



## Legislative Fiscal Bureau

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April 30, 2009

Joint Committee on Finance

Paper #250

### Wisconsin Venture Fund (Commerce -- Economic Development)

[LFB 2009-11 Budget Summary: Page 180, #4]

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#### CURRENT LAW

The Department of Commerce administers a wide variety of separate economic development programs that provide financial assistance. However, the type of assistance provided can be categorized into five general areas: (a) entrepreneurial development; (b) capital financing; (c) technology development; (d) employee training; (e) trade shows; and (f) targeted businesses.

Commerce provides early planning grants and entrepreneurial training grants to assist entrepreneurs and small businesses in developing business plans. A match of at least 25% of costs is required. The grants are provided through the Wisconsin Entrepreneurs' Network (WEN).

The Department provides financial assistance to technology-based businesses, entrepreneurs, and consortia for research, product development, process development, or commercialization through the following programs: (a) the technology commercialization grant and loan, and tax credit programs; (b) the technology development fund (TDF) and technology development loan (TDL) program funded through the Wisconsin Development Fund (WDF); and, (c) the technology zones program.

The early stage business investment program was created under the provisions of 2003 Wisconsin Act 255. In addition to creating the technology commercialization grant and loan program, Act 255 established the angel investment tax credit and early stage seed investment tax credit under the state individual income and corporate income and franchise taxes to increase investment in start-up and early stage businesses by venture capitalists and angel investors. The angel investment tax credit provides a credit for an angel investment in a certified business (qualified new business venture), while the early stage seed tax credit provides a credit for an

investment by a fund manager in a certified business. The Department of Commerce has administrative responsibilities related to eligibility, certification of qualified businesses and fund managers, verification, and reporting requirements for the Department and investors.

## **GOVERNOR**

Provide \$1,316,000 GPR annually to create the Wisconsin venture fund to provide capital connections and venture seed grants to eligible institutions.

## **DISCUSSION POINTS**

1. Commerce could award a capital connections grant to fund projects that did any of the following:

a. Expanded access for Wisconsin business ventures and entrepreneurs to existing capital networks.

b. Created or runs a network to connect Wisconsin business ventures and entrepreneurs with available capital.

c. Created an activity, event, or strategy to connect Wisconsin business ventures and entrepreneurs with available capital.

2. Commerce could award a venture seed grant to an eligible institution to match funds raised by the institution for funding a new business or determining proof of concept and feasibility of a new business idea, if the Department determined the award of a grant would increase the amount of funding for new businesses or would leverage private investment and facilitate the creation of jobs in this state.

"Eligible institution" would be defined as a research institution or nonprofit organization involved in economic development. The proceeds of a grant awarded from the Wisconsin venture fund would be required to be used to provide funding as proposed by the institution in the institution's application. Funding would be provided from a newly created GPR appropriation. In the executive budget book, the Governor indicates that funding for the Wisconsin venture fund would be provided by a \$30 increase in the securities agent and investment advisor representative license fee.

3. Commerce would be required to promulgate administrative rules for the program. The Department would specifically be required to establish by rule a Wisconsin venture fund advisory council, which would make recommendations to Commerce regarding all of the following:

a. A process by which Commerce, the Department of Financial Institutions, and other qualified persons could review proposals.

b. The maximum amount of capital connections or venture seed grant that could be awarded.

c. Requirements that applicants for grants secure funding from sources other than the state, to match a portion of the amount of a grant awarded from the Wisconsin venture fund.

d. Monitoring of projects funded by grants, including monitoring of job creation.

4. Government intervention into the venture capital industry is premised on two rationales. First, venture capital is necessary for starting and expanding innovative companies and such companies are essential for economic growth. Second, the early stage venture capital market is characterized by significant and persistent market failures which have limited the amount of financing from the private sector (Mason, 2008). Public assistance, such as tax credits and direct financing, to pioneering business ventures can generate externalities that benefit other companies, particularly in the earliest days of the industry. Subsequent venture capital transactions are facilitated as entrepreneurs become more familiar with venture capital financing, intermediaries, such as lawyers, gain experience, institutional investors become more comfortable that the industry is viable, and venture capitalists find more peers. Public support of new businesses can also indicate to investors such businesses are high quality investments. Public support can generate economic spillovers from research and development that would not be fully funded with only private investments (Lerner and Watson, 2007)

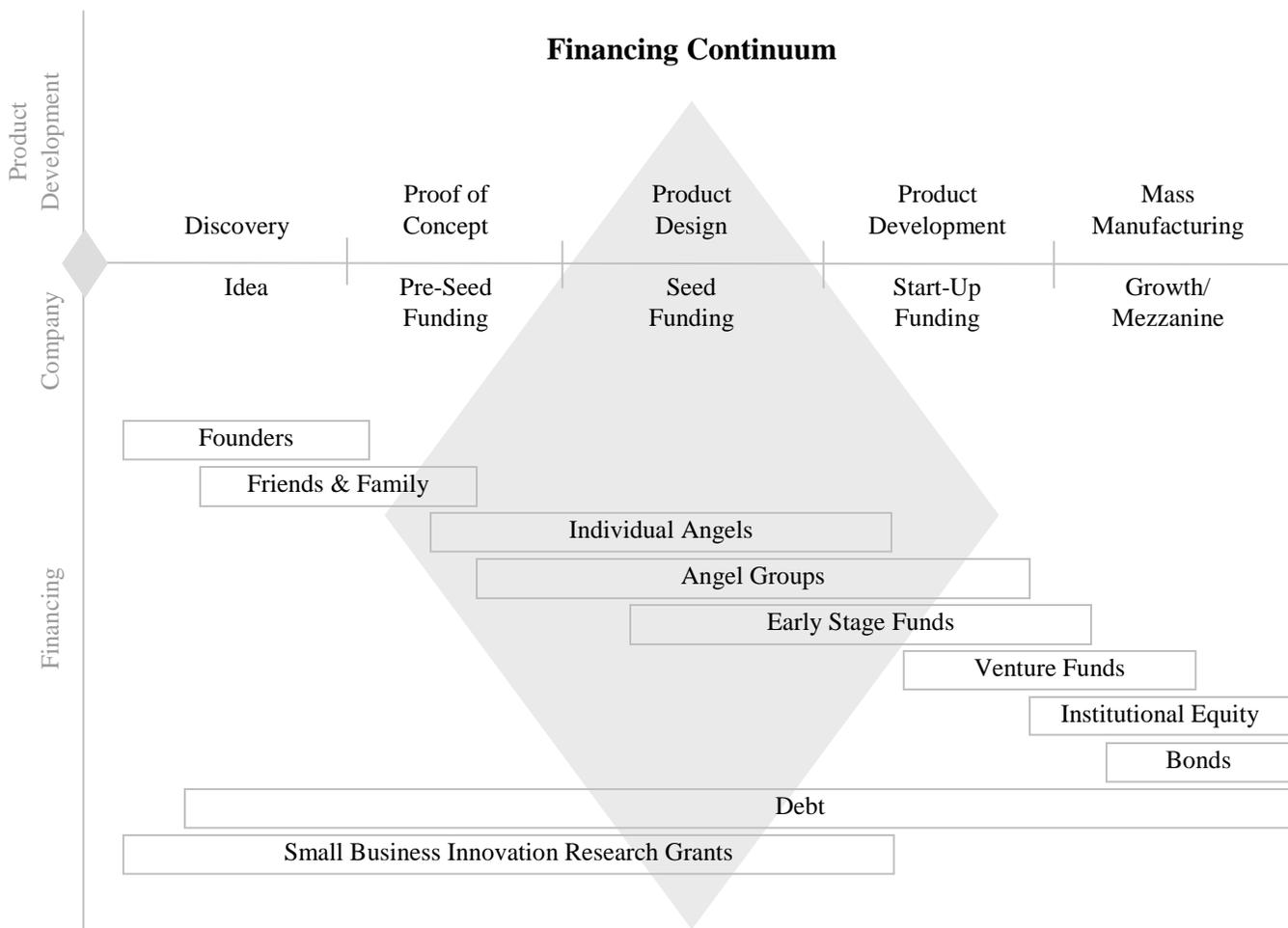
5. Studies have shown that venture capital funding has a strong positive impact on innovation. Venture capital funded firms were responsible for an estimated 8% of industrial innovations in the U.S. between 1983 and 1992. In turn, studies show that innovation, particularly as reflected in productivity, has been a major force in the growth of output in highly industrialized economies (Lerner and Watson, 2007). Firm-level studies have found that venture capital funded companies bring products to market sooner (Hellmann and Puri, 2000), develop reliable routines more rapidly (Hellmann and Puri, 2002), and generally have higher employment and sales growth rates than the average start-up business (Jain and Kini, 1995, Engel and Keibach, 2007). One study determined that increasing venture capital in an area stimulated business start-up activities, and also expanded the number of jobs and aggregate income (Samila and Sorenson, 2008). More generally, regions with a higher level of entrepreneurship capital exhibit higher levels of output and productivity. Entrepreneurship capital is defined as a region's endowment with factors conducive to the creation of new businesses, including the existence of venture capital, public relations, market research, consulting firms, and opportunities for networking through trade associations and local business organizations. (Audretsch and Keilbach, 2007).

6. A firm with an established financial record and tangible assets has access to financial markets with an extensive number of financing instruments. The owner can decide the financial structure of the business based on the cost of capital. However, for the high growth entrepreneurial firm, the supply of capital is not so easily accessed, causing systemic market mismatches at some stages of development. At the inception of an entrepreneurial venture, the business is owner/inventor financed through a variety of bootstrapping methods. Bootstrapping involves

creative methods of acquiring the use of resources without raising equity from traditional sources, and can involve both acquisitions of capital and reducing expenses. As the venture begins to develop, but is still in the pre-seed stage of growth, small pools of capital are provided by the owner/inventor, family, friends, debt, and grants, such as Small Business Innovation Research (SBIR) grants. These initial sources of capital are insufficient for any significant expansion of the business. Start-up business ventures need additional funding in order to achieve positive cash flows or to raise a venture round of equity.

To develop a positive cash flow or to raise venture capital, the entrepreneurial venture must access the early-stage capital market. Early-stage capital is a critical link in the development of such businesses and common sources of this capital are angel investors, angel groups, early-stage investment funds, and some early-stage venture capital funds. Angel investors are high net worth, non-institutional private equity investors. When a business venture enters a rapid growth stage, or is far enough in the regulatory process for life sciences, funding is provided from the venture capital market. At this stage, institutional venture capital funds are a primary source of money. Venture fund involvement often results in significant increases in the value of the business. Increased business venture value allows investors to exit the business by either taking the business public (initial public offerings -- IPO's), or selling to strategic acquirers. Through such "exits" all the previous investors, including the founders, angel investors, and venture funds receive payback for their investments. Figure 1 provides a graphic representation of the financing continuum for an entrepreneurial business venture. The diamond highlights the portion of the early-stage capital market where market failure and inefficiencies can cause a "funding gap." This is an area where entrepreneurs are seeking capital investments of \$1 million to \$5 million. This size of investment is generally too large for a single angel network, but not large enough for a venture capital fund.

**FIGURE 1**



7. The supply of capital for entrepreneurial ventures may be restricted by a number of factors including: (a) private and institutional investors are risk adverse and do not invest what would be expected in seed projects because of the level of risk; (b) the type of ventures that require risk capital don't match investor's preferences, particularly in sectors such as life sciences and information technology; (c) investor anonymity limits information, particularly in the case of angel investors; (d) investors lack appropriate expertise and skills; (e) the economic downturn along with high due diligence and monitoring costs encourages investors to have fewer and larger investments; and (f) poorly developed investment frameworks, such as secondary stock markets. The demand for capital can be restricted by: (a) the lack of quality deal flow and investment ready ventures that offer elements to attract investment; (b) the reluctance of some entrepreneurs to accept external investors and their influence; and (c) difficulties in accessing capital that can discourage entrepreneurs and potential entrepreneurs from entering the market which, in turn, reduces deal flow. (FORA, Entrepreneurship Index 2005.) "Deal flow" is generally the rate at which investment proposals are presented to investors.

8. The larger capital requirements, have led to a strategy of co-investment. Some of the

capital requirements are met through co-investment between private investors, such as angel investors and networks, and early-stage financing entities. Angel investors fund and expand and grow a new business venture until the business attracts venture capital investment or until the business goes public or is sold. However, the Center for Venture Research indicates that angel alliances and co-investment strategies do not appear to be sufficiently supplying the early stage capital needs of high growth business ventures. (Sohl, 2003). In addition, movement of angel investments into second stage financing may redistribute capital from the seed and start-up stages (Sohl, 2006).

9. Table 1, is compiled from the Price Waterhouse Coopers, MoneyTree report of investments by the professional venture capital community for 2005 through 2008. The report measures cash-for-equity investments in private emerging companies, and includes the investment activity of professional venture capital firms, small business investment corporations, banks and similar entities whose primary activity is financial investing. The investment amounts also include cases where other participants, such as angel investors, corporations, and governments participate in a qualified and verified financing round. The table shows the estimated amount of investments in emerging companies and number of deals, by stage of development, for Wisconsin and the U.S. The table shows that the state's share of total national investments in emerging companies is fairly small. The amount of investments by stage of development varies considerably, from year to year. The table also shows that aggregate investments in Wisconsin increased from 2005 through 2007. Investment activity in 2008 was affected by the severe downturn in the economy.

**TABLE 1****Cash-for-Equity Investments in Emerging Companies by Stage of Development**

	WISCONSIN			UNITED STATES		
	<u>Amount</u>	Share of <u>Total U.S.</u>	<u>Deals</u>	Share of <u>Total U.S.</u>	<u>Amount</u>	<u>Deals</u>
<b>2005</b>						
Startup/Seed	\$50,000	0.01%	2	0.84%	\$898,000,000	239
Early Stage	2,190,000	0.06	3	0.36	3,819,000,000	822
Expansion	21,705,100	0.25	5	0.46	8,664,000,000	1,093
Later Stage	<u>44,567,300</u>	0.46	<u>6</u>	0.60	<u>9,792,000,000</u>	<u>1,001</u>
Total	\$68,512,400	0.30%	16	0.51%	\$23,173,000,000	3,155
<b>2006</b>						
Startup/Seed	\$3,250,000	0.28%	2	0.56%	\$1,177,000,000	355
Early Stage	31,720,000	0.76	8	0.84	4,171,000,000	950
Expansion	10,530,100	0.09	4	0.29	11,521,000,000	1,366
Later Stage	<u>26,800,200</u>	0.27	<u>6</u>	0.59	<u>9,870,000,000</u>	<u>1,014</u>
Total	\$72,300,300	0.27%	20	0.54%	\$26,739,000,000	3,685
<b>2007</b>						
Startup/Seed	\$630,000	0.05%	2	0.44%	\$1,268,000,000	450
Early Stage	13,594,900	0.25	8	0.77	5,487,000,000	1,036
Expansion	46,181,000	0.40	7	0.56	11,676,000,000	1,259
Later Stage	<u>29,741,000</u>	0.24	<u>4</u>	0.33	<u>12,454,000,000</u>	<u>1,207</u>
Total	\$90,146,900	0.29%	21	0.53%	\$30,885,000,000	3,952
<b>2008</b>						
Startup/Seed	\$10,400,000	0.69%	5	1.14%	\$1,510,000,000	440
Early Stage	36,712,900	0.69	3	0.30	5,340,000,000	1,013
Expansion	20,559,000	0.19	6	0.51	10,604,000,000	1,178
Later Stage	<u>7,569,800</u>	0.07	<u>5</u>	0.42	<u>10,844,000,000</u>	<u>1,177</u>
Total	\$75,241,700	0.27%	19	0.50%	\$28,298,000,000	3,808

10. Table 2 shows venture capital investments in Wisconsin from 2003 through 2007. Venture capital investments increased in the state in each year. In 2007, total venture capital investments in Wisconsin companies was \$111 million in 26 deals.

**TABLE 2****Venture Capital Investments**

<u>Year</u>	<u>Amount</u>	<u>Percent Change</u>
2003	\$42,000,000	
2004	58,000,000	38.10%
2005	69,000,000	18.97
2006	73,000,000	5.80
2007	111,000,000	52.05

11. Table 3 is based on the NorthStar Economics of Madison annual survey of angel investment groups and shows the amount invested by those groups between 2002 and 2007. Many of the angel deals recorded in the survey were part of two or more angel groups co-investing in a single company. The table shows that investments by angel groups have grown substantially in recent years.

**TABLE 3****Angel Network Investments**

<u>Year</u>	<u>Amount</u>	<u>Percent Change</u>	<u>Deals</u>	<u>Percent Change</u>
2002	\$1,600,000		11	
2003	1,738,000	8.63%	11	0.00%
2004	3,713,297	113.65	10	-9.09
2005	5,387,496	45.09	18	80.00
2006	7,427,170	37.86	27	50.00
2007	11,665,500	57.07	42	55.56

12. The annual 2007 survey, conducted by the Wisconsin Angel network, of attorneys who represented entrepreneurs in early-stage investment deals found that total early-stage investment in Wisconsin companies in 2007 was almost \$147 million, compared to \$102.0 million in 2006, or an increase of approximately 43%. Average deal size increased from \$2.24 million to \$4 million per round. A significant factor in the average deal amount were three large deals in the energy industry (\$50.2 million). Excluding these deals would reduce average deal size in 2007 to slightly less than \$3 million. The leading area of investment was in life science/biotech companies. There were 13 life science deals with a total investment of \$69.3 million and an average investment of about \$5.3 million. In 2006 there were 13 life science deals that raised \$35.7 million in equity capital.

13. In a July, 2008, white paper on the Wisconsin venture capital landscape the State of Wisconsin Investment Board (SWIB) indicates that the state has created a "supportive atmosphere

to encourage entrepreneurial environment that can attract venture capital." The following factors are responsible for creating this environment:

*a. Research and Development Institutions. Research and development institutions are responsible for the emergence of promising technologies in which to invest. The University of Wisconsin-Madison is consistently among the top ranked public and private universities in competing for federal science and technology research grant funds. In 2006, UW-Madison's federal and non-federal funded research and development expenditures of \$832 million ranked second (first among public institutions) among U.S. academic research institutions (National Science Foundation). In 2005, the University's research generated the eleventh highest rate of invention disclosures per \$100 million in research spending. The school's interdisciplinary research tradition is reflected in facilities such as the Waisman Center, and the Forest Products Laboratory. The Wisconsin Institute for Discovery, to be completed in 2010, will serve as a hub of public and private interdisciplinary research. Other prominent research institutions in Wisconsin include: (1) the Medical College of Wisconsin; (2) the Milwaukee School of Engineering; (3) the University of Wisconsin-Milwaukee; (4) Marquette University, and (5) Marshfield Clinic.*

*b. Technology Transfer. The Wisconsin Alumni Research Foundation (WARF) is perennially in the top-ten list of university technology transfer offices. Since 1925, WARF has processed more than 5,600 UW-Madison faculty and staff inventions, and obtained 1,820 patents and 1,530 license agreements on those inventions. In 2008, WARF managed more than 856 pending and 933 issued U.S. patents, had a portfolio of more than 1,000 technologies available for licensing, and more than 940 active license agreements. WARF related entities that also assist in technology transfer include: (1) WiCell Research Institute, established to advance human embryonic stem cell research and therapeutic applications; (2) UW-Madison Office of Corporate Relations created to connect corporations to the University's resources and promote entrepreneurial activities within the UW community; and (3) WiSys Technology Foundation, a WARF subsidiary that manages the intellectual property for all the institutions of the University of Wisconsin, other than UW-Madison.*

*c. Corporate Catalysts. Corporate involvement can benefit start-up companies through direct investment and by providing a pool of management talent. Many businesses with significant research and development functions and cutting edge technologies are located in Wisconsin. GE Healthcare Technologies with a \$17 billion business in medical imaging and information technologies, patient monitoring, and healthcare services, has acquired Lunar Corporation and Datex Ohmeda. In addition, the company has been the training ground for many high level managers now working at companies such as TomoTherapy and NeuWave. Other corporate relationships with emerging companies in Wisconsin include Microsoft's acquisition of Jellyfish.com, Shell Oil's strategic relationship with Virent Energy, and Roche's acquisition of NimbleGen.*

*d. Critical Mass -- Concentration of Entrepreneurs and Resources. Wisconsin is in the process of creating a critical mass where entrepreneurs and resources coalesce into a technological, cultural, and economic system that is self-sustaining, and growing. Components include:*

1. Technology Industry and Investor Networks. Organizations and groups have been

organized in the state to link founders, entrepreneurs and investors. Included in the group are the Wisconsin Technology Council, Wisconsin Biotechnology and Medical Device association (BioForward), and the Wisconsin Association for Biomedical Research and Education that have promoted technology and entrepreneurship and contributed to the development of new industry networks such as the Wisconsin Innovation Network, the Biotechnology Industry Organization, and the Mid-America Healthcare Investors Network.

2. Research Parks. Research parks and business incubators stimulate technology transfer, the formation and growth of high-tech entrepreneurial start-ups, and regional economic development. The University Research Park (URP) was formed through the collaborative efforts of the University of Wisconsin-Madison, and state and local governments. The URP is a not-for-profit corporation operated for the University to encourage and promote scientific, technological, and educational opportunities, and all income generated is distributed to the University to assist in further scientific and technological investigation, and transfer of knowledge. URP officials have announced plans to build a new accelerator building to house life-science companies that have moved beyond early-stage development. Other Dane county private incubator start-up facilities include Fitchburg Technology Campus, TEC Incubator Center, and Novation Campus. The Milwaukee County Research Park Corporation (MCRPC) manages development of a university-related research park in Milwaukee County, which supports technology-based companies. The MCRP includes the Technology Innovation Center, a business incubator supporting more than 77 firms.

3. Tax Policy Initiatives. The angel investment and early stage seed investment tax credits were created under the provisions of 2003 Wisconsin Act 255. The Act created individual income and corporate income and franchise tax credits for angel investments and fund manager investments in qualified new business ventures. Under the provisions of 2008 Wisconsin Act 2, the credits were expanded to increase the amount of credits that could be claimed in one year and in total, allow for larger angel investments in qualified new business ventures, modify the definition of qualified businesses to include more technology- and life science oriented ventures, direct credits to nanotechnology, and allow insurance companies to claim the credit. Credit amounts equal to 25% of a claimant's bona fide angel investment, or 25% of the claimant's investment paid to a fund manager that is invested in a qualified new business venture.

4. Angel Groups. The Wisconsin Angel Network (WAN) was created in 2005 as a program administered by the Wisconsin Technology Council, with assistance from the state Departments of Commerce and Financial Institutions. WAN was established to build angel network capital capacity in the state in order to increase the number and amount of seed-stage equity investments in entrepreneurial ventures. WAN provides services and support to angel investment networks. WAN support includes operating the deal-flow pipeline that is an Internet site that allows investors to review projects submitted by entrepreneurs for investment consideration, and includes 600 entrepreneurs, 180 executive summaries, and 250 investors. WAN assists in organizing and creating angel investment networks, organizes, publicizes, and sponsors educational programs and conferences, and facilitates communication between angel investors. WAN provides resources such as *ePlan*, a video presentation that can be transmitted by e-mail, other videos, and templates,

samples, and reports. The number of angel networks in Wisconsin has increased from six in 2005 to 20 in 2008.

14. The proposed venture fund capital connections grants would provide funding to organizations, events and activities that would connect entrepreneurs and investors, provide education, and opportunity for networking. The grants could be used to fund existing organizations and networks, such as WAN, BioForward, BizStarts in Milwaukee (Nonprofit entrepreneurial network), and regional economic organizations, such as NewNorth (public private consortium in 18 Northeast Wisconsin counties). Proposed venture networks would also be eligible for grants. Funds could be used to sponsor events that connect capital and companies. (Wisconsin Medical Device and Biotechnology Conference, Information Technology Association of Wisconsin Conferences). A goal would be to develop a venture fund network to connect investors with Wisconsin entrepreneurs.

Venture seed grants would provide matching funds to leverage funds raised and invested by research institutions and nonprofit organizations involved in economic development. The program would provide funding to institutions and organizations that fund new businesses, determine proof of concept, or the feasibility of a new business idea. The grant program would provide seed money to help establish investment funds to invest in early-stage entrepreneurial ventures. An example would be the Northwest Enterprise Fund, established by the Northwest Regional Planning Commission. In addition, grants could be awarded to organizations such as BizStarts and University of Wisconsin System institutions.

15. The Wisconsin Technology Council has three main functions:

a. *Policy Guidance.* The Council is a science and technology advisor to the Governor and Legislature and provides policy guidance to them and state agencies and other related institutions through Council activities, reports, and white papers.

b. *Networking.* The Council serves an in-state networking role through the Wisconsin Innovation Network (WIN), a community-based economic development corporation that fosters innovation and entrepreneurship. Local chapters offer connections with entrepreneurs and a variety of industries and professionals in high-technology, law, banking, government, public relations, and manufacturing. The Council works with other statewide and local affiliates, such as the Wisconsin Biotechnology Association, Accelerate Madison, and eInnovate. Out-of-state networking is also provided through the I-Q corridor linking organizations and individuals in Wisconsin, Minnesota, and Illinois, and through national events, such as the international BIO conference.

c. *Economic Development Catalyst.* The Technology Council serves as an economic development catalyst through a number of programs including: (1) WIN; (2) the Wisconsin Entrepreneur's Conference, which provides assistance to entrepreneurs at all stages of business development; (3) the Wisconsin Early Stage Symposium for technology companies seeking capital; (4) the Governor's Business Plan Contest competition that provides business plan advice

and cash and in-kind prizes; and (5) the Wisconsin Security Research Consortium comprised of public and private research organizations acting to develop expertise and link state organizations with federal homeland security projects. The Council also operates the Wisconsin Angel Network (WAN) which was created with funding from Commerce, the Department of Financial Institutions (DFI), and the SBC Foundation, to build angel investor network capacity in Wisconsin in order to increase the number and amount of early stage investments in Wisconsin businesses. WAN membership is generally limited to investment funds and angel investors, and the network operates a deal flow pipeline Internet site with projects submitted by entrepreneurs for investment consideration. The network organizes educational programs and provides investment information for members.

The Wisconsin Technology Council is staffed by an executive director and is funded by annual high-technology business development corporation grants of \$250,000 from Commerce, and by matching contributions from the private sector. The Council also receives an annual grant of \$40,000 to administer WAN and an annual grant of \$50,000 to underwrite the annual Early Stage Symposium and the annual Entrepreneur's Conference. Assembly Bill 75 would increase the annual grant by \$100,000 to replace the separate grants.

16. The Department of Commerce administers a wide variety of separate economic development programs that provide financial assistance, including entrepreneurial and technology development. As noted Commerce provides early planning grants and entrepreneurial training grants to assist entrepreneurs and small businesses in developing business plans. A match of at least 25% of costs is required. The grants are provided through the Wisconsin Entrepreneurs' Network (WEN). Commerce provides financial assistance to technology-based businesses, entrepreneurs, and consortia for research, product development, process development, or commercialization through the following programs: (a) the technology commercialization grant and loan, and tax credit programs; (b) the technology development fund (TDF) and technology development loan (TDL) program; and, (c) the technology zones program.

Wisconsin Development Fund (WDF) awards are made using general grant and loan criteria, or through the Wisconsin trade project, and the technology commercialization grant and loan program. Commerce is authorized to make grants or loans for eligible activities including: (a) capital financing; (b) worker training; (c); entrepreneurial development; (d) providing assistance to technology-based business or to businesses at a foreign trade show or event; (e) promoting urban or regional economic development; (f) establishing revolving loan funds; (g) providing working capital; and (h) promoting employee ownership by conducting or implementing feasibility studies to investigate the reorganization or new incorporation of existing businesses as employee-owned businesses. The technology commercialization grant and loan program provides funding for various stages of business venture development and for an entrepreneurial and technology transfer center. WDF grants and loans can provide up to 75% of project costs, depending on the program. The WDF is funded through a general purpose revenue (GPR) and a program revenue (PR) repayments appropriation. 2008-09 base level funding for the WDF is \$7,098,400 GPR and \$4,050,000 PR. Under the bill, the WDF is provided \$6,472,500 GPR and \$4,009,500 PR annually.

17. An alternative to a separate venture fund would be to incorporate the venture fund into the WDF. Capital connections and venture seed grant criteria could be included as eligibility criteria for WDF grants and loans. This could potentially provide more funds for developing venture capital networks and seed grants. In addition, it would conform with the Legislative Audit Bureau recommendation included in the 2006 audit of state economic development programs (Report 06-9) that the Legislature consider reducing the number of economic development programs by consolidating statutory requirements and standardizing eligibility requirements for programs that have similar purposes and provide similar services. Total GPR funding would be \$7,788,500. However, the venture funds would be available for other non-entrepreneurial uses. The WDF provides financial assistance to many projects that are not entrepreneurial ventures. As a result, there could be less capital connection and venture seed grants than would be the case with a separate appropriation.

18. A recent study (Hirukawa and Ueda, 2008) found that venture capital investment does not significantly affect total factor productivity growth. Total factor productivity growth was often positively and significantly related with future, rather than current, venture capital investments, which is consistent with the innovation-first hypothesis. Essentially the study found that innovation occurs first, and then venture capital becomes involved. The study concludes that the positive impact of venture capital on innovation is at best weak. Based on these findings, government funds could focus on providing cost-effective infrastructure, including power grids, transportation and communications systems, social services that benefit entrepreneurs, such as health care, and systems for commercializing university research.

**ALTERNATIVES**

1. Adopt the Governor's recommendation to provide \$1,316,000 GPR annually to create the Wisconsin venture fund to provide capital connections and venture seed grants to eligible institutions.
2. Delete the Governor's recommendation and instead, provide the Wisconsin Development Fund with \$1,316,000 annually, and establish criteria that authorize capital connections and venture seed grants from the WDF.
3. Delete the Governor's recommendation.

<b>ALT 3</b>	<b>Change to Bill</b>
	Funding
GPR	- \$2,632,000

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