



SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

# REVIEW



**SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT  
AUTHORITY**

## WHAT IS VOLUME CAP?

- Federally-mandated volume cap limits the maximum issuance allowed for most categories of qualified Private Activity Bonds.
- Qualified 501(c)(3) (non-profit) bonds DO NOT require volume cap allocation.
- Calculated according to Volume Cap Formula:
  - For 2023, it was \$120 multiplied by state's population or \$633,916,080.
- Each state has authority to sub-allocate its volume cap among agencies, municipalities, or private activity bond categories.
- Any unused volume cap in a year can be assigned to a qualified issuing authority and carried forward for three years.

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**REP. MOORE:** Mr. Huntley, staff has provided me with a chart from cdfa.net that shows the Council of Development Finance Agencies' volume cap data in each state from 2011 to 2020. There is a row in the South Carolina data labeled "Carryover from Previous Years." What do the amounts reflected in that row show? Are those bonds not issued, and if so, what is the impact of that?

## **ACT 202 & VOLUME CAP**

- The State Fiscal Accountability Authority (SFAA) considers and approves all volume cap allocation requests.
- The State Housing Authority evaluates and ranks all multi-family housing projects involving either an authorized request or a request for issuance approval of bonds using carryforward.
- State Housing uses competitive criteria adopted in Allocation Plan.
- The Department of Commerce evaluates and ranks all non-housing projects involving an authorized request for volume cap.
- Commerce uses competitive criteria adopted in Allocation Plan.
- All local and state discretionary incentives must be finalized prior to consideration by the SFAA.
- Commerce must provide a definitive recommendation for the amount of volume cap to be allocated to a project.

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# ACT 202 & VOLUME CAP

## SC 2023 CATEGORIES OF PERMITTED PURPOSES AND PERCENTAGE ASSIGNMENTS

Categories of Permitted Purposes	Category Percentage	Category Amount	Amount Available for Allocation on or after February 1 of the Plan Year	Amount Available for Allocation on or after August 1 of the Plan Year
Industrial and Economic Development	40%	\$ 253,566,432	\$ 126,783,216	\$ 126,783,216
Multi-Family Housing	0%	\$ -	\$ -	\$ -
Single Family Housing	20%	\$ 126,783,216	\$ 63,391,608	\$ 63,391,608
Other Qualified Purposes	40%	\$ 253,566,432	\$ 126,783,216	\$ 126,783,216
<b>Totals</b>	<b>100%</b>	<b>\$ 633,916,080</b>	<b>\$ 316,958,040</b>	<b>\$ 316,958,040</b>

\*\*As of January 1, 2023, State Housing has \$1,071,547,733 in carryforward allocation.

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## SMALL MANUFACTURERS

- \$10 million maximum tax-exempt bond issue per project.
- \$20 million capital expenditures limit (3 years prior and subsequent to bond issue).
- \$40 million aggregate nationwide limit of tax-exempt bonds for any borrower.
- There are rules in place for use of proceeds:
  - 25% of issue cap for land
  - acquisition/substantial rehabilitation/construction of facilities
  - equipment purchase (no bonus depreciation allowed)
- Subject to volume cap at the state level.

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## SMALL ISSUER EXCEPTION

- Bank-qualified bonds were created by Congress in 1986 to encourage banks to invest in tax-exempt bonds from smaller, less-frequent municipal bond issuers, and to provide municipalities with access to lower cost borrowing that they need in order to provide services and to invest in roads, bridges and other projects.
- Governments issuing \$10 million or less in bonds per calendar year can designate those bonds as **bank-qualified**, which allows them to bypass the traditional underwriting system – they can sell directly to local banks.
- Selling to local banks reduces costs for governments by an estimated 25-40 basis points which equates to \$232,000 - \$370,000 on a \$10 million, 15-year bond.
- The bank is allowed to use a lower cost of funds calculation when purchasing the bank-qualified bonds, thus a lower interest rate to the government borrower.

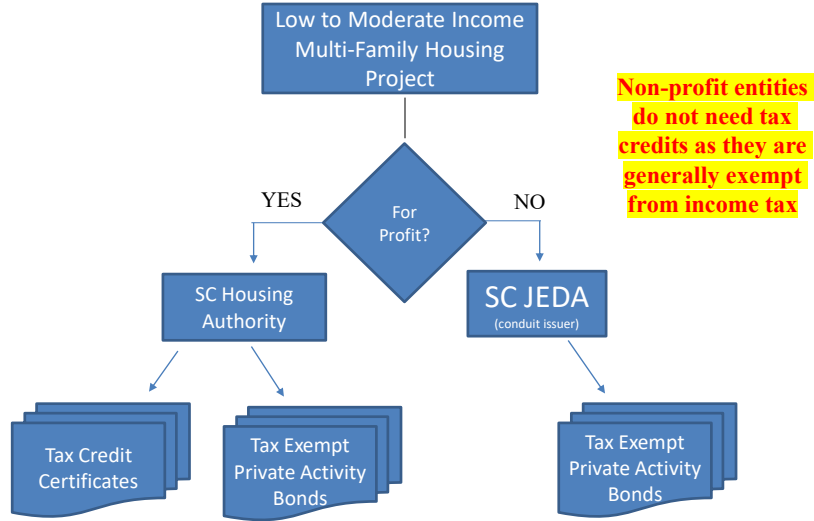
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## SMALL ISSUER EXCEPTION

- For small jurisdictions with larger projects (e.g., hospitals), it may be more cost effective for a jurisdiction to have a conduit (i.e., JEDA) issue bonds instead of the jurisdiction to keep the bank-qualified bond cost savings intact for the jurisdiction.
- There is proposed legislation to increase the small issuer debt limit to \$30 million and tie to inflation in future years. The current limit of \$10 million has been in effect since 1986.



# MULTI FAMILY HOUSING FLOWCHART



For more information, see handouts from Burr Foreman and Parker Poe.

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# JEDA FINANCIAL STATEMENT AUDITS

- Each year, JEDA has an independent auditor perform an audit of financial statements.
- The audit firm is selected by the Office of State Auditor. JEDA does not select audit firm.
- JEDA's audits are published on the State Auditor's website.



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## JEDA FINANCIAL STATEMENT AUDITS

- JEDA has an **unqualified opinion** from the auditors selected by the State.
- An Unqualified Opinion is an independent auditor's judgment that an organization's financial statements are **fairly and appropriately presented, without any identified exceptions, and in compliance with generally accepted accounting principals (GAAP).**
- GAAP Standards are a common set of rules, requirements and practices issued by the Financial Accounting Standards Board and the Governmental Accounting Standards Board.

**REP. MOORE:** Mr. Huntley, before we move on, can you do a brief recap of the 3Phase Program. Specifically, what is the status of the program, what is JEDA's involvement with the program, and would JEDA invest in equity securities through this program?

# **JEDA's SERVICES**

## **ANNUAL BOND SUMMIT**

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## ANNUAL BOND SUMMIT

- Annually held in Charleston in October since 2012 (except COVID years).
- All professionals involved in JEDA's bond process are invited (attorneys, bankers, underwriters, financial advisors, trustees).
- All attending pay a registration fee (\$185).
- No sponsorships allowed.
- **Purpose:** Brainstorming of new ideas and improving personal relationships.
- Educational sessions cover topics including:
  - Federal update; financing trends; economic updates.

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**REP. BREWER:** What new ideas have been discussed and implemented over the last 5 years as a result of the Summit?

## CHALLENGE: NATIONAL ISSUERS

Several national entities with the authority to issue conduit debt nationwide have been created.

- Direct competitors to JEDA.
- Have issued conduit debt in S.C.
- Some states issue bonds on property out of state if the borrower has property in its state.

Public Finance Authority  
(<https://www.pfauthority.org/>)  
Created by Wisconsin Legislature

National Finance Authority  
(<https://www.nfabonds.com/>)  
Created by New Hampshire Legislature

Arizona Industrial Development  
Authority

### ❖ Why can national issuers compete?

- Ability to do deals in multiple states makes it more efficient for companies that want to finance projects in more than one state simultaneously (hospitals, senior living facilities, charter schools)

### ❖ Why should S.C. want JEDA to be used instead of national issuers?

- Help S.C non-profits save issuance costs by consolidating financings with a single issuer
- Fees remain within the state
- Local bond attorneys, financial advisors, and other SC professionals are used

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## CHALLENGE: NATIONAL ISSUERS

Why should we want JEDA to be allowed to issue debt in other states (like national issuers)?

JEDA could help current borrowers (i.e., nonprofits headquartered in S.C.) if allowed to provide bonds for projects in other states.

### ❖ Arguments Against

- Don't want to help economic development in other states

### ❖ Arguments For

- Would only apply to select entities (e.g., hospitals, senior living facilities)
- Would only apply to entities that currently have operations in S.C.
- Would have to meet federal requirements to qualify for financing, like all other projects

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## **JEDA's SERVICES**

- **Making grants, loans, or investments utilizing its program funds;**
- **Establishing loan programs to reduce the cost of capital to business enterprises.**

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## MAKING GRANTS AND LOANS

- Originally, JEDA serviced Community Development Block Grant Loans (CDBG) for Commerce and recycled the funds by making direct loans
- JEDA discontinued making direct loans before 2000 and transferred the servicing and loans to BCI (predecessor to Palmetto State Growth Fund)
- Loans in last few years have been specialized:
  - Business Development Corporation (BDC) for State Small Business Credit Initiative (SSBCI)
  - Payroll Protection Program
  - Loan Participation financing for innovation project in Greenville

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## MAKING INVESTMENTS

### Why does JEDA make investments?

- To raise additional capital for investing in loans to other entities in order to grow the economy in South Carolina
- Each dollar made from investments is reinvested in South Carolina.



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**REP. BREWER:** Does JEDA manage its own investments or does JEDA engage an outside investment advisor?

- Are all of JEDA's bank and investment accounts at financial institutions designated by the State Treasurer?

## GREENWOOD CAPITAL

- In response to an Investment Management Services RFP circulated by JEDA in the fall of 2016, JEDA received a total of three proposals.
- The Director of Fixed Income for Greenwood is John Wiseman, who worked in the Office of State Treasurer in managing the Local Government Investment Pool and Retirement System Funds.
- Fees from Greenwood Capital were half of the other two proposals.
- JEDA's Board selected the investment management services company with low fees and excellent management.
- JEDA receives quarterly statements. The statement is forwarded to the Board, who reviews returns against the published bond index. JEDA's chairman is a Chartered Financial Analyst with over 25 years of investment experience.

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## **JEDA's SERVICES**

- **Establishing profit and not-for-profit corporations to carry out the purposes of the SC Jobs-Economic Development Fund Act**

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## ESTABLISHMENT OF PROFIT AND NOT-FOR-PROFIT CORPORATIONS

The General Assembly gave JEDA authority to establish profit and not-for-profit corporations to carry out the purposes of the SC Jobs-Economic Development Fund Act. Officials or employees of JEDA may act as officials or employees without additional compensation of a corporation created pursuant to this section. (S.C. Code § 41-43-240)

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**REP. OTT:** What is the process for determining who will serve as board members for non-profit entities JEDA creates?

- Who determines what staff of the non-profits are paid?

## INVESTSC, INC.

JEDA formed InvestSC at the specific request of the Venture Capital Authority (VCA), a “state entity” under Commerce. VCA cannot make equity investments.

- InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval.
- InvestSC is governed by a Board of Directors consisting of 5 members; one member is the JEDA Board Chair.
- JEDA does not provide financial support or control InvestSC activities.
- InvestSC is audited by Elliott Davis, CPAs and a detailed report of all activities is provided to the VCA each year.
- The next two slides are from Commerce’s presentation.

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**REP. MOORE:** Director Huntley, you are the Executive Director of InvestSC as well as the Executive Director of Jeda, correct?

- What are your job responsibilities as Executive Director of InvestSC?
- How much are you compensated each year as Executive Director of InvestSC?
- Has JEDA’s Board of Directors taken a position as to whether you may receive compensation from InvestSC while serving as Executive Director of JEDA?
- Have you ever been a board member of InvestSC?
- How much of your time is devoted to JEDA vs. InvestSC?

**REP OTT:** The 2021/2022 Transparency and Accountability Report indicates that InvestSC pays \$650 each month is rent. Where is InvestSC physically located, 1201 Main Street? (Same address as JEDA)

- You say JEDA does not “control” InvestSC, but to the extent the JEDA Board Chair is on the Board of Directors of InvestSC, JEDA has some influence over InvestSC, correct?



## Manage: Venture Capital Authority (VCA)

- In 2005, the Venture Capital Investment Act was created by state legislature to promote the availability of capital for creating and building business ventures in South Carolina.
- The Venture Capital Authority (VCA) was established as an agency within SC Commerce to identify and select qualified professional investors who will invest in South Carolina companies.
- The VCA is a seven-member board selected by the governor and state lawmakers.
- In 2007, the VCA received financing by a private institutional lender secured by state tax credits, and four venture capital firms were selected.
- InvestSC, Inc. was formed by the SC Jobs-Economic Development Authority (JEDA) at the specific request of the VCA.
- The authority selected InvestSC to serve as a “Designated Investor Group” to assist the VCA in meeting the goals and objectives of the Venture Capital Investment Act.
- InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.



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**REP. BREWER:** Is the Venture Capital Authority still in existence? Who is on the Board?

**NOTE:** Secretary of State’s Office lists seven members of the S.C. Venture Capital Authority. All of the members’ terms are expired.

- Leighton Cubbage, Chair (appointed by Governor Haley in 2014, term expired in 2017)
- Robert Bethea (appointed by Governor Haley in 2014, term expired in 2017)
- Jamie Wall (appointed by Governor Haley in 2014, term expired in 2015)
- Michael Joseph Space (appointed by Chair of the Senate Finance Committee, Hugh K. Leatherman, Sr. in 2015, term expired in 2019)
- Steve Swanson (appointed by Speaker of the House of Representative, James H. Lucas in 2017, term expired in 2021)
- Thomas Persons (appointed by Chair of the House Ways and Means Committee in 2009, term expired in 2013)
- John Camp (appointed by President Pro Tempore of the Senate in 2012, term expired in 2016)

## Manage: Venture Capital Authority (VCA)

- The VCA Board approved DBAH , LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board.
- On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for \$50 million in notes.
- The notes are secured by all of the investments and tax credit certificates issued by the authority.
- It is anticipated that in June of 2022, all notes will be repaid.



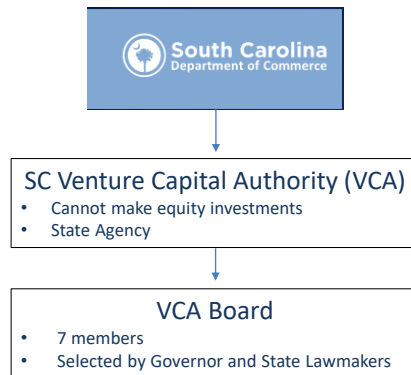
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**REP. MOORE:** Are the notes repaid?

- The 2007 Designated Investor Contract between the VCA and InvestSC states that “[t]his Agreement shall terminate automatically on the later of the termination date of the Loan Documents or the Fund Documents.” Did payment of the notes terminate the contract?



# INVESTSC, INC.



## In 2007:

- VCA received financing by a private institutional lender secured by tax credits.
- VCA Board selected four venture capital firms.

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# INVESTSC, INC.

## SOLICITATION OF INVESTMENT PLANS

- Pursuant to its statutory authority, the VCA “solicit[s] as necessary from time to time investment plans for the raising and investing of capital...” S.C. Code Ann. §11-45-50(A)(1) (2011).
- These investment plans must address matters required by the VCA including, but not limited to, the submitting person’s:
  - Level of experience;
  - Quality of management;
  - Investment philosophy and process;
  - Probability of success in fund raising; and
  - Plan for achieving the purposes of the Act.

(S.C. Code Ann. §11-45-50(A)(2) (2011))

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**REP. OTT:** The 2007 contract between the VCA and InvestSC state that “The VCA Board hereby authorizes [InvestSC] to invest in the proceeds of the loan . . . with each of the Funds . . . .” In addition, InvestSC warranted that it “selected each of the Funds as an investor and has approved the Investment Plans submitted by each of the Funds . . . .”

- What experience and expertise did InvestSC have in the venture capital market prior to entering into this contract?
- What level of experience and venture capital expertise does InvestSC have today?
- **NOTE:** InvestSC consists of Harry Huntley (Executive Director), Michael Nix (Chairman), Michael Brenan (Board Member), and Carl Blackstone (Board Member). According to the 2021 IRS Form 990, Huntley spends an average of 10 hours a week on InvestSC business, while Brenan, Blackstone, and Nix spend an average of 1 hour a week on business related to InvestSC.

# INVESTSC, INC.

## GOALS OF THE VENTURE CAPITAL ACT

- Pursuant to its statutory authority, the VCA selected InvestSC as a “**Designated Investor Group**” to assist the VCA in meeting the goals and objectives of the Venture Capital Act:

“The General Assembly desires to increase the availability of equity, near-equity, or seed capital for emerging , expanding, relocating and restructuring enterprises in the State, so as to help strengthen the State’s economic base, and to support the economic development goals of this State in accordance with the strategy established by the Department of Commerce. The General Assembly also desires to address the long-term capital needs of small-sized and medium-sized firms, to address the needs of micro enterprises, to expand availability of venture capital, and to increase international trade and export finance opportunities for South Carolina based companies.”

2005 Act 125 §1; S.C. Code Ann. §11-45-20 (2011)

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# INVESTSC, INC.

## ISSUANCE OF TAX CREDITS

- An investor group, like InvestSC, has the statutory power and authority to borrow funds from lenders and invest those funds in accordance with provisions of the Act.  
S.C. Code Ann. §11-45-55(A) (2011).
- The VCA must “issue tax credit certificates to each lender contemporaneously with each loan made pursuant” to the Act.  
S.C. Code Ann. §11-45-55(B) (2011)

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# INVESTSC, INC.

## VENTURE CAPITAL INVESTMENT REQUIREMENTS

- No investment by an investor may exceed the lesser of \$5 million or 15% of the committed capital.
- Preference is given by designated investor group to investors that agree to maintain headquarters or office staffed by investment professional in South Carolina.
- Preference is given by designated investor group to investors that have aggregated commitments of three times that of the designated investor's capital commitment.
- Investors must develop a repayment plan based on liquidity events of its portfolio investments. Repayment must occur within 10 years.

S.C. Code Ann. §11-45-70 (2011)

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**REP. BREWER:** Are entities like Noro-Moseley Partners, Nexus Medical Partners, Frontier Fund II, Azalea SC Fund, and Azalea III Fund examples of investors in South Carolina that receive funds from InvestSC?

# INVESTSC, INC.

## REPORTING REQUIREMENTS OF INVESTOR GROUP

Designated Investment Groups, like InvestSC, must provide an **annual report** to the VCA that:

- Includes an annual audit of the activities conducted by the group;
- Documents and reviews the progress of the group in implementing and investment plan;
- Lists any use, redemption, or transfer of tax credits;
- Includes a schedule of the rates of return, net of total investments expense, on assets held by the group overall; and
- Includes a schedule of the sum of total investment expense and total general administrative expense for the fiscal year.

S.C. Code Ann. §11-45-50(A)(3) (2011)

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# INVESTSC, INC.

## REPORTING REQUIREMENTS OF VCA

The VCA shall provide an **annual report** to the Governor, the General Assembly, and other appropriate offices containing:

- Monies placed in venture capital investments with approved investors and SC based companies cumulatively and during fiscal year;
- Audit of the activities conducted by the authority during year;
- Progress of designated investor groups in implementing investment plans;
- Amount and time line of tax credit certificates issued both cumulatively and during year, and any use, redemption, or transfer of tax credits during year;
- Description of material interest held by director, officer, or employee of the authority with respect tot the investments or assets of designated investor groups;
- Schedule of the aggregate rate of return, net of total investment expense, on assets of the designated investor groups held over the most recent one ear, three year, five year and ten year periods; and
- Schedule of the sum of total investment expense and total general administrative expense for both the fiscal year and preceding five fiscal years expressed as a percentage of the fair value of the assets.

S.C. Code Ann. §11-45-95 (2011)

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**REP. OTT:** Since the VCA essentially no longer exists as a functioning body, there is no annual report from the VCA to the Governor setting forth monies placed in venture capital investments and SC based companies each fiscal year, correct?

## INVESTSC, INC.

- Pursuant to its statutory authority, VCA Board approved Deutsche Bank (DBAH) as a lender under the ACT and received approval from the State Budget and Control Board.
- On June 22, 2007, InvestSC executed a Designated Investor Contract with the VCA to make investments and borrow funds as directed by the VCA.
  - InvestSC and DBAH signed a Securities Purchase Agreement for \$50 million in notes.
  - The VCA issued \$50 million in tax credit certificates.
  - InvestSC entered into limited partnership agreements with four venture capital funds selected by the VCA
- The notes were secured by all venture capital fund investments and tax credit certificates issued by VCA.
- On February 16, 2022, all notes were paid off with DBAH.
- Two of the venture capital funds still have investments valued at approximately \$6 million.

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**REP. MOORE:** We need to walk through this slowly. \$50 million was borrowed from a bank to invest in venture capital funds. Treasurer's Office says that InvestSC did not have experience in venture capital investing, and the funds did not return enough to pay the principal and interest on the debt. As a result, InvestSC had to sell \$50 million in State tax credit to make the debt service payments. **I think that Commerce, Treasurer's Office and InvestSC/JEDA all agree that borrowing money from a bank secured by state tax credits was a BAD idea.** Ask Harry if he is in agreement and ask his opinion on amending that Venture Capital Act so that this does not happen in the future.

**REP. BREWER:** Were the four Venture Capital Funds with whom InvestSC entered into limited partnership agreements with located in South Carolina?

- Did the Venture Capital Funds create or maintain any jobs in South Carolina?
- How much of a nexus does a company in which a venture capital fund invests have to have to South Carolina?
- Has South Carolina gained or lost money on venture capital investments over time?



INVESTSC, INC.	
Current Status	Plan Forward
<u>Venture Capital Authority</u> (from Department of Commerce)	
<ul style="list-style-type: none"> <li>➤ VCA Board is not active and has not met since 2012</li> <li>➤ Terms of all VCA Board members are expired</li> </ul>	<ul style="list-style-type: none"> <li>➤ None currently</li> </ul>
<u>InvestSC, Inc.</u>	
<ul style="list-style-type: none"> <li>➤ No liabilities outstanding</li> <li>➤ Anticipate approximately \$5 million in returns from remaining investments in future years</li> </ul>	<ul style="list-style-type: none"> <li>➤ JEDA has contracted with InvestSC to invest 50% of the SSBCI 2.0 funds using a fund of funds model. Unlike the VCA model, the funds do not have to be repaid.</li> </ul>
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**REP. BREWER:** Why has the VCA Board been inactive since 2012?

- Since the Board is inactive and performance of the 2007 contract is complete, is InvestSC still considered a “designated investor group”?
- What are InvestSC’s total assets as of today?
- Currently, InvestSC invests in the venture capital market using only federal resources, correct?
- **NOTE:** The legislature has not funded Venture Capital Act lately, which is really why the VCA board is not active

## PALMETTO STATE GROWTH FUND (PSGF)

- PSGF (formerly known as Carolina Capital Investment Corporation) is a 501(c)(3) nonprofit. It is organized to lessen the burdens of government by assisting JEDA in promoting the state's business and economic welfare. It does so by encouraging new and existing businesses through loans, investments and similar means and by acting in conjunction with other organizations, public and private, to promote economic development in the state.
- JEDA does not control PSGF activities.
- PSGF is governed by a Board of Directors consisting of five members, two of whom are on the JEDA Board.
- PSGF receives no financial support from JEDA and JEDA does not consider it a component unit.

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**REP. BREWER:** Did JEDA create PSGF?

- Where is PSGF physically located?
- Who are the Board members and who appoints the members?
- To the extent that two JEDA board members are on the PSGF Board of Directors, JEDA may not “control” PSGF activities, but it does have some influence over PSGF’s activities, yes?

**REP. MOORE:** What is your current involvement with PSGF?

- Did PSGF ever receive financial support from JEDA—e.g., when it was Carolina Capital Investment Corporation?
- Why is this 501(c)(3) created by JEDA nowhere to be found on JEDAs website?
- In its 2021 IRS Form 990, PSGF states that it has \$19,381,493 in assets. What does that represent?
- How specifically does PSGF assist JEDA in promoting the state’s business? (Give examples)

**REP. BREWER:** Other than InvestSC and PSGF, has JEDA ever created any other entities under section 41-43-240 of the Code? (If so, what is the legal

name of such entity and what is the entity's current legal status?)

## **JEDA's SERVICES**

- **Implement State Small Business Credit Initiative (SSBCI)**

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## STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI)

### ***What is it?***

SSBCI Program 1.0 was a collaborative program authorized/funded by Small Business Jobs Act of 2010.

- Funded by the U.S. Department of the Treasury (U.S. Treasury),
  - Provided \$1.5B for state programs that support access to credit for small businesses
  - States do not repay the SSBCI funds to Treasury
  - The state keeps the money as an 'evergreen' fund that recycles into new loans.
- Managed by the states and their contractors (S.C. JEDA and S.C. BDC)
  - States implement the program through state agencies, quasi-public authorities or private contractors. This allows a state to operate its SSBCI program through whatever organizational structure exists in the state with the business lending experience and capacity to execute.
  - Federal program money supports private sector lending or investing by sharing in the lender or investor's risk of loss.
- Implemented through the participation of private sector lenders and investors (Banks in S.C.)
  - Private sector bears a significant responsibility for evaluating creditworthiness and program compliance.

<https://home.treasury.gov/system/files/256/CREC-Exec-Summary-January-2014-FINAL.pdf>

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## STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI)

### *How did JEDA get involved?*

- S.C. Business Development Corporation (BDC), created by statute in 1958, as a non-bank commercial lender and CDFI, along with State Bankers Association, informed JEDA and the General Assembly about the SSBCI program.
  - BDC was already running the state Capital Access Program (CAP).
  - Because BDC had the lending experience and network of commercial banks, it was a natural fit to administer and launch the SSBCI program quickly. However, since BDC was not a state agency, JEDA served as the agency to apply for, receive the funds and implement the program.
- May 2011, General Assembly passed S.C. Code Section 41-43-300, which directed JEDA to:
  - Serve as the state agency to apply for, receive the allocation and implement the SSBCI Program, and
  - Contract with BDC to administer the program.

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**REP. OTT:** Is there a contractual termination date by which the BCD will no longer administer the SSBCI program?

- Does JEDA receive revenues from the SSBCI program? If so, how much?

## STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI)

### *Where did we use the money?*

States could choose from **five basic types of programs** (four loan programs or a state-run venture capital program), and they customize the rules to suit local market conditions.

#### Loan Programs

- **Capital Access Programs (CAPs):** These programs provide portfolio insurance in the form of a loan loss reserve fund into which the lender and borrower contribute, supplemented with SSBCI funds.
- **Loan Participation Programs:** States buy an interest in the loans made by lenders or lend directly alongside private lenders, providing direct lending to finance small businesses.
- **Loan Guarantee Programs:** States use SSBCI funds to provide an assurance to lenders that they will be partially repaid in the event of default, after the lender makes every reasonable effort to collect, helping small businesses secure loans that may have otherwise been inaccessible or prohibitively expensive.
- **Collateral Support Programs:** The programs in this model set aside funds as collateral for new loans, enabling start-ups to borrow funds to help their businesses grow with the assistance of SSBCI capital.

#### State-Run Venture Capital Program

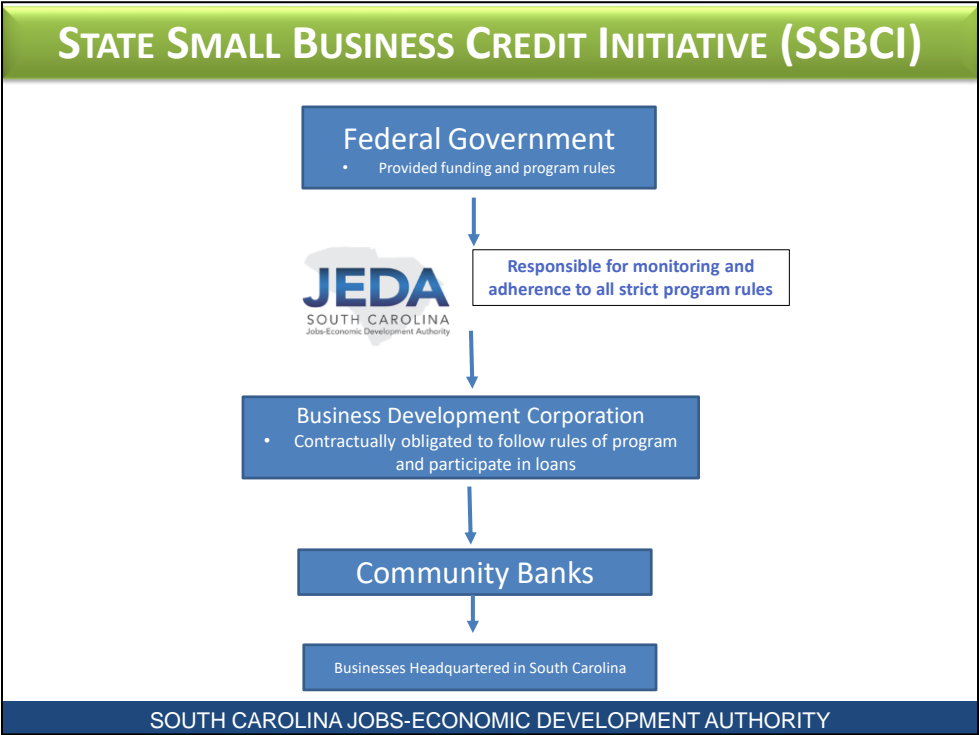
- **Venture Capital Programs:** States set up public-private partnerships for equity investing. These investments are focused on providing capital to underserved startups and democratizing venture capital across geography and to diverse founders.

#### SSBCI Program 1.0 Amount and Program Options

- \$18M allocation to S.C.
- JEDA, as S.C.'s designated agency chooses the following:
  - Capital access (less than 10% of funds for this program), and
  - Loan participation programs (more than 90% of funds for this program)
- S.C. utilized its full \$18M allocation

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

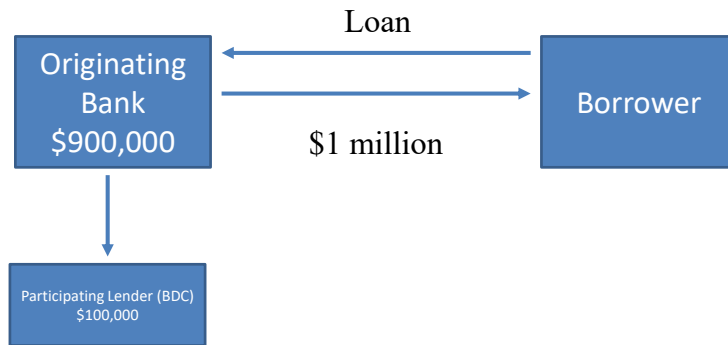
**REP. MOORE:** Does the BDC make loans to eligible small businesses in South Carolina only?





## STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI)

### LOAN PARTICIPATION



In loan participation, the borrower takes out a loan with one originating bank and that bank subsequently “participates” that loan to other participating lenders.

- Allows for larger loans
- Reduces risk (but also reduces benefits)

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## S.C. SMALL BUSINESS CREDIT INITIATIVE

### *What resulted from SSBCI Program 1.0 in S.C.?*

As of December 31, 2021:

- **\$18M allocated in federal dollars**
  - BDC has turned this into over **\$50M** in loan participations by recycling the funds
  - Achieved a private to SSBCI leverage ratio of 18 times
  - Utilized by 18 different banks in S.C. to make gross loans of \$290M
  - Loans averaged in excess of \$908,349
  - Only one loan loss of \$1,056
- **Companies served have 4,528 total employees**
  - 3,345 jobs retained at impacted borrowers
  - 1,183 new jobs were created

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

**REP. MOORE:** Can you provide a list of the companies served and their location within the state?

- Is the SSBCI program included in JEDA's annual report? If not, why?

## STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI)

### ***What is it?***

SSBCI Program 2.0 is a collaborative program reauthorized/funded by American Rescue Plan Act of 2021

- Funded by the U.S. Department of the Treasury (U.S. Treasury),
  - Providing \$10B for state programs that support access to credit for small businesses and small manufacturers. Funds will also support recipient jurisdictions in promoting American entrepreneurship and democratizing access to startup capital across the country, including in underserved communities.
  - States do not repay the SSBCI funds to Treasury.
  - The state keeps the money as an 'evergreen' fund that recycles into new loans.
- Managed by the states and their contractors (S.C. JEDA and S.C. BDC)
  - States implement the program through state agencies, quasi-public authorities or private contractors. This allows a state to operate its SSBCI program through whatever organizational structure exists in the state with the business lending experience and capacity to execute.
  - Federal program money supports private sector lending or investing by sharing in the lender or investor's risk of loss.
- Implemented through the participation of private sector lenders and investors
  - Private sector bears a significant responsibility for evaluating creditworthiness and program compliance.

<https://home.treasury.gov/system/files/256/CREC-Exec-Summary-January-2014-FINAL.pdf>

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

**REP. OTT:** Who did JEDA appoint to administer this program, SCBDC or InvestSC?

**Note Section 41-43-300(A) provides:** “The South Carolina Jobs-Economic Development Authority is authorized to apply for and receive the South Carolina Small Business Credit Initiative Allocation; to execute and deliver the requisite application, the State Small Business Credit Initiative Allocation Agreement for Participating States, and all other agreements, documents, certificates, and undertakings related thereto, on behalf of the State; to implement one or more Capital Assistance Programs and/or Other Credit Support Programs as permitted under and supported by the State Small Business Credit Initiative; and to contract with the **Business Development Corporation** of South Carolina in order to administer such programs.”

## STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI)

### *Where can we use the money?*

States can choose from those in Program 1.0. The SSBCI 2.0 program, however, puts an emphasis on loans or investments to business enterprises owned and controlled by socially and economically disadvantaged individuals (SEDI-owned businesses). States can qualify for additional incentive funds by demonstrating robust support for SEDI-owned businesses. The SEDI objective for South Carolina is 55.66% and is based on the percentage of CDFI census tracts in the State. While not a requirement of SSBCI 1.0, BDC calculated that 69% of its loans qualified for SEDI.

#### Loan Programs

- Capital Access Programs (CAPs)
- Loan Participation Programs
- Loan Guarantee Programs
- Collateral Support Programs

#### State-Run Venture Capital Program

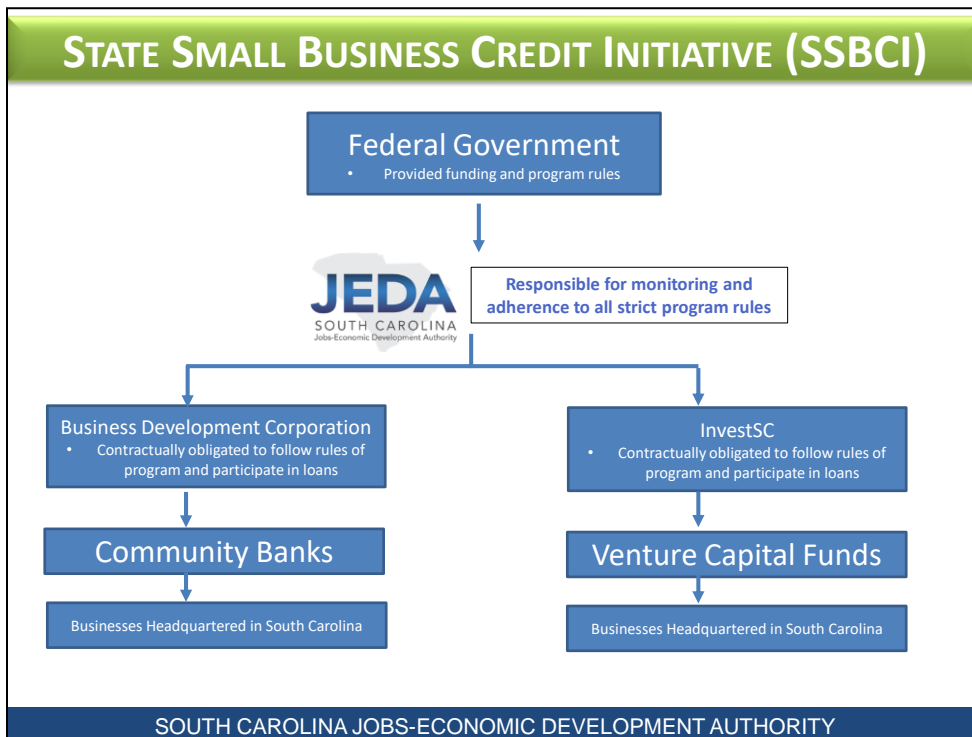
- Venture Capital Programs
  - Fund of Funds model
  - Direct Investment model

#### SSBCI Program 1.0 Amount and Program Options

- \$101M potential allocation to S.C.
- JEDA, as S.C.'s designated agency chooses the following:
  - Venture Capital Fund of Funds (50% of funds for this program), and
  - Loan participation programs (50% of funds for this program)

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**REP. BREWER:** The slide says, “States can qualify for additional incentive funds by demonstrating robust support for SEDI-owned businesses.” What qualifies as “robust support”?



**REP. MOORE:** Explain the venture capital program under SSBCI. Did JEDA invest any of the SSBCI 1.0 funds into a venture capital; program?

- (If so, what due diligence is done and by whom, what criteria were used to select the chosen venture capital funds to invest in?)

## S.C. SMALL BUSINESS CREDIT INITIATIVE

JEDA submitted its SSBCI 2.0 application on February 10, 2022 and was approved on June 8, 2022. The total potential allocation for SC is \$101 million. The first tranche of \$28.7 million was received on June 14, 2022. JEDA executed a contract with BDC for the loan participation program and with InvestSC for the fund of funds venture capital program.

### Expected Outcomes over the 10 year program projection:

- **Loan Participation Program (\$50 million)**
  - Expects to make 892 loans totaling over \$800 million.
  - Create 3,286 new jobs and retain 9,292 jobs.
- **Venture Capital Program (\$51 million)**
  - Initially invest in 8 funds with a private match over \$120 million.
  - Create 2,500 new jobs.
  - Increase income and sales tax revenue by \$18 million annually.

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

**QUESTION:** The slide says that the venture capital program will “initially invest in 8 funds . . . .” How many contracts have been signed to date with fund managers to invest SSBCI 2.0 funds?

- What kind of investment decisions have been made to date?
- Has JEDA or InvestSC signed a limited partnership agreement committing to make contributions to a venture capital fund under SSBCI 2.0?
- What experience and expertise do the individuals making investment decisions for the venture capital program portion of these funds have?

## S.C. SMALL BUSINESS CREDIT INITIATIVE

US Treasury monitors and audits JEDA for program's compliance with very strict rules. **Highlights of the rules include:**

- No passive investments are allowed.
  - Loans cannot be used to purchase non-owner occupied buildings or purchases of securities.
- No funds can transfer to owner in loan or equity investment.
- 1:1 Financing.
  - SSBCI funds cannot finance more than 50% of a project and total transaction cannot exceed \$20 million.
- Must meet qualifications of small business.
  - 500 employees or less.

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## S.C. SMALL BUSINESS CREDIT INITIATIVE

**SSBCI is focused on Socially and Economically Disadvantaged Individual (SEDI) owned businesses. SEDI includes the following:**

- (1) Businesses that are owned and controlled by individuals who had their access to credit on reasonable terms diminished as compared to others in comparable economic circumstances due to:
- Membership of a group that has been subjected to racial or ethnic prejudice or cultural bias;
  - Gender;
  - Veteran status;
  - Limited English proficiency;
  - Disability;
  - Membership of a federally or state-recognized Indian Tribe;
  - Long-term residence in a rural community;
  - Residence in a U.S. territory;
  - Residence in a community undergoing economic transitions (including communities impacted by the shift towards a net-zero economy or deindustrialization; or
  - Membership of an underserved community
    - populations sharing a particular characteristic, as well as geographic communities, that have been systematically denied a full opportunity to participate in aspects of economic, social, and civic life (e.g., Black, Latino, Indigenous and Native American persons, Asian Americans, Pacific Islanders and other persons of color; members of religious minorities; LGBTQ persons; persons with disabilities; persons in rural areas; and persons otherwise adversely affected by persistent poverty or inequality).

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY



## S.C. SMALL BUSINESS CREDIT INITIATIVE

**SSBCI is focused on Socially and Economically Disadvantaged Individual (SEDI) owned businesses. SEDI also includes the following:**

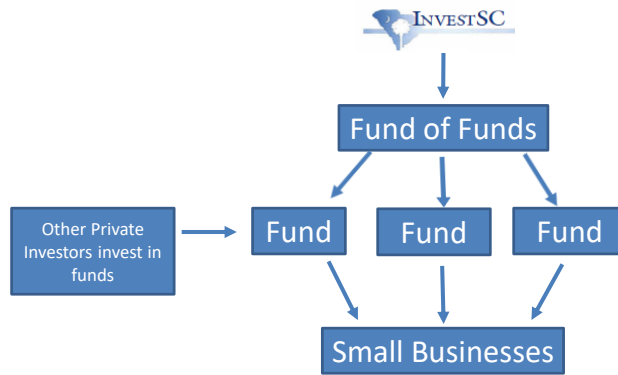
- (2) Business enterprises that certify that they are owned and controlled by individuals whose residences are in CDFI Investment Areas, as defined in 12 C.F.R. §T 1805.201(b)(3)(ii);
- (3) Business enterprises that certify that they will operate a location in a CDFI Investment Area; or
- (4) Business enterprises that are in CDFI Investment areas.

**Owned and controlled means 51% is owned by such individuals mentioned above.**

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

# STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI)

## FUND OF FUNDS INVESTING



SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## S.C. SMALL BUSINESS CREDIT INITIATIVE

### **SSBCI equity investments are risky investments**

- Venture Capital is like investing in a very risky stock market. The US Department of Treasury (Treasury) is targeting riskier investments as indicated in Program rules.
  - No SSBCI funds can go to owners. This eliminates buyout of equity from more established businesses, which are generally less risky.
  - Funds cannot go toward goodwill. Eliminates growth through the purchase of existing, established business.
  - Start up capital is riskier by nature. No established track record of business performance.
  - While fund managers will perform due diligence, we anticipate some losses will occur.
  - InvestSC will not lose state funds. The Federal government is providing capital.

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## S.C. SMALL BUSINESS CREDIT INITIATIVE

### **SSBCI equity investments are a benefit South Carolina**

- The goal of the program is increased job opportunities and economic development, particularly for business owners who have had difficulty raising capital through traditional methods.
  - If businesses are successful, tax revenues in South Carolina increase.
  - If businesses are successful, number of jobs increases.
  - InvestSC anticipates rolling recycled funds into other equity investments to increase business development (and the economy) of South Carolina.
  - The Federal government is providing the seed capital – it is not coming from state funds.

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# S.C. SMALL BUSINESS CREDIT INITIATIVE

## Due Diligence for Managers

- **The Board of InvestSC approves all fund managers.**
  - Managers are selected based on location, preferably within South Carolina.
  - Managers are selected based on venture capital experience.
  - Managers agree to follow SSBCI rules.
  - Fund managers make all investment decisions.
  - InvestSC monitors all program rules by sampling transactions for compliance.
  - InvestSC will provide capital to funds through capital calls. Capital calls occur when fund is ready to close on investments.
  - Fund managers monitor investments and provide quarterly statements to InvestSC.
  - Fund managers provide annual audited financial statements to InvestSC.

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## Miscellaneous Services



SOUTH CAROLINA JOBS-ECONOMIC  
DEVELOPMENT AUTHORITY

## INFORMATION & REPORTING

- JEDA Website [www.scjeda.com](http://www.scjeda.com)
  - Annual Reports
  - Board Meeting
  - Approvals
  - Closings
  - TEFRA Notices
  - Fee Schedules
  - Project Summaries/Success Stories
  - Bond Summit
  - Programs
  - JEDA Bond Application
  - Post Issuance Compliance and Continuing Disclosure Procedures
  - Industrial Revenue Brochure
  - Approved South Carolina Bond Firms
- Report to JBRC
- Audited financials to State Auditor and Comptroller
- Budget
- Accountability Report
- Bank Account Transparency Report

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## RECOVERSC LOCAL GOVERNMENT LIQUIDITY PROGRAM

In 2020, JEDA created the RecoverSC Local Government Liquidity Program.

**Purpose:** Help S.C. local governments bridge financial gaps resulting from lost revenues or delayed collections from a variety of sources (e.g., hospitality fees, accommodations taxes, business license fees, property taxes, etc.) during the COVID-19 pandemic

**Funding available:** Up to \$100 million in total program funding available to qualifying municipalities and counties.

The “Bond Buyer” named JEDA’s RecoverSC program the honoree in the Innovative Financing Category at their Deal of the Year Honors in the Publication’s 20th Annual Recognition of Outstanding Achievement in Municipal Finance (December 2021)

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

Which counties took advantage of this program?



## INTERNAL CHANGES MADE AS A RESULT OF THE OVERSIGHT PROCESS



SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## INTERNAL CHANGES MADE

- The agency reviewed its Regulations and has updated them due to their obsolescence, in accordance with S.C. Code Section 1-23-120(J)
  - Drafting Notice was published in *The State Register* on February 28, 2020.
  - Final Regulation published in *The State Register* on May 27, 2022
  - Eliminated all outdated and obsolete regulations
  - Added current fee schedule into the regulations
- Due to doubling of conduit bond issuances since 2017 and the increased requirements of SSBCI 2.0 program, JEDA hired a full-time CPA.

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY



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