

## **CAP & TRADE INVESTMENT STRATEGY – FOCUS ON EARLY STAGE CLEANTECH COMMERCIALIZATION**

### **Background**

To meet the goals of Assembly Bill 32 (AB 32)... *including support of long-term, transformative efforts to improve public health and develop a clean energy economy...* we will need to solve the investment capital crisis facing all early stage cleantech companies. Simply stated, early stage cleantech companies (between the garage and Series A investment) can't find investment capital because of the following:

- Cleantech companies take longer to gestate than media/Internet companies because they often build products/technology that is complex and difficult to build/test/demonstrate.
- This has two effects: (1) It drives VC capital downstream to less-risky growth/project financing stage investments (2) It drives VC capital away from the cleantech sector.
- The VC model (requires 10X company growth in <10 years and the 2%/20% compensation) generally isn't working for investors, thus all VC firms, regardless of sector focus, are having a difficult time in attracting LP investment partners.

These factors are slowing/preventing the rapid growth of young, early stage companies that have the products/services that will transform our economy.

### **Recommendation: Create a Transformation Fund**

Allocate a small portion of the AB 32 Cap & Trade proceeds (\$50M) to an ever-green Early Stage Innovation Commercialization Fund (The Transformation Fund) aimed at providing risk capital to early stage companies. There are many ways this idea could be implemented/administered, this is just one:

- Form a Public/Private partnership in the form of a non-profit organization, *The Transformation Fund Organization (TTFO)*. *The TTFO would be managed by a BOD made up of seasoned investment professionals, state CARB officials, academia and national lab experts.*
- *The TTFO would form an investment committee that would review applications for funding (in amounts between \$50k-\$1.0M) on a monthly basis.*
- *Applicants would go through a streamlined application process that includes the following: (1) 3-Page Application (2) 1 Hr. In Person Meeting for those who make the first cut off (3) A due-diligence process that would take no more than 3 weeks. (4) The awarding of the grant could take a number of forms: straight-grant, convertible debt, etc.*

This use of funds would support AB 32's goals in the following ways: (1) Creating new companies is acknowledged to be the best way of creating jobs (Kauffman July 2010). The Transformation Fund would greatly accelerate the creation and growth of new companies in California (2) The key challenge in creating a green economy is finding enough investment capital to get the inventions out of our research labs and garages; (3) We would attract the best and brightest – investors and entrepreneurs.

Fred H. Walti II  
Executive Director  
The Los Angeles Cleantech Incubator  
323.854.3332