LEGISLATIVE ANALYSIS

TO: HONORABLE MEMBERS OF THE BOARD OF SUPERVISORS

FROM: Gabriel Cabrera, Legislative Analyst

DATE: February 2, 2000

SUBJECT: PUBLIC/PRIVATE VENTURE CAPITAL FUND (FILE NO. 99-2096)

SUMMARY OF REQUESTED ACTION

Motion requesting that the Office of the Legislative Analyst (OLA) work with the Mayor's Office of Economic Development and the City Attorney's Office to investigate the possibility of creating a public/private venture capital fund to offer venture capital or capital equivalent (i.e. office space, technology and/or expertise) to small start-up businesses in exchange for ownership in or profits generated by such businesses. The proposed fund should benefit disadvantaged communities with limited access to capital, small start-up businesses that employ at-risk youth or economically-disadvantaged individuals and other innovative enterprises.

EXECUTIVE SUMMARY

As discussed below, there are at least two examples of public/private venture capital funds in the United States. Moreover, a recent study conducted by Economic Innovation International, Inc., a private research firm, finds that there is a market to support a venture capital fund that would target investments in low-income Bay Area communities. However, City officials advise that currently the City and County of San Francisco (the "City") does not have the staff with the experience or expertise to manage the proposed fund. Therefore, if the City chooses to create a venture capital fund, it would have to either (a) hire new City personnel or a private consultant to manage the fund or (b) partner with a private venture capitalist company to administer the fund. In addition, the City's Charter authorizes the City to adopt legislation in respect to municipal affairs and does not restrict the City from holding stock in a corporation. Therefore, the City may hold stock acquired in connection with a public/private venture capital fund. However, the proposed fund must serve a municipal purpose (i.e. to promote the City's economic growth and vitality).

Background

Venture capital is money provided by investors to fund high-risk business endeavors that have the potential to generate high profits. Venture capitalists often foster growth in businesses through their involvement in the management, strategic marketing and planning of their investee companies. A public/private venture capital fund is usually a limited partnership among public and private investors who pool their capital to make investments in a portfolio of high risk, high return companies.

Existing City Programs

According to Susan Reynolds of the Mayor's Office of Community Development (MOCD), currently the City does not sponsor a venture capital fund. Instead, the MOCD administers three loan programs to assist small businesses in San Francisco, including:

(1) The Micro-Enterprise Revolving Loan Program that provides loans up to $10,000 to support businesses with 5 employees or less, and self-employment efforts of low and moderate income San Francisco residents in starting or expanding their own small business;
(2) The Small Business Revolving Loan Fund which offers new or existing small businesses loans up to $100,000 that can be used for short term working capital, the purchase of office equipment and machinery, building renovation and/or acquisition; and
(3) The Section 108 Loan Program that provides loans in excess of $100,000 to businesses supporting specific economic development initiatives of the City such as neighborhood revitalization and job creation.

CURRENT LAW[1]

Section 6, Article XVI of the State Constitution currently states that the Legislature does not have the power to authorize the State, or any political subdivision thereof, to subscribe for stock, or to become a stockholder in any corporation. However, relevant case law provides that this section does not apply to charter cities, such as San Francisco, which derive their powers from their charters, rather than the Legislature. Generally, the City Charter authorizes the City to make and enforce all ordinances and regulations in respect to municipal affairs. In particular, the City Charter does not restrict the City from holding stock in a corporation. Therefore, the City may hold stock acquired in connection with public/private venture capital fund. However, the proposed fund through which stock is purchased must serve a municipal purpose. In this case, an argument may be made that promoting the City's economic growth and vitality or increasing its tax base through investments made by the proposed fund is a municipal purpose.

OTHER JURISDICTIONS

There are at least two examples of public/private venture capital funds in the United States. They were both established to spur economic growth in certain business industries, while generating returns for their respective fund's investors.

The City of New York currently sponsors the Prospect Street NYC Discovery Fund which is a public/private venture capital fund created in May of 1995. This Fund makes investments ranging from $1 million up to $9 million in New York City-based emerging advanced technology companies (defined to include any company that is involved in research and development or manufacturing and production of information & communication technologies and services). This Fund is co-funded by the NYC Economic Development Corporation (EDC), a quasi-City agency, and by other public and private investors, including Brooklyn Union Gas, Con Edison and the New York Power Authority. This Fund is managed by Prospect Street Investors, a private company, and is capitalized or closed to further investment from new or existing investors at $75 million.

[1] Legal analysis provided by the Office of the City Attorney.

This Fund includes $5 million from lease payments in lieu of taxes made by private developers to the NYC Industrial Development Agency (IDA). According to EDC staff, the IDA may confer various tax benefits on a company that is acquiring property in New York. Under this policy, the IDA takes nominal title (in name only) of a property and leases such property back to a company for its operations. In exchange, the IDA provides tax benefits to eligible companies for up to 21 years with a phase out of such benefits in years 22 to 25. The public and private investors noted above contributed $70 million to the Fund. Prospect Street is solely responsible for identifying and selecting candidates for the Fund without obtaining approval for such selections from the City of New York. The Fund's rate of return is over 90 percent, according to Prospect Street staff.

The Commonwealth of Pennsylvania, in partnership with the Pennsylvania School Employees' Retirement System (PSERS) and Safeguard Scientifics, Inc., a private company, sponsors the Pennsylvania Early Stage Partners Fund which is a public/private venture capital fund that makes investments ranging from $250,000 to $2 million in Pennsylvania-based companies. Such companies are usually in the information technology, biotechnology, environmental technology, advanced manufacturing and material and agribusiness industries. Safeguard manages the Fund which is capitalized at $50 million.

This $50 million fund includes $30 million from PSERS and $10 million from both the Commonwealth and Safeguard. To protect itself against financial risk, PSERS receives all of its $30 million investment back prior to the Commonwealth and Safeguard receiving each of their $10 million investment. PSERS also receives an 8 percent return prior to the Commonwealth and Safeguard receiving any proceeds. The remaining proceeds are then split 80 percent in favor of the Commonwealth and Safeguard and 20 percent to PSERS. Safeguard is solely responsible for identifying and selecting candidates for the Fund without obtaining approval for such selections from the Commonwealth. The Fund's rate of return was not available as of the writing of this report.

Another approach to venture capital investing is to loan money directly to businesses in exchange for equity in such businesses. For instance, *the City of Oakland's* Community and Economic Development Agency (CEDA) recently entered into a loan agreement with Blackboard Entertainment, Inc., a leading distributor of youth videos focused on the urban and Hispanic markets. The City agreed to loan Blackboard $250,000 for seven years at an interest rate of 7.5 percent in exchange for 5 percent ownership in the company. In addition, the City of Oakland will also receive 4 percent of Blackboard's net profits from the sale of its merchandise and product licensing, according to John Quintal of CEDA.

ISSUES ANALYSIS

(1) Is there a need for a City-sponsored venture capital fund?

The fundamental issue is whether there is a need for a City-sponsored venture capital fund to target investments in low-income San Francisco communities. The following section attempts to shed some light on this issue by examining two sources of data regarding venture capital in the Bay Area.

The first data source is the latest PriceWaterhouse-Coopers Venture Capital Survey[2]. It shows that venture capital investments throughout the United States reached an all time high of approximately $9 billion in the third quarter of 1999. The Silicon Valley/SF Bay Area in particular continues to lead the country in total venture capital investments by attracting $3.3 billion in 298 companies, which represented a 167 percent increase over the third quarter of 1998. The top three industries receiving investments in the Silicon Valley/SF

[2] The Pricewaterhouse-Coopers Venture Capital Survey is a quarterly study of venture capital investments in the United States.

Bay Area were Software & Information Technology ($1.11 billion), Communications ($809 million) and Consumer ($425 million). Presumably, some of these 298 companies are in or hiring from low-income San Francisco communities. However, this survey does not provide data regarding what percentage of the $3.3 billion was invested in such companies.
The second data source is a private study[3] commissioned by the Alliance for Community Development of the San Francisco Bay Area (the "Alliance"), a non-profit organization. This study concluded that there is a need to support a venture capital fund to target investments in low-income Bay Area communities. Referring to the 9,000 manufacturing firms and over 15,000 for-profit health care establishments in the nine-county Bay Area, the study states that "This substantial base of manufacturing and export service firms is more than sufficient to create a deal flow for a properly managed $50-$75 million equity fund which achieves the double bottom line of the February 11, 1999 *Blueprint*." The "double bottom line" is a term used to describe investing that provides for both financial and social returns; it combines the rigors of traditional venture capital investing with the objective of bringing economic growth to communities which have not shared in the economic prosperity of the U.S. generally, according to Jim Caleshu of the Alliance.

If this study's conclusions are accurate, then there is at least a need to invest in the above-noted 9,000 manufacturing and over 15,000 for-profit health care establishments in order to create jobs and wealth for low-income SF/Bay Area neighborhoods. However, as discussed later in this report, the Alliance already intends to target these manufacturing and export service firms with a $75 million fund. Presumably, the market for investments in such firms is large enough to accommodate both the proposed Alliance fund and the proposed City-sponsored fund. However, these firms are not small start-up companies (which is the target group of the proposed City-sponsored fund), but instead they are medium-sized companies searching for mezzanine (expansion) capital. Therefore, the City may consider adopting an investment strategy similar to that of the Alliance wherein 70 to 80 percent of the fund is mezzanine capital and 20 to 30 percent is for early stage and late stage investments.

(2) <u>Are San Francisco's venture capital investment needs already being met?</u>

Assuming that there is a need for investments in low-income San Francisco communities, a corollary issue is whether private venture capitalists are already meeting this need. There are at least two existing venture capital funds and one proposed fund in the Bay Area that will make investments in low-income San Francisco communities, as follows:

- San Francisco-based Silicon Valley Community Ventures (SVCV) is a one-year old non-profit organization which operates two funds: a not-for profit fund that provides loans and a for-profit fund that makes investments in businesses in or hiring from low-income Bay Area communities. SVCV has so far raised $9 million in the two funds. Its goal for the two funds is a total of $25 million. Recently, SVCV committed to its first equity investment in Blackboard Entertainment, Inc. Equity terms are determined on a case by case basis. SVCV intends to invest in approximately 5 early stage and expansion stage companies.
- NewVista Capital is a Small Business Investment Company[4] (SBIC) in Palo Alto which operates a $21 million fund that primarily invests in women and minority entrepreneurs in the field of information

[3] Economic Innovation International, Inc., *Bay Area Community Equity Fund Market Assessment & Investment Strategy*, December 28, 1999. Eight of the 46 low-income communities identified in the study are located in San Francisco: Bayview/Hunters Point, Chinatown, Mission District, South of Market Area, Tenderloin Area, Visitation Valley, Filmore/Hayes Valley Area and the Outer Mission Area.
[4] Under the United States Small Business Administration's SBIC program, investment companies with at least $10 million can leverage their capital with federal funds by up to 400 percent.

technology. Initial investments range from $250,000 to $1 million, with the total investment in any one company limited to $2 million. Currently, New Capital Vista invests in 7 early stage companies.

- The Alliance for Community Development of the San Francisco Bay Area is currently in the process of establishing a $75 million fund "intended to raise capital for equity investments in high potential, growth businesses that create jobs and provide goods or supply services to low-income communities and residents throughout the SF Bay Area." Based on the recommendations of the above-noted study conducted by the Economic Innovation International, Inc., the Alliance will commence its fundraising activities in early 2000 and thereafter make its first investment in late 2000.

In addition, there are currently other sources of capital for businesses in San Francisco that are unable to obtain funding through conventional sources, including for example (a) the United States Small Business Administration (SBA) that operates three separate loan programs in San Francisco and (b) San Francisco-based non-profit organizations, like the Women's Initiative for Self Employment and the South East Asian Community Center, that provide loans to borrowers who are just below the guidelines of commercial lenders.

Based upon the above noted sources of equity and debt capital alone, it is unclear whether the need for venture capital in low income San Francisco communities is being met. The fact the Alliance intends to create a $75 million fund to support companies in or hiring from low income SF/Bay Area neighborhoods suggests that there is a need in today's market for such a fund. However, it would be necessary to assess the efficacy of existing private and non-profit organizations already making investments in companies in or hiring from low-income San Francisco neighborhoods. As such, the Board of Supervisors may consider delaying action to establish a City-sponsored fund until such assessment is completed. Based on this assessment, the City may choose to co-invest with these private and non-profit organizations, rather than establishing a fund of its own.

(3) <u>Are there any existing plans to develop a City-sponsored venture capital fund?</u>

In July of 1999, the Board of Supervisors and the Mayor approved an ordinance (File No. 99-1030) establishing a new Small Business Commission and Mayor's Office of Small Business Affairs to formulate, evaluate and enforce policies and programs for the City regarding small businesses. Attached to this legislation was a Business Plan that outlined the prospective functions of the new Office of Small Business Affairs, including the possibility of creating a City-sponsored venture capital fund in San Francisco.

As of the writing of this report, the Mayor had not appointed the Commission members or director of the Office of Small Business Affairs. However, Julie Brandt of the Mayor's Office of Economic Development and Public Finance (MOED) states that once the Mayor makes these appointments, the new Small Business Commission may consider creating a venture capital fund within the Office of Small Business Affairs. As such, the Board of Supervisors may adopt a "wait and see" approach to see if the new Small Business Commission acts to create a City-sponsored venture capital fund. At which time, the Board of Supervisors may establish the proposed fund in coordination with the new Commission.

(4) <u>Does the City have the expertise to manage a venture capital fund?</u>

Currently, neither MOED nor MOCD has staff with the expertise to identify and select companies for the proposed fund. As such, if the City chooses to create a City-sponsored venture capital fund, it would have to either (a) hire new City personnel or a private consultant to manage the fund or (b) partner with a private venture capitalist company to administer the fund. In addition, it would be necessary to determine whether the proposed fund would be required to make investments only in companies that comply with Chapter 12 of the

Administrative Code, including the Equal Benefits Ordinance. An estimate as to how long it would take to establish such a fund is determined by a variety of factors, including whether the City pursues SBIC status from the SBA (approximately one year) and whether the City spends time raising monies from other investors and identifying candidates for the fund. Both the City of New York and the Commonwealth of Pennsylvania created their respective funds within approximately 18 months.

(5) Does the City have "capital equivalent" resources?

As noted above, the Board of Supervisors requested that the Legislative Analyst investigate the possibility of creating a City-sponsored fund to offer capital and/or "capital equivalents" such as office space and technology to small start up companies in exchange for equity or profits generated by such companies. Research conducted by the OLA shows that capital equivalents are typically provided via business incubators. Incubators are office space environments established by venture capitalists wherein several small companies share resources such as clerical and office equipment. Office space, business and technical assistance within the incubator are usually provided at below market rates. In exchange, venture capitalists receive ownership in, profits and/or technology created by the businesses within the incubator.

Harry Quinn of the Department of Real Estate (DRE) reports that currently the City does not have existing office space available to accommodate any size of incubator. According to Mr. Quinn, if the City desires to create an incubator, it would need to lease, buy or build new office space. A potential site for an incubator is the Hunters Point Naval Shipyard (HPNS), according to San Francisco Redevelopment Agency (SFRA) staff. However, SFRA staff advise that Shipyard is not presently equipped with fiber optic technology which is often a necessity for fledgling companies in the high-tech industry. Attachment II to this report provides further information and analysis regarding the possibility of creating a City-sponsored incubator in San Francisco.

CONCLUSIONS

Although venture capital is not the usual method by which cities assist disadvantaged communities with limited access to capital, there is evidence to support a need for investments in the Bay Area's 9,000 manufacturing and over 15,000 for-profit health care establishments in order to create jobs and wealth for low-income SF/Bay Area communities. The following options were developed after an analysis of the above-noted issues:

1. Establish a public/private venture capital fund. Model this fund after those in New York City and the Commonwealth of Pennsylvania. San Francisco would partner with a private venture capitalist company that identifies and selects candidates for the proposed fund. Coordinate efforts to establish a fund with the members of the new Small Business Commission and director of the new Small Business Affairs Office once the Mayor appoints them. Establish eligibility criteria for companies funded by the proposed fund, including whether those companies have to comply with Chapter 12 of the Administrative Code.

2. Adopt an alternative strategy to the public/private venture capital fund model. For example, the City may (a) expand its existing City loan programs (However, according to MOCD, any City funds diverted into existing MOCD programs would be subject to Federal Community Development Block Grant requirements), (b) loan money directly to businesses in exchange for equity in such businesses, and/or (c) establish a business incubator to provide young companies with office space, business and technical assistance during their critical start-up period. All three alternatives described above would require additional City funds and/or resources.

3. Delay action to establish a public/private venture capital fund. Assess the efficacy of existing City programs as well as private and non-profit organizations already making investments in businesses in or hiring from low-income San Francisco communities. Based on this assessment, the City may choose to co-invest with these lead investors to extend and/or expand services to businesses in or hiring from low-income San Francisco communities. The City may expand its support to privately-operated incubators such as the San Francisco-based Women's Technology Cluster, rather than establish a new City-operated business incubator.

Attachment I to this report provides further information and analysis regarding the possibility of creating a City-sponsored incubator in San Francisco.

Attachment II to this report summarizes the financial risks and returns associated with various venture capital investment options.

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Attachment I: A City-sponsored incubator in San Francisco

Attachment I takes stock of existing City expertise and resources which may be used to attract high tech companies to an incubator environment, including office space, tax incentives and facility and business services.

(1) Office Space

Typically incubators consist of 15,000 to 30,000 square feet of space and house 20 to 30 young companies. For instance, the Communications Technology Center (CTC) located in Oakland is a 20,000 square foot facility for 25 to 30 companies focusing in the communications industries, the San Francisco-based Women's Technology Cluster (WTC) consists of 22,000 square feet holding 10 high tech companies and the San Jose Software Business Cluster is a 24,000 square foot facility for 20 to 30 software start-up businesses.

As noted above, Harry Quinn of the Department of Real Estate (DRE) advises that currently the City does not have office space available to accommodate any size of business incubator, particularly one consisting of 15,000 to 30,000 square feet. According to Mr. Quinn, if the City desires to create an incubator, it would need to lease, buy or build new office space. Mr. Quinn reports that presently the average rental rate for new office space in San Francisco is $3 per square foot per month or $36 per square foot per year. Therefore, leasing a 15,000 square foot facility at $36 per square foot would cost the City $540,000 annually. According to Mr. Quinn, the City's cost to buy or build new office space depends on prevailing market rates at the time of such purchase or construction.

A potential site for a business incubator is the Hunters Point Naval Shipyard (HPNS) located on the southeast San Francisco waterfront. Owned by the U.S. Navy since 1939, HPNS was leased to a private developer in 1976 who maintained the Shipyard and leased the buildings to artists and small businesses. In 1991, under the Federal Base Realignment and Closure Commission, the Shipyard was declared surplus and closed.

The Shipyard consists of 500 acres of land. Approximately 40 percent of the existing buildings located on the Shipyard are currently used for general industrial activities, including shipyard repair and artists' studios. The remaining 60 percent of the buildings are not occupied and in disrepair, according to Byron Rhett of the San Francisco Redevelopment Agency (SFRA). Once the Navy's toxic clean up of certain Shipyard areas is completed, SFRA may begin negotiations with the Navy for the transfer of the Shipyard to the City. Mr. Rhett states that the SFRA has already selected Lenar, a private developer, to plan the redevelopment of the entire 500 acre Shipyard. Lenar is considering the creation of an incubator at the Shipyard, according to Leroy Willis of Lenar. Mr. Willis advises that Lenar would also consider developing a HPNS incubator in collaboration with the City.

In the future, SFRA intends to complete design and construction plans for new infrastructure, including sewer, electricity and road improvements at the Shipyard. Moreover, HPNS is not equipped with fiber optic wiring. This technology is typically required by high tech businesses as discussed later in this attachment.

(2) Tax Incentives

Currently, the City provides four tax credits to businesses that operate in San Francisco. These tax credits allow businesses to reduce their tax liability incurred through payroll and other business related expenses. Presumably, these credits would be available to eligible companies operating within a San Francisco-based incubator.

- **New Jobs Hiring Tax Credit** - Businesses that create or relocate new permanent jobs in San Francisco are entitled to a tax credit against the City payroll or business tax. For jobs created between July 1, 1993 and December 31, 1997, the amount of tax credit is equal to 100 percent of the City's payroll or business tax for the first 12 months and 50 percent for the second 12 months. For jobs created on or after January 1, 1998, the amount of the tax credit is equal to 100 percent of the City payroll or business tax for the first 24 months and 50 percent for the second 24 months.

- **Enterprise Zone Tax Credit** - The Enterprise Zone Tax Credit is a ten year declining scale City Payroll/Gross Receipts Tax Credit for employers who are located in the City's Enterprise Zone and hire from specific target groups including Job Training Partnership participants and General Assistance recipients. The ten year declining tax credit is 100 percent for the first two years of employment, 50 percent the third and fourth years, 25 percent the fifth and sixth years, 15 percent the seventh and eighth years, and 10 percent the ninth and tenth.

- **Summer Youth Tax Credit** - Employers who hire qualified youth for summer employment may claim a tax credit against the City payroll tax charged to those summer jobs. The amount of tax credit is equal to 100 percent of the payroll tax if the job is for a disadvantaged youth and 50 percent for all other youth. The Summer Youth Tax Credit expires December 31, 2001 unless extended by the Board of Supervisors.

- **Garment Manufacturers Tax Credit** - Garment manufacturers operating in San Francisco with annual gross receipts of $5 million or less may claim a tax credit against the City payroll or business tax. The tax credit may not exceed $300,000 per year and in no event may the credit reduce the taxpayer's liability to zero. Eligible businesses may claim up to a 60 percent tax credit for their investments in technical equipment, work reorganization and employee training in the first year and 40 percent for the second.

The State of California also provides tax credits for eligible employers who have businesses in the City's Enterprise Zone and hire individuals from certain disadvantaged groups. In addition, the Federal government offers tax credits to employers who hire Welfare-to-Work recipients and individuals from certain target groups.

(3) Facility and Business Services

Critical to the definition of an incubator is the provision of shared basic facility services and equipment. For instance, all three incubators noted above provide their members with the following core facility services: (1) a month-to-month lease including furnished office space; (2) professional facility management; (3) 24-hour access to a secured building; (4) shared conference rooms; (5) multi-media projection equipment; (6) copy and fax equipment; and (7) a computer network with Internet access. Other incubators may provide a receptionist and/or clerical services for the benefit of all the companies in the incubator.

Typically incubators will also provide clients with access to “T1 lines” (otherwise known as fiber optic wiring) to facilitate high speed connections to the Internet. This type of high capacity wiring is usually required by companies in the high tech industry. Kathy Gordon of the Department of Telecommunications and Information Systems (DTIS) advises that currently DTIS staff have the expertise to install T1 lines and that the cost of such installation would depend upon the specifications of the facility to be wired.

A variation of the business incubator is the “teleport” or telecommunications port. A teleport is a specialized facility that provides its clients with shared video, voice and data communications services via fiber optic wiring and a satellite network. Without a satellite network of its own, the City would have to partner with a private developer to construct a San Francisco-based teleport, according to DTIS staff.
Incubators usually also provide on-site management which develops and orchestrates business, marketing and management resources tailored to a company’s needs. For instance, all three incubators noted in this report provide their members with the following business services: (1) consultations with an on-site Director; (2) business development seminars and workshops; (3) business assistance through a network of volunteers, interns and members of their respective business communities; and (4) introductions to business resources and financial institutions. Some incubators also provide clients with an on-site business and reference library.

Presently, neither MOCD nor MOED has existing staff to provide on-site management of an incubator. As such, if the City chooses to create an incubator, it would have to hire either new City personnel or a private consultant to provide the on-site management. Typically one full-time business manager is sufficient to manage 20 to 30 companies within an incubator, according to Jim Robbins, Director of a San Jose-based incubator for companies in the environmental technologies field.

Finally, it is important to note that the City already funds two San Francisco-based, privately-operated incubators. In FY 99-00, MOCD allocated approximately $200,000 in Federal Community Development Block Grant funds to the San Francisco Renaissance Entrepreneurial Center. The Center operates an incubator for young start up companies in a variety of fields ranging from professional services to Internet-based communications. In addition, in FY 99-00, at the request of Supervisor Katz, the City allocated $249,000 to the Women’s Technology Cluster (WTC). Businesses housed in the WTC must be (a) in the software, multi-media, Internet or E-commerce industry and (b) women should hold an ownership stake in the company.

Attachment II: Venture Capital Investment Options

Options	Risk/Return
Existing City Loan Programs 1. Micro-enterprise 2. Small Business 3. Section 108	All loans are of high risk. They target small businesses that have been unable to secure funds from conventional sources. However, MOCD distributes loans according to relative risk (low, intermediate and high). All three loan programs create jobs for lower income San Francisco residents and stimulate economic development in targeted neighborhoods.
Loans in exchange for Ownership Percentages of Companies	Loan and equity terms are determined on a case by case basis. Loans may vary from low, intermediate and high risk. Financial return is usually commensurate with level of risk.
Public/Private Venture Capital Funds 1. Seed 2. Early Stage 3. Expansion (Mezzanine) 4. Late Stage	 1. Extremely high risk. Typically the investment is in an individual with a business idea rather than an existing company. Financial returns are in the range of 50 to 100 percent. 2. High risk. Targets existing companies that have moved from the idea stage to the product stage. Financial returns will also be in the range of 50 to 100 percent but management needs are less than under seed capital. 3. Intermediate risk. Targets established companies with successful product line and market niche. Likely to achieve returns in the high teens to low twenties. 4. Intermediate risk. Also targets established companies with successful product line and market niche. The returns have traditionally ranged from 25

	to 50 percent since late stage investments are in companies with high rate of growth.
Business Incubators	High risk since incubator companies are typically in the seed and/or early stage of their development. Financial returns are in the range of 50 to 100 percent but management and technical assistance needs are greater than under straight venture capital investing.
Co-investment with Existing Venture Capitalists	Level of risk depends on types of companies funded (seed, early stage, mezzanine and late stage). Financial return is typically commensurate with level of risk.

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