April 27, 2017 Report 2016-133 FACT SHEET

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SAFE-BIDCO

At Risk of Insolvency, It Needs Increased Oversight if It Is to Receive State Funding and Continue to Help Small Businesses in California Gain Financing

Background

To increase competitiveness in California's small businesses and create jobs, the State Assistance Fund for Enterprise, Business and Industrial Development Corporation (SAFE-BIDCO) operates eight programs to provide loans for small businesses or to guarantee loans made to small businesses. SAFE-BIDCO has operated since 1981 with an original \$750,000 appropriation, a \$2.5 million loan, and some resources from federal and state programs.

Our Recommendations

The Legislature should establish SAFE-BIDCO within the Treasurer's Office to ensure operations receive appropriate oversight, and it should require SAFE-BIDCO to report annually on its revenue and expenses and success of its programs.

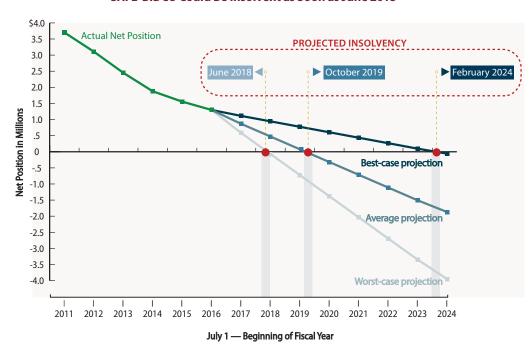
SAFE-BIDCO should perform the following:

- Develop policies and procedures to seek competitive bids for significant contracted services.
- Adopt a travel budget and decrease its expenses by limiting out-of-state travel.
- Create central reports that include revenue goals and actual performance for each program it operates.
- Establish a supervisory review process of its loan process.

Key Findings

- SAFE-BIDCO has spent more than it has earned over the past decade—its net assets have declined from \$3.7 million to \$1.3 million from fiscal years 2011–12 to 2015–16—and needs additional capital to continue its operations or it could face insolvency as early as June 2018.
 - » It has made fewer loans in recent years, which makes it difficult to cover its expenses: when it acts as a lender it can generate revenue through the fees it charges borrowers and interest on outstanding loan balances.
 - » Although it has borrowed funds to make loans, obtained grants, and sold some of its loans to raise capital—unlike similar entities, it has not attempted to obtain donations to support its operations nor has it been successful in obtaining additional state funds.
- Despite its declining financial position, it has imprudently spent its limited funds.
 - » The CEO has taken 16 out-of-state trips plus a trip to Ireland.
 - » SAFE-BIDCO continued to use a contractor who has not met performance goals in any of the last four years.
- A lack of oversight and insufficient tracking of program performance obscured the issues now facing SAFE-BIDCO.
 - » Existing oversight by the State is limited to an annual review by the Department of Business Oversight.
 - » The information SAFE-BIDCO provides to its board needs to better provide critical information and should contain relevant data related to its goals.
- It does not have policies and procedures for supervisory reviews of loan files—we found three errors in the 14 loan files we reviewed.

SAFE-BIDCO Could Be Insolvent as Soon as June 2018



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