Mike Kuglitsch

STATE REPRESENTATIVE • 84TH ASSEMBLY DISTRICT

DATE: May 1, 2013

RE: **Testimony on 2013 Assembly Bill 181, Investment Capital Legislation**

TO: The Assembly Committee on Jobs, Economy, and Small Business

FROM: Representative Mike Kuglitsch

The national and state jobs numbers have been sluggish for over 5 years as we are experiencing a jobless recovery. Assembly Bill 181 will send a strong message to the whole state of Wisconsin that we are serious about job creation. The Kauffman Foundation has emphasized the importance of small businesses, as it relates to job growth, and it concluded that most new job creation is generated by companies that are less than five years old.

We know that the biggest obstacle many entrepreneurs face while trying to grow their ideas into businesses, is capital. That is why our state must have an economic development strategy to improve our investment capital communities in Wisconsin. Wisconsinites can turn these bold new ideas, into job creating, small businesses when capital is available.

Many ideas and companies flee this state each year in search of capital, and Assembly Bill 181 puts a program in place to make certain our best and brightest minds stay in Wisconsin. Governor Walker has placed $25 million in his 2013 executive budget for an Investment Capital program.

Our bill will set the stage for a $25 million state investment fund that would require a 2-to-1 private investment match over time. Modeled after similar funds in other states, the program will spur company creation and job growth, while erecting safeguards to protect the interests of taxpayers. The bill directs WEDC, in consultation with SWIB, to hire an Investment Manager who will invest the state's dollars, along with private dollars, in small businesses, start-ups, and entrepreneurs across Wisconsin. This bill targets investments in the top five job-growth sectors (agriculture, information technology, engineered products, advanced manufacturing, and medical and imaging devices).

At this point, we must choose to either sit on the sidelines or get in the game. Over the next few years, this legislation will assist a number of companies to get off the ground and generate real dollars for the state and employment for Wisconsinites. If we are truly serious about creating a business climate that supports job growth, we must create an Investment

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Capital program that not only generates job growth, but also protects the taxpayers of Wisconsin.

For nearly two years, the legislature has worked on creating an Investment Capital program in Wisconsin. We now have a bipartisan piece of legislation that has the support of coalitions across the state. Wisconsin has fallen behind its neighbors and 33 other states that have implemented similar legislation. With this legislation, we can help ideas turn into companies, which lead to job growth. Assembly Bill 181 will surely be a great win for Wisconsin and our business climate.

Each one of us has pledged to protect taxpayer dollars and create an environment that will bring employment and new companies to our districts. I look forward to seeing this bill move forward in the upcoming weeks, and I hope my colleagues support this bipartisan jobs bill.

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FOR IMMEDIATE RELEASE | **APRIL 24, 2013**
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Bipartisan Investment Capital Bill Will Create State-Backed Fund to Spur Job Creation

MADISON – A bill that would create a state-leveraged "fund of funds" to invest in some of Wisconsin's most promising early stage companies was introduced today by a bipartisan group of state legislators.

The Investment Capital legislation will set the stage for a $25 million state investment in a fund that would require a 2-to-1 private investment match over time.

"Wisconsin has the basic ingredients needed to create a more vibrant startup economy – ideas, innovation, intellectual property and talent," said Rep. Mike Kuglitsch (R-New Berlin), the bill's lead author in the Assembly. "What's needed now is more capital targeted to companies that are likely to grow and create jobs over time."

Modeled after similar funds in other states, the fund will spur company creation and job growth while building safeguards to protect the interests of taxpayers.

"This legislation will help make sure good ideas stay in Wisconsin," Senator Darling (R-River Hills) said. "It also makes sure taxpayers are protected by providing accountability and transparency."

The fund would add to Wisconsin's successful Act 255 investor tax credit program, which was launched with bipartisan support in 2005, and which has sparked company and job creation in Wisconsin while serving as a national model.

"I am very pleased that this bill requires the non-partisan State of Wisconsin Investment Board play a majority role in selecting a funds manager," said Senator Cullen (D-Janesville). "I think SWIB's role will go a long way in ensuring a firewall between investment decisions and politics."

The bill follows up on actions by Gov. Scott Walker, who earmarked $25 million for a state fund-of-funds in his 2013-15 state budget bill and invited legislators to craft language to create the program. Governor Walker's budget also proposes to lift a cap on total angel investment tax credits available through the Act 255 program, which helped to create 1,500 Wisconsin jobs in 2010 and 2011 alone.

Investing in Jobs

"This is an important opportunity for statewide job creation that is being achieved in a bipartisan manner," said Majority Leader Scott Suder (R-Abbotsford). "We needed a bill towards investing in more entrepreneurs who are turning great ideas into great companies."

The Ewing Marion Kauffman Foundation, the world's largest foundation devoted to entrepreneurship, has reported that all net new jobs in the United States are created by young companies – usually five years old or younger. In its 2012 Index of Entrepreneurial Activity, Kauffman reported that entrepreneurial activity in Wisconsin remains relatively low compared to the U.S. average.

"The lack of investment capital in Wisconsin is a drag on our economy and it thwarts business start-ups," said Rep. Fred Clark (D-Sauk City). "Attracting jobs should be a Wisconsin issue, not a Republican or Democrat issue, and I look forward to continue working with legislators from both parties helping to open the doors to entrepreneurs and job creators in Wisconsin."

Targeted growth sectors:

- ***Agriculture*** – Examples are food processing; packaging and safety; urban agriculture; sustainable production; field surveillance and crop management.
- ***Information Technology*** – Examples are software; mobile applications; computing systems; internet networking; electronic health records and medical informatics.
- ***Engineered Products*** – Examples are nanotechnology; materials science; controls, circuits and processors; energy generation and conservation; natural resource management.
- ***Advanced Manufacturing*** – Examples are product and process design and improvement; robotics; automated systems; composite materials; power systems; RFID and supply chain integration.
- ***Medical Devices and Imaging*** – Examples are devices include instruments, implants and apparatus used to diagnose, prevent or treat disease or other conditions. Imaging includes techniques and processes (such as X-rays, MRIs and CAT scans) used to create images of the human body, or its parts and functions, to reveal diagnose or examine disease.

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Investing in JOBS Protecting taxpayers

Investing in Jobs

Investing in JOBS Protecting taxpayers

FACT SHEET

Q: How would an early stage investment program help the Wisconsin economy?

A: Young companies yield ***all*** net new jobs in the United States, according to the Ewing Marion Kauffman Foundation and other observers. Investing in an early stage capital plan designed specifically to lift up emerging companies is a smart bet. If the goal is to create high-paying, secure jobs over time, the best way to do so is to help launch and grow new companies in the economy's fastest-growing sectors.

Q: What benefits will the state of Wisconsin have by taking part in an early stage capital program?

A: The State of Wisconsin would be a limited partner in such a program, which means in would share in the risks – and rewards – just like private investors that may choose to take part. Since 1981 nationally, there has been only one year in which funds created in that year lost money on average. In time, those same national averages suggest the State of Wisconsin could see a return on its investment.

Q: How do emerging companies spend the dollars invested in them by angels and venture capitalists?

A: The money is invested in ways that provide immediate, carefully managed help for the companies and the state of Wisconsin. Investor dollars are used to hire and retain competitive talent, buy equipment, build sales, rent space, complete research and generally conduct business. In short, investor dollars flow back into the economy – and usually very close to home.

Q: Why should the State of Wisconsin get involved at all? Is this really something that should involve state government?

A: ***Yes.*** The angel and venture capital industry in the United States is north of $50 billion in annual investments. Wisconsin has what it takes to compete for its fair share of that industry – if it makes the right moves. That means competing with at least 30 other states that are vying for the attention of investors, who in turn help create companies and jobs. According to IHS Global Insight, venture-backed companies in the United States account for 11 percent of all private sector jobs.

Smart economic development policy is a legitimate role of state government. That's why the competition isn't standing still. Wisconsin put itself on the national map in 2004 with the creation of investor tax credits (ACT 255), which quickly contributed to an explosion in angel capital deals. Other states are catching up, however, and Wisconsin should build on that momentum while it can.

In fact, Wisconsin Act 255, which created a new business venture tax credit and capital gains tax exemption for certain investments, has resulted in the creation of over 1,500 jobs in the last two years alone.

Investing in JOBS Protecting taxpayers

Investing in Jobs

Investing in JOBS Protecting taxpayers

Q: Is bipartisan support an important factor in this legislation?

A: ***Yes.*** We are pleased to have the support of both Republicans and Democrats for this legislation. Job creation and business creation is not exclusive to one party or the other. Both parties understand that this is a very positive plan to help Wisconsin's economy.

Q: Does this protect such a program from undue political influence, or the appearance of such?

A: ***Yes.*** By building investment firewalls we will keep political influence out of the program. A firewalled structure and a competitive RFP process should lead to selection of a private, fund-of-funds manager. The State of Wisconsin Investment Board could play a role in helping to identify such managers, in concert with the Wisconsin Economic Development Corp. through its existing authority or through a new, separate authority. This would insulate the selection of recipient funds, or "limited partners," from political influence or the appearance of such.

Q: Don't a lot of those young companies move away from Wisconsin before the state reaps the benefits?

A: ***No.*** Far fewer move away than one might think. In a dynamic market economy, some companies move to be closer to customers, talent or capital. Wisconsin increasingly has the talent, the facilities and the specialized equipment: All it needs is more capital, which an early stage investment program would help provide. Most young companies born in Wisconsin tend to stay in Wisconsin. In those relatively rare occasions in which a company is acquired and moved, the talent tends to stay here – and start other new companies.

Q: Will investing in early stage capital help beyond Madison and Milwaukee?

A: ***Yes.*** While some people believe all angel and venture capital flows to tech deals in Madison and Milwaukee, that's increasingly not the case in Wisconsin. There are now 12 angel networks or funds outside the state's two largest metropolitan areas, versus one in 2005. Entrepreneurs can increasingly be found everywhere in Wisconsin, as evidenced by recent Qualified New Business Venture certifications by the Wisconsin Economic Development Corp. Nearly half of the companies certified since January 2011 have addresses outside Madison and Milwaukee.

Q: Are these family-sustaining jobs?

A: ***Yes.*** Jobs created by angel- and venture-backed companies pay salaries well beyond the state's private-sector average. The average salary of employees of companies that took advantage of ACT 255 credits was $76,500, according to the Act 255 Early Stage Business Investment Program 2012 Annual Report. The average compensation of an employee in Wisconsin's private sector is $56,000, according to government reports.

PEER STATES WITH WISCONSIN WORKFORCE SIZE

HOW WISCONSIN STACKS UP

Washington
$778.7 MILLION

Missouri
$78.6 MILLION

Indiana
$107.5 MILLION

Colorado
$594.6 MILLION

Minnesota
$327.8 MILLION

Arizona
$172.2 MILLION

Tennessee
$79.6 MILLION

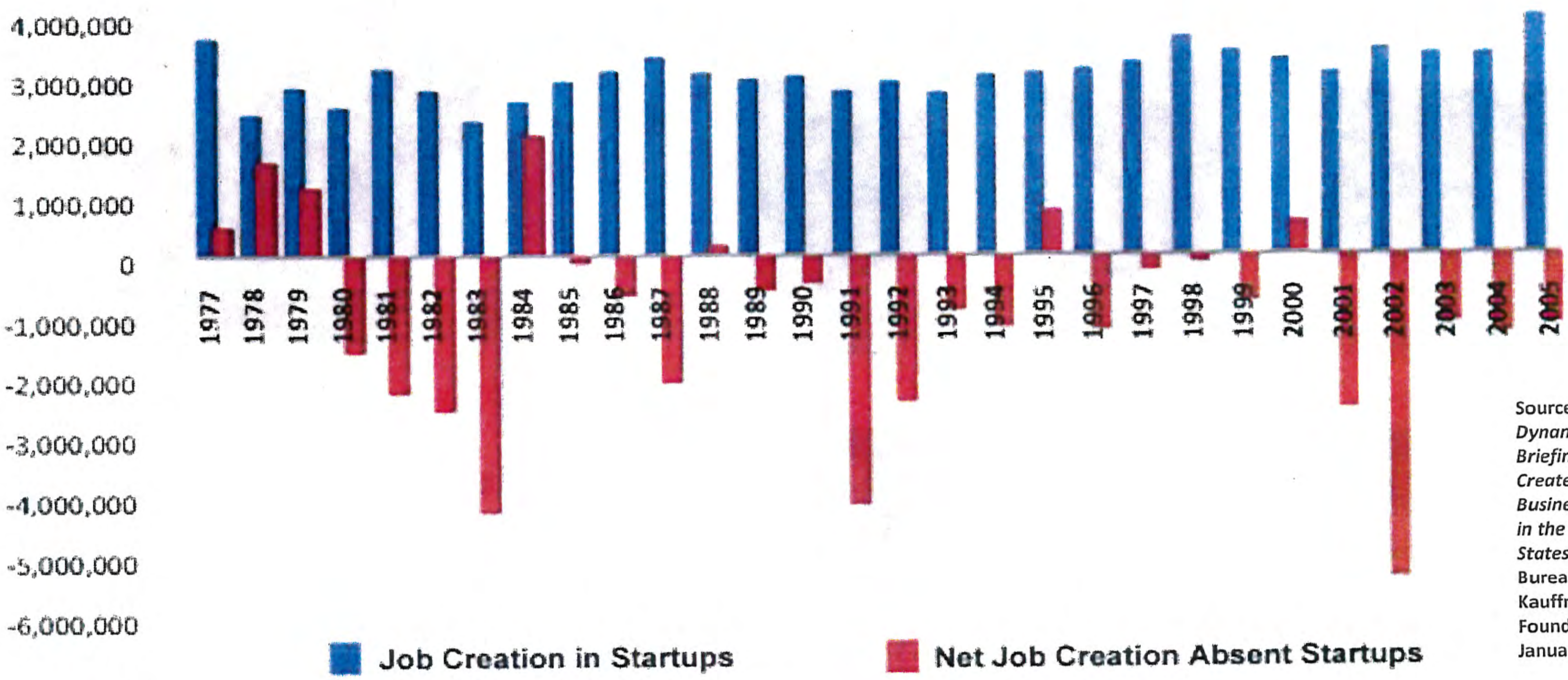
Maryland
$401.9 MILLION

Wisconsin
$72.1 MILLION

5 YEAR AVERAGE OF VENTURE CAPITAL INVESTMENTS IN PEER STATES

Why is it important?

From 1980 to 2005, firms less than five years old accounted for ALL net job growth in the United States.



Source: *Business Dynamics Statistics Briefing: Jobs Created from Business Startups in the United States.* Census Bureau and Kauffman Foundation, January 2009

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TODAY'S TOPIC: VENTURE CAPITAL

Legislature should establish a fund for venture capital

Such a fund would promote investment in the state's entrepreneurs and help create jobs.

Wisconsin politicians continue to argue about how many jobs have been created on Gov. Scott Walker's watch — and even how to count those jobs. This was inevitable, of course, given the governor's promise that 250,000 jobs would be created during his first term.

But rather than argue over numbers, how about focusing on policies that might make a difference?

OUR VIEW

Here's one: a state-backed "fund of funds" that would invest in venture capital funds focused on Wisconsin.

With job growth and income sluggish in the state, we continue to believe the best answer is unleashing good ideas that could be turned into young companies that will employ people. Research by the Ewing and Marion Kauffman Foundation a couple of years ago found that between 1977 and 2005, existing companies lost about 1 million jobs a year while new companies added an average of 3 million jobs. Since 2008, the pace of hiring is stronger in companies that are two years or younger, Kauffman found.

Simply put, we need more entrepreneurs, and we need to figure out how to mentor them and invest in their ideas.

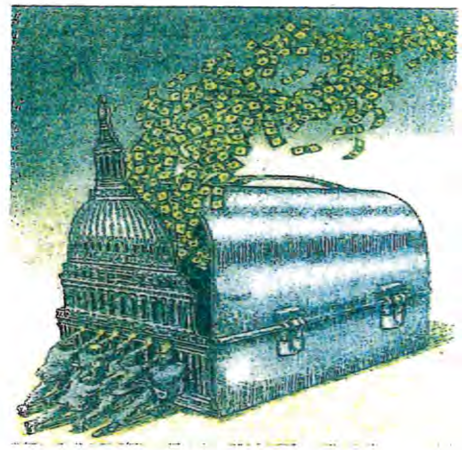
Other states are doing more, including both Ohio and Indiana. And other states have better results.

The idea is to use taxpayer dollars to leverage private investment with rules about how much of that investment must be made in the state. And there must be a solid firewall that keeps politics out of the decision-making.

Wisconsin doesn't lack for good ideas. The University of Wisconsin-Madison campus alone churns out nearly $1 billion of funded research annually. The UW-Milwaukee campus has significantly ramped up its research portfolio in the past five years, as has the Medical College of Wisconsin.

And there have been successes. Just drive through University Research Park on Madison's west side, where dozens of companies, most of them spawned by the Madison campus, employ hundreds of people. Also, a state law enacted in 2003 incentivized wealthy individuals to invest in "angel funds," which helped provide new investments at a critical stage for young companies. In the past two years, about 1,500 Wisconsin jobs can be attributed to so-called Act 255 tax credits.

But young companies need a continuum of support — from the early going when the entrepreneur mortgages her house to get started to the first "angel" investors who take notice to the point



where larger infusions of money are needed from venture capitalists. And in Wisconsin, there long has been a gulf between the typical angel investor round and the venture capital round.

Despite a good fourth quarter, Wisconsin attracted only $95 million last year, according to the MoneyTree Report by PricewaterhouseCoopers LLP and the National Venture Capital Association. Nationwide, venture capitalists invested $26.5 billion.

A "fund of funds" approach could help attract more of that critical funding.

Walker earmarked $25 million in his new state budget to help launch a fund, and state Sen. Alberta Darling (R-River Hills) is expected to introduce legislation soon to create such a fund.

But while $25 million is a start, it's probably only a down payment. Tom Still, president of the Wisconsin Technology Council and the Wisconsin Innovation Network, says the state needs something closer to $150 million, perhaps funded over several budget cycles, to attract the interest of top venture capital funds. The "Be Bold Wisconsin Prosperity Strategy" report, which grew out of a series of economic summits around the state in 2010, called for an even larger commitment.

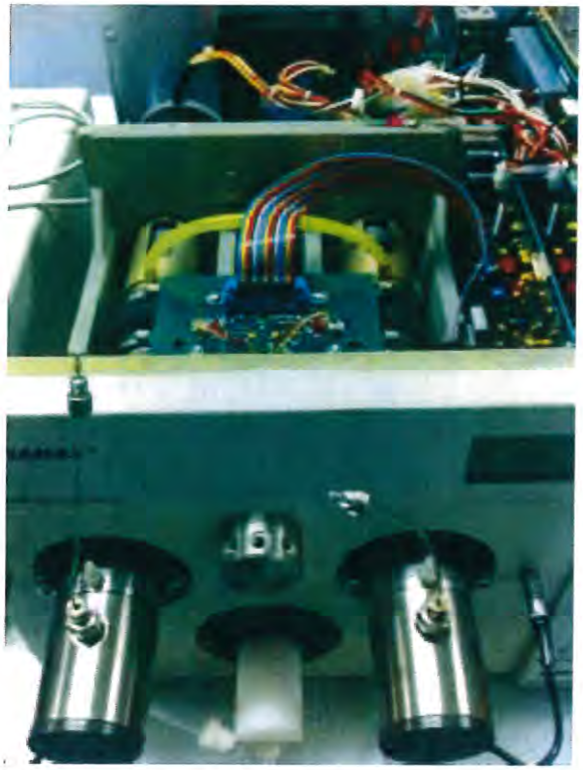
"If the state really wants to get to critical mass, then we're going to need more than $25 million," Still said. We agree.

Nonetheless, it would be a start. We urge the Legislature to act this session to establish a state-backed fund to help power Wisconsin's entrepreneurs.

Do you agree with the idea of a "fund of funds" paid for with taxpayer dollars? To have your opinion considered for publication as a letter to the editor email jsedit@jrn.com. Please see letters guidelines.

WISCONSIN STATE JOURNAL

Venture capital needed across state



FEBRUARY 13, 2013 5:00 AM • WISCONSIN STATE JOURNAL EDITORIAL

Luring more venture capital to Wisconsin isn't just a Madison and Milwaukee issue.

Promising young companies are popping up across the state and will need larger amounts of private investment to expand into the marketplace.

Gov. Scott Walker and the Legislature should prioritize a venture capital fund to help in the effort. After all, most new jobs will come from startup businesses. And most states now have similar early-stage funds to leverage more private dollars from across the country.

Madison is known for its university research and growing technology sector. Milwaukee, the state's largest city and most populous region, is home to a lot of high-tech companies, too.

But state lawmakers shouldn't overlook the need for more private investment in budding businesses across the state. Entrepreneurs in most every legislative district have smart ideas and are looking to expand.

In Burlington, for example, about 75 miles southeast of Madison, a company called Anatu is designing and manufacturing sophisticated analytical instruments to help chemists in labs invent pharmaceutical drugs. Founded in 2011, Anatu is the second science-related business Nick DeMarco has helped launch in this small city on the edge of Racine County.

In DePere, about 130 miles northeast of Madison, a startup called Aver Informatics Inc. is creating software to help spot mistakes in medical claims before paying them. The young company has raised about $1.3 million in angel investment, which is early stage private dollars.

In Wausau, 140 miles north of Madison in Marathon County, U.S. Trailmaps specializes in high-tech data used for maps and smartphones.

In Stoddard, about 120 miles northwest of Madison in Vernon County, Whole Trees is launching a new way to use waste wood from forests to build stronger and stylish buildings.

The list goes on and on.

Young companies that prove successful start with smaller amounts of angel investment. But eventually, to rapidly expand, larger amounts of venture capital are needed. Wisconsin ranks high for angel investment but low for venture capital.

A state fund, carefully designed to limit risk and leverage multiple amounts of private dollars, is needed. Virtually every state that's tried it has earned money while boosting economic growth.

Alberta Darling
Wisconsin State Senator
Joint Committee on Finance

TESTIMONY BEFORE THE ASSEMBLY COMMITTEE ON JOBS, ECONOMY AND MINING
Assembly Bill 181
Senator Alberta Darling
May 1, 2013

Thank you Committee Chairwomen Williams and members for giving me the opportunity to testify in favor of Assembly bill 181 which creates a Wisconsin investment capital program. I am pleased to be joined by Rep. Mike Kuglitsch and Rep. Fred Clark to discuss the details of the bill that we have put forth.

For over 2 years, I along with fellow legislators have worked to develop a solution to Wisconsin's lack of capital for new and growing businesses. As the Kaufmann report showed, all net new jobs over the 29 year study came from young companies, 5 years old or less. Both the Be Bold study and the Growth Capital Coalition white paper have recommended Wisconsin join the numerous other states that have already started similar programs including all of our neighbors.

Throughout this process I have stressed the need to build in safeguards to protect the taxpayer and ensure responsible oversight. I am pleased to report that this bill achieves both. The $25 million that Governor Walker has included in his budget must both be matched 2 to 1 with private dollars and invested entirely in Wisconsin's most promising sectors. The state will be treated equally as other investors and the fund manager's compensation will be capped while being required to put skin in the game. WEDC will receive an annual report from the fund manager which will be submitted to the legislature including an independent audit of the program. The Joint Committee on Finance will have passive review over the Fund manager's contract and will have 2 progress reports where WEDC and SWIB will make recommendations for improvement. I want to thank Sen. Cullen for being my co-author in the Senate and his input in drafting this bill.

I ask that the committee support Assembly Bill 181, to provide greater access to capital for Wisconsin businesses. Thank you again for allowing me to testify in favor of this important piece of legislation.

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Wisconsin Economic Development Association

WEDA

TESTIMONY OF THE WISCONSIN ECONOMIC DEVELOPMENT ASSOCIATION TO THE ASSEMBLY COMMITTEE ON JOBS, ECONOMY, AND MINING REGARDING ASSEMBLY BILL 181

MAY 1, 2013

The Wisconsin Economic Development Association is a statewide association consisting of over 450 economic development practitioners. WEDA supports state policies that strengthen our economy and create jobs, which is why WEDA supports Assembly Bill 181.

As you know, venture capital plays a significant role in development and growth of small businesses, new technologies and even entire industries. According to PricewaterhouseCoopers' most recent MoneyTree Report, Wisconsin businesses were the beneficiaries of $72.8 million in venture capital in 2011 and $95.2 million in 2012. While this is good news, Wisconsin must do better.

Many other states have established their own state-sponsored funds. As professionals in the field, we are confident that without similar action here in Wisconsin, we will lose out on real job opportunities.

This bill is a good start. It provides for the investment of $25 million across a minimum of four venture capital funds. There are significant accountability measures put in place to protect taxpayer investment and requirements for the investment manager to contribute their own moneys. The timelines for investment are realistic and the state will benefit from the proceeds of the investment.

With that said, our members are very concerned about the limit on the industries that can receive venture capital funds. By limiting investment to businesses that fall into the agriculture, information technology, engineered products, advanced manufacturing, and medical devices and imaging industries sectors, you run the risk of not funding the next big thing simply because it does not fit neatly into one of these sectors.

While we appreciate the lawmaker's intent to boost business development, the limitations in this bill will restrict the ability of the investment manager and venture capital funds to make the best decisions for investment. This will ultimately undermine the success of the program.

Job creation in Wisconsin is the ultimate goal of this committee and the full legislature. The concept of the state playing a role in venture capital has brought together policy makers of both political parties, people from all industry sectors, and average citizens. We all desire a strong and growing economy that will benefit the citizens of this state.

We have also provided, for your review, a paper our association distributed to members of the legislature on our Legislative Lobby Day in February. It shares additional thoughts on the importance of innovation capital.

Thank you for your consideration and we look forward to your favorable action on AB 181.

Wisconsin Economic Development Association

WEDA

Innovation Capital

From biotechnology to information technology, to clean tech and advanced manufacturing solutions, thousands of entrepreneurs have launched successful businesses across the United States. A common thread linking all of these start-ups is the utilization of early stage capital and equity investments to fuel groundbreaking innovations. These critical cash injections help cover expenses like research and development, prototyping, or regulatory fees associated with bringing a new product to the market. Without the investment, these offerings would not survive the business development pathway. Traditional sources of capital, such as financial institutions, are naturally risk-adverse and their appetite for participating in these types of business ventures is essentially non-existent following the recent recession.

To address the lack of funding opportunities, more than 30 states have developed some type of innovation capital program, with the largest and most active programs concentrated on the coasts. In "flyover country," states such as Kansas and Ohio have launched aggressive innovation capital programs. The programs are successful because innovation backed companies grow faster, their payrolls are higher, and they are better able to capitalize on the research that emerges from state supported universities. Considering the renowned research capabilities of the UW System, coupled with the state's close proximity to other Midwestern research institutions and recognized national laboratories, it's time for Wisconsin to address its anemic innovation capital portfolio.

While the shape of these programs vary, they essentially resemble one of three basic models: creating a state fund to invest in established venture capital funds; investing state resources directly into high-growth businesses; or utilizing state pension funds to invest in qualified businesses. Although Wisconsin has dipped its toe into these waters over the last 20 years, including the passage of Act 255 (which has proven successful), it has yet to aggressively develop a program at the scale or scope of its peer states.

WEDA encourages the Legislature to develop a robust innovation capital program that complements Wisconsin's forward thinking culture so it can jump-start the collective entrepreneurial engine that exists statewide.

Testimony in Support of Assembly Bill 181

Committee Chairperson Williams and committee members

First, I would like to thank you for allowing me to speak today on this very important piece of legislation. I would also like to thank Representatives Kuglitsch and Clark, Senators Darling and Cullen, legislative leaders, all of the cosponsors, and everyone else who has helped shape Assembly Bill 181, the Investing in Jobs bill, into the small business and economy boosting legislation we see before us.

My name is Steve Lyons and I am the President of the Wisconsin Growth Capital Coalition. With me today is Trevor D'Souza, one of our board members. We will be testifying together. I will give a brief history of who we are, and then discuss why we strongly support this legislation and then Trevor will speak of examples based on his 30 years of expertise in this area.

The WGCC is a group of early stage investors, emerging companies and service professionals who work with the state's high-growth economy. The coalition's goal is to see the adoption of an early stage capital bill. That is why the WGCC strongly supports Assembly Bill 181.

The Wisconsin Growth Capital Coalition was formally created at the beginning of this year to promote, support, and facilitate economic growth by enhancing the availability of early stage capital in Wisconsin.

So that is who we are – Now I would like to discuss where we are – and what the potential may be, if this bill is passed.

In 2003, Wisconsin Act 255 created a new business venture tax credit and a capital gains tax exemption for certain investments, which has resulted in job creation and increased tax revenue:

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Wisconsin Act 255 created 1,502 jobs (758 direct and 744 follow-on) through tax credits awarded to investors who invested in state-approved companies.

The cost per direct job for the state was $26,562.55 – well below the national "cost per job" average – and $13,407.93 for the follow-on jobs

Each of the 1,502 jobs created by Act 255 in 2010-2011 paid $5,828.25 each in taxes to the state of Wisconsin. That's $2,695 in income taxes per job; property taxes of $2,079; sales taxes of $866.25; and gasoline taxes of $188.

The state revenue total exceeds $8.7 million for the 1,502 jobs over two years.

The legislation also had bipartisan support – Act 255 passed in the Assembly 93-6 and 24-8 in the State Senate, they knew then, like those who support AB 181 now, that the jobs and businesses created by this legislation will not be republican jobs, they will not be democratic jobs, but they will be family-sustaining, high paying, Wisconsin jobs.

Assembly Bill 181 is the next logical step in this progression of creating high paying jobs.

Our Neighboring states are having great success with job creation attributed to venture capital. In fact, Minnesota attributes 19 % of their workforce to venture capital. While Wisconsin attributes just 3% of our workforce to venture capital. Other states with workforces similar to Wisconsin are using venture capital to create jobs. Arizona, Colorado, Indiana, Missouri, Tennessee and the list goes on and on, are all attracting venture capital.

If we are truly going to compete in the new marketplace, create jobs and lead the way as Wisconsin has in so many things, we must act now.

I urge members of this committee, and members of the legislature to support Assembly Bill 181.

Thank you.

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It's not just Madison and Milwaukee anymore!

Here are 25 firms outside Madison and Milwaukee that are angel- or venture-ready, or have received private equity financing in the past.

Logistics Health Inc. – Founded by Don Weber, an entrepreneur whose military service convinced him there was room for a better system of managing the health of armed services personnel, Logistics Health Inc. went from under 20 employees 10 years ago to about 1,000 today. With an investment round led by TA Associates, Logistics Health grew into one of the mainstays of the La Crosse economy. It was recently acquired by UnitedHealth Group Inc.

Anatu LLC – This Burlington company was co-founded by Nick DeMarco and Tony Reynolds in 2011 to design and manufacture sophisticated analytical instruments, primarily for the pharmaceutical industry. Using those instruments, chemists design new drugs. Past and potential customers include Eli Lilly & Co., Abbott Laboratories, Pfizer, and smaller companies such as Cedarburg Pharmaceuticals. Anatu is DeMarco's second science-related company. In 1999, the Burlington native started Analogix, which made laboratory instruments and disposable supplies. He sold it in 2007.

U.S. Trailmaps – This Wausau-based venture was a past finalist in the Governor's Business Plan Contest and is a leading provider of GIS-derived map data for recreational trail activities. Founded in 2005, U.S. Trailmaps provides mapping data to leading GPS-device manufacturers. The company also provides data for map and smart phone application developers and co-develops related social media sites. Kegonsa Seed Fund and Kegonsa Coinvest Fund were early investors.

Idle Free Systems – Founded in Watertown, Idle Free Systems Inc. is an innovative provider of the only complete, year-round idle-elimination solutions for school buses and trucks. The Kegonsa Seed Fund was the seed round investor and in 2009 Idle Free closed on a first financing round of $1.3 million. The company's recent sales results were very strong, virtually doubling every year.

Aurizon Ultrasonics – Aurizon is a technology spinout from the Fox Valley's Kimberly-Clark Corp. The ultrasonic technology uses sound waves rather than glue to do high-speed bonding of materials such as the plastic in diapers. NEW Capital fund invested in the company's seed round and is a partner alongside Kimberly-Clark. Wisconsin is home to many large companies performing research and development. Aurizon is an example of an emerging model in Wisconsin where technology is transferred from bigger companies to start-ups, providing for a more entrepreneurial commercialization of the technology than available in a larger corporation.

Frozen Codebase – Based in Green Bay, Frozen Codebase is an independent video game developer founded in 2006. The company develops games for Microsoft's Xbox 360, Microsoft Windows, Sony's Play Station 3, Nintendo's Wii and WiiWare. The NEW Fund was an early investor.

WGCC
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Aver Informatics – Aver Informatics Inc. is a DePere start-up that has created software to help insurers spot errors in medical claims before paying them. It recently raised about $1.3 million in angel capital in a co-investment round.

Xolve – This is a Platteville-based firm that is developing nanotechnology solutions for a variety of uses, including materials science and electronics. It was a past winner of the Governor's Business Plan Contest. Four investors so far include Royal Dutch DSM and Peak Ridge Capital.

Mycophyte Discovery – This La Crosse company a drug discovery company develops antimicrobial drugs from natural sources. It is hoping to develop drugs that can treat bacterial infections and offer a solution to antibiotic resistance.

DeltaHawk Engines – This Racine company is developing a lightweight aircraft engine that can burn diesel fuel and stands to replace conventional light aircraft engines.

Whole Trees – This Stoddard company has worked with the U.S. Forest Products Laboratory and others to launch a manufacturing process that uses small-diameter "round timber," or whole trees, for construction of modular buildings. The materials used are typically waste products in most forests (and should actually be removed to protect forest health) yet are stronger than other materials commonly used.

Microscopy Innovations – This Marshfield-based company is an early stage firm which develops novel products for microscope specimen preparation, handling and storage.

Shamrock Energy Corp. – This company has focused on improving the performance of ultracapacitors through advances in materials and a proprietary new architecture. Its goal is to deliver an ultracapacitor with energy densities similar to what is typically found in rechargeable batteries. Shamrock Energy was founded by Charles Gibson and spun out of UW-Oshkosh.

Morgan Aircraft – This company in Oostburg is developing a vertical take-off and landing aircraft for military and civilian use. It's an example of Wisconsin's growing expertise in and around the aviation sector. The company raised a reported $120,000 in 2011.

Ro-Flow Compressors – Ro-Flow Compressors LLC manufactures and distributes a line of rotary sliding vane positive displacement compressors from its plant in Appleton. The company's products are primarily used in the oil and gas, landfill, and waste water treatment industries and are sold worldwide through a network of industry specific engineering companies. The NEW Fund was an early investor.

HuTerra LLC – This is a DePere company that is creating a new social network that combines gaming, social networking, and charitable giving in one convenient platform that empowers members and creates new experiences in giving. The NEW Fund is an investor.

GreenWhey Energy – This Turtle Lake company takes waste from multiple food processors and turns it into energy. It will be one of the largest privately owned waste water treatment facilities in the United States. It is locally owned and developed by a former dairy owner and the owners of the waste hauling company that disposes of dairy wastes. They saw the need and opportunity to deliver a long-term solution to food companies in northwest Wisconsin. A $1 million investment round to be announced Feb. 18 was led by Geo Investors Fund.

SHINE and NorthStar Medical Radioisotopes – These separate companies are part of the national race to develop a new way to produce molybdenum-99, which is used in a refined form in 50,000 U.S. medical procedures per day. Current reactor-based sources will be phased out within a few years, and technologies developed in Wisconsin could be replacements. Both have announced plans to build production facilities in Rock County.

Interfacial Solutions – This River Falls company is a leading provider of full service, idea-to-production research and development services to the plastics industry. To date, it has helped to commercialize more than $300 million in innovative plastic products.

NexVex Inc. – With roots in Whitewater and Jefferson County, NexVex is a web-based marketplace for roof replacements. It recently raised its first round of angel investment from a Milwaukee-based fund.

green 3 – This Oshkosh company won the business services category in the 2009 Governor's Business Plan Contest and has grown into a thriving designer and retailer of organic apparel and soft home goods. It has both a web and retail presence.

Extend Manufacturing – This Marathon County company is developing adaptable excavation equipment and other construction machinery specifically for the rental market.

VibeTech – With offices in Sheboygan and Milwaukee, VibeTech is revolutionizing the field of rehabilitation with its patented, clinically tested neuro-musculoskeletal stimulation equipment. The VibeTech One rehabilitation chair has been developed to treat functionally impaired individuals and others who cannot tolerate weight bearing physical activity.

LIVEyearbook – Based in Neenah, this company won the grand prize in the 2010 Governor's Business Plan Contest with its plan to convert the iconic school yearbook into a digital product. LIVEyearbook is free, cloud based yearbook software that brings together experience and the flexibility of digital all combined to deliver tradition of the yearbook online or printed.

Vector Surgical – This Oconomowoc company won the Governor's Business Plan Contest in 2007 and today is selling surgical instruments in 300 hospitals and clinics in 48 states, plus Canada and northern Europe.

3-4-13

AB-181 Comments: Paul V Radspinner, President & CEO of FluGen Inc.

Thank you Madame Chairman, and members of the Committee. My name is Paul Radspinner and I am the co-founder and CEO of FluGen, a Wisconsin company committed to saving lives by making more effective vaccines. I am here today to ask you to bring competition back to this bill. Make it large enough to compete with states like Minnesota, Maryland and Texas and allow companies working on cures for cancer and other diseases to compete for the funds as they are currently excluded.

Last week I had the privilege of attending the BIO International Conference in Chicago. I felt tremendous pride while standing in the Wisconsin pavilion and welcoming guests from around the world. The booth featured the "In Wisconsin" theme that has been branded for the state's business development efforts and was clearly the most notable presence Wisconsin has ever demonstrated at BIO. Those manning the booth were focused on letting everyone know why Wisconsin is great for bioscience companies.

Governor Walker was a superb cheerleader for our industry as he met with numerous biotech leaders and shared his vision and support for bioscience companies. He capped it off by visiting the Wisconsin pavilion to shake hands with hundreds of well-wishers who heard about Wisconsin's commitment to finding cures for diseases like Alzheimer's, colon cancer and traumatic brain injury.

After the reception we all heard the great news that a growth capital bill was finally unveiled. Unfortunately as we learned the details of the bill it became clear that it did not include many of the very companies for which Governor Walker was showing his support that day. Again, many people in the state and even in this room may not realize that companies that are striving to find cures for some of today's worst illnesses will not be allowed to compete for these funds. This means that if your sister is waiting for an experimental drug for her inoperable cancer or if your father is suffering from a deadly hospital acquired infection called MRSA the Wisconsin companies working on these treatments are not eligible for this funding. That's right, not one of these companies or any like them that are searching for cures will even be allowed to APPLY for these funds. While I am here in my role as a business owner, I am also a board member for the WEDC. At no time did anyone working to solve this problem suggest that we exclude one of the most productive and important sectors of our tech economy and limit competition. Competition is a good thing in my industry. Competition defines American industry.

As a business owner I can only speculate on why those searching for cures were excluded. I've heard from some it has something to do with ideology. I can't imagine an ideology that wants to prevent companies like FluGen from solving serious health problems. I have even heard that companies searching for cures have already received enough money so it's time to "spread the wealth". The fact is that there is so little capital in this state to grow new companies of any kind that all industries are underfunded.

And that is where we fail to compete with other states. This amount is simply too small to make a difference. Last week while the Governor was helping us push forward the message that Wisconsin is open for ALL businesses- especially those searching to improve the human condition- other governors were there as well. Governor Rick Perry of Texas was in Chicago aggressively pursuing any bioscience company not already there. The advantage Texas had over Wisconsin at BIO was not the Executive or the legislature. Both states have very business friendly governors and pro business Republican majorities in both houses. The difference was that Governor Perry was equipped to make REAL offers to companies in the life sciences space. For example, Texas created a $295 million Texas Enterprise Fund (TEF), in what they refer to as a "deal closing fund created to attract businesses and new jobs to Texas" and the $200 million Texas Emerging Technology Fund to promote the commercialization of technological innovations across multiple industries, including biotechnology. To date the fund has invested $280 million into biotechnology-related deals, with $127 million going to commercialize startup companies.

If Texas is too big and pro business to compare to Wisconsin then Maryland with the same number of people but with a Democratic governor, assembly and senate, just held an auction for insurance company tax credits. In 4 minutes- yes 4 minutes- all $100 million in tax credits were purchased. The resulting funds will go toward technology investments and into the evergreen Maryland Venture Fund that was started years ago. Maryland's restrictions? "Companies must be in a technology industry." These investments are not being made just in the US. I just returned from a trip to Australia where I spoke with the government authorities there. In order to attract biotech companies to their country "down under" they are providing a 45% tax credit or cash rebate on money spent on new discoveries. It is very difficult as a business owner to pass up the opportunity to reduce his or her costs almost in half.

Some may ask why companies like mine don't just move to one of these states that is making bigger investments in technology without restrictions. I personally have adopted Wisconsin as my home and feel great pride in living and conducting business here. I want to go on being able to do so. I want Wisconsin to be taken seriously when we say it is open for ALL businesses. And one word describes how we can achieve this; COMPETITION. Make this fund large enough to be competitive with states like Maryland, Minnesota and Texas and allow my company and others like it which is focused on saving lives- including Wisconsin lives, to compete for these funds.

Thank You

Paul V. Radspinner
President & CEO
FluGen Inc.
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Madison, WI 53711
608-658-6095

WISCONSIN LEGISLATURE
P. O. Box 7882 Madison, WI 53707-7882

May 1, 2013
Testimony of Rep. Peter Barca and Sen. Julie Lassa
Assembly Jobs, Economy and Mining Committee Hearing on AB 181, relating to the Venture Capital Investment Program

Chairwoman Williams, members of the Assembly Jobs, Economy and Mining Committee, thank you for this opportunity to present testimony on Assembly Bill 181, which proposes a state investment capital program.

We have both been strong proponents of such a program, and each of us has introduced similar legislation in the previous session. The business community has long pointed to a state investment program as being one of the most important things the legislature could do to help our entrepreneurial community thrive and create good-paying new jobs.

In the summer and fall of 2011, we were asked, along with Senator Darling and Representative Klenke, to serve on a venture capital commission led by former Department of Revenue Secretary Mark Bugher. That committee spent dozens of hours discussing this issue in great detail. We carefully studied the investment capital needs in Wisconsin, as well as investment funds in other states, how they were structured and what results were achieved.

Although that commission did not endorse a bill, we did come to consensus on a wide range of issues, many of which appeared in a substitute amendment we offered in June 2011, as well as in proposals put forward by Senator Darling which has been referred to as the Bugher plan. We agreed that we needed to address the long-term problem of the lack of home-grown investment capital firms in Wisconsin, and that a state investment program should represent enough of a commitment that it would attract national and international investment firms to take up residence here.

We agreed that the plan should address the entire range of investment capital needs, from the very earliest stage start-ups through the infamous "valley of death" to the point where companies are ready to take off and rapidly expand their operations and employment. And we agreed that the program should be "industry agnostic", so that the state was not picking winners or losers but investing wherever there was the best chance for business success.

Unfortunately, the Kuglitsch/Darling bill is different from the proposals in the Bugher Plan in a number of ways:

- It removes the requirement that the fund manager, and the funds that receive investments, have offices and staff in Wisconsin.
- It's much smaller. Earlier proposals called for anywhere from $65 to $100 million to be invested over a number of years. This bill does not attempt to go beyond the one-time commitment of $25 million in the governor's budget proposal.
- It does not include the direct angel co-investment component earlier bills contained, which means that the funds will probably not begin creating jobs until two to four years in the future.
- It requires that the fund manager invest in at least four investment funds, meaning that no single fund is likely to receive more than about $6 million to invest.
- And it is restricted to a limited set of industries, notably excluding the biotech sector, one of Wisconsin's greatest competitive strengths.

While we appreciate that many elements of the Bugher Commission's work are reflected in this proposal, we believe AB 181 is too short term and small to have the long term effect Wisconsin needs. By removing the state residency requirement for the funds, the authors themselves appear to realize that this size of financial commitment will not attract out-of-state investment funds to come to Wisconsin to set up shop and invest in our startups. The $25 million will come and go and Wisconsin will be little better off than we are today.

Some have called this a good first step, but we are concerned it could in fact endanger the whole idea of a long term state investment capital program. When it's time to seek additional funds in the next budget, the first thing legislators and the media will ask is how successful the initial investment was.

With a relatively small, one-time shot of money that will take so long to have an effect, we will have little to show for our investment. As we saw with past state investment efforts, not designing a sustainable and successful program could jeopardize venture capital in Wisconsin over the long term. We need to follow the recommendations of the business community and make a robust, long-term commitment to helping our small businesses create jobs. We may only get one shot at this so we have to get it right.

That is why have been working with the business community and will be releasing an alternative investment capital proposal shortly. That bill will represent a larger, multiple year commitment that stands a better chance of having a permanent positive effect on business investing in Wisconsin. It will be available to a much greater range of industries to make sure that we don't artificially limit the opportunities of Wisconsin businesses. It will address the full range of investment capital needs and ensure that funds move quickly to create good new jobs in the short term. And it will have provisions to make sure that business development efforts will reach economically distressed rural and urban communities throughout our state.

We hope that AB 181 marks the beginning, and not the end, of the legislature's conversation on investment capital. The stakes are high. If we succeed, we could help breathe new life into Wisconsin's economy and create tens of thousands of family-supporting jobs. Without the right plan, however, we may see few results and a permanently lost opportunity. We hope to work with the authors of AB 181 as well as others to have Wisconsin adopt an investment capital program that positions our state for economic growth and success.

Thank you again for the opportunity to testify on AB 181.

Representative Peter Barca Senator Julie Lassa

WISCONSIN LEGISLATIVE COUNCIL

Terry C. Anderson, Director
Laura D. Rose, Deputy Director

TO: SENATOR ALBERTA DARLING

FROM: Michael Queensland, Staff Attorney

RE: LRB-2228/1, Relating to Venture Capital Investment

DATE: April 24, 2013

This memorandum describes LRB-2228/1 ("the draft"), relating to the creation of a venture capital investment program ("the program"). The draft directs the Wisconsin Economic Development Corporation (WEDC) to establish a "fund of funds" model venture capital investment program.

The draft requires WEDC to contract with an investment manager to manage investments in venture capital funds that in turn invest capital directly in operating businesses. WEDC must pay $25 million to the investment manager for investments in venture capital funds and the investment manager must contribute to those investments $300,000 of its own capital and $5 million raised from other funding sources. Each venture capital fund that receives capital under the program must invest all of the capital received in businesses that are headquartered in Wisconsin and employ at least 50% of their full-time employees in Wisconsin. At least one-half of the capital each venture capital fund receives under the program must be invested in one or more businesses that employ fewer than 150 full-time employees at the time of the initial investment.

The program is described in greater detail below.

INVESTMENT MANAGER

The draft specifies a process to select the investment manager responsible for managing investments in venture capital funds. In addition, the draft requires that there be a contract that includes certain conditions between WEDC and the investment manager.

Selection Process

The draft directs the State of Wisconsin Investment Board (SWIB) and the WEDC board to form a committee to select the investment manager. The majority of the committee's members must be representatives of SWIB. The committee must then select a person as investment manager that has expertise in the venture capital or private equity asset class.

Contract Requirements

WEDC is required to contract with the investment manager. The contract must establish the investment manager's compensation including any management fee. Any management fee may not exceed $250,000 annually and the investment manager's total compensation may not exceed $800,000. In addition, the investment manager must agree to disclose to WEDC any interest that it or an owner, stockholder, partner, officer, director, member, employee, or agent of the investment manager has in a venture capital fund that receives capital under the program or a business in which a venture capital fund invests that capital.

Passive Review of the Contract

The contract between WEDC and the investment manager chosen by the selection committee is subject to passive review by the Joint Committee on Finance. WEDC must notify the Joint Committee on Finance that an investment manager has been chosen by the selection committee. This notice must be in writing and include the proposed contract with the investment manager. The co-chairpersons of the Joint Committee on Finance have 14 working days after receiving WEDC's notice to schedule a meeting to determine whether the proposed contract fails to meet an applicable requirement under the draft. If a meeting has not been scheduled during that timeframe, WEDC and the investment manager may execute the contract. If a meeting is scheduled, WEDC and the investment manager may still execute the contract unless the Joint Committee on Finance determines that the contract, in whole or in part, fails to meet an applicable requirement under the draft.

INVESTMENTS IN VENTURE CAPITAL FUNDS

The draft establishes an economic development program to make investments in venture capital funds that invest in businesses in this state. WEDC is required to pay $25 million to the investment manager during fiscal year 2013-14. In addition, the investment manager responsible for investing in venture capital funds and the venture capital funds that receive capital under the program and invest in operating businesses are subject to several requirements.

Investment Manager Responsibilities

The draft requires the investment manager to contribute an additional $300,000 of its own capital and $5 million raised from other sources to the $25 million that it receives from WEDC. The investment manager must attempt to invest at least 50% of the capital in venture capital funds within 12 months after the date the investment manager executes its contract with WEDC and must attempt to invest all of the capital in venture capital funds within 24 months after the date the contract was executed. In addition, the investment manager is required to invest all of the capital in at least four different venture capital funds and is prohibited from committing more than $10 million to any single venture capital fund. The investment manager must attempt to ensure that, on average, a venture capital fund invests $2 in a business for every $1 the investment manager contributes to the investment in that business. Furthermore, the investment manager's profit-sharing agreement with each venture capital fund must be on terms that are substantially equivalent to the terms applicable for other funding sources of the venture capital fund.

Venture Capital Fund Responsibilities

The investment manager is required to contract with each venture capital fund that receives capital under the program. Under those contracts, each venture capital fund must agree to several conditions, described below.

Invest in Wisconsin Businesses

The venture capital fund must invest all of the capital it receives under the program in one or more businesses that are headquartered in Wisconsin and employ at least 50% of its full-time employees, including any subsidiary or other affiliated entity, in Wisconsin. However, if within three years after the venture capital fund makes an investment in a business, the business no longer meets one of these requirements, the venture capital fund must recover from the business the total amount the venture capital fund invested and reinvest that capital in one or more businesses that are eligible to receive an investment under the program.

Invest in Small Businesses

When a venture capital fund first invests capital in businesses, at least one-half of the capital must be invested in one or more businesses that employ fewer than 150 full-time employees, including any subsidiary or other affiliated entity.

Invest all Capital Received Within Four Years

The venture capital fund must invest at least 50% of the capital it receives under the program within 24 months after receiving it and must invest all of the capital it receives under the program in businesses within 48 months of receiving it.

Invest in Targeted Industries

The venture capital fund must invest all capital it receives under the program in businesses in the agriculture, information technology, engineered products, advanced manufacturing, or medical devices and imaging industries. In addition, the venture capital fund must attempt to ensure that all capital it receives under the program is invested in businesses that are diverse with respect to industry classification and geographic location within Wisconsin.

Match Contributions Made by the Investment Manager

The venture capital fund must at least match the amount of capital the investment manager contributes to an investment in a business with an investment of capital in that business that the venture capital fund has raised from other sources.

Provide Investment Manager Reporting Information

The venture capital fund must provide to the investment manager the information necessary for the investment manager to make its annual report to WEDC. The required information for this report is described below.

Disclose Interests in Investments to WEDC and the Investment Manager

The venture capital fund must disclose to the investment manager and to WEDC any interests that the venture capital fund or an owner, stockholder, partner, officer, director, member, employee, or agent of the venture capital fund holds in a business in which the venture capital fund invests or intends to invest capital under the program.

THE STATE'S SHARE OF PROCEEDS FROM INVESTMENTS

The investment manager must hold in an escrow account its gross proceeds from all investments of capital contributed to the program by WEDC. In addition, the investment manager must pay, at least annually, the amount in that account to the Secretary of the Department of Administration for deposit into the general fund. These requirements are only in effect until the investment manager has paid a total of $25 million to the state, the amount of WEDC's contribution. After that point, the investment manager must pay 90% of its gross proceeds from such investments to the Secretary of Administration for deposit into the general fund.

REPORTING REQUIREMENTS

The draft requires the investment manager to submit an annual report to WEDC and the WEDC must submit two progress reports to the Legislature, one in 2015 and one in 2018.

Annual Report of the Investment Manager

The investment manager must submit a report to WEDC each year within 90 days after the end of the investment manager's fiscal year. The report must include all of the following:

- An audit of the investment manager's financial statements performed by an independent certified public accountant.
- The investment manager's internal rate of return from investments under the program.

- For each venture capital fund that contracts with the investment manager under the program:
  - The name and address of the venture capital fund.
  - The amounts invested in the venture capital fund.
  - An accounting of any fees the venture capital fund paid to itself or any principal or manager of the venture capital fund.
- For each business in which a venture capital fund held an investment of capital contributed by the investment manager under the program:
  - The name and address of the business.
  - A description of the nature of the business.
  - An identification of the venture capital fund that made the investment in the business.
  - The amount of each investment in the business and the amount invested by the venture capital fund from funding sources other than the investment manager.
  - The internal rate of return realized by the venture capital fund on the investment in the business.
  - A statement of the number of employees the business employed when the venture capital fund first invested in the business under the program, the number of employees the business employed on the first day of the investment manager's fiscal year, and the number of employees the business employed on the last day of the investment manager's fiscal year.

WEDC must submit the investment manager's report to the Legislature within 10 days of receiving it.

WEDC Progress Reports

WEDC must submit two progress reports to the Joint Committee on Finance, one in 2015 and one in 2018. Each report must contain the following:

- A comprehensive assessment of the performance to date of the investment program.
- Any recommendations WEDC has for improving the investment program and the specific actions that WEDC intends to take, or proposes to be taken, to implement those recommendations.

- Any recommendations SWIB has for improving the investment program and the specific actions that SWIB proposes to be taken to implement those recommendations.

If you have any questions, please feel free to contact me directly at the Legislative Council staff offices.

MQ:ksm

Venture Capital Investment
By Gary Tauchen
05-01-13

Capital Continuum- Seed/ Incubator, Angel, VC, Growth. Capital needs to be available along the continuum or businesses and high achieving students leave the state. VC funded businesses create 8 times more jobs and pay 3 times more taxes than conventionally funded businesses.

Valley of Death and Funding- $25M is a placeholder for the program. It will allow the program to become operational but more funding needs to be put into the program if we are serious about helping startups through the Valley of Death.

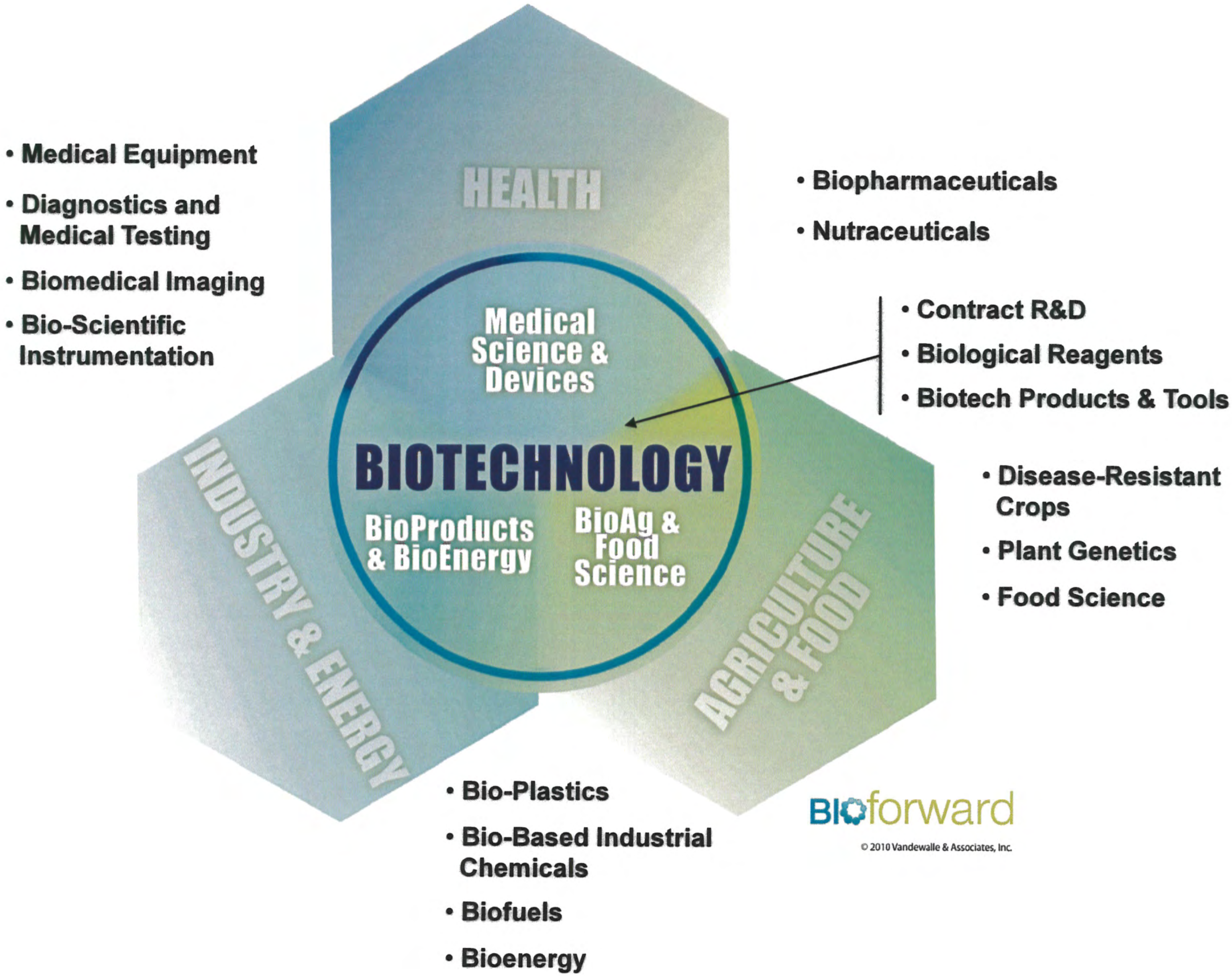
Governance- As the responsible agency, WEDC should have the decision making responsibility on this economic development proposal. SWIB administers benefits and is not accountable. WEDC is completely focused on economic development. The responsible agency should be responsible. SWIB's role should be advisory. (If SWIB had the expertise to be involved in economic development they would have done it. They had the capital.)

Matching funds- Language needs to be changed. Shall attempt to ensure the VC invests $2 for each $1 investment of the fund manager means that there needs to be no effort put into this venture.

The questions you need to ask are: 1) is this bill for economic development, more startups and jobs or is a fund manager being hired for return on investment? (It is possible the fund manager could give to a few large players and not provide funding to the small startups. The key is getting more small business going to create jobs in Wisconsin.) 2) What are the annual management fees? Instead of 1%, will they be 2-3%?

Kaufmann Report- The cited report for startup activity issues a report 2 weeks ago for 2012. Figure 10 on page 20 shows the ranking of entrepreneurial activity for states. Wisconsin is ranked 47, Michigan 48, and Minnesota is 50, or dead last.

Call for support of bill- Many have spent 2 and a half years working on bill development. We have lost time and opportunity. I encourage your support. Questions???


HEALTH
INDUSTRY & ENERGY
AGRICULTURE & FOOD
BIOTECHNOLOGY
Medical Science & Devices
BioProducts & BioEnergy
BioAg & Food Science
• Medical Equipment
• Diagnostics and Medical Testing
• Biomedical Imaging
• Bio-Scientific Instrumentation
• Biopharmaceuticals
• Nutraceuticals
• Contract R&D
• Biological Reagents
• Biotech Products & Tools
• Disease-Resistant Crops
• Plant Genetics
• Food Science
• Bio-Plastics
• Bio-Based Industrial Chemicals
• Biofuels
• Bioenergy
BIOforward
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3
4 - 50
51 - 100
101 - 300
301 - 1000

Medical Devices / Equipment

69 Companies

3,085 Jobs

0 - 10
11 - 50
51 - 100
101 - 300
301 - 1000

Research / Testing Labs

341 Companies, 11,000 Jobs

3 - 10
11 - 50
51 - 100
101 - 300
301 - 1000

Ag/Forestry

474 Companies

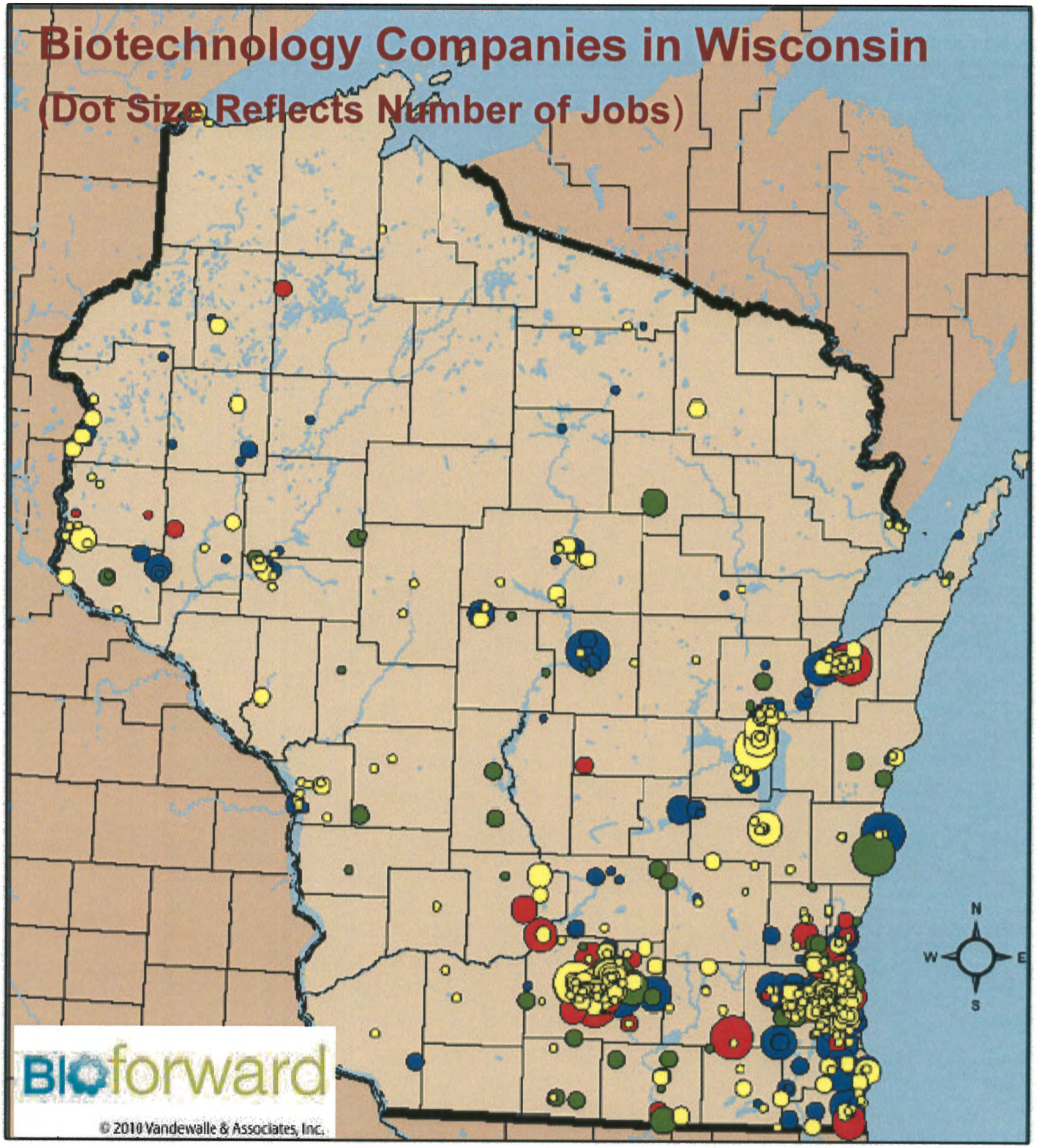
12,616 Jobs

3 - 10
11 - 50
51 - 100
101 - 300
301 - 1000

Pharmaceuticals

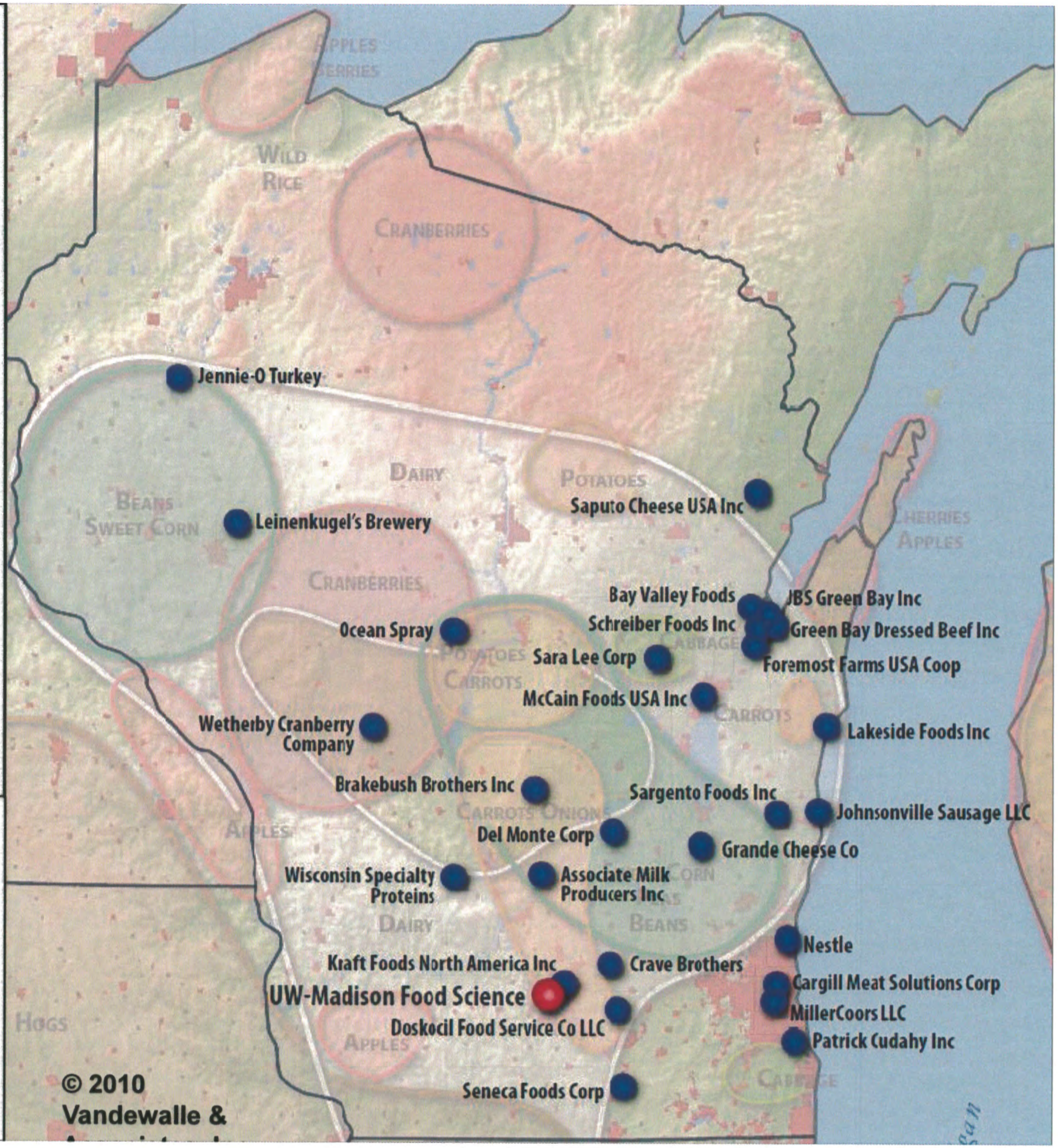
70 Companies

4,273 Jobs



BIOforward

Food & Ag Industry Assets



LEGEND

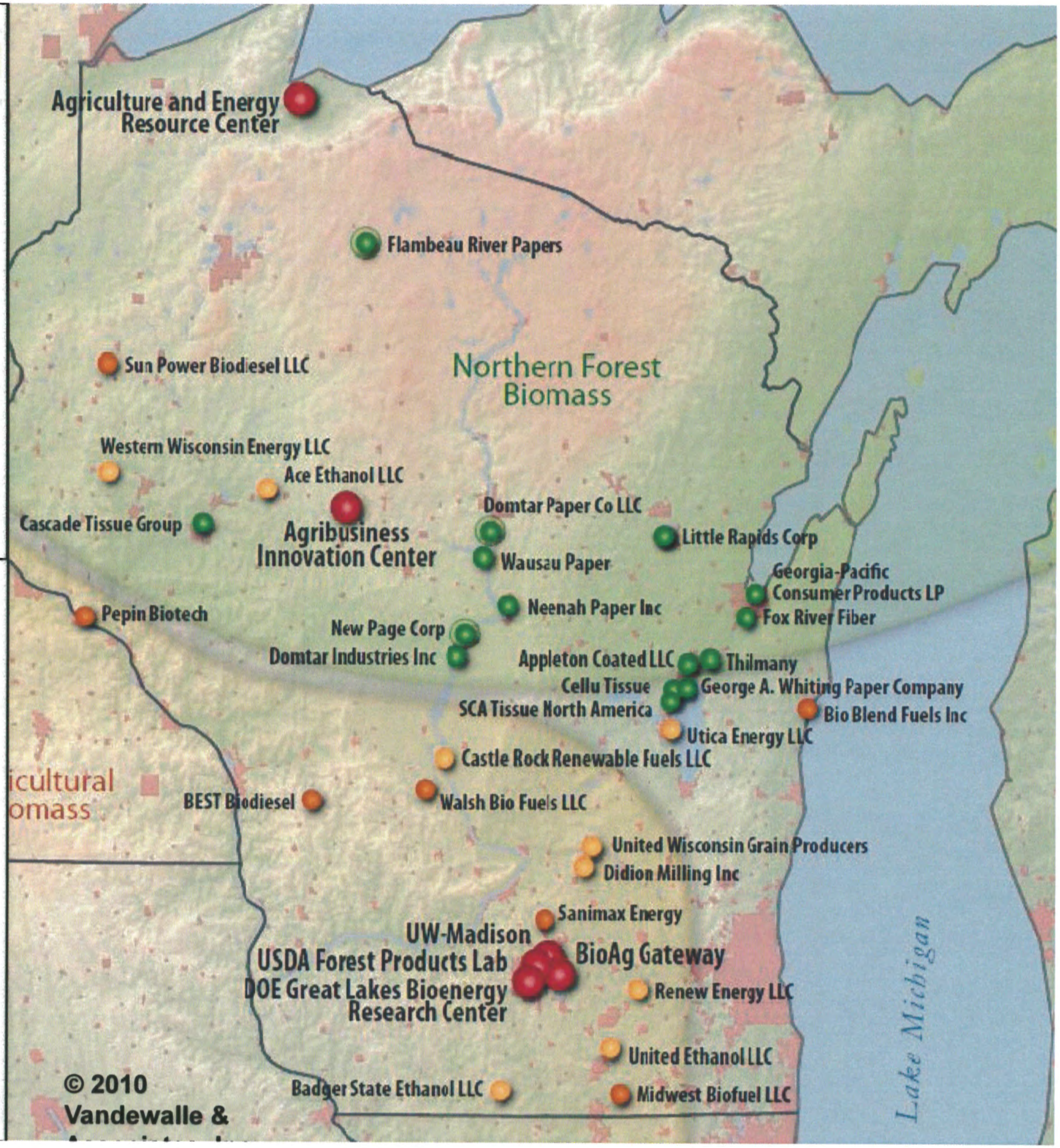
- Major Research Institution
- Largest Food Industry Employers in Wisconsin

BIOforward

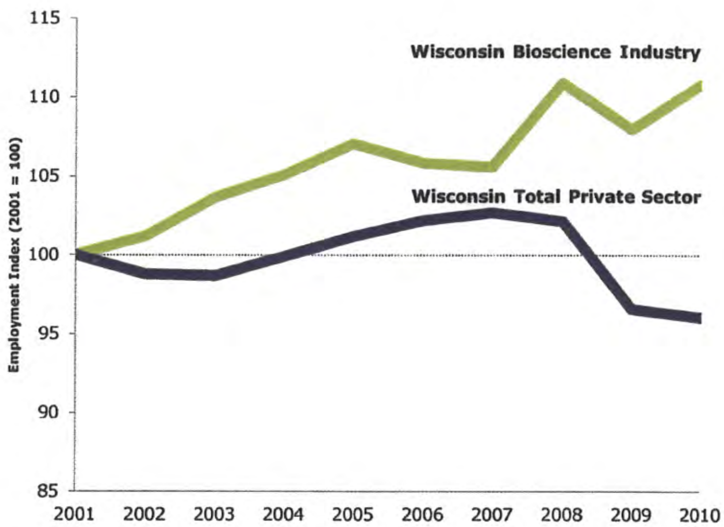
Bioenergy & Bio-based Industry Assets

LEGEND

- Major Research Institutions & Innovation Centers
- Major Pulp Mills
- Major Pulp Mills with Energy Projects
- Wisconsin Ethanol Facilities (OEI 2009)
- Wisconsin Biodiesel Production Facilities (OEI 2009)



WISCONSIN • Wisconsin's bioscience industry is sizable and growing, with nearly 31,000 jobs in 2010 that span 1,366 business establishments. The state has a specialized employment concentration in medical devices, a sector that has added jobs overall since 2007 and has a location quotient of 1.48. Its second largest subsector, bioscience-related distribution, employs more than 10,000 and is well concentrated in Wisconsin.



Bioscience Employment Tier

II

I II III IV V

Summary of State Performance in Industry Related Metrics

Metrics	Wisconsin	United States	Rank*
Bioscience Industry, 2010			
Total Bioscience Industry Employment	30,796	1,605,533	II
Bioscience Industry Location Quotient	0.91	n/a	II
Biosciences Industry Establishments	1,366	70,006	II

*State ranking figures for bioscience industry employment metrics are calculated as quintiles (I=Top Quintile; V=Bottom Quintile).

Bioscience Industry Base, 2010

Wisconsin Highlights:

	Wisconsin			United States		
INDUSTRY SUBSECTOR	2010	2001–10 Change	2007–10 Change	2010	2001–10 Change	2007–10 Change
AGRICULTURAL FEEDSTOCK & CHEMICALS						
Establishments	45	-14.6%	-21.5%	1,760	2.2%	4.5%
Employment	1,246	29.9%	-4.1%	72,988	-5.9%	-5.5%
Location Quotient	0.81			n/a		
Direct-Effect Employment Multiplier	4.3			5.6		
Total Employment Impact	5,304			405,197		
Average Annual Wage (constant 2010 dollars)	$54,822	27.3%	14.9%	$70,869	8.7%	1.5%
DRUGS & PHARMACEUTICALS						
Establishments	74	32.1%	13.8%	2,908	11.3%	6.5%
Employment	3,835	47.3%	13.5%	296,759	-3.1%	-7.0%
Location Quotient	0.62			n/a		
Direct-Effect Employment Multiplier	3.9			5.3		
Total Employment Impact	15,079			1,464,492		
Average Annual Wage (constant 2010 dollars)	$63,033	10.9%	-11.2%	$99,486	15.3%	1.1%
MEDICAL DEVICES & EQUIPMENT						
Establishments	196	42.0%	35.2%	6,957	11.7%	7.7%
Employment	10,675	-2.4%	8.0%	343,468	-0.3%	-0.8%
Location Quotient	1.48			n/a		
Direct-Effect Employment Multiplier	3.6			2.9		
Total Employment Impact	38,766			956,767		
Average Annual Wage (constant 2010 dollars)	$79,409	7.0%	-3.7%	$72,301	13.9%	1.0%
RESEARCH, TESTING, & MEDICAL LABORATORIES						
Establishments	250	42.4%	15.4%	22,212	48.9%	20.1%
Employment	5,035	41.6%	18.0%	451,923	23.8%	6.1%
Location Quotient	0.53			n/a		
Direct-Effect Employment Multiplier	2.3			2.6		
Total Employment Impact	11,597			1,178,741		
Average Annual Wage (constant 2010 dollars)	$59,145	13.7%	-5.1%	$84,065	12.3%	1.5%
BIOSCIENCE-RELATED DISTRIBUTION						
Establishments	801	-22.7%	-7.1%	36,170	-1.1%	-0.3%
Employment	10,005	2.7%	-4.9%	440,394	6.0%	-4.2%
Location Quotient	1.08			n/a		
Direct-Effect Employment Multiplier	2.3			2.4		
Total Employment Impact Multiplier	22,995			1,046,594		
Average Annual Wage (constant 2010 dollars)	$67,270	9.8%	0.0%	$80,049	12.2%	-0.4%
TOTAL BIOSCIENCE INDUSTRY						
Establishments	1,366	-6.3%	1.5%	70,006	12.8%	6.7%
Employment	30,796	10.8%	5.0%	1,605,533	6.4%	-1.4%
Location Quotient	0.91			n/a		
Direct-Effect Employment Multiplier	3.0			3.2		
Total Employment Impact	93,741			5,051,791		
Average Annual Wage (constant 2010 dollars)	$69,118	7.8%	-3.0%	$82,697	13.1%	0.6%
TOTAL PRIVATE SECTOR						
Establishments	149,573	6.0%	-1.5%	8,752,494	12.5%	0.1%
Employment	2,245,774	-3.9%	-6.5%	106,863,403	-2.9%	-6.9%
Average Annual Wage (constant 2010 dollars)	$36,990	2.9%	-0.3%	$46,317	4.4%	-0.4%

Note: U.S. employment metrics include Puerto Rico. Estimates of total employment impacts do not include Puerto Rico.

Employment, Establishment, and Wage Data: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW); enhanced file from IMPLAN.

Employment Multipliers: U.S. Bureau of Economic Analysis RIMS II Employment Multipliers, 2008 (most current available).

WISCONSIN
TECHNOLOGY
COUNCIL

Assembly Committee on Jobs, Economy and Mining
May 1, 2013
Testimony related to AB 181
Tom Still, president, Wisconsin Technology Council

Thank you, Chairwoman Williams, for holding this hearing today, and thanks to Reps. Kuglitsch and Clark for leading the effort in this house to create a state-leveraged fund of funds.

Let me begin with a question: What do Spinback, Silver Spring Network, Study Blue and SLIL Biomedical all have in common?

They are four companies that were born in Wisconsin but which felt compelled to move away, or largely so, primarily because they couldn't find enough capital to grow here.

Now, what do Logistics Health Inc., TomoTherapy and Pinstripe have in common?

These are three companies that attracted venture capital – sometimes from outside Wisconsin –that allowed them to grow and add jobs here. Hundreds and hundreds of jobs, in fact.

The list of success stories goes on, of course, but so does the list of lost opportunities.

The problem from my perspective is a simple one: If Wisconsin wants to keep more of its homegrown ideas, talent and companies at home, it needs to invest in its future.

Assembly Bill 181 is a groundbreaking bill that promises to do precisely that.

It will send a message, loud and clear, to the investment community from coast-to-coast that Wisconsin has an impressive supply of high-growth companies and that it wants to create more.

It will tell the nation that Wisconsin is ready to compete for its fair share of a $50-billion-per-year angel and venture capital industry that has been clustered in a relatively few states for too long.

It will tell other states – more than 30 that have some kind of investment program – that Wisconsin is ready to join them in the competition to create a more vibrant economy.

It will tell our communities and parents that Wisconsin understands the need to build the kind of economy that will stop "brain drain" and keep our best and brightest kids at home.

It will build on a solid foundation of angel-backed companies that basically didn't exist 10 years ago, and upon an entrepreneurial culture that is emerging across the state.

Perhaps most important, it will tell our homegrown entrepreneurs that there is hope for them and their companies.

That's not because every young company will attract an investment from the fund this bill will create – that's simply not possible with the size of the investment – but because it signals the state cares about what they mean to the state's future.

At the Wisconsin Technology Council, we see those entrepreneurs in many different settings – through our Wisconsin Governor's Business Plan Contest, which is now 10 years old, through our conferences and best-practice events, and through the Wisconsin Angel Network, which was established to help facilitate deal flow.

Many of those entrepreneurs have also supported the Wisconsin Growth Capital Coalition, which came together in January to provide a united voice for this legislation.

There are many questions I could address if you wish, but let me leave you with this thought:

There is no reason for Wisconsin to get beaten in this race.

We have the ideas, the R&D institutions, the talent, the supporting organizations and, increasingly, the management talent. We even have a start on the capital. This bill will help build on a solid foundation – and signal to everyone that Wisconsin is in this game to win.

Thank you.

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Assembly

PUBLIC HEARING

Committee on Jobs, Economy and Mining

The committee will hold a public hearing on the following items at the time specified below:

Wednesday, May 1, 2013
9:01 AM
417 North (GAR Hall)

Public hearing will begin immediately following adjournment of the informational hearing.

Assembly Bill 181

Relating to: venture capital investment program.

By Representatives Kuglitsch, Clark, Suder, Tauchen, Klenke, J. Ott, Petryk, Kahl, LeMahieu, A. Ott, Jagler, Honadel, Kolste, Bies, Smith, Brooks, Kleefisch, Tittl, Nygren, Sargent, Endsley and Schraa; cosponsored by Senators Darling, T. Cullen, Leibham, Gudex, Schultz and L. Taylor.

Representative Mary Williams
Chair

WISCONSIN LEGISLATIVE COUNCIL

Terry C. Anderson, Director
Laura D. Rose, Deputy Director

[illegible]), relating to the creation of a [illegible]e draft directs the Wisconsin [illegible]fund of funds" model venture capital investment program.

The draft requires WEDC to contract with an investment manager to manage investments in venture capital funds that in turn invest capital directly in operating businesses. WEDC must pay $25 million to the investment manager for investments in venture capital funds and the investment manager must contribute to those investments $300,000 of its own capital and $5 million raised from other funding sources. Each venture capital fund that receives capital under the program must invest all of the capital received in businesses that are headquartered in Wisconsin and employ at least 50% of their full-time employees in Wisconsin. At least one-half of the capital each venture capital fund receives under the program must be invested in one or more businesses that employ fewer than 150 full-time employees at the time of the initial investment.

The program is described in greater detail below.

INVESTMENT MANAGER

The draft specifies a process to select the investment manager responsible for managing investments in venture capital funds. In addition, the draft requires that there be a contract that includes certain conditions between WEDC and the investment manager.

Selection Process

The draft directs the State of Wisconsin Investment Board (SWIB) and the WEDC board to form a committee to select the investment manager. The majority of the committee's members must be representatives of SWIB. The committee must then select a person as investment manager that has expertise in the venture capital or private equity asset class.

Contract Requirements

WEDC is required to contract with the investment manager. The contract must establish the investment manager's compensation including any management fee. Any management fee may not exceed $250,000 annually and the investment manager's total compensation may not exceed $800,000. In addition, the investment manager must agree to disclose to WEDC any interest that it or an owner, stockholder, partner, officer, director, member, employee, or agent of the investment manager has in a venture capital fund that receives capital under the program or a business in which a venture capital fund invests that capital.

Passive Review of the Contract

The contract between WEDC and the investment manager chosen by the selection committee is subject to passive review by the Joint Committee on Finance. WEDC must notify the Joint Committee on Finance that an investment manager has been chosen by the selection committee. This notice must be in writing and include the proposed contract with the investment manager. The co-chairpersons of the Joint Committee on Finance have 14 working days after receiving WEDC's notice to schedule a meeting to determine whether the proposed contract fails to meet an applicable requirement under the draft. If a meeting has not been scheduled during that timeframe, WEDC and the investment manager may execute the contract. If a meeting is scheduled, WEDC and the investment manager may still execute the contract unless the Joint Committee on Finance determines that the contract, in whole or in part, fails to meet an applicable requirement under the draft.

INVESTMENTS IN VENTURE CAPITAL FUNDS

The draft establishes an economic development program to make investments in venture capital funds that invest in businesses in this state. WEDC is required to pay $25 million to the investment manager during fiscal year 2013-14. In addition, the investment manager responsible for investing in venture capital funds and the venture capital funds that receive capital under the program and invest in operating businesses are subject to several requirements.

Investment Manager Responsibilities

The draft requires the investment manager to contribute an additional $300,000 of its own capital and $5 million raised from other sources to the $25 million that it receives from WEDC. The investment manager must attempt to invest at least 50% of the capital in venture capital funds within 12 months after the date the investment manager executes its contract with WEDC and must attempt to invest all of the capital in venture capital funds within 24 months after the date the contract was executed. In addition, the investment manager is required to invest all of the capital in at least four different venture capital funds and is prohibited from committing more than $10 million to any single venture capital fund. The investment manager must attempt to ensure that, on average, a venture capital fund invests $2 in a business for every $1 the investment manager contributes to the investment in that business. Furthermore, the investment manager's profit-sharing agreement with each venture capital fund must be on terms that are substantially equivalent to the terms applicable for other funding sources of the venture capital fund.

Venture Capital Fund Responsibilities

The investment manager is required to contract with each venture capital fund that receives capital under the program. Under those contracts, each venture capital fund must agree to several conditions, described below.

Invest in Wisconsin Businesses

The venture capital fund must invest all of the capital it receives under the program in one or more businesses that are headquartered in Wisconsin and employ at least 50% of its full-time employees, including any subsidiary or other affiliated entity, in Wisconsin. However, if within three years after the venture capital fund makes an investment in a business, the business no longer meets one of these requirements, the venture capital fund must recover from the business the total amount the venture capital fund invested and reinvest that capital in one or more businesses that are eligible to receive an investment under the program.

Invest in Small Businesses

When a venture capital fund first invests capital in businesses, at least one-half of the capital must be invested in one or more businesses that employ fewer than 150 full-time employees, including any subsidiary or other affiliated entity.

Invest all Capital Received Within Four Years

The venture capital fund must invest at least 50% of the capital it receives under the program within 24 months after receiving it and must invest all of the capital it receives under the program in businesses within 48 months of receiving it.

Invest in Targeted Industries

The venture capital fund must invest all capital it receives under the program in businesses in the agriculture, information technology, engineered products, advanced manufacturing, or medical devices and imaging industries. In addition, the venture capital fund must attempt to ensure that all capital it receives under the program is invested in businesses that are diverse with respect to industry classification and geographic location within Wisconsin.

Match Contributions Made by the Investment Manager

The venture capital fund must at least match the amount of capital the investment manager contributes to an investment in a business with an investment of capital in that business that the venture capital fund has raised from other sources.

Provide Investment Manager Reporting Information

The venture capital fund must provide to the investment manager the information necessary for the investment manager to make its annual report to WEDC. The required information for this report is described below.

Disclose Interests in Investments to WEDC and the Investment Manager

The venture capital fund must disclose to the investment manager and to WEDC any interests that the venture capital fund or an owner, stockholder, partner, officer, director, member, employee, or agent of the venture capital fund holds in a business in which the venture capital fund invests or intends to invest capital under the program.

THE STATE'S SHARE OF PROCEEDS FROM INVESTMENTS

The investment manager must hold in an escrow account its gross proceeds from all investments of capital contributed to the program by WEDC. In addition, the investment manager must pay, at least annually, the amount in that account to the Secretary of the Department of Administration for deposit into the general fund. These requirements are only in effect until the investment manager has paid a total of $25 million to the state, the amount of WEDC's contribution. After that point, the investment manager must pay 90% of its gross proceeds from such investments to the Secretary of Administration for deposit into the general fund.

REPORTING REQUIREMENTS

The draft requires the investment manager to submit an annual report to WEDC and the WEDC must submit two progress reports to the Legislature, one in 2015 and one in 2018.

Annual Report of the Investment Manager

The investment manager must submit a report to WEDC each year within 90 days after the end of the investment manager's fiscal year. The report must include all of the following:

- An audit of the investment manager's financial statements performed by an independent certified public accountant.

- The investment manager's internal rate of return from investments under the program.

- For each venture capital fund that contracts with the investment manager under the program:
  - The name and address of the venture capital fund.
  - The amounts invested in the venture capital fund.
  - An accounting of any fees the venture capital fund paid to itself or any principal or manager of the venture capital fund.
- For each business in which a venture capital fund held an investment of capital contributed by the investment manager under the program:
  - The name and address of the business.
  - A description of the nature of the business.
  - An identification of the venture capital fund that made the investment in the business.
  - The amount of each investment in the business and the amount invested by the venture capital fund from funding sources other than the investment manager.
  - The internal rate of return realized by the venture capital fund on the investment in the business.
  - A statement of the number of employees the business employed when the venture capital fund first invested in the business under the program, the number of employees the business employed on the first day of the investment manager's fiscal year, and the number of employees the business employed on the last day of the investment manager's fiscal year.

WEDC must submit the investment manager's report to the Legislature within 10 days of receiving it.

WEDC Progress Reports

WEDC must submit two progress reports to the Joint Committee on Finance, one in 2015 and one in 2018. Each report must contain the following:

- A comprehensive assessment of the performance to date of the investment program.
- Any recommendations WEDC has for improving the investment program and the specific actions that WEDC intends to take, or proposes to be taken, to implement those recommendations.

- Any recommendations SWIB has for improving the investment program and the specific actions that SWIB proposes to be taken to implement those recommendations.

If you have any questions, please feel free to contact me directly at the Legislative Council staff offices.

MQ:ksm

Henning, Anna

From: Henning, Anna
Sent: Thursday, April 18, 2013 4:35 PM
To: Friedl, Cathy
Subject: Comparison between LRB 1244 and LRB 1812

Cathy,

Below is a brief, informal summary of the major differences between LRB-1244/1 ("1244") and LRB-1812/P1 ("1812"). For the sake of brevity, the summary necessarily omits some details regarding each of the bills. Please let me know if you have questions, or if I can provide any additional help.

Anna

Fund of funds model. Each bill creates a fund-of-funds venture capital investment program, to be administered by WEDC. The major differences between the two bills relate to the sizes of the programs, and the details regarding how the programs are structured.

Fund Manager; how selected. Under 1244, WEDC must hire a fund manager, who is selected by a committee appointed by SWIB. The selection under 1244 isn't subject to approval by the Joint Committee on Finance. Under 1812, WEDC must contract with a fund manager (called an "investment manager" in 1812), who is selected by a committee formed jointly by WEDC and SWIB, but the majority of the committee members must be representatives of SWIB. The selection under 1812 is subject to a limited-scope passive review by the Joint Committee on Finance.

Amount appropriated. 1812 provides for a one-time ~~tran~~ payment ~~appropriation~~ of $25 million for the fund-of-funds program under the bill. Under 1244, $52 million in GPR would be transferred to the "Badger Jobs Fund" (a trust fund created under the bill) in each of four fiscal years from July 1, 2014 to June 30, 2018, for a total of $208 million. $180 million of that amount would be used for the fund-of-funds program. The other $28 million would be used for the other programs mentioned under the last heading below.

Limit on management fees (investment funds). Under 1244, a certified investment fund may not pay a fee to itself that equals more than 2% of the total amount of fund capital contributed by WEDC. 1812 does not appear to include a specified limit on the management fees paid to an investment fund (termed a "venture capital fund" under the bill).

Limit on amount given to each fund. Under 1244, no more than $15 million may be given to a single certified investment fund. Under 1812, no more than $5 million may be invested in any given venture capital fund.

Required investment match. Both bills require investment funds to contribute funds raised from sources other than the state toward investments; however, the requirement in 1812 is on a per-investment basis, whereas the requirement in 1244 is based on the "total moneys for investment" by the fund. Specifically, 1812 requires that the fund investment manager contribute $300,000 of its own moneys and $5 million raised from other sources to the capital provided by the state. In addition, 1812 requires that each investment fund must at least match the money contributed by the state for each investment in a business, and also requires the investment manager to ensure that, on average, the fund invests $2 in a business for every $1 contributed by the state. 1244 requires that a Wisconsin-based investment fund may not receive more than 50% of the money for investment from the state, whereas an investment fund based outside of Wisconsin may not receive more than 20% of the total money for investment from the state.

Timeline for investments. 1812 requires half of the money to be invested within two years of the date that WEDC contracts with the investment manager, and all of the money to be invested within four years of that date. 1244 requires 100% of the fund capital given to an investment fund to be invested in businesses within four years of the date that the investment fund received a commitment of fund capital.

Amount invested in each business. 1244 provides a minimum amount, $250,000, that must be invested in each business that receives funds through the program created under the bill. 1812 does not appear to specify a particular any minimum or maximum amount that must be invested in each business that receives funds.

Contracts with investment funds. Both bills require contracts with investment funds. Under 1244, the contract is negotiated between WEDC and a certified investment fund. Under 1812, the contract is negotiated between an investment fund and the investment manager. Both bills require the contracts to include a number of specified conditions. Some of these conditions are similar in the two bills; for example, both bills require the contracts to include a provision requiring the disclosure of certain conflicts of interest. Some differences in the required contract terms are addressed under other headings in this summary.

Wisconsin businesses. Both bills require all of the venture capital funds invested through the programs to be invested in businesses that are headquartered in Wisconsin. In addition, under 1244, all but $10 million of the investments in the fund-of-funds program (i.e., $170 million) must be made in businesses that employ at least half of their full-time employees in Wisconsin. Under 1812, all of the businesses that receive funds must employ at least half of their full-time employees in Wisconsin. 1812 also includes a clawback provision that would apply in the event that a business relocates its headquarters outside of the state or fails to employ at least 50% of its full-time employees here.

Preference for small businesses. 1244 requires that $170 million of the $180 million invested through the program be invested in businesses that have fewer than 150 total employees. 1812 does not appear to require that a preference be given to small businesses.

Types of industries. 1244 allows investment funds to be used in a somewhat broader set of industries than does 1812. 1244 requires that $170 million of the $180 million invested through the fund-of-funds program must be invested in businesses that agree to use fund capital for research and development, the introduction of new products, entry into new markets, or other activities expected to grow the businesses and create jobs in Wisconsin, and that are not primarily engaged in real estate, insurance, banking, lending, lobbying, political consulting, professional services, or certain retail sales. 1812 requires that all of the businesses receiving funds are in the agriculture, information technology, engineered products, advanced manufacturing, or medical devices and imaging industries sectors.

Repayment of funds to the state. 1812 requires that the investment manager must pay all investment proceeds to the state until it has repaid the initial $25 million investment. After that time, 1812 requires the investment manager to pay 90% of all proceeds to the state. 1244 does not appear to include an analogous requirement, but it requires certified investment funds to pay WEDC an amount equal to 100% of the principal amount of fund capital received from the state before making any payment to other funding sources, and it provides for the transfer of WEDC's assets under the program to the general fund after the program sunsets in 2031.

Sunset date. The fund of funds program under 1244 would sunset on December 31, 2031. 1812 does not include a specific sunset date, but authorizes only a one-time appropriation for the program and provides timelines for investments, as described above.

Reporting requirements. 1244 includes two reporting requirements. First, it requires WEDC to submit an annual report, containing specified information regarding the financial status, rate of return, and specified other information, to the Legislature and Governor. Second, it requires WEDC to submit a single performance report to the Joint Committee on Finance in 2020. 1812 requires the investment manager to submit a report to WEDC annually, and requires WEDC to submit that report to the Legislature. 1812 also requires WEDC to submit two progress reports to the Joint Committee on Finance, in 2015 and 2018.

Other provisions. The "Badger Jobs Fund" created under 1244 includes two programs in addition to the fund-of-funds program described above. The first is an $8 million program for direct state investment in certain Wisconsin businesses.

The second program is a $20,000 million program for investment in certified business development organizations. 1812 does not create any programs other than the fund-of-funds program created under the bill.

Anna Henning
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Wisconsin Legislative Council
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WISCONSIN LEGISLATIVE COUNCIL

Terry C. Anderson, Director
Laura D. Rose, Deputy Director

TO: REPRESENTATIVE MIKE KUGLITSCH

FROM: Anna Henning, Staff Attorney AH

RE: Procedural Requirements and Options Regarding LRB-1812/P1, Relating to the Establishment of a Venture Capital Investment Program

DATE: April 19, 2013

This memorandum responds to two questions posed by your office regarding LRB-1812/P1 ("the bill"), relating to the establishment of a venture capital investment program. The bill directs the Wisconsin Economic Development Corporation (WEDC) to establish a "fund of funds" venture capital investment program to facilitate the investment of venture capital in Wisconsin businesses. The bill sets forth the structure and specified requirements for the program, including, among other provisions, the method for selecting an investment manager, required terms in contracts negotiated with participating investment funds, reporting requirements, and the portion of investment proceeds that must be paid to the state.

The questions posed by your office are as follows: (1) what are the options for appropriating funding for the program established under the bill in relation with 2013 Assembly Bill 40, the Biennial Budget Bill ("the budget bill")?; and (2) assuming that the bill will be considered as a stand-alone bill rather than a budget amendment, would it be required to be referred to the Joint Committee on Finance? Brief answers to both questions are provided below.

OPTIONS IN RELATION TO THE BUDGET BILL

The bill does not appropriate funds for the venture capital investment program established under the bill. Instead, the bill requires WEDC to pay $25 million to the investment manager for the program during the 2013-14 fiscal year.

The budget bill creates a new $25 million appropriation to the Department of Administration (DOA) for the purpose of a "capital investment program" to make "coinvestments in business startups and investment capital projects." Although the amount of the appropriation matches the amount of the payment required to be made by WEDC under the bill, an amendment to the appropriation under the budget bill would be required before the funds could be used as specified under the bill.

The following three options might be considered, depending on the bill's procedural . posture in relation to the budget bill:

- If the bill is enacted prior to the enactment of the budget bill, an amendment could be proposed to the budget bill to designate the $25 million appropriation under the budget bill as an appropriation to WEDC for the investment program required to be created under the bill. Specifically, an amendment might reference the investment program and authorize payment of the $25 million to WEDC upon the execution of the contract required under the bill between WEDC and the investment manager for the program.
- The bill could be proposed as an amendment to the budget bill.
- If the budget bill is enacted before the bill is considered, an amendment could be proposed for the bill that would make the change to the appropriation created by the budget bill.

REFERRAL TO THE JOINT COMMITTEE ON FINANCE

As drafted, the bill would not be required to be referred to the Joint Committee on Finance. Under Wisconsin law, any bill that is introduced for the appropriation of money, providing for revenue, or relating to taxation must be referred to the Joint Committee on Finance before it is passed. [s. 13.093 (1), Stats.] As mentioned, the bill does not appropriate funds for the venture capital investment program established under the bill. Because the bill, as drafted, does not appropriate any funds, any state money used for that payment would need to have been previously appropriated. In addition, the bill does not provide for revenue or relate to taxation. Thus, the referral of the bill to the Joint Committee on Finance is not required under the Wisconsin statutes.[1]

If you have any questions, please feel free to contact me directly at the Legislative Council staff offices.

AH:ty

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[1] This answer assumes that the bill has not been amended to include an appropriation. Also, note that any legislative proposal *may* be referred to the Joint Committee on Finance, and that there may be prudent public policy reasons for doing so in some cases.

Chair's Notes
Public Informational Hearing and Public Hearing
Assembly Committee on Jobs, Economy, and Mining
May 1, 2013

Introductory Items

- *Strike the gavel.*
- The hearing is called to order.
- The clerk will call the roll.
- *Welcome committee members to the first committee hearing of the session.*
- Today, the committee will:
  - First, hold an informational hearing to discuss administrative rules chapters.
  - Then, the committee will hold a public hearing on Assembly Bill 181.
- Those wishing to speak during the public hearing portion of the meeting may register with the Assembly Sergeant's staff. Members of the public may also register a position without speaking.

Informational Hearing

- *Make any introductory comments about the administrative rules and the discussion.*
- *Invite Leg. Council to provide a brief overview of the rules chapters.*
- *Ask members if they have comments.*

Public Hearing: Assembly Bill 181

- We will now move to the public hearing portion of the committee meeting. Is there unanimous consent to carry over the roll?
- *Remind members of the public to fill out a slip with the Sergeant's staff if they would like to testify.*
- *Call the first speaker(s).*

- *After each person testifies, thank the speaker, ask any questions you have, and ask the committee members whether they have any questions.*

- I want to thank everyone who testified today.

- The hearing is adjourned.

- *Announce any plans for future committee meetings.*

- *Strike the gavel.*