

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK  
(IBank)**

**THE EXPANDING VENTURE CAPITAL ACCESS PROGRAM**

**STAFF REPORT**

**Background:**

IBank was established in 1994 pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (the “IBank Act” or the “Act”, Government Code Sections 63000 et seq.). IBank’s mission is to provide financial assistance to eligible projects. The Expanding Venture Capital Access Program (the “Venture Program”), established by Article 12 of the IBank Act (Government Code Sections 63089.99) is one of the financing mechanisms employed by IBank to carry out its mission.

The Venture Program is funded by the State Small Business Credit Initiative (“SSBCI”) authorized by the American Rescue Plan Act of 2021 and administered by the U.S. Department of the Treasury (the “US Treasury”).

The purpose of the Venture Program is to improve access to venture capital for underrepresented fund managers and entrepreneurs, and underserved regions of California, as well as addressing climate equity. To achieve its purpose, the Venture Program will acquire contract rights, or make loans with respect to investment funds, investment fund management companies, special purpose investment vehicles, trusts, nonprofit entities, small businesses, and other private business entities.

Pursuant to Section 63089.99(c) of the IBank Act, on July 27, 2022, IBank’s Board of Directors (the “Board”) adopted Resolution 22-11 approving directives and requirements, known as the Criteria, Priorities and Guidelines for Financing under the Expanding Venture Capital Access Fund Program (the “Venture Program Criteria”) to establish the operation and administration of the Venture Program. In accordance with the Venture Program Criteria, IBank staff conducted a Request for Qualifications (“RFQ”) for an external consultant, and after an extensive interview and evaluation process, selected Cambridge Associates as a preferred external consultant. On October 19, 2022, the Board adopted Resolution 22-14 authorizing IBank to retain Cambridge Associates as an external consultant to assist in the administration and operation of the Program, pursuant to an Investment Services Agreement effective December 14, 2022. Separately, the Board approved Resolution 22-19 related to an investment process for the Venture Program on November 16, 2022.

This Staff Report outlines proposed amendments and additions to the Venture Program Criteria to address the evolving needs of the program. The updates seek to refine and clarify existing language, extend the investment committee approval process to cover both fund and direct investments, and create one comprehensive guidance document for the Venture Program.

While the Executive Director has authority to make non-substantive amendments to the Venture Program Criteria, any material amendments and revisions must be approved by the IBank Board. A clean version of the proposed new Venture Program Criteria document appears in **Attachment A**.

All proposed changes either conform to or do not conflict with the IBank Act and any relevant state and federal regulations. As such, IBank staff recommend the IBank Board approve Resolution No. 23-04, adopting the amended and restated Venture Program Criteria as of February 22, 2023.

### **Discussion:**

Since adopting the Venture Program Criteria on July 27, 2022, significant developments have occurred at the program that call for the update and revision of the Criteria:

**New Venture Program Leadership:** On February 1, 2023, Governor Gavin Newsom appointed Derrick Tang as the Deputy Director of Venture Capital at IBank to lead the Venture Program under the guidance and authority of IBank's Executive Director. The hiring of a Career Executive Assignment-level Venture Specialist, who will report to the Deputy Director of Venture Capital, is also underway.

**Regulatory Clarification:** As part of on-going routine compliance, IBank staff have continually discussed and received clarifications and guidance from the US Treasury relating to the SSBCI requirements, in particular, with respect to the catalytic requirement and use of funds from the initiative.

**Market Responsive Updates:** The Venture Program has retained an external consultant and received direct market feedback from Cambridge Associates and venture capital funds concerning the program's financing structure and investment process.

The following discussion does not attempt to catalogue every proposed revision, particularly those which are more routine or non-substantive, all of which can be viewed in the redline in **Attachment B**. Below are the items which the Venture Program staff believe are more material and worthy of the Board's attention.

### **Summary of material Venture Program Criteria amendments:**

- **Clarifying the implementation of an external consultant model and incorporating the retention of Cambridge Associates as an external consultant.** At the inception of the Venture Program, both a non-discretionary external consultant model and a discretionary external program administrator model were considered as options for the administration and operation of the program. The use of a discretionary external program administrator model would require additional US Treasury approval of the model and the selected program administrator and trigger an amendment of the SSBCI application, resulting in further delay in the awarding of funds to California. Accordingly, IBank staff

pursued an expansive RFQ and, after an extensive evaluation process, selected Cambridge Associates as a non-discretionary external consultant. As such, the Venture Program Criteria is updated to reflect the use of an external consultant model, with Cambridge Associates serving as the external consultant.

- **Formalizing an investment committee for approval of all investments.** On November 16, 2022, the Board adopted Resolution 22-19 and approved an investment process whereby direct investments in small businesses were approved by the investment committee to meet the standard tight closing timelines of the businesses' fundraising rounds. IBank staff now request that the Board revoke Resolution 22-19 and approve an investment process whereby the investment committee approves both direct and fund investments.

The Venture Program became operational as of December 14, 2022, and since then, Cambridge Associates and IBank staff have conducted extensive discussions with venture capital fund investment prospects. The unequivocal market feedback indicates a similar need for an expedient fund investment approval process to meet closing deadlines – particularly in light of IBank's need to use an unconventional hybrid note as a funding instrument to comply with California's prohibition on holding equities. The hybrid note instrument, along with other federal requirements, necessitate additional time for negotiation of terms and conditions and documentation by IBank and the funds.

Similarly, the SSBCI's catalytic requirement also calls for an expedient fund investment approval process. Under the requirement, each \$1 in state financing must cause and result in at least \$1 in private financing. Recently, through discussions with US Treasury, IBank staff have learned that only private financings that close after IBank's formal approval of its own financing would count towards the catalytic requirement. Consequently, private investments that are motivated by IBank's financing would be not considered as catalyzed by IBank if such private financings are executed prior to IBank's financing approval.

As such, IBank staff proposes amending the Venture Program Criteria to extend the current investment committee approval process to cover both fund investments and direct investments in small businesses. The investment committee can meet anytime at the call of the Chairperson to respond to investment needs.

The committee is chaired by the newly-appointed Deputy Director of Venture Capital, Derrick Tang, whose background includes venture capital investment as well as serving as Manager of Climate Investments at the Bay Area Air Quality Management District. He is supported by five other committee members with diverse experience in venture capital investment, finance, legal, compliance, policy, and administration. In addition to the Chairperson, committee members consist of IBank's Executive Director, IBank's Chief Deputy Executive Director, the Chief Deputy Director of the Governor's Office of Business and Economic Development, IBank's Senior Staff Counsel, and IBank's Venture Specialist. Each

investment committee member has one vote, with the Chairperson having the tie-breaker vote.

- **Creating a comprehensive guidance document.** The amended and restated Venture Program Criteria document incorporates the investment process adopted by the Board on November 16, 2022, along with the aforementioned revisions. In addition, it incorporates eligibility, use of proceeds, certification, and reporting requirements mandated by the US Treasury to create a comprehensive guidance document for convenient reference by IBank staff and the public.

## RECOMMENDATION

IBank staff recommend the revocation of Resolution 22-19 and the approval of Resolution 23-04 adopting the amended and restated Criteria, Priorities, and Guidelines for Financing under the Expanding Venture Capital Access Program.

February 22, 2023

### **Attachments**

#### Attachment A

Criteria, Priorities, and Guidelines for Financing under the Expanding Venture Capital Access Program (Venture Program Criteria), dated February 22, 2023

#### Attachment B

Redline of proposed amendments compared to the Venture Program Criteria approved on July 27, 2022.