



County of Los Angeles  
Chief Executive Office

## Bioscience Investment Fund Economic Development Subsidy Report

Pursuant to California Government Code Section 53083

## INTRODUCTION

This Economic Development Subsidy Report has been prepared pursuant to California Government Code Section 53083, which requires local agencies to provide specific information to the public before approving an economic development subsidy within its jurisdiction. The report sets forth certain details of the proposed Loan Agreement (the "Agreement") by and between the County of Los Angeles (the "County") and MarsBio Fund I LP, a Delaware limited partnership.

The purpose of this report is to provide the information required pursuant to Government Code Section 53083 in regard to the Agreement. This report shall remain available to the public in written form on file with the County's Executive Officer-Clerk of the Board of Supervisors and posted on the County's website for the entire term of the economic development subsidy.

In accordance with Government Code Section 53083, the report includes:

1. The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy, if applicable.
2. The start and end dates and schedule, if applicable, for the economic development subsidy.
3. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the County of Los Angeles as a result of the economic development subsidy.
4. A statement of the public purposes for the economic development subsidy.
5. Projected tax revenue to the County as a result of the economic development subsidy.
6. Estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

## **SUBSIDY REPORT COMPONENTS**

### **1. Name and address of beneficiary of the economic development subsidy.**

MarsBio Fund I LP  
2684 Lacy Street, #210  
Los Angeles CA 90031

The Agreement is with MarsBio Fund I LP, a Delaware limited partnership (the “Bioscience Fund”), which is a Los Angeles-focused venture capital fund that will benefit from the economic development subsidy. The Bioscience Fund is managed by MarsBio GP LLC, a Delaware limited liability company (“MarsBio”). MarsBio was selected pursuant to a County solicitation to capitalize, launch, and manage a Los Angeles-focused bioscience investment fund for which the County would provide a lead investment.

### **2. The start and end dates and schedule, if applicable, for the economic development subsidy.**

The Agreement will commence upon execution by all parties after the County Board of Supervisors’ approval of its terms, anticipated to be in June 2020. The term of the Agreement ends on March 6, 2029, with an optional extension of up to two years. The loan made pursuant to the Agreement would be repaid no later than March 2031. The Agreement includes conditions for disbursement of the loan: MarsBio must raise investor funds in a two-to-one match to County loan funds in order to trigger the funds availability for disbursement. The total County commitment under the Agreement is anticipated to be up to \$15 million. However, that total commitment will not exceed \$7.6 million by Fiscal Year 2019-20, \$11 million by Fiscal Year 2020-21, and \$15 million by Fiscal Year 2021-22.

**3. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the County of Los Angeles as a result of the economic development subsidy.**

The Agreement contemplates disbursements not to exceed \$15 million total, contingent on MarsBio raising \$2 for every dollar borrowed from the County. Outstanding debt will accrue interest at a rate of 1% above the 10-year U.S. Treasury Note at the time of each drawdown of funds, as such rate may change from time to time. Both principal and interest are to be repaid at the end of the loan term, unless the Bioscience Fund makes early distributions to its limited partners, in which case the County of Los Angeles will be repaid *pari passu* according to its investment.

In addition, the County will be paid transaction fees. A non-refundable commitment fee will be charged in connection with each drawdown of funds by the Bioscience Fund equal to 1% of the principal amount of each advance, or the portion of each advance that the County has not previously advanced to the Bioscience Fund (up to the \$15 million commitment). This would result in up to \$150,000 in fee revenue to the County. Also, a non-refundable drawdown fee will be charged in connection with each drawdown of funds by the Bioscience Fund equal to 2% of the principal amount of each advance (up to the \$15 million commitment). The drawdown fee is paid each time an advance of funds is requested. This would result in up to an additional \$300,000 in fee revenue to the County, or more than \$300,000 in fee revenue if principal has been repaid and reborrowed pursuant to the Agreement.

The County's \$15 million commitment will be reassessed as of one year from the effective date of the Agreement. If the requisite 2:1 match (i.e. \$30 million) of private capital has not been secured, then the County loan commitment will be reduced permanently to maintain the 2:1 leverage requirement at that date.

The loan is an unsecured loan and there is no recourse beyond the investment fund corpus if the Bioscience Fund fails to perform and return investor capital.

#### **4. A statement of the public purposes for the economic development subsidy.**

In 2015, the County established economic development as a priority to stimulate regional job growth and lift residents out of poverty. Seven local industries were targeted based on their demonstrated ability to create jobs and wealth.

Bioscience (also sometimes referred to as the life sciences) was the first of the targeted industry sectors selected by the County for focused support. As part of its economic development program, the County has committed itself to the life sciences sector and identified up to \$15 million of funding to go towards launching the Bioscience Fund which will be focused on investing in emerging companies in the County focused on biotech and/or life sciences, especially companies that are emerging from County universities, research institutions, incubators and accelerators. The interest-earning loan is being provided to the Bioscience Fund to invest in early-stage bioscience companies located in the County, and to attract additional early stage private capital into the Los Angeles region's life science ecosystem. While the County expects repayment of its capital plus a modest return, it also has policy interests in funding programs necessary to meet the social needs of the County's population, including supporting local economic development and stimulating regional job growth and public health innovations.

As part of its bioscience initiative, the County is committed to strategically expanding the availability of early stage capital for researchers and young companies in the process of product development and commercialization. Southern California has substantial investment capital at its disposal, but a relatively modest proportion of the Los Angeles region's high-risk capital is placed in the life sciences sector. This condition can create a dynamic where small companies are forced to follow capital to other ecosystems and depart the region. Given its world class research and talent pool, the County believes Los Angeles can assert a regional competitive advantage by signaling its interest in (and support of) early stage life science companies. By becoming an intentional investor in bioscience, the County can make a national policy statement that it is an engaged and active protagonist in bioscience innovation. The County also wants to signal to the financial marketplace that investors can find investable

early-stage and growth companies in the Los Angeles region, on par with life science pipelines from Northern California, Boston, or other recognized innovation hubs.

The capitalization of a Los Angeles-based investment fund used to attract additional private investors and provide risk capital to a variety of early stage bioscience companies helps increase job creation, capital investment and increased tax revenues in the County, thus achieving a public purpose.

**5. The projected tax revenue to the County as a result of the economic development subsidy.**

The loan is expected to be repaid in full and to generate interest and fee revenues for the County. If the loan amount is disbursed up to the maximum allowed under the Agreement, the interest rate is three percent, and the Bioscience Fund performs as expected, the County can expect to generate \$450,000 in fees and approximately \$2 million in interest payments.

MarsBio intends to deploy investments of \$500,000 on average to companies. If the County invests \$15 million into the Bioscience Fund, which is then leveraged at a minimum 2:1 ratio for a projected fund size of \$45 million, we can assume that \$500,000 investments will be made into approximately 90 companies in the Los Angeles County region.

Capital investments are not taxable income, and venture capital investments are typically invested in early-stage companies that are pre-revenue and pre-profit. Therefore we cannot accurately project future tax revenue based on this capital investment. However, it is reasonable to assume some positive revenue and taxable income from this economic development subsidy. MarsBio is targeting a 2x to 3x return on its investment (i.e. a \$45 million fund will return \$90 million to \$135 million), which would result in significant taxable income generated within the County and beyond it.

In addition, \$45 million of capital investment into 90 early stage companies would likely result in increased hiring to advance research and development of bioscience products. Such an investment would also result in local spending on laboratory, technical, administrative, and other services taking place outside of the investee companies. These types of jobs, quantified below, would result in taxable earned income from a growing bioscience workforce.

**6. The estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.**

The proposed loan to the Bioscience Fund will create four new full-time jobs at MarsBio with the potential to create more through the investments the Bioscience Fund makes. MarsBio staff has agreed to track, for each investment it makes, the jobs created and the demographic data of the employees from the point of its investment through to exit. In this way the County of Los Angeles will have a record of the jobs created, in part, as a result of its investment.

A conservative projection would anticipate that each \$500,000 investment made by the Bioscience Fund creates a minimum of one full-time job and one indirect part-time job. Across the life of the investment, these investments are estimated to result in 90 full-time jobs and 90 part-time jobs in the bioscience sector.