

**Criteria, Priorities, and Guidelines for the Selection of Projects For IBank Financing under the Expanding VC Access Fund Program**

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## **1. Introduction**

The Expanding VC Access Fund (“Venture Fund”) is a program of the California Infrastructure and Economic Development Bank.

The Venture Fund will improve access to venture capital for underrepresented fund managers, entrepreneurs, and regions of California, as well as addressing climate equity.

The inaugural source of funding for Venture Fund is the State Small Business Credit Initiative (SSBCI) authorized by the American Rescue Plan Act of 2021. Periodically, US Treasury may amend its requirements for the SSBCI 2.0 program. As such, IBank will periodically review and update these program guidelines to maintain consistency with federal guidelines and relevancy within the California marketplace. Though the Venture Fund’s initial funding is through the SSBCI 2.0 program, it may later seek other sources of funding.

The following criteria and processes are applicable across all investment circumstances of the Venture Fund, irrespective of the source of funds.

## **2. Definitions**

For purposes of these Criteria, the following terms have the following meaning:

“Co-Investment” means a minority investment in a company made alongside a private equity (PE) fund manager or venture capital (VC) firm.

“ External Consultant” means a service provider to IBank that identifies, researches and/or recommends venture capital fund and co-investment opportunities but does not make investment decisions, nor execute investments. May also be referred to as a “Non-discretionary advisor”.

“Emerging manager” means a venture capital fund manager raising their first fund with institutional capital.

“External Program Administrator” means a service provider to IBank that identifies, researches and makes investment decisions and manages an investment portfolio for the Venture Fund. May also be referred to as a “Discretionary manager or advisor”.

“IBank Act” means the Bergeson-Peace Infrastructure and Economic Development Bank Act, as set forth in the California Government Code, Sections 63000 to 63089.98, inclusive, as may be amended from time to time.

“IBank Venture Manager” means an employee of or consultant to IBank who is tasked with managing the administration and operations of the Venture Fund acting under the

guidance and authority of IBank's Executive Director. The IBank Venture Manager is a newly created Deputy Director appointee position.

"Investment" means hybrid debt as described in 8(a).

"SEDI-owned businesses" means enterprises owned by socially and economically disadvantaged individuals as described in Section IV.a of the U.S. Department of Treasury's State Small Business Credit Initiative Capital Program Policy Guidelines dated November 10, 2021.

A "Special Purpose Entity" or "Special Purpose Vehicle" (SPV) is a separate legal entity created by an organization or by IBank. The SPV is a distinct company with its own assets and liabilities, as well as its own legal status. Usually, they are created for a specific objective, often to isolate financial risk.

"SSBCI 1.0" means the State Small Business Credit Initiative as established and enacted by the Small Business Jobs Act of 2010.

"SSBCI 2.0" means the State Small Business Credit Initiative as re-authorized and enacted by the American Rescue Plan Act of 2021.

An "underrepresented manager" means a venture capital fund manager (i) from a demographic category who currently or has historically experienced relatively limited access to resources, such as investment capital, technical assistance, mentorship, financial services, community engagement, and investment, or (ii) whose investment strategy focuses on SEDI-owned businesses. This historic deficit will be demonstrated by reference to third party data that shows limited access to resources.

"UST" means the federal United States Department of the Treasury, that operates and administers the SSBCI 2.0 program.

"Venture capital fund" means an entity that makes equity or equity-like investments in high growth early-stage businesses. These are typically high-risk investments, with no recourse and few assets.

"Venture Fund" means IBank's venture capital program in its entirety.

"Venture Fund Criteria" means the criteria, priorities and guidelines, set forth in this document, as may be amended by the IBank Board ("Board") from time to time.

### **3. Background on Venture Capital under SSBCI 1.0 and SSBCI 2.0**

SSBCI was originally created through federal legislation, the Small Business Jobs Act of 2010. In 2010, SSBCI 1.0 was funded with \$1.5 billion to strengthen state programs that support financing of small businesses. California received \$168 million of the \$1.5 billion and the Infrastructure and Economic Development Bank (IBank) and the California Pollution Control Financing Authority (CPCFA) – an agency housed within the State Treasurer’s Office (STO) split the funding equally between the two agencies. The allocation was utilized to assist small businesses gain access to capital and create jobs in California. More than 10,000 eligible small businesses in California received SSBCI fund support, which created or saved more than 90,000 jobs.

The American Rescue Plan Act of 2021 included \$10 billion for the reauthorization of the State Small Business Credit Initiative. With the authorization of SSBCI 2.0, IBank will use approximately \$200 million of California’s allocation to establish the Venture Fund. The Venture Capital program will be operated pursuant guidelines and requirements as set forth by UST for operation of state venture capital programs. In addition, IBank received authority in Chapter 68, Statutes of 2022 (SB 193) to operate a venture capital program.

Venture capital generally is the practice of investing in early stage, high growth companies, also known as startups. Startups generally have greater risk than more established companies, as they may not yet have established and steady revenues. Startups seek to grow revenues by developing their product and exploring the optimal customers and business models for their product or service. Seeking returns to compensate for risk, startup investors often expect a 20-30% gross internal rate of return.

Venture capital funds seek to manage and balance this risk in two principal ways. First by balancing risk across a portfolio of investments invested carefully and often across different industries, geographical areas or investment stage. Venture capital funds usually invest in a minimum of 10 startups with the expectation that many of the investments will fail, but a few will generate outsized returns to compensate. Second, fund managers use detailed analysis based on their investment skill and market expertise to identify the startups most likely to succeed and provide strong investment returns. Based on past performance, there is evidence that venture capital managers that were successful with a prior fund are more likely to be successful with their current one.

#### **4. Authority**

The IBank Act, Article 12 (commencing with Section 63089.99) authorizes and establishes a venture capital program within IBank and requires that it be administered and operated pursuant to directives and requirements developed and approved by the Board. Adoption of these Venture Fund Criteria, provides specific authority for IBank to offer financial assistance to eligible funds and portfolio companies under the Venture Fund.

The initial funding for the Venture Fund will come from UST through SSBCI 2.0. The Venture Fund including all involved participants must meet the reporting and other requirements mandated by UST for the SSBCI 2.0 program.

The IBank Venture Manager is authorized to undertake the following for the Venture Fund under the guidance and authority of IBank's Executive Director:

- Hire, train and manage any employees who work for the Venture Fund.
- Enter into agreements with service providers, such as attorneys, fund administrators, External Consultants, External Program Administrators, auditors.
- Select, manage and monitor Venture Fund resources that are lent or invested pursuant to these Venture Fund Criteria.
- Open bank accounts, manage cash draws and deposits.
- Serve on an internal investment committee, or advisory board, as required.
- Serve on an external investment committee, or advisory board, as the Venture Fund's representative, as required.
- Act as authorized signatory for the Venture Fund.
- Represent the Venture Fund at public meetings or events as requested.
- Take all actions and produce all reports and other documents necessary to comply with UST obligations and program obligations of SSBCI 2.0.

## 5. Venture Fund Goals

Historically, venture capital in California has been concentrated in the State's wealthy urban areas. Venture capital managers and venture funded entrepreneurs do not reflect the diversity of the State's population either geographically or demographically.

The Venture Fund is focused on overcoming market gaps in California's venture capital industry today to:

- accelerate change in California's venture capital community by increasing the geographic and demographic diversity of venture capital fund managers and venture-backed entrepreneurs
- encourage investment in SEDI-owned businesses, and
- attract additional private capital into under-resourced categories including underserved regions of California and climate equity investments.

The Venture Fund is designed as a sustainable revolving finance program within the IBank with the investment proceeds continually recycling to fill market gaps and catalyze economic development throughout the State of California.

The Venture Fund will be guided by three strategies that conform with the U.S. Treasury's SSBCI 2.0 program requirements:

1. *Inclusive California Initiative.* This initiative provides funding to managers raising at least their second fund. The goal is to support a more inclusive venture capital community in California, with a particular focus on underrepresented managers, and funds with a track record of investing in SEDI-owned businesses. Commitments are expected to average \$10 million per fund.
2. *Emerging California Initiative.* This initiative provides funding to managers raising their first fund with institutional capital. Investment managers must have an attributable track record or proxies. Track record is the history of the investment manager's prior investments. In some cases, emerging managers may create a proxy track record, that is, they may have been in some way involved in evaluating an investment but may not have made the investment decision. This strategy focuses on underrepresented managers and fund managers seeking to focus on SEDI entrepreneurs. Commitments are expected to average \$5 million per fund.
3. *California Co-investment Initiative.* This co-investment initiative combines two approaches: providing (1) follow-on capital into portfolio companies of the Venture Fund raising a subsequent investment and (2) funding that meets pre-defined criteria including both strategic elements (e.g., projects borne out of regional economic development plans, climate equity, underserved regions,

underrepresented ownership) and financial characteristics. Commitments will range from \$500,000 to \$5 million per investment.

SSBCI 2.0 funding will be distributed in three equal tranches. The initial allocation of approximately \$67 million to the Venture Fund will be used to support each of these three initiatives. U.S. Treasury mandates that at least 80% of the initial aggregate California SSBCI allocation must be deployed within three years as a condition precedent to the distribution of the second allocation.

## **6. Venture Fund Process and Program Support**

The Venture Fund will be administered by the IBank Venture Manager acting under the guidance and authority of IBank's Executive Director, and supported by IBank staff operating in conjunction with contracted External Program Administrators and/or External Consultants to aid administering the Venture Fund. The External Program Administrator and External Consultant models differ in function and process as set forth below. The Venture Fund may choose to contract with a combination of External Program Administrators and External Consultants. The IBank Venture Manager will administer the request for qualifications (RFQ) process outlined below and will provide a staff report to the Board, who will in turn make the decision as to which service providers should be contracted.

### **External Program Administrator**

A External Program Administrator will make investments directly in venture capital funds and / or co-investments based on established criteria, categories and priorities approved by the Board.

Investment transactions will be undertaken and executed by the External Program Administrator at their discretion, including negotiation and execution of investment agreements, and completion of any required UST program documentation. The External Program Administrator will report to the Venture Fund at least quarterly on the progress of its investments, including the items described in the reporting section below, as well as providing a detailed valuation report at least annually.

### **External Consultant**

An External Consultant will source, diligence and recommend investments in venture capital funds and / or co-investments, which will be provided to the Board for approval. The Board, or its designee, will approve each investment. The Board may elect to designate approval authority to a newly created investment committee. The External Consultant will provide due diligence packs and other information that the Board, or its designee, require to make a decision on each potential investment. The IBank Venture Manager will be responsible for collection of reporting information listed in the section below from portfolio companies and funds and may use a third party(s) to collect this information.

### **General Venture Capital Program Administration**

Investments under either of the above models may entail the establishment of Special Purpose Entities by the External Program Administrator, External Consultant, or IBank.

Service providers will be required to abide by US Treasury and SEC guidelines.



Consistent with UST requirements, the Venture Fund will produce an annual report.

The Venture Fund may utilize internal and external resources in the form of: attorneys, auditors, communications personnel, investment databases, CRM software, mailing list software, graphic design professionals, consultants on regulatory issues, providers of reporting, data gathering services and any other resources that may be required to effectively administer the Venture Fund.

## **7. Eligibility and Application Process**

An eligible External Program Administrator or External Consultant will have the track record and organizational capacity to operate their identified mandate successfully, in the opinion of the program manager and Board. IBank will conduct an open request for qualifications (RFQ) process as needed to seek qualified External Program Administrators and/or External Consultants. The RFQ shall at a minimum consider the following:

- Company longevity
- Type of assets managed
- Alignment of investment philosophy with program goals of improving venture capital access to underrepresented managers, underserved communities and regions, and advancing climate equity
- Team strength
- Investment track record
- Deal sourcing network
- Due diligence process
- Experience of managing / selecting underrepresented managers, networks in community
- Experience of managing / selecting California based managers in underserved regions, networks in community
- Experience of managing / selecting climate related investments, networks in community
- Experience of managing public sector mandates
- SEC Registration
- Legal Capacity
- Operational Capacity

## **8. Financing Terms, Fees and Limitations**

### **a. Form, Duration & Amount of Funding**

The Venture Fund or its External Program Administrator may issue loans to venture capital funds, startups (co-investments), SPV's, or venture fund general partners for the sole purpose of investing in the relevant funds or co-investments. The loans will be in the form of a hybrid debt instrument. The loans will be senior or pari passu to other private capital and may include a cap on returns to IBank. Loan duration will generally be up to 15 years. Any funds returned to IBank may be reloaned to the same or new entities for Venture Fund program purposes. Entities that receive funding through the program remain eligible to receive funding from other IBank programs.

### **b. Fees**

IBank may charge up to a 1% origination fee on any loans. In addition, management fees will be negotiated with each fund with the goal of keeping the Venture Fund management fees within the amount allowed by US Treasury under SSBCI 2.0 guidelines (i.e. average annual rate of up to 1.71% of the amount invested in a fund). External Consultants, External Program Administrators and other service providers may also derive fees from the program.

### **c. SSBCI 2.0 Limitations**

The aggregate single round of financing into a small business shall not be greater than \$20 million, inclusive of all classes of financing for the same purpose that close on or about the same date.

No investment will be initiated without securing a private capital match of at least 1:1 into the underlying co-investment or fund.

Accordingly, at a minimum, every \$1 of loan under the Venture Fund will cause and result in \$1 of new private capital. This requirement will be met by ensuring that the Venture Fund never contributes more than 50% of funding to an investment.

Venture capital funds shall not utilize any proceeds to make investments that would be prohibited by State or Federal law.

### **d. Limitations of Liability**

Contracts, debts, and agreements issued by IBank under the Venture Fund shall not constitute a debt or liability of the State or any political subdivisions thereof; other than the limited obligation of IBank or a special purpose vehicle, and do not constitute a pledge of the full faith and credit of the State or any of its political subdivisions and shall be consistent with Sections 1 and 18 of Article XVI of the California Constitution. All

Venture Capital program investments will contain conspicuous language and disclaim liability consistent with the above limitation.

## 9. Capital Allocation Guidelines & Procedures

### a. Venture Capital Fund Guidelines

The Venture Fund shall consider the factors listed below before investing in a venture capital fund. If the management team of the fund is a SEDI-owned business, then questions 1a and 1b will apply. If they are not, questions 2a, 2b and 2c will instead apply.

Item	Key Factors
1a Team - Skill Set	Is this an appropriate team for our strategy? Does the team have diverse skill sets and voices?
1b Team - Longevity & Experience	Has the team worked together previously? Is their prior experience relevant?
2a Business Plan - Strategy	Does the fund's strategy (deal stage, funding type, thesis) align with our mission of supporting underserved communities & regions, and climate equity?
2b Business Plan - Traction	Does the fund have a track record of investment in underserved or underrepresented communities & regions in California, or investment in climate equity?
2c Business Plan - Focus	Does the fund focus align with our mission? Does it focus on underserved or underrepresented communities & regions, and on climate equity?
3 Fund Track Record	What track record does the fund or its principals have?
4 Deal Sourcing Network	Does the fund have a diverse and deep deal sourcing network in our target areas of underserved or underrepresented communities & regions?
5 Due Diligence Process	Does the fund have a well-established, proven due diligence process? Written records?
6 Decision Making Process	Does the fund have a well-established decision making process and investment committee?
7 Operational Capacity	Does the fund have sufficient operational capacity to manage proposed funds? External service providers?
8 Legal & Regulatory Capacity	Does the fund have dedicated legal support? Is it SEC registered?

## b. Co-Investment Guidelines

The Venture Fund shall consider the factors listed below before investing in a small business through a co-investment.

Item	Key Factors
1a Team - Skill Set	Is this the best team to run the business? Is the leadership comprised of underrepresented startup owners?
1b Team - Longevity & Experience	How long has the team worked together? Experience in startups?
2a Business Plan - Logic	Does the company have a coherent logical business plan?
2b Business Plan - Traction	Does the company have sufficient traction with its current business plan?
2c Business Plan - Mission Alignment	Does the company's business plan meet the needs of underserved or underrepresented communities & regions, or advance climate equity?
3 Product-Market Fit	Is the product or service unique or does it meet a significant need for underserved or underrepresented communities & regions, or climate equity?
4 Customer Fit	Does the company understand & meet the needs of its customer?
5 Market Size	Is the market large and fast growing? Is it part of an underserved or underrepresented community or region? Does it advance climate equity?
6 Competitive Advantage	Does the company have a sustainable competitive advantage?
7 Financials	Are the company's financial forecasts logical and achievable?
8 Round Valuation & Structure	Is the valuation fair? Is the round an optimal size? Are co-investors acceptable?
9 Exit Options	Does the company have a range of viable exit options?

## c. Reporting Requirements

U.S. Treasury requires that each state venture capital program capture the information detailed below for reporting purposes under SSBCI 2.0.

IBank may contract with a third party to collect and organize the information required to be collected by U.S. Treasury.

For funds and co-investments:

- Provider EIN (table 6)
- Provider Regulatory ID (table 6)
- Provider type (table 6)
- Whether the provider is a fund / entity that is the primary source of private capital for the purpose of meeting the 1:1 financing requirement (table 6)

For funds only:

- Target fund size (table 6)
- Allocated Funds Expended for Costs of Program Services (table 6)

For each investment (whether fund or co-investment):

- Business Revenue (table 11)
- Business Net Income (table 11)
- Subsequent Private Financing (table 10)
- SSBCI Funds Lost (table 10)
- Equity Investment Gains (table 10)

For each small business:

- Business Name (table 7)
- Business EIN (table 7)
- Business Street Address (table 7)
- Business City (table 7)
- Business State (table 7)
- Business Zip Code (table 7)
- NAICS Code (table 7)
- Year Business Opened (table 7)
- Form of Business Organization (table 7)
- Primary Transaction Source of Private Capital (table 7)
- Secondary Transaction Source of Private Capital (table 7)
- Primary Purpose of the Loan or Investment (table 7)
- Secondary Purpose of the Loan or Investment (table 7)
- Climate-aligned Investment (table 7)
- Energy- or Climate-Impacted Communities (table 7)
- Disbursement Date (table 7)
- Loan or Investment Transaction Amount (table 7)
- Amount Invested Directly into Business (table 7)
- Recycled Funds Expended (table 7)
- Additional Government Funds (table 7)
- Concurrent Private Financing (table 7)
- Business Revenue (table 7)
- Business Net Income (table 7)
- Full-Time Equivalent Employees (table 7)
- Expected Jobs Created (table 7)
- Expected Jobs Retained (table 7)
- Self-certified SEDI Owned and Controlled in CDFI Investment Area (table 7)

- Self-certified SEDI Future Location in CDFI Investment Area (table 7)
- SEDI Status by Business Address in CDFI Investment Area (table 7)
- Self-Certified SEDI Demographics-Related Business Status (table 7)
- Minority-Owned or Controlled Business Status (table 7)
- Women-Owned or Controlled Business Status (table 7)
- Veteran-Owned or Controlled Business Status (table 7)
- Race of Principal Owners (table 7)
- Ethnicity of Principal Owners (table 7)
- Middle Eastern or North African Ancestry of Principal Owners (table 7)
- Gender of Principal Owners (table 7)
- Gender of Principal Owners – Self-Identification (table 7)
- Sexual Orientation of Principal Owners (table 7)
- Veteran Status of Principal Owners (table 7)
- Stage of Investment (table 9)
- Security Type (table 9)
- SSBCI Ownership Percentage (for equity investments, table 9)
- Conversion Discount (for SAFE & other non-priced instruments, table 9)
- Valuation Cap (for SAFE & other non-priced instruments, table 9)
- Type of Valuation Cap (for SAFE & other non-priced instruments, table 9)

Table references are to US Treasury's [Capital Program Reporting Guidance](#) of May 25, 2022. This document may be updated periodically by US Treasury, and IBank will amend its requirements of outside contractors concurrently.