

SENATE HEARING SLIP

(Please Print Plainly)

DATE: Oct. 31, 2001

BILL NO. SB ~~296~~ 296

OR
SUBJECT _____

Phil Albert
(NAME)

(Street Address or Route Number)

(City and Zip Code)

Commerce
(Representing)

Speaking in Favor:

Speaking Against:

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

Senate Sergeant-At-Arms
State Capitol - B35 South
P.O. Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP

(Please Print Plainly)

DATE: 10-31-01

BILL NO. SB 296

OR
SUBJECT LABOR

Venture Capital

Pan Kuehn
(NAME)

(Street Address or Route Number)

MADISON
(City and Zip Code)

WI Biotechnology Assoc
(Representing)

Speaking in Favor:

Speaking Against:

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

Senate Sergeant-At-Arms
State Capitol - B35 South
P.O. Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP

(Please Print Plainly)

DATE: 10/31/01

BILL NO. SB 296

OR
SUBJECT _____

Spina Doctor

SANDR DECK
(NAME)

(Street Address or Route Number)

MADISON WI 53703
(City and Zip Code)

STATE OF WI INVESTMENT BENS
(Representing)

Speaking in Favor:

Speaking Against:

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

Senate Sergeant-At-Arms
State Capitol - B35 South
P.O. Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP

(Please Print Plainly)

DATE: 10-31

BILL NO. SB 295/296
OR

SUBJECT _____

(NAME) Chuck Chvala

(Street Address or Route Number) _____

(City and Zip Code) _____

(Representing) _____

Speaking in Favor:

Speaking Against:

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

Senate Sergeant-At-Arms
State Capitol - B35 South
P.O. Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP

(Please Print Plainly)

DATE: 10-31-01

BILL NO. SB 295 & SB 296
OR

SUBJECT _____

(NAME) Julie Lassa

(Street Address or Route Number) _____

(City and Zip Code) PO Box 101 SHELTON

(Representing) Self

Speaking in Favor:

Speaking Against:

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

Senate Sergeant-At-Arms
State Capitol - B35 South
P.O. Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP

(Please Print Plainly)

DATE: 10/31/01

BILL NO. SB 296; SB 295
OR

SUBJECT _____

(NAME) Elizabeth L.R. Donley

(Street Address or Route Number) _____

(City and Zip Code) Madison, WI 53705

(Representing) Wisconsin Alumni Research Foundation

Speaking in Favor:

Speaking Against:

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

Senate Sergeant-At-Arms
State Capitol - B35 South
P.O. Box 7882
Madison, WI 53707-7882

State of Wisconsin Investment Board

P.O. Box 7842, Madison WI 53707 (608) 266-2381

MEMORANDUM

Date: October 31, 2001

To: Honorable Robert Jauch, Chair

From: Sandy Drew
Legislative Liaison

Re: **SB 296 Regarding Venture Capital Investments**

Senator Jauch and Members of the Committee, I am here on behalf of the State of Wisconsin Investment Board (SWIB) to give you information about what SWIB is currently doing to make venture capital funds available to start-up companies and to offer some suggestions to amend SB 296.

In 1999, the Board of Trustees agreed to make funds available for venture capital. Initially, SWIB issued a request for information (RFI) to approximately 25 venture capital firms that operate throughout the nation. The RFI basically followed the same requirements that are listed in SB 296. Based on the information we received from the RFI, we 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 agreed to commit \$50 million to local venture capital. 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 or 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 investment guidelines.

The following illustrates the funds committed to date:

Partnership/Holdings	Closing Date	Commitment
Venture Investors Early State Fund III	6-19-00	\$15,000,000
Venture Investors of WI-Direct Investment		5,000,000
Mason Wells Biomedical Fund I	7-14-00	20,000,000
Mason Wells-Direct Investment		5,000,000

Of the funds committed, over 30% was invested in over a dozen companies, the majority of which are Wisconsin based, within the first 15 months. Venture Investors is almost 50% drawn and Mason Wells is over 25%.

As you can see, the SWIB Trustees have made a firm commitment to invest in viable venture capital opportunities that meet their fiduciary standards. The staff and Board are also open to making further commitments. However, we are concerned that SB 296, as introduced, could hinder both the Board's ability to make further commitments to venture capital and to comply with its fiduciary responsibilities to the participants of the WRS. For these reasons, we suggest some amendments to SB 296 that will meet your desire to make more venture capital funds available and to meet our need for flexibility to invest in viable investment opportunities. The following summarizes our suggestions:

1. Page 3, lines through 12, amend to read:

25.17 (71) (a) Before June 30, 2004, endeavor to commit to invest an amount not exceeding \$50,000,000 in venture capital investment firms that meet the Board's fiduciary standards and guidelines. This paragraph shall not limit the board's investment authority provided elsewhere and ~~The amount that is required to be invested under this paragraph shall be in addition to any amount that is committed to be invested in venture capital investment firms before the effective date of this paragraph . . .~~ *(This will assure that the venture capital investment firms have the time and expertise to adequately evaluate the companies seeking the venture capital funds to assure that the investments they make comply with the Board's investment guidelines and fiduciary standards. It also assures that the Board may continue to consider venture capital investments in other industries or location.)*

2. Page 3, lines 17 and 18, amend to read:

2. The commitment of the venture capital investment firms to making venture capital investments in the health care, ~~and~~ biotechnology and other technological industries. *(This will keep the scope the same as we currently have for the venture capital firms.)*

3. Page 4, delete lines 6 through 11. *(As drafted, this paragraph would restrict the Board's fiduciary responsibilities as it would preclude the Board from investing in any locale not specifically listed in the bill.)*

The Board of Trustees has made a firm commitment to helping viable start-up companies, and we want to continue working with the University, the Medical College of Wisconsin, the Legislature and the Administration. However, any steps we take must be workable for all of us, and we believe that the suggestions we have made will achieve that purpose.

Senator Jauch and Committee members:

I am Elizabeth Donley, General Counsel for the Wisconsin Alumni Research Foundation ("WARF") and General Manager of WARF's subsidiary, WiSys Technology Foundation, Inc. ("WiSys"). Thank you for the opportunity to testify in favor of SB 296 and SB 295. I am taking the place of WARF's Managing Director, Carl Gulbrandsen, who is appearing before a United States Senate Committee today on another issue. The bills for which I am here to advocate your support will provide critical infrastructure to support biotechnology development in our state. SB 296 will provide much needed capital to support start-up companies in Wisconsin. SB 295 will accelerate the BioStar initiative to provide the University of Wisconsin with competitive research facilities which will attract top notch students and faculty to our great university. WARF has committed \$80 million to this important initiative.

WARF is the intellectual property management organization for the University of Wisconsin-Madison ("UW-Madison"). WARF's mission is to support scientific research at UW-Madison by moving technology from the laboratory to the marketplace for the benefit of the inventors, the university and the public. Money earned by WARF from protection and licensing of technology created at the University is paid annually to the University in a grant that is used to support research excellence. Traditionally, WARF has transferred technology from the campus to the marketplace by licensing the technology to on-going businesses.

In 1993, WARF began licensing technology to start-up companies. The first faculty start-up licensed by WARF was Third Wave Technologies. Third Wave is now a rapidly growing biotechnology company with 300 employees and revenues of approximately \$25 million per year. Third Wave launched a successful IPO in January 2001.

Since 1993, WARF has licensed 34 start-up companies and has taken equity in 21 of those companies. All but two of these companies are located in Wisconsin. These start-up companies are predominantly life science companies such as S'lil Biomedical, a start-up pharmaceutical company that recently started its first clinical study of a WARF licensed pharmaceutical and Tomotherapy, a next generation radiotherapy equipment manufacturer. Many of WARF's start-up companies are biotech companies such as Gala Design, a transgenic animal company, Third Wave, and Nimblegen, a genomic research tool companies. But also among these start-up companies are physical science companies such as Alfalight, a manufacturer of laser technology for the fiber optics industry and Soft Switching Technologies, a power conditioning company.

It is important to note that all but two start-up companies based around technology created at the University and licensed by WARF have stayed in Wisconsin. The majority of these companies were founded by faculty or staff of the University. In most instances, the faculty and staff remain at the University having a board or advisory position with the company. Another factor contributing to start-up technologies staying in Wisconsin is that the technology around which these companies are formed generally have a

considerable amount of research to do to commercialize a product and the association with the University facilitates such early stage research. The University also provides a skilled work force for early stage companies, so that is an additional reason for the companies to remain in Wisconsin. It should be noted that the 34 companies WARF licensed are not the only start-ups originating out of the University between 1993 and the present. Although it is difficult to estimate the exact number, it would be reasonable to believe that the total number of start-ups based around University technology since 1993 is closer to double the number of start-ups with which WARF has worked.

Recently, WARF established a subsidiary known as WiSys Technology Foundation, Inc. ("WiSys") to provide the same high quality technology transfer services to the other campuses of the University of Wisconsin System as WARF has provided for Madison for more than 75 years. As in Madison, WiSys expects that faculty at other campuses will be interested in starting companies. In fact, it would not be surprising to see a higher level of start-up activity at some of the regional campuses because research conducted at campuses such as UW-Stout and UW-Milwaukee tend to be oriented more toward applied science than basic research.

In an effort to facilitate the transfer of technology and economic development based around University technology, WiSys and the Small Business Development Corporation ("SBDC") have formed an alliance. The SBDC provides services and continuing education to entrepreneurs throughout the State and has offices at each of the four year campuses and some of the two year campuses. Through this alliance, WARF and the SBDC will hire shared employees at various locations throughout the State. This program will start with a shared employee in the Chippewa River Valley. Proposed joint employees will provide a regional presence for WiSys and will offer new perspectives in technology transfer and economic development for WiSys and the SBDC. WiSys will focus on areas of technology strength at each campus and look for ways to enhance industry collaboration, licensing and sponsored research opportunities. The SBDC will focus on local economic development efforts and look for ways to use University resources to enhance local and regional economic and work force development. These shared employees will work both with the local business community and with the faculty and staff on campus. Having a foot both in the business community and the campus, the joint WiSys SBDC employees will likely be particularly adept at identifying start-up opportunities for faculty and staff.

In Milwaukee, another foundation has been formed called TechStar. This foundation was formed to facilitate the formation of start-up companies around technology from Marquette, UW-Milwaukee, the Medical College of Wisconsin, Milwaukee School of Engineering and UW-Parkside. WiSys and TechStar have reached agreement on an alliance agreement which will provide an opportunity for WiSys, the SBDC and TechStar to align their efforts and to explore ways each organization might complement the other in the start-up area.

Other research organizations in the state such as Marshfield Clinic and Gunderson Clinic are interested in transferring their research findings to locally established start-up

companies. WiSys is engaged in active conversations with those organizations to explore ways in which WiSys might assist those organizations in their efforts to stimulate economic development around technology created at their institutions.

All of this indicates that there is much potential and interest in our state for development of technology based start-up companies which will greatly benefit our state's economy. Services such as those provided by WARF and WiSys are important. But equally important is access to capital which has been and continues to be a limiting factor in our success at starting companies in Wisconsin.

Last year, WARF was involved in 6 start-up companies. This year, the number will be five. Five is good, but it has been a struggle because of the scarcity of capital. It should also be recognized that compared to our peer institutions, we are considerably behind in start-up activity. Our lag is not due to the lack of science, it is due to the lack of capital.

Lack of capital also a problem for already established start-up companies which are seeking follow-on rounds of funding. We have a number of companies that are at risk of being stalled in their development because of the scarcity of venture capital. This year's life sciences venture fair had ten Wisconsin companies - six licensed by WARF - seeking \$101 million dollars in total capital.

WARF believes that the availability of capital and the facilities BioStar will offer to recruit and retain in Wisconsin, our best and brightest, are critical to Wisconsin's economic success. The funds previously committed to this effort by WARF have been invested to continue a program that has demonstrated success. We would appreciate very much your support of the pending legislation.

Wisconsin Alumni Research Foundation
614 Walnut Street
Madison, Wisconsin 53705
phone 608-262-6650
fax 608-263-1064

Senate Economic Development and Corrections Committee Wednesday, October 31, 2001

Thank you for the opportunity to testify regarding Senate Bill 296 as it relates to the Wisconsin Development Fund and the Wisconsin Technology Council.

I recognize the importance of investing funds in marketing to the world Wisconsin's strengths in the area of biotechnology. Commerce and the Wisconsin Development Fund have played a critical role in assisting in the creation of new jobs in the businesses of the New Economy. The Technology Development Programs fund technical research to develop new, or improve existing products or processes, provides seed capital for leveraging private sector investment and assists entrepreneurs develop manufacturing operations. Since 1999, the WDF has funded the following biotechnology projects:

Company	City	Award Date	Project Cost	Award Amount	Leverage
BioAssay, Inc.	Madison	2/25/99	\$41,800	\$31,300	\$10,500
American Applied Research	Milwaukee	5/25/99	258,000	110,800	147,200
Genome Technologies, LLC	Madison	11/23/99	196,700	147,525	49,175
Gala Design, LLC	Sauk City	4/25/00	4,750,290	259,000	4,491,290
Imago Scientific Instruments Corporation	Madison	1/23/01	600,500	245,000	355,500
Renovar, Inc	Madison	3/27/01	725,794	150,000	575,794
Marshfield Clinic	Marshfield	4/24/01	104,782	65,880	38,902
Marshfield Clinic	Marshfield	4/25/01	17,159,000	2,000,000	15,159,000
Ultra Visual Medical Systems	Madison	5/22/01	4,083,000	250,000	3,833,000
Infigen	Madison	8/28/01	3,100,000	300,000	2,800,000
TomoTherapy, Inc.	Middleton	1/26/99	3,084,208	500,000	2,584,208
Niblegen Systems, Inc.	Madison	11/23/99	1,024,875	500,000	524,875
Gala Design, LLC	Sauk City	4/25/00	4,750,290	62,500	4,687,790
Peat Technologies Corporations	Siren	4/25/00	400,000	100,000	300,000
Total			\$40,279,239	\$4,722,005	\$35,557,234

The Wisconsin Development Fund (WDF) consists of nine programs:

- (1) technology development grants and loans;
- (2) customized labor training grants and loans;
- (3) major economic development grants and loans;
- (4) urban early planning grants;
- (5) Wisconsin trade project;
- (6) employee ownership assistance grants;
- (7) manufacturing extension center grants;
- (8) revolving loan fund capitalization grants; and
- (9) the rapid response fund.

During the 2001-2003 biennium, a little more than \$20 million is available in the WDF -- approximately 23 percent less than last biennium. At the end of the 1999-2001 biennium, WDF awards totaled \$178.8 million, leveraged more than \$1.8 billion in private sector investment, and assisted in the retention or upgrade of more than 63,615 existing positions and the creation of more than 33,583 new jobs in Wisconsin.

Commerce awards are increasingly benefiting companies interested in investing in their facilities to make them more competitive and in their employees to enhance their skills. Thus, you will see the emphasis in the Customized Labor Training Awards. Wisconsin is developing a critical mass of technology companies. To further growth in this sector, Commerce has increased its commitment to technology development. The increased activity in the Technology Development and Early Planning Grant programs show our efforts in this regard.

Customized Labor Training Awards			
Biennium	Amount	Number	Average Amount
FY 1999-01	\$9,362,702	73	\$128,256
FY 1997-99	6,454,322	41	\$157,422
Technology Development Fund Awards			
Biennium	Amount	Number	Average Amount
FY 1999-01	\$3,854,000 *	12	\$321,171
FY 1997-99	807,000	5	161,420
<i>* Represents \$2,000,000 award given to Marshfield Clinic.</i>			
Technology Development Loan Awards			
Biennium	Amount	Number	Average Amount
FY 1999-01	\$3,433,910	15	209,565
FY 1997-99	2,246,500	8	280,813
Urban Early Planning Grant Program Awards			
Biennium	Amount	Number	Average Amount
FY 1999-01	\$104,409	33	\$3,163
Entrepreneurial Training Grant Program Awards			
Biennium	Amount	Number	Average Amount
FY 1999-01	\$106,712	153	\$693

Senate Bill 296 would provide Commerce the authority to make a grant to the Wisconsin Technology Council (WITEC) of up to \$2.5 million for a media campaign that identifies Wisconsin as a leader in biotechnology. WITEC would need to receive matching funds from other sources, making \$5 million available for the campaign. To put this into perspective, Forward Wisconsin spends \$1 million annually, with equal contributions from the private sector and the state to fulfill its primary mission of attracting new businesses to the state.

As acting Secretary at Commerce, I am a member of the WITEC board of directors along with 40 other individuals interested in the issues facing Wisconsin's fast-growing high-technology sector. Commerce provided \$250,000 to help establish WITEC and will provide up to \$250,000 annually to help fund WITEC's activities and to leverage private support. WITEC is a relatively new organization. We are currently in the process of

developing a strategic plan and a list of action items that relate to the proper role for WITEC.

Wisconsin resources -- at the University System, Technical College System, Private Colleges and Universities, Workforce Development, Forward Wisconsin, State of Wisconsin Investment Board, and in the private sector -- are committed to take advantage of our strengths in the economic opportunities of biotechnology. Let me highlight a few examples of Commerce's efforts to promote Biotechnology:

- **Policy Development**

Commerce organized Governor's Biotechnology Roundtable in April 2001.

The Wisconsin Technology Council is a new high-technology business development corporation that will attract and develop the companies of the new economy. It is governed by a public/private board of directors with representatives from entrepreneurial, high tech, venture capital, and other interested communities. It is funded by a \$250,000 Commerce grant and matching funds from the private sector.

The Office of Science and Technology at Commerce works to improve the environment for technology development, helping technology firms access capital and resources.

- **Commerce Financing Programs**

Since the January 1, 1999, 16 awards totaling \$4.4 million have been made to assist biotechnology companies. Biotechnology companies receiving awards from this fund include TomoTherapy, Infigen and Gala Design to name a few. Our Technology Development programs provide Phase I awards for research and development and Phase II awards for commercialization. The Early Planning Grant Program provides help entrepreneurs develop comprehensive business plans

- **National and international marketing efforts**

Governor McCallum welcomed a trade mission of biotechnology companies from Wisconsin's sister state of Hessen, Germany in October 2001. The delegation is meeting with Wisconsin biotechnology businesses and state and local officials to explore partnership opportunities.

The Governor led a delegation of Wisconsin biotechnology executive to biotechnology conference in San Diego in June 2001.

Wisconsin participated in Biotechnica Trade Show in Hannover, Germany, which draws 10,000 participants and 1,000 exhibitors from 32 countries.

Commerce is also working with groups in Japan, Quebec and elsewhere to increase the involvement and exposure of Wisconsin biotechnology firms in worldwide markets.

- **Venture capital development**

For the 16th consecutive year, Commerce helped sponsor Wisconsin Life Sciences Venture Conference in October 2001. Commerce helped sponsor the first-ever Wisconsin Venture Spring Fair in Milwaukee on in May 2001.

In August 2000, Commerce led a pilot venture capital mission to California with six Madison-area biotechnology companies: Gala Design, Iogenetics, Mirus, SLIL Biomedical Corporation, Stratatech, and TomoTherapy.

In April 2001, Commerce led another venture capital mission to Boston with 14 companies and local venture capitalists.

Since 1999, Commerce has administered the certified capital company program (CAPCO), which provided a \$50 million to three venture capital companies to invest in small, high-growth companies.

In closing, Commerce is concerned that set-asides limit its flexibility to respond to new demands, especially at a time when many businesses are feeling the effects of a sluggish national economy. Furthermore, I am uncertain as to whether WITEC is the appropriate organization to carry out a \$5 million media campaign, as it nears completion of its strategic plan.

Again, thank you for opportunity to speak and I would like to address any questions you might have.

Vote Record

Senate - Committee on Economic Development and Corrections

Date: 10-31-01
 Moved by: Sen. ~~Mark~~ Meyer Seconded by: Sen. Jauch
 AB: _____ SB: 296 Clearinghouse Rule: _____
 AJR: _____ SJR: _____ Appointment: _____
 AR: _____ SR: _____ Other: _____

A/S Amdt: _____
 A/S Amdt: _____ to A/S Amdt: _____
 A/S Sub Amdt: _____
 A/S Amdt: _____ to A/S Sub Amdt: _____
 A/S Amdt: _____ to A/S Amdt: _____ to A/S Sub Amdt: _____

Be recommended for:

- Passage
- Introduction
- Adoption
- Rejection

- Indefinite Postponement
- Tabling
- Concurrence
- Nonconcurrence
- Confirmation

Committee Member

Sen. Robert Jauch, Chair
 Sen. Mark Meyer
 Sen. David Zien

	<u>Aye</u>	<u>No</u>	<u>Absent</u>	<u>Not Voting</u>
Sen. Robert Jauch, Chair	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sen. Mark Meyer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sen. David Zien	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Totals:	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>

Motion Carried

Motion Failed