

4/26/2012



ECONOMIC  
DEVELOPMENT  
DISTRICT  
REGION III

## ***BUSINESS CULTIVATION FUND PROPOSAL***

VP Operations | Rem Fox

## Introduction

Today you hear a great deal about “Economic Development.” Originally having fairly narrow and generally understood parameters, the term has now become a catchall for a multitude of diverse efforts with increasingly ambiguous meanings. For the purpose of this proposal, we will return to an uncomplicated definition. Economic Development is the effort and financing to develop businesses that create long-term sustainable jobs.

We all know that net new jobs come from the small business community, a large number of which are startups. The single largest hurdle facing the small business person is obtaining capital financing. Even with the SBA programs available, many entrepreneurs are not able to reach equity requirements. Venture funds (when available) come with a surrender of equity in the enterprise. Even if that path is desired by the entrepreneur, those funds are not as readily available in all markets as they once were. Specifically here in the Treasure Valley area, the only single venture capital firm decided to close its doors in 2011. The only local angel fund reached its financial capacity during 2010.

## Opportunity

Current economic realities have left entrepreneurs and small business with limited options to bridge the gap between startup or expansion and the point where they qualify for SBA supported or conventional loans.

## Solution

There is demand for a new capital finance fund for small business and entrepreneurial companies that combines the traits and practices of a bank, but operates much like a venture capital firm. Our pilot of this model has proven merit the last few months. Using a process called “Cluster Investing” we have placed considerable efforts toward identifying business clusters where the results have proven positive and continue to expand.

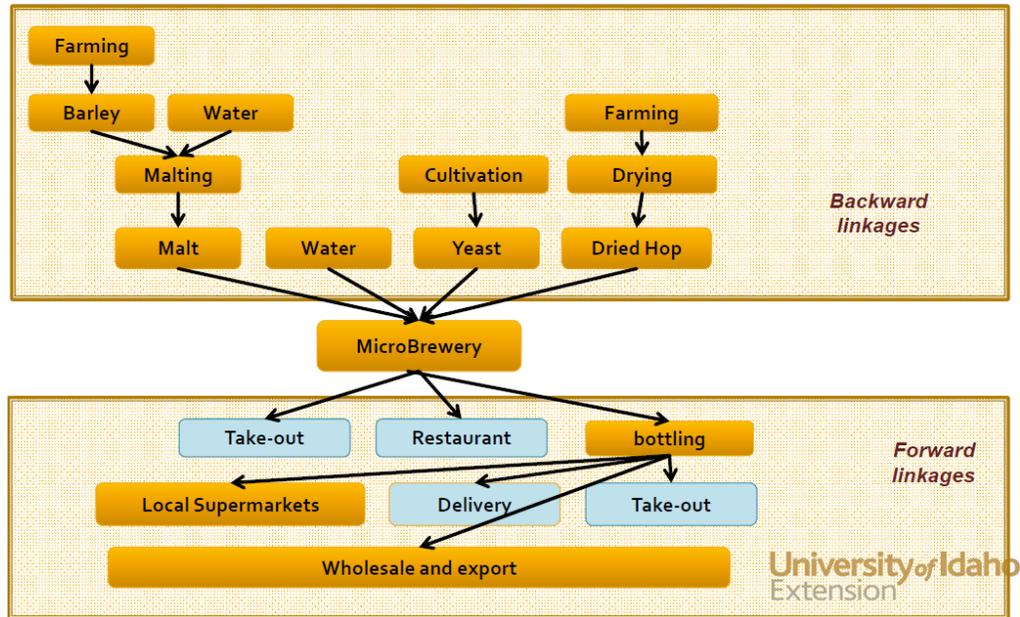
Cluster Investing focuses on researching and developing the most promising business clusters that align with market demands showing stability and longevity. A business cluster is one that has a set of core products for a defined market. As an example; let’s take a small food company with two new healthy food products. First we begin to look at the entire supply chain from the farm to the consumer. Once you have this supply chain mapped out, you begin to work with the food company partners (upstream & downstream). We align all their interests and share growth strategies and success factors. This allows the companies to combine value propositions and core competencies. The result is they *grow strategies collectively*.

The Economic Development District launched this model as a pilot program November 2011; loans were made to two product companies. As their needs grew, we paired them up with a local manufacturer. The manufacturer needed to expand to accommodate them. This required new financing (opportunity). As progress unfolded further, a larger distribution company (also involved) bought out the manufacturer and is building a \$5 million dollar plant currently. What began as a \$60,000 dollar loan has led to much bigger opportunities and growth in the food industry. This result is exactly what cluster investing is all

## Idaho Business Cultivation Fund

about. The figure below portrays what a typical business cluster looks like by expanding the entire supply chain.

Figure 1:



### Mission

The Idaho Business Cultivation Fund will make seed capital loans to companies who can leverage Idaho's most promising industries and marketplace opportunities; thus meeting the goal of job creation and long term sustainable companies.

### Operations

The fund operation will follow a strict governance model that will identify and research cluster developments. The operation will strategically align funding to those with the most demand value and promise. Customers may come to us through knowledge and networking, but foremost the fund will be seeking cluster candidates who fit our business & opportunity model through outreach.

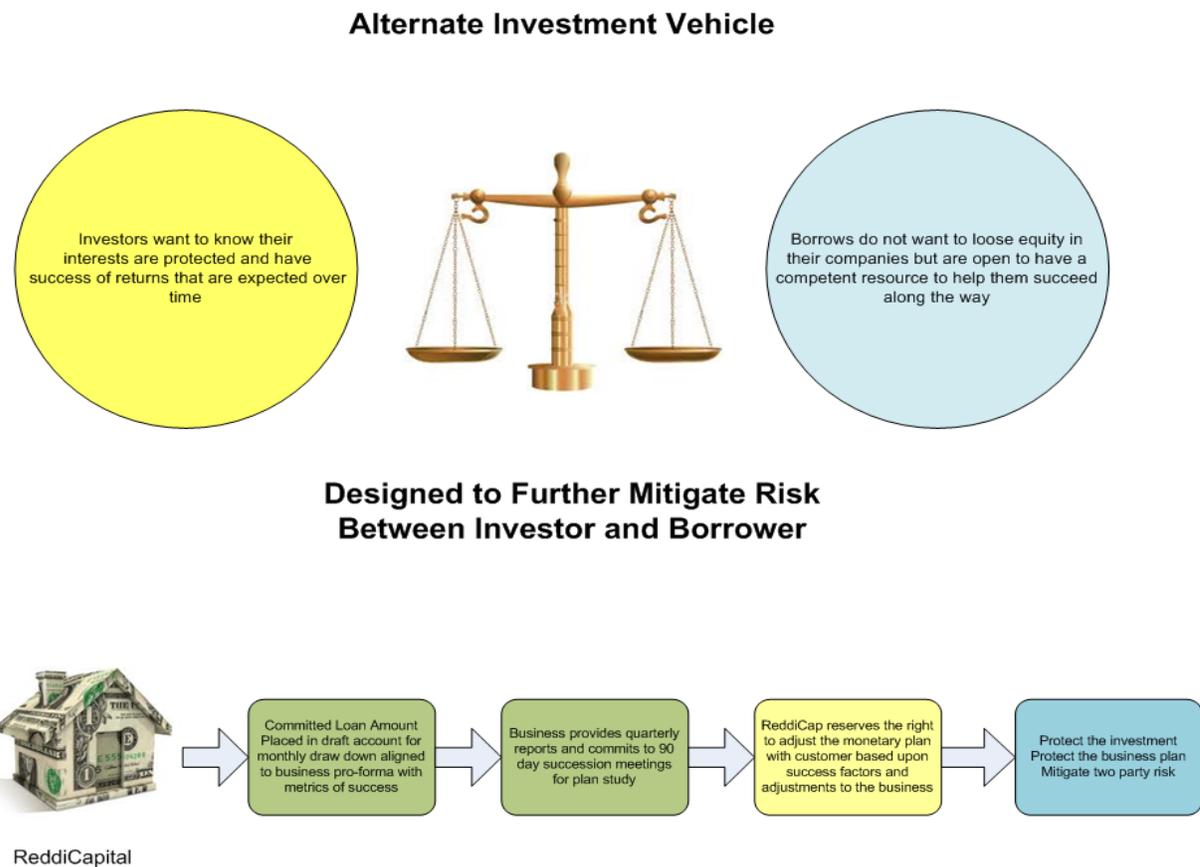
Targeted marketing and RFP processes will be used to solicit cluster candidates for our program. This will afford the fund operators the ability to perform due diligence and work through a selection process. The following processes will be utilized to operate the fund:

- ❖ Due diligence will be performed on each loan candidate for business plans, profit & loss statements, projections, income statements, market validation, tax returns, current standing and performance
- ❖ Each loan candidate will agree to a MOU that assigns a mentor as an advisor from our board of mentors

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- ❖ The review committee members will consist of Financial Analysts, CRA Investors, CPA's, Lawyers & Entrepreneurs for solid risk assessment and funding guidance
- ❖ All investment partners will share an equal position in the fund overall to avoid conflict and special advantage with any particular fund customer similar to the ICRC model
- ❖ All investment partners will be exposed to an equal opportunity competition when each funded customer has outgrown their IBCF needs and are ready to move on toward conventional financing
- ❖ The loan funds will be managed through a custom designed model called "AIV" (figure 2) that aligns loan requests to Pro-Forma Plans to balance risk and reward

Figure 2: AIV Example of Balancing Risk:



## Request Plan

We wish to create Idaho's first business cultivation fund and market its specific value proposition to the aligned and developing business clusters. Our goal is to develop a capital lending fund of \$10 Million dollars in the next few years. The composition plan of the fund will be CRA partners, Department of Commerce, and other capital entities who are stakeholders in Idaho's economy.

## Idaho Business Cultivation Fund

Capital Budget	Year 1	Year 2	Year 3	Year 4
CRA Partner	\$ 250,000.00	\$ 500,000.00	\$ 750,000.00	\$ 1,000,000.00
CRA Partner	\$ 250,000.00	\$ 500,000.00	\$ 750,000.00	\$ 1,000,000.00
CRA Partner	\$ 250,000.00	\$ 500,000.00	\$ 750,000.00	\$ 1,000,000.00
CRA Partner	\$ 250,000.00	\$ 500,000.00	\$ 750,000.00	\$ 1,000,000.00
CRA Partner (smaller)	\$ 25,000.00	\$ 25,000.00	\$ 50,000.00	\$ 50,000.00
Department of Commerce	\$ 100,000.00	\$ 200,000.00	\$ 400,000.00	\$ 500,000.00
Economic Stakeholder	\$ 50,000.00	\$ 50,000.00	\$ 50,000.00	\$ 50,000.00
<b>Total</b>	<b>\$ 1,175,000.00</b>	<b>\$ 2,275,000.00</b>	<b>\$ 3,500,000.00</b>	<b>\$ 4,600,000.00</b>
			Target Met**	<b>\$ 11,550,000.00</b>

The following management plan assumes that CRA partners will participate in the fund between a 1.5 and 1.75 interest rate. The interest rate will occur at the time of fund draws based upon each unique loan amount per client funded throughout our plan.

### Management Plan Yr1

Operational Budget	Term	Lend Rate	Principle	Payment	CRA Rate	Proceeds
CRA Partner	10.00	8%	\$ 250,000.00	\$3,033.19	2%	\$ 788.40
CRA Partner	10.00	8%	\$ 250,000.00	\$3,033.19	2%	\$ 788.40
CRA Partner	10.00	8%	\$ 250,000.00	\$3,033.19	2%	\$ 788.40
CRA Partner (smaller)	10.00	8%	\$ 50,000.00	\$606.64	2%	\$ 157.68
Department of Commerce	10.00	8%	\$ 100,000.00	\$1,213.28	2%	\$ 315.37
Economic Stakeholder	10.00	8%	\$ 50,000.00	\$606.64	2%	\$ 157.68
		<b>Fund Pay Plan</b>	<b>Total Monthly</b>	<b>\$11,526.12</b>		<b>\$ 2,995.93</b>

### Request Details

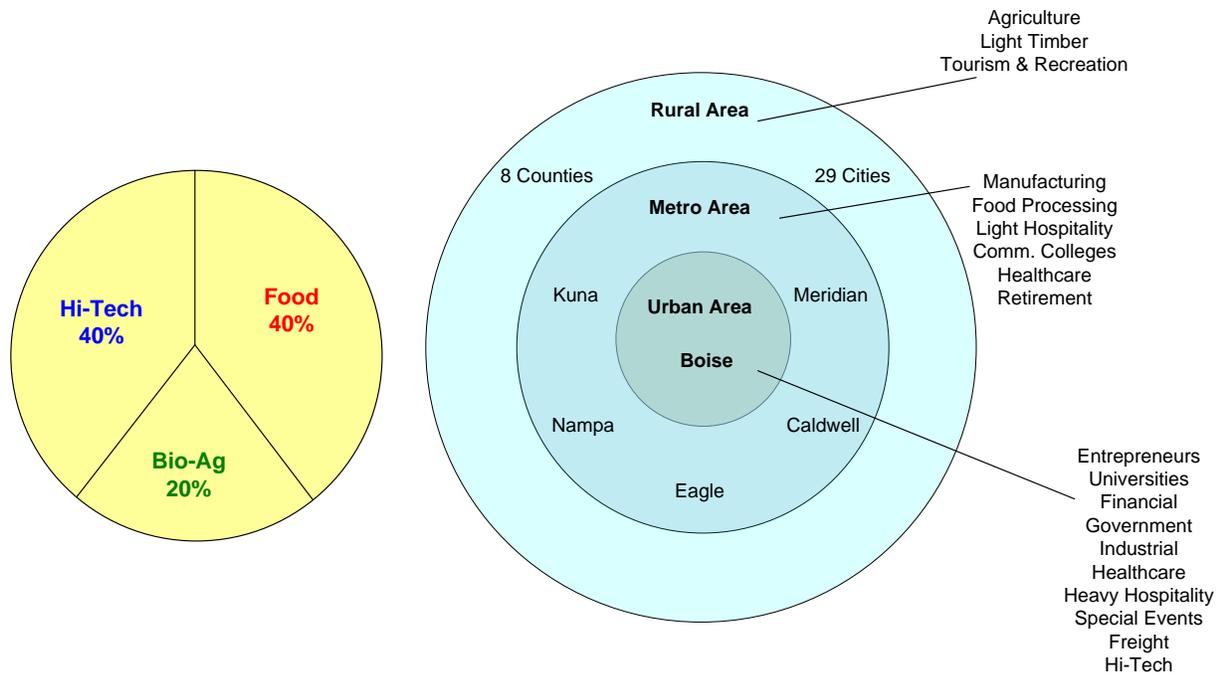
The fund management team believes it will take 2-6 months to build up the proper cluster pipeline to execute loans for customers. With this in mind we are going to take a phased approach toward execution.

- ❖ Phase 1- We are asking for grant contributions per CRA partner to enable the labor force to execute the research and development of customers for the cluster pipeline. We will be building out the formal advisory mentor team, the funding review committee, and technical operations. We estimate needing \$100,000 in grant dollars. We expect the top grant participants to be our first opportunity funders
- ❖ Phase 2- We will sign master agreements with all fund partners and establish all back office processes to comply with rules and regulations as required
- ❖ Phase 3- We will begin the promotional process and establish regular cycles of company reviews for funding and execution of the funds purpose

## Defined Market Clusters

Currently the fund management team has 3 market defined clusters for investment targets. The composition of these markets is not equal today. Over the course of time and maturity we intend to balance the portfolio so the composition is equal, thus valuing the diversity of industries which will strengthen the portfolio. See figure 3.

Figure 3: IBCF Focused Active Clusters



## Value & Risk Management

- ❖ Will utilize known resources like SCORE for Board of Mentors with customer MOU's for advisory roles and reporting expectations; ie."portfolio mgmt"
- ❖ Cluster Investing focus for full circle economies
- ❖ Experienced Management Team coupled with Experienced Review Committee
- ❖ AIV model for fiscal accountability
- ❖ ROI-24-36 month take out targets by CRA Review Partners (Inside track to bankable customers)
- ❖ Social and Community good will
- ❖ Advertising and Marketing as Fund Members

## Timeline

- ❖ Entity Established Feb 1, 2012
- ❖ CRA Partners Developed 2<sup>nd</sup> qtr 2012

## Idaho Business Cultivation Fund

- ❖ Commerce Proposal 2<sup>nd</sup> qtr 2012
- ❖ CDFI –Dept. of Treasury Grant 1<sup>st</sup> qtr 2014 (Potential Growth Plan Avenue)
- ❖ Program begins Sept 2012 (based upon funding)

### **Conclusion**

Several months of research & investigation have been leveraged as the Economic Development District for Region 3. The current market conditions of both the financial sector and small business demand has opened up this excellent opportunity to take a fresh focus on what truly affects positive Economic Development. We welcome you to join us in our quest for improving the States business future by joining our fund and capitalizing on a much needed effort. We welcome all feedback and questions regarding this effort and operation. Please contact Rem Fox at 208-322-7033 x234 to discuss or schedule a presentation. We want to hear from you so we can plan our next steps.