

## Fiscal Estimate - 2001 Session

Original     
  Updated     
  Corrected     
  Supplemental

LRB Number <b>01-4086/2</b>	Introduction Number <b>SB-296</b>
-----------------------------	-----------------------------------

**Subject**  
 Investment in capital venture firms and high-technology grants

**Fiscal Effect**

**State:**

No State Fiscal Effect  
 Indeterminate

<input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations	<input type="checkbox"/> Increase Existing Revenues <input type="checkbox"/> Decrease Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs
--	--	---

**Local:**

No Local Government Costs  
 Indeterminate

1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
--	--	--

<b>Fund Sources Affected</b>	<b>Affected Ch. 20 Appropriations</b>
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input checked="" type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS S.20.536(1)(K)	

<b>Agency/Prepared By</b> INV/ Karrie Richardson (608) 267-2059	<b>Authorized Signature</b> Kenneth Johnson (608) 267-0221	<b>Date</b> 11/1/01
--	---	------------------------

## Fiscal Estimate Narratives

INV 11/2/01

LRB Number	01-4086/2	Introduction Number	SB-296	Estimate Type	Original
<b>Subject</b>					
Investment in capital venture firms and high-technology grants					

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, the State Investment Board (SWIB) is authorized to make investments in venture capital investment firms and in businesses that are in the venture capital stage of development. This amount may not exceed 2% of the assets of the Fixed Retirement Trust Fund. As of September 30th, 2001, SWIB's venture capital investments totaled \$210 million, or .004% of assets. This bill requires SWIB to invest an amount not exceeding \$50,000,000 in venture capital investment firms before June 30, 2004, in addition to any amount SWIB has already invested in such firms.

In 1999, the Board of Trustees began an initiative to make funds available for venture capital for biotech and healthcare. Initially, SWIB issued a request for information (RFI) to approximately 25 venture capital firms that operate throughout the nation. The RFI specified investments primarily in biotech and healthcare in Wisconsin based companies. Based on the information received from the RFI, SWIB broadened the scope of the proposal to include healthcare, biotechnology, and other technological opportunities before issuing the request for proposal (RFP). Subsequently, 14 venture capital firms submitted RFPs; we interviewed six firms and committed to invest in two Wisconsin domiciled firms in mid 2000.

To date, the Board has committed \$50 million to SWIB's healthcare/biotech venture capital initiative. Because of the nature of companies seeking venture capital, that money is not all invested at one time. The companies seeking the capital are often small, have an idea or product that may or may not be marketable, and have little if any experience running a business and lack management experience. Consequently, it takes longer for a venture capital firm to evaluate the viability of a company seeking funds and often requires hands-on management guidance once the investment is made. Although firms seeking venture capital are higher risk than other investments, they must still be viable investments that meet the Board's fiduciary requirements and investment guidelines.

Of the Board's \$50 million initiative, \$45 million has been committed to date to two venture capital firms. Approximately \$14 million has been invested in over a dozen companies, the majority of which are Wisconsin based.

SB296 would require the Board to invest an additional amount not to exceed \$50 million in venture capital investment firms. The firms would then be required to invest at least 75% of the money in Wisconsin domiciled healthcare and biotech companies. In addition, the companies must be located in specific areas of the state.

The Board has a fiduciary obligation to invest funds in the best interests of the trusts it manages. As currently drafted, the restrictions of the bill could limit future venture capital investments and could affect investment returns. It could also require SWIB to invest at an imprudent time in limited locations. The exact fiscal impact is indeterminate.

### Long-Range Fiscal Implications