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INVESTING IN IDAHO: EXPLORING WAYS TO ENCOURAGE SMALL BUSINESS INNOVATION AND START-UPS

FIELD HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

MAY 3, 2019

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INVESTING IN IDAHO: EXPLORING WAYS TO ENCOURAGE SMALL BUSINESS INNOVATION AND START-UPS

FRIDAY, MAY 3, 2019

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Boise, ID.

The Committee met, pursuant to notice, at 9:37 a.m., in the Borah Courtroom, Borah Building, 304 North Eighth Street, Hon. James Risch presiding.

Present: Senator Risch.

OPENING STATEMENT OF HON. JAMES E. RISCH, A U.S. SENATOR FROM IDAHO

Senator RISCH. This meeting of the United States Senate Committee on Small Business will come to order.

I will state for the record this is an official meeting of the United States Senate Small Business Committee, and as a result, all Federal laws applicable thereto are in play, notwithstanding the fact that we are in Boise, Idaho, and not in the Nation's great capital.

Thank you all for coming today. I hope that we are able to move this along to a point where people walk away from here feeling they have a better handle on what we are doing in small business as far as the United States Government is concerned, and the ability to take advantage of programs that the Federal Government has, especially for start-ups and new businesses.

Before I start, it's a little nostalgic to come back to this room. For those of you who don't know, this building, the Borah Building, named after one of my predecessors in this seat, William Borah, who held the same seat I have, the number-one seat for a long, long time. That's why I'm only the 11th person to hold this seat, and he's now one of three people that was Chairman of the Foreign Relations Committee, which I'm honored to hold today, and I'm the former chairman of this committee, the Small Business Committee. But it is in good hands with Senator Rubio now as the chairman.

In this particular room, this was the United States Courthouse for many, many years, and a United States courtroom, and all business of the United States courts was done in this room. When they finished the Federal Building up the street about a half a dozen blocks, the Federal operation moved over there, but the Bankruptcy Court stayed here for many, many years. This was the holding for the United States Bankruptcy Court. Eventually, the Federal Government got all they had in this building and the State got the building, and when I was governor this is where we held all the State Land Department meetings. All the constitutional officers are members of the State Land Board, and this is where we held the State Land Board meeting. So there is a lot of history in this building and in this particular room.

So, with that, we will get started. Before we start, I would like to recognize Jessica Flynn. Jessica, where are you? I know you're here. There you are.

Jessica is the CEO and President of Red Sky Agency in Boise and the National Women's Business Council's newest member. The reason she's the newest member is because I nominated her for that position, and I was proud to do so. Her background makes her uniquely qualified to advocate on behalf of Idaho's women entrepreneurs.

Jessica has been instrumental to our community. She is an active member of Boise Valley Economic Partnership, Women's and Children's Alliance, Commissioner on the City of Boise Arts and History Commission, and an honorary Commander of the Idaho Air National Guard.

How long have you been with the National Guard?

Ms. FLYNN. [Inaudible.]

Senator RISCH. And how long have you been with the Guard?

Ms. FLYNN. [Inaudible.]

Senator RISCH. Good. Well, Jessica, I have every confidence you will be a terrific addition to the National Women's Business Council. Would you like to come up, please? Thank you for doing this. We're very proud of you.

Ms. FLYNN. Thank you so much.

[Applause.]

Senator RISCH. What we're going to do here today is I have a few prepared remarks that I want to make regarding this hearing, regarding the programs that the Federal Government has available for small businesses, and particularly for start-ups. Then we have two panels. The first panel is two people, the second panel is three people, and they're going to give us each a presentation. Then they will subject themselves to my grilling questions when we're done.

Advancements in technology, commerce, and communications have expanded our global economy to new reaches, and as a result Idaho is now attracting more entrepreneurs to our State who were once bound to the confines of Silicon Valley, Seattle, or Wall Street.

It's estimated that roughly 100 people are moving to Idaho every single day. I was saying before we started this, when I was in the State Senate, when I was Lieutenant Governor, and when I was Governor, we aggressively pursued businesses all over the country to come to Idaho and do business in Idaho, and the more technology advanced, the easier it became. There's good news and bad news in this story, and the good news is we have been tremendously successful, and the bad news is we've been tremendously successful.

I liken it to the dog that has caught the car. We have an unprecedented amount of growth. We've had growth spurts before in Boise, but we have never had a growth spurt like we're having right now. Hopefully, things will level out. Obviously, we don't want to go backwards. We want to continue to grow, but a more modest rate of growth will certainly be more manageable.

In 2018, Forbes rated Boise as the fastest-growing city in America, and home prices increased by 11.5 percent, well above the national average of 5 percent. Idaho's western neighbors are states with high tax burdens, extraordinarily high costs of living, and big government. It is no wonder, then, that people are flocking to the great State of Idaho to take advantage of our low cost of living, low crime, and a business-friendly tax climate—and just as importantly, a long history of friendly business and tax climate.

I'm older than most of you here in the room, but I will probably not live again to see a time of prosperity in America like we're seeing today. The statistics are absolutely stunning. We have the lowest unemployment in a half a century. Historically, we are at low levels for young African-American males. The unemployment has never been lower than it is right now across the board. On Hispanic unemployment, it is the lowest in history. Consumer confidence is at an all-time high. Wage and salary growth is very, very high compared to what it has been.

In a free economy, in a free market system, the market cycles, and that's just the way it is. In economies where the government runs the economy, notably in socialist economies, there are no cycles. It's always the same. It's always bad. It's low and it's bad and it's flat. But one of the things that we have to live with in a free economy, with a free market system, is a cyclical business cycle. But we've learned to live with it for a long time. We deal with it, and the good news is when things are bad, we always know they're going to get better.

The other side of that coin is, of course, when things are like they are right now, we hope that the upper end of the cycle lasts for a while. But having said that, we all know that eventually there will be a pull-down.

People are seeing the beauty that Idaho has to offer, and they want to be part of it, and that's one of the reasons they move here. With this new demographic shift and changing global economy comes new obstacles and new opportunities.

While ideas are being fostered within our State, much of the necessary capital and Federal resources are still located outside the State of Idaho. For this hearing today, I'd like to highlight the important activity happening at the local, State, and Federal level that is facilitating small business start-up, spurring innovation and, of course, the Holy Grail of all, creating jobs.

I'd also like to discuss some of the ways we can make Idaho more competitive for business success. Leaders in our community are already starting to lean into this opportunity by hosting Boise Startup Week, creating work space for innovative thinkers to grow their ideas, and, most importantly, creating jobs for the folks living here, as the former chairmen of this committee have consistently advocated for policies that encourage innovation and sustainable investment into our communities.

However, there is still much work to be done. While there is much happening at the local and State level, Idaho lacks some great Federal resources that put some Idahoan small businesses at a disadvantage compared to those located in states where SBA resources are plentiful. Specifically, Idaho is one of a few states that does not have a women's business center to provide technical assistance to women business owners in Idaho. I worked closely with former Administrator McMahon to reopen and expand the application process for the program in Idaho. I feel confident that Idaho will open a women's business center in the near future and encourage everyone looking in that direction to make it happen.

Idaho also lacks a licensed Small Business Investment Company, known as an SBIC. We're going to hear about SBICs today. SBICs are privately owned and managed investment funds that use their own capital, plus funds borrowed with an SBA guarantee, to invest in innovative small businesses. They have been very successful in the past, and we're going to hear a little bit about that today.

Investors who choose to invest in an SBIC can receive Community Reinvestment Act credit, and they're exempt from certain regulations, making it attractive for university endowments, accredited private investors and banks who want to invest in their local communities.

There is an immense value in having early stage investment come from within Idaho, not Wall Street or Silicon Valley. That's why I hope this hearing will shed light on this resource and encourage local funds to apply to become a licensed SBIC.

As last Congress' chairman, I worked with Senator Rubio to enact a bill to make it easier for Idaho and other states to gain access to Small Business Administration resources like the SBIC program. In addition, I was able to enact another bill, the Small Business Investment in Opportunity Act, into law. This bill increases the amount of capital SBICs can invest in qualified small businesses and encourages the private market to invest in start-up businesses with fresh new ideas.

It is important that Idaho have access to all resources to put our businesses on a level and a fair playing field and to compete in the local arena and, of course, in the national arena.

So with that, we have two distinguished panels here today. The first consists of two witnesses: Associate Administrator of the SBA Office of Investment and Innovation, Joe Shepard, and Director of the Idaho Department of Commerce, Tom Kealey.

The second panel consists of three witnesses: President of the Idaho Technology Council, Jay Larsen; Associate State Director of Operations of the Small Business Development Center, Will Fowler; and President and CEO of the Small Business Investor Alliance, Brett Palmer.

Our first witness is Mr. Tom Kealey, Director of Idaho Department of Commerce. Mr. Kealey was the perfect choice to lead the Idaho Department of Commerce given his extensive background in capital management and business development. I applaud Governor Little's decision to pick Tom and look forward to hearing his perspective on the State's economic development agenda. We'll hear from him and then turn to Mr. Shepard.

So, Tom, please.

STATEMENT OF TOM KEALEY, DIRECTOR, IDAHO DEPARTMENT OF COMMERCE, BOISE, ID

Mr. KEALEY. Thank you, Senator Risch. Thank you for having me today.

Good morning. Good morning to everyone here. My name is Tom Kealey, and I'm the new Director of the Idaho Department of Commerce. I was appointed to my position in January of this year by newly elected Governor Brad Little.

Prior to this position, I had been in the private sector all of my career. I am a retired CPA and have held senior leadership and finance positions for large companies and small companies in Idaho. I also have experience in banking, private equity, and have been an owner in different small Idaho businesses over the last 25 years.

The Governor, our Commerce Department, and I whole-heartedly support small businesses in Idaho and services that may assist them in prospering.

Idaho Commerce is the State's leading economic development agency, promoting the State in a variety of manners: as a travel destination showcasing Idaho's natural beauty and amenities to travelers; as a mentor to helping Idaho businesses export to new international markets; as a partner to retain and support current Idaho businesses and help them expand operations within the State. We also work to attract new businesses, new strategic businesses to Idaho, and, as it pertains to today's hearing, to provide testimony on Idaho entrepreneurs and small businesses and their pivotal role in the future of our State.

Entrepreneurs and small businesses have a crucial role in the State economy. According to the U.S. Small Business Administration Office of Advocacy, Idaho small businesses account for 99.2 percent of all Idaho businesses and 55, almost 56 percent of Idaho employees. About 50 percent of our businesses have less than 100 employees, and we have just over 830,000 in our State labor force.

In my testimony there's a chart that helps give an overview of the Idaho economic development position currently, showing our 10-year forecasted job growth at about 18 percent, so still on a very fast growth pace for the State.

There is also a chart that's attached that provides a recent overview of the Idaho small business statistics prepared by the SBA. The data is as of 2015. It again shows at that point in time we had about 305,000 small business employees, and 55 percent of that group was 304,000 of total employees.

Entrepreneurs, small business, and economic development go hand in hand. Entrepreneurs respond to unmet needs and demands in the market. They are problem solvers whose innovation provides the local economy with job opportunities while improving the quality of life of the surrounding communities. According to the Kauffman Foundation, start-ups create an average of six jobs within their first year, and more than 80 percent of Idaho start-ups are active after one year.

We have a strong history of successful entrepreneurs and small businesses. Companies from the past include JR Simplot, Albertsons, Trust Joist, Boise Cascade, Coeur d'Alene Resort, Sun Valley Resort, and Micron Technology. More recent businesses across Idaho include T–Sheets, Clearwater Analytics, Jacksons, Mark Monitor, Happy Baby, Agri-Beef, Premier Technology, Truckstop.com, Basic American, Winco, and Power Engineers.

Idaho small businesses are at the heart of Idaho's strong economy. Idaho is ranked one of America's Top States for Businesses. How did we earn this reputation or this recognition? By having a talented and ethical workforce from communities across the State, communities that are getting recognized for livability and economics. The Top Ten Best Places to Live includes Idaho Falls, Moscow, and Boise.

Also by offering a cost of living that is only 82 percent of the national average, coupled with the Milken Institute's recognition of Boise, Coeur d'Alene, Idaho Falls, Lewiston, and Pocatello as the best performing city economies.

By offering small businesses lower costs to operate. Move.org ranked Idaho the number one State in lowest utility costs.

And by having an innovative ecosystem and talent. The Treasure Valley, which encompasses Boise, Meridian, Nampa, Caldwell and surrounding area, was ranked number five in the most innovative metropolitan area in the U.S.

While Idaho has a growing ecosystem that provides a supportive environment for entrepreneurs to thrive, it is limited in its access to capital. Capital, both equity and debt, is a critical strategic component for Idaho businesses and businesses across the U.S. Generally, early stage to growth-stage companies have the fewest sources and the most expensive terms for accessing capital. For Idaho, I provided a graph to try to illustrate the sources of capital for early stage to later-stage companies and where we have a gap in funding within Idaho. There are one or two active small private equity funds in Idaho and no Small Business Investment Company within Idaho.

I provided a chart there that gives you kind of a gray source of where we have a strategic initiative to try to attract more financing options into the State of Idaho, and that tends to be customers with first revenue stage or entrepreneurs and businesses with early revenue stage and growth stage. That seems to be the big gap.

We support the role of the SBA in assisting small businesses in the U.S. Our team works closely with the SBA, the SBDC, SCORE, and other agencies across Idaho with services that assist small businesses in Idaho.

We do support the SBA's Strategic Objective 1.1, which is to expand access to capital. I won't go through all the details of their program that we support. I'll just highlight the two or three strategies.

Strategy 1 of this objective is to increase capital provided to small businesses and emerging markets when conventional credit is not available.

Strategy 2, to supplement investment capital to small businesses that have inadequate supply.

Strategy 3, strengthen and expand the network of lenders offering SBA products.

And Strategy 4, expand knowledge of these SBA loans through its network of resource partners and field offices.

There are commercial banks that do offer SBA loan programs. Historically, Zion's Bank has been ranked number one in issuing the most SBA loans. And from the table provided by the SBA as of September of 2017, Zion's Bank is still ranked number one, and then there are 19 others in that field, mostly from the big banks, the Wells Fargos, the Glacier Bank Holding Company, and so forth. So we do have those loan programs available.

On the SBIC website, it indicated there are almost 300 SBIC funds, which seems like a lot, but it takes a little navigating to find that there are really about 144 active funds that have a broad industry offering.

In Fiscal Year 2017, Idaho had seven SBIC financings which totaled $9 million. And with respect to Fiscal Year 2018, the report shows that there was financing of $5.5 billion across the U.S. to about 1,100 businesses. Idaho companies, small businesses, received financings totaling $35 million in that period of time, and they included companies in the consulting services, cosmetics, jewelry, and landscaping. The financings were provided by four different SBICs located in California, Connecticut, New York, and Texas.

The information demonstrates that Idaho is still being discovered. Our growth rate is four times from where it was in 2017 to 2018, meaning going from $9 million to $35 million, but no active fund appears to be closer to Idaho than perhaps Seattle, California, or the Midwestern states. We believe a new fund will open in Nevada in the near term, but we are not familiar with its investment criteria or when it will open.

Idaho is a great place to start and operate a business, and Idaho Commerce is here to help all stages of business growth. Overall, we would like to support more SBIC funds but ones with a closer proximity or within Idaho. We would like a primary contact person at the SBA or through the SBIC to help connect our companies, Idaho companies, that have needs such as these with the appropriate funding source.

Overall, we support Governor Little's vision that we want to create opportunities and a quality of life where our kids and grandkids will stay and those that have left have opportunities to return to Idaho. More capital sources for Idaho small businesses are integral to achieving this vision.

Thank you for holding this forum today, and we appreciate listening to your comments and to provide answers to any questions you may have.

[The prepared statement of Mr. Kealey follows:]

Senate Committee on Small Business and Entrepreneurship
"Investing in Idaho: Exploring Ways to Encourage Small Business Innovation and Start-Up"
U.S. Senator James Risch
Borah Building Boise, ID
May 3, 2019

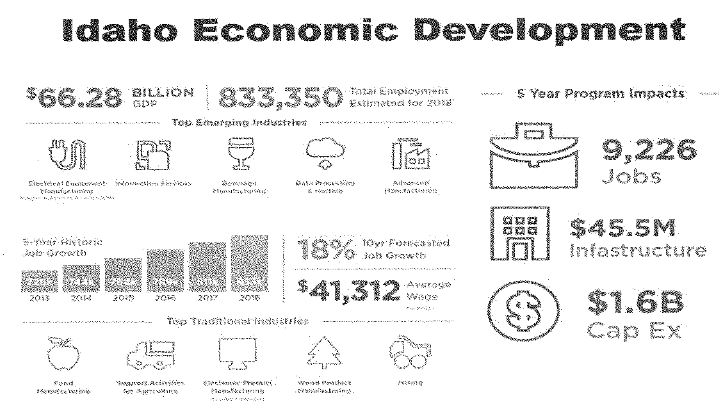
Good Morning - My name is Tom Kealey and I am the new Director of the Idaho Commerce Department. I was appointed to the position in January 2019 by Governor Brad Little.

Prior to serving in this position, I had been in the private sector all of my career. I am a retired CPA and have held senior leadership and finance positions for large companies and small companies in Idaho. I also have experience in banking, private equity, and as an owner in different small Idaho businesses.

The Governor, our Commerce Dept. team and I whole heartedly support small businesses in Idaho and services that may assist them in prospering.

Idaho Commerce is the state's lead economic development agency, promoting the state in a variety of manners; as a travel destination showcasing Idaho's natural beauty and amenities to travelers; as a mentor to help Idaho businesses export to new international markets; as a partner to retain and support current Idaho businesses and help them expand operations here within the state; we work to attract new strategic businesses to Idaho; and as it pertains to today's hearing, to provide testimony on Idaho entrepreneurs and small businesses and their pivotal role in the future of this state.

Entrepreneurs and small businesses have a crucial role in the state economy. According to the U.S. Small Business Administration Office of Advocacy, Idaho small businesses account for 99.2% of all Idaho businesses and 55.8% of Idaho employees. About 50% of our businesses have less than 100 employees, and we have about of 830,000 in our state labor force.



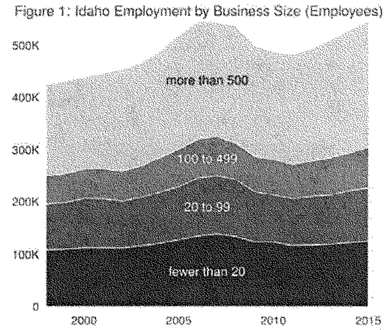
See the chart attached that provides a recent overview of Idaho Small Business Statistics prepared by the SBA as of 2015.

IDAHO

158,426	Small Businesses	304,700	Small Business Employees
99.2%	of Idaho Businesses	55.8%	of Idaho Employees

EMPLOYMENT	DIVERSITY	TRADE
14,392 net new jobs	10,585 minority-owned businesses	1,432 small business exporters

Figure 1: Idaho Employment by Business Size (Employees)



Entrepreneurs, small business, and economic development go hand in hand. Entrepreneurs respond to unmet needs and demands in the market. They are problem solvers whose innovation provides the local economy with job opportunities, while improving the quality of life of the surrounding communities. According to the Kauffman Foundation, Idaho start-ups create an average of six jobs within their first year, with more than 80% of Idaho start-ups still being active after one year.

Idaho has a strong history of successful entrepreneurs and small businesses. Companies from the past include JR Simplot, Albertsons, Trus Joist, Boise Cascade, Coeur d'Alene Resort, Sun Valley Resort, Micron Technology. More recent successes across Idaho include: Jacksons, T-Sheets, Clearwater Analytics, Mark Monitor, Happy Baby, Agri-Beef, Premier Technology, Truckstop.com, Basic American, Winco, Power Engineers, etc.

Idaho small businesses are at the heart of Idaho's strong economy. Idaho is ranked one of America's Top States for Businesses. How did we earn this recognition?

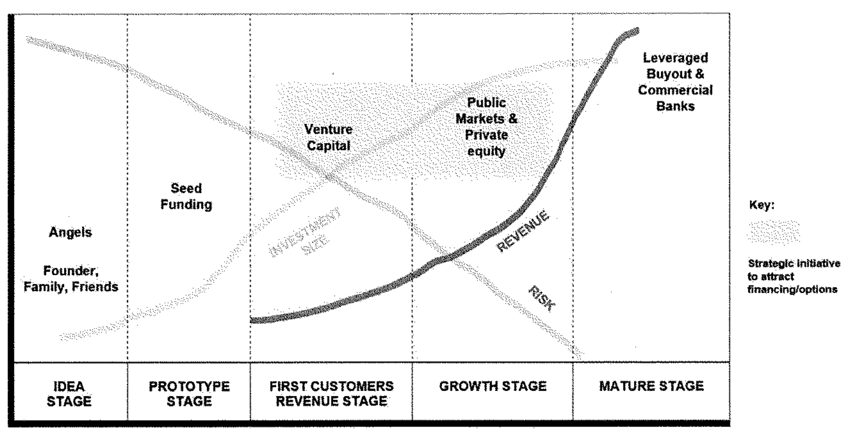
(1) by having a talented and ethical workforce from communities across the state. Communities that are getting recognized for livability and economics. Livability.com listed three Idaho communities in the top 100 best places to live: Idaho Falls, Moscow and Boise.

(2) by offering a cost of living that is only 92% of the national average, coupled with the Milken Institute's recognition of Boise, Coeur d'Alene, Idaho Falls, Lewiston and Pocatello as the best performing city economies,

(3) by offering small businesses lower costs to operate. Move.org ranked Idaho the #1 state in lowest utility costs, and

(4) by having an innovative ecosystem and talent. The Treasure Valley, which encompasses the Boise, Meridian, Nampa, Caldwell and surrounding area, was ranked 5th most innovative metro area in the U.S.

While Idaho has a growing ecosystem that provides a supportive environment for entrepreneurs to thrive, it is limited in its access to capital. Capital, both equity and debt, is a critical strategic component for Idaho businesses and businesses across the U.S. Generally, early stage to growth stage companies have the fewest sources and with the most expensive terms for accessing capital. For Idaho, a graph is provided to try and illustrate the sources of capital for early stage to later stage companies and where we have a gap in funding sources within Idaho. There are one or two active private equity funds in Idaho and no Small Business Investment Company (SBIC) fund within Idaho.



We support the role of the SBA in assisting small businesses in the United States. Our team works closely with the SBA, SBDC, SCORE and other agencies across Idaho with services that assist small businesses in Idaho.

We support the SBA's Strategic Objective 1.1

STRATEGIC OBJECTIVE 1.1 EXPAND ACCESS TO CAPITAL

Access to capital is critical to the long-term success of America's small businesses. Many entrepreneurs or small business owners often do not have the same access to credit as larger businesses that can more readily take on a traditional loan from a bank. Also, new entrepreneurs may not have a credit score that can guarantee them a loan – especially on a new or innovative product. In addition, some economically and socially disadvantaged businesses, including minorities, women, and veterans, are more likely to be denied credit and often rely on personal savings or credit cards to sustain their business.

At the SBA, one of the top priorities is to get capital flowing to small businesses. The SBA is working to ensure that gaps in the commercial lending markets are filled and that small businesses across the country are well-positioned to access credit on reasonable commercial terms. Through various programs and services, the SBA will support strategies that focus on opening credit with a special emphasis on minority-owned, women-owned, and veteran-owned small businesses and entrepreneurs. Through new technology, streamlined loan processes, and focused outreach, small businesses will be better able to start and expand.

Strategy 1: Increase capital provided to small businesses and emerging markets when conventional credit is not available. SBA loan guaranty and microloan programs play a critical role in ensuring access to capital on reasonable commercial terms for small businesses that cannot obtain it conventionally. When a small business cannot qualify for a loan under conventional credit standards, SBA's loan guaranty programs support necessary capital to entrepreneurs. The SBA will promote and develop its 7(a), 504, and international trade loan guaranty programs to best meet the needs of varying markets and entrepreneurs. The SBA will continue to use the direct microloan program to spur small-dollar lending through microloan intermediaries to the smallest of businesses. As an area of focus, the SBA, through its FY 2018-2019 Agency Priority Goal, will further expand lending to areas of the country located in socially and economically disadvantaged urban communities and rural areas.

Strategy 2: Supplement investment capital to small businesses that have inadequate supply. The Small Business Investment Company (SBIC) program stimulates and supplements the flow of private equity capital and long-term loan funds that small businesses need for the sound financing of their business operations and for their growth, expansion, and modernization; when such capital and funds are not available in adequate supply in the private capital markets. The SBA accomplishes this strategy by licensing professionally managed investment funds that raise private and/or public capital and combine it with guarantied leverage to invest in or lend to qualified small businesses. The SBA seeks to maximize participation of private financing sources.

Strategy 3: Strengthen and expand the network of lenders offering SBA products. SBA lending partners are critical to the delivery of small business loans. The SBA is committed to strengthening the relationships with existing SBA lenders and attracting new lenders. The SBA will partner with banks, credit unions, nonprofit intermediaries, and other lenders to ensure they have the tools and resources they need to best meet the needs of small businesses. Through SBA's lender relations specialists in the field, the SBA will play a key role in supporting outreach and training to lenders on SBA loan products.

Strategy 4: Expand knowledge of SBA loans through its network of resource partners and field offices. Each year, hundreds of thousands of entrepreneurs' access information about small business lending through SBA's network of resource partners (including Small Business Development Centers, Women's Business Centers, Veterans Business Outreach Centers, and SCORE) and SBA field offices. It should be noted; Idaho is one of three states without a Women's Business Center. The SBA will strengthen and expand the knowledge of the specialists in these organizations to provide the highest quality of service and information possible. Through new technology and better communication, SBA's resource partners and field staff will receive specialized training on products and tools and how to best promote them.

There are commercial banks that offer SBA loan programs. Historically Zion's Bank has been ranked #1 annually in issuing the most SBA loans (Table below, effective 9/2017).

State Rank	Bank	Headquarters	# Loans	Avg Loan
1	Zions Bank	Salt Lake City, UT	109	$109,921
2	DL Evans Bank	Burley, ID	72	$93,728
3	Glacier Bank	Kalispell, MT	68	$404,932
4	Idaho Central CU	Chubbuck, ID	58	$203,755
5	Wells Fargo	Sioux Falls, SD	54	$242,898
6	Washington Trust Bank	Spokane, WA	42	$333,586
7	U.S. Bank	Cincinnati, OH	38	$169,582
8	Idaho First Bank	Mccall, ID	28	$119,382
9	Banner Bank	Walla Walla, WA	27	$100,659
10	Northwest Bank	Boise, ID	20	$421,600
11	KeyBank	Cleveland, OH	16	$211,481
12	Mountain America FCU	West Jordan, UT	16	$317,150
13	Live Oak	Wilmington, NC	15	$1,206,667
14	Montana Community Development Corp	Missoula, MT	15	$145,880
15	JPMorgan Chase Bank	Columbus, OH	11	$154,209
16	Sunwest Bank	Irvine, CA	9	$82,022
17	Bank of the West	San Francisco, CA	8	$416,700
18	First Home Bank	Seminole, FL	8	$249,375
19	The Bank of Commerce	Idaho Falls, ID	8	$349,600
20	Celtic Bank	Salt Lake City, UT	6	$1,689,217

On the SBIC web site, it was indicated that there are almost 300 SBIC funds which seems like a lot. But it takes some navigating to find that there are only 144 active funds that have a broad industry offering.

- FY2017 information shows 7 SBIC financings within Idaho and a total of $9 million. We could not secure specific information about these companies or inquire on their experience with each SBIC fund.
- FY2018 information reports SBICs provided financings totaling $5.502 billion to 1,151 small businesses. Of this amount, four (4) Idaho small businesses received financings in FY 2018 totaling $35.326 million. The North American Industry Classification System code descriptions for these four businesses include consulting services, cosmetics, jewelry, and landscaping. The financings were provided by four different SBICs located in California, Connecticut, New York, and Texas.

This information demonstrates that Idaho is being discovered at a growth rate of 4X, however this represents only 1% of SBIC funding. No active fund appears to be closer to Idaho than those in Seattle, California and the Mid-Western states. We believe a new fund will open in Nevada in the near future, but we are not familiar with its investment criteria.

Idaho is a great place to start and operate a business and Idaho Commerce is here to help at all stages of business growth. Overall, we would like to support more SBIC funds but one(s) with a closer proximity to Idaho companies. And we would like a primary contact person(s) within the SBA, locally or in Washington DC area that may assist us with prescreening an SBIC fund before sharing names with our Idaho companies to streamline the process.

Overall, we support Governor Little's vision that we want to create opportunities and a quality of life where our kids and grandkids will stay and those that have left have opportunities to return to Idaho.

More capital sources for Idaho small businesses are integral to achieving this vision.

Thank you for holding this forum today and for listening to our comments and recommendations on behalf of Idaho small businesses.

Senator RISCH. Thank you, Tom. I'm going to have a couple of questions when we're done here, but first we're going to hear from Mr. Joseph Shepard.

Joe, welcome to Idaho. Glad to have you here on your first trip to Idaho.

Joe is the Associate Administrator for the U.S. Small Business Administration's Office of Investment and Innovation. Mr. Shepard brings a wealth of knowledge of the SBIC program. His work in banking, private equity, and working for the Administration offer a great perspective to the hearing.

So, with that, the floor is yours.

STATEMENT OF JOSEPH SHEPARD, ASSOCIATE ADMINISTRATOR, OFFICE OF INVESTMENT AND INNOVATION, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, DC

Mr. SHEPARD. Thank you, sir. Thank you. Senator Risch and distinguished members of the committee, thank you for inviting me here to Boise, Idaho, today to discuss investing in the State's small businesses.

As you mentioned, I am the Associate Administrator at the SBA for the Office of Investment and Innovation. More specifically, prior to the SBA, my business career has included leadership positions in consulting, investment banking, venture capital, private equity, and investment fund management for such organizations as KPMG, Texas Pacific Capital, Principal Financial Securities, Banc One Capital Markets, as well as a previous tenure in public service at the SBA.

The SBA's Office of Investment and Innovation has oversight responsibilities for three different programs. First is the Small Business Innovation Research, or SBIR, program, which was created in 1982, and next is the Small Business Technology Transfer, or STTR, program that was created in 1992. The SBA does not provide SBIR/STTR awards to small businesses. The SBIR/STTR awards are provided by the 11 Federal agencies that participate in the SBIR/STTR programs.

The third program is the Small Business Investment Program that was created in 1958, and I'm going to talk a little bit about that now. So in regards to the Office of Investment's activities, the Office was created by Congress through the Small Business Investment Act of 1958 at a time when no private equity industry existed in the United States. The Office was established to supplement private equity capital and long-term loan funds that were not available in adequate supply. Like the SBIR and STTR programs, the SBA does not provide capital directly to small businesses. Instead, SBA provides taxpayer-backed SBA guarantees to SBA-licensed SBICs. The SBICs use these SBA guarantees and privately raised funds to independently provide capital to qualifying small businesses. The majority of capital an SBIC typically invests into a small business consists of the SBA guaranteed loan the SBIC borrows from the SBA after the SBIC is licensed.

Small businesses seeking capital from SBICs are typically later-stage, mature, profitable businesses that are generating cash flows sufficient to service interest and sometimes principal payments. SBIC small business financings are primarily in the form of subordinated debt with equity enhancements. SBIC financings to small businesses typically range from $2.5 million to $10 million. However, each SBIC has its own investment profile in terms of targeted industry, geography, company maturity, and the type and size of financing the SBIC will provide to small businesses. Small businesses interested in the possibility of receiving investment capital from an SBIC are encouraged to contact SBICs directly.

As of March 31, 2019, the SBIC program had a portfolio of 304 SBICs with total outstanding and committed SBA-guaranteed capital of approximately $13.887 billion. The SBICs are located throughout the U.S., and many invest nationwide.

Currently, there are no SBICs in Idaho. Since 1959, there has been one SBIC that received an SBIC license that was located in Boise, Idaho. The SBIC was licensed as a debenture SBIC in March of 1974 and received $3 million in SBA-guaranteed capital. However, the SBIC failed, with approximately $2.6 million of the SBA guarantee being written off as uncollectable.

For the fiscal year ending September 30th, 2018, SBICs provided financings totaling $5.502 billion to 1,151 small businesses. Of this amount, four Idaho small businesses received financings in Fiscal Year 2018 totaling $35.326 million. The North American industry classification code description for those four businesses—and, Tom, you mentioned this—included consulting services, cosmetics, jewelry, and landscaping. The financings were provided by four different SBICs located in California, Connecticut, New York, and Texas.

On December 19th, 2018, the Spurring Business and Communities Act of 2017, which was sponsored by Chairman Rubio—and thank you, Senator Risch, for your work on that bill as well—was enacted into law. SBA is currently in the process of reviewing its internal procedures and drafting a notice to the public in order to fully implement the law. SBA is reviewing the appropriate data to determine which states are both under-licensed and below median financing, as provided by the law. SBIC applicants from the states that qualify will receive first priority consideration in SBA's licensing process. SBA will review its licensing process to determine how best to process the anticipated inflow associated with priority applicants over other applicants that are seeking an SBIC license. Later this year, SBA intends to provide education activities focusing on the under-licensed states.

Additionally, SBA plans to continue our education activities and events associated with the April 2018 Memorandum of Understanding with the U.S. Department of Agriculture to encourage rural investing. These events will include SBA partnering with USDA and other Federal agencies, including the Office of the Comptroller of the Currency, the FDIC, and the Federal Reserve Board to hold community development investment workshops where we will discuss the Community Reinvestment Act. Last October we hosted such an event in North Carolina, and later this month we will hold a similar event in Maine.

So in conclusion, thank you for your support of the Small Business Administration, and I look forward to visiting with you and continuing to work to better assist America's small businesses. Thank you.

[The prepared statement of Mr. Shepard follows:]

SBA

U.S. Small Business Administration

Statement of Joseph Shepard
Associate Administrator
Office of Investment and Innovation
U.S. Small Business Administration

before the
Senate Committee on Small Business and Entrepreneurship

Hearing on Investing in Idaho: Exploring Ways to Encourage Small Business Innovation and Start-Ups
May 3, 2019

Statement of Joseph Shepard
Associate Administrator
U.S. Small Business Administration

Senator Risch and distinguished members of the committee, thank you for inviting me to Boise, Idaho today to discuss investing in the state's small businesses.

I am the U.S. Small Business Administration (SBA) Associate Administrator for the Office of Investment and Innovation. Prior to the SBA, my business career has included leadership positions in consulting, investment banking, venture capital, private equity, and investment fund management for such organizations as KPMG, Texas Pacific Capital, Principal Financial Securities, Banc One Capital Markets, as well as a previous tenure in public service at the SBA.

The Office of Investment and Innovation is the program office within SBA that has oversight responsibilities for three different programs: the Small Business Innovation Research (SBIR) program created in 1982; the Small Business Technology Transfer Program (STTR) created in 1992; and the Small Business Investment Company (SBIC) program created approximately 60 years ago in 1958. Regarding the SBIR/STTR program, the SBA does not provide SBIR/STTR awards to small businesses; rather, awards are provided by the eleven (11) participating federal agencies that take part in the programs.

The SBIC program was created by Congress through the Small Business Investment Act of 1958 at a time when no private equity industry existed in the United States. The purpose of the SBIC program is to supplement private equity capital and long-term loan funds that are not available to small businesses in adequate supply. Since the SBA does not provide capital directly to small businesses, instead, SBA provides taxpayer-backed, SBA-guarantees to SBA-licensed SBICs. The SBICs use these SBA-guarantees and privately raised funds to independently provide capital to qualifying small businesses. The majority of capital a SBIC typically invests into a small business consists of the SBA-guaranteed loan the SBIC borrows from the SBA after the SBIC is licensed.

Small businesses seeking capital from SBICs are typically later-stage, profitable businesses that are generating cash flows sufficient to service interest, when due, principal payments. SBIC financings are primarily in the form of subordinated debt with equity enhancements. SBIC financings to small businesses typically range from $2.5 million to $10.0 million. However, each SBIC has its own investment profile in terms of targeted industry, geography, company maturity, and the type and size of financing the SBIC will provide to small businesses. Small businesses interested in the possibility of receiving investment capital from a SBIC are encouraged to contact SBICs directly. On the SBA website, small businesses are able to view existing SBICs along with contact information. SBICs, though, without involvement from SBA, make independent decisions over whether to make an investment in any particular qualifying small business.

As of March 31, 2019, the SBIC program had a portfolio of 304 SBICs with total outstanding and committed SBA-guaranteed capital of approximately $13.887 billion. The SBICs are located throughout the U.S. and many invest nationwide.

Currently, there are no SBICs in Idaho. Since 1959, there has been one (1) SBIC that received an SBA license and that was located in Boise, Idaho. The SBIC was licensed as a debenture SBIC on 3/19/74 and received $3,000,000 in SBA-guaranteed capital. However, the SBIC failed with 88.4% or $2,651,862 of the SBA-guarantee being written off as uncollectable.

For the fiscal year ended September 30, 2018, SBICs provided financings totaling $5.502 billion to 1,151 small businesses. Of this amount, SBICs financed four (4) Idaho small businesses in FY 2018 totaling $35.326 million. These four businesses operate in the consulting services, cosmetics, jewelry, and landscaping sectors. The financings were provided by four different SBICs located in California, Connecticut, New York, and Texas.

On December 19, 2018, the Spurring Business in Communities Act of 2017, sponsored by Chairman Rubio, was enacted into law. SBA is currently in the process of reviewing its internal procedures and drafting a notice to the public in order to fully implement the law. SBA is reviewing the appropriate data to determine which States are both (i) "underlicensed" and (ii) "below median financing" as provided by the law. SBIC applicants from the states that qualify will receive first priority consideration in SBA's licensing process. SBA will review its licensing process to determine how best to process the anticipated inflow associated with priority applicants over other applicants seeking an SBIC license. Later this year, SBA intends to provide education activities focusing on the underlicensed states.

Additionally, SBA plans to continue our education activities and events associated with the April 2018 Memorandum of Understanding (MOU) with the U.S. Department of Agriculture to encourage rural investing. These events will include SBA partnering with USDA and other federal agencies, including the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation and the Federal Reserve Board to hold community development investment workshops that discuss the Community Reinvestment Act. Last October, we hosted such an event in North Carolina, and later this month we will hold a similar event in Maine.

In conclusion, thank you for your support of Small Business Administration. I look forward to speaking with you today and continuing to work to better assist America's small businesses.

Senator RISCH. Thank you so much, Mr. Shepard.

Back to you, Mr. Kealey. That was a great list you ran through of the businesses that we have in Idaho that are prospering. You and I remember when there weren't that many businesses in Idaho and the business landscape here was dominated by only a handful of small businesses, and since then we've had some real successes in little, small businesses like Micron Technology that started in a garage and certainly is a poster child and something that would influence people who want to move forward with a small business.

When we had the SBA Director McMahon here, we visited the SBA office here, and I was really impressed with the work they do, the people, the commitment. What is your day-to-day working relationship with the SBA office here in your office?

Mr. KEALEY. Chairman Risch, since I've only been in the position four months, my history has still been probably once every couple of weeks getting to know everyone.

Senator RISCH. How about reputation-wise?

Mr. KEALEY. I couldn't tell you on that. I think it's not negative that I've seen, and I would think there's a lot of help that has gone on, and we do coordinate and help put folks together. So I would say on balance, probably, in my short history looking backwards, I think it's a grade of an A, as best I can tell. I've got team members here with me today that have been in Commerce longer that perhaps could add to that.

Senator RISCH. I think your observation that you haven't heard anything negative is important. I haven't either, and if there's negative stuff with a Federal agency, I hear about it. So I expect that your judgment there is right. And I was impressed with interviewing those people.

Mr. KEALEY. We actually had a meeting yesterday to go over a resource tool that we're going to work together with, coordinate Commerce's resource tool online to help counties and businesses and make it more robust.

Senator RISCH. I think your suggestion, too, is well taken regarding the individual you'd like to see, an individual who could coordinate on some of these things that you are talking about.

Mr. Shepard, thanks for coming. Certainly you're in charge of one of the most important programs offered by the SBA. As you know, we had some bills passed in the last Congress. We want to make it more robust and move forward, and we were told they were going to be fully implemented by April of 2019, which ended a few days ago. Can you give us a report on where we are?

Mr. SHEPARD. Yes. Really, it's going to be this summer on the spring investment in terms of putting out a public notice is our plan. So June/July timeframe is what we're planning.

Senator RISCH. Are you comfortable with the direction you're moving on that?

Mr. SHEPARD. Absolutely. Yes, sir.

Senator RISCH. As with all Federal agencies, we all know the Federal Government works different than the private sector does. We do get criticism of the time it takes to process applications. How are you doing there? What can you tell us about that?

Mr. SHEPARD. Well, there are certain things that we have talked about with your office and the committee specifically, Senator

Risch, about making improvements in the areas that the government can control. So we're certainly supportive of that and continue to look at those processing areas. There are certain times when the SBICs that are applicants go out into the marketplace to raise capital, and that can take as long as 18 months. So sometimes when people come back and report about timing, different people use different timeframes, and so I think it tends to be somewhat confusing.

I think one of the most important things that we are doing and have done is technology. Back in September of 2018, we acquired some technology to oversee the program in totality. There hasn't been a major technology implementation within the Office of Investment since 1994, so it was time. We are investing a significant amount of money in that. The first priority for me to the team and the implementation of that is a licensing tracker that applicants—I hesitate to say FedEx quality in terms of the tracking number and how that will actually be implemented because we're still in the process, but the idea is to give an applicant an idea about once the application has been filed and——

Senator RISCH. And they will be able to check online?

Mr. SHEPARD. And they will be able to check online, and they will be able to follow that, and we'll have more accountability internally because we've studied, under my watch, we've studied to see where the pain points are, where the drop-offs occur from different internal offices. So we're making progress to really make improvements where we can make improvements. So that's what we're trying to do and what we'll continue to do.

Senator RISCH. We appreciate that and urge that you focus on that.

Mr. SHEPARD. Absolutely.

Senator RISCH. For those of us, like yourself, who were in the private sector, the main difference between the government operation and the private sector is a sense of urgency, and a sense of urgency is so critical to private businesses. So we encourage you to redouble your efforts in that regard and continue on that line.

I was a little surprised to hear about the last experience—I don't know where you found that—that in the 1970s we had a company here that failed. I didn't know anything about that. I hadn't heard about that.

For those of you that are here, lest you be concerned about the SBA, when I got on the Small Business Committee in the Senate and then became chairman of it, obviously people who take advantage of SBA resources are always interested in expanding that, and I certainly had no problem with that. But the SBA was not in a neutral position. That is, they were losing money, and they wanted to up the amount of money they could put out to guarantee loans and what have you. I insisted before we do that they get into a neutral position, and I was shocked how quickly underwriting became much more responsible when they found out that they were going to get more money if they could get to a neutral position where it wasn't going to cost the taxpayers any money.

So the SBA is really to be commended for their efforts in that regard. And as a result, I think we were rewarded, and we did up the amounts that are available.

Well, with that, thank you to both of you.

Tom, did you have another——

Mr. KEALEY. Senator, I just wanted to let you know that urgency is important, and even though we don't have an SBIC within the State, in our group we're working hard to understand all the various different sources of capital and funding sources for our small businesses, and with my private equity background we're reaching out to the private equity industry to make certain we're not a fly-over State, that we're actually stopping and exploring our businesses, and we've had a lot of major success from major private equities with some of our private Idaho businesses that I reported on earlier.

So we're trying to make certain this is a destination and that they explore our marketplace and bring more capital.

Senator RISCH. Tom, that's really important, and we appreciate you doing that. We've got a number of great banking institutions here. The SBA plays a critical role in a certain niche in start-ups, and so it's important that we do focus on that. The difference that a First World economy—and, of course, the United States is the poster child for that. The difference between that and the rest of the world is access to capital. Without capital that is made available by people who have been able to accumulate wealth, things don't happen. So it's important that it be there, and just as important that there be access to it.

Again, thank you. I appreciate that.

We'll move to our next panel.

Mr. KEALEY. Thank you, Senator. Thank you, committee.

[Pause.]

Senator RISCH. Our second panel of witnesses we have again are distinguished people in their area. We have on that panel Mr. Jay Larsen, Mr. Will Fowler, and Mr. Brett Palmer. I'm going to go out of order because, as I understand, Mr. Fowler has a hard stop at 10:30. Is that correct?

Mr. FOWLER. That's correct.

Senator RISCH. In Washington, we understand hard stops. People get up and walk out. It might be the President of the United States; he'll get up and walk out.

Anyway, so I'm going to appreciate you, express appreciation for you being here and taking the time to be here. So with that, I'll turn the floor over to you, with the kindness and generosity of our other witnesses.

Mr. Fowler, the floor is yours.

STATEMENT OF WILL FOWLER, ASSOCIATE STATE DIRECTOR OF OPERATIONS, IDAHO SMALL BUSINESS DEVELOPMENT CENTER, BOISE, ID

Mr. FOWLER. Thank you, Senator. And thank you, Jay and Brett, for letting me go first.

My name is Will Fowler. I work with the Small Business Development Center here in Idaho. Last year we helped over 1,600 companies in Idaho create 1,000 jobs, raise $50 million in capital, and create $67 million in revenue increases. So we are very well connected across the State and understand what is happening with small businesses, how they are growing and how they are operating, because our job is to help them do those things.

I also work with the Angel Capital Association. I'm on their membership committee. I'm on the Idaho Innovation Awards Committee. I work with Boise Start-Up Week, which you mentioned earlier, helping run the Founders Track and the pitch competition for that. I'm on the Boise Pitch Night Planning Committee. And outside of Idaho I have a small firm that helps investors pool capital and create new funds, and educates them on how to place money in the early stage investing asset class, and it's all in non-primary markets.

So I don't do any work in California, New York, and Massachusetts, because they don't need me. I work in Alaska. I work in parts of California that are not in Silicon Valley. So my perspective comes from a non-primary market perspective.

My experience is 100 percent here in Idaho. I learned how to invest here in Idaho. I was born in Weiser. I went to the College of Idaho. I have my MBA from Northwest Nazarene University, and my first experience in Angel investing was right here in Boise with the Boise Angel Alliance. I interned there, and everything I learned has come from that context. So that's my perspective.

I'd like to talk about innovation in Idaho and in what I would consider to be non-primary markets or lesser-known markets.

First, we all know that there's a lot of innovation in capital and success in Silicon Valley, in Boston, in New York, but I'm of the firm belief that they did not happen organically. Those places developed with the help of State-sponsored initiatives that were right at the time for those places to grow, for capital to be pooled that created the right constraints for companies to grow and scale and ultimately become some of the very large companies that we know of today that are household names.

I'm of the firm belief that those three places are a step in the right direction, but there's a lot more left in the country that can be optimized, that can contribute to the innovative ecosystem and increase the United States' competitive economic engine so we can stay leaders in the world in innovation and keep those jobs here and keep them growing. We don't have all the players on the field yet, and I think Idaho is one of those players, and there's a way to get us even more on the field and playing and get the support that we need to have some more major success stories, like some of the companies that Mr. Kealey mentioned.

There was an Angel study in 2017. Today, 63 percent of the Angel investors are not located in those primary markets. They're spread out across the country, and they're writing checks to new innovative companies that are creating world-changing technologies that are not located in those big markets. So there's room to grow. There's opportunity there that I think just needs more support, and Idaho is one of those players.

However, there is a huge innovation gap that's caused by lack of funding. So, it's very real. In Idaho, we participated in the Federal Reserve credit survey, and some of those results are telling. Only 44 percent of Idaho companies surveyed had their funding needs met. So there's a lot of room for improvement in terms of getting that capital deployed to the companies that are seeking it and need it to grow.

Almost 40 percent of those surveyed were adding jobs, actively adding jobs to the economy last year. A majority of those companies, the vast majority of those companies were under $1 million in revenue, and many of them were under $100,000 in revenue, and that's the place where early stage equity investing really plays the largest role, under $1 million in revenue and specifically under $100,000 in revenue.

I think Mr. Kealey mentioned earlier that there's a funding gap, where it costs more to run a company than you can make from your customers, and if you're creating something that's innovative and scalable, investors will take note and they will take the risk and place the money in that company with the hope that there will be a large return at some point in the future.

These statistics that I'm sharing show that there is opportunity there for money to be placed, and that there's a need from small businesses across the State.

We have very little organized capital here in Boise. We have virtually no Series A funds. There's hardly any funds that are specifically investing in Idaho companies that are placing more than $100,000 to $200,000 into any one company. There are some. There is activity that's happening, but it's not consistent, and the volume of those transactions is very, very low in Idaho.

And even our best companies—we heard T–Sheets, Clearwater Analytics, and others that are our newest success stories—they're not finding that needed growth capital here in Idaho. They're finding it in other markets.

So what they have to do is they have to go break into another market. They have to convince a venture capital firm in Silicon Valley or in Salt Lake why they matter to them. They have to say we're from Idaho and we think we should matter to you, and that barrier is higher than it should be. I believe that we should have investment funds here in the State that know the geography, that know the landscape, that want to place those dollars here in those companies so they don't have to break into a new market.

The lack of capital creates a lack of pedigreed entrepreneurs. So we are an incredibly scrappy, pioneering community, but we have a lack of entrepreneurs who have built large companies and have stayed involved in the community. There are some, but we don't have enough.

Our true north, then, is a little bit off. When we think of what is a successful company, it doesn't permeate our culture here in Boise and, in my experience, in the rest of the State what a successful company looks like. We don't think of Uber. We don't think of some of these—that doesn't permeate our known stories that we share with each other about Idaho companies, and I believe that a lack of organized capital in Idaho contributes to that, because as we invest in those companies and as they have exits like Truckstop.com, that's a new success story. They're happening, but they're not happening frequently enough. We need to see more of those. They happen one every few years. We should be seeing many happening all the time.

So in terms of organized capital and the benefits, obviously I mentioned some direct benefits of capital being placed in these companies. I think there are many indirect benefits of organized capital as well. One of them is that capital drives the correct constraints, in my opinion, for scalable companies to grow.

So what I mean by that is in order to receive an investment, you've got to have a great team in place, you've got to have the ability to execute, you've got to have a scalable business model, you've got to be able to deliver a 10 times return to your investors, you have to be able to cash flow debt in a short amount of time. And those constraints, when they are known across the ecosystem and they permeate our culture, drive better companies whether or not they receive capital, because service providers are going to be adhering to those constraints, and resource providers are going to be adhering to those constraints, and it's going to affect how they coach companies from the very beginning all the way through exit.

The other indirect advantage is when we have organized capital, if we were to see SBICs and SBNCs, or hopefully more than one SBIC, is that they come with talented teams. They come with fund managers who have experience. They come with LPs who want to be mentors, and that's to the great benefit of our community.

And lastly, an indirect benefit is I believe that if we have more organized capital here in Idaho and in Boise that's investing in these companies that become success stories, that creates some momentum to get other initiatives on board that are right for Idaho. So potentially Angel tax credits. New Mexico has a great Angel tax credit, where an Angel investor who places into a qualified company can receive 25 percent of that investment back as a tax credit, which is a huge incentive for the vast majority of credit investors who are worth less than $5 million. That makes a big difference to them on their tax returns. So that would be a fantastic State-driven initiative, a fund of funds like we see in other states like Utah that is investing in these SBIC funds to support innovation and job growth. I think our potential parallel benefits that we could see if we had more organized capital.

My recommendation is I applaud the efforts of the most recent legislation to lower the barrier for SBIC formation in markets that have no or low licensing. I think that it's a huge step in the right direction. I would love to see SBICs formed here in Idaho.

I also think that the administrative burden, the administrative barrier for those states that are not familiar with the process should be streamlined or potentially lowered, or at the very least liaisoned help to coach new SBIC applicants in these non-primary markets through that process to make sure that they're successful and truly understand what those requirements are in terms of payback and companies that can receive capital that's backed by the SBA.

I think we should also re-think—I know we're not talking about SBIR, but I also think we should re-think the other efforts that the Federal Government plays in the innovation economy. The SBIR program is fantastic, and it's done a lot of good across the country. We have had little success with it here in Idaho, and my opinion is it's largely because it's research based, it's patent based, it's not commercial based.

We see start-ups focusing on getting customers first. The number-one reason businesses fail is because they don't have enough customers. So to get your business through that Valley of Death, you've got to go get customers. You're not going to spend time and money on research to get a patent. That normally is supporting a commercialization effort, and my opinion is early stage grant initiatives through the SBIR program could be decentralized and take into account local factors—for example, in Idaho, we're more commercialized based, less research based—to make those awards more applicable to the local environment.

And lastly, I think that Idaho has all the building blocks to experience exponential economic growth, and I'm not talking about a lot of people moving in, because I know that we've got a lot of people moving in right now. My commute to work has gotten slower, and my kids' classrooms have gotten more packed.

That being said, we have the building blocks to have a robust, innovative economy that can really add to the quality of life of our community, and I do think a key missing ingredient is organized capital. We have talent, we have talent centers, we have a workforce that's changing, and the presence of organized capital investing in those companies I believe will make a huge difference.

Thank you very much.

[The prepared statement of Mr. Fowler follows:]

United Senate Small Business Committee
Statement on Innovation Support in Lesser-Known Markets

My Background

My background is not like most "experts" in early stage and venture capital investing. I'm not from Silicon Valley, New York, or Boston. I'm an Idaho native, who learned about investing, ecosystem building, and startups right here in Boise. I graduated from the College of Idaho in 2001, went on to get a Master's Degree in the Arts, and spent the next six years working as an actor in New York City. When my wife and I decided to move back to Idaho in 2010, I earned my MBA from Northwest Nazarene University and have been plugged into the Boise Idaho economy ever since.

It was while I was getting my MBA that I started interning with the Boise Angel Alliance. Later, after spending time working in multiple Boise-based startups, I went back to the investing world and became Managing Partner for a local angel fund administration firm focused on supporting one of Boise's only active early stage funds. During this time, I joined the Angel Capital Association membership committee, of which I am still an active member.

I then started my own small investing support firm, and have been assisting in the creation of new investors and funds across the country. I'm currently actively working with the San Diego Angel Conference as well as the Alaska Angel Conference to support their efforts to jump start new investor activation and greater access to early stage capital.

My main work is with the Idaho Small Business Development Center, which last year worked with over 1,600 Idaho companies that raised over $50 million in capital, added over $67 million in revenue, and created almost 1,000 jobs across the state. Our PTAC (government procurement assistance) helped Idaho companies bring in $132 million in government contracting dollars. Additionally, I serve on Idaho Innovation Awards selection committee and the Board of Directors for the Nampa Chamber of Commerce.

As it turns out, Boise and the rest of Idaho has similar attributes to other small cities and states in the United States trying to grow its innovation-based economy with the possible difference that Boise is one of a handful of cities experiencing high population growth and a growing tech-based economy

It is from this perspective, not a wall street broker, or a Silicon Valley Venture Capitalist, that I make the following observations and recommendations to the committee and attendees of this hearing.

Investing Activity in Lesser Known Markets

I'm of the strong belief that innovation is not siloed to a few areas of the country. There are new ideas and technologies being commercialized in places outside of what most of the country recognizes as the "Big Three;" Silicon Valley, New York City, and Boston. We know this is happening because of anecdotal stories we hear, but there is some data that backs up this assertion as well.

For example, a survey conducted by the Angel Capital Association in 2017 found that over 60% of the active early stage investors are located outside of the "Big Three." This means early stage innovations are being funded all around the country, and the majority of active investors are located in lesser known markets.

Funding Gap

While access to early stage capital is available in lesser known markets, there is a funding gap for those companies that have made it through commercialization and are looking to quickly grow. This capital is a critical component for many companies to become full-scale commercialized success stories. This gap is commonly referred to as the "Series A Gap" - in reference to the Series A round of funding ($1M+) that is required for most startups to begin to fully scale and reach market potential. In lesser known markets, companies often have to "break in" to other regions for access to this type of capital, and compete for the attention of funds that are not familiar with the region/ecosystem of the company, thereby making the barrier to get that capital infusion higher.

An example of this is a local Idaho Company called T-Sheets. T-Sheets is a hometown hero, in that it was founded by a scrappy local entrepreneur, scaled, and ultimately exited (was acquired) by Intuit. T-Sheets didn't take on any serious capital until it raised millions from a Venture Capital fund out of Salt Lake City. With no larger funds in the immediate geographic area, this company had to "break-in" to a new market, convince the fund they were a viable investment, and manage that relationship. This is a success story as T-Sheets was ultimately acquired by Intuit, but it demonstrates the funding gap in Boise and other lesser known markets.

This is important because the volume of innovations being commercialized and reaching maturity is lower than it otherwise could be if there were larger funds located in Idaho. The T-Sheets story only happens once every 5-10 years in Idaho. We should be seeing those stories happening much more frequently.

Additionally, the lack of bigger funds, and bigger success stories means the number of pedigreed entrepreneurs and successful investors in Idaho is very small, and may cause new entrepreneurs to set their sights too low because there are no local mentors and/or role models.

Indirect Benefits

There is the clear benefit of potential direct investment associated with larger sized funds in an ecosystem. However, there are indirect benefits to the ecosystem that should not be overlooked. Organized capital can be a multiplier for startup success. To receive investment, companies are challenged to meet certain criteria given by early stage investors. These criteria are generally; a highly scalable business model, an outstanding leadership team, the ability to effectively execute, and financial viability. When these criteria saturate an innovation ecosystem, they become the "true north" for what a company should look like to be successful. This, in effect, drives how entrepreneurs think about scale, team building, and other company building factors. This also drives service and resource providers to structure support in a way that meets those needs. When these criteria take hold, an ecosystem develops that is focused on making highly scalable, growth-oriented companies.

Another indirect benefit of having a larger fund located in an ecosystem is the overall involvement and support given by the fund manager and their staff. A good example of this in Boise is Micron. Micron just announced it has allocated $500m to create a venture fund focused on Artificial Intelligence. While this fund may not invest in any Idaho companies, Micron executives are actively engaged in the Boise innovation ecosystem through participation in startup and educational events, financial support to local resource providers, and personal accessibility to startups and aspiring fund managers. This benefit needs to be replicated throughout the ecosystem in order for the growth curve to accelerate.

Lastly, in Idaho we've seen multiple efforts fail around gaining State support for initiatives that would boost available capital for innovation-based companies. An angel tax credit, and state matching funds for organized early stage capital are two examples of initiatives not achieved in Idaho. With the presence of larger funds, and the investment activity, ecosystem support, and attention that come with those larger funds, the likelihood of getting state sponsored investing benefits approved through the state legislature may increase.

Recommendation:

There is opportunity across the United States to support faster growth via access to capital. Federal government should recognize this opportunity and support those states that have engaged in supporting an innovation-based economy by assisting them with programs that allow for the formation larger pools of capital. This capital, once formed and deployed, will help build a nation-wide "engine of innovation" that will keep us ahead of our international competitors, create new wealth outside of the Big Three, and harness the power of our National ethos of innovation.

My recommendation is to strongly support, through committee legislation and awareness, lowering the barrier for programs like the SBIC to exist in Idaho and other lesser known markets. This is important because Idaho has the building blocks and foundation in place to show exponential growth in the innovation ecosystem, but lacks a strong capital infrastructure to fund that growth.

Additionally, I recommend rethinking the SBIR program, which has had little effect on the Idaho innovation ecosystem, to be focused more on commercialization and less on IP and tech-transfer. New technologies that are eligible for SBIR grants are, in my opinion, only a very small sub-section of the overall innovation ecosystem in Idaho. Because startups are largely focused on scaling revenue, users, etc., the technology used accomplish these goals iterates very quickly and may not meet SBIR requirements. A decentralization of the SBIR approval/funding process, organized locally or regionally in order to adapt to the nature of the innovation ecosystem and quickly make decisions would be more in sync with local competencies.

Senator RISCH. Well, thank you very much. That is a great report on, I guess, the real-world Shark Tank in Idaho. But it is important to have somebody like you who is right in the middle of this. It's good to hear the strengths and the weaknesses and, more than that, your optimistic view of where we can go with the building blocks that we do have here. It's so good to hear from somebody like you.

It hasn't been that many decades ago when somebody like yourself could not have stayed in Idaho. There would have been nothing for you to do here, and that has changed dramatically, and I mean dramatically, as I mentioned with Tom Kealey. We had businesses here, but there were a handful of large businesses and it was very difficult for people to start up. As we all know, the story about Micron Technology and the capital issues they had when they got started are certainly instructive, and the landscape today is very different than what it was then.

Thanks so much for coming, and we'll excuse you because I know you do have another commitment.

Mr. FOWLER. Thank you very much.

Senator RISCH. Thank you.

Our next witness is Jay Larsen, CEO of Idaho Technology Council. Mr. Larsen's group has put together some very meaningful research on the investment coming into Idaho and how that investment is working to create jobs and build our economy. His work has been instrumental to the start-up community here in Idaho.

Jay, thank you for coming to D.C. as often as you do and giving us a briefing and update on what's coming, and we look forward to hearing your testimony today.

STATEMENT OF JAY LARSEN, FOUNDER AND PRESIDENT, IDAHO TECHNOLOGY COUNCIL, BOISE, ID

Mr. LARSEN. Thank you, Senator Risch. I really appreciate the opportunity. I appreciate the work that you've done from when you were in the Idaho legislature, as a Lieutenant Governor, as a Governor, and now with the U.S. Senate.

The opportunity is tremendous for us, and I think that you've talked about this. We really had a fantastic history of innovation in our State, but it really was focused around the companies that Director Kealey talked about, J.R. Simplot company, INL, the work that was done with Albertsons.

Senator RISCH. Boise Cascade.

Mr. LARSEN. Boise Cascade was another one.

Senator RISCH. Morson Coots.

Mr. LARSEN. Morson Coots was a monster, a $4 billion, $5 billion company. Now you look at some of those things and they've all changed. The one that was really most consistent in the whole time was the J.R. Simplot company, and a lot of that had to do because when you start building the changes, you need to look 10 to 15 years into the future, and when you're a publicly held company, a lot of times you have to look at what you're doing quarterly.

But the opportunity, I wanted to run through a couple of things on the analytics that we have. In our report for 2018, which is going to be released next Wednesday at the Capital Connect event, we actually will show that there's about 170 private equity, private placement mergers and acquisitions and public offerings. I'll walk through those a little bit so you can see, Senator, what it is.

Northern Idaho, which is basically Sandpoint and Coeur d'Alene, had 38 deals. North Central, which is Moscow and Lewiston, had five deals. Southwestern Idaho, which is Boise up to Grangeville, had 92 deals. South Central, the Twin Falls area, had 11 deals. And Eastern Idaho, Idaho Falls and that area, had 14 deals, and only three deals were done in the Pocatello area that we could count.

Now, not all deals had to report, but that probably encompasses 80 to 90 percent of the deals that——

Senator RISCH. Still a pretty good indication.

Mr. LARSEN. It is very much good. So it really shows one of the biggest issues we have in our State, which is the urban versus rural relationship. What we're finding is that because of all the innovation that has taken place in the Boise area, we have become a major area to attract capital.

The issue was, if you looked 10 years ago, we had a very hard time. It was after the financial collapse, and we had a hard time getting capital anywhere. But what's happening now is that we're getting capital from some of the top venture capital funds on the planet. When I was in your office last, in April, right during that time when we were meeting, there was a big ceremony that was done here where Truckstop.com just announced the major deal with Iconic, which is a major fund of a lot of the Facebook CEOs, like Zuckerberg, I mean leadership like Zuckerberg and those.

What they did is they just bought probably the biggest equity play in the State of Idaho for a technology company that took place during that timeframe. So now we're getting a lot of upstream capital where it's going to be like $300 million, probably close to the billion dollar range are all coming into this place.

Where our biggest issue is is that we still have a major issue that a lot of funds seem to keep going upstream, but that start-up area is still a weak area, and it has been a weak area for Idaho for quite some time. We've been fortunate because we had, at the end of the 1990s and the 2000s, we had probably about 20 start-ups that have been extremely explosive.

One of the areas that we're really focused on right now is what we call disruptive technologies and identifying them, because you're either disrupting a marketplace or you're being disrupted, and it's going to get even more with the critical role of how technology is going to change over the next decade. This is even going to be a bigger thing because you need to be able to identify where that disruption comes in.

So now we've got companies that, on a global scale, are doing amazing things. Counts, one of the top fraud detection companies, the reason they were able to grow and do what they're doing is because they got CBC Capital Partners, one of the top venture capital funds, to come and help them scale their company on supply chains and those kinds of things, and it's been amazing what they've been able to do.

You can look at Cradle Point, which is one of the most disruptive technologies now in 5G and the areas that they're playing. They're bigger than Cisco in their marketplace, and they're expanding and being one of the biggest disrupters on 5G, and this is here, a company that basically spun out of HP.

But we have those types of technologies that are developing in our marketplace that are getting major funds. Again, that is a great opportunity. When you talk to George Walhern, who was a CEO and also was with Highway 12, his big issue was you can find capital for all the companies they have because there are a lot of venture capital funds that are looking to invest capital, but their biggest issue is how good the talent is, how good the technology is, and how you're able to get customers. So those that have already proven themselves are now able to get really good sources of capital from places like Silicon Valley, New York, Boston, several different places.

Our biggest issue still goes back to having a culture of innovation that comes in. So I think what we're seeing is that we have places that are really taking place. The Small Business Development Center in Idaho is one of the top in the country, led by Doug Covey, and with Will Fowler. It is fantastic, and they are throughout the State. They help so many companies refine their messages.

And it's not only early stage companies. They're helping companies that are more mature that are trying to figure out ways to pivot and do other types of things. So that's been a very, very good thing.

I really believe that for us to be successful, it will look like we had a really negative SBIC experience, but we have to give more of those funds because one of the downfalls of our State has been that, although we have some very good education systems with U of I, Boise State, Idaho State, the research that really comes out of that is really low. So the idea that we have with that is that when you take a look at the $100 million that comes in research at Utah, Utah State has about $250 million in research that takes place, the University of Idaho has had about $1 million, and Boise State has about $50 million.

The idea that we have is that we have to look for a culture of innovation that continues to come in, because the funding that comes into those types of things because of how it comes in. I'll give you an illustration on this, Senator. What's happened is that when the dot-com bust took place in about 2002, it made an opportunity for people to start looking for investments outside of Silicon Valley. And during that timeframe, I was actually living in Utah running Verizon Wireless, and what I saw was that there was a whole bunch of money that started coming into the State of Utah because they did this thing called the Fund of Funds, which they actually took $200 million and they started stimulating the economy, which was back in about 1995, was not as strong as the Boise and the Idaho economy. So then what would happen is they started this.

Now, during that timeframe when they had this incentive and the money that came in, we had a fund here which was Highway 12, which you'll recall, and Highway 12 got about $5 million from that fund. They ended up investing several million more dollars into companies that were in the Utah market because of that $5 million of stimulus they got.

Another venture fund that was down in Silicon Valley, they got $5 million from the fund, and they told me they put $40 million of additional funds into the Utah companies. Highway 12 ended up doing a lot of work in Boulder, Colorado, because that got to be a very hot market.

This is what's happening now. The Idaho market is becoming much hotter when it comes to upstream investment, but the early stage investment comes in. So the idea that I think we need to do as we look at solutions for this is our ability to look for multiple funding sources, look for ways to be able to create access points for companies to be able to come in and look for ways to grow. We've got College Innovation and design here at Boise State that does that type of focus. We've got Venture College that tries to find ways to get new ideas out. You've got Trailhead and other incubation things that come in, but it needs to be tied with capital from early stage where we have ability to do it.

So I think this idea of getting the SBIC, those type of fund dollars, we're going to be able to come more to Idaho, and also look for ways to be able to look for maybe some State funding that we can actually do similar to a fund of funds type thing that's more sculpted for Idaho.

And the third is these SBIR type of loans. I do think that Will had that really good idea, the flexibility of them, because I only know a handful of SBIR loans on the first and second that have really taken place in Idaho, and it's very limited in our ability to be able to have those implemented. So we've got to find those ones.

So the solution is going to be that we have multiple ways to be able to find access points to capital in the State of Idaho.

The last point that I would make is that with the rate of change that's going to take place with technology, George Benson had a song where he basically said I believe the children are our future, and it came out as a great song. I'm going to take that and I'm going to say I believe that more upstream entry capital is our future in Idaho to entrepreneurs, and they are our future. So the more that we can get that, and we've had tremendous success, and I think we'll see tremendous success in the future.

Senator RISCH. Thank you very much.

He had that almost right. I think the lyrics should have been 20 percent of our current population but 100 percent of our future for the kids.

Well, thank you very much. I really appreciate that again, a good lens into what's actually happening on the ground here in Idaho.

Finally, our final witness is Mr. Brett Palmer, the Executive Director of the Small Business Investor Alliance, an association representing the SBA licensed small business investment companies. Mr. Palmer can provide insight on the local benefits of having an SBIC actively investing in the Idaho community.

I want to thank you, Brett, for coming here today. You've heard how hungry we are for an SBIC company here in Idaho, and you're the guy that can do something about it.

STATEMENT OF BRETT PALMER, PRESIDENT, SMALL BUSINESS INVESTOR ALLIANCE, WASHINGTON, DC

Mr. PALMER. Well, I will do everything I can. Thank you so much, Senator Risch, for having me here. Thank you, frankly, for having the hearing here. We have hearings in Washington all the time.

Senator RISCH. It's not the same, is it?

Mr. PALMER. It's not the same; it's better. I mean, Americans go to Washington, but Washington should come to America too, so I love it when people do field hearings. I personally learn a lot from listening to local folks. Your witnesses here, Jay and Will and Tom, were very informative, because there are regional differences and different regional needs, and I want to make sure that I understand them as a trade association executive so I can amplify the opportunity in Idaho that I know about, that you know about, that the rest of the private equity and venture capital market may not know about, and potentially share some of the expertise and things that have been successful in other states that have not yet been fully implemented here.

The SBIA is a trade association of private equity and venture capital funds, but it's also an association of institutional investors that invest in small businesses via these funds, the limited partners. So we're not just SBIC funds but we have pretty much all of the SBIC funds as our members, so we run the gamut. I think the SBIC program is a very important program. It's a program that works.

When you and I met, I don't know, 10-plus years ago, I'll never forget when you sat down you said most government programs don't work, particularly in the Federal Government, and I'm not interested in having Federal Government programs not work. If they don't work, they should go away. And I said I totally agree with you.

Senator RISCH. Gee, I hope my view doesn't get out here.

[Laughter.]

Mr. PALMER. The ones that don't work, they should go away.

Senator RISCH. Amen.

Mr. PALMER. Taxpayer dollars that are either at risk or being spent, they have to be done in the correct way, and the SBICs do what I think everyone can agree with, on the Republican side, Democratic side, House or Senate, regardless of geography. SBICs invest exclusively in domestic small businesses. Those businesses have to employ people here. They can't be used for out-sourcing and taking a factory and moving it to China or Indonesia or Bangladesh or what have you.

It's a market-driven program where the private markets drive it. You can't get money for free. It's not a grant program. You have to pass a private-sector filter, raising private capital from diverse sources before you can even get a license. Then you get a license and you can amplify it to increase the amount of capital investing in small businesses. So it really is a money amplifier. It sustains private-sector jobs. It doesn't subsidize them, it actually supports them. And after the SBIC investment is long gone, that business is thriving, so you may not see the big successes.

I remember one time there was a journalist who was beating up the SBIC program because Apple and Federal Express and Intel got SBIC capital. Well, you know, FedEx used to be a small company. Apple used to be a little company. Intel used to be a little company. They're now icons of the world economy. I'll take a yes there. That's a good thing. We want more of that. And we don't know who the next icons of American industry are, but we want to make sure they have capital to become those.

Now, those are extraordinary cases. Those are not normal cases of SBIC investment. Most small businesses don't have to go public, and that's one of the things that Silicon Valley has caught up. And if they go public and they become great big companies, that's great. But if you just become a middle-sized company, that's great too. Positive businesses that are growing and stable and are providing goods and services and providing the paychecks for homes and sponsoring Little League teams, and that's what makes America work. So if those companies can become the next Uber or Google, great, but they don't have to. If they just become a growing business, that's good too.

So the SBIC program was studied by the Library of Congress on a non-partisan basis in 2017 in conjunction with two conservative business schools, Duke University and Pepperdine University, and they looked at a 20-year period of SBIC investments. And what they found is that SBIC-backed businesses over that 20-year period created 3 million net new jobs. That is a pretty extraordinary number. That is small businesses creating jobs. Those aren't jobs that are a flash in the pan and gone. Those are new jobs created.

In addition to that, there was also about 6.5 million jobs that were supported by small businesses that were already existing that continued to grow, continued to exist because they were able to have capital and apply new technologies, access new markets. That is an incredible success story.

So what they looked at, and they did it through a deeper dive into it, is the non-levered SBICs—and often these were bank owned—which did not access the capital multiplier, but they're allowed to do investment in small businesses. They were equity oriented, some of which were early stage, some of which were later stage, but very patient capital created, on average, 530 new jobs per investment. That's pretty darn good.

Now, that is not normal. There's a very large standard deviation there between them, but that is a really incredible number.

For the debenture program, which is the boring, plain old Jane program that has existed since 1958, that on average created 125 new jobs per investment. That's pretty good too, particularly when they looked at the cost of these programs, because you have been a staunch defender of the taxpayer dollar, every last one of them. When they studied it, they found it cost the taxpayer $35 of administrative fees for every new job created. That's a bargain. So I think we need to do more of that, I think we need to do a lot more of that.

So these SBICs are a success, and there are a broad range of them. These SBICs, most of them do not do super early stage stuff anymore, and there are a number of reasons why, and I think we need to take a hard look at what we can do to get more of that. There are a number of them that are venture lenders. Bankers think venture lenders are nuts. They're lending to businesses that are losing money that have no assets. This normally is not something that you would think is a winning proposition, but it works.

Actually, one of the companies I was seeing in the news this week—and this may be a fence to a good cattleman in Idaho—was the Impossible Foods company, the company that Burger King is now selling these vegetarian burgers that apparently taste like meat. I'm not sure I believe it as a carnivore, but that is an SBIC-backed business out of Arizona. And we also do buy-outs and the rest of it.

So there's a lot there. But the Mountain West is a massive gap in SBIC investment. There is some. There's been $88 million invested in small businesses in Idaho over the past 10 years, and manufacturers like Mirage Trailer just over here outside of Boise, as well as Jensen Jewelers, who you know very well, and Track Communications and others. But there can be more, and there should be more.

I think we need to demand of Washington—not from you, you have been a champion of this, but from the SBA—a better functioning program that serves it. You started that process by encouraging, you and Senator Rubio and others, to encourage the SBA to prioritize under-served and under-licensed states. That's good.

The challenge is that it's not happening. I don't know why it takes long, longer. They have a team of people inside the Office of Investment whose job it is to do outreach, to go find the Wills and the Jays and others and talk to Tom over here to figure out who these businesses are. They've had their staff diffused. They're not being directed to do this. I don't understand what's going on. You have a program that is running at the lowest losses of its six-year history, and when you mentioned before that they were taking losses and they've got to get the books right when you started, the SBIC debenture program for the past 22 years has maintained a zero subsidy through the tech bubble bursting and through the Great Recession. That is not common. I don't know of any other government program that can say that.

There was an early stage program that peaked in the tech bubble in 2000 that did lose money that was SBIC related, but not the plain Jane original SBIC program.

We can and should be doing more, and the Mountain West deserves more.

I don't think Joe stayed. I think he left. I don't know about the other witnesses. Oh, he's still here? Okay, good. I was interested in his comments about studying the pain points of the SBIC program. We have only found new ways to have pain points for the last two years. The licensing is a problem. For repeat licenses, which the GAO, the Government Accountability Office, has studied, they found repeat licenses are much lower risk. The SBA, to make an efficient use of their taxpayer dollars, should be pivoting their resources to licensing new funds in under-served areas by actually having existing ones that are doing their jobs and doing them well. The funds in Texas that are investing here, the others that Tom mentioned that are investing in Idaho, those need to be able to operate, and it's taking them years. It's a real problem, because right now we actually have a traffic jam of capital that wants to invest in small business.

What a great problem. This is a wonderful, brilliant problem. But right now, the institutional investors who are holding hundreds of millions of dollars that want to invest in small businesses via SBICs can't and won't because they don't know when an SBIC can get a license, even for a repeat. So we're sort of reinventing the wheel when we don't need to.

So I think there's a real opportunity to get on the right track. And as we're taking a look at the reauthorization of the program, reforming some of these things, because we're making things harder, we've discovered new ways to inflict pain and bureaucratic choke points while not reducing risk, actually creating it, and we can do more and we can do better.

So I want to, frankly, work with Will. I talked with Will, Mr. Fowler, the other witness, about coming back to Idaho and actually getting together with some of the people he wants to work with. I want to talk to Jay as well and do that and talk to some of those funds. Tom I talked to before the hearing.

I want to do this. I have a passion for Idaho. You taught me how wonderful this place is. I've been back several times. I love to find excuses to come back, and I would like to evangelize on behalf of Idaho to the small business investing community, both SBIC and conventional funds, because this is a great place with great people.

And to Will's point on the ecosystem, you've got great universities, you've got highly educated populations, you have a fantastic quality of life, you've got a low cost of living. You have a lot of stuff teed up. We just need to get the structure of the capital so it's available so these companies can really get it and grow and emulate off of other entrepreneurs that are successful.

Senator RISCH. A lot of people have figured out just what you said. They're coming in 100 a day right now.

Mr. PALMER. They're also leaving some high-tax states. You guys can have your traffic be a little better but yet have a robust economy with good-paying jobs, and you've been a champion of that. So, thank you.

[The prepared statement of Mr. Palmer follows:]

SBIA
SMALL BUSINESS
INVESTOR ALLIANCE

Statement for the Record

U.S. Senate Committee on Small Business & Entrepreneurship
Hearing Entitled, "Investing in Idaho: Exploring ways to encourage small business innovation and startup."

by Brett Palmer
President, Small Business Investor Alliance

May 3, 2019

Brett Palmer
President
Small Business Investor Alliance (SBIA)

Chairman Risch, thank you for the opportunity to testify today and for holding this hearing, "*Investing in Idaho: Exploring ways to encourage small business innovation and startup.*" SBIA's members are proud of their role in creating small business jobs and are thankful to Congress and the Small Business Administration (SBA) for supporting American small businesses. Small Business Investment Companies have invested over 87 million dollars in Idaho's small businesses over the past 5 years, and we would like to invest more.

The Small Business Investment Company (SBIC) Program, administered by the Small Business Administration (SBA), has broad bipartisan support because the core features of the program address fundamental problems in the small business economy:

- We need more small business investment;
- We need to create more jobs here in the United States;
- We need to support jobs domestically and not outsource and offshore our economic dynamism;
- We need more investment in domestic manufacturing;
- We need to be very frugal and wise with the taxpayers' money and trust; and
- We need the government to serve Americans and their interests and not work against them.

My testimony is broken into two parts. The first section is a sampling of the underreported small business opportunity that exists. The second section is an overview of the SBIC program; commonly asked questions; and why the SBIC program is different and so successful at creating American jobs. I have also attached a 2017 non-partisan Library of Congress study on the extraordinary record of SBIC job creation and a state-by-state table of SBIC investment from 2014-2018.

Small Business Opportunities

Idaho is a fantastic place for small businesses to grow and reinvent themselves. It has a pro-business regulatory climate and a stable workforce. There are good reasons for growing businesses to move or grow into business-friendly states like Idaho. Idaho, like most of the Mountain West, has small businesses that have received SBIC investment. Idaho has received over 87 million dollars of small business investment over the last five years. Unfortunately, Idaho is also similar to most of the Mountain West in that there are not any SBICs headquartered in the State or who have offices in the State. SBIA would like to work with you to get more small business investment into Idaho and eventually an SBIC presence in the State.

Most of the press attention for small business is focused almost entirely on "startups" that are entirely technology based (the next Google or Facebook or Uber) - businesses that have just been created and in many cases have not yet really begun to operate. These startups are a critical part of the American success story. However, there is an absolutely massive part of the innovative small business economy that are not startups in the conventional sense. More than half of small businesses are owned by baby boomers.[1] Most of these small business owners started these businesses. There are approximately 12 million small businesses owned by baby boomers.[2] These are profitable, proven, and sustainable businesses and their owners are going to retire

[1] https://www.fierceretail.com/baby-boomers-dominate-smbs
[2] https://cabb.org/news/baby-boomers-incredible-numbers-are-buying-and-selling-businesses-part-1-2

eventually. There are millions of these businesses (manufacturing, business services, logistics, etc.), yet many of these owners do not have a succession plan. Their kids cannot run the business or are not interested in running the business. These businesses commonly have not received any outside investment, and the owners—being older and with a limited time horizon—often have not recently invested in applying new technologies or accessing new markets. Without a generational transition plan and outside investment, many of these small businesses will simply shut down when their founders retire. [3]

Entrepreneurs don't have to be in Silicon Valley to be successful. This generational transfer of small business creates all sorts of entrepreneurial and innovative opportunities. Often the only people that can take the reins of these small businesses are younger (relative to the founder) managers, but they do not have the capital to buy out the owner. SBICs can partner with the management team to buy out the retiring owners. Part of the money provides for the retirement of the founder, and the rest of the capital is used to reinvent, reimagine, and revitalize the business. The new owners now have the capital and the professional financial backing of the SBIC to do what they have wanted to do for years but were constrained by a lack of capital and a reluctance to take the risk of trying new things. New technologies are purchased and applied, which allow the business to sell nationally or globally; to operate more efficiently; to produce higher quality goods and services; and enable the business to grow and hire more employees. This way of handling the generational challenges of small businesses is one of the least discussed, but most important small business opportunities that exists today. There is a far higher success rate taking an existing business with a proven business model and revitalizing it than there is starting from scratch. Both are critically important to the American economy, and both deserve attention. SBICs can help both existing businesses and startup businesses, but a single SBIC cannot do both, which is why we need more SBICs and a greater variety of SBICs across the country.

The Small Business Investment Company Program Overview

It seems that only bad news gets attention, which does not make it easy for SBICs because SBICs are an American success story. For example, in FY2018, SBICs invested over $5.5 billion in American small businesses. Because of the work done when you were Chair of the Small Business Committee, the program is having the best (lowest) loss rates in its nearly 61-year history. There is currently unprecedented private sector interest in getting capital to small businesses via investment in SBIC funds. A 2017 Library of Congress study found that SBIC-backed businesses created 3 million new jobs and supported an additional 6.5 million jobs from 1995-2014 (a period that included the Great Recession and the tech bubble recession). These quiet successes were achieved while being the only major SBA program that was able to maintain its zero-subsidy rate - even through the Great Recession and Financial Crisis. With the help of Congress and SBA, SBICs have seen significant operational reforms to the program that have been producing positive results for the American small business economy.

SBICs are highly-regulated private funds that invest exclusively in domestic small businesses. At least 25% of an SBIC's investments must be made in "smaller enterprises." (Smaller enterprises are smaller than the SBA's normal small business standards.) SBA currently licenses two types of SBICs: non-levered SBICs and Debenture

[3] https://www.forbes.com/sites/forbesagencycouncil/2017/09/29/baby-boomers-are-selling-their-businesses-to-millennial-entrepreneurs-and-its-a-brilliant-idea/#57f7773c3181

(levered) SBICs. Both forms of SBICs invest in growing domestic small businesses, with non-levered SBICs tending to provide more equity capital and Debenture SBICs tending to provide more debt capital.

SBIC leverage significantly increases the amount of money invested into the small business economy. Private capital forms the foundation of an SBIC fund. SBICs raise capital from accredited investors and institutional investors (pension funds, university endowments, banks, etc.). After the SBIC applicant raises private capital, the SBA applies a rigorous licensing regime. If the SBIC applicant meets the legal and performance criteria, then an SBIC license is issued. Once licensed, an SBIC is permitted to access a line of credit (SBIC debenture leverage) to increase the amount of capital available for investment. For example, an SBIC may raise $50 million in private capital and then, after licensure, may access up to an additional $100 million line of credit (SBA leverage), which combines for a total of $150 million. The leverage is provided at a zero-subsidy rate and is eventually paid back in full (plus interest and fees). All this capital is to be invested in domestic small businesses and may not be used for "offshoring," relending, project finance, or for purposes that are not in the public interest. Unlike many government programs, the private capital is in first-loss position, which means the private investors lose their money before the taxpayer is exposed to risk of loss. This is an important taxpayer safeguard and a key reason why the SBIC program has been able to maintain its zero-subsidy rate. The program is effective and distinct because the private sector leads with its capital and investment expertise, and then SBIC leverage follows to augment the impact of the private investment. It is a mark of SBIC industry pride that the program maintained its zero-subsidy throughout the Great Recession.

- Since 1958, SBICs have invested over $80 billion in hundreds of thousands of small businesses.
- In FY 2018, SBICs invested over $5.5 billion in businesses that employ nearly 100,000 workers across the U.S.
- For FY 2018, 305 SBICs were operating across the United States, which is a similar number as were operating 10 years ago. These SBICs managed over $30 billion in committed capital resources.
- Of the 1,151 U.S. small businesses that received SBIC financing in FY2018, 23% were in Low-to-Moderate Income (LMI) areas of the country.
- The SBIC program has operated at a zero-subsidy rate since Congress mandated it in the late 1990s.
- A 2017 study by the Library of Congress found that the average small business backed by a Debenture (leveraged) SBIC Fund created approximately 125 new jobs, and non-levered funds created an additional 530 new jobs.
- Levered funds tend to provide more debt capital and non-levered funds tend to provide more equity capital.
- From 1995-2014 SBIC-backed small businesses created over 3 million new jobs and supported an additional 6.5 million jobs – all of which were in the United States.
- Many icons of American industry were once small business that received critical growth capital from SBICs, including: Apple Computer, Intel, Buffalo Wild Wings, Build-A-Bear Workshop, Callaway Golf, Costco, Federal Express, Gymboree, Jenny Craig, Restoration Hardware, and Staples.

SBIC Frequently Asked Questions

How does the SBIC Program Help the Taxpayer and the American Public?

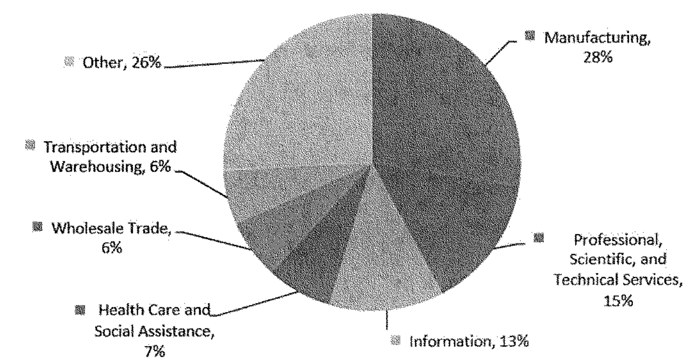
The SBIC Program helps the taxpayer by providing capital to growing small businesses that in turn hire more employees, invest in capital improvements, and generally grow the economy. A 2017 study by the Library of Congress found that one new job was created for every 35 dollars of taxpayers' money spent administering the program. (The leverage operates at zero subsidy, but there are still some administrative costs.) Correlation is not causation, but there is no doubt that the ability of successful small businesses to access growth capital empowers them to grow and hire more employees.

SBIC investments are made in areas of the country and in industry sectors that are commonly overlooked by conventional venture capital and private equity. The overwhelming percentage of venture capital is invested in Northern California and the New York to Boston corridor. While SBICs do invest in those areas, SBICs invest most of their capital in places other than this investment footprint. For example, 23% of SBIC investments are in areas certified as Low-Moderate Income. Even SBICs that are primarily located in population centers regularly invest well outside of their local area, so the SBIC program helps move capital to underserved areas – both urban and rural.

SBIC investments are commonly made in industry sectors largely passed over by many conventional venture capital and private equity funds, including manufacturing and asset-light services businesses.

Distribution of SBIC Financing Dollars by Industry FY 2010-2014

Exhibit 4-7: Distribution of SBIC Financing Dollars by Industry Reported FY 2010-2014
Total SBIC Financings = $17.1 Billion



* Numbers will not add to 100% due to rounding.

Is the SBIC Program Effective?

- Yes. Multiple studies, including a 2017 Library of Congress study (attached) have found the SBIC program is very effective at supporting growing small businesses and creating jobs.
- With modest reforms, it could be even more effective, with broader benefits to more communities.
- There are additional studies completed by the Library of Congress that were supposed to be released in 2017 but have yet to be released by the SBA.

Is the SBIC Program an Efficient Use of Capital?

- Yes. It is one of the most efficient, job-creating programs within the government. According to a 2017 Library of Congress study, only $35 in administrative government costs were associated with creating each new job. There were only $11 in administrative costs for each additional job supported. Further, the fact that the SBIC program's leverage has successfully sustained its zero subsidy for so long is a testament to its operational effectiveness and efficient use of capital.

Is SBIC Investing the Same as Bank Lending?

- No. SBIC investing and bank lending are very different.
- SBICs provide education, training, and professional guidance to their portfolio companies that banks generally do not provide.
- Banks are often only able to provide conventional lending to a small business *after* an SBIC has invested in a small business.
- SBICs provide long-term capital that empowers small businesses to survive and recover from the inevitable surprises that can happen in business.
- SBIC capital can be in the form of debt, equity, or both.
- Banks and SBICs collaborate but offer different types of capital, so they do not compete.

Does SBIC Investment Displace Conventional Bank Lending?

- No. Banks are partners, not competitors.
- Banks are often only able to provide capital after a business has received SBIC capital because the SBIC capital changes the capital structure of the business and thereby makes it more "bankable."
- Over 500 banks, ranging from small community banks to large banks, are investors in SBIC funds.
- Some banks own non-levered SBIC funds and other banks are forming their own internal SBIC units to provide equity capital that the banks cannot otherwise provide.
- If small businesses could access this capital from banks, they would get bank loans because there are thousands of banks and conventional bank lending is less expensive.

	Bank	**SBIC**
Provide Debt	Yes	**Yes**
Provide Equity	No	**Yes**
Provide Convertible Debt	No	**Yes**
Provide Unitranche Capital	No	**Yes**

Can revoke capital on 30 to 60-day notice in the event small business hits a snag or if there is a macroeconomic disruption?	Generally, Yes	**No**
Are loans required to be fully collateralized?	Generally, Yes	**No**
Cash flow lending	Limited	**Yes**
Able to provide Capital to businesses that are not otherwise bankable	No	**Yes**
Commonly has a formal role on the Board of the Small Business	No	**Yes**
Provides management assistance to help the small business grow and have good governance	No	**Yes**

Does the Government Own Any Part of these Small Businesses?

- No. The government does not invest in or own any portion of any small businesses.
- There was a time (1994-2004) when the government effectively participated in the ownership of some types of SBIC funds, and therefore the small businesses, but that program ceased licensing funds 15 years ago (2004).

Is the Government a "Limited Partner" in SBIC Funds or Does It Own a Part of the SBIC Fund?

- No. The government manages access to and guarantees a private sector credit facility but is not a "Limited Partner." The government is in a more advantaged position than the private sector limited partners.
- The SBA does not own an interest in SBICs or their portfolio companies.
- The SBA stopped being a "fund of funds" and stopped being a "Limited Partner" with the end of licensing funds where the government participated in the profits (and losses) in 2004.
- The SBA is a regulator and a guarantor of credit facility.

Can the 7a and 504 programs do what the SBIC program is doing?

	SBA 7a	**SBA 504**	**SBA SBIC**
Government (Taxpayer) guarantee on each individual investment	Yes	Yes	**No**
Must the small business have collateral or a personal guarantee to loan against?	Yes	Yes	**No**

Does the Government Choose Which Small Businesses Receive Capital?
All SBIC investments are made entirely by the private sector via investing professionals without the government's direct involvement. Investments are made for real economic reasons. SBICs invest in growing small businesses and then notify the SBA which small businesses received capital after the investment has been made. There are size standards and other basic requirements and taxpayer protections that must be adhered to, but government involvement stops there. The program is successful at creating jobs and growing small businesses because it allows the private sector to find the businesses with the greatest growth potential and direct capital to them.

What Happens if an Investment Underperforms?
A single SBIC will invest in many different small businesses. Unlike the 7a and 504 programs, when a single investment underperforms or loses money, only private capital is lost, not taxpayer guaranteed capital (leverage). The profits from the other investments cover the losses from the isolated underperforming investment(s). If the profits from the other investments are inadequate to cover all the losses, then the private investors' capital is lost before taxpayer money is at risk. There is generally a large private capital cushion that would need to be burned through before the taxpayer guarantees would be realized. Even if the guarantees would be used, SBIC funds pay an annual fee on their leverage that is designed to offset losses and maintain the statutorily-required zero subsidy rate. SBA can cut off SBICs from accessing additional leverage or trigger an orderly liquidation process run. Even if a fund is ordered into orderly liquidation, it does not necessarily lose private capital or realize losses for the taxpayer.

What Built-in Accountability Exists in the SBIC Program?
There is extensive accountability built into the program. Private capital being in first-loss position is a very effective accountability tool because there is no "gambling with other people's money." Private capital being in first-loss position is an important, built-in taxpayer safeguard. The SBA has reporting obligations that ensure the SBA is fully apprised of the health of the fund, and the funds receive independent audits plus SBA examinations. The SBA can cut off underperforming SBICs from further leverage and can even require disgorgement if an investment does not meet the SBA's statutory and regulatory requirements. SBA can require an orderly wind down of the SBIC and limit compensation. In extreme cases, SBA can remove the fund managers.

Are Repeat Licensees a Good Thing?
Repeat licensees are exceptionally good for the small businesses and the taxpayer. Repeat SBICs specialize in small business investing, which is good for small businesses, the SBA, and ultimately the taxpayer. SBICs are only able to receive an additional license if their previous fund was a success and the private sector was willing to commit its own money first. The private sector leads, and only then can a license be issued: the market speaks before the SBA licenses. Keeping successful fund managers in the program and culling poor performers is one of the reasons the program has been so good at growing businesses and has been able to sustain its zero-subsidy rate. Congress recognized the importance of repeat licensees by raising the "family of funds limit" to allow more successful managers to continue to invest more money into more growing small businesses. The GAO studied this issue in 2016 and found repeat licensees were far less likely to be put into an orderly wind-down than first time funds.

Is the SBIC Program Stress Tested and Sound?
The Great Recession and Financial Crisis were a real-life stress test. Unlike other SBA programs, the SBIC Debenture program was able to maintain its zero-subsidy rate. Further, many small businesses were able to

survive the Great Recession because they were backed by SBICs. Banks were forced by their regulators to pull lines of credit from thousands of small businesses, which then failed. SBIC-backed small businesses benefitted from the longer-term capital provided by SBICs and had a much better chance of surviving.

What can states like Idaho do to get more SBIC small business Investment?

Idaho is already doing a great job at welcoming entrepreneurs, but smaller states that are more difficult to travel to tend to get less investment. These states still get investment and can do things to get more. First, since investing in small business is very much dependent on personal relationships, we need to build more of those relationships in Idaho. These relationships commonly start with relationships with banks. Getting Idaho banks to invest in SBICs would not only provide solid returns to the banks, but it would also create a connection between SBICs and the small businesses served by the local banks. Banks that serve Idaho and the mountain west can, and I would be happy to help them, form their own SBIC fund. These bank-owned, non-levered SBICs can provide equity to small businesses and create relationships with both the bank for senior lending and other SBICs for subordinated debt access. Finally, investment bankers, business brokers, and small business owners themselves can reach out to SBICs and start the business relationship.

Conclusion

SBIA thanks you for considering the views of the SBIC industry. We also thank the SBA for their time and effort in working with SBICs to grow the small business economy. Without the support of the Congress, the SBA, and the private sector, this program would not be able to provide such a positive impact for the taxpayers.

I would welcome any question you may have for me.

Senator RISCH. Thank you, Brett. Thank you so much, and thank you for your legitimate, well-taken criticism of the program. This is what these hearings are about and, as you know, this is what we do in our meetings in Washington, D.C., go over people who are actually using the program, listen to their well-thought-out, well-reasoned, and very well-intended criticisms that are intended to make the program better and not be a whiny, complaining, just anti sort of thing. So we appreciate the way in which you approach this.

Mr. PALMER. I want to help small businesses. I have a passion for it. My members have a passion for it. I think we should expect of everybody in the Federal Government who is supposed to be working on small businesses to do the same thing. So you tell me how and I will charge that hill.

Senator RISCH. Well, you are telling us how, and we really do appreciate that.

Well, I thank you both, Jay and Brett.

Mr. LARSEN. Mr. Chairman, two quick points. One of them I was just thinking about, the Deal Flow Report that we have so we can measure this and see where capital is, last year we understood that about $2.4 billion came in, and 61 percent of that came from technology and software companies.

What I would propose is that we look to maybe add to this report a section around SBDC/SBIR, and look at all the loans that were granted during that fiscal year so we can start tracking those, and then we can start looking for more ways to look into Federal funds to——

Senator RISCH. I will include that report in the official record of this hearing, if that's okay with you.

Mr. LARSEN. Okay.

Mr. PALMER. And I think you can actually get a list of all those SBIR investments directly to you from SBA. SBA collects that stuff, so we can make your life a little easier in that regard.

Mr. LARSEN. And the second point I just want to make sure is that Idaho has one of the fastest growing software communities in the United States as a percent of the State's GDP of growth that has taken place. So we're seeing some acceleration, and the largest reason why that's happening is because of the flow of capital into the State.

Senator RISCH. Thank you very much.

Well, before I close the hearing, I want to thank my staff who put this together, my chief of staff, John Insinger, who is here; State Director Mike Matthews, who is here; my Deputy State Director Rachel Burquette, who is here; Celia Glassman from D.C., who I recently stole from my friend Marco Rubio, but he took it very well. And then we have a number of people from the Small Business Committee itself, Meredith West, the Staff Director. Meredith, thank you so much for coming. Renee Bender, who is a Professional Staff Member; Kevin Wheeler, a Minority Deputy Staff Director; and Ryan Lambert from SBA Congressional Affairs staff is also here.

Thank you all for making this what I think has been a very successful hearing.

I think probably our best bottom-line takeaway here is we have really, I think, with the kind of witnesses we've had here, pulled back the curtain a bit so that Idahoans and, for that matter, anyone who will take the time to look at this record can see how this actually works internally. People kind of see the effects of it. They hear around it a little bit. But we've really dug right down into it as to how this works, and thank you for all who are involved in that.

And with that, I will say that we will keep the record open for how long? Two weeks? All right. We'll keep the record open for two weeks for any member of the United States Senate to place something in the record.

And based on that, anything else for the good of the order, for those of you who really know what's going on?

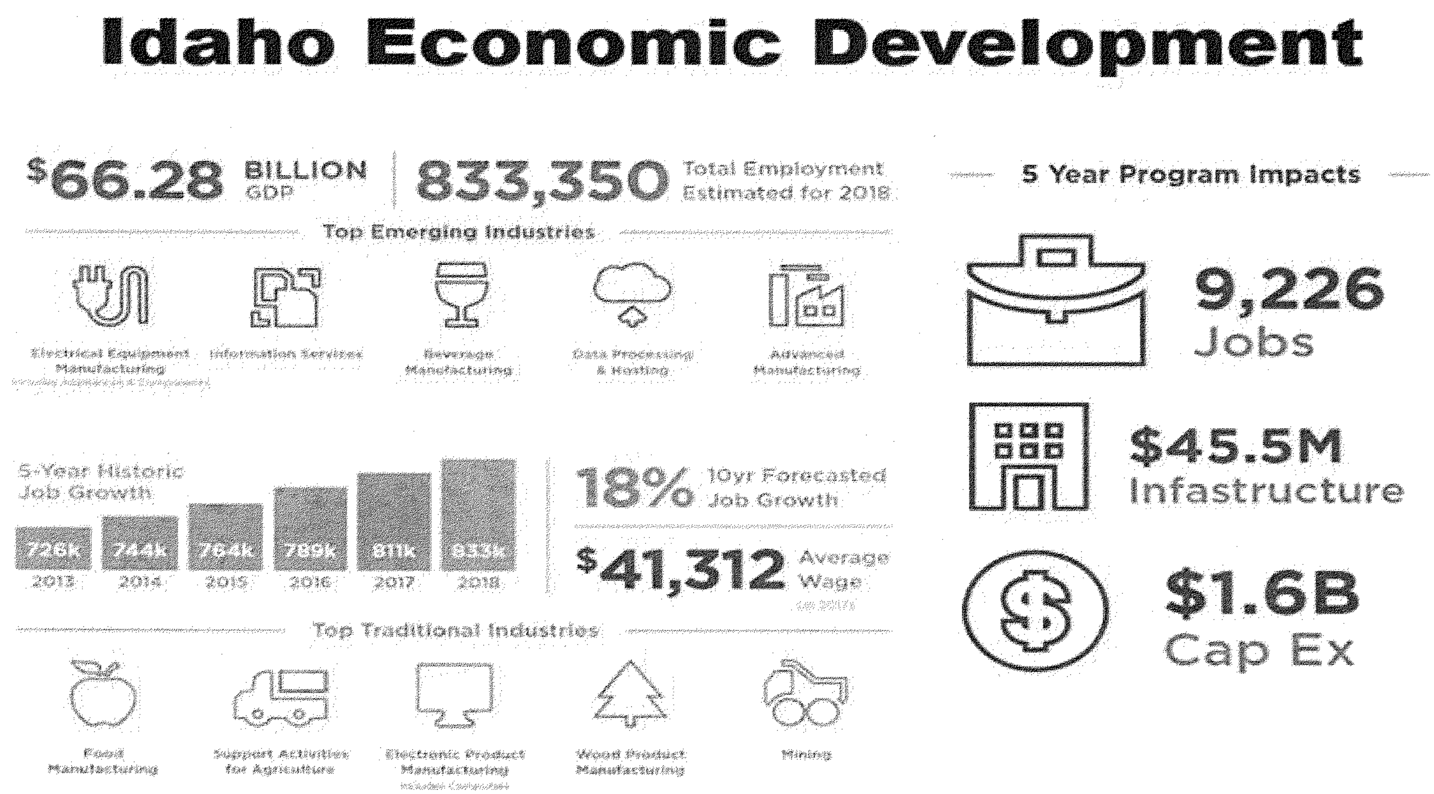
Senator RISCH. Apparently not.

So, with that, I will close the hearing.

We are adjourned.

[Whereupon, at 10:53 a.m., the hearing was adjourned.]

APPENDIX MATERIAL SUBMITTED


Idaho Economic Development
$66.28 BILLION GDP
833,350 Total Employment Estimated for 2018
Top Emerging Industries
Electrical Equipment Manufacturing
Information Services
Beverage Manufacturing
Data Processing & Hosting
Advanced Manufacturing
5-Year Historic Job Growth
728k 2013
744k 2014
764k 2015
789k 2016
811k 2017
833k 2018
18% 10yr Forecasted Job Growth
$41,312 Average Wage
Top Traditional Industries
Food Manufacturing
Support Activities for Agriculture
Electronic Product Manufacturing
Wood Product Manufacturing
Mining
5 Year Program Impacts
9,226 Jobs
$45.5M Infastructure
$1.6B Cap Ex

IDAHO

158,426 Small Businesses
99.2% of Idaho Businesses

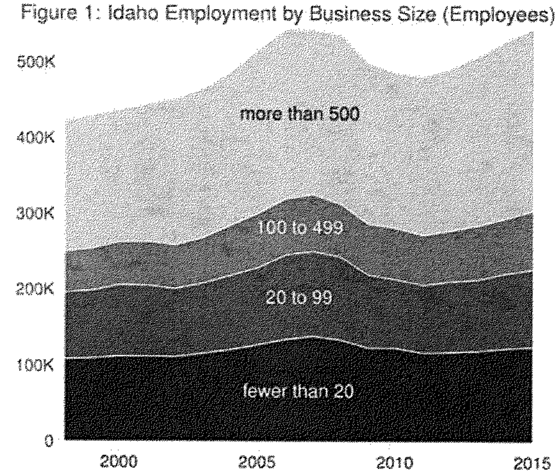
304,700 Small Business Employees
55.8% of Idaho Employees

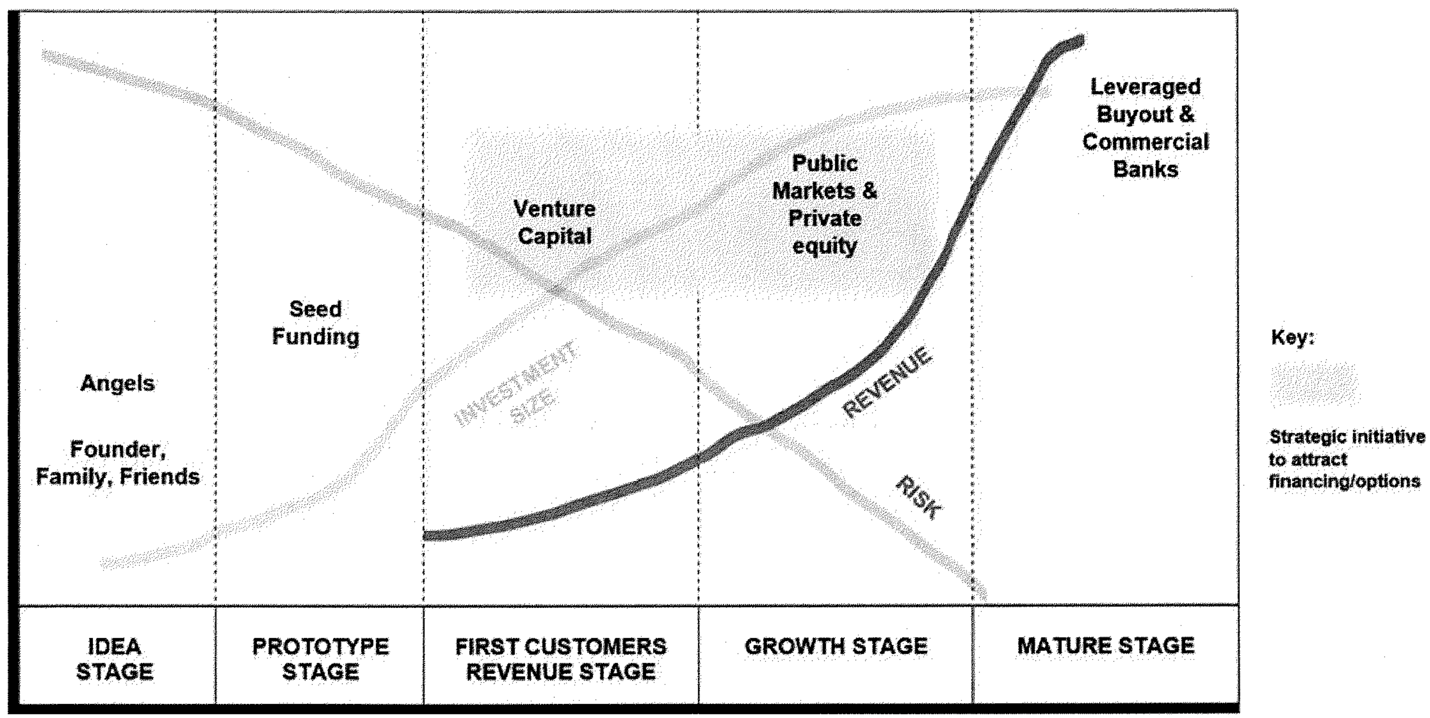
EMPLOYMENT
14,392
net new jobs

DIVERSITY
10,585
minority-owned businesses

TRADE
1,432
small business exporters

Figure 1: Idaho Employment by Business Size (Employees)




Angels
Founder, Family, Friends
Seed Funding
Venture Capital
Public Markets & Private equity
Leveraged Buyout & Commercial Banks
INVESTMENT SIZE
REVENUE
RISK
IDEA STAGE
PROTOTYPE STAGE
FIRST CUSTOMERS REVENUE STAGE
GROWTH STAGE
MATURE STAGE
Key:
Strategic initiative to attract financing/options

State Rank ⬍	Bank ⬍	Headquarters ⬍	# Loans ⬍	Avg Loan
1	Zions Bank	Salt Lake City, UT	109	$109,921
2	DL Evans Bank	Burley, ID	72	$93,728
3	Glacier Bank	Kalispell, MT	68	$404,932
4	Idaho Central CU	Chubbuck, ID	58	$203,755
5	Wells Fargo	Sioux Falls, SD	54	$242,898
6	Washington Trust Bank	Spokane, WA	42	$333,586
7	U.S. Bank	Cincinnati, OH	38	$169,582
8	Idaho First Bank	Mccall, ID	28	$119,382
9	Banner Bank	Walla Walla, WA	27	$100,659
10	Northwest Bank	Boise, ID	20	$421,600
11	KeyBank	Cleveland, OH	16	$211,481
12	Mountain America FCU	West Jordan, UT	16	$317,150
13	Live Oak	Wilmington, NC	15	$1,206,667
14	Montana Community Development Corp	Missoula, MT	15	$145,880
15	JPMorgan Chase Bank	Columbus, OH	11	$154,209
16	Sunwest Bank	Irvine, CA	9	$82,022
17	Bank of the West	San Francisco, CA	8	$416,700
18	First Home Bank	Seminole, FL	8	$249,375
19	The Bank of Commerce	Idaho Falls, ID	8	$349,600
20	Celtic Bank	Salt Lake City, UT	6	$1,689,217

LIBRARY OF CONGRESS

Measuring the Role of the SBIC Program in Small Business Job Creation

A Report Prepared by the Federal Research Division,
Library of Congress
under an Interagency Agreement with the
Office of Investment and Innovation,
U.S. Small Business Administration

January 2017

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★ 69 Years of Service to the Federal Government ★
1948 – 2017

PREFACE

The U.S. Small Business Administration (SBA) oversees the Small Business Investment Company (SBIC) Program, which provides an alternative source of financing for small businesses lacking access to adequate capital from traditional sources, such as banks and credit unions. Since the program's inception in 1958 through December 2015, SBICs have deployed US$80.5 billion in capital (two-thirds from the private sector) into approximately 172,800 financings.[1]

The goal of this report is to contribute to a deeper understanding of the role that the SBIC Program has played in creating and sustaining jobs in the small business sector using data collected exclusively by the SBA under the SBIC Program. The report addresses key questions concerning the number of jobs created and/or sustained by the program.

The SBA's Office of Investment and Innovation (OII) contracted with the Federal Research Division (FRD) of the Library of Congress for an independent evaluation of the SBIC Program. FRD provides customized research and analytical services on domestic and international topics to agencies of the U.S. government, the government of the District of Columbia, and authorized federal contractors on a cost-recovery basis.

FRD enlisted the aid of two experienced scholars with particular expertise in financial markets to perform this research:

- Dr. John Paglia is a professor of finance at Pepperdine University's Graziadio School of Business and Management, and founding executive director of the Peate Institute for Entrepreneurship. Dr. Paglia also founded and directed the Pepperdine Private Capital Markets Project, which examines the demand for capital by and financing success rates for business owners. The project also examines investments by private equity groups, venture capital firms, and mezzanine funds (among more than a dozen other types of financing), including activity in the lower-middle market, which is defined as the market segment containing businesses with between US$5 million and US$100 million in annual revenues.

[1] U.S. Small Business Administration (SBA), *Offering Circular: Guaranteed 2.507% Debenture Participation Certificate, Series SBIC 2016-10 A*, March 14, 2016, 7, https://www.sba.gov/sites/default/files/SBIC_2016-10A-cusip-831641-FF7.pdf.

- Dr. David T. Robinson, a professor of finance and the J. Rex Fuqua Distinguished Professor of International Management at Duke University and a research associate at the National Bureau of Economic Research. Dr. Robinson has published several papers in the fields of entrepreneurial finance, venture capital, and private equity, and has conducted a number of studies that analyze the conditions and performance of the financial sector serving young and small businesses, both on the equity side and on the debt side.

The analysis in this report is based on 1995–2014 SBIC data from SBA Portfolio Financing Report (SBA Form 1031) filings, which are submitted by SBICs within 30 days of closing on a financing, and SBA Annual Financial Report (SBA Form 468) filings, which are audited and submitted by SBICs annually. The authors used personal interviews, surveys, and external data sources to augment and validate the data where possible to build the fullest picture possible of the investment behavior of SBIC funds.

This report represents an independent analysis by FRD and the authors, who have sought to adhere to accepted standards of scholarly objectivity. It should not be construed as an expression of an official U.S. government position, policy, or decision.

The SBA makes no representation as to the analysis or calculations performed by the Library of Congress or its employees or contractors and reported in this study. The SBA has not verified the analysis or calculations performed in this study. This study was conducted by third parties not affiliated with the SBA and is intended to be independent from the SBA.

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OVERVIEW OF FINDINGS

One of the core missions of the U.S. Small Business Administration (SBA) is to help Americans start, grow, and build their own businesses. The SBA's Small Business Investment Company (SBIC) loan program assists in these efforts by harnessing "the talent of professional investment fund managers to identify and finance promising small businesses."[2] These small businesses support jobs across a diverse set of industries, including manufacturing, transportation, and technology. For this reason, the SBA approached the Library of Congress's Federal Research Division (FRD) to assess the following about the jobs created and/or sustained by the SBICs and portfolio companies participating in the program:

- How many jobs have been created by companies that received funding from SBICs?
- How many jobs have been sustained by companies that received funding from SBICs?
- How did the rates of job creation vary according to the type of SBIC that provided the funding?
- How many jobs have been created or sustained per dollar of SBIC financing?
- What have been the government administrative costs associated with the jobs created or sustained?

Statistical analysis of the SBA's data concerning SBICs has yielded the following answers to these questions:

- The SBIC-funded small businesses in the sample used in this report created almost 3 million jobs during the sample period (October 1995–December 2014). This figure is based on observations from 11,681 SBIC-funded firms.
- The SBIC-funded small businesses in the sample used in this report created or sustained almost 9.5 million jobs during the sample period. *Jobs created or sustained* is an expanded scope of job creation that includes not just the jobs that were added after a firm received SBIC funding, but also those jobs that were maintained in these businesses during the time the companies received such funding.
- Companies funded by non-leveraged SBICs (those that are licensed with the intent of never issuing leverage, which include bank-owned SBICs) created the most number of jobs during the sample period, at 530 jobs per firm on average. Businesses funded by SBICs in the SBA's participating securities program created the second highest, at 438

[2] SBA, *The Small Business Investment Company (SBIC) Program Overview*, last updated February 24, 2016, https://www.sba.gov/sites/default/files/files/SBIC_Program_Executive_Summary_2016.pdf.

jobs per firm. Debenture-funded companies created an average of 125 jobs per firm, while businesses financed through the specialized SBIC (SSBIC) created an average of 22 jobs per firm. On average, employment in small businesses funded by these SBIC programs grew by 45.6 percent.

- On average, one new job was created for every US$14,458 of funding invested through the SBIC Program, while an average of one job was created or sustained for every US$4,525 invested. Restricting the analysis to only those firms financed through active licensees, the authors found that one new job was created for every US$16,340 invested, and one job was created or sustained for every US$4,603 of SBIC funding.
- Between 1999 and 2015, the net government administrative cost[3] was about US$0.0024 per dollar of funding deployed, or US$2,400 of government administrative cost for every US$1 million of capital deployed. This, in turn, means that the average administrative cost was approximately US$35 per job created, and about US$11 per job created or sustained.

These findings indicate that SBIC-funded small businesses are a robust source of job creation in the U.S. economy. Yet, the averages reported above mask a tremendous amount of firm-level heterogeneity in job creation.

While the findings in this report show that SBIC-funded small businesses are an important source of job creation, the authors must acknowledge several important caveats and inherent limitations in this analysis. Because the SBIC data only track firms during the time that they are receiving SBIC funding, it is possible that these businesses change their employment patterns after those funds go away. This could result in an over- or under-counting of the current employment numbers in these companies. The authors also do not know the total amount of capital that these businesses received from other sources—funding from banks and other capital providers could be important for many portfolio companies. The SBA only began tracking the size of the round or deal in which the SBIC participated as part of its financing form in 2013, so that they could better understand the contribution to the total financing by SBICs. Based on the analysis, the authors found that, on average, SBICs contributed around 40 percent of the total financing received in each financing round or deal since the SBA started tracking this figure.

[3] SBA provided administrative costs on the SBIC program from its program overviews. Administrative costs include the direct costs from the operating budget, including contracts, compensation and benefits, but may not include agency wide costs, such as rent and telecommunications and indirect costs. SBA also provided the administrative fees it collected to offset its administrative costs. The net government administrative cost was calculated by subtracting administrative fees from the administrative direct costs identified in its program overview.

A small number of SBIC-funded companies grow to become important job creators, but most do not. Indeed, this finding comports with broader patterns of employment in the small-business sector. A growing body of economics research has stressed that most small businesses do not create jobs; instead, most analysis suggests that a relatively small number of firms is responsible for a relatively large fraction of overall job growth.[4]

Finally, at a conceptual level, it is difficult, if not impossible, to know what employment in these companies would have looked like in the absence of SBIC funding. Thus, it is hard to attach a causal interpretation to the numbers presented here. The statistics on how many dollars were required to create a job should be interpreted with these caveats in mind.

[4] For example, see Erik Hurst and Benjamin Wild Pugsley, "What Do Small Businesses Do?" (NBER Working Paper 17041, National Bureau of Economic Research [NBER], Cambridge, MA, 2011), http://www.nber.org/papers/w17041.pdf; John C. Haltiwanger, Ron S. Jarmin, and Javier Miranda, "Who Creates Jobs? Small vs. Large vs. Young" (NBER Working Paper 16300, NBER, Cambridge, MA, 2012), http://www.nber.org/papers/w16300.pdf; and Manuel Adelino, Song Ma, and David T. Robinson, "Firm Age, Investment Opportunities and Job Creation" (NBER Working Paper 19845, NBER, Cambridge, MA, forthcoming).

BACKGROUND ON THE SBIC PROGRAM

Description of SBICs

The SBA was established in 1953 to promote the development of small businesses by providing "loans, loan guarantees, contracts, counseling sessions and other forms of assistance." The organization's authorizing legislation was the Small Business Act, which created the agency to "aid, counsel, assist and protect, insofar as possible, the interests of small business concerns." In 1958, the Small Business Investment Act created the SBIC Program, under which the SBA "licensed, regulated and helped provide funds for privately owned and operated venture capital investment firms."[5] The U.S. government designed the program to provide debt and equity financing to high-risk small businesses lacking access to adequate capital from traditional sources.[6] Since the program's inception in 1958 through December 2015, SBICs have deployed US$80.5 billion in capital (two-thirds from the private sector) into approximately 172,800 financings.[7]

How SBICs Work

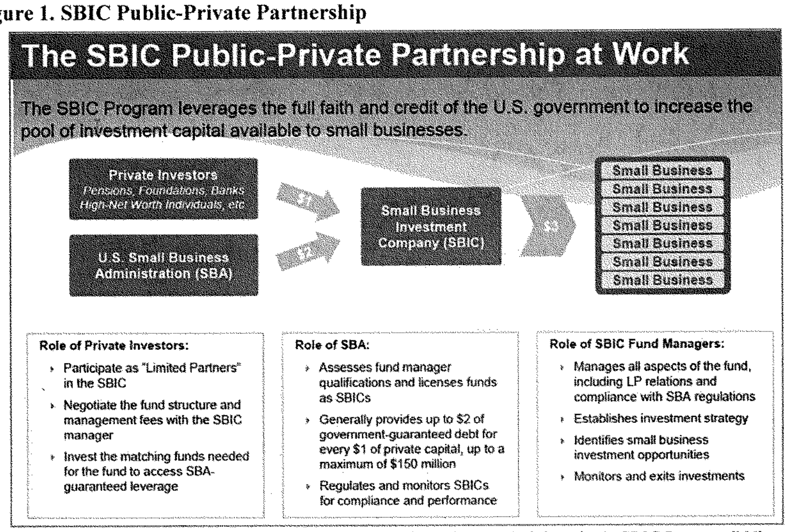
Fund managers submit applications to the SBA for licenses to operate SBICs, which typically combine equity investments from private investors—such as pensions, foundations, banks, and high-net-worth individuals—with government-guaranteed debt financing from the SBA. In the process, SBICs leverage their equity capital, resulting in a capital structure (debt-plus-equity financing) that reduces the weighted average cost of capital and boosts returns on equity. The U.S. Congress permits the SBA to guarantee leverage, known as debentures, which are issued to SBICs for up to three times the amount of private equity (although in most cases the limit is set at twice this amount).

The SBIC, typically formed as a limited partnership, invests in a portfolio of small businesses. When formed as a limited partnership, an SBIC—itself a limited partnership—has a general partner that manages the operations of the fund and limited partners who are passive investors. As the investments play out and the SBIC winds down, it repays its debt to the SBA and shares

[5] SBA, "History," accessed April 7, 2016, https://www.sba.gov/about-sba/what-we-do/history.
[6] SBA, *The Small Business Investment Company (SBIC) Program Overview*.
[7] SBA, *Offering Circular: Guaranteed 2.507% Debenture Participation Certificate*, 7.

its profits with the investors (see fig. 1).[8] See Appendix II for a full description of the SBIC life cycle.

Figure 1. SBIC Public-Private Partnership



Source: "Bridging the Capital Formation Gap: The Small Business Administration's SBIC Program," Vimeo video, 57:07, from the Association for Corporate Growth, April 12, 2016, https://vimeo.com/162594659.

SBICs enable SBA-guaranteed leverage up to two times the amount of private capital, subject to caps of US$150 million and US$350 million for, respectively, individual funds and families of funds.[9] As a result, SBIC business licensees are subject to various investment criteria. The most important criterion is that SBICs must invest in small businesses, which the SBA defines (solely for the purpose of the SBIC Program) as those having less than US$19.5 million in tangible net worth and an average net income for the preceding two years of less than US$6.5 million. The SBA also counts small businesses that comply with the agency's size standards in terms of the

[8] SBA, *The Small Business Investment Company (SBIC) Program Overview*.
[9] SBA, *The Small Business Investment Company (SBIC) Program Overview*.

number of employees or average annual receipts, as calibrated according to industry.[10] These standards are set out in the North American Industry Classification System (NAICS).[11]

The SBIC Program is a particularly attractive investment target for the banking industry for two reasons. First, it is exempt from the Volcker Rule, a provision of the Dodd-Frank Wall Street Reform and Investor Protection Act that prohibits banks from owning hedge or private equity funds.[12] Second, investments in SBICs may qualify for Community Reinvestment Act credits since they are presumed to promote the economic development of all members of a community, including residents of low- and moderate-income neighborhoods.[13] Increased bank participation in the SBIC Program in recent years has steadied investment demand, according to *American Banker* magazine.[14]

Currently Active SBICs

As of September 30, 2015—the end of the U.S. government fiscal year (FY)—there were 303 licensed SBICs, of which:

- 205 belonged to the ongoing debenture program (generally with a focus on later-stage, mezzanine, and buyout investments using primarily debt and hybrid financing),[15]
- 46 belonged to the discontinued participating securities program (with a high percentage of early-stage investments using equity financing),
- 43 were non-leveraged (generally with a focus on early-stage and later-stage equity investments), and
- 9 belonged to the discontinued SSBIC program (with a focus on minority-, women-, and veteran-owned businesses using primarily loans).[16]

[10] Compliance with Size Standards as a Condition of Assistance, 13 C.F.R. § 107.700 (2009); What Size Standards are Applicable to Financial Assistance Programs?, 13 C.F.R. § 121.301 (2016).
[11] SBA, "Summary of Size Standards by Industry Standard," last updated February 26, 2016, https://www.sba.gov/contracting/getting-started-contractor/make-sure-you-meet-sba-size-standards/summary-size-standards-industry-sector.
[12] Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds, 79 Fed. Reg. 5535 (January 31, 2014).
[13] Federal Deposit Insurance Corporation, "Interagency Questions and Answers Regarding Community Reinvestment," last updated April 20, 2014, https://www.fdic.gov/regulations/laws/rules/2000-6750.html.
[14] Shane Kite, "SBIC Revival: Why Interest from Banks is Way Up, As the Volcker Rule Looms," *American Banker*, April 28, 2014, http://www.americanbanker.com/magazine/124_04/sbic-revival-why-interest-from-banks-is-way-up-as-the-volcker-rule-looms-1066822-1.html.
[15] Five SBICs in this group have an early-stage focus.
[16] SBA, *Small Business Investment Company (SBIC) Program Overview as of September 30, 2015*, accessed September 30, 2016, https://www.sba.gov/sites/default/files/files/WebSBICProgramOverview_September2015.pdf.

For a more detailed explanation of these SBIC programs, see the glossary in Appendix I.

Costs of the SBIC Program

Since the beginning of FY 2000 (October 1, 1999), the SBA has operated the debenture SBIC Program at zero subsidy. The agency accomplishes this by charging SBICs 3 percent up-front fees and annual fees on the leverage balances. The SBA formulates these fees each year, spreading the costs of riskier strategies, such as early-stage investments, across the investment portfolio. As of September 30, 2015, the total amount of private capital and SBA capital at risk in the SBIC Program was approximately US$25.3 billion.[17]

Previous Findings on Job Creation by the SBIC Program

The first of SBA's three strategic objectives, as outlined in its FY 2014-18 Strategic Plan, is Strategic Objective 1: "Growing Businesses and Creating Jobs"[18] (The other two were meeting the needs of small businesses and serving as their voice). Given the primacy of job creation to the SBA, it is important to examine how well the agency is doing in this critical area.

Underpinning the SBA's current claims regarding job creation is the *1999 Arizona Venture Capital Impact Study*, which was conducted by the Zermatt Group. This study concluded that US$122.2 million of venture capital invested in Arizona businesses in 1997 would generate a company revenue total of about US$800 million through 2002. Therefore, every dollar of venture capital investment resulted in US$6.54 in revenue returns over a five-year period. In addition, the investment led to the creation of 3,400 jobs.[19] The ratio of investment (US$122.2 million) to jobs (3,400) was US$36,000.

Relying on the Arizona study, the SBA publishes estimates of the numbers of jobs created or sustained by the SBIC Program at the end of each fiscal year explicitly based on the assumption that "[one] job is created for every US$36,000 of . . . investment (adjusted for inflation)." However, it is not advisable to extrapolate from this metric: It is dated, geographically limited to one state, and focused only on venture capital, which excludes the SBA's late-stage investment

[17] SBA, *Small Business Investment Company (SBIC) Program Overview as of September 30, 2015.*
[18] SBA, "SBA Strategic Plan, Fiscal Years 2014–2018,", https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA_FY_2014_-2018_Strategic_Plan-1.pdf.
[19] Justin M. Cook and Sean M. Nevins, *1999 Arizona Venture Capital Impact Study* (n. p.: Zermatt Group, 1999).

efforts. Nevertheless, as of the end of FY 2015, the SBA claimed on this basis that the SBIC Program had created or was sustaining 129,749 jobs—a 15 percent improvement from the previous year.[20]

In 2012, researchers affiliated with the U.S. Census Bureau's Center for Economic Studies and George Mason University published a study designed to establish whether "SBA loans create jobs."[21] However, it should be noted that the study assessed the impact of other SBA loan programs—specifically, 7(a) loan programs for small businesses and 504 loans for certified development companies—than the SBIC program of interest here.[22] The study examined matching samples of SBA loan recipients and all U.S. employers from 1976 to 2010 with similar "firm age, industry . . . pre-loan size," and employment history characteristics. The resulting job creation metric was much more modest than the one for the *1999 Arizona Venture Capital Impact Study*, although the two studies are not comparable. The researchers found "little or no impact of loan receipt [on jobs] *per se*, but an increase of about 5.4 jobs for each million dollars of loans."[23]

This study is designed to explore the role that the SBIC Program plays in small business job creation based on the most recent data from the SBA's Office of Investment and Innovation (OII).

MEASURING THE ROLE OF THE SBIC PROGRAM IN SMALL BUSINESS JOB CREATION

Methodology

The SBA's OII, which manages the SBIC Program, provided FRD with its data on SBIC fund managers and portfolio companies in which SBIC funds were invested. The authors restricted

[20] SBA, *Small Business Investment Company (SBIC) Program Overview as of September 30, 2015.*
[21] J. David Brown and John S. Earle, "Do SBA Loans Create Jobs? Estimates from Universal Panel Data and Longitudinal Matching Methods" (CES Working Paper 12-27, Center for Economic Studies, U.S. Census Bureau, U.S. Department of Commerce, Washington, DC, 2012), http://www2.census.gov/ces/wp/2012/CES-WP-12-27.pdf.
[22] According to the SBA, "certified development companies (CDCs) are nonprofit corporations certified and regulated by the [agency], that work with participating lenders to provide financing to small businesses" ("CDC/504 Loan Program: Find a CDC," accessed April 29, 2016, https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/real-estate-equipment-loans-cdc-504/cdc-504-loan-program-find-cdc). However, the SBA has clarified that CDCs are generally, but not exclusively, nonprofit corporations.
[23] Brown and Earle, "Do SBA Loans Create Jobs?," abstract, 14.

their attention to data from October 1995 through December 2014. This data was shared "AS IS" with FRD; that is, as it was reported by SBIC managers to the SBA. The SBA makes no representation or warranty, express or implied, with respect to the content, completeness, or accuracy of the information provided.[24]

The SBIC data provided by OII included information collected from SBA Portfolio Financing Report (SBA Form 1031) and SBA Annual Financial Report (SBA Form 468) filings. The one-page Portfolio Financing Report contains financial and demographic data on small businesses prior to their receipt of capital support through the SBIC Program. The 22-page Annual Financial Report contains annual financials for each SBIC, including employment data on the loans and investments for each year they participate in the program. Schedule 8 of the annual report contains employment and any other general data on the portfolio companies. Copies of both the Portfolio Financing Report and Schedule 8 of the Annual Financial Report are provided in Appendices III and IV. The complete forms can also be found online at: https://www.sba.gov/sbic/sbic-resource-library/forms.

Number of Portfolio Companies Used in This Analysis

OII uses the SBA Portfolio Financing Report (SBA Form 1031) to assess various characteristics of small businesses, including employment, *before* their financing events. It uses the SBA Annual Financial Report (SBA Form 468) to assess changes in those companies *while* they participate in the SBIC Program.

To ensure that the analysis was based on the most accurate data possible, the authors excluded the data from portfolio companies that did not submit a Portfolio Financing Report, and only used data from October 1995 to December 2014. The authors also excluded financings that were related to the purchase of taxi medallions by excluding all portfolio companies in NAICS code 48531—these taxi financings were performed primarily by two or three SBICs but skew the measurement of job creation. The resulting data include over 11,500 portfolio companies that received investments from the various funds participating in the SBIC Program (see table 1).

[24] FRD employees and contractors signed confidentiality agreements, which stipulated they would not "publish, divulge, disclose, or make known in any manner" SBIC data.

Table 1. Number of Portfolio Companies Receiving Funding from SBIC Funds

Type of SBIC Fund	Number of Companies
Non-Leveraged	1,788
Debenture	5,596
Participating Securities	2,926
Specialized	1,371
Total	11,681

Occasionally, some portfolio companies may receive funding from different types of SBIC funds. For example, a company may receive financing from both a non-leveraged SBIC and an SBIC licensed through the debenture program. In such instances, that firm would be counted twice—once under each SBIC fund category. However, such instances are extremely uncommon; the analysis presented here is unaffected by excluding such firms.

Measuring Job Creation

For each portfolio company, an initial employment figure was established by recording the earliest available employment number reported on either the SBA Portfolio Financing Report (SBA Form 1031) or the SBA Annual Financial Report (SBA Form 468). Similarly, the last available employment figure was recorded as the final headcount for each firm.

If the employment data were missing from the first record of an individual portfolio company, the authors took the value from the next record, if available; otherwise, they set the initial headcount as equal to the final headcount in order to obtain a conservative measure of job creation. Similarly, if the final headcount was missing, they took the value from the penultimate record if it was available. These imputations expanded the available data but did not materially affect the calculations that were performed in the analysis.

These calculations gave rise to two distinct measures of job creation: jobs created and jobs created or sustained. The latter—jobs created or sustained—was computed by recording the final headcount for each company. The former—jobs created—was obtained by taking the difference between the final and initial employment figures listed for each company. This is a conservative measure of job creation inasmuch as a great many firms reported maximum employment levels that exceeded the final employment tally that was recorded. In that sense, job growth that was transient was not included in the calculation. Additionally, this figure does not account for jobs that were created or sustained indirectly.

In terms of interpretation, these two measures—jobs created and jobs created or sustained—are at the extreme ends of the job creation spectrum. On one end, jobs created is the appropriate measure of job creation under the assumption that the initial headcount for each portfolio company would have been sustained in the absence of SBIC funding: in that case, only the incremental employment reflects actual job creation. On the other end, if one were to assume that none of the jobs in the firm would have remained were it not for the SBIC funding that the firm received, then jobs created or sustained is a more appropriate measure of job creation because, in addition to the incremental employment, it also includes the jobs that were not shed over time. Accordingly, jobs created and jobs created or sustained can be interpreted as bounds on the amount of job creation that has occurred as a result of the SBIC Program. The facts at hand may place any specific case somewhere between these two poles, but they provide reasonable bounds on the amount of job creation that has occurred.

Measuring Total Investment

To arrive at a measure of the number of dollars invested per job created, this analysis also tracked the amount of SBIC funding that each portfolio company received. The SBA Portfolio Financing Report (SBA Form 1031) records the amount of debt, equity, and hybrid securities that each firm receives at each financing event. To construct the financing measures, the authors summed the total amounts of each type of funding that the individual companies received. Because this analysis did not attempt to compare individual SBICs with one another in terms of how many jobs were created, the authors aggregated data across SBIC funds in instances where multiple funds invested in the same portfolio company.

Measuring the Employment Impact of Investments

The final step of the analysis measures the employment impact of the SBIC investments by computing the ratio of the total dollars invested by the number of jobs created. Because most firms start small and stay small, though some do add many jobs, the analysis is aggregated down to the level of each SBIC investment program. This allows for a comprehensive picture of the role the overall SBIC Program plays in small business job creation.

MEASURING THE EMPLOYMENT IMPACT OF THE SBIC PROGRAM

Measuring Job Creation in SBIC-Funded Portfolio Companies

Table 2 reports the aggregated employment figures for SBIC-funded portfolio companies. The total initial employment in the sample was almost 6.5 million workers across 11,681 firms over a period of nearly 20 years. Summing up the last recorded employment count for all of the firms in the data yields a total of 9,457,965 jobs, which implies that a total number of 2,960,177 jobs were created between October 1995 and December 2014.

Table 2. Total Job Creation in SBIC-Funded Portfolio Companies

Type of SBIC Fund	Number of Companies	Total Employment			
		Initial	Final	Jobs Created	Jobs Created or Sustained
Non-Leveraged	1,788	1,517,224	2,465,657	948,433	2,465,657
Debenture	5,596	3,049,361	3,748,951	699,590	3,748,951
Participating Securities	2,926	1,860,879	3,142,195	1,281,316	3,142,195
Specialized	1,371	70,324	101,162	30,838	101,162
Total	**11,681**	**6,497,788**	**9,457,965**	**2,960,177**	**9,457,965**

Breaking the employment data out across the different types of SBIC funds shows a tremendous amount of variation in the numbers of jobs created and jobs created or sustained. For example, the participating securities program was responsible for funding businesses with the highest number of total jobs created (1,281,316), followed by non-leveraged funds (948,433), and then by debenture funds, whose portfolio companies created 699,590 jobs. Debenture-funded portfolio companies created or sustained the most number of jobs (over 3.7 million), with portfolio companies funded through the participating securities program coming in second at slightly over 3.1 million jobs. Non-leveraged SBIC funds created or sustained almost 2.5 million jobs during this period. Relative to the other SBIC programs, firms funded by the specialized program were associated with only modest aggregate employment.

One reason why the total employment figures across the programs differ is that the average firm size varies across the program types. This can be seen in table 3. While an average of 253 jobs were created and 810 jobs were created or sustained per firm, there was significant variation across the groups. Businesses financed by non-leveraged SBICs were the largest in terms of final employment, with 1,379 jobs created or sustained on average. Firms financed by SBICs from the participating securities program were the second largest, at 1,074 jobs created or sustained on average. Companies financed through the debenture program were a little bigger than half this size, at 670 jobs created or sustained on average, while firms financed through the specialized program were small by comparison.

Table 3. Jobs Created per SBIC-Funded Portfolio Company

Type of SBIC Fund	Number of Companies	Jobs per Company		Job Creation Rate
		Created	Created or Sustained	
Non-Leveraged	1,788	530	1,379	0.63
Debenture	5,596	125	670	0.23
Participating Securities	2,926	438	1,074	0.69
Specialized	1,371	22	74	0.44
Total/Average	**11,681**	**253**	**810**	**0.46**

The programs also differ in terms of the average numbers of jobs created and created or sustained. The final column of table 3 divides the number of jobs created by the initial head count to report a job creation rate. The non-leveraged and participating securities programs created the most number of jobs per job sustained, at over 0.6 jobs created per initial job, while the average across the whole sample was about one-half job created per initial job. The reasons for the differences in job creation may be attributed to the type of financings provided by each of these different funds. The next section considers the types of financings provided by these different SBICs.

Measuring Total Investment in SBIC-Funded Portfolio Companies

Table 4 shows that the portfolio companies in the sample across all SBIC programs accounted for a financing total of almost US$43 billion from October 1995–December 2014. Slightly over US$17 billion (40 percent) of that funding came through the debenture program. SBICs in the non-leveraged and participating securities programs each accounted for around US$12 billion (30 percent) of financing. The specialized program was small in comparison—$774 million (1.8 percent).

Table 4. Total Dollars Invested by Type of Fund and Security

Type of SBIC Fund	Number of Companies	Total Invested Overall by Security Type (in US$ millions)			
		Debt	Debt/Equity	Equity	Total
Non-Leveraged	1,788	$739	$2,274	$9,422	$12,435
Debenture	5,596	$7,311	$6,263	$3,607	$17,181
Participating Securities	2,926	$817	$2,280	$9,311	$12,408
Specialized	1,371	$487	$160	$127	$774
Total	**11,681**	**$9,355**	**$10,976**	**$22,468**	**$42,799**

The fact that the amounts of debt and equity vary according to the type of fund is a reflection of the different investment strategies commonly used by funds in each program. Not surprisingly, for example, the vast majority of financing provided through the debenture program is either debt or a hybrid of debt and equity—for example, mezzanine debt with warrants attached. The numbers also reflect the fact that, occasionally, funds operating under different programs may invest in the same portfolio company.

As shown in the table above, over 75 percent of the non-leveraged and participating securities financing dollars were in the form of equity, while less than 21 percent of the debenture and specialized financing dollars were through equity. These types of SBICs also showed the highest job creation rates, which is a reflection of the natural tendency for equity investments to be more common among higher risk, higher growth companies, while debt investments are more common among lower risk, lower growth companies.

Measuring the Employment Impact of SBIC Funding

Table 5 provides a calculation of the ratio of SBIC financings to jobs created and jobs created or sustained. The bottom row of the table shows that, across the board, SBIC programs invested a total of approximately US$14,500 per job created, while a little over US$4,500 was invested per job created or sustained.

Table 5. Ratio of SBIC Dollars Invested to Jobs Created and Jobs Created or Sustained by Type of Fund

Type of SBIC Fund	Number of Companies	Ratio: Total SBIC Financing per Job[25]	
		Jobs Created	Jobs Created or Sustained
Non-Leveraged	1,788	$13,112	$5,043
Debenture	5,596	$24,559	$4,583
Participating Securities	2,926	$9,684	$3,949
Specialized	1,371	$25,108	$7,654
Total/Average	**11,681**	**$14,458**	**$4,525**

As with the earlier analyses, there is substantial variation in these dollars-per-job-created figures depending on the type of fund. Firms funded through the non-leveraged program, for example, created jobs at a rate of around US$13,000 in SBIC financing per job created, while companies funded through the debenture program created jobs at a rate of approximately US$25,000 of SBIC financing per job created.

The programs also rank differently in terms of the dollars invested per job created or sustained, largely because the average firm size varies across the program types. For instance, portfolio companies financed through the non-leveraged program come in at an average of around US$5,000 in SBIC financing per job created or sustained, while businesses financed through the specialized program created or sustained jobs at a rate of over US$7,600 per job.

As a final step, the authors investigated whether there have been important changes over time in the ratio of financing dollars per job created or sustained. To do this, they restricted attention to only those firms financed by active licensees. Limiting the sample in this way allowed them to consider whether the costs have changed over time. The sample breakdown for firms financed by active licensees is in table 6.

[25] This figure only represents SBIC financing dollars per job. As noted previously, the authors do not know the total amount of capital that these businesses received from other sources—funding from banks and other capital providers could be important for many portfolio companies. The SBA only began tracking the size of the round or deal in which the SBIC participated as part of its financing form in 2013, so that they could better understand the contribution to the total financing by SBICs. Based on analyzing this data, the authors found that, on average, SBICs contributed around 40 percent of the total financing received in each financing round since the SBA started tracking this figure. Using a 40 percent contribution, the total financing dollars from all sources per job would be $36,145 per job created and $11,313 per job created or sustained.

Table 6. Number of Portfolio Companies Receiving Funding from Active SBIC Licensees

Type of SBIC Fund	Number of Companies
Non-Leveraged	390
Debenture	2,041
Participating Securities	548
Specialized	199
Total	**3,178**

Lastly, table 7, which highlights the ratio of total SBIC financings to the numbers of jobs created and jobs created or sustained by fund type among active licensees, shows higher average financing dollars per job than the overall analysis. This is particularly the case among firms financed through the debenture program, which shows an average cost of just over US$33,000 per job created and around US$5,200 per job created or sustained. It is important to recognize this because table 7 restricts attention to active licensees only, where there is a preponderance of newer investments, many of which may not have had sufficient time to grow. These numbers should be interpreted with that caveat in mind.

Table 7. Ratio of Total SBIC Financings to Jobs Created and Jobs Created or Sustained by Type of Fund for Active SBICs

Type of SBIC Fund	Number of Companies	Ratio: Total Financing to Jobs	
		Created	Created or Sustained
Non-Leveraged	390	$11,214	$4,616
Debenture	2,041	$33,646	$5,203
Participating Securities	548	$5,801	$3,081
Specialized	199	$661,031	$7,106
Total/Average	**3,178**	**$16,340**	**$4,603**

MEASURING THE GOVERNMENT COST OF THE SBIC PROGRAM

It is important to recognize that the calculations presented above relate program dollars invested to jobs created and jobs created or sustained, not the taxpayer costs associated with these jobs. The taxpayer costs of these jobs is the net administrative costs of the SBIC Program (the gross administrative costs less the licensing and examination fees) minus the incremental tax revenue generated by firms and individuals that would not have been generated in the absence of the program.

As table 8 demonstrates, the taxpayer costs associated with these programs is small relative to the amount of dollars deployed. Indeed, the SBA has operated the debenture SBIC Program at zero subsidy since FY 2000. Overall, the SBIC Program provided US$57.2 billion of financing dollars between 1999 and 2015 for a net administrative cost of approximately US$138 million, or roughly one penny of net administrative costs for every US$4 deployed.

Table 8. Breakdown of SBIC Administrative Costs

Item	Amount
Total SBIC Financing Dollars	$57,229,853,052
Total SBIC Administrative Expenses	$185,080,017
Minus Licensing and Exam Fees	$46,727,000
Net Administrative Costs	$138,353,017
Net Administrative Costs per Financing Dollar	$0.0024

Source: SBA provided administrative costs on the SBIC program from its program overviews. Administrative costs include the direct costs from the operating budget, including contracts, compensation and benefits, but may not include agency wide costs, such as rent and telecommunications and indirect costs. SBA also provided the administrative fees it collected to offset its administrative costs. The net government administrative cost was calculated by subtracting administrative fees from the administrative direct costs identified in its program overview. Financing dollars were based on Form 1031 data.

Based on an average administrative cost of one cent per US$4 deployed, table 9 reports the administrative cost per job created and per job created or sustained. The taxpayer costs associated with these jobs is quite low.[26] The calculation reported in table 9 does not account for the fact that taxes are paid by both employees and the companies. At some level, the administrative costs per job reported here are offset even further by the income taxes paid by employees who would not otherwise be working, by companies that would not otherwise be generating profits, and by investors who would not otherwise be earning returns.

[26] The administrative costs for the participating securities program are substantially higher if the subsidy costs of the government leverage issued are included in the calculation. The SBA's fiscal year 2017 budget estimates these subsidy costs of government leverage at 26.3 cents per dollar, which implies a cost of 18.28 cents per dollar for the participating securities program. This raises the total administrative costs to US$1,771 per job created and US$771 per job created or sustained through the participating securities program. These subsidies do not impact the costs associated with the other SBIC investment programs.

Table 9. SBIC Administrative Costs per Job Created and Job Created or Sustained

Type of SBIC Fund	Number of Companies	Ratio: Total SBIC Financing per Job		Ratio: Administrative Cost per Job	
		Jobs Created	Jobs Created or Sustained	Jobs Created	Jobs Created or Sustained
Non-Leveraged	1,788	$13,112	$5,043	$31.70	$12.19
Debenture	5,596	$24,559	$4,583	$59.37	$11.08
Participating Securities	2,926	$9,684	$3,949	$23.41	$9.55
Specialized	1,371	$25,108	$7,654	$60.70	$18.50
Total/Average	**11,681**	**$14,458**	**$4,525**	**$34.95**	**$10.94**

CONCLUSION

Congress created the SBA's SBIC Program in 1958 and since the program's inception through December 2015, SBICs have deployed US$80.5 billion in capital (two-thirds from the private sector) into approximately 172,800 financings. This study has assessed the job creation that resulted from this investment activity.

The authors' analysis indicates that SBIC-funded small businesses created almost 3 million jobs during the sample period, which extended back to October 1995 and ran through December 2014. In addition, these SBIC-funded small businesses created or sustained almost 9.5 million jobs during this time.

Putting these jobs and financing figures together reveals that, on average, one new job was created for every US$14,458 of funding invested through the SBIC Program, while an average of one job was created or sustained for every US$4,525 invested. If attention is restricted to only those portfolio companies financed by active licensees, the ratios are one job created for every US$16,340 invested, and one job created or sustained for every US$4,603 invested. While these numbers are qualitatively similar, it is important to recognize that the time period covered by the active licensees is more heavily influenced by the Great Recession in the late 2000s than the overall sample.

These findings indicate that SBIC-funded small businesses are a robust source of job creation in the U.S. economy. Nevertheless, it is important to point out the limitations that are inherent in this type of analysis. Because the SBA's SBIC data only track firms during the time that they are receiving SBIC funding, it is possible that these businesses could grow or shrink after this funding ceases, which could result in job gains or losses that would go unmeasured by this analysis. In addition, the analysis presented here does not account for any potential funding that firms received from non-SBIC sources.

A more important shortcoming stems from the inherent difficulty in establishing causal interpretations to the numbers presented here. Because it is practically impossible to know what employment in these businesses would have looked like in the absence of SBIC funding, it is difficult to take a stand on whether the SBIC funding caused the job creation, or whether similar levels of job creation could have been achieved through alternative means of financing. Ultimately, questions of this nature go far beyond the scope of the current analysis.

These caveats notwithstanding, the analysis presented here, when compared to previous estimates for the private equity industry, suggests that the ratio of investments to jobs is at least as attractive in the SBIC Program as is found elsewhere in the private equity sector as a whole. Moreover, because the program operates at a relatively low administrative cost, the government costs per job created and per job created or sustained is easily outweighed by the tax revenues generated by the employment, profits, and returns of the firms that receive the investments.

APPENDIX I. GLOSSARY

Community Reinvestment Act

Enacted by Congress in 1977, the Community Reinvestment Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate.

Debenture

A corporate finance term that refers to a medium- to long-term debt instrument used by large companies to borrow money at a fixed rate of interest. For the purposes of the Small Business Investment Company (SBIC) Program, while authorized under the Small Business Investment Act to have a maximum term of 15 years, substantially all SBIC debentures are issued for a 10-year term.

Debt Financing

Financing based on debt instruments, such as bond issues or long-term notes payable.

Debt-Plus-Equity Financing

Financing based on debt instruments, such as bond issues or long-term notes payable, and equity, such as common stocks, preferred stocks, or retained earnings.

Dodd-Frank Wall Street Reform and Consumer Protection Act

Signed into law by President Barack Obama on July 21, 2010, this act is intended to promote the financial stability of the United States by improving accountability and transparency in the financial system, to protect American taxpayers by ending bailouts, and to protect consumers from abusive financial services practices, among other purposes.

Equity Capital/Financing

Money raised by a business in exchange for an ownership share of the company, by either owning shares of stock outright or having the right to convert other financial instruments into stock. Two key sources of equity capital for new and emerging businesses are angel investors and venture capital firms.

Hybrid Financing

Combined debt and equity financing.

Leverage

The ratio of a company's loan capital (debt) to the value of its common stock (equity).

Licensee

A private investment fund licensed as an SBIC by the U.S. Small Business Administration (SBA).

Limited Partnership

A partnership consisting of a general partner, who manages the business and has unlimited personal liability for the business's debts and obligations, and a limited partner, who has limited liability but cannot participate in the management of the business.

Lower-Middle Market

The market segment containing businesses with between US$5 million and US$10 million in annual revenues.

Mezzanine Financing

Mezzanine debt is used by companies that are cash-flow positive to fund further growth through expansion projects, acquisitions, recapitalizations, and management and leveraged buyouts. When mezzanine debt is used in conjunction with senior debt, it reduces the amount of equity required in the business. As equity is the most expensive form of capital, it is most cost effective to create a capital structure that secures the most funding, offers the lowest cost of capital, and maximizes return on equity.

North American Industry Classification System (NAICS)

The standard used by federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. economy.

Office of Investment and Innovation (OII)

The office within the SBA that operates the SBIC Program.

Portfolio Company

An entity in which a venture capital firm, buyout firm, holding company, or other investment fund invests. All of the companies currently backed by a private equity firm can be referred to as the firm's portfolio.

Private Equity/Capital

An asset class consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange. A private equity investment will generally be made by a private equity firm, a venture capital firm, or an angel investor.

Private Equity Fund

A collective investment scheme used to make investments in various equity (and, to a lesser extent, debt) securities according to one of the investment strategies associated with private equity.

SBA Annual Financial Report (SBA Form 468)

The OII uses the Annual Financial Report to assess changes in SBICs while they participate in the program. SBICs submit them quarterly and they are audited annually.

SBA Portfolio Financing Report (SBA Form 1031)

The OII uses the Portfolio Financing Report to assess various characteristics of small businesses before their financing events. SBICs submit the form within 30 days of the close of financing. This form contains portfolio concern financing and supplementary information that the SBA uses to evaluate an SBIC's investment activities and compliance with SBIC Program requirements. The agency also pools the information provided by individual SBICs on these forms to analyze the SBIC Program as a whole and the impact of SBIC financings on the growth of small businesses.

SBIC Funds (by Type)

Bank-owned: Bank-owned SBIC funds are typically non-leveraged financings. Banks sometimes prefer owning the SBICs themselves because doing so allows them to have more control over where the fund investments are made while avoiding the risks associated with leveraged financing. These SBICs generally focus on later-stage, mezzanine, and buyout investments using primarily debt and hybrid financing.

Debenture: Debenture SBICs generally focus on later-stage, mezzanine, and buyout investments using primarily debt and hybrid financing

Non-leveraged: Non-leveraged SBIC funds make up approximately 15 percent of the active SBICs. Generally focused on later-stage, mezzanine, and buyout investments using primarily debt and hybrid financing, their private capital is not supplemented with SBA-guaranteed debentures.

Participating Securities: The SBIC Program's participating securities effort was the SBA's original attempt to infuse funding into the venture capital industry. It began in 1994, in time to catch the dot-com wave, and was suspended in 2004, when the SBA stopped issuing new licenses. Under the program, the SBA matched up to twice the amount of private capital raised by a qualified firm. Some venture capital businesses, such as Triathlon, which raised its debut fund under the initial program, succeeded, but others foundered.

Specialized: The specialized SBIC program was authorized between 1969 and October 1996 to target "disadvantaged" businesses, meaning those that were at least 50 percent owned, controlled, and managed on a day-to-day basis by a person or persons whose participation in the free enterprise system was hampered because of social or economic disadvantages.

Small Business

A business with less than US$19.5 million in tangible net worth AND an average after-tax income for the preceding two years of less than US$6.5 million; OR, a business that qualifies as "small" under NAICS code standards (which are generally based on annual sales or the number of employees).

Venture Capital

Early-stage funding for startup companies that are high on risk but also high on potential. Venture capital is a type of equity financing that addresses the funding needs of entrepreneurial companies that—for reasons of size, assets, and stage of development—cannot seek capital from more traditional sources, such as public markets and banks. Venture capital investments are generally made as cash in exchange for stock shares and an active role in the invested company.

Volcker Rule

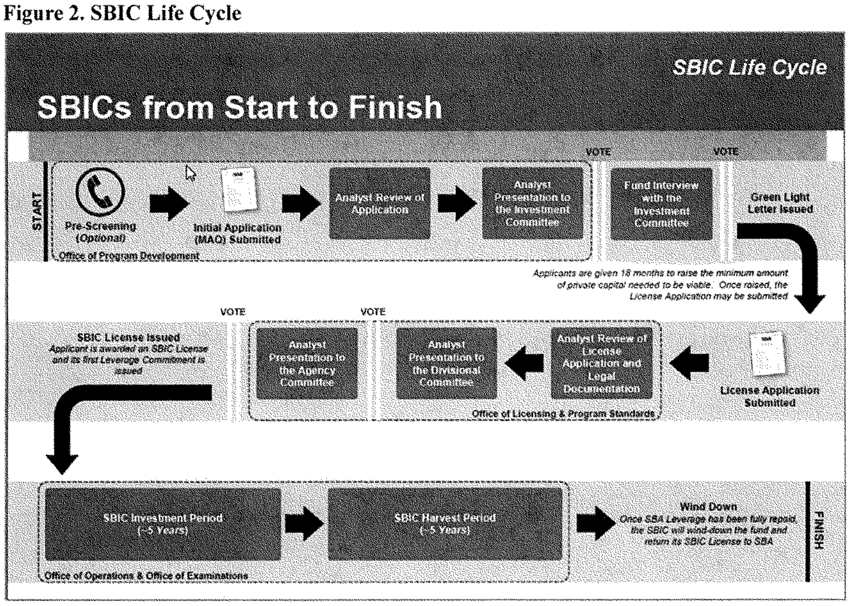
A section of the Dodd-Frank Act, originally proposed by American economist and former Federal Reserve Chairman Paul Volcker to restrict U.S. banks from making certain kinds of speculative investments that do not benefit their customers.

Note: These definitions were compiled from various sources, including websites and official documents of U.S. government organizations, such as the Federal Financial Institutions Examination Council, the U.S. Census Bureau, the U.S. Small Business Administration, and the White House; the websites of trade associations, such as the National Association of Investment Companies and the National Venture Capital Association; and trade platforms, such as *Crunch Base* and *Investopedia.*

APPENDIX II. SBIC LIFE CYCLE

The SBIC life cycle begins with an extensive application process. Following an optional pre-screening of applicants by telephone, the first required step in applying for an SBIC license is the submission of a management assessment questionnaire (MAQ). After the SBA's investment committee reviews the MAQ, the agency issues a green-light letter. It is only upon the receipt of this letter that an applicant may submit a formal license application. This application is subject to additional review by the SBA's Office of Licensing and Program Standards before an SBIC license is issued. Once licensed, and if eligible under SBA regulations, an SBIC may apply for a leverage commitment. The SBIC then goes through investment and harvest periods (where investments are later sold), each of which extends for approximately five years. When the leverage has been repaid, the SBIC winds down the fund and returns its license to SBA (see fig. 2).

Figure 2. SBIC Life Cycle



Source: "Bridging the Capital Formation Gap."

APPENDIX III. SBA PORTFOLIO FINANCING REPORT (SBA Form 1031)

OMB No. 3245-0078
Expiration Date 10/31/2017

U.S. Small Business Administration
Portfolio Financing Report

Name of Licensee________________________________ License Number__________

Part A - Small Business Concern Data

1. Name of Small Business ______________________________ 2. Employer Identification Number ____-__________
3. Street Address ____
4. City____________________ 5. State______ 6. ZIP Code ________ 7. County ______________________
8. Small Business FAX ____________________ 9. Contact Person for FAX ______________________
10. Date Business Established __/__/__ 11. Form of Business ____ 1) Corporation 2) Partnership 3) Proprietor 4) LLC
12a. NAICS Code ____________ Industry ______________________________
12b. Energy Saving Qualified Investment? ____ If checked, was Energy Saving debenture used to finance investment? ____
13. Percentage of Small Concern (if any) Owned by: American Indian or Alaska Native: ____% Asian: ____% Black or African American: ____% Hispanic or Latino: ____% Native Hawaiian or Other Pacific Islander: ____% White: ____%
14a. Percentage of Small Concern Owned by Women (if any) _____% 14b. Percentage Owned by Veterans (if any) _______%
15. CEO or President (may select one or more): Woman:____ American Indian or Alaska Native: ____ Asian: ____ Black or African American: ____ Hispanic or Latino: ____ Native Hawaiian or Other Pacific Islander: ____ White: ____

Part B - Prefinancing Information

16. Prefinancing Status: ____ (1) New Information (2) Previously Submitted (3) Acquired Business (4) New Business
17a. Stage of Company at Financing:______________ 17b. Technology developed with SBIR/STTR funding:____________
18. Small Business Concern's Pre-Money Valuation: ____________________
19. Fiscal Year End Immediately Prior to Date of Financing (Month/Day/Year) ____/____/____
20. Gross Revenue for Prior Fiscal Year $____________ 21. After-Tax Profit or (Loss) for Prior Fiscal Year $__________
22. Income Taxes for Prior Fiscal Year: Federal $______________ State $______________ Local $______________
23. Net Worth $____________ 24. Number of Employees ________

Part C - Financing Information

25. a. Date of Financing ___/___/___ b. Date of Disbursement ___/___/___ 26. Did Licensee lead this investment? ____
27. Purpose of Financing (Percentage of Financing that will be used to support each category below. Percentages should total to 100%.)

a. Working Capital or Inventory Purchase	___	f. Acquisition of Machinery and Equipment	___
b. Plant Modernization or Leasehold Improvement	___	g. Land Acquisition or Dwelling Construction	___
c. Acquisition of All or Part of an Existing Business	___	h. Marketing Activities	___
d. Consolidation of Obligations or Non-SBIC Debt Refunding	___	i. Research and Development	___
e. New Building or Plant Construction	___	j. Other	___

28. Is this the first Financing of this Small Business by the Licensee? ______
29. Financing Instruments and Applicable Amounts (for participations, include Licensee's portion only):

Instrument	Amount	Initial Interest Rate(s)	% Actual Ownership
Loan Only	$________	________%	
Debt with Equity Features	$________	________%	
Equity Only	$________		________%
Total Licensee Financing	$________		

30. Total Size of Financing Round for Small Business Concern: ____________________
31. Comments:

Part D - Transmission Verification　　Transmission Date ____/____/____

SBA Form 1031 (3/14) Previous Editions Obsolete

OMB No. 3245-0078
Expiration Date 10/31/2017

U.S. Small Business Administration

Portfolio Financing Report

Use of Information: SBA Form 1031 is to be completed only by small business investment companies (SBICs) licensed by the Small Business Administration (SBA). This form contains Portfolio Concern financing and supplementary information that SBA uses to evaluate an SBIC's investment activities and compliance with SBIC program requirements. SBA also pools information provided by individual SBICs to analyze the SBIC program as a whole and the impact of SBIC financings on the growth of small business.

Instructions for Submitting Completed Form: SBA Form 1031 must be completed and filed electronically in the SBIC-Web system. SBIC-Web requires an SBA-approved user account. Submit your account request to sbicwebsupport@sba.gov.

PLEASE NOTE: The estimated burden for completing this form is 12 minutes per response. You will not be required to respond to this information collection if a valid OMB approval number is not displayed. If you have questions or comments concerning this estimate or other aspects of this information collection, please contact the U.S. Small Business Administration, Chief, Administrative Information Branch, Washington, DC 20416 and/or SBA Desk Officer, Office of Management and Budget, New Executive Office Building, Room 10202, Washington, DC 20503.

PLEASE DO NOT SEND FORMS TO OMB.

APPENDIX IV. SBA ANNUAL FINANCIAL REPORT (SBA Form 468, Schedule 8)

SCHEDULE 8	Unaudited Portfolio Company Information AS OF	OMB Approval No. 3245-0063 Expiration Date 10/31/2017
Name of the Licensee:		License No.

Portfolio Company Name	Employer ID	% Own	% Vote	Cost at End of Period	Unrealized App (Dep)	Total Reported Value
		0%	0%	$0	$0	$0

General Portfolio Company Information

Business Description: NAICS:

Soybean farming, field and seed production

1st Date Invested: Overline?

Current Stage:

Exchange: Stock Symbol:

If original investment company's name changed, was acquired/merged, company name of original investment:

Address:

City/State:

Zip Code: LMI:

Other Comments:

Rounded to nearest $ **Portfolio Company Financial Information**

Fiscal Year End:	Period 1	Period 2	Period 3
As Of Date			
Basis Period			
Revenues	$0	$0	$0
Gross Profit	$0	$0	$0
EBITDA	$0	$0	$0
Interest Charges	$0	$0	$0
Net Income	$0	$0	$0
Cashflow from Ops.	$0	$0	$0
Burn Rate	$0	$0	$0
Cash Balance	$0	$0	$0
Current Assets	$0	$0	$0
Fixed Assets	$0	$0	$0
Total Assets	$0	$0	$0
Current Liabilities	$0	$0	$0
Debt	$0	$0	$0
Total Liabilities	$0	$0	$0
EOY Equity Value (Market)	$0	$0	$0
EOY Enterprise Value	$0	$0	$0

Full-time employees : -

Federal Taxes Paid : $0 State Taxes Paid : $0

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In addition, the authors consulted relevant federal codes, laws, and regulations; U.S. government websites, such as those maintained by the Federal Deposit Insurance Corporation and the U.S. Small Business Administration; newspapers, such as the *Guardian*; and the websites of industry trade organizations, such as the National Association of Investment Companies and the National Venture Capital Association.

SBIC Program
Financing to Businesses by State
Fiscal Year 2014 through Fiscal Year 2018

	FISCAL YEAR 2018			FISCAL YEAR 2017			FISCAL YEAR 2016			FISCAL YEAR 2015			FISCAL YEAR 2014		
State Name	# of Financings	# of Businesses	Amount of Financing ($M)	# of Financings	# of Businesses	Amount of Financing ($M)	# of Financings	# of Businesses	Amount of Financing ($M)	# of Financings	# of Businesses	Amount of Financing ($M)	# of Financings	# of Businesses	Amount of Financing ($M)
Alabama	1	1	9.6	5	4	17.3	8	7	71.4	9	3	21.6	7	6	42.1
Alaska	4	1	1.7	4	1	14.4	0	0	0.0	1	1	20.0	0	0	0
Arizona	56	26	96.6	62	18	168.5	79	26	95.5	57	24	82.8	33	21	64.7
Arkansas	13	5	53.4	11	6	24.6	5	2	6.5	28	5	57.6	11	1	2.8
California	392	175	1,049.1	447	189	993.5	483	192	1,041.3	438	196	1,015.3	297	151	765.7
Colorado	74	30	121.8	71	28	155.7	84	30	160.3	71	23	164.5	47	21	133.1
Connecticut	26	15	55.4	22	8	28.9	32	17	102.5	32	15	64.5	42	18	130.9
Delaware	3	2	2.4	4	3	16.6	9	3	20.3	5	2	27.0	5	5	9.4
District of Col.	7	5	14.7	3	2	2.0	5	3	6.0	0	0	0	1	1	0.3
Florida	154	63	256.5	202	70	417.8	176	62	418.5	217	74	476.6	136	52	335.1
Georgia	61	28	147.2	87	28	163.2	124	49	250.6	101	37	183.6	74	32	223.5
Guam	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Hawaii	0	0	0	0	0	0	0	0	0	1	1	0.5	3	1	1.8
Idaho	8	4	35.3	7	5	9.3	7	3	22.1	4	3	5.0	6	3	15.6
Illinois	164	66	341.5	184	46	288.7	222	70	386.0	172	52	244.5	118	49	252.2
Indiana	45	16	96.7	50	16	104.3	34	16	32.8	27	15	142.9	24	8	53.2
Iowa	4	2	4.1	5	2	16.0	4	3	18.6	1	1	1.8	6	3	23.4
Kansas	30	16	58.0	25	9	20.5	36	13	75.4	29	10	53.9	20	12	21.7
Kentucky	6	5	28.7	8	5	49.3	12	6	15.4	23	9	25.7	11	5	14.7
Louisiana	16	8	104.1	20	6	55.3	29	10	55.2	32	14	74.1	36	10	53.8
Maine	12	7	34.1	6	3	18.8	5	3	26.1	5	3	8.6	3	2	4.2
Maryland	42	11	57.0	38	16	76.0	36	12	61.3	32	17	126.5	18	12	33.4
Massachusetts	105	53	258.5	96	51	229.1	126	60	264.3	144	71	286.4	138	73	231.5
Michigan	72	28	116.6	59	20	133.7	44	21	107.7	83	36	254.4	18	12	82.1
Minnesota	69	28	92.7	124	30	185.2	83	29	145.3	55	26	165.7	54	26	166.3
Mississippi	7	4	26.4	17	3	17.6	22	3	21.5	7	2	6.4	2	2	23.4
Missouri	91	23	108.9	63	24	85.7	46	17	68.2	51	22	107.7	37	16	99.0
Montana	14	3	23.4	11	2	12.4	4	1	23.0	1	1	1.0	4	1	4.9
Nebraska	11	6	52.7	11	5	37.7	2	2	11.8	2	1	10.5	5	3	20.4
Nevada	7	4	23.3	6	3	1.3	12	2	16.7	16	4	53.5	6	3	29.6
New Hampshire	9	6	25.5	13	5	26.3	9	6	34.5	2	2	7.9	15	9	43.3
New Jersey	111	46	241.9	87	37	208.7	81	30	166.8	86	52	152.0	110	59	167.0
New Mexico	4	2	2.2	5	3	15.3	10	6	17.2	11	5	20.9	5	3	3.6
New York	233	124	482.6	178	94	389.9	247	123	373.1	183	108	329.0	236	139	506.1
North Carolina	72	28	138.5	84	36	167.3	114	40	164.5	140	41	198.8	137	49	271.5
North Dakota	21	2	10.3	18	4	12.9	16	4	15.0	0	0	0	0	0	0
Ohio	97	48	135.9	61	29	111.5	85	41	297.0	57	26	132.7	45	22	111.9
Oklahoma	27	8	29.8	22	10	27.8	32	12	52.1	40	15	65.2	31	9	36.7
Oregon	40	16	118.7	19	11	44.5	14	9	34.7	27	10	142.3	24	10	57.7
Pennsylvania	77	31	130.0	134	40	317.3	99	37	254.4	110	50	331.1	68	33	228.0
Puerto Rico	3	2	2.8	1	1	1.5	3	2	9.0	0	0	0	3	2	5.6
Rhode Island	9	2	10.0	3	2	1.1	4	2	15.7	6	2	6.1	6	3	10.6
South Carolina	18	10	53.6	49	10	46.0	36	16	98.4	14	7	38.5	33	13	73.2
South Dakota	3	2	20.0	0	0	0	2	1	0.4	2	1	8.5	9	3	30.4
Tennessee	48	23	123.2	50	25	124.7	44	19	100.2	43	20	73.6	41	21	137.5
Texas	276	89	427.6	253	94	486.1	273	107	527.4	269	106	701.9	237	85	538.2
Utah	49	31	75.6	43	23	61.3	57	34	90.6	71	40	125.4	39	21	129.5
Vermont	2	1	3.0	1	1	3.1	2	1	16.5	4	1	6.9	6	5	30.8
Virgin Islands	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Virginia	47	19	72.1	37	21	153.8	36	21	75.6	33	16	73.4	52	23	90.7
Washington	33	10	37.4	41	12	79.7	28	10	41.9	43	21	107.8	25	15	90.3
West Virginia	0	0	0	0	0	0	0	0	0.0	1	1	0.3	0	0	0
Wisconsin	37	15	91.3	32	14	105.3	29	17	78.0	29	14	79.0	25	12	63.0
Wyoming	1	1	0	0	0	0	2	1	4	0	0	0	0	0	0
	2,711	1,151	$5,502.6	2,779	1,077	$5,727.3	2,962	1,201	$5,991.7	2,815	1,210	$6,285.5	2,309	1,085	$5,464.6

○