Vermont Sustainable Jobs Fund
Accelerating the Development of Vermont's Green Economy

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Submitted by: Ellen Kahler, Executive Director

Per Email from Fred Kenney on 9.22.16 requesting the VSJF provide information pertaining to 4 questions related to Act 157 VEGI Policy Review process.

#1a: What is VSJF's experience with the environmental technology sector (defined as you want or using the Green VEGI definition) in Vermont? How has it grown or not grown. What are the factors encouraging/discouraging growth?

The Vermont Sustainable Jobs Fund, Inc. (VSJF) is a non-profit that has worked in this sector specifically on the biofuels side (e.g., our Vermont Bioenergy Initiative), as well as initiated / created the Vermont Energy Atlas (now known as the Community Energy Dashboard), and recently hired a Forest Products Program Director to support / grow the forest products value chain including the biomass / wood pellets side of the sector. Our experience on the bioenergy front related to wood /grass pellets shows a growing market, but has been recently impacted by lower fossil fuel (oil) prices and a warm winter. The challenges with the recent collapse of the paper mill industry in Maine (bankruptcy of Verso Paper) in particular, has impacted the primary sector of the forest products market (e.g. loggers) who have lost their largest buyer of pulp wood from the Northern Forest (NY, VT, NH & ME). New wood pellet (biomass) manufacturing in the Northeast Kingdom, like the one that is under development by Kingdom Pellet could help take up some of the slack for this wood, but we will need more buyers / players to ensure our loggers / chippers stay in business.

The Flexible Capital Fund (a for-profit L3C which is a separate legal entity from the Vermont Sustainable Jobs Fund) has invested in 4 companies in what Green VEGI defines as environmental technology (solar development and energy storage in particular). The companies in our portfolio in this sector are growing rapidly. In particular, the state's renewable energy sector is growing, in part, due to the extension of federal tax incentives extension, declining costs of the technology (e.g. solar), greater ability to leverage energy storage (battery) technology in support of new projects, grant funds for renewables (e.g. CEDF funds for biomass) and new / innovative models of community development of solar / renewable energy projects. Note that it would appear that some R/E developers are feeling that the new siting regulations for solar may actually hinder future development of solar in Vermont.

Some of the Flexible Capital Fund borrowers may have used VEGI to help their overall financing package development but honestly the reason the FCF invests in the companies it does is because of their commitment to staying in VT – thus they would never pass the But For test.

Regarding the use of VEGI for these types of businesses, the Vermont Sustainable Jobs Fund (a separate legal entity from the Flexible Capital Fund) does not tend to have conversations with businesses that are thinking about or are pursuing a VEGI tax credit. The VSJF is really doing more work on developing industries as a whole, rather than working directly with individual businesses the way the RDCs do. While we do provide deep dive technical assistance to about 8-10 businesses a year, if they are in need of additional expansion capital they can usually get it from traditional debt and equity in many cases and are often too small to make the VEGI paperwork/process worth their effort.

#2: Is direct state investment in businesses prudent (whether through a program like VEGI or not)? How is the FCF capitalized, how is it operated, and what lessons can be learned from VSJF experience with the Flexible Capital Fund (FCF)?

A small grants program like the Working Lands Enterprise Initiative through the VT Agency of Agriculture is very positive as they provide small grants that can act like equity for small businesses that don't often have a lot of their own equity. The WLEF grants often help round out a financing packet or help leverage other funding sources.

As a separately run and managed legal entity, the FCF has raised a total of $3.6 million in equity from private, mission based investors and an additional $1.3 million in funds from the Community Development Financial Institution (CDFI) program of the US Treasury. The FCF has a management agreement with the VSJF for its operations and administrative support, and has its own independent Board of Managers who make investment decision. Because of the small scale nature of the FCF, the company has had to manage the operations on a very slim budget. Recognizing this, the benefit of becoming a CDFI certified entity with access to grant funds in support of both technical assistance and loan capital has enabled us to cover our operating costs at a scale that would otherwise have been cost prohibitive. The FCF has found that providing business advisory services, in conjunction with our investment, is much more powerful than money alone.

#6: What should the State do to encourage the creation and growth of more small businesses?

What more businesses need more of is access to business/technical assistance to help them navigate their next stage of their growth. Too many entrepreneurs try to go it alone – and in particular, tailored to the scale of businesses we most often work with which are from $250k - $5m in sales. They often lack a high enough quality management team (if they have one at all) and most do not have an external advisory board or board of directors. There is also a general lack of understanding of companies at this stage of growth of the kinds of capital that exists along the capital continuum and what types of capital are best suited for their stage of growth and business needs. We also believe it's important to marry money with business/technical assistance and mentorship --- these two go hand in hand. And it seems to be most important to work closely with enterprises (through business assistance) when they are going through some kind of a transition (growth, decline, major adjustment, change in leadership) as it is during these transition periods when things can unravel quickly if they are not managed well. Honestly, one of the best things the state could do to encourage small business development could be done with existing resources -- a lot could be done to build a business culture that promotes actively working with business coaches and advisors, and having an external advisory board, etc. If we can create a culture where CEOs of small and medium sized companies realize it's a sign of strength and intelligence to ask for outside help when needed and to look for opportunities to collaborate with other Vermont businesses as a means of reaching larger markets outside the state more effectively (thereby growing their revenue and profitability and likely, jobs) … that new culture would serve us all well. We like to say that it's really important for the CEO and management team to work ON their business more than working IN it. Somehow we need to do a better job of promoting this concept.

And we believe that taking a sector based / cluster based approach to business development that promotes collaboration between firms in a sector (along a value chain) is the way of the future. We've seen it work really well within the food system and are starting to apply a similar approach to the forest products industry. And we are in the beginning phases of building a new program to support the development of climate economy related businesses – many of whom are at the startup or early growth stage.

#7: What level of information and data does the VSJF publish/make public regarding applicants/recipients? When in the process is information made public?

The VSJF, by statute, submits two annual reports to the Vermont General Assembly and Governor each January – one for the Farm to Plate Investment Program and one for the VSJF overall. We don't publish/make public anything related to VEGI. Not for any reason other than it's not the type of public financing support/program that we monitor or promote, or that necessarily makes sense for the businesses we work with.

Regarding the FCF, because it is a privately held company, the FCF provides impact investment data to its investor members and board of managers. Our impact data is in aggregate that discusses things such as total amount of investment in any given year, how our money was leveraged by our borrowers to access additional capital, jobs created or retained, local purchases made, kilowatt hours of renewable energy installed / generated, acreage of working lands preserved, etc.