



SSBCI 2.0

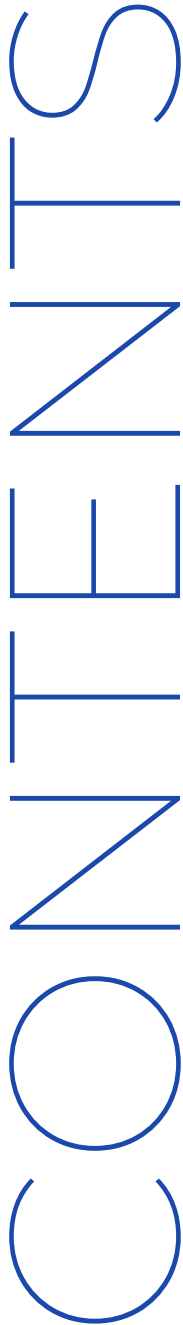
State Small Business
Credit Initiative

Summary Report

Hawaii Technology Development Corporation

November 1, 2021

Table of Contents



02

Introduction

03

SSBCI 1.0

04

SSBCI 2.0: Program Overview & Goals

06

Outreach: Key Take-Aways & Feedback

09

Plan & Recommendations

12

Budget

14

Next Steps & Timeline

15

Appendix A. Operational Chart

17

Supplemental Materials



The State Small Business Credit Initiative (SSBCI) program was first established by the Small Business Jobs Act of 2010 to support access to capital for small businesses. The Department of Treasury administers the program which allows states and territories opportunities to expand their existing small business programs or to design and implement new programs through public-private financing. The program was created in direct response to local economic conditions and challenges small businesses faced when securing financing opportunities. The Department of Treasury allows five categories of programs for States to administer: capital access programs, loan guarantee programs, loan participation programs, collateral support programs, and venture capital programs. The funds generated from these programs were to remain within the states to be recycled to help support more small businesses.

The American Rescue Plan Act (ARPA) of 2021 reauthorizes and amends the 2010 SSBCI Program. In the new SSBCI (2.0) program, ARPA appropriated \$10 billion to: support small businesses responding to and recovering from the economic effects of the COVID-19 pandemic, ensure business enterprises owned and controlled by socially and economically disadvantaged individuals have access to credit and investments, and provide technical assistance to help small businesses applying for various support programs. Of the \$10 billion, Treasury set aside \$3.5 billion for socially and economically disadvantaged businesses, businesses with less than 10 employees, tribal governments, and technical assistance. The following report details the State's DRAFT plan for SSBCI 2.0.

SSBCI 1.0

In 2010, the Jobs Act awarded \$1.4 billion for the State Small Business Credit Initiative to agencies in every state for small business financing programs including capital access programs, loan participations, loan guarantees, collateral support and venture equity programs.

In 2013, The Hawai'i Strategic Development Corporation served as the lead agency for the State of Hawai'i and used the \$13.2 million appropriation to establish a venture capital fund of funds program in Hawai'i. The Hawaii-based venture funds that participated in this program were: Blue Ventures I, II, III, Reef Fund, Startup Capital Ventures, GTA Development Fund, Upside, Energy Excelsior, and Mana Loa Ventures. Most of the venture capital funds established by the program continue to operate in Hawai'i today. The SSBCI was instrumental in providing the seed capital to kickstart the LAVA and HI Growth Initiatives. The state funds were equally important for SSBCI because they covered expenses that were not allowed by the federal program.

With the 100% pre-seed investment fund strategy, the program resulted in \$300+ Million in follow-on funding. Hawai'i's program attained almost 35:1 leverage ratio on SSBCI funds, and as of 2015, created/retained at least 679 direct jobs. The SSBCI program requires that state plans project that they can meet a 10:1 leverage ratio (\$10 private match to \$1 in SSBCI funds).

SSBCI 2.0

Program Overview & Goals

In 2021, in response to the COVID-19 pandemic, Congress reauthorized the SSBCI law and appropriated funds. Hawai'i's minimum allocation of the SSBCI appropriated funds is \$56,234,176 with additional funds potentially available for technical assistance and categorical programs. Funds will be deployed in three tranches over 7 years. The new SSBCI program's goal and focus is for States to reach underserved priority businesses. The Hawai'i Technology Development Corporation (HTDC) is designated as the lead agency for the State and is partnered with DBEDT to establish the program.

Hawai'i's goals will be for small businesses to access capital that otherwise is not possible, provide financial support to small businesses to rebound and grow, and to maximize: the federal award, number of businesses assisted, private sector leverage, return of investment and the economic development impact.



Types of Programs

There are 5 eligible program categories for the SSBCI Program.

01

Capital Access Programs (CAPs)

Loan portfolio insurance programs in which the lender and borrower pay an up-front premium to a reserve fund held by the originating bank. The state matches the premium in the originating lender's reserve fund.

02

Loan Participation Programs (LPP)

States buy an interest in the loans made by lenders or lend directly alongside private lenders.

03

Loan Guarantee Programs (LGP)

States provide partial loan guarantees.

04

Collateral Support Programs (CSP)

States set aside funds to augment collateral borrower pledges for new loans.

05

State-run Venture Capital Fund Programs (VC)

Provide equity capital to small businesses.

SSBCI 2.0

Outreach: Key Take-Aways & Feedback

To find the best fit for the SSBCI program in Hawai'i, HTDC conducted three months of outreach and discussion with various financial institutions, businesses and trade associations, foundations, the University of Hawaii, investor groups, social impact organizations, technical assistance organizations, economic development boards and other partners and organizations. Outreach included 13 informational sessions with over 150+ attendees and individual follow-up meetings. There were also additional research meetings with US Treasury, Federal Reserve, USDA, SBA, Guam, and States including: Colorado, Washington, Oregon, Utah, New Hampshire and Maryland.

A common theme across all groups was to keep the program as a tool to fill SBA gaps and to provide technical assistance for small businesses. Within the discussions, various entities shared that the SBA requirements were too rigid which disqualified a number of small businesses and required a substantial amount of paperwork. Small businesses and CDFIs recommended that the program services microloans under \$50K to very small businesses and start-ups.

In August we issued a draft plan to stakeholders which included the state offering a Loan Guaranty Program, a Loan Participation Program with direct lending by the State, and a Fund of Funds programs for venture capital, social impact investing and hybrid investment models.

After receiving further feedback from stakeholders we have revised the final plan which we believe will best serve our state.

Feedback From Outreach

Snapshot of the key insights offered from entities involved with the outreach

Small Businesses



Hesitant to take on more debt, they prefer grants over loans. If accessing debt, they prefer revolving lines of credit over loans. They felt that VC funds were too slow. Debt appetite will also depend on the interest rate of SSBCI financing programs as compared with Economic Injury Disaster Loans (EIDL) and other programs.

[Non-Depository] Community Development Financial Institutions (CDFI)



Prefer Loan Capital over credit enhancements and would like to build long term capital access capacity for CDFIs. They prefer to co-lend with other CDFIs or participate with traditional lending. Their loans typically range from \$50K-\$250K. If loan capital is not viable, interest in CAP & LGP.

Investors



Would be interested in a fund-of-funds approach and to structure a guarantee pool. SSBCI 2.0 should be building on the success of 1.0 and orchestrating it better. Would like to see workforce development and job creation in addition to wealth creation.

Credit Unions



”

High transaction costs and inefficiencies makes it difficult to process smaller loans.

They have underwriters available to participate and are willing to pool resources with larger credit unions. Interest in CAP & LGP.

Financial Institutions



”

Interest lies in the mid-market area and would like support when loaning to “hard-to-finance” industries such as: agriculture, restaurants, riskier tech-based projects, and start-ups in any industry (under \$50K start-ups and businesses less than 2 years old). Interest in LGP & CSP (some interest in CAP).

Support Partners/Foundations

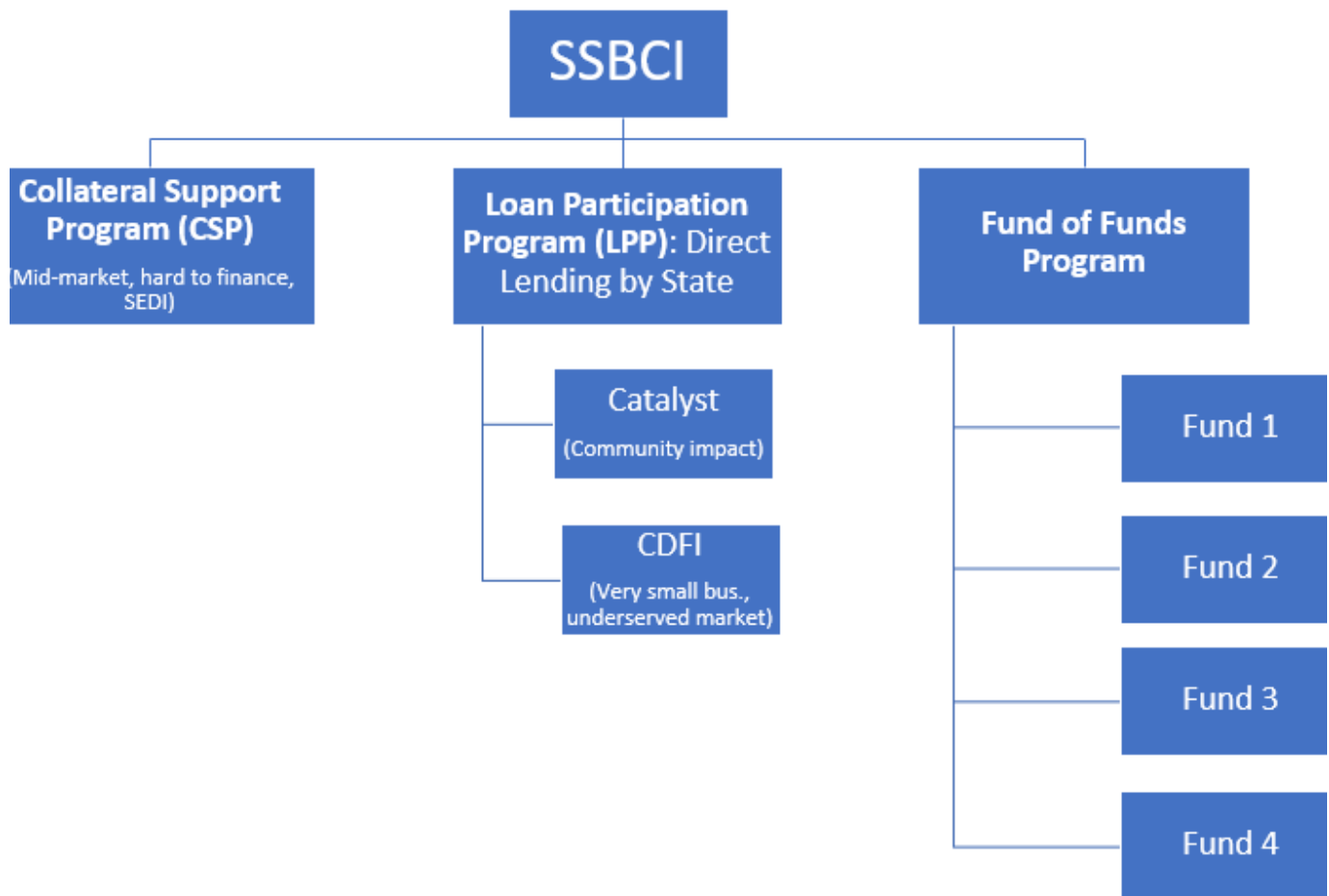


”

Would be interested in a fund-of-funds approach to invest in social impact funds and to structure a guarantee pool. Flexible loan capital would be the most helpful. Interest in LGP & loan loss reserve.

Plan and Recommendation

The plan and further recommendations are based on the discussions with various stakeholder and organizations involved with previous outreach.



The State's DRAFT Plan is to have 3 programs to help small businesses in Hawai'i.

1. A **Collateral Support Program (CSP)** to be offered by financial institutions. The program is intended to provide cash collateral to lending institutions to enhance collateral coverage of borrowers. Provides collateral to mid-market sized companies, hard to finance industries (startups, etc.) and Socially Economically Disadvantaged Individual (SEDI) companies.
2. A **Loan Participation Program (LPP)** where the State will direct lend to projects that have community impact including capitalizing our local non-depository CDFI business loan programs. This program will be modeled similar to the Hawai'i Green Infrastructure Authority's Green Energy Market Securitization (GEMS) program, which provides low-cost capital to finance clean energy improvements for underserved ratepayers.

3. **A Fund of Funds Program** will invest into private investment funds in targeted sectors. The State will operate a Fund of Funds program and invest capital in more than one fund, which may include venture capital (VC), social impact, and/or other alternative finance funds, as a limited partner. The funds will target pre-seed, seed, or Series A investment rounds.

The program will be designed to assist all small businesses allowed under SSBCI, such as: Start-up, sole proprietor, and small businesses with less than 100 employees, as well as businesses identified as priority sectors (Tech & Innovation, Manufacturing, Social Impact, exporting businesses servicing outside of the state of Hawaii).

The State will preferably invest in funds with the following profiles:

- VC funds investing in early-stage, high-growth companies in priority sectors: Technology, Innovation, SBIR, Manufacturing and Exports (goods/service outside of Hawaii)
- Social impact funds investing across the supply chain of the specific system in which they seek to have an effect
- Funds considering alternative funding models that serve a gap in the needs of local businesses
- Target SSBCI investments into portfolio funds \$1 - \$5 million

Currently, we anticipate that each program will receive \$18M-\$20M, which will be deployed in three tranches over 7 years. However, actual fund allocation shall depend on market demand and forces. The program will need to be flexible enough to deploy funds through the programs that have high initial demand to ensure timely distribution of the first tranche. The second tranche will not be available to the state until 80% of the first tranche is loaned to/invested into businesses. The second tranche will be the state's first opportunity to receive categorical funds for socially economically disadvantaged businesses. At this time, it is unclear on the requirements for accessing these funds. However, with the state's ethnic diversity and past SSBCI performance history, it is anticipated that Hawai'i will be a strong candidate for accessing additional funding. Therefore, it is very important to apply for these funds as soon as they become available which could be as early as one year after the first tranche is awarded.

Timeline

- Applications open: December 11, 2021
- Applications due for Capital Program Plan: February 11, 2022
- Applications due for Technical Assistance: March 31, 2022
- Tranche 2: 2024/2025 (3 years after approval of participation)
- Tranche 3: 2027/2028 (6 years after approval of participation)
- End of Program: September 30, 2030



Plan and Recommendation Summary

3 Programs to assist all small businesses allowed under SSBCI

- Collateral Support Program
- Loan Participation Program
- Fund of Funds

\$18M-20M per program

Program Operational Structure shown in Appendix A

Flexibility to move funds between programs

Deploy first tranche quickly and apply for additional set-aside funding

Budget

SSBCI Budget (DRAFT)			
SSBCI Investment Capital	FY 22 (6 mo.)	FY 23	FY 24
Capital Allocation	\$ 19,064,000		\$ 19,400,000
Revenue			
Technical Assistance Allocation	\$ 300,000	\$ 600,000	\$ 600,000
Administrative Expense Allocation	\$ 936,000	\$ -	\$ 600,000
State*	\$ 500,000	\$ 1,500,000	
Loan Program Revenue	\$ -	\$ 100,000	\$ 300,000
VC Program Revenue			\$ 100,000
Total Revenue	\$ 1,736,000	\$ 2,301,250	\$ 1,903,750
Expenses			
Loan Program Expenses**	\$ 140,000	\$ 325,000	\$ 420,000
VC-Management Expenses***	\$ 510,000	\$ 1,040,000	\$ 1,000,000
SSBCI Program Manager (HTDC Staff)****	\$ 65,000	\$ 140,000	\$ 147,000
Compliance Advisor	\$ 100,000	\$ 75,000	\$ -
Technical Assistance Contracts	\$ 350,000	\$ 700,000	\$ 700,000
Attorney (Specialized)	\$ 15,000	\$ 30,000	\$ 30,000
Software (Database)	\$ 60,000	\$ 30,000	\$ 30,000
Travel and Other Current Expenses	\$ 10,000	\$ 10,000	\$ 10,000
Total Expenses	\$ 1,250,000	\$ 2,350,000	\$ 2,337,000
Net Balance	\$ 486,000	\$ 437,250	\$ 4,000
* Forecast			
** Contracts and salary + fringe			
*** Annual fees encumbered in year 1			
**** Salary + fringe			

Budget

The budget forecasts anticipated revenue and expenses for the program. It assumes an “equal-share” allocation of SSBCI technical assistance funds and a calculated 5% administrative support allocation for the first tranche. The budget anticipates a state appropriation to support the effort. For SSBCI 1.0, the state ran the HI Growth initiative in parallel to the SSBCI program. The state funds were used to cover expenses that were otherwise ineligible using federal funds. The model is noted as a best practice by the SSBCI program. If state funds are not available, the programs available to the state may be limited resulting in less offerings and a less-balanced portfolio. Specifically, HTDC and HGIA do not currently have staff positions to implement these programs. The SSBCI administrative funds will be used to cover the staff positions and all other administrative expenses. If state funds are not available, the program will need to be scaled back and the timeline extended. In addition, depending on the guidance from Treasury, the SSBCI program may be very restrictive on the allowed use of technical assistance funds. With the lessons learned from SSBCI 1.0, the states have requested as broad an interpretation from Treasury as allowable by law and many states are pursuing a state matching appropriation.

All revenue generated by the SSBCI program must be used for the purpose of the SSBCI program. While the program is not intended by the federal government to be self-sustaining, the program will depend on modest revenue generation to help offset administrative expenses and allow the activities to continue beyond the 7-year timeline of the SSBCI program. It is not anticipated that any program will generate a revenue surplus that can be used to cover new programs.



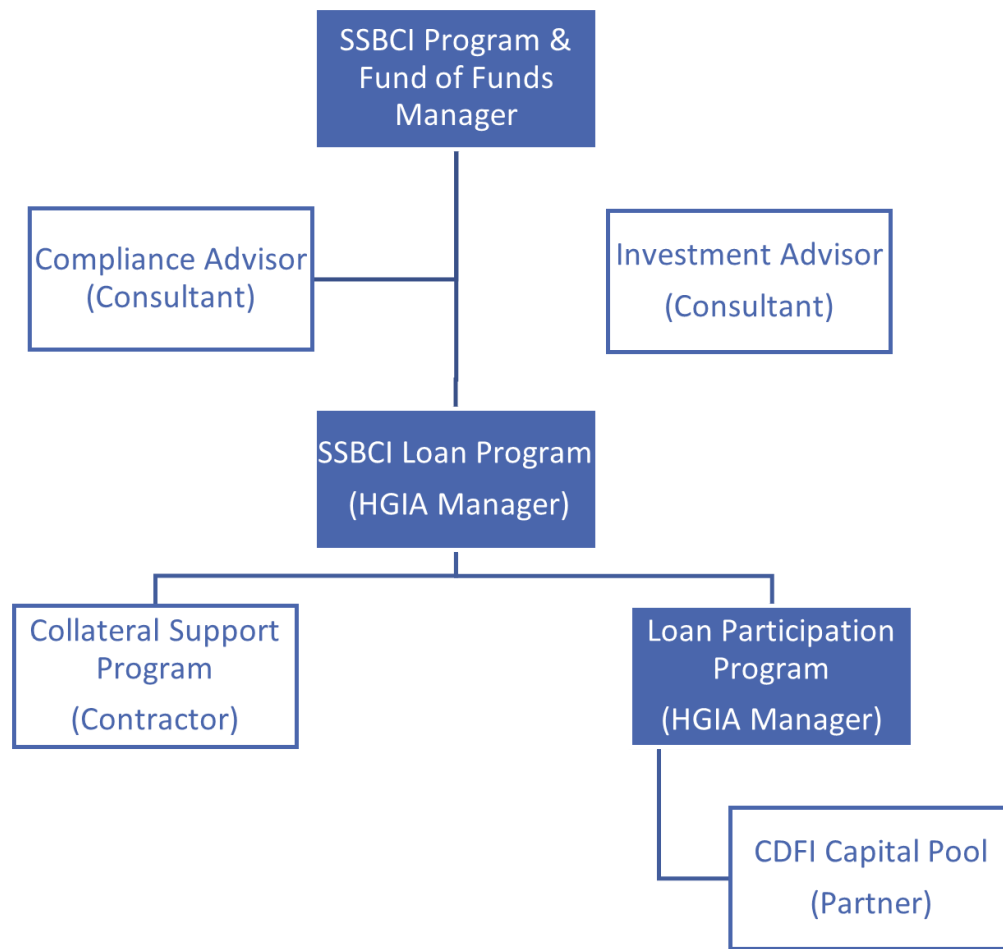
Next Steps and Timeline

HTDC has outlined an initial program plan detailed in this report. As we await final treasury guidance, we are moving forward with initial procurement processes and continuing our engagement with future partners. Below is a timeline of key milestone dates leading up to the launch of the program.

Milestones	Oct 2021	Nov 2021	Dec 2021	Jan 2021	Feb 2021	Mar 2021	Notes
Proposal							
Treasury Guidance Released							Treasury has not provided a new timeline
Submit Application							Revise per treasury guidelines, deadline 12/11/21
Treasury Review							Upon approval, sign Agreements
Receive First Tranche							
Program Management							
Program Development							Procurement, MOA, Develop Compliance/Reporting Process
Online Application Forms/Database Development							Develop online forms & database to track/report on all programs
Hire Advisors							Compliance & investment consultants
Hire Program Managers							Hire and train staff
Solicit Technical Assistance Providers							RFP for providers, contract
Collateral Support Program							
Program Development							Engage financial institutions, Develop Application/Review/Approval Process
Hire Contract Administrator							Contractor to service Collateral Support
Onboard Partners							Finalize Master Partnership Agreements, training
Set up Collateral Reserve Account							Plan and set up Collateral Reserve Account
Launch program*							
Loan Participation Program							
Program Development							Engage CDFIs, Terms, LPP Application/Selection process
Hire CDFI Pool Manager							Contractor to service CDFI loan pool
Finalize Agreements							Finalize Master Partnership Agreements, training
LPP Solicitation							RFI for applicants for the LPP
Launch program*							
Fund of Funds (FoF)							
Program Development							Engage Funds, Draft Terms, Develop Application/Selection process
Fund of fund solicitation							RFI for funds
Launch program*							

* Not all programs need to launch simultaneously. Should be driven by readiness and strategy.

Appendix A. Operational Chart



Roles and Responsibilities

Hawaii Technology Development Corporation (HTDC)

The SSBCI program will be administered by HTDC. HTDC will be responsible for the general planning, administration and compliance of the SSBCI program. They will be responsible for proper and timely submission of all required reports and metrics to Treasury. HTDC will set up the reporting system and requirements for all agencies and partners administering SSBCI programs.

HTDC will also directly manage and administer the Fund of Fund Program. They will be responsible for investing into and managing the fund of funds.

The Investment Advisor will be responsible for a technical evaluation of all fund proposals and making recommendations to HTDC on the investment merit of the proposals. HTDC will consider the recommendation together with the economic development merit of the proposal.

The Compliance Advisor will assist HTDC in establishing a system that maintains compliance with federal and state laws.

Hawaii Green Infrastructure Authority (HGIA)

HTDC sister agency, HGIA, will be responsible for managing both loan programs which includes overall strategy, management and compliance.

For the Collateral Support Program the contractor will be responsible for setting up the program, working with financial institutions to engage participation and management of the program.

HGIA will also be responsible for direct lending under the Loan Participation Program. This includes setting up the program, working with financial institutions to engage participation, management of the program, and conducting some outreach to prospect potential projects for the LPP.

HGIA through the LPP will also administer the CDFI Pool program. They will hire a partner that will be responsible for managing the pool of funds available for CDFI to provide loans to small businesses under the SSBCI program.



Supplemental Materials

SSBCI Meeting Notes: <https://www.htdc.org/wp-content/uploads/2021/10/SSBCI-Meeting-Notes.pdf>

SSBCI Stakeholder Update: <https://www.htdc.org/wp-content/uploads/2021/10/SSBCI-Stakeholder-Update.pdf>

SSBCI Presentation: <https://www.htdc.org/wp-content/uploads/2021/10/SSBCI-Presentation.pdf>

We want to thank the many groups and individuals who participated in discussions contributing into this report.

The SSBCI Team:

Hawaii Technology Development Corporation

Department of Business, Economic Development & Tourism

Hawaii Green Infrastructure Authority

Chamber of Commerce of Hawaii

Pono Consulting LLC

We look forward to working with partners on the implementation of SSBCI 2.0.

CONTACT

Hawaii Technology
Development
Corporation

521 Ala Moana Blvd.
#255
Honolulu, HI 96813

808-539-3806

www.htdc.org
info@htdc.org
[@htdcorg](https://twitter.com/htdcorg)