

Appendices

Program Evaluation of the U.S. Department of Treasury State Small Business Credit Initiative

Center for Regional Economic Competitiveness & Cromwell Schmisser

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North Dakota-Carrington

PROGRAM PORTFOLIO OVERVIEW⁸⁹

Using \$3.4 million in SSBCI allocation, the North Dakota, City of Carrington consortium of municipalities (the Carrington Consortium) operates a credit support program and a venture capital program. With the SSBCI program portfolio, the program sought to fill the gaps in small business financing equity and caters to niche markets.

The Carrington Consortium, which comprises 36 municipalities representing 47 percent of the state’s population, is authorized to manage the SSBCI capital. These communities are geographically located among the eastern and central part of the state. The City of Carrington contracted with the Red River Corridor Fund (RRCF) to implement the program. RRCF was a newly formed limited liability company managed by the Development Capital Network (DCN) and Praxis Strategy Group, LLC, both for-profit companies that provide economic development consulting services to public and quasi-public entities.

Table ND-C-1: North Dakota-Carrington’s SSBCI Program Portfolio Summary

Program Name	Program Type	Allocation	Day-to-Day Administering Agency
Credit Guarantee Program	Collateral Support	\$3.25 million	Red River Corridor Fund
Seed Capital Network Program	Venture Capital	\$182,000	Red River Corridor Fund

Combined Program Outcomes

North Dakota’s Carrington Consortium supported 18 loans and investments that generated \$7 million in total financing through December 31, 2015.

Table ND-C-2: Overall Program Impacts, cumulative through December 31, 2015

Number of Transactions	SSBCI Funds Expended*	SSBCI Funds Recycled	Total Financing Generated by SSBCI Funds	Average Financing Size	Leverage Ratio
18	\$2.8 million	\$300,000	\$7.2 million	\$401,300	2.59:1
Jobs Created or Retained per Businesses	Median Business Size	Median Business Age	Transactions in Low- and Moderate-Income Areas	Transactions in Non-Metro Areas	Top Industries Assisted
107	3 FTEs	2.5 years	6%	83%	<ol style="list-style-type: none"> 1. Retail Trade 2. Manufacturing 3a. Administrative and Support and Waste Management and Remediation Services 3b. Health Care and Social Assistance 3c. Other Services (except Public Administration)

**Includes funds expended for administrative costs*

⁸⁹ All data and program descriptions presented here are as of December 31, 2015.

CREDIT SUPPORT PROGRAM

Collateral Support Program

The Credit Guarantee Program (CGP) provides cash collateral for small business loans in the form of a certificate of deposit (CD) purchased at the lending bank. RRCF pledges the CD as a guarantee for up to 50 percent of the qualifying loan. The current maximum term for the credit guarantee is five years. The fee structure is 2 percent of the loan amount for a 50 percent guarantee and a full five-year commitment. Shorter-term loans and/or loans with less than 50 percent coverage bear reduced fees. In the event of a non-payment, banks may recover the cash collateral after all other collateral is liquidated and guarantees are enforced.

Credit Support Program Outcomes

Through December 31, 2015, the Carrington Consortium expended \$2.6 million of SSBCI funds to support 17 transactions through the CGP. The SSBCI funds generated \$6.4 million in total financing or \$2.40 in total financing for every \$1 in SSBCI funds spent. Businesses reported that the loans will help create or retain approximately 100 jobs.

Table ND-C-3: Credit Support Program Impacts, cumulative through December 31, 2015

Number of Transactions	SSBCI Funds Expended*	SSBCI Funds Recycled	Total Financing Generated by SSBCI Funds	Average Financing Size	Leverage Ratio
17	\$2.6 million	\$300,000	\$6.4 million	\$374,900	2.41:1
Jobs Created or Retained per Businesses	Median Business Size	Median Business Age	Transactions in Low- and Moderate-Income Areas	Transactions in Non-Metro Areas	Top Industries Assisted
101	3 FTEs	2 years	6%	82%	<ol style="list-style-type: none"> 1. Retail Trade 2. Manufacturing 3. Administrative and Support and Waste Management and Remediation Services

**Includes funds expended for administrative costs*

Management Perspectives

The following section summarizes lessons learned and other observations as communicated by state program management:

- The RRCF outreach to bankers is mainly one-on-one, generally traveling to banks to provide an overview of the program. The RRCF staff provides examples of types of financing that will help the banker make a higher risk loan. This strategy has enabled them to launch the CGP. This strategy works well in rural areas and with community banks that know their small business base, but have difficulty with some government programs.
- The unique aspect of the Carrington Consortium is that it is municipality driven, and several of the projects have come from referrals from community and local economic developers. The result is a unique and interested network of players that “own” the program.
- In creating the SSBCI programs, DCN and Praxis studied other states and helped local leaders to develop the program.

- The RRCF guarantees up to 50 percent to give the program maximum flexibility and assist higher risk projects. This strategy also helped to deploy capital.
- In order to help the program flow, the RRCF responds to the bank request, rather than making it a negotiation.
- Until December 2015, most SSBCI reports required the sign-off among all the cities. This process has been streamlined through an amendment to the Allocation Agreement that allows the authorized lead Consortium official to sign reports.

VENTURE CAPITAL PROGRAM

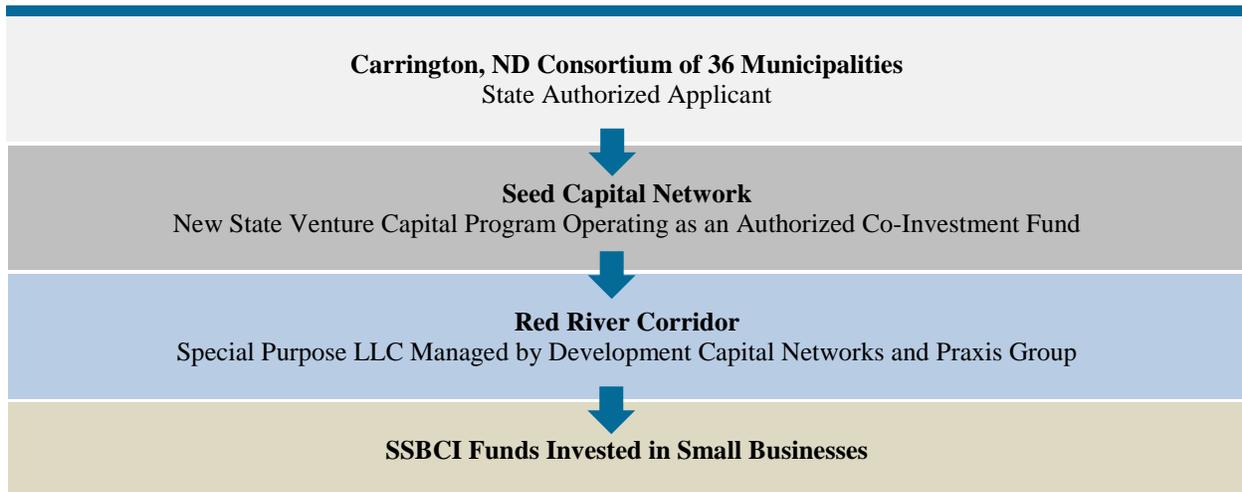
The Carrington Consortium, through RRCF, operates a venture capital program called the Seed Capital Network Program (SCNP). RRCF invests in angel funds or seed funds that invest in small businesses in the participating municipalities. The board of participating municipalities helps to ensure widespread participation in sourcing investment opportunities. RRCF’s objectives are to facilitate seed, early, or growth capital investments in North Dakota small businesses with participation from local investors and to earn investment profits that will seed an evergreen investment fund that can be joined by individual angel investors.

The consortium selected DCN to manage the program with Praxis based on DCN’s experience managing angel funds and fund of funds programs in rural states such as Arkansas, Iowa, and Oklahoma.

Venture Capital Program Design and Operations

To facilitate collaborative investments with angel investors, RRCF created the Red River Angel Fund, a structure that aggregates capital from investors on a deal-by-deal basis into a distinct segment of the fund for investment into a single company. The model enables angel investors to participate in the deals they like, while still enjoying the benefits of a fund structure. The model is designed to help individuals with business-building experience learn the methods of seed investing and join together with their peers to support entrepreneurs in a region with historically very little venture capital activity.

Figure ND-C-4: SCNP Structure



Venture Capital Program Outcomes

To date, RRCF has reviewed more than ten investment opportunities and executed one commitment – a \$125,000 investment in a medical device company that has since been acquired by a public company. Despite the success of this initial investment, RRCF has not achieved the volume it expected at the time the strategy was developed.

Table ND-C-5: Venture Capital Program Impacts, cumulative through December 31, 2015

Number of Transactions	SSBCI Funds Expended*	SSBCI Funds Recycled	Total Financing Generated by SSBCI Funds	Average Financing Size	Leverage Ratio
1	\$136,100	\$0	\$850,000	\$850,000	6.24:1
Jobs Created or Retained per Businesses	Median Business Size	Median Business Age	Transactions in Low- and Moderate- Income Areas	Transactions in Non-Metro Areas	Top Industries Assisted
6	1 FTE	6 years	0%	100%	Wholesale Trade

**Includes funds expended for administrative costs*

Management Perspectives

The following section summarizes lessons learned and other observations as communicated by state program management:

- Program managers have learned that North Dakota angel investors, while open to joining organized funds, tend to prefer existing funds that seek projects in border communities of Minnesota and South Dakota, as well as North Dakota. These funds do not meet RRCF objectives. Due to this challenge, program managers transferred the majority of the SCNP allocation to the RRCF’s credit guarantee program which had deployed 78 percent of its allocated funds as of December 2015.
- The Consortium’s difficulties match those of other SSBCI venture capital program experiments in states or regions with largely rural populations that have very little venture capital investment activity and large geographic distances between collaborating communities.
- RRCF operates as an evergreen fund and over time expects to return to making qualifying SCNP investments with recycled funds as opportunities are found.