

Northern New Mexico's Venture Acceleration Fund

By Kathy Keith

A SCALABLE MODEL FOR COMMUNITIES

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northern new mexico's

VENTURE ACCELERATION FUND

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HISTORY

When Los Alamos is mentioned, nuclear research and the world-famous Manhattan Project immediately spring to mind. These days, Los Alamos National Laboratory is a hotbed of scientific research, innovation and the main economic engine in all of northern New Mexico. The Laboratory employs more than 8,500 people in the region and hundreds of additional subcontractors in an area where poverty and prosperity are sharply defined.

In 2006, Los Alamos National Security, LLC (LANS) assumed a federal contract to manage the Laboratory. The four members of the limited liability corporation are the University of California, Bechtel, Babcock & Wilcox Technical Services, and URS Energy and Construction. A Board of Governors oversees the four LANS members, and includes three appointees each from the University of California and Bechtel alongside five independent governors selected for their field expertise and four advisory governors. The president of LANS, LLC, Charles F. McMillan, also serves as the Laboratory director.

As part of their bid to manage the Laboratory, LANS proposed to re-invest a percentage of their at-risk earned fee into the northern New Mexico community. The initial contract award covered a period of seven years (2006-2013), during which approximately 5.6 percent of the corporation's fee was allocated to help build a thriving community in the region. A document that came to be known as the Community Commitment Plan served as the guide for these community investments.



Kyle Hawari and Brooks Thostenson, founders of Taos Mountain Energy Foods, are moving into a new manufacturing facility in Questa, New Mexico, bringing jobs to the rural area and expanding their business exponentially. They are a 2014 Venture Acceleration Fund awardee.

Although the initial contract expired in 2013, the LANS Board of Governors has continued to invest in northern New Mexico via the Community Commitment Plan's three pillars – education, economic development, and charitable giving. Since 2006, approximately \$3 million has been invested annually (\$1 million per pillar). When the Community Commitment Plan was launched in 2006, administrators at the Laboratory's tech transfer division (now known as the Richard P. Feynman Center for Innovation) wanted to boost local technology companies. The Venture Acceleration Fund (VAF) was established by LANS and is now an annual program supported by the economic development pillar of the Community Commitment Plan.

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A SCALABLE MODEL FOR COMMUNITIES

In northern New Mexico, investments in high-growth companies – the region's job creators – are being made through the Venture Acceleration Fund (VAF). The VAF was established by Los Alamos National Security, LLC (LANS), the company that manages Los Alamos National Laboratory as part of the Community Commitment Plan launched in 2006. Now, the VAF is a collaborative investment tool that includes area municipalities and organizations, administered by the Regional Development Corporation. The VAF program won the 2014 IEDC Gold Entrepreneurship Award, and has recently been awarded a Cluster Grant for Seed Capital Funds by the U.S. Department of Commerce Economic Development Administration to expand the VAF and develop an equity investment fund.

Today, the VAF is a collaborative investment tool supporting high-growth northern New Mexico companies. LANS remains the cornerstone contributor, with investments totaling more than \$3 million in the VAF alone since 2006. Partnerships with Los Alamos County, New Mexico Manufacturing Extension Partnership, Santa Fe County, and the City of Santa Fe have transformed the VAF into a multi-investor alliance to support economic growth in the region. The VAF is administered by the Regional Development Corporation (RDC), incorporated in 1996 as the Department of Energy's "Community Reuse Organization" (CRO) for the Los Alamos site. As a CRO, the RDC's mission is to diversify the economy within the north central New Mexico region. Additional technical assistance is provided in partnership with the Richard P. Feynman Center for Innovation and the Community Programs Office at the Laboratory.

THE EARLY YEARS

Initially designed to get innovation to market faster for burgeoning tech companies that had a tie to the Laboratory, the VAF focused on boosting these entrepreneurs who had identified promising markets and could articulate their business plans. Some of these entrepreneurs were past employees at the Laboratory, and others were still working there when their projects were funded.

One of the earliest recipients, Acoustic Cytometry Systems (ACS), spun off from the Laboratory as its own company to commercialize acoustic focusing technology in flow cytometry and sample preparation. The flow cytometry research team at the Laboratory won a string of R&D 100 awards, and the resulting technology was quickly praised as the high-performance, lower-cost solution for disease diagnosis within the medical industry. R&D 100 awards, conferred by *R&D Magazine*, identify and celebrate the top technology products of the year.

What ACS managed to do was turn conventional cytometry on its head, developing a method that used sound waves to push cells (tissue samples) through cytometers (cell meters). This allowed a much closer examination for medical diagnostics. Suddenly, technology used in diagnosing HIV, cancer and other diseases formerly limited to first-world countries was now feasible for use in under-developed nations. Two years after the VAF investment, in 2008, ACS was acquired by life sciences giant Invitrogen Corp. of California.

Another early success story is Star Cryoelectronics. Founder Robin Cantor was employed at the Laboratory before launching the business. In 2008, Star Cryoelectronics was awarded \$100,000 in that year's round of VAF awards. Over the years, the company has built up a significant product line based on superconducting films. The sensors and x-ray detectors found in its early offerings are now paired with readout electronics to build complete systems within the spectrometry industry.

In the years since the VAF award, Star Cryoelectronics has received more than 20 federal SBIR (Small Business Research and Innovation) grants, including the coveted Tibbetts award for the company's innovation and business impact. Numerous statewide awards have been bestowed as well, including the New Mexico Flying 40 and New Mexico Private 100. In 2014, the company landed a prestigious R&D 100 award and capped off the string of successive accolades with a \$1 million DOE contract.

Cantor attributes much of his early success to the business advisory program managed by the RDC, along with the VAF. Through this advisory program, consultants offer free advice – market research, expansion/retention strategies, and public relations – for high-growth businesses in the northern New Mexico region and are funded by the same Community Commitment Plan that funds the VAF. Star Cryoelectronics is based in Santa Fe and is committed to staying and expanding in the area. The company currently employs seven full-time staff members and anticipates it will add new jobs in 2015.

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EXPANSION BEYOND LABORATORY TIES

In 2010, administrators of the VAF wanted to expand the fund's reach to serve other economic-based businesses with the potential for growth in the region. The reason for expanding the fund beyond technology companies was simple – while the amount of technology research happening at the Laboratory was still robust, complex innovations often take time to gestate and come to fruition. Northern New Mexico is a place full of stark contrasts



Developers and engineers at Flow Science, based in Santa Fe. The company was a 2014 VAF awardee, and sells its flagship computational fluid dynamics software (FLOW-3D) worldwide.



Sydney Alfonso, founder and CEO of Etkie, a start-up that received a 2015 VAF investment. The company employs Native American artisans and is debuting their line of original jewelry at this year's Paris Fashion Week.

and low population, making the Lab the heartbeat of the entire region's technology industry by default.

RDC consultants were assisting businesses of all stripes, coaching them with expertise and helping them network with each other to boost growth. They were aware of other high-growth economic-based businesses in the region that didn't have high tech products at the core of their expansion plans. For example, agricultural producers in the most rural portions of the region were the ones poised to create jobs – the ultimate goal of the VAF. Restrictions against non-technology based businesses were loosened in 2011, and the VAF applicant pool widened immediately to include companies focused on agriculture and education as well as manufacturers of everything from food to beauty products. As the word spread, companies and entrepreneurs who had been prevented from applying began to launch campaigns for funding.

TRAJECTORY: VAF – GATES FOUNDATION – SBIR – NATIONAL LEADER

One of the early successes right out of the gates after the applicant pool expansion was Imagine Education of Taos, New Mexico (now known as MidSchoolMath). Years of teaching mathematics at the middle school level in rural New Mexico led Scott Laidlaw, Ed.D., to found the company along with Jennifer Harris, CPA. Building on the story-based in-classroom video games Laidlaw developed while teaching, the company began delivering immersive, multimedia learning environments that enable students to comprehend math on their own terms.

Laidlaw says the \$100,000 VAF investment, which helped the company finish their acclaimed interactive mathematics-based game *Ko's Journey*, was critical to the company's success – a refrain that is often repeated by early-stage entrepreneurs who are funded by the VAF. On the heels of the VAF award came the \$500,000 Next Generation Learning Challenges grant from the Bill and Melinda Gates Foundation and the William and Flora

Hewlett Foundation. From there, the company expanded their online prototype and produced a documentary film, *The Biggest Story Problem: Why America's Students Are Failing At Math*. Termed the "Mid School Math Cliff," the United States represents the most precipitous decline in competency in the world. Laidlaw founded his company on the idea that storytelling, the oldest architecture of human learning, transforms student attitudes and improves test scores.

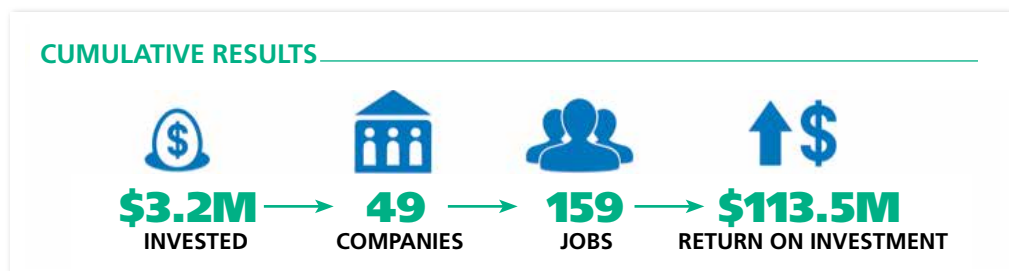
Following the Gates Foundation award, the company received a \$1.05 million SBIR grant to further their work in helping students avoid this competency drop-off. Now, the company has changed their name to MidSchoolMath and hosts a national conference on the topic annually. They remain committed to growing in the northern New Mexico region and bringing dollars to the area through jobs and tourism from conference attendees. Additionally, a groundbreaking partnership with Santa Fe Public Schools that will utilize and develop the curriculum to a scalable model that other communities can implement is underway.

SMALLER INVESTMENTS, LARGER IMPACT

The growth in the applicant pool to the VAF has been exponential. In the early years, larger dollar amounts were allocated to three to four winners annually. A few years into the program, the decision was made to invest smaller amounts into a greater number of New Mexico-based businesses to serve more companies across the region. While the VAF's mission to support high-growth companies is focused within seven northern counties (Los Alamos, Mora, Santa Fe, Rio Arriba, Sandoval, San Miguel, and Taos), occasionally a company from Albuquerque or central New Mexico is funded. These exceptions are generally made when the company's potential to create jobs is demonstrative.



The area of concentration in northern New Mexico for VAF investments mirrors the RDC's area of focus.



2014 impact numbers are not available at press time, therefore they are not included in the cumulative results noted above.

Awards have averaged \$40,000 per company since the decision to invest in a larger number of businesses was put into effect, with the greatest number of companies (10) funded in 2014. As a result, 53 New Mexico businesses have received VAF investments since 2006. Businesses in every stage of development are considered, with most awards going to early- and second-stage companies that are poised for long-term growth.

The fund has had an enormous positive impact in the northern New Mexico business community, enabling startups and second stage businesses to create new jobs. Since its inception in 2006 and through 2013, a total contribution of \$3.2 million in 49 northern New Mexico businesses (44 of which are still in business) has resulted in a total of \$113.5 million in cumulative economic impact, with 159 jobs created or retained.

NEW INVESTORS FOR THE FUND

As elected officials began to take note of the Venture Acceleration Fund and how it was positively impacting the largely rural northern New Mexico community – particularly in job creation – area municipalities began to inquire about joining the fund as investors. The first to throw their hat into the ring was Los Alamos County in 2010. County administrators recognized the opportunity to leverage their investment in economic development by joining forces with the fund and extending their impact beyond the county borders. They have remained a steady partner, contributing \$25,000 annually into the fund each year.

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Additional investors hopped on board in 2014. The City of Santa Fe committed \$30,000 of their economic development money to support the VAF and growing businesses in Santa Fe. New Mexico Manufacturing Extension Partnership (MEP), based in Albuquerque, recognized the ideal opportunity to assist more businesses in the northern part of the state. A standing partnership with Regional Development Corporation business advisors that has resulted in numerous referrals for MEP alerted them to the need in northern New Mexico. They joined the fund with \$25,000 in 2014. Santa Fe County became a partner in 2015 with a \$20,000 investment, and other New Mexico counties have expressed interest in joining this year.

VAF RECIPIENTS BY INDUSTRY 2006-2015	% RECIPIENTS 2006-2015
Information and Communication Technologies	25%
Retail and Consumer	18%
Energy and Utilities	13%
Biotechnology	11%
Manufacturing	11%
Optical/Detection	5%
Healthcare	5%
Educational Tools	4%
Aerospace	4%
Chemicals	2%
Nanotechnology	2%

CORNERSTONE INVESTOR TURNED COMMUNITY PARTNER

Part of the appeal for municipalities as they sign up to invest in the VAF is the fact that their investment is anchored by LANS, which has invested more than \$3 million into the VAF since 2006. While the VAF was initially created to further technology innovations at the Laboratory, it has become a community project that is creating new opportunities for cooperative agreements between public and private investors. None of this would have happened if LANS had not specifically expressed interest in boosting entrepreneurial growth by directly investing into local companies.

POLICY CHANGE: PAYBACK IMPLEMENTATION

Up until 2013, no payback was required from any company at any time and no equity stake was taken by investors. Fund administrators began to think about sustainability and requiring successful entrepreneurs to “pay it forward” to other entrepreneurs down the line. In 2013, a new payback trigger was implemented. Companies agreed that if they were acquired, moved out of state or reached certain revenue goals within a set timeframe they would pay back their investment in full at zero interest and at a pace that worked for the company.

Essentially, the program shifted from a grant to a zero-interest loan. Administrators were initially worried that this would prevent companies from applying. However, it became immediately apparent that the VAF (even as a zero-interest loan) filled a gaping hole in commercial lending following the busts that occurred in 2008. Many early- and second-stage businesses still have a difficult time obtaining cash if they fail to meet traditional lenders’ strict financial requirements.

Now, the VAF represents a solid option for many companies in New Mexico that have great growth potential but are unable to qualify for traditional lending. In more than a few cases, the VAF investment has saved small businesses from collapsing. Instead, with the timely investment, many of these businesses were able to get their product or innovation to market and reached a stable point where profitability and job creation became natural outputs.

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Mark Sanchez of FLUTe (Flexible Liner Underground Technologies), in the company's new headquarters in Alcalde, New Mexico. FLUTe received a 2014 VAF investment that helped bring a vital part of their manufacturing process in-house.

POLICY SHIFTS WILL CONTINUE

The new payback trigger paid off for the VAF immediately. A 2013 winner, Titan Aerospace, was acquired by a Fortune 100 company in the early months of 2014. They paid back the \$30,000 they had been awarded in full, which was invested into the 2014 pool in its entirety. Not only did the fund celebrate repayment, but the state

VENTURE ACCELERATION FUND AT-A-GLANCE

Founded:

- 2006 by Los Alamos National Security, LLC as part of a new Community Commitment Plan for northern New Mexico

Investors:

- Los Alamos National Security, LLC
- Los Alamos County (since 2010)
- City of Santa Fe (since 2014)
- New Mexico Manufacturing Extension Partnership (since 2014)
- Santa Fe County (since 2015)

Managed By:

- Regional Development Corporation of Española, NM with technical advice from the Richard P. Feynman Center for Innovation and the Community Programs Office at Los Alamos National Laboratory

Annual Award:

- Averages \$350,000 per calendar year
- Averages \$25,000 - \$50,000 to 5-8 businesses per calendar year

Economic Impact:

- \$3.2 million invested
- 53 companies awarded
- 159 jobs saved or created (through 2013)
- \$113.5 million (through 2013)

acquired a new Fortune 100 employer who continues to manufacture and grow their workforce in the region.

The focus of the VAF is vastly different than what it was in its infancy. Instead of a tight focus on technology companies with a tie to the Laboratory, we now have a level playing field for companies in northern New Mexico that can demonstrate how their endeavors will positively impact job creation and bring revenue to the region. Recent years have seen a wide range of businesses benefit from the VAF – everything from geothermal sensors to energy bars to a lavender farm has received investments through the VAF.

Just as the focus has shifted, so must the policies. A new advisory board is being formed to oversee the process and revamped policies and procedures that clearly outline the application process, timeline, and judging as agreed upon by all the investors. This will ensure that the kinds of companies funded meet the job creation priorities of all the investors.

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Elizabeth and Roger Inman, founders of Abiquiu, New Mexico's Purple Adobe Lavender Farm, were awarded 2014 VAF funds to expand their line of products.

LESSONS LEARNED

Navigating the fund from a single investor to a structure that includes multiple investors looking to augment their metrics in various ways has had its growing pains but is transitioning smoothly. When the policy changes are complete, the VAF will be positioned as a model that other communities around the country (and the globe) could adopt for themselves.

The question at the heart of the transition is whether the VAF is a grant, a zero-interest loan or a vehicle for equity investments. The answer is that it is likely to end up a combination of all three. Since the VAF was established in 2006, administrators have taken care to evolve the fund to meet the needs of the unique community it serves. Now, as various models to grow the VAF are investigated, it will continue to evolve to assist northern New Mexico entrepreneurs.



New Mexico Governor Susana Martinez (third from left) breaks ground for a new facility that PMI (Performance Maintenance Inc.) built in 2014. The family-owned business was a 2014 VAF awardee, and is steadily creating jobs in the region.

Investors and advisors have considered a future arm of the VAF that would take equity stakes in businesses it invests in – something that businesses have asked VAF administrators for in the past. In March of this year, the RDC received a competitive \$248,946 Cluster Grant for Seed Capital Funds from the U.S. Department of Commerce Economic Development Administration. The grant will improve the performance and impact of the Venture Acceleration Fund's existing seed fund by providing technical assistance to existing portfolio companies and by

VAF ENHANCEMENT PROJECT AT-A-GLANCE

Funded:

- 2015 by U.S. Department of Commerce Economic Development Administration (EDA)
- \$248,946 Cluster Grant for Seed Capital Funds awarded to RDC, March 31, 2015

Project Goals:

- Conduct a feasibility study for introducing an equity component to the fund
- Widen VAF applicant pool by developing the pipeline of potential applicants
- Provide technical assistance to existing VAF portfolio clients by partnering with entrepreneur-led development organizations

better connecting the ecosystem's stakeholders. The project will develop a feasibility study for a larger regional seed capital fund to be able to take equity in early-stage companies, especially those focused on science- and technology-based products and services.

The impact of this collaboration between municipalities, non-profit organizations and one of the most important research facilities in the country cannot be discounted in a state like New Mexico where every dollar invested into economic development counts – it is moving the needle of the overall economic health of the region.

HIGH IMPACT COLLABORATION

Momentum is on the side of the Venture Acceleration Fund in New Mexico. 2015 brought 61 applicants – a record number. The VAF was honored with the award for entrepreneurship from the International Economic Development Council (IEDC) last fall. Questions about the process were already being submitted to fund administrators a full four months before the call for applicants went out in March.

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