarantee of \$500,000 to the exporter's bank, which then issued a standby letter of credit to enable the exporter to receive open account terms from its supplier. The exporter's annual sales increased to more than \$4 million per year; and
- The FEFC arranged a five-year, \$32.7 million loan to allow a small Florida exporter to bid on a large foreign government purchase. A group of banks, put together by the FEFC, offered the loan to the foreign government. The FEFC-arranged offer was superior to others, and the Florida exporter subsequently won the bid.

**Exhibit 1**  
**The FEFC Has Assisted**  
**176 Different Companies Since 1994**



Source: OPPAGA analysis of Florida Export Finance Corporation documents and reports

About 60% of the FEFC's clients are located in Dade County, largely due to the fact that goods exported from Miami account for 54% of the state's total exports. However, the FEFC serves all areas of the state.

Since 1993, the Legislature has provided FEFC with approximately \$5.7 million in state funding, comprised of \$4.7 million in capital to support direct loans and loan guarantees and \$1 million for operating expenses.

## Findings

**The FEFC has effectively leveraged its resources with those of the private sector and federal government to provide financing assistance to Florida exporters.**

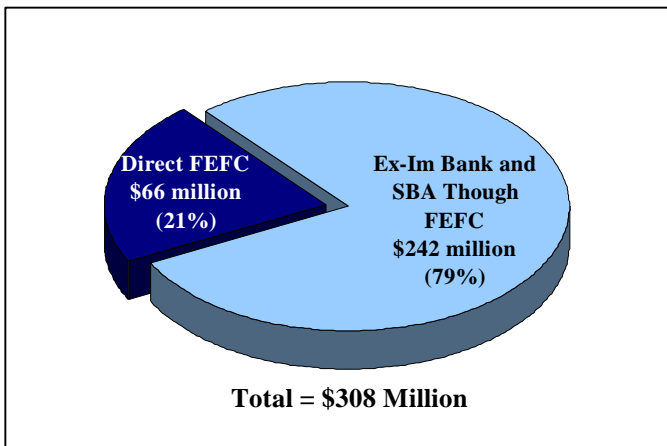
The FEFC provides most of its financial assistance through loan guarantees, as opposed to direct loans. For example, the FEFC reports it issued 87 loan guarantees totaling \$16.4 million since 1994 (\$9.4 million outstanding at December 31, 1997). In contrast, the FEFC reports it made only 10 direct loans amounting to \$516,000 since 1994 (\$113,000 outstanding at December 31, 1997). The FEFC's president indicated that the corporation emphasizes loan guarantees because direct loans use too much of its capital. By using loan guarantees, the FEFC is able to leverage its resources with those of the private sector to achieve greater impact. Since the private sector actually supplies the loan funds, the FEFC can preserve its capital base and assist many more businesses than it could if it loaned the money directly.

Since 1993, the FEFC has also helped Florida exporters secure \$196 million in loan guarantees from the Ex-Im Bank and the SBA. By coordinating its efforts with these two federal entities, the FEFC has helped Florida's exporters access a significant amount of export financing assistance.

**The FEFC reports that since its inception in 1993, it has supported \$308 million in export sales value and over 4,400 jobs. However, the FEFC's methodology for estimating jobs supported may not be appropriate.**

The FEFC reports that its export assistance programs have supported over \$308 million in export sales value since 1993. Of this amount, \$66 million is the result of FEFC's direct loan and loan guarantee commitments. The remaining \$242 million is the result of financial assistance programs offered by the Ex-Im Bank and SBA through FEFC (see Exhibit 2).

**Exhibit 2**  
**FEFC Reports Supporting \$308 Million**  
**in Export Sales Value Since 1993**



Source: OPPAGA analysis of Florida Export Finance Corporation documents and reports

The FEFC also reports that its programs have supported 4,400 jobs since 1993. According to the FEFC's president, *jobs supported* represents those jobs that would not exist without FEFC's assistance. The FEFC estimates that every \$1 million in export sales supports 14.5 jobs, which it derives from methodology developed by the U.S. Department of Commerce. However, the U.S. Department of Commerce now discourages the use of such ratios to estimate jobs supported because: the ratios vary widely between different industries and states; and the ratios are declining every year because of increasing export prices and productivity gains. Therefore, FEFC's use of this ratio to estimate jobs may not be appropriate, and the actual number of jobs supported by FEFC may be significantly different than 4,400.<sup>1</sup>

**Although its customers pose a higher risk than typical bank borrowers, FEFC has not yet experienced a loan default.**

In order to qualify for a loan guarantee, FEFC requires that companies demonstrate they are unable to obtain conventional bank financing. For a direct loan, FEFC requires that borrowers demonstrate that, even with an FEFC guarantee, they would not be able to obtain financing. Due to these requirements, FEFC borrowers are generally at a higher risk of default than most bank borrowers. As of December 31, 1997, the FEFC's total loss exposure amounted to \$9.5 million.

Despite these risks, FEFC has not yet experienced a loan default. However, the FEFC president reported that the

<sup>1</sup> The U.S. Department of Commerce, in conjunction with the U.S. Trade Representative's Office, is attempting to develop a new methodology for estimating jobs. The FEFC indicated it plans to use this methodology when it becomes available.

corporation will probably experience its first loan default in the first or second quarter of 1998. This default will amount to approximately \$112,000. The FEFC's president attributes the low rate of default to the corporation's ability to work with borrowers to resolve payment problems.

**The FEFC did not request state funding support in Fiscal Year 1998-99 and reports that it has become financially self-sufficient.**

The FEFC did not request state appropriations for Fiscal Year 1998-99. According to the FEFC's president, the corporation will earn enough interest and fee income to support its own operating expenses and will become financially self-sufficient in Fiscal Year 1998-99. In calendar year 1997, the FEFC earned \$314,000 in income compared to \$335,000 in total operating expenses.

The FEFC's president cautioned, however, that a rise in loan defaults could inhibit the corporation's ability to sustain itself. If loan defaults increase, FEFC would be required to use part of its capital base to cover its loan guarantee commitments; the state has no obligation to cover loan defaults. Since the FEFC relies on its capital base to produce interest income, a decrease in capital would negatively affect its ability to earn enough income to cover its operating expenses.

**The FEFC needs to improve its performance measurement system to provide better methods for collecting performance information.**

The FEFC currently uses a number of measures to assess its performance, such as the number of companies assisted, the dollar volume of commitments, and the dollar value of export sales for assisted companies. Although this is a good start, the FEFC needs to further improve its performance measurement system. Specifically, the FEFC needs to develop better methods for collecting performance information. Currently, the FEFC does not survey its clients to determine the impact of its programs but relies on estimates of job supported. As previously mentioned, the FEFC's methodology for estimating jobs supported may not be appropriate.

## Conclusions and Recommendations

The Legislature created the Florida Export Finance Corporation (FEFC) in 1993 to help Florida businesses increase their exports. FEFC provides various forms of financial assistance, such as direct loans, loan guarantees, and loan packaging for federal export financing programs.

The FEFC has effectively used its resources in combination with those of the private sector and federal government to provide export financing assistance to Florida businesses. Specifically, FEFC has leveraged over \$212 million in loan commitments for Florida exporters through its relationships with the private sector, Export-Import Bank of the United States, and U.S. Small Business Administration.

The FEFC reports that its programs have supported over \$308 million in export sales value and 4,400 jobs since its inception in 1993. However, the federal government methodology used by the FEFC to estimate jobs supported may not be appropriate, and the actual number of jobs supported may be significantly different than the 4,400 reported.

Despite serving riskier-than-average clients, the FEFC has not yet experienced a loan default. However, the FEFC expects one loan default to occur in the first or second quarter of 1998.

The FEFC reports that it will earn enough interest and fee income to support its own operating expenses and will become financially self-sufficient in Fiscal Year 1998-99.

The FEFC needs to improve its performance measurement system. Specifically, the corporation needs to develop better methods for collecting performance information.

We recommend that:

- The FEFC continue its efforts to help Florida businesses increase their exports by providing loans and loan guarantees to support export sales, disseminating information and technical assistance on export techniques, and coordinating with federal agencies that also provide export financing assistance; and
- The FEFC improve its performance measurement system. Specifically, the FEFC should develop better methods for collecting performance information, and use this information to evaluate the efficiency and effectiveness of its programs.

## **Response From the Florida Export Finance Corporation**

The overall report is a professional evaluation which, I am pleased to say, endorses the foresight of the Florida Legislature in forming the FEFC.

Jobs Supported Methodology. In 1994 the U.S. Government officially used a ratio of \$1,000,000 in exports as supporting 20 U.S. jobs. With no other available methodology, the FEFC began using this ratio but due to the nature of the small business exporters in Florida reduced the ratio to 14.5 Florida jobs. In 1997 the U.S. Department of Commerce first publicly stated that they were not sure of the ratio and started an attempt to develop a new method. As noted in the OPPAGA report the FEFC will adopt the new method when it is available or any other which might be more suitable. It should be understood that the U.S. Government does not believe the ratio is too high or too low - just that it may be inappropriate and they wish to develop something better.

FEFC Performance Measurement System. Our performance measurements are those suitable for any financial institution, however, we also measure training of companies in the arena of exporting, and lenders in the field of trade finance. These measurements, while appropriate for a private corporation, perhaps should be expanded. We are now attempting to determine what measurements could or should be added. The FEFC has only five employees, and the assistance we receive from the government is financial in nature, and no other. Any new measurements should not, and cannot, be major consumers of either time or money.

Companies Assisted. The report indicates 176 companies have received assistance. The listed companies are only those that received financial assistance, however, many more have received counseling assistance. Almost all small companies receiving our financial assistance require such on a reoccurring basis. They do not become "bankable" based on a single transaction. The chart is for new companies receiving financial assistance each year. A large majority of those still remain active under our financial assistance programs.

/s/ J. Stephen Fancher  
President & CEO

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