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SMALL BUSINESS
CAPITAL FORMATION ADVISORY COMMITTEE

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Securities and Exchange Commission
100 F Street NE
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C O N T E N T S

P R O C E E D I N G S

MS. GARRETT: Good morning and welcome to today's meeting of the SEC Small Business Capital Formation Advisory Committee. It's good to see all of you.

Julie, do we have a quorum for the meeting?

MS. DAVIS: Yes, we do. And I'll take this opportunity to give the disclaimer for all the SEC staff speaking today, that our views are our own and not necessarily those of the Commission or the rest of -- or a part of any commissioner. Thank you.

MS. GARRETT: Thanks.

Before we get started, we extend a special thank you to the Chair and Commissioner Roisman for attending today's meeting. We also extend a thank you to Martha Miller and her team in the Office of the Advocate for Small Business Capital Formation for continuing to do an incredible job at advocating for small businesses, and today we will see some of the new tools that they have created.

We also want to thank our guest

presenters and panelists for taking the time to talk to us. And finally, we appreciate the members of the public who have tuned in to watch the meeting via Webcast at SEC.gov.

I'd like to welcome and introduce our newest member to the Committee. She was the Small Business Administration's representative on the Committee, Bailey DeVries.

Ms. DeVries is the associate administrator in the Small Business Administration's Office of Investment and Innovation. She provides guidance and leadership for programs that provide the high-growth small business communities with access to financial capital and R&D funds to support innovation.

Prior to joining the SBA, she most recently served as a venture partner at Trail Mix Ventures, and previously served in the senior leadership role at Greenspring Associates, where she led efforts to commit capital to female and ethnically diverse led fund managers. Prior to Greenspring, Bailey was an executive for T. Rowe Price

Associates.

Welcome, Bailey. We are happy to have you on the Committee.

Today, we start with the SEC Small Business Advocacy team demonstrating their new interactive capital-raising navigator tool and capital trends map. These tools are intended to deliver on the need for plain-language education resources for capital raising for small businesses, which the Committee has noted would be helpful.

Next, Alicia Robb, Ph.D., will discuss her newly released report. Dr. Robb, in collaboration with SEC's Small Business Advocacy team recently published her report titled "Rural Entrepreneurship and the Challenges Accessing Financial Capital: An Overview of Funding in Rural America."

The report focuses on how entrepreneurs in rural areas finance their businesses, as well as the challenges they face in obtaining the capital.

Following the presentation by Dr. Robb, the Committee will discuss how communities can build more dynamic capital raising in rural areas.

We will break for lunch and come back to discuss the State Small Business Credit Initiative, known as the SSBCI. As part of the American Rescue Plan Act enacted in March of 2021, Congress reauthorized the SSBCI, which will provide $10 billion to fund state, territory and Tribal government small business credit support and investment programs.

The Committee will engage in a discussion with a member of the Treasury Department SSBCI team, and participants who ran the equity capital program during the inaugural SSBCI initiative in 2010 and who plan to participate in the newly enacted SSBCI 2.0.

Building on today's presentations, the Committee will share their experiences and perspectives on how to proactively foster dynamic ecosystems that facilitate entrepreneurship and mobilize investments in areas of the country with nascent investor capital infrastructure.

I would now like to welcome Chair

Gensler and Commissioner Roisman, who will make opening remarks.

Good morning, Chair Gensler.

INTRODUCTORY REMARKS BY COMMISSIONERS

MR. GENSLER: Thank you, Carla, and all the members of the Small Business Capital Formation Committee. It's good to be with you again. I thank you for your continued dedication to small business in America. And as was mentioned, it's customary, I'd like to note I'm not speaking on behalf of the Commission or the SEC staff.

I would also like to take a moment to welcome Bailey, the Committee's new representative from the Small Business Administration.

As you mentioned before, Bailey, we look forward to working with you and, of course, our collaboration with the SBA and the teams over there have really enhanced. And so, to the extent beyond the Committee, if there are things that the SBA and you think that we at the SEC can do to help promote capital formation and small business, please see us, please come in and chat with us, Bailey.

Today's agenda addresses timely and critical issues affecting small business owners, and this includes the challenges of accessing financial capital for rural entrepreneurs. Companies across the country need to have cost-effective access to capital to grow scale regardless of their location, and currently access to early-stage capital is uneven.

I mean, we know that venture capital -- most venture capital firms are in three states; New York, Massachusetts and California. They are funding across the country, but there still is an unevenness in venture capital, as well as even in lending and credit markets as well.

I am glad that the Committee is taking a look at how businesses are being financed in areas of the country where businesses have struggled to access capital, including rural communities.

Now, the presentation today, Dr. Alicia Robb will present her research on some of the challenges in rural financing, drawing on

Commission data and the collaboration with their great staff.

Having looked through the report myself, I'm really intrigued by some of the data that she presents, but also some of her views, and I'm interested in hearing this Committee's broader thoughts on it.

Further, our Small Business Advocacy Office recently launched an interactive capital-raising digital hub. The navigator provides helpful insights about how to raise capital based on entrepreneurs' specific needs. I understand you all will receive a demo on the new tool and we look forward to hearing the feedback.

Lastly, I understand you will take a deep dive in the Treasury Department's State Small Business Credit Initiative. The program provides $10 billion of funds to states, territories, Tribal governments' small business programs.

So, I'm pleased that Treasury's Deputy Assistant Secretary, Adair Morse, will join us today to talk about the initiative. It's an innovative way to bring private and public capital together, helping small businesses throughout the country.

I look forward to the readouts in today's meetings on ways we can make capital markets more accessible to small business, not only in the rural community but across the country, and I thank you.

MS. GARRETT: Thank you, Chair Gensler. Commissioner Roisman, good morning.

COMMITTEE MEMBERS' OUTLOOK

MR. ROISMAN: Good morning. Good morning, Carla, and welcome.

Thank you, everyone, for joining us. Thank you for your continued work on the Committee. It's always nice to see all of you, and I appreciate all the work, which I know is on top of your day jobs to further the mission of the Commission, but also of the Committee.

I want to congratulate Martha and her team for putting together the tools they'll demonstrate shortly. I think the new hub displays in an easy-to-navigate location, several different tools that should be vital to entrepreneurs and policymakers alike.

Given our mission to facilitate capital formation, it is an unfortunate truth that oftentimes our rules may make it challenging for smaller businesses with limited resources to understand and navigate our regulatory system. I hope that the new navigation tool will be just what entrepreneurs need to better understand the more opaque parts of it -- of our rules, I should say.

I also want to say how pleased I am that the Committee will be addressing entrepreneurship, not just outside our coastal hubs but in rural America. As I like to say, good ideas and great businesses are not limited to the coasts in our country, and it's important to shine a light on these areas where development can do considerable good in communities and beyond, but are often overlooked by regulators and policymakers.

The report that you will discuss today is both illuminating and frankly sobering, and I want to thank Dr. Robb for putting it together and presenting it later today.

It's clear that we have a lot more to do to fulfill our mission of facilitating capital formation to ensure that we're working for all Americans, not just those in California, New York, and Massachusetts. And one thing I'm particularly happy about is the composition of this Committee has always been focused on that.

So, while there are many factors that influence how our capital is allocated, I can't help but think that our accredited investor standard imposes a heavy cost on areas that are less affluent. And a pathway for finders to help match investors in areas where they may be further apart and where the networks may be sparser would also seem to be helpful for these businesses. I hope that today's conversation will be the first of many at the Commission in the near future.

The U.S. capital markets underpin much of the American dream from the investors who are able to grow their savings for education, home ownership, and other financial goals, the entrepreneurs who lift up themselves and their communities when they leverage great ideas to improve lives across the country and the world. I truly look forward to hearing from the Advisory Committee on how we can do more as a Commission to bring these ideas to fruition.

And lastly, welcome, Ms. DeVries. We look forward to your participation and I thank you for your willingness to serve. Thank you.

TIMLEY AND CRITICAL ISSUES AFFECTING SMALL BUSINESS OWNERS

MS. GARRETT: Thank you, Chair Gensler and Commissioner Roisman for joining us today. We're happy to have you here.

I would now like to introduce Amy Reischauer. She's the strategic engagement advisor from the SEC's Small Business Advocacy team. Amy is going to demo the team's new capital-raising navigator tool, which we've heard about, and it's designed to help investors understand their options for capital raising. And she'll also provide a demo of the team's new interactive capital trends map, showing where money is being raised using different offering pathways.

Good morning, Amy. We look forward to hearing from you.

MS. REISCHAUER: Good morning and thank you. It's great to be here. I'm thrilled to demo the tools for you. As you can tell, we're pretty excited about them. So, let me get started.

So, early in October, we launched our new capital-raising hub where we tried to consolidate where some of the resources are available on SEC.gov, including some of our new ones. So, I'm going to share the screen, as soon as my mouse wakes up.

So, I want to share this screen. Bear with me.

All right. Is that working? Are you all seeing my screen yet?

MS. GARRETT: Uh-huh.

MS. REISCHAUER: Excellent.

This is the new hub. You'll spot a few familiar resources on there, like our glossary that we launched last year. But the first thing we talked about is the capital-raising navigator. We've gotten some pretty great feedback on it so far, and I actually don't just mean the kudos. We've talked to entrepreneurs who've pointed things out and suggested potential improvements.

So, that's the feedback I love to hear, and I encourage all of you to let us know as you explore the tools or as folks in your network do. If you have suggestions for improvements, please, please, please, those are more than welcome.

So, how does the navigator work? As lots of you know, there actually are a wealth of great resources on our website. Good, substantive content on SEC.gov that I credit our colleagues in Portofino and investment management. There's lots of great answers to lots of great questions.

But I think the challenge is you have to know the resources are there, you have to know how to find them, and where we're focusing, you have to know what the question is that you're asking. So, if you're surfing our site because you want to know the difference between 506c and regulation crowdfunding, or how Reg A tiers differ, you're probably in pretty good shape.

But we've heard from you on the Committee, we've heard from other very knowledgable, very creative entrepreneurs in the ecosystem that those are kind of the 200-level questions. And what we wanted to do was to provide something more fundamental, to navigate folks to the resources that they may or may not know are the resources they are looking for.

So, this is the tool that's designed to narrow down those pathways based on answers to some basic questions about the user's intended offering. How much are you offering, where are you going to raise it from, who's investing, that kind of thing.

So, let's get started. My machine is a little bit delayed from here.

Okay. So, let's say I'm our user, I'm Amy, I want to raise maybe a little over a million dollars, I'm building a new app, maybe I formed a business, I just formed an LLC with my friend here in Northern Virginia, so now I want to know where to go from here. So, I start. My first question:

Does my business already exist?

So, the tool's designed not just to get folks the resources, but also to let folks know when they might not yet be ready for the resources that we have. When I might not be ready to raise capital from investors.

So, does my business exist? Yeah, I formed my LLC a few months ago. But if I were to come here and say, no, my business doesn't exist, the tool's designed to kind of put in a little bit of a speed bump here.

So, it's going to redirect me, here's some resources that might be more relevant for me, maybe I should be looking at some SBA resources, maybe I'm not ready for raising capital from investors.

But I'm going to go back because I said I did form my LLC, so I'm going to say yes. Again, have I explored other options for financing, have I tried a bank loan, is there free money out there, something less dilutive. Am I really ready for investment capital? Again, I can say, "not yet," I'll be redirected to some resources.

But in this case, I'm going to say, "Yes, I'm ready." I've already gone through maybe an SBA loan program, whatever it is. And again, now I get to what kind of offering do I want to pursue.

If I get here and I know I'm just trying to choose between 506c and crowdfunding, then maybe I want to say yes and I want to move on. In that case, I'll be redirected to the resources that we've had on this site. I can go here, I can go find the detailed content that I knew or hoped was there already.

But again, not our intended audience. Our intended audience is still asking the fundamental questions. So, I'm going to say, "No, I don't know yet."

Let's see, where are we?

So, up to this point in the tool, the tool's been kind of asking me if I'm ready, making sure that I'm using -- you know, I'm ready to use the tool. Now is where we start to -- where the tool starts to filter out the answers based on my questions, you know, and to determine what kind of recommendations or relevant pathways it's going to flag.

So, here I said, you know, I want to raise a million, maybe a little over a million, so I can choose that.

Before I do, I want to show one more -- if I get to this point and say, I actually don't know how much I want to raise, maybe it's a half a million, maybe it's 80 million, that's another sign for the tool that maybe I need a little bit more homework first. So, if I hit "I don't know," it's going to send me to some resources. I can maybe do a little bit more background, narrow down between 80 million and a half a million, so that you're really ready to ask the question. But again, I said I knew what I wanted and here I am.

So, again, this is where the tool's going to start filtering out potential relevant responses based on what I've said. When I just -- if I had just said "I don't know" to how much to raise, the tool's going to let me continue through, it's going to point out what pathways are relevant and what aren't, but it's going to pull out an IPO, the thought being that if I'm here and I don't really know how much I want to raise, maybe it's a half a million and maybe it's not, I'm probably not here looking to do a full-blown registered public offering. I'm probably going to need a little bit more guidance than that. So, again, just trying to make sure that the results that we produce are relevant to the user.

So, how do I plan to connect with my investors? I'm not really sure that my friends can give me all my money, so I'm probably going to have to advertise, I'm saying to go online.

Next, where are my investors located. Obviously, these are all things that are going to play into what limitations on particular exemptions are going to work for me or not.

Here, where are my investors located? I'm in Northern Virginia. I can barely get dinner without crossing state lines. I'm going to say I need to go out of state for my investors as well. And then here, are all my investors accredited?

And here, I'll take a moment to point something out. Maybe I get here and I actually don't know what an accredited investor is, or I know -- wait, the rules changed recently, what was the change, what's different. I need a little, you know, refresher.

You'll see that throughout the tool some of the terms are underlined and linked. Those are hyperlinked and it will take you to our glossary, give you a little background on what is an accredited investor, offer you a few more resources, so that I really understand the question I'm being asked, and then I can go back to answering the question.

I can say, "Well, I actually don't know if everybody I'm going to meet is going to be accredited," so let's play it safe. I'll say maybe I've got some unaccredited. And here we are, I get to my results page, ta-da.

You'll see we sort out between some relevant options for me. I've got reg crowdfunding or Regulation A. We also show other options. We're not saying anything is not available or available. We're not recommending anything or not recommending it. We're just saying these are potential pathways, potential exemptions that might be relevant to your circumstances.

If I were to click through to this, it's going to send me to all that great content I flagged earlier that's already on the site, I just might not know it was there or know how to find it.

So, here's all this information on regulation crowdfunding, including staff guidance and the compliance guide and all of that. So, to really set me up to do some focused homework on pathways that are truly relevant to the needs that I have based on how I answered those questions.

You'll see, again, there are some less relevant options. And I'll point out, for example, the registered offering is down here. Not because I hit "I don't know," because you'll remember I went back and said I know I want to raise a million dollars. But in addition to checking against the requirements of the rules, the tool's also checking against utilization data.

So, what are users raising the amount of money that I am seeking, what pathways are they actually relying on? And if we're finding that, you know, a particular pathway is not used or not practical for that kind of -- that size of an offering, it's going to show up as less relevant. So, you'll see that's why the IPO is down here.

In addition to just, sort of, sorting out between what might be relevant and what might be less relevant, you'll see we spell out next steps. We're always going to suggest that now that we've helped you maybe hone your questions, now you know you've got good questions to take to quality legal and financial advisors, because that's always where we want, you know, our users to end up, is just kind of knowing what questions to ask, so that they're not spinning wheels, casting too large of a net by the time they go seeking advisors. So, that --

MR. SOLOMON: Amy, I have a few questions. Sorry to interrupt, okay?

MS. REISCHAUER: Yeah.

MR. SOLOMON: Does the searcher know that the recommendations are weighted based on what they have screened for? So, or is it just -- or do you say, like "The results are in. The most relevant are for you up top versus on the bottom"?

MS. REISCHAUER: Right. So, we have -- excuse me. So, the detailed methodology as to how we parse through is spelled out in a methodology document. So, in this intro language here, if I click on "Methodology," we walk through in, what I hope is user-friendly detail, how it is that the tool is choosing -- you know, choosing what's relevant for you.

Whether it's based on the answers to the questions, based on the -- you know, I talked briefly about the data behind -- if you see here, question four, "How much money do you plan to raise?" We talk about how that affects the relevance of the particular offerings.

So, sometimes it's relevant or not relevant because there is, in fact, a cap. But as we know, there's not a minimum for any offering. So, the minimums we measure, that's where we look -- where the tool looks to the data on utilization of that particular offering. And that's all explained here in the methodology.

You know, I welcome thoughts on whether -- as you all play with the tool or as, you know, folks in your network play with the tool, if that's clear and helpful.

I'm going to jump back to the capital-raising hub, unless there are other questions on the navigator at this point.

(No response.)

MS. REISCHAUER: Okay. So, the other thing I wanted to talk through is our capital raising -- I'm sorry, our capital trends maps right here. And this is -- this is, sort of, an interactive way to display the data that we have on where and how much folks are raising under various offering types.

So, we have -- and you can choose what offering you're looking at. So, you can filter by -- this is showing right now is regulation crowdfunding. We also have the data for Regulation A, Regulation D and registered. So, as we scroll through you can see each of those. And then for any given offering, we have a couple years worth of data, or a couple periods of data, depending on -- depending.

So, here, you know, I can look at prior year data on registered offerings. Same is true for the other um -- the other offering types. For crowdfunding, I can look at 2020, look at 2019, can see how it shifts.

And then one other thing to point out, only available at this point for regulation crowdfunding, we have state data for all four offering buckets, but reg crowdfunding, we also have county data. So, if folks are really wanting to get into the details of where these offerings are, you'll see that you can track it by county for crowdfunding. And -- yeah, so those are the maps. I'll pop back to the hub here again.

I keep cheating by using my saved capital-raising hub clicker, as you can see. But, you know, it should be relatively easy to find. You can find it from the banner on our website, or you can go to SEC.gov/capital-raising and that will get you to the tools.

So, I'm going to stop sharing my screen, so that I can answer any questions folks have by seeing faces.

MR. GRAHAM: Amy, I thought that was great. This is all fantastic. I haven't had an opportunity to really take a deep dive yet, but it's a -- I think it's a really good job.

What is being done to get the word out? I mean, it's nice to have this tool. It's going to continue to be refined and it's going to -- I think it's going to just keep being more useful. But I think a lot of people, we are -- a lot of people are in trouble are trying to focus on aren't going to know what is right to begin with.

MS. REISCHAUER: Right. Right. And we wholeheartedly agree. And we've tried to do -- we've tried to take kind of a multiple-tiered approach to get the word out about this. We can post on LinkedIn and tweet and, you know, sing about it until the cows come home, but we're not in people's networks. And so, we have tried really hard to work through the groups that we work with to share information about the tools that are out there, so that they can then share the tools with their networks.

So, we've reached out to some groups who have -- you know, there are folks who have cohorts, and we have offered to demo the tool for, you know, their 2021 cohorts. So, whether it's a group of, you know, merging fund managers who work with portfolio companies or it's, you know, kind of makers entrepreneurs in that kind of environment. So, we've worked through those kinds of groups.

We also, again, asked those groups, "What is the best way for folks in your network? How do they want to hear about these tools? Do we want video content out there with, you know -- is it helpful for people to see Amy use the tool?" Maybe, maybe not. "Is it helpful for us to go to your class and meet with your cohort of up-and-coming stars and ask, you know -- demo it for them, get their questions, get their feedback?"

So, we've really been trying to talk to our network about how folks in their network want to hear about us. And I welcome feedback on all of those questions from this group.

MS. LEGG MILLER: Yes. And Stephen just echoed what Amy was saying, we recognize that most start-ups don't go to SEC.gov as the starting point. They're Googling, they're looking at other resources.

And so, our plan is to get this tool into other people's hands, so that it can become a part of someone else's distribution and network to reach people because "build it and they will come" is not a viable solution for any start-up, nor is it a viable solution for this tool.

So, any help that you can give getting the word out, we appreciate, as well as ideas on best ways to make sure that this gets visibility and in the hands of those who really need access to it.

MS. DEVRIES: Martha, Amy, I just want to commend you for this work. I think this is excellent and love the direction it is going. And as you're mentioning, thinking about those connection points and also translating this and putting it in the lexicon of the small business owner that is looking to raise capital. I do think it would be wonderful to have some discussions around how the SBA and our network of accelerators and incubators and small business development centers may be able to be helpful, and also discuss some opportunities to think about some of the lexicon and the mapping of the SEC regulatory terminology to some of the more commercial terms that we hear in market to help bridge that gap.

I think there's a lot of great opportunities there. So, thank you so much for sharing that with the staff. I look forward to talking more.

MS. REISCHAUER: Thank you.

MS. LEGG MILLER: Would love to explore that, Bailey.

MS. WASHER: Just to comment on what Bailey said, I think that the National Business Incubator Association, the NBIA, is another really good resource to be able to push out this kind of information.

There's also many different local entrepreneurship organizations. In our area, northern Florida, there's an organization called Start GNV. Where "GNV" is for Gainesville, Florida, and they host regular networking groups with a whole host of different kinds of entrepreneurs, and I know that there's those kinds of entrepreneurships in many different regions, and I think that's really the grassroots way to get the information about this out.

Especially as we're thinking about, we're going to talk later today about rural areas, it's really those entrepreneurship groups, those loose networking groups, where this kind of information can be really powerful. So, I would also suggest finding ways to do that.

MS. REISCHAUER: Sounds great, Sue. Thank you.

MS. MOTT: Carla, I happen to say the same thing Sara said. There are -- first of all, this is a phenomenal resource, so I want to thank everybody for all the hard work that was put into this, 'cause I can see how useful this will be for the underserved markets. They really need information.

So, there's also like national organizations that have conferences. I'm thinking about the National Incubator Association, I think something like that. NBCA, the ACA, things like that, and these things can be posted on their websites as well.

So, I'm going to push it out to the ACA and the ARI, get this posted on our websites. But I just think that might be a great way for us to accelerate and, sort of, like piggy-backing on what Sara said, so phenomenal job. This is great.

MS. LEGG MILLER: Thank you. Well, we have fair iteratively launching content to borrow from a lovely start-up. We're doing this like a start-up where we're trying to not wait until the entire thing is done and polished. So, we're going to continue to roll out different resources that will hopefully meet the express needs.

I mean, this is really built around the questions that we are asked when people call us and say, "Walk me through this. I have a question about this," or "I can't find this resource." So, this is really built with the users in mind.

With that said, we certainly want to hone in and make sure it is really meeting the needs of those who we are trying to reach. And we also want to continue adding in the content that helps people best navigate the rules, so that the money that they do spend on attorneys is not spent on the one-on-one understanding of the terminology and the basics, but it is spent on the complex issues that really require that expertise.

MR. SHARMA: Amy, Martha, this is brilliant. Congratulations. It's really useful. And I'm wondering if you might consider at some point releasing this in different languages to reach different communities; immigrants, for instance.

MS. LEGG MILLER: Marc, that is a fantastic suggestion and something that we have talked about. We have done some ad hoc outreach in other languages, but have been looking at ways to make that a more formal part of what we are doing. Because we certainly recognize that there are a lot of fantastic entrepreneurs in this country for whom English is not their first language.

So, great suggestion and something that I would love for us to be able to explore in future iterations.

MS. HANKS: Martha, I would just like to build on something that you just said, Martha, which is I'd love to -- this is fantastic, and the message should always be, "Here is what you want, take this to your lawyer, take it preferably to an experienced corporate and securities lawyer, not your brother-in-law who does immigration," because you don't want to do heart surgery on your own.

So, well done, and I join in with the others in congratulating you. I'll do what I can to spread the news about this.

MS. LEGG MILLER: Thank you, Sara. The kudos go to the entire team, Amy in particular, who really carried this one for all of us, shepherding this through. But we're very excited that this is finally launched. It's been a long time coming. So, we are thrilled with it and appreciate you making sure that it gets to people's hands that need it.

MS. GARRETT: Well, thank you, Amy, for showing us the tool. I had the chance to actually play with it before the meeting today and I thought it was very impressive.

I like not only that it goes through the SEC rules, but it also goes through other ways to raise capital that might not be, you know, better grants or loans or something. So, I was very impressed with the tool. So, thank you very much and thank you for your time today.

MS. REISCHAUER: Thank you.

MS. GARRETT: Anybody else on the Committee have any questions for Amy?

MR. SOLOMON: Yeah. I just want to reiterate what everybody said. It's really amazing. I mean, I think we do a lot policy-wise here in this Committee. And I'm acknowledging the efforts of the staff to actually put practical tools in the hands of business owners is really just a big part of what this is about.

And so, I'm thrilled to be able to be a part of it in a sense that we could be spreading the word is a really important thing for people to be able to get access to this.

Particularly in light of all the different funding opportunities that are now available for folks, putting it in one place so they can have a tool to navigate is going to be really critical. So, congratulations, great, great effort.

MS. REISCHAUER: Thank you.

RURAL ENTREPRENUERSHIP AND THE CHALLENGES ACCESSING FINANCIAL CAPITAL

MS. GARRETT: Okay. Well, thank you very much.

At this point, we'll move on to our next item on the agenda, which is rural entrepreneurship and the challenges accessing financial capital.

As mentioned, in collaboration with the Office of the Advocate for Small Business Capital Formation, Dr. Alicia Robb recently published a report titled "Rural Entrepreneurship and the Challenges Accessing

Financial Capital: An Overview of Funding in Rural America."

Dr. Robb is a research fellow at the University of Colorado in Boulder. She's also the founder and the CEO of Next Wave Impact, which focuses on bringing more women into angel investing and increasing diversity in high-growth entrepreneurship.

Dr. Robb is also a prolific author on the topics of entrepreneurship and entrepreneurial finance. She spent a decade as a senior fellow with the Kauffman Foundation, and previously worked as an economist at the Federal Reserve Board of Governors and in the Office of Economic Research at the Small Business Administration.

Many discussions of this Committee have focused on the challenges that entrepreneurs outside of the coastal hotspots face in obtaining capital.

And so, we are very excited to hear from you, Dr. Robb, about your research on rural capital-raising.

DR. ROBB: Thanks so much for having

me. Good morning, from sunny Arizona. It's great to see some familiar faces from my SBA and Fed and investing days, and thank you to the Committee for your service.

I was asked to present some findings from my report that I recently completed. Jenny is going to be kind enough to share slides, so if we can pull that up, we can get started. So, I'll just start as we get that going.

You can go to the next slide.

So, we all know the importance of entrepreneurship and the role that entrepreneurs play in our communities. You know, it's difficult to be an entrepreneur, which is why most people just want to work for someone else. But we need entrepreneurs, and especially those that want to scale.

You might want to make that the larger or -- I'm not sure if that's on my end or your end -- like the previous sharing, just because some of the tables and charts are kind of small and so, it's just in order to read that. Maybe something that you do on the viewing end.

So, anyway, as I was saying, it's difficult. Most people want to work for someone else because being an entrepreneur is hard. Well, it's also probably even harder to be entrepreneurs in rural areas just because of the lack of infrastructure, distance to markets, etc.

So, capital access is a big part of the challenges, and raising capital in rural areas can be extremely challenging. So, we really want to ensure that entrepreneurs in rural areas have the resources that they need.

It's about -- the population is about 46 million people, which is just under 20 percent of the population. The data show that only about 15 percent of businesses are located in rural areas. And rural areas have some challenges in terms of job creation, so it's half the rate that urban job creation is. Poverty rates are dropping in both urban and rural areas, but the rural poverty rates are higher than the urban poverty rates.

So, more attention has been focused on how do we create more dynamic rural ecosystems and improve livelihoods everywhere.

Next slide.

So, researchers have highlighted several factors that have been correlated with robust ecosystems. Some of those are access to markets, access to labor and talent, technical assistance, community culture, and, of course, access to capital.

In another study of successful rural communities, researchers found that access to capital was -- one of the critical factors was a key to the success.

Feel free to stop me anytime if you have questions. Otherwise, I'll just kind of keep going through and then we can do Q&A at the end.

Next slide.

So, the focus of the report is on financial capital and the challenges that they face in raising capital. And while we do address that capital grants, like the SBIR program, it is focused on firms in rural areas that have growth potential and that want to scale and the kinds of capital that these companies raise, which are crowdfunding, angel financing, venture capital. So, the report really focuses on those sources of capital.

It also has several real-world examples of successful initiatives for mobilizing capital in rural areas, as well as founders from rural areas who have raised capital from crowdfunding, angel investors and venture capital. And then finally, it has some policy implications on how we can support rural entrepreneurs, both in capital raising and creating dynamic ecosystems.

Next slide.

So, the focus today, since we have limited time, is going to be on the crowdfunding, angel investment, and venture capital. I'll briefly talk about the grants and debt financing, and briefly review some data from the small business credit survey. But because we are short on time, we'll just focus on those three credit source -- those three investment sources, some conclusions, and then finally, some policy recommendations.

So, that's going to be the outline today. Again, feel free to stop me if you have any questions, and I can address those during the talk.

So, next slide.

So, much of the research on small business financing relies on the survey of Small Business Finances, which was done by the Federal Reserve Board every five years. There were four surveys done beginning in '87 and ending in 2003. I actually worked on the 1998 survey.

And this was the largest survey that we've done on the demand side. So, surveying small business owners about their financing needs, their credit market experiences, et cetera. After the 2003 survey, they decided that they had done it four times over two decades and they knew everything that they needed to know about financing and they stopped that survey.

And then when the crisis hit in 2007 and '08, we didn't have any data on the demand side for small business financing and credit market experiences. At that point, I was at the Kauffman Foundation and we had the Kauffman Firm survey, but it was limited to one cohort or firms, and that was longitudinal. So, we didn't really have a great picture over time.

But several years ago, the Federal Reserve System, various banks, started doing the small business credit survey as an annual survey, and now all ten banks are participating and we do -- they do a small business credit survey each year, again, on the demand side. So, they are serving small business owners about the kinds of financing they seek, the credit market experiences, et cetera.

So, the few slides that I have here on debt financing come from the small business credit survey. So, we'll just run through these briefly.

One thing to note is that I think what we notice is there's -- rural and urban businesses are quite similar and they are more alike than different. About 80 percent of the businesses have some prior debt outstanding.

I think the two biggest differences here are; one, that small businesses -- I'm sorry, rural businesses have smaller amounts of financing. Partly this is because they are smaller firms. There's a lot of more detailed tables in the appendix of the report that show a lot of the characteristics of small businesses, et cetera.

But in terms of the financing sources, I think the biggest thing that jumps out here is the reliance on small banks by rural businesses, as well as credit unions.

So, this shows almost 60 percent of rural businesses are using small banks as a source of financing, compared to just 42 percent of the urban businesses.

Next slide.

As this chart kind of shows this graphically, that banks are predominantly the main source of financing for businesses, rural or urban, but that rural businesses are more likely to rely on small banks and also more likely to rely on credit unions. But you can see here that the vast majority are relying on banks.

Next slide.

So, in terms of the demand for financing, again, about, you know, over a third but less than 40 percent of both rural and urban firms were seeking financing in the previous 12 months for quite similar reasons.

I think one small difference is that rural businesses were actually more likely to say they didn't apply for financing because they had sufficient financing, 56 percent compared with 52 percent, and they were slightly less likely to be discouraged, 10 percent versus 13 percent. So, not applying when they needed credit because they thought they would be turned down.

So, this is promising, at least for debt financing.

Next slide.

MS. GARRETT: Amy, I have a question, if you don't mind.

You said that most of the rural financing is coming from small banks. I would assume urban financing is coming more from large banks. But how is common business consolidation in the banking world affecting the small, you know, the rural community? It's the small banks. I don't know.

Are they becoming large banks in the rural communities and, therefore, it's harder for the small companies to get financing? I'm curious about that.

MS. REISCHAUER: Yeah, and that's a great question. And that is the reason why folks are concerned with the dramatic consolidation in the industry. Because when we think about small banks, we think about relationship lending and we worry that with large banks and the -- less of the relationship lending, is that going to impact credit availability for businesses in rural areas?

If you look at the number of branches, it has fallen quite dramatically, and there has been a lot of consolidation in the industry. So, I would say yes, it should be of concern.

This right here, this chart on satisfaction, gives me some -- assuages as to some of my concern because rural businesses are more likely to be satisfied with their financial institutions.

If you look at this, whether it's their primary financial institution or large bank or small bank, rural businesses are more likely to be satisfied.

So, while I do think it's something that we should keep an eye on, because with less availability and larger banks and, you know, this consolidation, we do want to ensure that this is not having a negative impact on the access to debt financing by these -- but you're right, the consolidation is worrisome for that very reason.

MS. GARRETT: Thank you.

And as an aside, I own a small business in a very rural area and we, last year, needed to go through and get PPP loans. And I will say that working with our community local bank was so easy, and they were so great at getting us the PPP loans very, very quickly. Where if we would have been trying to work with a large bank, I don't think that would have happened.

Because we've had relationships with

that bank for years, and they knew us. And they've also been very willing to, you know, do some different extending of the credit and delaying those payments as a result of the pandemic. So, just wanted to point that out, but go ahead. Thank you.

DR. ROBB: Yeah, exactly. And I'm sure there's anecdotal evidence of --

MR. SOLOMON: I have a question now to you, Alicia. Maybe you're going to get to this. I don't want for you to jump the gun, but a number of us have seen a lot about financial tools that have been more digital in nature. And as you see banks are moving more digital and having fewer bricks and mortar.

Is there a reluctance on the part of rural businesses to access funding digitally? Is there a digital divide that we should be concerned about? Because it's a lot less personal and a lot more credit scoring. And as a derivative of that, I would say, are the algorithms in these things skewed potentially against lending to rural businesses, and is that something we should be considering also?

DR. ROBB: I think definitely, and if you look at -- I haven't seen anything by rural/urban in terms of the PPP, but I know the work that I've seen by race and gender, at least by race, I know that minority business owners were much more likely to use fintech companies to access PPP.

And so, I do think that this is going to be something that actually, you know, becomes more important over time, and it's going to probably take education and infrastructure to make sure that we don't leave the rural areas behind with lack, you know, internet access, et cetera. So, I do think that's something that you should be concerned about.

And while I don't have data on it, you know, we know this is the direction it's going, and so we want to make sure that the rural businesses are prepared. And when we talk about policy implications, you know, this technical assistance and this education is a key part of that to ensure that they can get access to the resources that they need.

MR. SOLOMON: I mean, I think that it's

worth noting, you know, when you look at depository institutions as still a primary place where folks go to get loans, it is worth noting that fastest-growing depository institutions are actually digital.

And, you know, there's been a lot made about the disintermediation of financial institutions and people, investors, you know, migrating to direct lenders is really thereby skipping the depository institution as a throughput for capital to go to small businesses.

I actually think the combination of those two, the move toward investors to actually get access to returns outside of the traditional bank structure, low rates are a big function in that, you know, economically.

But when you look at the growth in digital deposits -- you know, the fastest growing organization -- an organization, for example, is Goldman Sachs. They built an entire bank off the back of digital deposits. They're one of the top -- they're in the top five, if not top three depository institutions, and none of that has bricks and mortar.

And I just -- again, I'm not sure if that actually would be otherwise impacting depositors who might otherwise be putting money into depository institutions that may offer higher rates that are smaller and more regional, but I think we should probably take a look at whether or not the primary lenders in rural areas are struggling to figure out how to make margins work, if they're having to pay higher amounts in order to get depository in order to relend, and it's something we should probably look at.

I don't know if you've looked at that at all, have you?

DR. ROBB: Are you asking me or --

MR. SOLOMON: Yeah, you.

DR. ROBB: So, yeah, not by the rural/urban. I think in general with the survey, the small business credit survey, we do look at satisfaction by source, and overall satisfaction with fintech companies is much lower than the satisfaction for the financial institutions and credit unions.

So, I do know -- and whether that's

rates that they're charging or service, you know, we don't know why the satisfaction is lower, if it's terms or service, but we do know that they're not as happy with their fintech sources of capital.

Okay. So, let's -- I'll move on to the next slide.

This is financing sought by type of product and the sources. So, again, you know, somewhat similar. But again, the sources applied to small rural businesses are much more likely to apply at a small bank compared with a large bank, 50 percent versus a third.

The approval rates are much lower for rural businesses by large banks, which is interesting, and that gets at what we were just talking about with Carla, you know, are -- is access to capital, if large banks overtake these small banks and they don't have these relationships, is that going to impact the availability of credit to these rural businesses?

And you can see that the small bank approval rate at 77 percent is even higher than the urban approval rate from small banks. So, this certainly lends us to, you know, that is some evidence that credit access might be more difficult if there's a lot more consolidation by large banks to taking up the small banks in the rural areas.

MS. DEVRIES: Alicia, I have a quick question for you. Thank you so much. I'm really enjoying this.

With the SBA loans, and perhaps it might be a good follow-up, but I would love to understand if there is a difference between the urban and the rural in terms of the use of 7(a) loans versus 504 loans, it would be very helpful to understand that.

DR. ROBB: Yeah, unfortunately, the small business credit survey doesn't have that broken out. The SBA obviously does have this broken out, but I'm not sure they present those by urban and rural.

I think one of the things we discovered in this -- undertaking this research is that the data availability broken out by urban and rural is very limited in both on the debt side as well as the equity side, especially around angel investing.

So, the data is out there, but I'm not sure they actually present it or make it publicly available. So, that would be one thing to request from SBA in terms of special tabulations, if they don't already have it.

MS. DEVRIES: An opportunity. Thank you.

DR. ROBB: Yep.

The next slide.

As I said, I was going to briefly talk about debt financing. There's a ton of tables in the paper, as well as in the appendix about, you know, the effect of COVID and PPP, but we're going to really focus on the three sources for growth-oriented firms with crowdfunding, angel investing and venture capital.

I'm sure you all know there's, you know, a lot of different types of crowdfunding; rewards-based, debt equity. I'm going to focus on equity, but I just did want to highlight some rewards-based steps because, you know, we are not talking about insignificant sums. Reward based is -- can be seen as, you know, almost a prepurchase model, prepurchase funding so you can get your customers to, like, prepurchase your product, and so this is non-dilutive funding.

It also is a great way to show angel investors and venture capitalists product market fit. So, nowadays, angels and VCs often say, "Go do a crowdfunding campaign and show me that you have people that are willing to buy your product."

The two biggest platforms, Indiegogo and Kickstarter, started in 2008 and '09, and again, we're talking about millions of backers and billions of dollars. So, while the vast majority of these campaigns are small, as you can see here from Kickstarter, you know, almost two-thirds, around two-thirds is under $10,000 in funding.

You know, over 4 percent or thousands of businesses were able to raise a 100K plus, and also 600 raised more than a million. So, this is a great source of non-dilutive funding, a way to mobilize your customers, and a way to show product market fit. So, I did want to just highlight that.

Next slide.

But the focus is really on equity crowdfunding, so the number of online investment platforms has been growing since the launch of regulation crowdfunding in 2016, which was authorized, as you know, part of the -- as part of Title 3 of the 2012 Jobs Act.

Many -- most of the early movers in this are continuing to dominate. There's now 65 FINRA funding portal members. In order to issue this kind of capital, you have to do it through a platform that's registered with the SEC and a member of FINRA.

But you'll see here, the top five are, you know, 90 plus percent of the volume. So, WeFunder, StartEngine, Republic and the other two are a huge part of that. And if you look at the top ten, it's almost 98 percent of the amount raised. So, a few really dominate this.

So, next slide.

The platforms don't break it out by rural and urban, but the SEC has data, and you saw Amy go through the mapping just earlier. You can get the allocation of both businesses and the amounts of financing that are raised through regulation crowdfunding.

This shows 2017 through 2021. And again -- so, 2021 is quarters one and two of this year, and then quarters three and four of 2020. So, it's not the calendar year, it's a fiscal year.

So, we can see that very, very few firms in the rural areas are raising funding through regulation crowdfunding. So, you know, it's between two and 5 percent of the firms, and about -- from less than 1 percent to 6 percent by 2021. So, a much smaller share than the 15 percent of businesses that are in rural areas.

Next slide.

Here is the amount raised. So, again, about $25 million in 2017 up to $182 million by 2021. So, we're talking very large growth, and this is going to only continue.

As you know, the cap on crowdfunding was raised from $1 million to $5 million, so we're going to see, I think, more and more companies going into this and then raising larger amounts of financing.

Next slide.

The mean and median here, you can see that, you know, by the end of the -- by 2021, we can see that the mean was actually larger. That's, you know, a function of the fact that there are so few. The median is slightly smaller in most years.

And we can just go ahead and go to the next slide. Oh, I must have taken out the graph. Sorry.

So, in addition to the SEC, Crowd Fund Capital Advisors also collects and analyzes data. They were able to do special tabs for us, in terms of urban and rural, to look at the comparability. And again, we see, you know, pretty similar, this is calendar year, not fiscal year. But again, you know, single digit percentages over the 2016 to 2021 period. The 2016 and 2021 are half years, and again, similar -- just similar, very, very little of it is going to rural areas.

But one of the other things they do, next slide, is show the rates of success. And so, what's interesting is -- for example, in 2016, there were three issuers and one of them was successful in the rural areas. This varies from 30 percent to a high of this year, 81.6 percent.

So, you can see in some years, the urban companies were more successful and in others the rural companies were more successful. But overall, 65.7 percent of businesses doing regulation crowdfunding were successful over this period, which I thought was pretty interesting.

Next slide.

All right. So, angel capital. So, you know, just a quick -- angel investors invest their own money, venture capitalist invest other people's money. So, angel capital data is all over the map. There's various sources, I'm going to go through them all, but they're wildly different in terms of, you know, the number of investors, the number of deals, the amount of funding. But in all cases, we can see where we can show urban/rural, there is very, very little going to rural areas.

So, I'm going to run through the

Center for Venture Research -- PitchBook, ACA, ARI Data, but I think the end takeaway is that a lot of the investing is done locally or it's done nearby. Because one of the things angel investors bring to these companies is their human capital, and you can't necessarily be as effective when you're, you know, across the country.

So, angel investors tend to invest more regionally or locally because they want to provide that human capital in advising for these companies. One step was the average distance from an investor or portfolio company was 37 miles. So, I'll show a few of these.

MS. WASHER: Alicia, might that not be changing with the advent of no one is traveling anywhere and everyone is using Zoom, even if you're talking to your next-door neighbor? Is this kind of maybe tied into something we could actually take advantage of for rural areas? And, you know, broadband access is going to be something that's important.

But it seems like this distance thing

should be something we can say, "Hey, that's gone away," and maybe revitalize angel capital in the rural areas.

DR. ROBB: Yeah, I agree. I think technology is making it more and more easier for these deals to get done and the monitoring to occur. I just think there's still this local bias.

But, yes, certainly as we facilitate more exposure to investors, et cetera, bringing technology and bringing assistance and investors to support these companies I think is one way --

MS. WASHER: Do you think part of it, though, is that angels want to invest in their hometowns in their local environments? That's part of their impetus for investing, that might not be overcome by technology.

DR. ROBB: Yeah. I mean, those who are investing because they're reinvesting into their local communities, that's never going to go away. I'm a thematic investor, so I'm investing across a certain industry, so I'm investing everywhere.

So, it really -- yes, depending on the

goals and the thesis. So, those who have the investment thesis that are thematic, then you could definitely work that. But a lot of investors are trying to invest in their local communities, job creation, et cetera, and they want to stick to their local areas.

Next slide.

So, Center for Venture Research, they show you have funding in the tens of billions of dollars and deals in the tens of thousands and investors in the hundreds of thousands. This is remarkably stable over time, actually, or not increasing very much.

You can see the deals were about the same in 2016 as they were in 2020. The number of investors has slightly increased, and the amount of funding has slightly increased. But these are wildly different than some of the other sources, and there's no breakout of urban or rural.

Next slide would be PitchBook. And, you know, by their definition, they had about a peak of 3 billion dollars, so single digit billions and about 3,000 deals, not tens of thousands. So, that's PitchBook's source.

Again, they don't break it out by urban/rural. So, there is no -- so, we couldn't do that.

Next slide would be the Angel Capital Association. So, this is the main -- the largest trade association for angel investors in the U.S., and so this map comes from their 2019 Angel Funders Report, and this was 68 groups and a thousand investments and 900 companies and $228 million.

But what we can see here, even though this isn't, obviously, the whole universe of angel investment deals, we do see, and as we'll see later, it's very much less concentrated than venture capital. It's much more dispersed, even though Great Plains gets 2 percent.

It's -- you know, the fact that California and New England aren't, you know, 70 percent of the angel capital means that there is more disbursement of early Stage C financing than the later stage venture capital.

Next slide is angel -- no, this is the reporting group versus the location where they invest in. And you can see that we don't know exactly who is investing just within state versus out of state. But you can see that they're investing slightly more regions and states than they are located in.

So, it's not like all angel investors just invest locally or just invest in their state. But this is one indication that it's primarily local.

Next slide.

This is from Angel Resource Institute. They do an annual report as well called the HALO Report. This is the percentage of deals done in the angel group's region. So, this is saying that 90 percent of angel groups in the northwest are investing their funding into companies in the northwest. Whereas less than 50 percent of New Yorkers are investing in companies in New York.

So, basically, you know, half or more of the deals are in the regions of the investors.

Next slide.

So, ACA was kind enough to give me some breakouts by urban and rural. As I said, there is some data available, just not public. And, you know, one thing we'll note, you can see here, is that there's a lot of undetermined. So, that just means that we did not have the zip code for the companies that were invested in.

But this is data showing 96 ACA groups who had data over 2018 to '20, 14 of them. So, 15 percent funded at least one rural company. There were only two groups that were principally rural investors. One group had almost 90 percent of their investments in rural companies and one that had 50 percent of their investments in rural companies. The others did, you know, zero or it was a minority of their investing.

Now, this is, you know, subject to response bias. Urban companies were more like -- urban angel groups were more likely to respond, but you can see the rural percentage is .6 to 1.2 percent, regardless of what the undetermined got allocated at.

We see that this is showing the same pattern as crowdfunding, you know, very little of the angel capital is going to companies in rural areas.

Next slide.

So, venture capital. Like angel investing, one of the things venture capitalists like to do is participate post investment and mentor, be on the board, be an adviser. So, not only during the screening process where you get to know the investment possibility, post investment also just with monitoring. If you're far away from your investees, it can be more challenging. So, again, like angel investors, they do tend to have a local -- a bias for more close investments.

There's some research that has somewhat more precise estimates. One article found, you know, about 50 percent of the new venturers are located within 233 miles from other VCs. PitchBook did an analysis in 2019 to calculate the median distance from the target company to the lead investor.

So, for later stage deals, it was 400 miles. For seed deals, it was 100 miles. Another one by Sorenson and Stuart found VCs were more likely to invest in companies much closer. They invested in companies 10 miles from their office at twice the rate of those situated a 100 miles away.

You know, there's jokes about how company -- VCs won't invest in companies that aren't, you know, within a 10-mile drive or a nonstop plane ride. There's just a lot of interaction that happens both when you vet companies and when you monitor and advise after the fact that, you know, Zoom calls aren't necessarily going to alleviate.

So, I think the bias is real. But more important than that bias, I think the concentration is something that Chair Gensler had mentioned, the concentration.

Next slide.

The reality is, most of the venture capital is going to just a few states. So, California, New York and Massachusetts is 54 percent of the deals, and almost three-quarters of the funding.

The two metropolitan areas that make up Silicon Valley are almost 24 percent of the deals and 40 percent of the dollars. So, hugely concentrated in these states, and in

Silicon Valley in particular.

So, you get down to Georgia and they get 1.8 of the deals and 1.2 percent of the funding. All of the states after that are below 1 percent. So, the fact is, it's very concentrated, very little is going outside of these states and very little is going to rural areas.

Next slide.

MR. SOLOMON: Wait a minute. Can you just go back for a second.

I believe we already discussed this, but the 53 percent, 53.8 percent of the investors, those are subtotals?

DR. ROBB: Yeah, the subtotal of those three states is 54 percent of the deals and 74 percent of the dollars.

MR. SOLOMON: Right. And so, my question is, have you looked at industries, or is that coming up next?

DR. ROBB: It's in the rep -- there's a couple tables I think in the report by industry, but it's not in here.

Is there a question about it?

MR. SOLOMON: Well, I think -- again,

it's unstructured every time we look at these numbers to see, not only how narrow it is geographically, but when you look at the clustering around which industries are actually getting funding, it's super narrow, also. And a lot of it has to do with the concentration around institutions of higher education; some get, some don't, and there's a fairly wide disparity there.

There's a lot to be said about figuring out how to create ecosystems in areas that also have both education and development and making sure that there's ways to incentivize people to look at partnering with the institutions of higher education in areas not named New York, Massachusetts and California.

And, you know, how we get there is a whole discussion. But I just was curious if this is really as much about, you know, not just geography but just, again, which industries.

I'll also say, side bar, what we are seeing economically, significant amount of what I would call industrial technology or old economy transformation, particularly in areas around robotics and autonomy -- autonomous driving.

Certainly in rural areas, we're going to start to look at things in the not too distant future -- John Deere made a big announcement, or a bunch of manufacturing companies have made some big announcements about autonomous vehicles in the fields and doing things that -- work that used to be done by people.

So, again, I want to -- a lot of that technology could easily be developed in rural areas if there was an ecosystem for developing that technology. Again, it's a structural, I think, impediment to the flow of funds to rural areas if we don't figure out how to get more funding to academic institutions that's mirrored together in private/public partnerships with venture capital firms.

Like that's probably to be, you know, I'm guessing there's a significant amount of structural impediment to that happening, but I don't know.

I mean, I guess, looking at this, is

that something that you've been able to deduce, as we get to think about root causes?

DR. ROBB: Yeah. Well, it definitely -- and I only have anecdotal evidence. We don't have -- I don't have, like, the aggregate data broken up by rural/urban, by industry, but certainly a lot of the AgTech investments are in, if not companies in rural areas, companies serving rural areas.

We just -- I just made an investment a couple weeks ago into a company in the western slope of Colorado that's called Barn Owl that does robotics; robotic weeding, drone, you know -- drone servicing for crops, surveillance, et cetera. And so, I do think some of these tech industries that are helping rural areas is one way to kind of mobilize more capital to the rural areas.

MS. DEVRIES: I think this is a great discussion that's interesting. The industry question was on my mind and I backed up a little bit, and I, you know -- I think about for this whole conversation around what is the problem question and what are we solving for, right? Because there's a big delineation between those high-growth small businesses operating in rural areas that are in need of venture funding versus the capital needs of more of the Main Street businesses.

And when we think about small business creation, new small businesses that we're seeing, as well as those that exist and need capital, the types of funding that they need vary, right?

So, venture capital is only well-suited for certain types of businesses, and we know that it is the minority of the capital that is needed for small businesses to thrive.

But if we are trying to solve for creating more innovative small businesses in a rural area, then we are having a conversation about venture capital. We know that those businesses are responsible for a disproportionate number of new jobs, so that will stimulate the economy.

The point about AgTech is really interesting because those are often more capital intensive businesses, right? And so, then it becomes a relative value question as well, which is, is money going to flow more into getting a staff, venture investments, or is it going to flow into capital intensive businesses when the risk return profile and the duration of those investments are really different?

So, we have to think about, like how do you make, you know, the return profiles attractive, if we know that those industries that we're seeing in rural areas are going to be more capital-intensive industries?

DR. ROBB: Right. In two of the case studies in the back of the report; one is the Greater Colorado Venture Fund. One thing that they did was they created a pitch competition bringing pipeline to funders, and they brought different kinds of funders to the table.

So, funders that are doing debt capital for more established businesses, companies -- funders like CDFIs that want to do debt for early-stage impact companies, venture, et cetera. So, I thought that was really unique.

The Appalachian Group is creating a different, you know, return profile for some of those latter companies you were talking about -- capital intensive, they may not be the chalky stick of VC, but, you know, definitely attractive returns.

And, you know, so bringing together investors that have that idea of investing in the rural Appalachian area that are creating jobs, creating infrastructure, et cetera, that offer a financial return, if not, you know, the typical VC returns, so.

Next slide.

So, PitchBook does provide some information on VCs, where they are and where their investment companies are. So, this just shows a few different things; one, the first little table is the number of states that California investors invested in. So, from 2007, they invested in companies in 37 states. By 2020, it was 47 states. So, they are investing more outside their local areas and within their states.

The next one is the percentage of deals done in the state which feature investors from outside the state. So, Delaware, literally, 98 percent have deals with investors from outside the state. Down to the number five was South Carolina with 78 percent of the investors from out of state.

And then the last one is the top five states by percentage of the deals done in the state which feature investors from that state.

So, Indiana, 75 percent of their investors came within -- the Indiana companies, 75 percent came from investors within Indiana. California, 69 percent. So, this is, you know, showing that they're certainly investing across state lines, across the country, but it's obviously very concentrated.

Next slide.

This is a lot of numbers. Don't worry about it too much. This is the Reg D filings. From Amy's talk this morning about the different kinds of -- this is not Reg A plus, it's not crowdfunding, it's not IPOs, this is Reg D, which is 504 and 506 offerings.

And the total amounts, on the right side you can see 2017 was 1.7 trillion, 2020 it was 3 trillion, so growing, you know, substantially. Rural was only 3.4 billion in 2017 and 42 billion in 2021. So, huge growth there.

But as you can see, next slide, the reality is just 2.5 percent of the deals and dollars were going to rural areas from the Reg D offerings, so tiny fraction.

Next slide.

This is ratio of the amount raised over the amount sought. So, for urban you can see companies were raising about 80 plus percent of what they sought, rural businesses were much lower but they were definitely increasing over time. And by 2021, you know, it was much closer to the urban rate, albeit, you know, probably ten percentage points lower.

Next slide.

The means and medians. So, the blue and orange are the means sought, and you can see the -- actually, by 2021, the amount sought by rural companies was actually bigger. Again, this is somewhat skewed because the number of rural businesses doing

Reg D offerings is small, but you can see in terms of, you know, the raised is the gray and yellow also came much closer in 2021.

It will be, you know, a year or two before we see if that was just an anomaly or the gaps really are closing. I don't know the answer, but --

MS. GARRETT: Alicia, I have another question for you.

I feel like I've read in the report early on, and I tried to find it but I couldn't, is that the companies in rural areas just don't try to access the capital market as much, and they even state that they don't have a desire to.

And so, just kind -- did I read that correctly? And if so -- I mean, some of this might have skewed the results because people in the rural markets right now aren't even -- they're not trying to raise money through the capital market, probably because they haven't had success. But I wanted to get your view on that.

DR. ROBB: And you're talking about equity capital?

MS. GARRETT: Yes.

DR. ROBB: Yeah. Certainly -- as we know, small businesses or the businesses are -- about 15 percent of businesses are located in rural areas. Not all -- and, obviously, not all of them are going to be suitable for venture capital. Just like most companies in urban areas are not going to be seeking venture capital. Venture capital goes to a tiny fraction of businesses overall.

And so, while -- so, yeah. So, exactly, we're not going to be seeing as many of the rural businesses -- a smaller share of them are going to be seeking venture capital. But I think not in -- a small part is due to them not being part of the networks and having the connections to investors in the first place.

And if they don't get early Stage C financing, they're never going to get to the stage where the VCs are going to look at them. So, it's a, you know, it's a vicious cycle where, you know, they never get investor-ready.

So, when we talk about policy implications, you know, helping companies reach the network, helping companies be ready for them, highlighting a pipeline of investable companies in rural areas to venture capitalists, and mitigating some of the information costs for these venture capitalists to invest is one way to kind of mobilize more capital. But we'll talk about that in a minute. But, yeah --

MR. SOLOMON: I think there's some other things, too. It's not just in rural areas, but I think in smaller metropolitan areas not named, you know, San Francisco, San Jose.

I think it's very difficult for people to figure out how to, you know, create the pathway to accessing capital beyond just the immediacy of whatever resources they have in their communities.

And I think the bigger challenge is when they actually -- when you actually find companies that are being created in those areas, oftentimes venture capitalists are figuring out ways to pull them to the coasts, either, A, so they could access a deeper pool of talent or B, keep an eye on them.

I mean, there's a whole host of, you know, what I would call folks who would like to stay in their local communities if they can source the right kind of talent and source the right kind of infrastructure and continue to build their businesses, but they get pulled to the coasts because that's where the money is.

And so -- I mean, a lot of this, there's some structural changes that I think we've already addressed in many of our Committee discussions. But figuring out ways to get, you know, venture capitalists to be more intentional with how they're going to be investing in communities, and the companies in those communities, is going to be a seed change, and hopefully we'll alleviate this.

But a lot of this is going to have to be done, you know, not just with the policy but, you know, economic incentive for people to look beyond the 20-mile radius or a hundred mile radius beyond their doors.

DR. ROBB: Exactly. Yep.

MS. MOTT: And I can -- if I could add to that, that is exactly what I was thinking.

Jeff, Alicia, hi. It's good to see you again.

But that's what we see, entrepreneurs go where the capital is. But there is one thing they do, is VCs chase successful entrepreneurs.

So, like in our backyard, the founder of Duolingo was a very successful entrepreneur. He decided that he didn't want to grow his next company in Silicon Valley. He wanted to be in Pittsburgh. So, the venture capital chased him to Pittsburgh. So, he was able to successfully get a few hundred million dollars from some VCs in California.

But I agree. I think there needs to be more -- Jeff, spot-on -- incentives for venture capital to be local. Because it is hands-on. It's a hands-on game.

But secondly, I mean, people would prefer to stay, you know, where they are. But most importantly, where do the jobs go? You know, the jobs go to the coast now instead of -- so, the jobs that could be in an area outside of Pennsylvania or Ohio or Kentucky end up in somewhere else instead of locally. So, I'm eager to find solutions for that.

And, Alicia, I wanted to say one thing that I was really impressed with was on page 31, your slides, I think it was chart 16 that shows the runway for being able to capture money from different resources in order to scale the company successfully.

Because one of the things we're seeing in a lot of rural areas is they have a -- they're trying to build an ecosystem where there are -- you're trying to put in a local incubator and a little seed fund, but it failed miserably because they can't attract a follow-on company and get the capital that they need to scale.

So -- anyways, I thought that was a really well -- a good demonstration for us to be thinking about, not just for supporting the VC, but the entire runway to help a company be successful. Thanks so much.

DR. ROBB: And I think successful

entrepreneurs play a role in that, those who do want to stay. I mean, half the time I'm in Colorado and, you know, we have lots of people who want to stay in Colorado, don't want to go to Silicon Valley. But, you know, can they get the follow-on capital? And as more VCs and more VC funds proliferate across our state, and folks are able to get follow-on funding and able scale there in place, I think that's, you know, key.

I think where I worry is places that don't have some of the amenities Colorado has in terms of, you know, hiking and biking and beautiful mountain scenary and so forth. Like how do we ensure that these communities that don't have those amenities, that we build a dynamic ecosystem to get -- to bring in the funding and the talent there?

MR. SOLOMON: A lot of it has to do with fostering what I call "local know-how," right? So, when you're seeing -- what's relatively easy for software companies when they develop some new algorism or some new software package, you know, it's not virtually people-intensive. It is relatively

easy for them to move to coast because they
close up their laptops and move to the coast,
it's not that big of a deal.
But where you have know-how -- and again, I think, you know, Catherine, when you mentioned Pittsburgh, right, there's a tremendous amount of know-how and an ecosystem around robotics. Or autonomous driving. There's a giant ecosystem around that that requires infrastructure know-how, hardware and software combined basis.
And so, there's a way to turn that tide when you become known as the place where, you know, autonomy needs -- where you need to be if you want to be in that industry, right, when Waymo decides it's going to relocate to Pittsburgh because that's actually where autonomous driving is going to happen, right?
That's a 10-year, 15-year investment and part of a number of the -- both public and private institutions in Pittsburgh to create a domain knowledge, right, that fosters an ecosystem that perpetuates itself.
You know, when you think about how capital ultimately is going to have flow in

the rural areas, it doesn't have to be quite as big or maybe as flashy as autonomous driving, but there's a lot of local know-how in businesses that are run there, and getting people to focus on how to reinvest in that ecosystem.

Again, AgTech is a good case in point. And we're hopeful that in places like, you know, in Kentucky where we're building high-tech agro-ecosystems that can perpetuate more job growth, more companies staying there, more economic development. But it almost is that kind of public/private partnership of both academic institutions, as well as corporations, to get that to a better place.

DR. ROBB: And I think, also, just this idea about technology and know-how can be shared via technology, right? So, just like the SEC portal of educating folks on the different kinds of capital-raising and getting that knowledge out there, I think there's ways to get knowledge out there through technology.

One of our investment portfolio

companies is Nepris, that brings, you know, professionals in various STEM field into classrooms across the country in rural areas, in LMI areas. And so, there are ways to share knowledge using technology and really leveraging that.

I see another person with a question, right? Gregory?

MR. YADLEY: Yes. Thank you. This is very helpful and illuminating, Alicia.

I guess part of this whole discussion revolves around what we mean by rural. And rural is obviously a function of geography, and that's different throughout the country.

I'm in Florida, which historically was an agricultural state, and whose growth has happened primarily since World War II, and then more recently, you know, with the tech growth. So, we have lots of rural areas.

My sense, and my own experience working with early-stage companies, is that if you're within some radius of a university which has programs through the engineering school or the agricultural school or the business school, and many of our universities have incubators, that you can get access to know-how and advisors, and ultimately capital, definitely harder.

But there's a spotlight that are shined on these companies because of their association with a university program. And it's also an outlet, of course, for professors who are doing research and inventing things.

Is that more than anecdotal based on things you are seeing where you're seeing a lot of these rural financings, how many of them are related to some foundational stage university-affiliated programs?

DR. ROBB: Yeah, a lot of them. In fact, yes, I would say a lot of them. The one, you know, exception would be the community development venture capital, which we're going to get to in a minute, which is more focused on, you know, just the community development aspect, and it's not necessarily related or dependent on these higher institutions of learning but are committed to growing their ecosystems. But they're definitely at a disadvantage because of that.

I just realized, we're kind of over time. So, let me just get through these last few slides really quickly 'cause they might kick me off. Because I know you guys need to discuss and go and eat lunch and so forth.

So, Jenny, we're going to go through the -- go ahead and skip that one. Next one.

Community Development Venture Capital. So, this is kind of proliferated because this has kind of this double bottom line focus of growing your local community, generating jobs, and these kind of CDVC institutions are going to be investing across other industries that maybe typical venture capitalists would not. They might invest in different stages of development because they have this thematic investment thesis of community development.

And so, you know, obviously here's a role for government, and you guys are going to be talking about the SSBCI 10 billion allocation this afternoon. But this is certainly an area where government can play a role, has played a role supporting this infrastructure, both in terms of the funding, as well as the know-how.

So, next slide.

There is a list of certified rural business investment companies. You can see here, you know, the assets under management, they're not huge, obviously, but, you know, for the companies in these areas, you know, it can go a long way.

Just like, you know, if you're not in Silicon Valley, the cost of living is not as much, the talent isn't as expensive. So, you can be more efficient with your capital. So, these are making, you know, a difference in the areas where they are.

Next slide.

So, this kind of talks about how to grow our local investor networks. Again, this median distance, if you're in the Bay Area, Boston, New York, the median distance between your investor and your company was 32 miles. Other ecosystems, 323 miles.

How can we better leverage technology to facilitate those relationships and networks and, you know, added value from the human capital?

The research around performance is really interesting in this last bullet. The venture capital firms that are in the centers outperform, and this outperformance was from both the -- this came from the outsized performance of the venture capital's office locations and peripheral locations, meaning the -- something that Commissioner Roisman said this morning, "Good ideas are everywhere." You know, Investing in Women, actually, and Founders of Color offer better returns.

Some of us see the opportunities in under-invested areas, rural areas or companies outside of these three focal areas are -- it can outperform because they're underserved.

So, this idea of, you know, investing in under-served areas, you know, one way to get more capital is to get those capital holders, i.e., the big VC firms, to invest more in areas that are under-served. And that is a role for you all, for how do we mitigate some of the costs associated with investing outside of their geographies.

Rather than necessary -- you know, just making new venture capital firms in these rural areas, how can we work with existing venture capitalists to bring pipeline and deal flow to them, make these ventures more capital-ready, investment-ready, so that the entrepreneurs can find these venture capitalists with the funding?

Next slide. I think somebody had a question, sorry.

MS. WASHER: I was just going to make a comment that I think there has been some work done. The reason some of these venture capitalists are doing better, including -- and some of that "doing better than others" is because they're investing outside of their area. And this I -- you know, this I know anecdotally as well, is that there's far less competition in those under-served areas.

And so, a VC in San Francisco is going to be competing with every VC in San Francisco for that idea. If they're competing for an idea in the middle of the country or in a rural area, there might be one, maybe two other VCs that are looking at it.

So, their ability to invest in a better price point and really move that company along is higher. And I think we need to do some -- even some education and some kind of work with the VC firms to really drive that point home, that if you're going into less-competitive markets, you're going to do well for your investors. And it's not just a, "Please help us spur business in the rural areas." It's here, here's a way for you to do better for your investors.

MS. DEVRIES: I think that's an excellent point, that it is not concessionary capital in any way. If you invest early and you get more equity ownership at a lower valuation, you're going to have a higher end-of-day multiple on money. So, it is an attractive opportunity for many reasons.

The spread from the urban areas to rural areas and outside the coasts, that's narrowing and we're seeing that across the last 18 months or so, as people are moving, doing so much remotely. But, you know, that is a thread that we should pull on more.

MS. WASHER: Just a caveat to that, is what a lot of VCs are worried about is being able to really grow the company with talented employees. I think there's a little bit of a prejudice, I guess, I would say, that the better-educated people, the better school systems, the better universities are in these high-growth urban areas. And so, investors worry, will I attract the CFO they're going to need at the next level to that area? Will I be able to attract to my business a scientist? Will I be able to attract an engineer?

And I think that's a real concern that does have to be part of the discussion about growing businesses in rural areas.

MR. GRAHAM: I think the changing -- because over the past two years, we've shown that we can work remotely. And I see more and more companies, for example, located in the West Coast, hiring someone on the East Coast, and the person on the East Coast stays there.

MS. WASHER: That works right up until

you need an engineer to put pieces together, or a scientist to run an experiment.

MR. GRAHAM: Yeah. It doesn't work in every case, but I think learning how to work remotely has alleviated some of these pressures.

DR. ROBB: Okay. Last slide.

Next slide is the system policy recommendations. I know you guys are going to be talking about this.

Next slide.

And, again, if you haven't read the report, some of the case studies are just -- are interesting and highlight some of the successful ways we have mobilized capital into rural America, and how some of these companies have raised capital in order to scale.

You guys already talked about, you know, how do we incentivize groups to invest more and be present more in rural areas in order to mobilize capital. When we think about that crowdfunding piece and that very first early-stage capital, can we provide different stakeholders, you know, support and guidance to help these rural entrepreneurs scale?

Can we provide opportunities for new angel groups in rural areas? Can high-net-worth individuals and family offices be incentivized to create local angel groups that are investing locally? Can we facilitate training and education both for the entrepreneurs into capital raise and scale companies, as well as investor readiness training and how to pitch to VCs and angels? But can we also educate and train new angel investors?

That's a lot of what Next Wave is doing, is mobilizing and educating and training the next wave of angel investors to actively invest in their local communities, as well as nationally and under-served entrepreneurs.

But this last bullet of, how can we create less barriers for venture capitalists to invest in under-served areas? You know, reducing that risk in information asymmetry. Can we provide more education, training, and mentorship to entrepreneurs and build a pipeline of investable opportunities to showcase investors?

As we get more and more successful rural entrepreneurs, I think VCs are going to jump on board, just like they're jumping on board now with Investing in Women and Founders of Color, because it's not only the right thing to do but it's the smart thing to do.

But if we want to mobilize faster and get more to communities now, I think we are going to need to actively encourage and incentivize more active engagement by crowdfunding platforms, angel investors and VCs to invest in rural areas.

So, those are some of my thoughts.

And last slide. Thanks.

I know, I'm over time. I apologize. You guys had some great questions and conversation, so thank you very much.

I think I'm out of time, but if we have any last questions, maybe they'll let you ask. Otherwise, you have my e-mail. I'm happy to answer any questions offline.

MS. DEVRIES: I just want to say thank

you very much. Thank you.

DR. ROBB: Thank you for having me. Appreciate it. It was great to work with Martha and Sebastian and Jenny and everyone at the -- we have great -- we have amazing resources in our government agencies, and thank you all for your services as well.

MS. DAVIS: Thank you, Alicia. Appreciate it.

MR. GRAHAM: I have one last question. Maybe you can just kind of sum up for us, you know, your sense for the extent of which rural entrepreneurs are seeking capital and not getting it.

DR. ROBB: Oh. No, I think it's definitely a huge issue. Maybe not on the debt side, but the high-growth-potential, early-stage companies, I think there's a lot of challenges, both at the seed stage and then even more so at the later stage. And we're still seeing companies having to move to the coasts where the money is that would much rather stay in their local communities. So, it's definitely still a barrier.

MR. GRAHAM: Can you put a number on

that?

DR. ROBB: (Laughter.) No.

MR. GRAHAM: 80 percent, 50 percent?

DR. ROBB: No. I mean --

MR. GRAHAM: I just wondered what kind -- I figured you would have a feel for it.

DR. ROBB: Yeah, I would say over 50 percent for sure. But I'm not going to go beyond more than half. I'll leave it at that. The majority.

MR. GRAHAM: Fair enough.

DR. ROBB: Great. Thank you so much.

MS. MOTT: Thank you, Alicia.

DR. ROBB: Thank you.

MS. DAVIS: I know Carla has lost her audio or her feed. So, I'll just let folks know it's lunchtime. My dog is barking. So, obviously, it's time to eat for her, too. But we'll be back at 12:30 Eastern. So, see you all in a little bit.

MR. GRAHAM: All right.

MS. MOTT: Great. Thank you.

(Whereupon, a lunch recess was taken.)

SMALL BUSINESS CREDIT INITIATIVE

MS. GARRETT: Welcome back, everybody. I hope you had a nice lunch.

The next item on our agenda is the State Small Business Credit Initiative.

As mentioned, as part of the American Rescue Plan Act enacted in March of 2021, Congress reauthorized the State Small Business Credit Initiative, which will provide $10 billion to fund state, territory and Tribal government small business credit support and investment programs.

Our speakers and people -- presenters with us today are the following:

We have Adair Morse, who is the Deputy Assistant Secretary of Capital Access in the Office of Domestic Finance at the Department of Treasury.

We also have Karl Fooks, who is outreach with the Treasury Department, SSBCI team.

We have with us today Phil Lodato, who is the general counsel and chief compliance officer for Elevate Ventures.

And we have Matthew McCooe, who is the

chief executive officer of Connecticut Innovations.

We will first hear from Deputy Assistant Secretary Adair Morse, who joined the Department of Treasury in February of 2021, after serving as an associate professor at the University of California at Berkeley at the Haas School of Business.

Deputy Assistant Secretary Morse, we look forward to hearing from you on the background and goals of the SSBCI, as well as expectations on what types of programs will be created in SSBCI 2.0.

MS. MORSE: Great. Thank you so much. I'm going to share a slide deck here that hopefully you can see, that talks very generally about some pieces and maybe touches on some of the innovation venture capitalists as well that our subsequent speakers will highlight.

So, Treasury just came out with the publication of the guidance to the statute last week, so this is hot off the press, if you will.

The guidance speaks to the statute,

which was passed and reauthorized by the ARPA legislation, and as mentioned, it's $10 billion that is provided to the states, territories, D.C. and Tribal governments that is then subsequently can be provided -- it can be given to programs to providers that provide local financial assistance, financial programming, data and equity, loan guarantees, other types of programs facing small business and entrepreneurs.

I want to talk a little bit about the role this plays in the landscape. There's been a lot of programs. We're coming out of the pandemic, it's been a rough time and there have been a large number of programs in -- that have come out in both administrations. And we want to set the landscape of where this program plays and how, in particular, under the ARP, this program is really -- the administration sees this program really as providing a tool for longterm growth and good job creation and more of an equitable focus for building communities and building small business and entrepreneurs.

So, toward that aim, we should mention first from the very beginning that the fund has a deep lens toward equity, with $2.5 billion of the $10 billion being -- that is faced for businesses owned by socially and economically disadvantaged individuals in allocation or an incentive allocation.

It also includes $500 million that goes directly to Tribal governments, which is new. There was a prior version of the SSBCI, what we call 1.0, that was 2010 to 2017, did not have allocation for Tribal government.

In addition, there is $500 million in technical assistance, which is a separate program under the statute. And Treasury will be coming out with the guidance for the technical assistance program very soon.

Let me just say a few things about the program in general. It provides the money to the jurisdictions. The Treasury puts out the guidance, which we just did, the jurisdictions will apply on the Treasury's portal, which the application instructions to the portal will be opening very, very soon.

And the -- these programs that the

states, territories and Tribes stand up have to be compliant with the guidance, so that there is that process where now the states, territories and Tribes are designed -- they would have call them jurisdictions, that jurisdictions are designing the programs and have been designing the programs but are now working on furthering, you know, getting those designs lined up for applying. The states, territories and Tribes must start the application by December 11th and finish the application by February 11th; so that's kind of the overview.

A couple of points: It's not a program that is as grant. It's a program meant to be crowding in private capital. There are requirements along there where it requires private capital, and private capital to be meaningfully at risk, alongside the federal contribution funds.

And so, that becomes an important part of this program. It's aimed at small business with this idea of long term growth creation and private capital crowding in.

So, small business we know, in addition

to regular pandemic, kind of struggles and continuing struggles with the change and the way we operate in services of goods as households and businesses.

Small businesses sometimes lack collateral, sometimes they have short credit history, they have small-dollar needs, which evolve for providers' large fixed costs relative to the loan size, which makes it hard for provision.

On the innovation side, the early-stage equity capital market, as we know, is concentrated. It's concentrate both in a geography sense and in a demography sense. And, you know, one of the key things, the key aspect, the SSBCI and the team at Treasury and others who we have consulted is, you know, to democratize the venture capital landscape by supporting, you know, if the states and territories and Tribes are interested in doing the VC programs, which we learned from the 1.0 version they are -- how can Treasury support that democratization of venture capital toward local entrepreneurs?

And, you know, we very much have an

understanding as we roll out an talk to the states and territories and Tribes, you know, how support for governments in targeting local needs and supporting the best local providers and really having the economic benefit that the statute calls for, for local community economic benefit.

And in the guidance we write about how important it is for states and their planning to articulate and to target these economic benefits in underserved communities, as well as businesses owned by socially and economically disadvantaged individuals.

So, that's kind of just a flavor. You know, the very simple picture is Treasury gives money to the jurisdictions who give money to the providers, the contractors. Those could be CDFIs, they can be minority depository institutions, community banks, they can be quasi-public entities, the could be VC funds, they could be a host of things.

And at Treasury, our job is not to tell the jurisdictions what is best for their community, but to make the funding work for each jurisdiction trying to serve their communities, and those, in turn, provide money to small businesses.

So, I don't want to take a whole lot of the time here. Let me give you a little bit of flavor of the 1.0 version, the 2010 to '17, and let's just focus on the second column here.

The 1.0 version was -- here we show $1.2 billion going out. The current SSBCI is six and a half times larger, which is going to change this distribution here.

If you look at the distribution, loan programs with the largest component, followed by VC collateral programs, and guarantees and then finally, (CAP), Capital Access Insurance Programs. We think this distribution is, from what we hear, from what we understand, the landscape is likely to be different for a number of reasons.

One, there's a lot of loan programs out there, the SBA. And others have a lot of programs coming out of the pandemic, as well as some of the state programs and other kinds of programs that have come with the pandemic setting.

The other thing is the size of the program and the fact that there's crowding in of private capital means it's easier to do programs with larger checks, do S&ME manufacturing potentially. Other kind of growth-oriented or slightly larger, as well as venture programs.

And so, we, you know, not Treasury deciding, but Treasury just understanding the landscape. We expect to see more, and we've heard more on the venture side, and hopefully we also hear about manufacturing programs and hopefully that is successful along those routes.

But we think that the states are going to tilt toward more venture programs, which sometimes are the state entity programs, public partnership type programs and sometimes are investing in community, in VC funds that are serving their local areas.

And so, that's kind of a landscape. We're looking ahead in the guidance, which is 50 pages, there's certain safeguards on different structures toward the intent of Congress and toward understanding the role that we saw the last time and building the appropriate reach for the economic benefit for local governments.

So, I'm happy to share the rest of these slides with this group, or I'm happy to talk to the -- we go into some of the details about the VC programs in the rest of these slides, just a couple more slides. But I think I'll pause here and save any of that, if any of that make sense to you.

MS. GARRETT: Does anybody on the Committee have any questions right now?

(No response.)

MS. GARRETT: Did you say you only have a few more slides?

MS. MORSE: Yeah, I'm happy to keep going. I can talk through some of the specific provisions that are in the guidance, if that is of interest, with facing venture capital.

These, again, are brand new, in terms of our being public about them, so this it new as of this week. The statute calls that the program -- the private capital, which must be a one-to-one for -- let me say it differently.

For every one dollar of federal contribution, there must be one dollar of private capital. This private capital must be meaningfully at risk, in the statute language.

So, the way the statute -- the way the guidance reads, "The equity investors have a meaningful amount of capital resources at risk if these investors establish terms whereby the private capital is pari passu with, or junior to, the SSBCI investment in cash flow rights."

So, that is what it sounds like, the SSBCI capital must come alongside private capital in a fair, aggressive manner, with the exception for incubation funding. So, the incubation funding model is that equity base investors that provide incubator-like services.

It doesn't have to be an incubator, it can be seed investors and other kind of investors that are providing the services that help incubate entrepreneurs, help them get them going in an early-stage sense.

There is a different cash flow right, which is essentially cash flow right that the SSBCI capital and the federal contribution must been pari passu, you know, equal in payback, only up to the repayment of the SSBCI investment, and the state, territory or Tribe can define a different payback, if any, as they so desire after that.

So, the point of this is that the team are very loudly about the importance of early-stage and frictions there for entrepreneurs and understanding the democratization of the D.C. landscape and equity investigating starts with the incubation. And so, this is -- this incubation funding model is an innovation to support that.

As it turns out, exposed to writing this provision, we uncovered that this is very similar to the model that the Israeli government did a number of years ago. If you recall the Growth VC back a number of years ago, it turns out to look very similar to what we're doing here.

The second piece I wanted to mention is

the -- in the 1.0 version, the structure of how VC funds were able to cover expenses for supporting the entrepreneurs, that was a number of work-around kind of pictures. And so, let me cast what we've done here in the context of understanding the difference -- sorry -- between an equity program and a lending program.

You know, if a CDFI is helping an entrepreneur to get their files in order to have a business plan or to have financials so they can apply for a loan, that CDFI expense or any other lender expense is generally, you know, the CDFI can charge a different interest rate to cover expenses, there's some origination fees often or other kind of structures to compensate just for covering those costs of the human capital touch.

In venture, of course, that's not the way it works. In venture, the money comes into a fund, the fund charges a, you know -- a two and 20 structure, something along this methodology to cover their expenses.

So, the management fees, which is the two and 20, the two, is not part of the federal contribution. Having said that, what we have written in the statute here is that to the extent that a venture fund, a venture capital fund, is providing services to the portfolio companies, to the entrepreneurs, up to 1.71 percent of the federal contribution per year can be used to cover services provided to the entrepreneurs upon certifications that those funds are going to those services.

Those services include things like assisting the entrepreneur with market plan or assisting them with deal-making or other kind of, you know, IT network or other things they regularly do.

And then the final one, and then I will stop on these details, is that the statute says that the SSBCI funds should cause and result in private capital coming in. So, this is the crowding-in notion that Congress gave us. And so, this is straight from the guidance.

As part of the application, states must describe how they assist other credit support programs. So, read in that venture capital programs will, in fact, cause and result in private financing.

So, the point here is that we -- the -- there's lots of different ways that a jurisdiction might do funding into venture capital funds, for example, it gives an example here.

The intent of Congress was that money should be instrumental in bringing in the other capital, so not just ancillary. So, it should be -- could potentially be an anchor investment or another investment that comes early on that crowds in. So, what we're doing here is asking the jurisdictions to explain on each program how the investment into that VC fund causes and results in the inclusion of other private capital.

So, let me leave it there. Sorry. I told you it was nitty-gritty, Carla, and it was, so apologies for that.

MS. GARRETT: I think that those were useful details that you shared with us, so I'm glad you did. Thank you.

Next up, we'll turn to our next speakers. We have speakers who ran equity capital programs during the inaugural SSBCI initiative in 2010.

First, we welcome Phil Lodato, who is the general counsel and chief compliance officer of Elevate Ventures, a not-for-profit venture capital firm that is also an entrepreneurial development partner for Indiana-based start-ups. Elevate is one of the most active VC firms in the Great Lakes regions, and Mr. Lodato has been a key contributor in its conception, formation and growth.

Prior to Elevate Ventures, he served as legal counsel to the Indiana 21st Century Research and Technology Fund, a program of the Indiana Economic Development Corporation, and also served in multiple roles in securities law private practice.

Welcome, Phil.

MR. LODATO: Thank you, Carla. Can you hear me?

MS. GARRETT: Yes.

MR. LODATO: Okay. I appreciate the kind introduction, and I appreciate also the opportunity to be here with all of you today to tell you a little bit about Elevate Ventures generally and also our experience with SSBCI specifically.

As Carla noted, I serve in the role of general counsel and chief compliance officer at Evaluate Ventures. Elevate, statewide, what we call venture development organization for the State of Indiana.

We've been in existence now for just over a decade. And coincidentally, our creation coincided somewhat opportunistically with the first version of the SSBCI program, 2010-2011 time frame.

We are based in Indianapolis, but have a team of people scattered across the state in select markets, our higher-population areas, as well as what we call innovation centers or clusters.

For example, university markets were significant, technology R&D is occurring in and around Indiana University, Purdue University, and Notre Dame.

As I said, we're a venture development organization, or VDO. For those unaware of unfamiliar with that term, we're typically tax-exempt nonprofit organizations that serve a mission to conduct economic development activities through venture capital investment and related programs and services.

And these types of organizations like ours are typically supported, at least in part, by public bodies and public resources, as well as by other stakeholders who support the applicable mission.

In our case, we are supported by the State of Indiana's Economic Development Agency called the IEDC, or the Indiana Economic Development Corporation, through a service agreement with them to invest capital into high-potential, high-tech, high-growth start-ups and scale-up companies throughout the State of Indiana, out of a legislatively-created innovation and entrepreneurship capital resource called the 21st Century Research and Technology Fund, or the 21 Fund, for short.

In addition to the 21 Fund, the IEDC partnered with us to deploy the lion's share of the State of Indiana's SSBCI 1.0 allocation of 34 million, through a venture capital investment deployment model. And we're currently working with them to develop a similar deployment strategy for the emerging SSBCI 2.0 program.

As Adair noted, it's a much larger program. This time around, we expect to receive a minimum of $62 million with additional support in aggregate of up to a total of 99, so it's a significant resource for our state.

As noted, VDO simply have some sort of economic development missions. Ours is multifaceted, for sure. We employ a direct and indirect venture capital investment activity model, and we also offer related programs and services.

And our objective is to attract private capital to Indiana-based start-up and scale-up companies. We seek to generate financial and economic return for the State of Indiana with the capital we do invest in those companies.

We seek to help entrepreneurs and founding teams create wealth for themselves, and we seek to create attractive, high-paying jobs for Indiana residents.

The latter two items, you know, the effect of that is that that type of capital creation tends to become reinvested into the ecosystem, sort of creating a flywheel effect, which we find to be an important part of our model.

I think I provided the Committee with 12-block slide. I don't know if any of you had a chance to look at it, but it's got sort of our key metrics that we track and like to report out on.

I think it shows that we've been hugely impactful to the state innovation and entrepreneurship ecosystem. I'll just highlight a couple of those items.

Since inception, we've invested over $120 million into over 430 Indiana-based companies. And in the range of as low as $20,000 into a company, all the way up to $4 million per company. So, we occupy a pretty broad swab of the early-stage funding continuum in our state.

We've been recognized by PitchBook, CB Insights, and SSCI for our high-volume of investment activity, ranking as the most active VC in our state and in the Great Lakes region, and even as the most active seed-stage VC globally.

We've leveraged our public investment knowledge by attracting over ten times that amount from private capital sources, like angel investors, venture capital firms, private equity and other forms of institutional investment.

Following that $120 million-plus invested, those companies have gone on to raise over 1.2 billion from private sources and that number will only continue to go up as they continue to attract additional growth capital. And as Adair noted, attracting private capital is a key component, and really requirement, of the SSBCI program.

And finally, and perhaps mostly significantly for us, we began generating meaningful financial returns from these prior investment activities. So, given our Evergreen model, which is also typical of VDOs, we are currently strategizing with the IEDC to reinvest, redeploy those dollars back into the ecosystem, creating additional impact and potentially reducing the reliance on future public appropriations.

I thought I'd touch on a couple of SSBCI-specific comments, which was hugely beneficial to the state's ecosystem some ten years ago, but a few examples include the following:

One, we used the SSBCI capital to invest at the earliest stages of a company life-cycle development before companies in many cases have meaningful revenue, or even a product in the market.

So, given our deal-sourcing machine and our front-end value-added resources as well as our diligence process, when we invest, we often provide a signal to angel and other investors that they are investing in a good deal, getting money off the sideline and helping to develop a strong investor ecosystem in our state.

This kind of relates to that cause-and-result requirement that Adair spoke to in the comments. Additionally, we're typically the largest investor in a company in those early stages, so it helps those companies get their rounds closed more quickly, so that they can spend more time focusing on achievement of meaningful milestones and less time on raising capital.

And finally, in Indiana, the Indiana specific comment is that historically we've not had a real robust venture capital ecosystem in the state. So, being able to help advance more companies with the achievement of those meaningful milestones to a point where regional and even national VC investors are willing to look at them has led to more venture capital investment activity in our state than ever before.

And in addition to capital, our companies also get the benefit of their expertise and their networks that those professional investors bring to the table.

So, that's just -- those are my, I think my high-level talking points. I plan to use the SSBCI 2.0 dollars to double down on these programs and activities, and try to even further increase our impact on the entrepreneurial landscape in Indiana.

Happy to answer any questions.

MS. GARRETT: Thank you. I have a question:

How do you find the companies? Do they come to you? Do you reach out to them? How do companies learn about the program and that the dollars are available?

MR. LODATO: Yeah. That's a great question.

As I noted, we have people in select markets around the state, they really are boots on the ground in those markets where activity is happening, and they serve as kind of the representation of Elevate Ventures in their individual markets.

We call them "entrepreneurs" and "residents." They are people who have had some type of entrepreneurial founding and exit experience; good, bad and otherwise.

They have their own, you know, experience and networks to bring to the table as they work with founders to bring through our investment pipeline process. But they're really -- they are out there marketing themselves, and by extension of that is our organization and what we do and what we have to offer.

But obviously, of course, we have a marketing team internally and a public-facing website, take advantage of social media and other marketing channels to broadcast who we are and what we do.

And the reality is, Indiana is a different market today than it was ten years ago. But the reality is the entrepreneurs find out where the capital sources are. It's a combination of outbound and inbound, trying to match up with relevant opportunities.

Today, there's a -- there's a much more -- even though we're still growing and need more capital in our state, there's a much more mature venture market, much more noisy market today on the capital side than it was ten years ago.

So, we are not here to displace the private sector. We think that's a huge positive that there are more investment resources for start-ups and scale-ups. So, our goal is to find out where the gaps are today, kind of like we did ten years ago, and to figure out how we can plug into those gaps most effectively.

MR. SOLOMON: I have a question.

MS. MOTT: You bring up a good question --

MR. SOLOMON: Sorry, go ahead, Catherine.

MS. MOTT: Thank you. I'm sorry.

MR. SOLOMON: No, that's all right. You were there.

MS. MOTT: Thank you. How much of this 1.2 billion comes from local VCs like private VCs or out-of-state VCs?

MR. LODATO: Yeah, that's a great question. Unfortunately, I don't have that number at my fingertips. So, I could pledge to get back to you with that.

I would say, with respect to the SSBCI program, we run a co-investment model. We do that with or without the SSBCI program, but we're required to by virtue of the requirements of that program, which is to say that we require minimum one-to-one private capital in our deal at time of investment, which typically is in-state angels, who are friends, family and personal networks of the founders and founding teams of the company at the time we invest.

And then for those companies from there that emerge and break out become more attractive to institutional money with larger rounds, most of those large rounds are coming from outside the state, that's just the reality.

We've got a couple of Series A funds here in the state, but they don't look solely at Indiana, they look regionally. And then most of the capital -- there are bigger capital clusters in our neighboring state, which is Illinois, where Chicago is, of course, and Ohio and Michigan.

So, we tend to see a big part of our role in networking with those downstream institutional investors, so we can make meaningful and relevant connections for our companies. But I don't have the numbers at hand. I apologize for that.

MS. MORSE: Could I chime in on that question, just real quick. You know, we thought about this, the out-of-state VCs versus the in-state VCs. And so, I'm a VC professor from Berkeley, that's who I am, and, you know, the -- it's really hard, take public universities in a state that's not in the VC ecosystem, they're producing good research, there's a lot of innovation happening. It doesn't have to be around the university. It could just be in general.

But it's really hard for that profile to find a venture capital fund interested and go through the process of getting to VC for those entrepreneurs. It's just harder. It's not impossible, but it's harder.

So, do we really -- is it really bad if we think about a large VC fund that's based in, let's say California, that everyone knows that fund and takes an interest in the state for setting up a state VC fund that is never done in that state, irrespective of where the investors into that VC fund are from?

For me, that's like a huge plus. Even though I'd like the ecosystem development as well, and I certainly love the venture development organizations and what they're doing, they play a larger role than the VC funds in terms of reaching equitably in the first SSBCI. But I'm not negative on any development of the ecosystem where it doesn't exist and where it can support the local entrepreneurs, if it's focusing locally.

So, just throwing that context out, that we're really trying to think through what is democratization of having access to equity for entrepreneurs. And so, that's more of a subjective opinion answer to the question, but that's kind of my view of it.

MS. GARRETT: I agree with your opinion.

MR. SOLOMON: Yeah, a lot of us do. So, Phil, let me ask a question:

When you go through your screening when folks come in, whether it's VC firms or companies directly, what kind of commitments are you getting from them in terms of their reinvesting in the state?

You know, like, is it contractual, is it kind of a handshake agreement? Like is there a formal process here that -- where they come in eyes wide open knowing that in order to engage with your capital, that this is what they have to do?

MR. LODATO: Yeah. So, as it relates to -- well, VCs that we network with, they are constantly looking for -- no surprise to this group -- looking for a more and better, you know, sources of deal flow.

So, they look at us as a source of opportunity for them to look at Indiana-based deals that they otherwise may have to work a lot harder to get access, right? We've got a big pipeline of deals that we show them.

The reality is it's kind of a one-way conversation, right? We're looking to show them our deal flow for later stage Indiana-based investment, which they all welcome, of course, because that's a pipeline for them. But they recognize, on the other hand, that we are not investing in companies -- and I think this speaks to your questions on the company side.

We're investing in companies that are based here, and we want those companies to remain here and grow here passing along covenants, if you will, that they are going to -- even though there's -- distributive models are the norm these days and there's remote work and it's hard to evaluate what makes for a domicile company, if you will, but we want to focus on companies that are here and will grow here and will become the larger Indiana companies of tomorrow.

So, we do have to pass along some obligations and sometimes that's a little bit of a challenge, but we try to be as reasonable yet meet our objective at the same time.

I don't know if that's responsive to your question.

MS. GARRETT: Thank you. I'm going to go ahead and introduce our last speaker, so that when we -- I think we all have a number of questions and that way all three speakers can chime in and answer them.

We have with us, Matthew McCooe, who is the chief executive officer of Connecticut Innovations. Connecticut Innovations is the State of Connecticut's strategic venture capital arm and the leading source of financing and ongoing support for innovative, growing companies in Connecticut.

Mr. McCooe manages Connecticut Innovations' full array of business start-up and growth initiates, including venture and equity investment funds and other programs to support innovation, entrepreneurship, collaboration and commercialization.

Prior to joining Connecticut Innovations, Mr. McCooe had more than 20 years of experience in venture capital, sales, marketing and product management.

Thank you for being with us today.

MR. MCCOOE: Thanks, Carla. Thanks, everybody, for having me. I love going after Phil because our stories are remarkably similar.

As Carla said, we are the State of Connecticut's venture capital fund, but the speaker before -- you know, California doesn't need a venture development organization, obviously, but Connecticut, we have.

We were down to around three or four active venture capital firms in the state about five, six years ago. That number has since grown to 20-plus in the last five years, probably because CI, we're a fund-to-fund, which means we invest directly into other funds, so we're attracting funds to Connecticut. We're a small LP in those funds.

We are a direct equity investor. We have a, you know, a proof-of-concept fund, $10 million, which is highly focused on diversity, equity, and inclusion. Well over half of those investments are into under-represented founders.

We expect when the tail-to-tip is delivered, 75 percent of those companies will be lead by underrepresented founders, first-time founders is the rule. So, if you're not a first-time founder, and even if you're not a first-time fund, we tend not to pay too much attention on the very early-stage side.

We see our role as helping people who have not been entrepreneurs before get into the system and give them advantages so they can feel more likely to succeed.

I'll just make a quick note, that strategy has been incredibly successful for us, supporting especially black and female founders has given us extraordinary returns in the last five years, well above our returns on the rest of our portfolio. So, we do it because it's good for returns and it's good for jobs.

So, I just want to report really quickly on our results from SSBCI 1.0 because I think for you it might be interesting. We managed $12 million, we invested into 14 companies. We had 5x return on our capital.

So, if we were a venture capital fund and we had a 5x return, we would be beating Excel and Sequoia and Kleiner Perkins and all of the other top funds on their average fund return. It's a ridiculously high return on investment.

We have had five out of the 14 where we had exits, all very, very positive exits, obviously, their returns are 5x. We just had an IPO about a month ago where were still hold 7 percent of the company, and that company is worth $600 million. So, you can do the math on what our return is on just that one company. 400-plus jobs, so in some -- you know, the companies have raised a billion dollars. It's been a ridiculously good investment. I wish I could have been the LP into that fund, 'cause that would have made my career as a fund-to-fund leader.

And our role is, it's really everything Phil said, you know. We're gap funding. Our vision for how we will allocate the $102 million that's coming to Connecticut -- I think it's 102, 101 -- is that we will put a good portion into sustainability-related efforts; so, green tech, clean water, grid modernization, recycling, battery, nuclear energy, you know, helping with cities, cleaning up pollution, you name it. Anything that's going to make the world a better, cleaner, greener place is the kind of thing that we will be focusing on.

We're going to have a high, very intentional expansion of our efforts into GEI-related investments, so that's really important for us. Is that, again, that the founders be those under-represented CEOs, so we'll put a big portion of it into there.

All those investments we expect to be

equity-related, and then we'll also have a portion of the fund that will be debt, so there are companies that shouldn't be taking on more equity, where venture debt is a great option, you know, there's no reason to take on dilution, their cash flow, they're near cash flowing, they've got assets we can underwrite against.

And so, we have a view where the Governor of Connecticut is going to -- as committed to allocate the dollars for CI based on our success with 1.0, will probably give us the full amount for 2.0; and those are the three categories that we are going to be quite purposeful about, using the dollars in a way that we think the Biden administration would be proud of and our Governor Lamont will also be proud as well, so will the citizens of Connecticut; that's it for me.

MS. GARRETT: Thank you.

Do people on the Committee have questions?

MR. SOLOMON: Jason has a question, I think in the chat. There you go, Jason, you just got put on the spot.

MR. SEATS: All right.

MR. SOLOMON: Make it a good one. Make it a good question, Jason.

MR. SEATS: All right. I will meet expectations of not coming through with a good question.

So, I'm just trying to understand how all the pieces connect together on the program. So, it's a Treasury program that is allocating to states that has a number of ways the states are engaging, one of which is via -- hang on one second here, apologize. My computer, everything is connected.

So, what I'm trying to figure out and understand is, you know, so Phil, as an example, your organization that you're running here or part of is a nonprofit.

What is the sequence here? Is this do-gooders who started a nonprofit who then connected with the State of Indiana, or did the State of Indiana initiate that, "This is a thing we want to do," and pulled it together?

Like, what happens if a state doesn't

actually belly up to the table and connect in with this program? Are any of the firms or small businesses in that state, do they not have connectivity into the Treasury dollars?

I'm just trying to understand what needs to happen for this to work and work well? And maybe this question might be for Adair mostly, and then maybe even just so we could weave into this, compare and contrast, the metaphor to what Israel did with their venture matching dollars, which was extremely successful, as you mentioned.

But in what ways is this similar or different? I'm just trying to think through, how does this actually flow and work in practice?

MS. MORSE: So, Treasury has published allocations that the states can stand up programs facing that amount, right? So, we have already done those allocations, they're on the website.

So, that is the pool of money that the state or territory or Tribe can develop programs, they can be loan programs, they can be venture capital programs, they can be any kind of financing program that's consistent with the different pieces of the requiring the private capital and different pieces of the guidance that we've written to the statute. Okay? So, that's the first piece.

All the states have submitted intent to participate, as well as something on the order of 320 Tribes to this point. The Tribes have until December 11th to have an intent. So, that's the first piece.

All the states are planning -- you know, we -- Treasury is in touch with all of them.

They're all working through the process of what their different programs are. They may decide to give a part of the money to, you know -- so, a lot of them think in debt and equity kind of frames, a part of it to loan programs, a part of it to equity programs.

Within the equity programs, is my state doing venture development organization, is my state doing venture development and then maybe there's some -- a VC fund that's doing innovation that supports an ecosystem that they would like to support as well. That is all the choice of the state.

And so, for the venture development people you have on the screen here, they would have -- the process is in any state, everyone is reaching out to the state and saying, "Hey, you know, look what my program did last time, the CDFIs. Look what we did last time for the state," and the state is deciding among the different choices of the different allocations.

The Treasury has published that we allow changes to those programming over time, the programming is a seven-to-ten-year program, depending on how you read the statute. And the state can adjust the programming to different pieces over time, even though they speak to their whole allocation exempt.

Does that make it clear what you wanted to hear, Jason?

MR. SEATS: Yeah. I mean, it's clear from the Treasury's side, I guess. But I'm still trying to figure out, like if you, you know -- let's say you're an Indiana-based venture firm or start-up and Phil's organization doesn't exist yet -- like, I'm just trying to -- like, I'm trying to think what is the sequence here, 'cause it's a top-down program, that -- I don't know. Maybe all the pieces connect and it sort of works end-to-end, but I don't know, I'm just having a hard time --

MR. MCCOOE: Can I chime in on this, 'cause I've got a view about this, Jason, 'Cause I've got a worry as a citizen of the states. I think the reason why CI's success was what it was, was because we already had a robust portfolio and so we chart that.

It didn't just happen because we're so smart and we've been -- you know, we did so well. It was because we already had a portfolio of 50 companies and we chose the best of those to do a lot of investments, so we already knew something about them.

So, I don't think you're going to get similar results in Guam or in Alaska, where they don't have a venture development organization or a robust ecosystem or a set of companies that they've already worked with, identified and can sort of attest to the prowess of the team's ability to execute.

So, I worry a lot about this program because you're going to have very unequal returns, even though the dollars are being allocated fairly equally across the country. And I think it's something that you all need to think about.

MS. MORSE: This is the fun part of conversations. So, we, at Treasury, have an outreach team that's heavy on VC. Karl here is leading and we're developing further. And moving forward, we will be spending a lot of time with the states and territories and Tribes that don't have such a program, to bringing in those cases, I am putting Matt, you are first on the list of offering, to help support those states to build that infrastructure. That's part of the democratization of VC, through the venture development organizations.

It's exactly what you've just described. It's enough money to get something going in the states that don't have. We think it's critical that entrepreneurs everywhere in the United States and in the Tribal lands have access to venture financing if they have, you know, a good entrepreneurial idea.

So, that's exactly what we want to do. And do we care that the returns sometimes in your entrepreneurs, because they're already the success cases, are a little bit higher? Not really. We care that we're supporting entrepreneurs as a whole and we're building those ecosystems, so it can be sustaining well past the SSBCI, at least that's what we hope.

MR. LODATO: I'll add to that, too, Matt, and Karl can attest to this. There's a lot of -- because I know Karl from SSBCI 1 and his role in running a venture program in Hawaii. There is a great deal of networking that goes on as a byproduct of the SSBCI program, that it's usually beneficial to states who are in emerging ecosystems, right, historically underserved ecosystems.

I can network with Karl, I can network with -- I have contacts in Connecticut now, Pennsylvania, and Oklahoma; those are just a couple different examples, where we can hop on the phone or exchange e-mails and discuss ideas that are working in their market.

We may not be in the same markets, but we have similarities from a capital standpoint. So, it's very beneficial to network and information-share, and I believe this program provides a great platform for that.

Jason, in our case in Indiana, we, like in Connecticut, we had a preexisting state-supported capital program that had been running, at that time, internally within the economic development corporations, surely a capital program. That idea changed to be one of -- in the leadership and government at the IEDC and the Governor's Office on down decided this concept of developing ventures was capital plus assistance, right? This company needs other resources beyond capital to thrive.

That can only be done effectively by being moved outside of government. There were a host of reasons for that, but there's not enough time to go into in this forum.

So, it was certainly a governmental leadership thing that got behind the concept of developing ventures to create, and I think that's what's needed in these states where there isn't already this kind of infrastructure built to get it off the ground.

MR. SOLOMON: And this might be like a basic question, 'cause again, I'm just learning about this in a little bit more detail.

But assuming there's positive returns, does the Treasury get the money back plus a return?

MS. MORSE: No. The provision is that the money recycles within the program, so it continues to support -- that's the leveraging in, crowding in private capital and leveraging that up to recycling, right?

There's certain restrictions, so it's not a direct grant, right, but Treasury doesn't expect the money back, conditional on the money being deployed.

To Sue's question, I'll read Sue's question: "Aren't there states just doing loan programs through the banks and not doing equity programs?"

Is that okay, Sue, that I read your question?

MS. WASHER: Yes. Yes.

MS. MORSE: There are some. There were some more in the 1.0 version but it's the minority. I don't know if Karl has -- Karl keeps a running tab of this. But the vast majority of states have indicated some VC or equity programming in their state of planning, even ones that have not had the forums that said, we hear stories from the other states from the prior version. We have loan programs happening in our state already.

We are interested in exploring what this VC means for us and how we can do equity, so there are a few, for sure, but we --

MS. WASHER: That's good to hear that there's been a difference. 'Cause then, you know, for the first program, I did understand that there were more states that maybe didn't understand how to put the equity portion to work and so we're really running just more loan programs, but it's good to hear that that's transitioning as part of 2.0.

MS. MORSE: Yeah. 30 percent of the capital went out in 1.0 as equity. I would expect that to double, but I don't know. I'm just guessing.

MR. FOOKS: So, last time in 1.0, roughly 35 states implemented venture programs, meaning the balances of the 50 states had primary loan programs.

You know, coming out of the Great Recession in 2010, a lot of emphasis goes on shoring up bank lending because the financial institutions were severely impacted.

This time around, we see a different landscape. The scale of money coming from the Treasury to the states now is larger, so the ability to have a larger portfolio of programs that include both debt and the equity component are going to be there, so we see more states now looking at including equity capital in what they do.

For the reason of scale and opportunity but also the needs within their community, you know, are more closely focused on those emerging companies now. The financial institutions --

MS. GARRETT: As Jason asked, do the states create -- I think I've been lost.

MS. WASHER: No, we hear you, Carla.

MS. GARRETT: Okay. Do the states create these, like Phil's type of Elevate Ventures or do -- as Jason said, do do-gooders create the nonprofits and then partner with the states or is it a combination, kind of depending on the state?

And my other question is: I would imagine that there's probably more than one different type of venture capitalist company like you in each state.

So, are people competing for the different dollars within the state?

So, that's my two questions.

MS. MORSE: Karl, do you want to take that?

MR. FOOKS: Yep. So, states, you know, provide a varying models of how they deploy these funds. So, in some instances, it will be legislation that is creating organizations, I think Matt's organization was created through legislation. Originally, you know, Phil's was, but it's moved out.

There are a lot of states that simply stand up economic development programs and then RFP into the market and say, "We have capital that we want to be used in this particular way," and they solicit private organizations to become part of that effort to jump start, for example, organization like that, they actively compete for capital from state programs to be able to run their venture development organization.

So, we see a varied pattern of how these programs are stood up in the states relative to their constitutional ability to deploy funds in this way, or orientation to engage markets in certain ways. So, you know, the great thing about SSBCI is we can accommodate all those different models in the states and deploying the model that makes sense for their local needs.

MR. GRAHAM: To what extent in 1.0 was the debt, venture debt?

MS. MORSE: Very little. I mean, venture debt is, in general, the ecosystem of from venture debt is new, right? The growth of venture debt has been enormous in the last decade, so very little of that, but not zero.

There were some venture debt contracts or contracts that look like hybrid that were more favorable than equity constructs, right, in terms of the risk return profile for the entrepreneurs and the other investors, as opposed to the SSBCI investor.

Did that make sense? The general answer is not much. But I --

MR. GRAHAM: Sounds more like traditional debt.

MS. MORSE: Traditional debt, right. 17 percent of the SSBCI 1.0 was manufacturing. And that was, you know, highly concentrated on the debt side, right? So, you can imagine, there's small, you know, Main Street type loans and we had a lot of CDFI loans that look like Main Street loans that we're familiar with.

And then some larger manufacturing-type programs that got to some of the industries mentioned earlier in Connecticut that were -- whether it's venture or, you know, kind of supporting these ecosystem-type things that we mentioned.

MR. SOLOMON: Are you being targeted in terms of the way you're like saying, "Okay, this is how much goes to --" I saw you had some general allocations in the beginning of your presentation. But like, are you saying, "This is how much needs to be in, you know, old economy versus new economy," or "Energy transition is a big element of what we're trying to get accomplished, so we'd like to allocate to energy transition"?

Or are you just saying, "Here, states, this is money. You figure out what to do with it, just as long as it creates economic activity"?

MS. MORSE: So, Treasury has no power to tell a state, "You should be doing bio-plastics because you have a great potato crop in your state, and this is cutting edge in the future and it's a great opportunity, right?" No. So, we do not have that kind of authorities.

We mentioned a few things. We mentioned some administration priorities in terms of areas that, you know, again, supply chain, everyone is talking about supply chain. Of course, it matters, there's good opportunity. There's some scaling of manufacturing or changing to net zero manufacturing that may be our opportunities that are not getting funded.

So, we mentioned those things, but it is not our business to tell states what are their priority policy agendas, right? We would like to put the thumb on the scale, as the government saying goes, but that is not what we are doing.

MR. SOLOMON: Are there other questions?

MS. GARRETT: Well, I had a question of -- when do you expect, kind of, the funds to starting being deploy? So, I see that their application process is in the works. And so, what, kind of, is the timing and how -- what's the percentage of what gets deployed in '22 versus '23, '24? You know, what would you, kind of, roughly guess?

MS. MORSE: So, the timing -- as I mentioned, we're opening the portal immediately soon, and then we are evaluating applications on a rolling basis. So, if someone submits, we start reviewing. So, we hope to get money out quickly, the first quarter 2022, we expect a number of funds to go out.

And expectation, we expect a lot of the money to go out in the next six to nine months. We would hope almost all of it would go out in that timetable.

MR. FOOKS: The program releases funds in three buckets or three tranches. So, the first third -- it goes in thirds, and so the first third will probably release very quickly, as Adair said, that full amount.

And then it's up to the states. The states then have to show some performance in deploying. And as they show adequate performance in deploying, they can apply for their second third, and so on and so forth.

So, you know, this will probably play out over a two-to-five-year period as states are in different stages of their ability to deploy funds or the type of program they're implementing has different deployment mechanics and so forth. But the program does allow for, again, choice of program and choice of time frame to operate this over.

MR. SOLOMON: I mean, have you all thought about the IBF? You know, we've been talking a lot about how a lot of the venture funding that goes on in this country happens in four major metropolitan areas, that's been a big theme of this Committee since it started. Great to see Indiana, by the way, Phil, kudos to you.

Have you all thought about how to create -- I's say, remove some of the barriers that other states might be facing in terms of not having the proper ecosystems? How are you thinking about intentionally making sure that this doesn't just compound the issue of providing, you know, increase venture funding at the coasts because that's where the ecosystems are?

What is the Treasury doing, if anything, to ensure that states not named California, you know, New York, and Massachusetts are getting the training they need in order to be able to have good outcomes?

MS. MORSE: Yes. So, let me first speak to California, because I'm a Californian for the last few years until I just moved to D.C.

MR. SOLOMON: I live in New York, so it's okay.

MS. MORSE: No. No. I just want to say, you know, what we hear from their state office is they're very much focused on under-reached areas in parts of the state that do not receive any venture funding. So, California is a big place, so just being fair to our friends there.

We -- as I mentioned before, we hope to have a number of forum opportunity -- forum opportunities, I guess I should make it plural, bringing together states that would like to convene around topics.

So, the topic might be venture development organizations, how you get one going. And have states share best practices.

You know, we have a TA team ready to take calls and deploy, to have our experts in particular areas chime in on, "Oh, that reminds me of what happens in Indiana," whatever. So, let's see if we can hook you up to talk to them or this sort of networking building that we would hope other states would support, the ecosystem development.

You know, if you think of some of the smaller states, the minimum of the first piece of the allocation, even without social and economic disadvantage was almost $60 million. For some of the small states, that's a fair amount of money. And then you add in the private capital for a small population state, it's a fair amount of cash.

And so, there's room for lots of ecosystem development there, and the states are reaching out and everyone wants to hear success stories of "How did you get it started," and this sort of thing.

And we would welcome any support anyone here on the screen is able to lend a hand to making this development of the ecosystem happen. Because, you know, whether it's Indiana or anywhere else -- by the way, I spent four years at Purdue, and Purdue is a great engineering school, but the VC ecosystem is not Berkeley, right?

And so, it's this whole why do we not have a democratization of access to entrepreneurial capital? And not diminishing the loan side, too, right? Of course, that's important, too. But that's what we're doing. That's what we are here for, and every time we get on a screen asking for help, that we welcome any kind of help we can get.

MR. LODATO: I'll just add to that real quick, Adair. I think in response to Jeff's question, I mean, I think we all recognize the huge opportunity for states like Indiana and others, but at the same time, it is sort of organizations like Elevate who feel a great sense of responsibility to make something longer-lasting, impactfully speaking, from these resources.

We didn't know there was going to be an SSBCI 2 when there was an SSBCI 1, right? But there is, we get another chance to continue that and expand on it. The little bit of friction between -- for the Treasury cycle of being -- expending or allocating the dollars quickly, so we can hold down tranche two, yet again tranche three, versus deploying the dollars in the most impactful way, right? Which takes time getting the new ideal and the right companies that are going to have the best opportunities to grow, raise more capital, sustain themselves.

So, we take that responsibility, I think, very seriously, if we can be the most impactful with this resource as possible, then we have a chance at kind of correcting that systemic issues that a state like Indiana has, which has kind of always been looked at as a fly-over state, where there's not as much interesting technological or entrepreneurial activity occurring.

Is it, and I think we're using this resource to show people that, right, to prove it now that it's going on. So, I don't know. I just wanted to speak to that opportunity/responsibility that comes along pursuant to that.

MR. SOLOMON: Anybody else have any comments or questions before we move to our final topic?

(No response.)

MR. SOLOMON: I'll just say, before turning it back over to Carla, I guess -- I don't know. I guess I'm a little stunned I didn't know more about this program. Not that I'm that well-versed in it, I think it's phenomenal, and I actually don't think it gets enough air play, honestly, PR-wise.

I know sometimes in Treasury, this is relatively small numbers for Treasury particularly when we're talking about the size of the programs that are out there. These dollars that are spent and are really allocated to folks who can actually focus on growing ecosystems have a multiplier effect.

And if I had one piece of advice, I mean, take a few of those dollars and get some PR because, you know, there's a lot of folks, I think, that would benefit tremendously, and it could change -- you know, I would say in the halls of Congress, make sure that the local Congress folks know that when you're making investments in their regions and where that money is coming from.

I'm not sure they're aware necessarily. Maybe some of them are, but I'm not sure that they are. It's small dollars when you're talking about physical spend, but it's really impactful dollars when you're talking about getting it into the hands of folks who can do a lot with it.

So, I wouldn't be bashful about it at all, and hopefully, you know, this can lead to more really tactical ways to create multiplier effects in a private/public market environment that just, again, has the ability to change entire ecosystems.

So, congratulations on the success so far. And I hope we can do whatever we do at this Committee to promote it and also to foster, you know, through advice to the SEC, ways to help scale it.

MS. MORSE: Thank you. Really appreciate those comments and recognize the Treasury is not, you know -- didn't take Marketing 101. It's not a Treasury mantra, but again, welcome any pieces of advice. Thanks.

MR. SOLOMON: Well, we'll do whatever we can on social to make sure people know about it. That's free, but you know, it's a great program.

MS. LEGG MILLER: Adair, it's the same challenge we were discussing this morning about how do you actually get the word out about great government resources when people are looking elsewhere for them.

So, I appreciate you and Matt and Karl and Phil joining us today to share insights about SSBCI and make sure that we are raising awareness about this important infusion of capital into entrepreneurial ventures across the country.

MS. MORSE: Thanks, Martha.

MR. LODATO: Thank you.

MS. GARRETT: Thank you very much for joining.

And now we're going to move on to the last section of the meeting today. And since we have more data on rural entrepreneurship than we had before, and knowing that states and territories and Tribal governments are about to be deploying $10 billion in SSBCI funds for small business credit support programs, it looks like there are opportunities for capital to be deployed to entrepreneurs and underserved, non-coastal and rural communities.

And at this time, what we'd like to do is have members of the Committee, they're invited to discuss your thoughts on your experiences and perspective on ways to proactively foster a dynamic ecosystem to facilitate this type of entrepreneurship in areas of the country that we've just talked about.

And instead of, like, going around the room one by one, I'd really just like to, you know, open it up to the Committee members. You can use chat, just raise your hand. Jeff might be facilitating a little bit with the discussion because I'm going to have some background noise, but we'd love to hear from the members of the Committee, especially after such an interesting presentation and what we have learned today about money being deployed.

Would anybody like to start?

MR. SOLOMON: Can I -- go ahead, sorry. I was going to nominate Sapna, you're up next, by the way, Sapna. I know, but go ahead, Stephen.

MR. GRAHAM: Okay. As Martha just mentioned, I think one of the keys is getting the word out. I think another key, in my way of thinking, is collaboration. I don't think you can really have an ecosystem unless all the various segments of that ecosystem are communicating and cooperating.

I think that -- well, I sit on the board of a large bank, and at the beginning of next year, I'll take over as chairman of that board. One of the things that I want to do is to make sure that that bank is coordinating with all the various other capital -- sources of capital, to think about how that -- you know, how the people who need capital can be educated and how programs can be developed that can present it jointly to that sector.

I think it's important that all these various sources, many of them, I think, are, in some ways, haven't seen the light of day. I think we all have something to offer at different stages and for different companies. I just think that the greater coordination is going to be important.

MR. SOLOMON: Sapna, you spent a fair amount of your time, I know certainly with the infrastructure and Rise of the Rest looking at these ecosystems. First of all, I'm curious to know if you knew about this program.

And second of all, you know, how would you suggest that maybe investors who may be tuned in here or companies or venture firms, maybe think about partnering with their respective states, if you know anything about it?

MS. MEHTA: I had not heard about it. And I wonder if it's just so nascent and it still depends on how states will define their own parameters of their investing. And then I think we might start getting more, you know, memos from our law firms, like, giving us guidance on how we can guide our portfolio companies in attaining these funding dollars and going about it.

I have still a lot of questions. I agree in just how it all works and, you know, what kind of strings might be attached for investment restriction that might get applied.

But I think it's all in, you know, the right direction. I mean, we're seeing a lot more first-time fund managers, emerging managers outside the coast, and so anything that is going to promote that ecosystem would be great.

As we all know, we can't just focus on the portfolio companies but the entire ecosystem.

So, we do need -- I think it was clear from Alicia's presentation that a lot of VCs will still -- they like to invest in companies that are in their communities, and so we need to make sure that these VCs, you know, they keep growing, they keep getting funded and they, in turn, will then invest in these companies in their communities.

I think it is really interesting what Matt said about dedicating a large portion of these dollars toward diversity and inclusion, you know, guidelines and those founders and how -- you know, how well they've seen and what the results are looking like. I hope that will be a model that a lot of states use.

You know, I just think it is so important to get these dollars out because I think for a lot of coastal funds and companies like, you know, the risk of failure is not as great as it is within smaller communities, whether they're urban or rural, and it's nice to have a little bit of some public/private partnerships in this venture.

So, I look forward to seeing how its implemented and continuing to read more about it, but I think it's a great development.

MS. DEVRIES: I certainly agree. I think it's wonderful that the program is being continued and that there are key learnings from the first iteration that have been lifted up, so they can be considered with this next round of capital that is going out.

And we're at a different point in time, right? So, venture as an investment strategies must flow, there's more capital flowing into venture, there's a better understanding of patient capital on the long-time horizons. One of the things that will be interesting to continue to think about and hear the Committee's perspective on is that beyond just the capital going out the door, right, we talked about this a little bit earlier.

It is that point as the companies evolve that we need to think about, are they going to continue to have access to capital? So, for funding at the earliest stage, some of the most challenging times are when you get to a series -- a Series A, a Series B, a Series C.

So, who is going to be there to fund the companies as they grow? And are they going to have the right networks of support around them to help them raise that capital and get the technical support and assistance and mentorship that they need?

And they need that locally, but also thinking about the concept of keystone groups that have the local and the national relationships and how we can foster those because if it's a closed-loop system in a rural area, are we solving the problem? I would say no.

We need to figure out how there's going to be broad support as companies grow and mature and have that built into the systems.

MR. SOLOMON: I'm curious to know if they thought about doing co-invest funds, like, you know, matching. Like, for example, you know, you give whatever it is to a state and maybe the state farms out that venture fund, but giving people the opportunity to size up alongside of that, so the buying power of the fund really allows there to be more, you know -- in other words, instead of just being federal money, it's federal money plus and, you know, it will be interesting to see if we can make a recommendation maybe. I don't know if it's this Committee's purview, but if I received recommendation to the Treasury, I would be allowing underrepresented minorities to invest alongside, right, maybe through some sort of an exemption that allows for them to invest in their own communities.

We're already going to go through a -- if we are getting money in the communities to do venture development, why wouldn't we allow other members of that community to participate in creating an exemption perhaps at the SEC for the SSBCI funds to allow individual investors, maybe nonaccredited investors, to participate alongside of those funds as a way to help bridge the gap on inclusion.

And, you know, these are federal dollars, and co-investing with a professional, we should at the SEC, make sure that we're enabling underrepresented minorities to invest it their own communities.

Maybe there's some exemptions we could think about to Reg D or some of the other private placement rules that allow for folks to participate. And maybe then we can encourage them to do so, if they so chose.

MS. DEVRIES: Interesting you bring that up because --

MR. GRAHAM: Jay makes a good point. I think, you know, too oftentimes the -- I don't know, the more paternalistic approach to investment connections sometimes, I think, gets in the way of these kind of opportunities.

MS. DEVRIES: It's an interesting topic and one we've been thinking about and talking about in the context of the SBIC program, right, where there's public/private partnership where the government capital is coming in to match the private LP capital that has been going to private equity fund managers of different strategies to then invest in hybrid companies to provide capital in underserved markets. That's the focus of the program that I manage.

And we've talked a lot about this tactic, if the private capital is limited, right, to accredited investors, are we capping opportunities for other investors to come in and align to the mission and support the development of companies and job creation within their communities?

If there's a way to do it in a diversified manner, then we can address some of those paternalistic concerns, right? So, it is something to think about, which is how do you implement, how do you manage risks in a way that makes these investments more accessible?

MR. SOLOMON: Yes. So, one of the things that we've been talking about a little bit, Bailey, on that front is exactly this idea of there's risks in everything you do, right?

These are venture early-stage companies with a bunch of failure, and so how do you help individuals to make sure they're managing portions of their portfolios appropriately?

That's a whole element that I think we've been discussing around investor education, that maybe is more competency or some mechanism. But in this particular case, I think it's something that's really interesting that we hadn't focused on, which is that we have being talking a lot about, how do we make sure -- if we're going to enable investors to invest alongside venture funds, how do you actually make sure that they're investing along people that are trustworthy?

And there has to be some process here

that's going on at the state level, I would imagine at each state in a dual-state level, is that screening who is actually committing the capital, right? I don't know who those are.

But I got to imagine that there's some rules in place at this stage that, you know, that the allocator of that capital from the state has to go through some sort of a process here to enable -- you know, it's a natural built-in screening process that if we allow individuals to invest alongside it, to increase maybe the amount of impact and also be more inclusive. At least you know there's some degree of screen that's gone on there by somebody.

It won't ensure that you're going to get positive outcomes, but it will certainly minimize the likelihood that you end up putting, you know, people I like to infectiously refer to as the "riffraff" in charge of people's hard-earned money.

I mean, I think there needs to be a fiduciary element to this that probably is already built in, and that's, I guess, maybe a better way to phrase it.

MR. FOOKS: Jeff and Committee, I've been listening to this and thinking and relating to my own experiences. And I know a lot of people earlier talked about the ecosystem here, and I do wonder if that isn't something worth a little bit more study.

Because where I've seen this done well, you know, there's either tech transfer, like nonprofits set up for technology transfer for the universities, you know, accountants, you know, lawyers -- people like that who can make the referrals.

I mean, I don't want to say the capital is completely fungible and I'm not saying that there isn't a capital issue, but I feel like a lot of times it's getting the help at the right level where the ideas can be packaged up, could really be vetted and then presented.

Because I feel that you can really -- you know, capital will travel if the idea is being presented in a lot of cases is what I've seen.

But is actually getting that ecosystem

in place that can really help the entrepreneurs actually vet them and surface it. And so -- I mean, to me, even on the Treasury side, while it was a great program, I understand the part about not paying management fees to the funds.

But I do wonder if there's almost like this thing about no management fees, could some of that actually help pay for a tech transfer office, right, to really help ideas, say take Indiana, take the ideas coming out of Purdue and help commercialize them, right? You know, to me, there are some things that need to be explored there as well, so.

MR. SOLOMON: All right. Greg, you had a comment?

(No response.)

MR. SOLOMON: You're muted.

MR. YADLEY: Can you hear me now?

MR. SOLOMON: Yes.

MR. YADLEY: Great. Thanks.

This goes to the question that was asked about things we can do, and sort of building on Martha's comment on getting the word out.

And one of my constituents who is here had asked me about today's meeting and suggested that when you send out public announcements focused on small business folk that beyond just the SEC.gov link, have the entire link.

And this person told me he found the Advisory Committee micro-site but couldn't find the webcast, so I held his hand and got him here.

But I think beyond getting the word out, another thing that we can concentrate on is making things easier, less bureaucratic, plain English and so on.

The City of Tampa, for example, has a lot of programs as do most municipalities for job creation or community redevelopment, and a lot of these are federal dollars, of course, that are funds that come under a federal program or a state program and then they're administrated by our city or our economic development counsel or collaborative County/City development entity.

Those are great programs and some of them have small dollar amounts that would be very appealing to local companies and less-sophisticated individuals, but it almost takes an accountant to apply, very difficult.

So, a couple of things that some of our local municipalities are doing is that the City of Tampa has an enhanced mobility workforce development sustainability program that's trying to make it easier for innovators to engage with city departments. This is run out of our Mayor's office and tries to provide some access.

Somewhat similarly, newer programs, City of St. Petersburg has an entrepreneurial residence and that's a local entrepreneur who is to serve as the liaison between the entrepreneurs in the community and City government. And the goal was to help the City understand the entrepreneur's needs and how we can help and then empower some of the City agencies to be more innovative and be more efficient.

It's a lot of talk and it sounds nice and the proof is in the pudding, but I think it is a very important recognition that you've got to get the word out, and then you have to make it easier for people to actually use.

So, I guess I would like to add my compliment to the very beginning of today's session, the interactive website and trying to help entrepreneurs match their needs with an exemption or methodology for raising capital.

I think that is key to improving the infrastructure.

MR. SOLOMON: Thanks, Greg, and great comments.

Anybody else have anything they want to add here?

I'll just -- you know, before we kick it back to Carla, I'll just say again, a day filled of learning. I continue to be blown away by staff's ability to attract people who are educating us and hopefully everybody else in the webcast in a meaningful way.

I'm not sure what I expected today, actually. I came away feeling like there's a lot more going on that we should be contemplating, and that we really need to be thinking about some ways we can augment and help the staff to, you know -- the SEC to help promote this both in a real sense, you know, through communication, but also facilitate, you know, the flow of capital to small businesses and include more investors.

So, there's just a lot in here around these two. I guess I shouldn't be surprised by that because the staff always seems to do that. But today, at least for me, was filled with a lot of great learning and really helpful.

So, thank you, I guess, I would say to Martha and Julie, Jenny and everybody. But if there's no other comments, I'll kick it back to Carla who can wrap it, even though she's having --

MS. GARRETT: Looks like Jason has a thought.

MR. SEATS: We're sneaking in under the line --

MR. SOLOMON: Oh, here we go.

MR. SEATS: -- there, Jeff.

MR. SOLOMON: Yeah.

MR. SEATS: So, I guess -- and I

apologize. I did catch -- who is Swasher? What is her first name?

MS. MORSE: Sue. It's Sue Washer.

MR. SEATS: Got it. It was Sue Washer. That helps.

So, she put this in chat but had to step off. I was having the same thought, actually, that one of the thing that's interesting about these top-down federal programs that flow through states is that it's not one program, it's 50-plus programs, and so you end up with tons of just differences in implementation and approach and whatever else. That's a thing to think about.

And I'm also thinking some about just the locality of this. I mean, when we invest in venture, very truly, we don't see borders. And we don't see country borders, much less state lines or county lines, right?

And when Sapna kind of asked the question, you know, unknown what the strings are, like, what are the requirements and restrictions on this? From my experience, seeing different state level programs in the past, often the restrictions make it hard, if not impossible, for investors that are not locally focused to actually engage.

And so, you end up with nationally focused investors. For example, people like Rise of the Rest, who maybe can't actually take advantage of these programs, even though the things that they're doing are directly -- like, it's the directed benefit, but they're doing it everywhere instead of one place.

And, you know, the idea of having money flow through from federal to the State of Indiana to an Indiana venture firm who is going to invest in Indiana, is a good storyline.

The question I have is: Is that actually the reality of how firms work? I mean, it's certainly not how our firm works. I don't think it's how many firms work, so just a thought.

And then on the, sort of, undercurrent in general today of solving the problem of awareness and usability on these programs, they're all great programs.

I loved, Martha, the sort of thinking

like a start-up that is just sort of how you all approach it. I would encourage much more of that, even, like keep going on that path.

When I look at what you all denote today, like my immediate thought is: Is this website instrumented? Like, do you know where people get stuck when they're stepping -- once from start to finish. Like, you should view this as like a product that someone's buying. They go to your website and they need to --

MS. LEGG MILLER: Absolutely.

MR. SEATS: -- understand how to use it. They need to get to the end --

MS. LEGG MILLER: There's a lot of thought that goes into the UX/UI piece of it, and there's certainly like -- it's not perfect, but we're trying to iteratively get it there and learn from where users --

MR. SEATS: Right.

MS. LEGG MILLER: -- you know. Hearing that this question is phrased in a way that throws me off and so I pause and I stop because I don't know how to answer, that's really good feedback. And that's the type of thing that we're trying to iterate off of, very much the way that you have to with any for-profit product.

MR. SEATS: I assumed that was the case, just based on how you talk about it. And it means you can lean on the toolboxes that exist in the private sector for that.

But the other -- the thing I'm thinking about also is on the funnel, you know, in terms of marketing and SEO, that maybe there's a place for investment there to actually advertise to the target audience the same way that a for-profit company would make sure their attuned audience is hearing these things. Just a thought.

MS. LEGG MILLER: Great thought.

MR. SOLOMON: Catherine, you had one concern.

MS. MOTT: Yes, thank you.

My thoughts are, I'm jazzed by all of this, but I'm very concerned that it takes such a long time to be able to develop an ecosystem.

And I mean, I look at -- I have been in Pittsburgh for 20 years now. I mean, there is a definitive difference from what it was, but it's still not a mature market. It's still not attracting the capital that it could probably benefit from.

Jeff, when you talked about Pittsburgh earlier, I mean, we've attracted a lot of corporate venture capital, you know, where Ford puts a billion dollars into Waymo, and Toyota puts a billion dollars into Argo, but, you know -- and it creates jobs, don't get me wrong, but it's not the traditional, you know, venture capital.

They're doing it for their benefit in manufacturing, which is all going to be great, but it's -- you know, and I -- so, we're tell not a mature ecosystem. So, I look at how long it's taken us to get to this point, and my colleagues, Cleveland, Columbus, Cincinnati, Indiana -- or Indianapolis, Chicago.

Chicago is finally blossoming. Chicago, as a matter of fact, Drive Capital, which, located in Ohio, has shifted to hanging their shingle in Chicago. They are not interested in Ohio. They're not interested in Pennsylvania. I mean, that's where -- you know, again, the ecosystem is extremely mature there and it's blossoming.

So, will the government have patience to build these kind of ecosystems and provide the support? I mean, I was thinking earlier about how SBIC used to function. It used to support venture capital, but they couldn't tolerate the losses. They couldn't understand the losses.

They thought, "Hey, you know, this is not generating revenue like this real estate fund that we supported over here." And so, they pulled the program from venture capital.

MS. DEVRIES: Interestingly, the program is -- we still have statutory authority to do early-stage investments. We haven't been making those commitments. However, there has been an increased interest in the fund, this pipeline of funds that are interested in the program that are early-stage or growth-stage managers. And those managers are typically applying for what they call an unlevered license. So, they are not taking the capital of the federal government, but they are wanting the license because it opens up a new LP base for them of bank investors.

There are some early-stage and grown-stage SBIC funds who do take some leverage, but not to the same degree as other SBICs. But I hear you, there's a lot of conditioning and awareness and education work around the long duration of early-stage investing and the risk profile and expectation-setting that needs to occur, but there's been an evolution, so.

MS. MOTT: A good example here. We -- just one of our companies, portfolio companies, just received FDA approval. It's been in the works for 14 years.

MS. DEVRIES: Venture capital, it is a long time.

MR. SOLOMON: Yeah. I mean, drug discovery, it's an ecosystem unto itself. But I would agree with you, Catherine. I spent a few days in Pittsburgh recently and I mean, it's amazing to me what's going on there, having grown up there and then come back.

And I would say like five years ago, that ecosystem wasn't anywhere close to being the ecosystem it is today. So, these things do reach a tipping point. You know, we made our initial investment in Bakery Square to help develop that ecosystem, which is now Google's -- you know, it has the naming rights and has a big presence there, so does the University of Pittsburgh Medical Center.

So, between Google and UPMC, it has changed the entire eastern side of Pittsburgh in terms of economic development. The average median income, the services that are going on around there, the way it's spreading into parts of Pittsburgh that honestly have been long forgotten until the economic development came.

The private/public partnership aspect of this, you know, Bakery Square was built partly with private money, our equity risk, but it was levered by State money, the State made a pretty nice return on it.

So, there are these elements of, you know, where there are these private/public partnerships that actually work. But it definitely takes time, there's no shortcutting it.

I work in partnership with Carnegie Mellon, University of Pittsburgh, the other colleges there to retain graduates --

MS. DEVRIES: Right.

MR. SEATS: -- when they come, putting things in place like greenways, biking, charging stations, all these things that make people say, "Hey, I want to be here," again, you know, when they have choices to make. And, of course, the cost living in Pittsburgh is attractive to a lot of folks still.

So, I think there's a lot in here. I don't want to confuse Pittsburgh with rural America, that's not what it is. But if you just go right outside of Pittsburgh, it is rural America.

MS. MOTT: So, 35 minutes out, you're in rural America.

MR. SOLOMON: Yeah. But I also think there's a lot of learning in these kinds of ecosystems about what works and what doesn't work. It hasn't been a straight line. And when you get it right and you can make a meaningful impact in terms of economic development and innovation and things like that.

So, you know, we should take the time to celebrate the things that are working and maybe learn from those, so that we can -- and maybe that's another thing we could, can and should be doing, is spotlighting certain ecosystems where things are working for small business or use cases as a way to encourage other states or cities or areas to think about holistically taking a ten-year approach to building the right kind of ecosystem by highlighting areas where we know, you know, from our own experiences and also from the staff's experiences and their conversations, places where you can go to learn and foster those kinds of dialogues.

Anyway, I -- I don't want to --

MS. MOTT: Alicia's point on Tennessee, I mean, what happened there, it's a good one to highlight. Talk about -- I mean, it's the middle of Appalachia, right? So, that would be something maybe we, you know, could highlight. I don't know.

But I think there's -- I guess I'm thinking about -- again, my one concern is the commitment, the long-term commitment it takes to develop, you know, an ecosystem to thrive -- to get to the point where it thrives or, Jeff, to your point, it's the tipping point.

And I think -- I don't know. I would like to see some commitment on behalf of these programs to commit to it being a long-term project focused on the entire, let's say, runway for these companies from the time -- from inception to, you know, prototyping and proving and then pivoting and scaling and, you know -- and now to the point where it's either acquired or it becomes an IPO or it just becomes a great lifestyle company, it doesn't matter.

You know, it's fostering that, you know, being able to pass the baton to the next level and the next level and committed to all of those levels.

MS. LEGG MILLER: Catherine, just piggy-backing on that and, Jeff, on your thoughts, I'd recommend for those who haven't read Brad Feld's book on start-up communities and building entrepreneurial ecosystems -- he really does a good job of flushing out the different elements.

But one of the things that we were talking about behind the scenes, prepping for this meeting, was actually the word "ecosystem." And even using that, and whether or not that is a term that people understand in the context of entrepreneurship.

But the question was, "Isn't that a biology term? That's not something that applies here."

But the reason why I think it's the most apt term for describing all of the components that go into entrepreneurship and early-stage businesses, the ecosystem implies the complexity of a system with so many dynamic pieces dependent on one another for survival and thriving.

It is not as simple as a community hosting a singular demo day or having a single accelerator or incubator program or one regional fund that is somehow supposed to carry all of the companies.

It requires all of the different elements that we have been talking about over the course of the day, from educational resource and capacity-building to university partnerships, as Greg was mentioning, that can help companies navigate to having different stages of successive funding that are tailored to where that company is.

It's a highly complex system and just like a coral reef, it takes years to build. There are no two that are the same, but it requires so many different dynamic pieces to survive and thrive.

And so, I think that the challenge for this Committee is identifying where there is action needed that can spur the growth of an ecosystem that can then subsist organically based on what exists in that community.

So, if I have taken this biology analogy two steps too far, I am unapologetic in doing so, because I think it is truly the best analogy for the complexity of challenges facing entrepreneurs and growing companies, but it is one that is worth tackling.

MS. GARRETT: Martha, I don't think you took that too far. I think that was a very good analogy and a good use of the word "ecosystem."

Because as everyone has pointed out today, that there are so many pieces that are linked together in order for this to work and to be continuing.

I also just wanted to take this time to thank and tell you how great your tools are; the capital-raising tool, the map, those are just some amazing tools that you guys have put together. You're still a start-up in terms of an office of SEC and that was very impressive, and I think those will be very helpful to people that are looking to raise capital.

And so, I just wanted to say that I was quite impressed --

MS. LEGG MILLER: I appreciate that on behalf of the whole team. These are not Martha's tools, nor is it Martha's office, in spite of how some have introduced it. This is a reflection of the work of the entire team who put a lot of thought and work into it. And so, the kudos really belong to the broader group that makes our office so successful. So, thank you for recognizing their work, Carla, and all that went into it.

As Jason mentioned, things like that don't just happen and you plop them online. They require a lot of work, more than I would like to share in an open meeting. But suffice it to say there have been some heads smacked on desks and lots of scratching, figuring out, okay, how do we actually get this thing out and live online. And we are thrilled to begin sharing some of these resources. Thank you.

MS. GARRETT: Sure. No, and yes, I meant everything I said to you, of course, and to your team.

MS. LEGG MILLER: I know you meant the team.

I just wanted to make sure that everyone appreciates the involvement of so many others besides me in bringing this to fruition.

MS. GARRETT: Right. Well,

congratulations again on that.

And if -- does anybody have any final comments?

(No response.)

WRAP UP AND ADJOURNMENT

MS. GARRETT: Then I would love to thank the Committee for all of your time today. And I think that we had a very interesting discussion. I like what Martha said about how we, as a Committee, can, you know, look to where we can possibly take action, where action is needed to help in the issues that were raised today.

So, I think that is something that we can talk about in future meetings. Our next meeting is scheduled for Thursday, February 12th, and I do not know if that would be in-person or not. I will let Julie and Martha let us know about that as time goes on.

MR. SOLOMON: I'm just trying to be helpful in the chat.

MS. GARRETT: What did you say in the chat?

MR. SOLOMON: I just said, "Hopefully

next time in person."

MS. GARRETT: Oh. I didn't even see that. We're thinking the same way, Jeff.

So, with that, I hope everyone has a nice holiday, and we look forward to seeing everybody in the new year. I hereby move to adjourn the meeting.

MS. DEVRIES: Thank you.

MR. SOLOMON: Happy Thanksgiving, everybody.

MR. SEATS: Thanks, everybody.

MS. GARRETT: Bye-bye.

(Whereupon, at 2:25 p.m., the meeting was concluded.)

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PROOFREADER'S CERTIFICATE

In the Matter of: SMALL BUSINESS CAPITAL FORMATION ADVISORY COMMITTEE

Date: Tuesday, November 16, 2021

Location: Washington, D.C.

This is to certify that I, Christine Boyce, (the undersigned), do hereby certify that the foregoing transcript is a complete, true and accurate transcription of all matters contained on the recorded proceedings of the meeting.

_______________________ _______________________

(Proofreader's Name) 11-24-2021

C E R T I F I C A T E

STATE OF NEW YORK)
:SS
COUNTY OF QUEENS)

I, Sabrina Brown Stewart, a shorthand reporter within and for the State of New York, do hereby certify that the within is a true and accurate transcript of the statement taken on November 16, 2021.

I further certify that I am not related to any of the parties to this action by blood or by marriage, and that I am in no way interested in the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of November 2021.