

DC Venture Capital Grant Program Information Session

Monday, August 14, 2023

RFA ID #: DMPED-FY23-VCGP

Agenda

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Background

State Small Business Credit Initiative (SSBCI)

- SSBCI, administered by U.S. Department of Treasury, first authorized by Congress in 2010
 - District received \$13M and DISB created DC Business Capital Program
- SSBCI reauthorized in American Rescue Plan in 2021
 - District allocated \$62,027,062 for deployment in three tranches by 2030

District's SSBCI 2.0 Approach

- DISB and DMPED are collaborating on deployment of funds
- DMPED expected to receive \$26,046,000 of District's total allocation to create a venture capital fund, an SSBCI-authorized use of funds
 - First tranche expected to be \$8,595,180
 - 2nd and 3rd tranches deployed to the District once 80% of previous tranche is deployed
 - Each tranche must be deployed within 3 years

DC Venture Capital Fund

Need for a Venture Capital Fund

- Venture capital is an important source of financing for early-stage companies that is less risk-averse than traditional financing
- Majority of venture capital flows to CA, MA, and NY; DC received just over 3% of venture capital deployed in the US in 2021
- DC-founded companies may choose to leave DC for other locations where financing is available
- Diverse founders in DC particularly lack access to capital (3.5% of DC venture capital raised between 2015 and 2020 went to black founders; in 2021, 14% to women founders)

Goals of the Fund

- Provide equity seed capital to DC founders
- Focus on technology and “tech-enabled” companies (companies that do not create proprietary technology but use it to deliver a good or service)
- Priority for investing in underrepresented founders (founders of color and women founders)

DC Venture Capital Program

Structure of the Fund (Fund-of-Funds Model)



DMPED receives \$26,046,000 in SSBCI funds in three tranches from Treasury (first tranche is \$8,595,180) and selects Program Administrator. DMPED may award all three tranches to Program Administrator pending receipt of SSBCI funds and Program Administrator performance



Program Administrator receives first tranche; identifies, selects, and monitors Fund Managers; and deploys SSBCI capital to Fund Managers. Program Administrator can take 5% of funds for administrative costs (3% for 2nd and 3rd tranche)



Fund Managers invest directly into Eligible Businesses. Fund Managers must secure private capital investment of 1:1 with SSBCI funds and implement strategies to attain 10:1 private capital rate. Fund Managers may use 1.71% of funds for administrative costs.

Scope of Services for Program Administrator

Through this Request for Applications (RFA), DMPED intends to select a Program Administrator to assist DMPED with the implementation of the DC Venture Capital Program (VC Program). Neither DMPED nor the Program Administrator will make any direct investment in any company.

Responsibilities of the Program Administrator

- Advise DMPED on implementation of the VC Program, including investment criteria, the scope of work, and program evaluation metrics
- Solicit and select Fund Managers with a mission of and experience in investing in Eligible Businesses
- Negotiate investment agreements with the Fund Managers using parameters established by DMPED and compliant with SSBCI program requirements
- Distribute the program funds to one or more Fund Managers to make direct investments in Eligible Businesses
- Monitor the Fund Managers for portfolio performance and alignment with goals established by DMPED for the VC Program and compliance with all federal requirements of the SSBCI program
- Maintain compliance with federal requirements of the SSBCI program and District requirements of the VC Program
- Report to DMPED on the activities and progress toward goals of the VC Program

Scope of Services for Program Administrator

The Program Administrator will select Fund Managers who meet the following criteria:

- ✓ Private financial organization organized on a profit or not-for-profit basis, that has as its primary activity the investment of capital into businesses
- ✓ Management team with significant experience investing in Eligible Businesses
- ✓ Demonstrable track record of positive return on investment
- ✓ Qualified management and staff based on training, skills, and experience
- ✓ Offers one or more financing vehicles to support Eligible Businesses, including equity investments, convertible notes, and revenue-based financing
- ✓ Ability and plans to raise sufficient funds to provide matching contributions for the VC Program, including to meet the 10:1 private leverage ratio
- ✓ Ability to maintain a sufficient fund balance to administer the VC Program
- ✓ Demonstrated ability to build an investment pipeline of Eligible Businesses
- ✓ Experience underwriting deals and processes for conducting due diligence on potential investees, monitoring performance, and providing services to portfolio companies to minimize risks, drive revenue, and raise follow-on investment
- ✓ Sound strategies to achieve the goals and objectives of the VC Program

Scope of Services for Program Administrator

Fund Managers selected by the Program Administrator will have the following responsibilities:

- Source, underwrite, and monitor all investments placed using VC Program funds
- Secure private capital investment into the investment program at a rate of at least 1:1 of any investment made using District grant funds
- Implement strategies to attain private capital at a rate of 10:1 of any investment made using VC Program funds
- Comply with quarterly and annual reporting requirements as determined by DMPED and Treasury
- Comply with federal requirements for the SSBCI program, including the understanding that the private capital is *pari passu* with, or junior to, the SSBCI investment in cash flow rights
- Notify the Program Administrator of any non-performing investments that are at risk of default and provide a plan to remedy.

Scope of Services for Program Administrator

Businesses eligible to receive direct investment must meet the following criteria:

1. Private company: Non-public company registered in DC and subject to taxation in DC
2. Small business: Have fewer than 500 existing employees, including subsidiaries and affiliates
3. DC-based business: Have at closing, or sign an agreement pledging that it will have within six months after funding, (1) Headquarters within DC and (2) At least 50% of employees must work in and provide services in DC OR at least 25% of employees must be residents of DC
4. Technology-based business: Business that creates proprietary technology or that leverages technology to offer a good or service
5. Early Stage: All companies must have started operations within five years from the date of the investment.

Businesses who meet the following criteria will receive additional preference:

1. Businesses owned by economically disadvantaged individuals
2. Businesses owned by individuals who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities; or
3. Businesses that otherwise meet the definition of an Equity Impact Enterprise

Available Funding

\$26,046,000: Anticipated total amount of SSBCI funds DMPED will receive, pending approval of DMPED's application to Treasury and the District's budget allocation

\$8,595,190: Anticipated amount SSBCI funds in the first tranche, which DMPED will award to the Program Administrator through this RFA, pending receipt of SSBCI funds from Treasury

\$17,450,810: Additional amount (2nd and 3rd tranches) Program Administrator may receive, pending receipt of SSBCI funds from Treasury and satisfactory performance by the Program Administrator

Administrative Costs

- The Program Administrator may use 5% of the funds in the first tranche for administrative costs, and 3% of the funds in the 2nd and 3rd tranches for administrative costs
- Fund Managers may use 1.71% of the funds deployed to them by the Program Administrator for administrative costs

Applicant Qualifications (Program Administrator)

- ✓ Qualified private financial organizations organized on a profit or not-for-profit basis
- ✓ Sound strategies for how to implement the VC Program and investment criteria and direct experience in advising on strategies for similar programs with favorable results
- ✓ Strategies to support the Fund Managers in their efforts to source Eligible Businesses, underwrite deals, and fundraise private capital
- ✓ A management team with significant experience investing in Eligible Businesses
- ✓ Experience selecting venture capital funds for investment, including evaluating their investment thesis and managerial experience and expertise
- ✓ Experience managing a network of fund managers, including monitoring portfolio performance and reporting requirements
- ✓ Sufficient internal capacity, including leadership experience, staffing, infrastructure, systems, financial management, and standard operating policies and procedures to market, administer, and monitor the VC Program
- ✓ Priority will be given to organizations with:
 - Previous experience operating government investment programs or public credit programs
 - Familiarity with DC entrepreneurial ecosystem
 - Expertise on issues of diversity, equity and inclusion within the DC technology and innovation ecosystem

How to Apply

- ❑ Full RFA and application link are available on [DMPED website](#) and on [ObviouslyDC.com](#). RFA includes all application requirements
- ❑ Applications must be submitted using the online GrantVantage portal (available on links above). Applications or documents submitted any other way will not be accepted
- ❑ Applications must be submitted no later than **Friday, September 8, 2023 at 5:00pm**. Applications submitted after this deadline will not be accepted.
- ❑ Applicants are strongly advised not to start an application or attempt to submit the application in the final hour. DMPED is not responsible for technical errors.
- ❑ Questions about the application: Sandra Villarreal, Grants Manager, dmped.grants@dc.gov

Review Process

Applications will undergo an initial screening to ensure completeness and will be reviewed and scored by a selection panel using the following criteria (complete criteria listed in the RFA). The Deputy Mayor will make the final funding approval. The final funding decision cannot be contested or appealed.

Program Implementation (30%): Summary of how you propose to implement the VC Program, your investment criteria to achieve DMPED's goals and objectives, and any direct experience in advising on strategies for similar programs with favorable results.

Investing Experience (25%): Previous experience investing in eligible businesses, selecting venture capital funds, and managing a network of fund managers

Experience with Underserved Founders (10%): Previous initiatives to support economically disadvantaged individuals and others subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities

Internal Capacity (20%): Sufficient internal capacity, including leadership experience, staffing, infrastructure, systems, financial management, and standard operating policies and procedures to manage the program

DC Expertise (15%): Experience managing government funding programs, if any, and experience with DC's entrepreneurial ecosystem and issues of diversity, equity, and inclusion in DC

SSBCI Fund Tranches and Period of Performance

- SSBCI is authorized through **September 30, 2030**
- Each tranche of SSBCI funds must be deployed within three years, and subsequent tranches will be deployed to the District after 80% of the previous tranche has been deployed
- Each tranche will be disbursed to the Program Administrator in a single disbursement
- The District intends to deploy the first tranche of SSBCI funds by **September 30, 2025**

DMPED Point of Contact

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