

Silicon Valley Community Ventures Supporting... Quality Jobs, Successful Businesses & Economically Vibrant Communities



SVCV Portfolio Companies*

Financed

- Bayview Systems (San Francisco)
- Howler Products (San Francisco)
- Just Desserts (Oakland)
- Latte Dah Café (East Palo Alto)
- Niman Ranch (Oakland)
- Now & Zen (San Francisco)
- Springboard (Palo Alto)
- Timbuk2 Designs (San Francisco)
- Vida (Brisbane)

Advised only

- Automade (San Mateo)
- Give Something Back (Oakland)
- Brothers Brewing Company (Oakland)
- Teltec Corporation (San Jose)
- Onnie Pie Company (San Francisco)
- Moving Solutions (San Jose)
- Pill Hill Printing (Oakland)
- Planet Organics (San Francisco)
- Ripple Effects (San Francisco)
- Uncle Frank's BBQ (East Palo Alto)
- UrbanEvents.com (Oakland)

* As of December 31, 2001

SVCV Staff

Penelope Douglas, *President*

Jacob Singer, *Senior Portfolio Manager*

Eduardo Rallo, *Senior Fellow*

Lorraine Binion, *Director, Finance and Administration*

Pete November, *Director, Business Development and Advisory Services*

Trevor Smith, *Associate Portfolio Manager*

Lauren Sudeall, *Manager, Marketing and Business Development*

Nichole Gonzalez, *Administrative Assistant*

Report and Executive Summary prepared by BTW Consultants.

In 1999, Silicon Valley Community Ventures (SVCV) brought together the principles of “venture capital” and “community development” to create the first community development venture capital fund in California. SVCV’s goal is to strengthen businesses in low-income neighborhoods of the San Francisco Bay Area in order to help develop the communities around them. Since 1999, SVCV has provided business advice, equity investments, loans and other resources to a total of 41 businesses in low-income parts of the Bay Area. These include businesses in all sectors, from manufacturing to technology, and at early and mid-stage of development. Early in its evolution, SVCV selected companies using an opportunistic approach, and many companies entering SVCV’s portfolio under this “former strategy” were very early stage businesses or micro-enterprises. SVCV’s “current strategy” for selecting companies, is based on SVCV’s determination of how its resources and services can have the most impact. It is more methodical and geared towards developing a balance of large and small companies already in operation to maximize the portfolio’s financial and social returns. In December 2001, a total of 20 businesses were members of SVCV’s portfolio. This includes nine businesses in which SVCV has made financial investments and 11 businesses which are participating solely in SVCV’s Business Advising Program.

PURPOSE OF THIS ASSESSMENT

Early in the organization’s development, SVCV staff and board members determined that it was as important to measure the social return on their investments as it was to measure the financial return. To this end, they engaged the services of BTW Consultants, a consulting firm specializing in evaluation and planning services for the nonprofit and philanthropic sectors, to assist in developing an approach to measure this social return

and to help in interpreting the findings. Since spring 2000, BTW Consultants has been working with SVCV to collect information from portfolio businesses in order to measure its progress against two linked goals for the social impact of its investments. These goals include: 1) providing high quality employment opportunities for low-income individuals; and 2) contributing to economic vitality in target low-income communities.

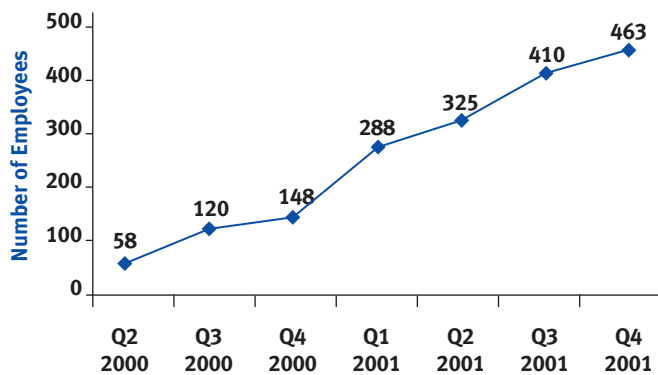
QUALITY JOBS

Designated Employees¹ Working in SVCV-financed Businesses

Cumulatively in the last two years, SVCV's financed portfolio has employed a total of 463 designated employees.

SVCV portfolio companies are chosen in part because of their commitment to employing a significant number of low-income employees as part of their workforce. When considering SVCV's entire 2001 portfolio of both financed and advised businesses, over half (57%) of those employed by SVCV portfolio companies are low-income or designated employees. On average, food service/production and other service companies employ a higher proportion of designated employees than do those companies in the manufacturing or technology sectors.

Cumulative Number of Designated Employees SVCV Financed Companies 2000-2001



Employee Retention and Duration

One indicator of high quality employment is that an employee can stay in a job for long enough to gain the skills, benefits and stability associated with that job. Over the course of 2001, 44% of the designated employees who were working in SVCV-financed companies left those companies. Given the national recession and the challenges associated with retaining a low-skilled workforce, it is not surprising that 37% of those who left were laid off. An additional 28% of designated employees left SVCV-financed companies because of life circumstances², 13% left for undefined reasons, 14% left to pursue other employment or to enroll in education and training programs, and 8% were fired.

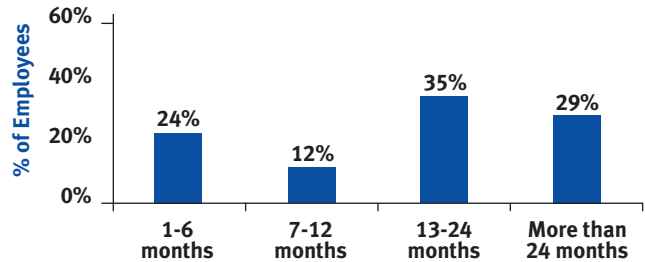
A majority of the companies in SVCV's 2001 portfolio retain designated employees for an average duration of more than one year (64%), and several for greater than two years

¹ Two main criteria were used to identify designated employees: 1) employee resides in a low-income neighborhood, defined by zip codes, within 3.5 miles of the business where s/he was hired; or 2) employee was hired through a referral from a local non-profit organization, job training program, or welfare-to-work agency. In conjunction with SVCV staff, each business developed a customized definition of which employees fit within their "designated employee" population.

² Life circumstances refer to neutral reasons for leaving a place of employment such as moving, pregnancy, or personal reasons.

(29%). In general, the companies that fit with SVCV's "current strategy" retain designated employees for longer periods of time than those that fit with SVCV's "former strategy" companies.

Average Duration of Employment Among Entry-Level Employees By Business (n=17)



Wages at Financed Companies

SVCV's criteria for quality jobs includes the provision of "living wages" to ensure that SVCV is helping to develop companies that assist individuals in moving out of poverty, rather than adding to the growing number of "working poor."

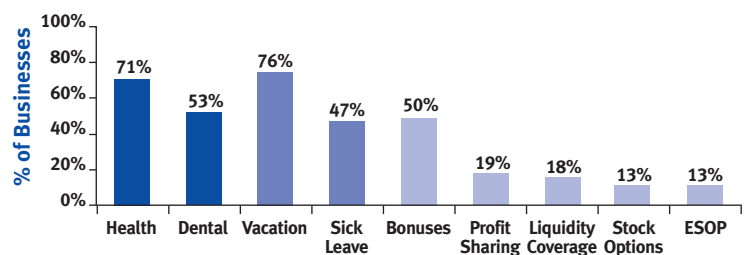
CA minimum wage.....	\$6.75
Highest living wage ordinance in Bay Area (SF)	\$10.00
SVCV designated employees average hourly wage	\$10.55
SVCV's living wage standard.....	\$11.00

All designated employees in SVCV's portfolio are earning above minimum wage and 67% work at companies whose average wage is above the highest Bay Area living wage ordinance. As of 2001, two of SVCV's eight financed companies (25%) are providing wages over SVCV's \$11.00 benchmark, which together employ 18% of the designated employees in the portfolio. The fact that SVCV portfolio companies are paying competitive wages most likely contributes to their ability to retain designated employees for significant periods of time.

Benefits

Benefits can provide stability for workers and their families, promote employee well-being, increase compensation, and provide employees with different types of security and remuneration. While companies are not required by law to provide a minimum set of benefits (as they are to provide a min-

Percent of Businesses Offering Benefits and Non-Wage Forms of Compensation (n=17)



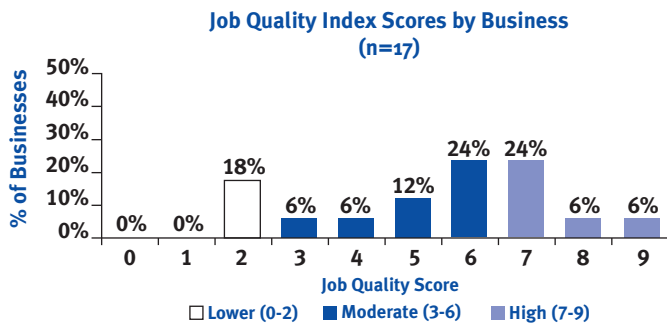
imum hourly wage), 88% of the employers in SVCV’s portfolio provide some form of benefit to their designated employees. A majority of SVCV 2001 portfolio businesses offer benefits in the area of health and dental insurance and vacation leave. About half offer sick leave and cash bonuses to their designated employees and another 13% to 19% offer other wealth creation benefits such as profit sharing, stock options and liquidity coverage.

Training Opportunities

Providing the opportunity for designated employees to develop existing skills and learn new ones is important for employees’ overall career development and future employment opportunities. 2001 findings indicate that 100% of SVCV portfolio employers provide designated employees with some type of on-the-job training³. Fifty-three percent of SVCV portfolio companies provide training in trade specific skills such as manufacturing, 53% provide soft skills⁴ training to entry-level employees, 47% provide training in customer service, and 47% provide training in sales. Forty-one percent also report that they offer training in computers and in other areas such as general inventory management, safety, mentoring and support, order fulfillment, shipping, database maintenance, and software programming.

Consolidated Job Quality Index

Although currently there is no accepted standard around what constitutes a “high quality” entry-level job, SVCV is attempting to set high standards for the companies it chooses to invest in and develop. These standards include such things as providing a living wage, benefits, and job training



opportunities to designated employees. To get a better understanding of the quality of jobs SVCV companies offered employees over the course of 2001, BTW Consultants designed a job quality index⁵. Those companies that scored between 0-2 are categorized as providing lower quality jobs, those that scored between 3-6 are categorized as providing medium quality jobs, and those that scored between 7-9 are considered to be companies that provide high quality jobs. From this vantage point, 35% of SVCV portfolio companies provide high quality jobs to their designated employees, 47% provide medium quality jobs, and 18% provide lower quality jobs.

COMMUNITY CATALYST

The theory on which SVCV’s model is based maintains that when certain types of businesses locate themselves in low-income areas, they can become significant community assets, contribute to community vitality by providing jobs and new placement opportunities for individuals in existing job training programs, help to revitalize the business climate, and add to the overall economic prosperity and development of these areas.

Business Location

Over the course of 2001, SVCV worked with a total of 26 companies throughout the Bay Area. All of these companies are located in or near low-income communities in the Bay Area. Fifty-percent of these companies chose their locations out of convenience for their employees.

Hiring

SVCV is committed to supporting businesses that hire from target communities to create opportunities for employment, advancement, and economic self-sufficiency for low-income individuals. Figure 1 (see map on page 4) displays the 350 designated employees hired into SVCV-financed companies between April 2000 and December 2001 from the low-income zip codes that surround the financed businesses. The highest proportion of designated employees (72%) has been hired from low-income target areas in San Francisco, with the greatest concentrations of employees coming from the Inner Mission (96 employees), the Bayview (54 employees), and Hunters Point (50 employees). Fifty designated employees have also been hired from target areas in the Oakland area, 46 from near East Palo Alto, and 2 from target areas in San Jose⁶. In addition, almost half (47%) of the 2001 portfolio businesses hired employees from nonprofit job training or welfare-to-work programs, approximately double the proportion that utilized these programs in 2000. These numbers substantiate the fact that SVCV is supporting companies that are committed to local hiring and are adding to the overall economic prosperity and development of these areas.

³ “100% of SVCV portfolio employers” refers to the 17 employers who responded to the 2001 employer survey who had entry-level employees during 2001.

⁴ “Soft skills” refer to a broad range of people skills or social skills and encompasses such things as attendance, punctuality, professional appearance, etc.

⁵ Each company was assigned an overall job quality score based on the amount of benefits and training provided to their designated employees. The scoring system used is as follows: 2 points for Health Insurance, 1 point for Dental Insurance, 1 point for Vacation and/or Sick Leave, 1 point for at least one wealth creation mechanism (bonuses, stock options, profit sharing and/or ESOP), 1 point for having a company liquidity plan in place, 1 point for Soft Skills training, 1 point for Trade Specific training, and 1 point for training in at least one Functional Skills area (computers, customer service, sales, phone reception, bookkeeping, and/or other skills). A separate index for financed companies also included wages.

⁶ Because of a zip code error, one of the designated employees who worked at a financed company over this period of time is not plotted on the map.

Silicon Valley Community Ventures (SVCV) Financed Portfolio 2000 - 2001

Number of Designated Employees by Zip Code

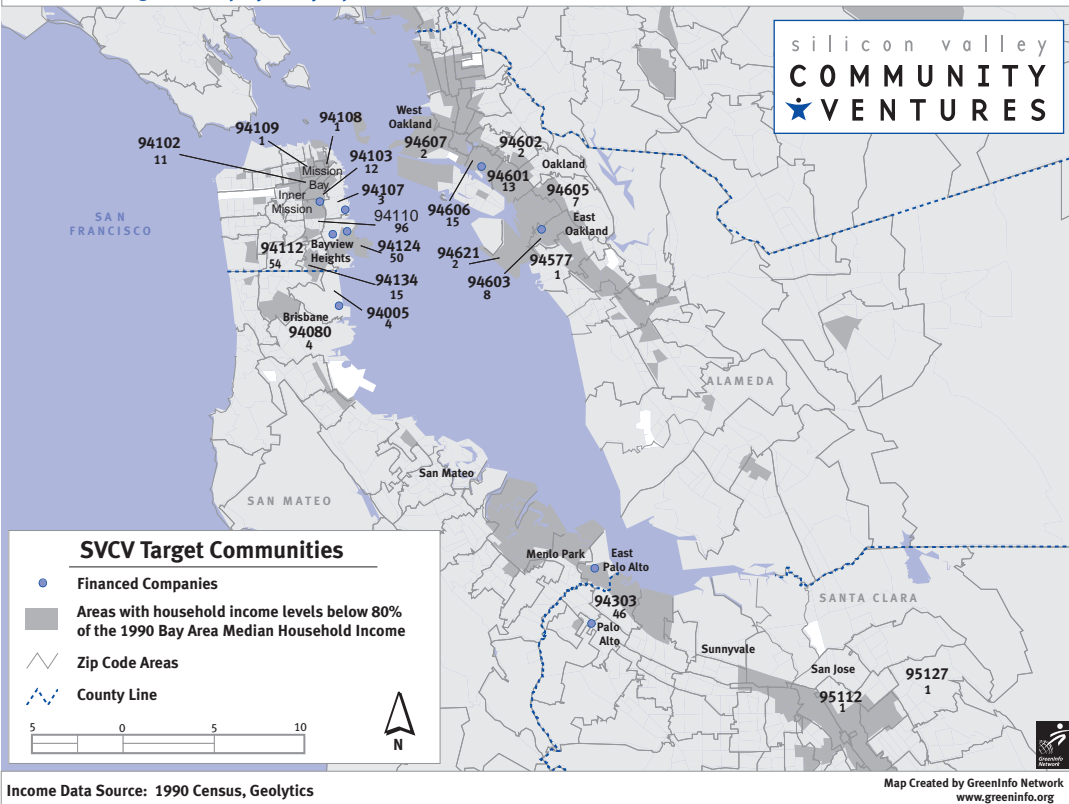


FIGURE 1

THE HIGHEST PROPORTION OF DESIGNATED EMPLOYEES (72%) HAS BEEN HIRED FROM LOW-INCOME TARGET AREAS IN SAN FRANCISCO, WITH THE GREATEST CONCENTRATIONS OF EMPLOYEES COMING FROM THE INNER MISSION (96 EMPLOYEES), THE BAYVIEW (54 EMPLOYEES), AND HUNTERS POINT (50 EMPLOYEES).

Economic Vitality and SVCV Portfolio Companies

SVCV believes that the larger and more diverse a company's market reach, the more sustainable and secure that company, and the better positioned it is to be a stable source of employment and economic vitality within the low-income community in which it is located. While the vast majority of 2001 portfolio employers define their market reach as being local to their neighborhoods, cities, and the Bay Area, a significant proportion - 61% - include the State of California, and parts of the U.S. outside of California as being part of their market. Finally, 33% of portfolio employers report that their market reach extends internationally.

The fact that no portfolio employers report a market reach limited only to their neighborhood markets illustrates that SVCV is investing in companies with broad distribution which increases their chances for sustained growth and contribution to community vitality. At the same time, almost all (83%) portfolio companies see the neighborhood in which they are located as a key element of their market, suggesting that SVCV portfolio companies are inherently interested in building strong relationships to their local communities.

Conclusion

As a young organization and the first community development venture capital fund in California, SVCV has already accomplished a great deal. This evaluation offers evidence that even within SVCV's first three years, its portfolio has begun to provide some social return on investment. Since the spring of 2000, the portfolio has provided 463 jobs to low-income and/or low-skilled individuals, almost all of whom live in neighborhoods surrounding the businesses at which they are employed. Most of the jobs that SVCV portfolio companies provide are moderately high to high quality jobs that include a range of benefits and training opportunities, and have an average wage of \$10.55 per hour.

More work lies ahead for SVCV in its effort to develop job quality, job retention and the provision of living wages to designated employees of its portfolio businesses. After only three years of operation, SVCV has demonstrated its capacity to stimulate social return on investment and successfully combine the principles of venture capital and community development.

Silicon Valley Community Ventures Board of Directors and Board of Advisors

SVCV Board of Directors Mary Anne Byrnes, Logictier • Ralph Clark, PicSmart • Bud Colligan, Accel Partners • Gordon Davidson, Fenwick & West Penelope Douglas, Silicon Valley Community Ventures • Jed Emerson, Stanford Graduate School of Business • Doug MacKenzie, Kleiner Perkins Caufield & Byers • Anita Stephens, Opportunity Capital Partners • Eric Weaver, Lenders for Community Development • Ron Yara, Entrepreneur

Board of Advisors Dado Banatao, Tallwood Venture Capital • Jim Breyer, Accel Partners • John C. Dean, Silicon Valley Bank • John Doerr, Kleiner Perkins Caufield & Byers • Wallace R. Hawley, InterWest Partners • Zoe Lofgren, U.S. House of Representatives • Gib Myers, Entrepreneurs' Foundation/Mayfield Fund • Sterling K. Speirn, Peninsula Community Foundation • Jim Swartz, Accel Partners • Sharon Williams, OICW