

DRAFT

San Antonio Economic Development Corporation Investment Guidelines (Approved by the SAEDC Board November 6, 2013)

Section 1. Background

On May 13, 2010, the City Council of San Antonio approved the Bylaws and Certificate of Formation authorizing the creation of the San Antonio Economic Development Corporation (SAEDC or the Corporation). On June 15, 2010, the Texas Secretary of State issued a Certificate of Filing for the corporation. The SAEDC is a nonprofit corporation created under the Development Corporation Act established for the purpose of promoting, assisting and enhancing economic development activities for the City. In accordance with the SAEDC Bylaws, the Corporation may, on behalf of the City and with the consent of City Council, may, among other things, enter into contracts, acquire, maintain, lease, sell or convey real property and/or make loans to or make equity investments in third party projects or companies.

Section 2. Purpose

These Guidelines are designed to support the development and/or attraction of ventures and startup companies who are developing new technologies and products that will create high-wage jobs in key industries, such as the life sciences, renewable energy and cyber security industries, as well as help grow the city's entrepreneurial talent and research capacity. These companies may be based in San Antonio or have a commitment to locate significant operations in San Antonio. It is the intent of the SAEDC to invest in such economic development projects, whereby the SAEDC would have a financial interest in certain projects with an objective to achieve a return on its investment.

Section 3. Funding Sources and Authority

The SAEDC Board has entered into a Grant Agreement with the City of San Antonio to receive initial funding of \$500,000 from the City to establish the SAEDC Investment Fund ("the Fund"). These funds will be available to the SAEDC for investment in economic development projects evaluated and approved in accordance with these Guidelines. City Council has granted the SAEDC the authority to approve projects up to \$50,000 from the Fund. Any project approved by the SAEDC Board for funding exceeding \$50,000 from the Fund must still be approved by City Council. It is the intent of the SAEDC to primarily invest in economic development projects which have been evaluated and approved for funding by local venture funds, such as the Texas Research and Technology Fund (TRTF) and the Targeted Technology Fund (TT), as well as projects approved for funding by the Texas Emerging Technology Fund (ETF).

Section 4. Investment Guidelines Criteria

4.1. In general, the SAEDC will employ a conservative and selective approach to investing in companies and will focus primarily, but not exclusively, on investing in local startup companies formed by local entrepreneurs and primarily funded by local investors and funds. Staff will evaluate and utilize the criteria outlined below in determining which projects to consider and recommend as investment candidates to the SAEDC Board. Companies must generally meet the following criteria for consideration by the SAEDC for investment:

- a. A proven, innovative technology or intellectual property, preferably in the area of life sciences, healthcare, renewable energy, biotechnology, cyber security and other new technology opportunity industries.
- b. Potential for rapid growth, significant market share and earning a profit with revenues projected to exceed costs in 3 – 5 years.
- c. Completed a successful round(s) of early stage financing and seeking a subsequent round of financing (see Exhibit A).
- d. An experienced management team.
- e. A well-developed business model and sound business plan to include a planned exit strategy.
- f. The existence of local business activities or the commitment to locate business activities, including full time jobs, in San Antonio.
- g. Demonstrated investment by local individual investors, institutions or funds with a minimum amount equal to or exceeding the planned SAEDC investment. The SAEDC will consider local investment in previous rounds of financing as evidence of a local matching investment.
- h. Long term potential for the creation and maintenance of high-wage jobs in the City’s targeted SA 2020 industries of Healthcare/Bioscience (i.e., the life sciences), Information/Cyber Security, or Renewable Energy.
- i. Evaluated, recommended and approved for funding by the TRTF, TT and/or the ETF or any new future local venture funds established in San Antonio.

4.2. The SAEDC intends to consider local companies who seek to develop and grow their businesses in San Antonio and to partner with the TRTF and TT or with any other future local venture fund in reviewing companies for SAEDC funding who meet these Guidelines and are applying for and/or have been approved for funding from local venture funds or from the Texas ETF or the Cancer Prevention and Research Institute of Texas (CPRIT).

4.3. The SAEDC does not intend to invest in high risk companies as a “first-in” seed or pre-seed investor in companies not yet demonstrating the ability to obtain early stage financing, particularly those not able to obtain funds from local investors. SAEDC will generally be looking for investment opportunities in companies that have achieved a successful first round of early stage financing and seeking a second round of financing, with significant participation or investment commitments by local investors.

Section 5. Confidentiality

All information will be kept confidential during discussions with potential investment candidates and throughout contract negotiations. If a project is recommended for investment by the SAEDC, all information will become subject to the Open Records Act, unless excluded from disclosure by the Texas Attorney General. SAEDC staff is authorized to sign Nondisclosure Agreements approved by the City Attorney’s Office and to provide confidential information to SAEDC Board members and officers for review and consideration.

Section 6. Application, Evaluation and Approval Process

6.1. The SAEDC staff will meet with the key management of investment candidates to determine eligibility and evaluate each potential investment opportunity. Potential investment candidates may be asked to fill out a pre-application and/or application and provide certain financial information, unless such information has already been provided to the TRTF, TT or ETF and is available to the SAEDC. SAEDC staff will also conduct its own due diligence on a company and its principals if the company is asked to apply for potential SAEDC funding and investment.

6.2. The SAEDC Investment Review Committee (IRC) will evaluate all investments recommended for consideration by the SAEDC staff. The Committee will make a recommendation to the SAEDC Board on those projects which merit investment consideration.

6.3. The SAEDC Board may enter into a professional services contract with one or more investment management entities or subject matter experts to assist the SAEDC staff in evaluating investment opportunities/applicants and making recommendations to the IRC and SAEDC Board. For projects recommended for funding at \$50,000 or less, the SAEDC staff may rely on the due diligence and evaluation of the TRTF or TT. For projects over \$50,000, the SAEDC staff will obtain its own third party consultant review.

6.4.

SAEDC staff will follow these steps in evaluating potential investment opportunities:

- a. Initially meet with the potential applicant to obtain project information, assess eligibility and determine whether the company is willing to allow the SAEDC to have an equity position in the company.
- b. Conduct due diligence on the company and key senior company officials/principals to include, as a minimum, the following potential sources of information:
 1. The company's web site and keyword searches on the internet for information on financials, lawsuits, criminal activity, etc.
 2. City Attorney Office review of "Westlaw," an online legal research service, to look for any significant lawsuits, claims or other legal action pending against the company and/or its principals.
 3. A report from Dun and Bradstreet on credit history/risk, trade, financials, net worth, cash on hand, liens, law suits and liabilities.
 4. A report from Hoover's on sales, marketing, any parent company or affiliates, subsidiaries, competitors, markets and customers.
 5. Due diligence packages or information provided to other investors and/or lenders, particularly local investors.
- c. If staff determines the project is a viable investment opportunity, it will ask the company to submit an application to include documentation such as the company's business plan, financials, intellectual property, licenses/patents, cash flow statements and current investors, unless such information is already available to the SAEDC staff through the TRTF, TT or ETF.

- d. Staff and a third party consultant, if required, will review project documentation, prepare an assessment of the investment opportunity and develop a recommendation, to include proposed terms. .
- e. If the project is recommended for potential funding, staff will present a recommendation and proposed terms to the IRC, to include a review of the investment terms by the SAEDC legal counsel.
- f. If the IRC does not support staff's recommendation, staff will notify the company it will not be considered by the SAEDC for investment.
- g. If the IRC supports the recommendation, SAEDC staff will present proposed terms to the company for consideration. The SAEDC intends to loan funds to companies in exchange for a 5-year Convertible Promissory Note with options for conversion during the term of the Note. The SAEDC will also seek a lien on equipment or other tangible assets, if appropriate, to mitigate the risks of the SAEDC.
- h. If the company accepts the proposed terms, staff will convene the SAEDC Board to consider the economic development project and investment for approval. The Board may approve any recommended investment at \$50,000 or less from the SAEDC Investment Fund subject to the availability of funds. If sufficient funds are not available in the SAEDC Investment Fund or the project is recommended for funding over \$50,000, then the SAEDC must seek approval and appropriation of grant funds from the City Council for the project. If the project is not recommended for investment by the SAEDC Board, then staff will notify the company.

Section 7. Amount of Investment per Project

The SAEDC intends to utilize the Fund to invest in 3-5 projects annually at levels of \$50,000 up to \$100,000. Any project recommended for funding above \$100,000 will likely require the SAEDC to seek additional grant funding and approval from the City Council subject to the availability of funds. The amount of investment in any one project will be determined based on the demonstrated need of the company for financial assistance, the potential direct and indirect economic impact of the project in terms of jobs and investment, the level of local investment and partnership with local entities, and the potential for long term success and growth of the company in San Antonio. Projects locating in the Inner City Reinvestment/Infill Policy area (Exhibit B) will receive greater consideration for funding than projects located outside of this area.

EXHIBIT A

Financing Cycle for Startup Companies



