



Vermont Sustainable Jobs Fund

Accelerating the Development of Vermont's Green Economy

Testimony to House Commerce Committee by Ellen Kahler, Executive Director

January 14, 2016 1pm

What is the VSJF?

- Non-profit 501c3 organization created by State Statute in 1995 to accelerate the development of VT's green economy. <http://legislature.vermont.gov/statutes/chapter/10/015A> ; 11 member board which includes (by statute) the Secretaries of Agriculture and Commerce, 1 member appointed by the Governor and 8 independently elected members; annual financial audit is included in the state's CAFR as a component unit of state government and is reviewed with the State Auditor of Accounts.
- Tasked with supporting businesses in the environmental technologies; environmental equipment and services; energy efficiency; renewable energy; pollution abatement; specialty foods; water and wastewater systems; solid waste and recycling technologies; wood products and other natural resource based or "value added" industries; sustainable agriculture; and existing businesses, including larger manufacturing firms, striving to minimize their impact and waste through environmentally sound products and processes. Due to limited resources and staff capacity we have focused on those subsectors that were clear gaps and/or multiple intersections.
- For 20 years we have been nurturing these opportunities by providing business assistance, grants, and network development services in order to promote innovation and livable wage job creation. We've also developed core competencies in high impact business consulting, network development, industry level development planning, value chain development and coordination, communications and results based accountability services (e.g., data visualization). We are highly effective "network weavers" or "dot connectors", helping organizations, government agencies and businesses connect with each other for mutual benefit.
- Having never been fully capitalized (while authorized to provide loans), VSJF set up a separate for profit company – the **VSJF Flexible Capital Fund, L3C** – to provide flexible capital to Vermont's growing valued added ag, forestry and clean tech businesses. The Flex Fund raised \$3.6million in equity investments from 38 accredited investors from around the country and \$600,000 in federal awards. The Flex Fund is independently managed by a five person Board of Managers who makes all investment and governance decisions for the Flex Fund. The VSJF provides administrative support through a management agreement with the Flex Fund. The Flex Fund has since made near-equity (royalty and subordinated debt) loans to 10 companies, totaling \$2.3million which has been matched by private investments totaling \$4.1million. The Flex Fund expects to have all available funds obligated and working by late 2016/early 2017. The Flex Fund is a Vermont licensed lender and the first to provide a royalty financing instrument in VT and has been recognized nationally for its innovative approach to filling a gap in the capital continuum. It is also certified as a CDFI by the US Treasury.
- VSJF's FY16 budget is \$1.4million, 25% of which comes from state funding sources, while the rest is raised each year from a combination of private foundation grants, some federal grants, and fees for

service where possible. State general funds received through the Agency of Commerce & Community Development provide essential core operations support for the organization – the kind of funding support that is not readily available to us and would be extremely difficult to replace. The VSJF is not a membership organization, does not have a development director, and has no general administrative staff. We run a very lean operation!

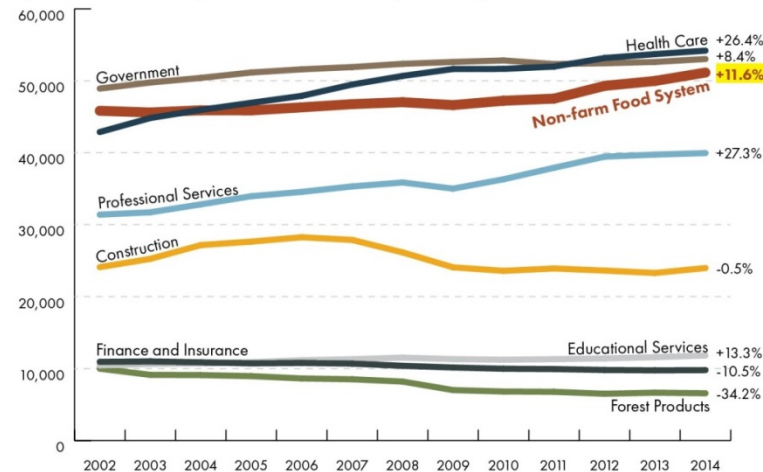
Providing Significant ROI to the State of Vermont: *For very little state funding, we deliver great results for the state of Vermont ...*

1. Since the Legislature asked the VSJF to launch the **Farm to Plate Investment Program** in 2009 --- the **total net new non-farm jobs in the food system has increased by 3,649 jobs** (a 9.7% increase); and now totals 41,925 jobs (or 12% of all non-farm jobs in VT). In addition, **farm operator and hired farm worker jobs increased by at least 1,738 between 2007-2012**, many of whom are young farmers and female. Within the food system, food manufacturing has increased the most, having added 1,873 net new jobs since 2009.

- <http://www.vtfarmtoplate.com/getting-to-2020/17-jobs-and-establishments>

17  Food System Employment Increased 11.6%

Nonfarm food system employment—retail, manufacturing, farm inputs, and distribution—increased by over 5,300 jobs (+11.6%) from 2002 to 2014. This compares very favorably to other sectors of Vermont’s economy. Nonfarm food system employment grew 9.7% from the end of the recession in 2009 to 2014, compared to a gain of 3.2% for total Vermont employment. Total manufacturing decreased 21.8% during this period while food manufacturing increased 42.5%. Although the number of farm workers increased 16.6% from 2002 to 2014, note that farm workers are not depicted here because many farm workers have off-farm jobs and may therefore be double counted.



Source: Vermont Department of Labor; U.S. Census Bureau Nonemployer Statistics, multiple years.

2. Since 2009, **759 net new establishments** (farms and food businesses) have been started by food system entrepreneurs. Total food system firms now total 11,980. Of these new establishments, 282 are in food manufacturing.
 - <http://www.vtfarmtoplate.com/getting-to-2020/17-jobs-and-establishments#population-indicator-1>
3. Between 2007 to 2012, Vermont **farming and food related manufacturing and trade increased sales from \$7.6 billion to \$10.1 billion**, a 32% increase that far outpaced the rate of growth in the overall Vermont economy, which increased total output 14% over the same period.

- Data are derived from the United States Census of Agriculture and the United States Economic Census, with aggregate analysis provided by Nic Rockler of Kavet, Rockler, and Associates, LLC using REMI (July 2015).
4. From data collected by UVM researchers, VT Farm to Plate has been able to document that **Vermonters have increased their local food consumption from 5% (\$100 million) to 6.9% (\$189 million) between 2010 and 2014**. In total, Vermonters spend about \$3 billion per year on food prepared in the home or eaten out at local restaurants.
 - <http://www.vtfarmtoplate.com/getting-to-2020/1-total-local-consumption#population-indicator-1>
 5. Through our **VT Bioenergy Initiative**, we have invested \$1.74million (2009-2015) in US Department of Energy funds in research and development grants to explore opportunities for homegrown bioenergy production (e.g., on-farm biodiesel production from oilseed crops, perennial grass pelletizing for thermal energy, algae to biofuels lab research), network development, market research and feasibility studies, outreach and education.



Figure 1: Home Grown Biodiesel



Figure 2: Make Grass 'Pucks' for Heating



Figure 3: Algae R&D at UVM

6. Provided \$1.45million to VT Technical College (from US Department of Energy funds) to support the construction of their multi-feedstock **Biodigester** (total cost of the project was \$3.6million).
7. Through our **Agriculture & Forest Products Development Program**, we've provided in-depth business coaching to 22 Ag and 5 forest businesses over a 4 year period.



Figure 4: VT Tech Biodigester

- Sixteen of the 18 post-program businesses responded with 2014 financial data, six from each of the three cohort years (we are currently collecting 2015 financial data). Compared to the baseline year that they enrolled in the program:
 - 15 of 16 had increased SALES
 - 13 of 15 had increased NET OPERATING INCOME
 - 13 of 16 had added jobs; and
 - 16 of 16 reported higher TOTAL & AVERAGE WAGES.
 - 11 of 16 have made CAPITAL IMPROVEMENTS of at least \$100,000 since the start of their engagement
 - 12 of the 16 have raised OUTSIDE CAPITAL of at least \$100,000 since the start of their engagement

- As a group, the program’s 16 reporting graduates have increased their revenue by an average of 15.3% per year and wages by 19.6% per year. They have added an annual average of 2.0 FTE employees each and increased Net Revenue by \$25,300 per business per year. Each of these same businesses experienced an average annual growth of \$161,000 in New Capital, \$252,000 in Total Assets, \$224,000 in Capital Improvements, and \$48,900 in Net Equity in the year or years after finishing their VADP engagement. For each of these metrics, with the exception of accessing New Capital, their average experience was more significantly more positive after their VADP engagement than in the two years that preceded it.
8. For many years, VSJF was involved in supporting innovation within the **forest products industry** – attempting to promote local wood sourcing for institutional and state building projects and encouraging FSC certification on Vermont lands as well as chain of custody certification at Vermont mills and manufacturers. After a 5 year hiatus, VSJF is assembling funding to re-engage in a substantive way with the forestry and forest products sector – to replicate many of the approaches we have successfully used in the Farm to Plate Initiative.
 9. We believe the innovative approach to whole industry development that we have successfully proven through the Farm to Plate Initiative can be applied to other sectors and product value chains in Vermont. VSJF’s Board of Directors and staff are undertaking a new strategic planning process to identify which sectors and sub-sectors of Vermont economy are ripe for intentional market development and our focused attention.
 10. Staff of VSJF also serve on other partners’ boards (e.g. VT-SBDC, WLEB, CEDF) and helps inform them of trends, opportunities and decision making. In many ways we serve as an extension of / complement to the work the Department of Economic Development does. VSJF staff also spends time in making connections and referrals for businesses seeking help that does not fit with VSJF’s services – literally hours of time on the phone asking the right questions and getting businesses to the resources they need.

What We Worry About

- Succession planning is woefully lacking on farms and in many business in all economic sectors.
- The lack of a coherent workforce development system and employers having difficulty in finding qualified / trainable workers holds back business expansion.
- Scaling up needs in various food product categories and the needed investment and personnel to enable such expansion persist.
- Short term funding mentality of many funders even though real value chain development work takes time, means that current progress being made is at risk of stalling out if funding is lost.
- The number of employers who still think a \$10-15/hr job is a “good paying job”; and the wage stagnation that has existed for the past 20 years that has contributed to the substantial income inequality which is growing the cultural divide with our state.
- Growing the entrepreneurial pipeline and the importance of having a sufficient number of high quality business advisors who have stayed current with the needs of entrepreneurs at different stages of development.

Some Commentary ... What’s Still To Be Done

We need new economic models and new business models in order to successfully adapt to this new age of collaboration.

VT is a small business state and as much as economic development professionals and all of us wish we could go back to the days of lots of large manufacturing plants and high paying jobs, those days are OVER and we need to adapt our economic development practices to 21st century reality and focus on **helping SMALL and medium sized businesses to grow** by improving their business fundamentals, expanding into new (niche) markets, partnering with other businesses for mutual benefit, through a focus of understanding costs, setting prices correctly, focusing on bottom line rather than top line strength, investing in their workforce (e.g., training and livable wages) and being extremely customer focused and nimble --- that will be the recipe to growing more jobs and companies investing in their future.

This is hard work of course because we're talking about job growth that happens in 2s, 5s, and 10s -- but when you add these incremental increases up across thousands of firms -- like we have seen through Farm to Plate -- they really start to add up and their long-term sustainability is better because the owners live here and want to stay in VT. It's one of the reasons I worry about the future of Keurig GM in Vermont. Ownership matters!

To support these small businesses to become medium sized businesses -- we need to be investing our limited economic development dollars in strengthening our technical and business assistance provider community and to create a culture of collaboration and continuous learning, innovation, and market responsiveness within the business community. And we need to ensure that the capital continuum, infrastructure continuum, education and workforce development continuum --as well as the business assistance continuum -- is robust, responsive, and available for businesses to access at every stage of their development and scale of operation.

Other Interesting Trends

<http://www.vermonttechnologyalliance.org/news/268885/Vermont-Ranks-1-Among-Small-States-in-Kauffman-Foundations-Main-Street-Entrepreneurship-Index.htm>

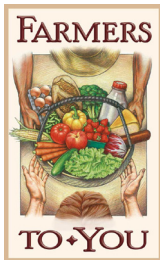


Impact Report — Year-End 2014

FOOD



Baking a Difference™



FOREST PRODUCTS

WALLGOLDFINGER



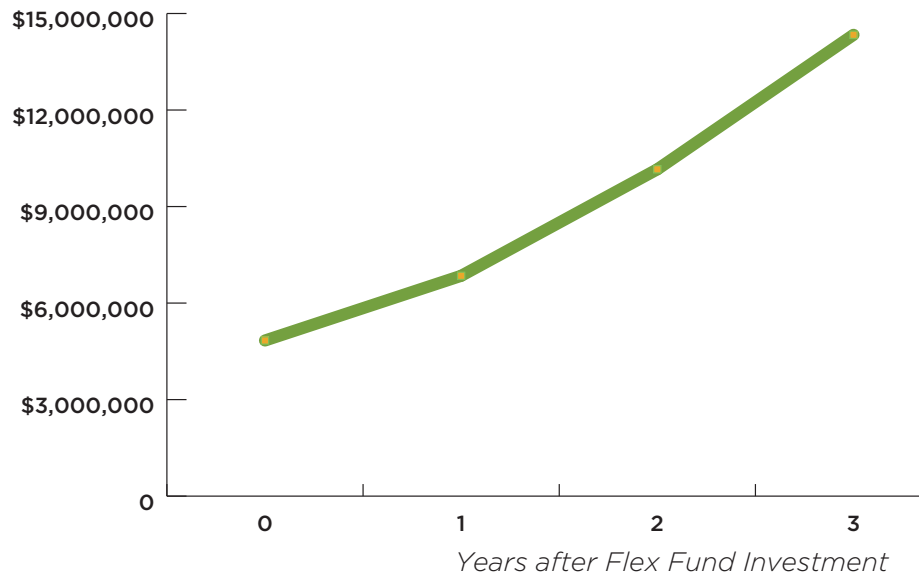
RENEWABLE ENERGY



Portfolio Companies Sales and Growth Impacts

- ▶ At year-end 2014, there were six companies in the portfolio; one company received an initial investment in late 2011, two in 2012 and three in 2013. In 2014, the Fund provided follow on financing to 2 portfolio companies.
- ▶ 2014 revenues from our borrowers totalled \$23.8 million; a weighted increase of 62.6% over 2013 revenues. Annual sales at one of the companies dropped by 13%; the remaining 5 companies had annual sales growth ranging from 6% to 432%.
- ▶ Five of the six companies had increased sales growth in each year following the Flex Fund investment.

Gross Sales for Flex Fund Companies



- ▶ Two of the companies are operating at a profit; four operated at a loss.
- ▶ Three companies reported positive earnings before interest, taxes, depreciation and amortization (EBITDA). EBITDA ranged from minus 10.7% of sales to 10.9% of sales.
- ▶ Internal rate of return for the individual portfolio investments through 2014 ranged from a low of 3.3% to a high of 49.0%. The portfolio as a whole had an average individual investment IRR of 17.6%. (All IRRs were calculated based on year-end 2014, with the assumption that the invested principal was repaid at that point in time.)

Impact on the Community and the State

- ▶ 19¢ of every dollar in sales is used for purchases from local vendors. About 12¢ of every dollar in sales is for the purchase of materials (COGS) from local vendors that are then resold, remade, or repackaged by the Flex Fund portfolio companies.
- ▶ The six portfolio companies employ 155 people, 117 of them (75%) as full-time employees.
- ▶ Total wages for portfolio company employees are just under \$4.5 million, with an average compensation of \$33,000 per full-time equivalent. The ratio of highest to lowest pay ranges from 2 to 5 times the lowest pay, which suggests fairly equitable workplaces.
- ▶ The portfolio companies paid over \$203,000 in taxes in 2014, the vast majority of which (>\$181,000) was payroll taxes withheld from employees.

Leveraging Other Investment

- ▶ Flex Fund investments in the 6 companies totalled \$1.5 million. Three of the companies received an additional investment from the Flex Fund in the year following the initial investment. Flex Fund investments initially leveraged about 60¢ for every dollar of investment. In 2014, this skewed to \$10 per Flex Fund dollar with the financial restructuring of the Flex Fund's earliest investment.

Impact on Vermont's Environment

In addition to setting various financial goals, each company in the portfolio is expected to set at least three impact goals each year. These company-specific goals address community impact, the working landscape, energy, and other measures of sustainability. Two of the companies exceeded all of their goals; two of the companies exceeded one of the 3 goals and progressed on the other two goals; (2 of the companies have not yet reported.)

Some of these impacts were:

- ▶ Partner farms of Farmers to You, LLC maintain over 7,200 acres of productive farmland.
- ▶ Vermont Smoke and Cure was able to increase its purchases from local vendors to \$690,000
- ▶ One of the micro-enterprises supplying Liz Lovely, Inc, was able to grow its operations and capacity from the local food hub to their own space
- ▶ WallGoldfinger, Inc. was able to recycle over 6 tons of their waste and thereby keep it out of the landfill

Future Impact

This report is the first time VSJF's Flex Fund has compiled an analysis of the impact of its portfolio companies. The process shed light on the impacts we did know about and highlighted some of the impacts where we'd like to know more (e.g., energy use and waste reduction). We have created an ongoing measurement and reporting process that will allow us to more readily report on and compare the impact of the Flex Fund and its portfolio companies in the years ahead.



VSJF Flexible Capital Fund, L3C

FLEXIBLE CAPITAL FUND INVESTMENT DATA AS OF 12/11/15

	2011	2012	2013	2014	2015 YTD	Total
# of new investments	1	2	4	0	3	10
# of follow-on investments	0	1	1	1	1	4
Total # of Investments	1	3	5	1	4	14
Early Payouts	0	0	0	2	0	2
Investment Losses_ Written Off	0	0	0	0	0	-
Dollar amount of New Investments	\$ 300,000	\$ 418,000	\$ 600,000	\$ -	\$ 685,000	2,003,000
Dollar amount of Follow-On	0	\$ 100,000	\$ 87,200	\$ 50,000	\$ 150,000	387,200
Total Dollar amount of investments	\$ 300,000	\$ 518,000	\$ 687,200	\$ 50,000	\$ 835,000	\$ 2,390,200
<i>Dollars invested alongside Flex Fund</i>	<i>\$ 3,382,350</i>	<i>\$ 195,850</i>	<i>\$ 12,800</i>	<i>\$ 50,000</i>	<i>\$ 482,500</i>	<i>\$ 4,123,500</i>

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