



WMC

WISCONSIN'S BUSINESS VOICE SINCE 1911

TO: Senate Venture Capital Committee
FROM: James A. Buchen, Senior Vice President, Government Relations
DATE: September 6, 2012
RE: Venture Capital Legislation

Job creation is a goal that unites policy makers of both political parties as well as business leaders, union heads and average citizens. We all desire a strong and growing economy that provides meaningful work for all that want it.

As we examine new policies aimed at stimulating job creation, it is important to recognize that many, if not most new jobs, are created by small business in various stages of growth. Taking a start-up company to a point where it employs even twenty-five or thirty people requires a certain amount of investment capital. Investing in start-up companies is, by definition, high risk. As a result, there are a limited number of investors willing to take on such risk and, therefore, many potentially successful companies never make it due to lack of adequate equity capital.

Wisconsin's relative lack of venture capital is well documented. To be successful over the long haul in creating jobs, part of our state's economic development strategy must address this shortage of venture capital.

Numerous investment groups and organizations worked diligently last session with interested legislators and the Governor to identify an appropriate policy to enhance the supply of venture capital available to Wisconsin start-up companies. While no legislation was ultimately adopted, we can build on the substantial work that has already been done as we prepare for the next session.

We are in the process of meeting with many of the interested groups and organizations involved in the debate last session in an attempt to identify common themes and consensus positions on key issues. Out of those meeting there appears to be substantial agreement on the following:

- There is a need for additional venture capital for investment in Wisconsin companies.
- A pool of state money should be established that would be co-invested with private capital.
- The state money should be managed by a private firm with experience in such matters.
- The funds would be available for investment alongside private investment in Wisconsin companies that have been selected by private venture capital groups.
- The state's share of the total venture capital investment in any single start-up company should be limited to a fixed percentage (for example, 50%) and no single investment should be more than a fixed percentage of the total dollars in the state pool (for example, 5%)
- Returns on the state's share of any investment should accrue to the state fund so that it could be self-perpetuating (evergreen).

Most of the people we spoke with estimate the total demand for state co-investment funds would not likely exceed \$50 million per year, for a period of four years. At that point, the fund would likely be self-sustaining. Furthermore, the approach outlined here does not involve the state giving away taxpayer dollars for private investment or benefit. Instead, it contemplates the state acting as an investor alongside private investors, sharing the same risk/reward profile. The state could enjoy financial returns and, more importantly, economic development and job creation benefits.

In an effort to build on these initial observations, we intend to continue working with interested parties on an appropriate venture capital policy for Wisconsin. We look forward to working with the committee on this important issue and will share any additional ideas that come forward at the next hearing.