Committee Name:
Senate Select Committee – Job Creation (SSC–JC)

Appointments

03hr_SSC–JC_Appt_pt00

Committee Hearings

03hr_SSC–JC_CH_pt00

Committee Reports

03hr_SSC–JC_CR_pt00

Clearinghouse Rules

03hr_SSC–JC_CRule_03–

Executive Sessions

03hr_SSC–JC_ES_pt00

Hearing Records

03hr_ab0000

03hr_sb0000

Misc.

03hr_SSC–JC_Misc_pt01

Record of Committee Proceedings

03hr_SSC–JC_RCP_pt00

Oklahoma State Senate

STRATTON TAYLOR
President Pro Tempore

Emeritus

STATE CAPITOL
2300 N. LINCOLN BLVD.
OKLAHOMA CITY, OK 73105-4808

Room #22
Phone (405) 524-0126

27 February 2003

Dear Texas Legislative Colleague:

First let me introduce myself. For eight years I held the highest leadership position in the Oklahoma State Senate, President Pro Tempore. I am now the President Pro Tempore Emeritus and immediate Past Chairman of the Senate Presidents' Forum.

Last year SBC caused legislation to be introduced in Oklahoma to basically deregulate DSL activity in our state. Traditionally in our state this activity was regulated by our Corporation Commission (often called a public utility commission in other states). Like many others I had concerns about the legislation. For example, given our lack of regulatory expertise in the telecommunications area, I questioned whether the Oklahoma Legislature was adequately prepared to thoroughly analyze and address this issue. I also questioned whether or not it was good public policy. In the course of the debate high-ranking executives, including those at the top of SBC, regularly made commitments about what it would mean to Oklahoma to pass this legislation. We were regularly told that it would mean not only more investment in our state, but more jobs.

I understand and acknowledge that the telecommunications industry has been going through a major retrenchment. I am not faulting SBC in any way for failing to provide new jobs at the call centers that were scheduled to open.

My concern is not that there are no new jobs but rather that SBC has actually taken jobs from our state and relocated them after giving all the commitments that this legislation would cause our state to be favorably viewed by the parent company, and that we certainly would not be expecting to lose jobs.

The Honorable Alan Greenspan **June 10, 2003**

Chairman
The Federal Reserve Board
20th Street & Constitution Avenue, NW
Washington, DC, 20551

In recent months, in response to very tight supplies, prices of natural gas have increased sharply. Working gas in storage is currently at very low levels relative to its seasonal norm because of a colder-than-average winter and a seeming inability of increased gas well drilling to significantly augment net marketed production. Canada, our major source of imported natural gas, has had little room to expand shipments to the United States, and our limited capacity to import liquefied natural gas (LNG) effectively restricts our access to the world's abundant supplies of gas. Our inability to increase imports to close a modest gap between North American demand and production (a gap we can almost always close in oil) is largely responsible for the marked rise in natural gas prices over the past year. Such price pressures are not evident elsewhere. Competitive crude oil prices, after wide gyrations related to the war in Iraq, are now only slightly elevated from a year ago, and where spot markets for natural gas exist, such as in Great Britain, prices exhibit little change from a year ago. In the United States, rising demand for natural gas, especially as a clean-burning source of electric power, is pressing against a supply essentially restricted to North American production.

Given the current infrastructure, the U.S. market for natural gas is mainly regional, is characterized by relatively longer term contracts, and is still regulated, but less so than in the past. As a result, residential and commercial prices of natural gas respond sluggishly to movements in the spot price. Thus, to the extent that natural gas consumption must adjust to limited supplies, most of the reduction must come from the industrial sector and, to a lesser extent, utilities.

Yesterday the price of gas for delivery in July closed at $6.31 per million Btu. That contract sold for as low as $2.55 in July 2000 and for $3.65 a year ago. Futures markets project further price increases through the summer cooling season to the peak of the heating season next January. Indeed, market expectations reflected in option prices imply a 25 percent probability that the peak price will exceed $7.50 per million Btu.

Today's tight natural gas markets have been a long time in coming, and futures prices suggest that we are not apt to return to earlier periods of relative abundance and low prices anytime soon. It was little more than a half-century ago that drillers seeking valuable crude oil bemoaned the discovery of natural gas. Given the lack of adequate transportation, wells had to be capped or the gas flared. As the economy expanded after World War II, the development of a vast interstate transmission system facilitated widespread consumption of natural gas in our homes and business establishments. On a heat-equivalent basis, natural gas consumption by 1970 had risen to three-fourths of that of oil. But natural gas consumption lagged in the following decade because of competitive incursions from coal and nuclear power. Since 1985, natural gas has gradually increased its share of total energy use and is projected by the Energy Information Administration to gain share over the next quarter century, owing to its status as a clean-burning fuel.

* * *

Recent years' dramatic changes in technology are making existing energy reserves stretch further while keeping long-term energy costs lower than they otherwise would have been. Seismic techniques and satellite imaging, which are facilitating the discovery of promising new natural gas reservoirs, have nearly doubled the success rate of new-field wildcat wells in the United States during the past decade. New techniques allow far deeper drilling of promising fields, especially offshore. The newer recovery innovations reportedly have raised the average proportion of gas reserves eventually brought to the surface. Technologies are facilitating Rocky Mountain production of tight sands gas and coalbed methane. Marketed production in Wyoming, for example, has risen from 3.4 percent of total U.S. output in 1996 to 7.1 percent last year.

One might expect that the dramatic shift away from hit-or-miss methods toward more advanced technologies would have lowered the cost of developing new fields and, hence, the long-term marginal costs of new gas. Indeed, those costs have declined, but by less than might have been the case because much of the innovation in oil and gas development outside of OPEC has been directed at overcoming an increasingly inhospitable and costly exploratory physical environment.

Moreover, improving technologies have also increased the depletion rate of newly discovered gas reservoirs, placing a strain on supply that has required increasingly larger gross additions from drilling to maintain any given level of dry gas production. Depletion rates are estimated to have reached 27 percent last year, compared with 21 percent as recently as five years ago. The rise has been even more pronounced for conventionally produced gas because tight sands gas, which comprises an increasing share of new gas finds, exhibits a slower depletion rate than conventional wells.

Improved technologies, however, have been unable to prevent the underlying long-term price of natural gas in the United States from rising. This is most readily observed in markets for natural gas where contract delivery is sufficiently distant to allow new supply to be developed and brought to market. That price has risen gradually from $2 per million Btu in 1997 for delivery in 2000, and presumably well beyond, to more than $4.50 for delivery in 2009, the crude oil heating equivalent of rising from less than $12 per barrel to $26 per barrel. Over the same period, the distant futures price of light sweet crude oil has edged up only $4 per barrel and is selling at a historically rare discount to comparably dated natural gas.

Because gas is particularly challenging to transport in its cryogenic form as a liquid, imports of LNG have been negligible. Environmental and safety concerns and cost have limited the number of LNG terminals and imports of LNG. In 2001, LNG imports accounted for only 1 percent of U.S. gas supply. Canada, which has recently supplied a sixth of our consumption, has little capacity to significantly expand its exports, in part because of the role that Canadian gas plays in supporting growing oil production from tar sands.

Given notable cost reductions for both liquefaction and transportation of LNG, significant global trade is developing. And high gas prices projected in the American distant futures market have made us a potential very large importer. Worldwide imports of natural gas in 2000 were only 26 percent of world consumption, compared to 50 percent for oil.

Even with markedly less geopolitical instability confronting world gas than world oil in recent years, spot gas prices have been far more volatile than those for oil, doubtless reflecting, in part, less-developed global trade. The updrift and volatility of the spot price for gas have put significant segments of the North American gas-using industry in a weakened competitive position. Unless this competitive weakness is addressed, new investment in these technologies will flag.

Increased marginal supplies from abroad, while likely to notably damp the levels and volatility of American natural gas prices, would expose us to possibly insecure sources of foreign supply, as it has for oil. But natural gas reserves are somewhat more widely dispersed than those of oil, for which three-fifths of proved world reserves reside in the Middle East. Nearly two-fifths of world natural gas reserves are in Russia and its former satellites, and one-third are in the Middle East.

Creating a price-pressure safety valve through larger import capacity of LNG need not unduly expose us to potentially unstable sources of imports. There are still numerous unexploited sources of gas production in the United States. We have been struggling to reach an agreeable tradeoff between environmental and energy concerns for decades. I do not doubt we will continue to fine-tune our areas of consensus. But it is essential that our policies be consistent. For example, we cannot, on the one hand, encourage the use of environmentally desirable natural gas in this country while being conflicted on larger imports of LNG. Such contradictions are resolved only by debilitating spikes in price.

* * *

In summary, the long-term equilibrium price for natural gas in the United States has risen persistently during the past six years from approximately $2 per million Btu to more than $4.50. The perceived tightening of long-term demand-supply balances is beginning to price some industrial demand out of the market. It is not clear whether these losses are temporary, pending a fall in price, or permanent.

Such pressures do not arise in the U.S. market for crude oil. American refiners have unlimited access to world supplies, as was demonstrated most recently when Venezuelan oil production shut down. Refiners were able to replace lost oil with supplies from Europe, Asia, and the Middle East. If North American natural gas markets are to function with the flexibility exhibited by oil, unlimited access to the vast world reserves of gas is required. Markets need to be able to effectively adjust to unexpected shortfalls in domestic supply. Access to world natural gas supplies will require a major expansion of LNG terminal import capacity. Without the flexibility such facilities will impart, imbalances in supply and demand must inevitably engender price volatility.

As the technology of LNG liquefaction and shipping has improved, and as safety considerations have lessened, a major expansion of U.S. import capability appears to be under way. These movements bode well for widespread natural gas availability in North America in the years ahead

Wisconsin Biotechnology Association

RESOLUTION

WHEREAS, Lack of capital availability is a significant continuing constraint on the development of Wisconsin's high tech sector; and

WHEREAS, Certified Capital Company (CAPCO) Programs have over the last decade routinely demonstrated their ability to raise state focused pools of venture capital in several states including Wisconsin; and

WHEREAS, Wisconsin's CAPCO Program managers have demonstrated their role and success in attracting out-of-state venture capital into Wisconsin companies; and

WHEREAS, Wisconsin's CAPCO Program has demonstrated the ability to stimulate the growth of high-paying high-tech jobs in Wisconsin and build Wisconsin's tax revenue base; and

WHEREAS, A new CAPCO bill is being considered by legislators for introduction during one of the remaining legislative sessions in 2003; now, therefore be it

RESOLVED, that the Wisconsin Biotechnology Association hereby endorses legislative support for the CAPCO Program and encourages approval of CAPCO legislation that provides tax credits over the next decade.

Adopted by the Wisconsin Biotechnology Association Board of Directors on this 9th day of July 2003.

Frank Langley

Frank Langley, President
Wisconsin Biotechnology Association

Gala BIOTECH
Bringing proteins to life™

Gala Design, Inc.

8137 Forsythia Street
Middleton, WI
53562 U.S.A.

Paul M. Weiss, PhD, MBA
President

Telephone:	**608-821-6210 (direct)**
Telephone:	**608-824-9920 (general)**
	Extension 123
Mobile:	**608-445-8960**
Facsimile:	**608-824-9930**
E-mail:	**Paul_Weiss@gala.com**

August 15, 2003

Senator Ted Kanavas
Senate Select Committee on Job Creation
Room 20 South
State Capitol
P.O. Box 7882
Madison, WI 53707-7882

Dear Senator Kanavas,

I was informed of the Senate Committee meeting that you are co-chairing on August 19, 2003, and unfortunately am unable to attend because of a client visit scheduled for that day. However, I want to share with you my observations about the impact of the Certified Capital Company Program in Wisconsin. I apologize up-front for this long letter, but the bottom line is that without the CAPCO funding in Wisconsin coming into Gala when it did, we would not be here today. Below I have summarized why this is the case.

I am President of Gala Design, Inc., one of the first recipients of CAPCO funding in Wisconsin. Gala's core proprietary technology is GPEx™ (Gene Product Expression), a gene insertion and expression technology that allows rapid creation of stable, high-expressing mammalian cell lines for a wide variety of gene products. The genomics revolution has led to the identification of thousands of new genes, and the race is now on to discover, characterize and stably express the protein products of these genes in order to develop new therapeutic proteins. Gala's GPEx™ technology, when applied to mammalian cell culture, accelerates this process for our biopharmaceutical partners. Once new therapeutic proteins have been identified for clinical development, production support becomes a major challenge. Gala's mission is to meet this need, and the company has recently established a 43,000 square-foot facility in Middleton, Wisconsin, devoted to GPEx™-based cell line development and cGMP-compliant protein production.

Gala Design owes its existence today to the CAPCO Program. Biotech companies need an extraordinary amount of capital to succeed. In addition to significant investments in research and development, the products of our pharmaceutical company customers have to go through a lengthy regulatory approval process which increases everyone's capital requirements. Furthermore, we must make enormous investments into specialized facilities and equipment that meet FDA compliance standards in order to secure customer contracts. In March 2000, the Company was running out money, facing the prospect of laying off its entire team, when Advantage Capital, one of Wisconsin's three CAPCO's made its initial investment. It was sufficient to carry the company until we closed a more significant round of financing later that year.

In the second quarter of 2001, we closed another round of financing that included two Wisconsin CAPCOs: Advantage Capital and Stonehenge Capital. This enabled us to build our management team and break ground on a new manufacturing facility.

In our case, what has the State of Wisconsin received for its investment in the CAPCO program? Consider the impact:

1. Job retention and growth: The CAPCO program saved the 20 jobs at Gala Design in March 2000, and we have since grown to 37 employees. These are highly skilled, high paying jobs with a workforce that includes 16 individuals with a Ph.D. In some respects, Gala Design has been reversing the brain drain, retaining skilled people in the community, and attracting others from outside the state. I personally received my Ph.D. and MBA from the University of Wisconsin Madison, but had to leave the state for Philadelphia to pursue my career path in the pharmaceutical industry, where I worked for one major pharmaceutical company and later as an officer in a biotech company we took public in 1999. Initially, I was recruited to be a member of the Board of Directors for Gala Design but was unwilling to join the company as an employee unless they raised sufficient capital to reach major milestones. With Advantage Capital and Stonehenge Capital participating in a $7 million round led by Venture Investors/Advantage, I was finally willing to take the risk of returning to Wisconsin.

2. Building our biotech manufacturing infrastructure: Gala Design's expertise is in efficient manufacturing of recombinant proteins for the biotech and pharmaceutical industry. Companies developing antibodies or other proteins for the treatment of disease want to focus their resources on product development and regulatory approval. They can not typically justify the time and expense of developing a single purpose manufacturing facility, so they look to outsource. With Gala Design as a partner, we can provide the opportunity for Wisconsin's developing companies, as well as other biotech companies around the nation, to manufacture their products here in Wisconsin. We are building on Wisconsin's heritage of manufacturing expertise, but with our significant investments in specialized facilities and our need for highly trained and experienced individuals to properly utilize our proprietary technology, these are not the kind of manufacturing jobs for which we can pursue the lowest cost unskilled labor outside of the state.

3. Attracting major corporate presence into Wisconsin: With the venture capital from Advantage and Stonehenge that was vital to our survival and growth, we were able to advance to the point where we attracted a major strategic partner in Cardinal Health (NYSE:CAH), a key provider of technology and services to the pharmaceutical industry that is number 23 on the most recent list of Fortune 500 companies. Cardinal Health has invested $12 million in Gala Design and has obtained an option to acquire the company. With their support and involvement, we have the opportunity to become a major force in biotech manufacturing with a hub of activities here in Middleton.

4. Building our tax base: In addition to the payroll taxes on our 37 employees, we have made a long term lease commitment that resulted in the construction of a specialized manufacturing facility. This resulted in numerous construction jobs and an expansion of the property tax base in Middleton. We have attracted a net investment into business in Wisconsin, we utilize many Wisconsin based suppliers, and rely on Wisconsin-based professional service providers. We are confident that the net taxes generated for the State of Wisconsin have exceeded the portion of the CAPCO tax credits that enabled the CAPCO investment in our firm. While we do not expect that any additional CAPCO investment will be required in Gala Design because of where we are today, the tax revenues to the State of Wisconsin can be expected to continue to flow in the years ahead.

The path to where Gala Design is today has not been easy. Venture capital is extraordinarily difficult to raise for biotech companies in Wisconsin. Wisconsin's venture capitalists are too small and too few to meet the needs of companies like us alone. I personally traveled up and down the east and west coast looking for investors, and presented at several venture capital conferences throughout the country. Investors were intrigued by our story, however, the distance and their underestimation of the resources and talent in our high tech sector made it impossible to attract reasonable proposals from coastal investors. The CAPCO program was the difference maker for us, although the small size of the CAPCO program in Wisconsin made it difficult for them to provide enough capital, forcing us to operate on the edge until we landed a large partner.

I strongly encourage you to expand the CAPCO Program in terms of the dollars that can be invested in Wisconsin companies. It is the only source of venture capital that is solely focused on Wisconsin companies. It is a vitally needed resource if our state leaders are sincere about their stated desire to build Wisconsin's biotech industry. Wisconsin is competing internationally, and need funding sources that compare to those available to our competition if we really want Wisconsin to win in the race to be a biotech leader in the 21st century.

Thank you for your consideration, and please do not hesitate to contact me if I can provide any further assistance.

Sincerely,

Paul Weiss, PhD, MBA
President

cc: Frank Leo – President, Biotechnology & Sterile Life Sciences, Cardinal Health (by e-mail)
John Neis, CFA – Senior Partner, Venture Investors (by e-mail)

THE UNIVERSITY *of* WISCONSIN MADISON

TESTIMONY OF CHANCELLOR JOHN D. WILEY

Senate Select Committee on Job Growth
August 19, 2003

Co-Chair Kanavas, Co-Chair Stepp, and Members of the Committee:

Thank you for the invitation to testify today, and for the opportunity to talk about how UW-Madison is creating jobs in Wisconsin and what the legislature and state might be able to do to enhance those efforts.

The UW-Madison continues to put a high emphasis on local, regional and statewide economic development through technology transfer, public/private partnerships, education and economic stimulus.

UW-Madison's statewide economic impact is estimated at $4.7 Billion. This includes creating almost 75,000 jobs in Wisconsin - 70,000 locally - and generating over $350 million in state and local taxes. The university also brought in approximately $400 million in federal research dollars to the state's economy last year. And these numbers do not include the impact of our affiliate organizations such as the Wisconsin Alumni Research Foundation and University Research Park.

The University's economic development and public/private partnership efforts are conducted primarily by WARF and the Research Park – whom you will hear from in a few minutes - and the new Office of Corporate Relations. This is an office – headed by Charlie Hoslet - which we recently created to serve as a "front door" for business and industry looking to access the resources of the university. Charlie and his team are charged with getting out around the state, meeting with businesses and industries, and helping them utilize UW-Madison's resources and expertise to help grow their companies and the state's economy.

Office of the Chancellor
Bascom Hall University of Wisconsin–Madison 500 Lincoln Drive Madison, Wisconsin 53706–1380
608/262–9946 Fax: 608/262–8333 TTY: 608/263–2473

UW-Madison remains an important catalyst for business creation around Wisconsin. As of the end of 2001, a total of 218 firms have been identified as start-up or spin-off firms in Wisconsin having close ties to UW-Madison. Most of these businesses have sprung up in the last four decades, and from 1995 to 2000, an average of 13 new companies was created each year. Here are some more details about those businesses:

- Of 147 companies reporting revenues in a 2000 survey, their aggregate gross revenues came to just over $1 Billion.

- Overall, 52% of these firms had their technologies and product applications oriented primarily in the biological sciences.

- Of all firms created from 1990 to 2000, 57% had their origins in the biological sciences, and

- As of 2000, these firms employed an estimated 6,700 people, mostly professionals and highly skilled support staff, many of whom were UW-Madison graduates.

- The UW-Madison Research Park is home to more than 100 of these companies, employing more than 4000 people – most of whom have college degrees – at an average salary of about $60,000/year.

Last year, a report issued by the Southern Growth Policies Board and funded by the National Science Foundation, placed UW-Madison in the top 12 among all U.S. universities that seek to invigorate state economies through technology transfer and development of companies born of university research. The report called UW-Madison "a story of an extraordinarily successful research university that has also nurtured a long-standing mission of service to its state, while at the same time creating a very entrepreneurial culture and some novel approaches to technology transfer."

So what are some things that you and your colleagues might do to help the university continue to create jobs and grow the state's economy?

You asked me to testify in the "Intellectual Property" portion of your hearings. In the context of these hearings, I assume you mean to focus primarily on patenting and licensing activities associated with economic development. Because WARF is our patenting and licensing agent, and Andy Cohn is testifying separately, I will concentrate on the pre-disclosure phases of the patenting process. Andy will give you details of the subsequent patenting and licensing activities.

For the University to continue doing the things I have outlined above – contributing to the growth of the WI economy through research, education, technology transfer (including patenting and licensing), and direct company formation, two things are absolutely essential: 1. We need to be able to attract and retain the best possible faculty and staff; and 2. we need to be able to attract and graduate the best possible students. Everything depends on people. As I will demonstrate below, if we do these two things consistently, the WI economy will thrive; if we don't, it will not.

Attracting the best possible faculty and staff requires nationally and internationally competitive salaries, benefits, and working environment. This includes having access to the kinds of up-to-date facilities that are required for cutting-edge research. During this fiscal year, the net base-budget cut to the UW-System will require us to downsize the faculty. At UW-Madison, I expect we will hire about 50-60 fewer new (replacement) faculty than the number required to remain at our present size. I cannot predict what will happen in the second year of the biennium, but we will most likely lose additional faculty. On the average, because of the extramural funding they bring in each faculty loss costs us more than three times the cost of their gross salary and benefits, so these are very real losses to the state, without even counting the leveraged effect of those lost dollars on the overall state economy. Therefore, two things you can do to help avoid additional losses are:

1. Stabilize the base budget of the university. With a $100 million net cut in GPR in the last budget, the state cannot afford any further losses in this area. But as important is the need for long-term stability – or at least predictability – in our budget. It is nearly impossible to do any long-term planning, which is essential in a billion dollar plus operation, if you don't know how much money you will have in the next fiscal year, let alone the next biennium.

2. Maintain your support for the construction of desperately-needed new facilities, and for the reconstruction of outdated facilities. In particular, I want to thank the Legislature and the Governor for the continued support of

funding for the Biostar and Healthstar initiatives, even in the face of a very difficult budget.

A continued high quality of faculty and staff will guarantee a continued flow of high-value intellectual property and a continued or increased rate of high-income job creation. In this regard, there is an additional measure I would ask you to look into. WI Statutes ban the use of public facilities for private gain. This is entirely appropriate, but some of the statutory language is discouraging or banning activities of the very sort we should be encouraging – spinoff companies, for example. I would particularly call to your attention Section 946.13 of the WI Statutes, entitled "Private interest in public contract prohibited." Numerous subsections of this statute make it difficult or impossible for faculty and staff to conduct the developmental research that is expected to lead to the formation of a new company. We can provide more details and numerous specific examples if you are interested in pursuing this, but I strongly urge you to review and update WI Statute 946.13.

This makes it hard to spin off research into a company.

Let them take those first baby steps on campus

Attracting the best possible students means maintaining both affordability and access for high school graduates and returning adults from all walks of life (income levels). We cannot afford to freeze out the children of middle and lower income families, because that's where a proportionate fraction of the brainpower and creativity is found. Right now, WI resident tuition is arguably reasonable, even after the increases of this biennium. But the trend is not good: We cannot continue, year after year, to withdraw public support and offset that loss with increased tuition. It is a prescription for disaster. Therefore, another recommendation is that we commit to restoring the historic balance between state support and tuition as soon as possible.

Finally, let me turn to the basic data that support all the testimony I have given to this point.

Economic growth, *per se*, will not "fix" the WI economy: we need economic growth in sectors that raise the average *per-capita* and family incomes of WI citizens. In recent years, there have been frequent references to the stark contrast between the performance of the MN and WI economies. Table 1 shows what has happened to *per-capita* incomes in our two states over the last 20 years. In 1980, WI and MN *per-capita* incomes were only \$188 apart, and both were very close to the national average. By 2001, MN had outperformed the national average by more than $2000, and WI had fallen behind by more than $1000, leaving a gap of $3543 between WI and MN incomes. Had we kept up with MN, there would be an additional $20 billion in the WI economy today.

What would it take to raise the WI per-capita income? Table 2 shows the nationwide average earnings by highest degree. Note that the only way to raise the WI average above the present $26,400 is by increasing the number of employees who have post-secondary education. On the average, people who enter the workforce with only a high school diploma earn less than the current WI average income, so we need to generate more jobs that require Associates degrees, Bachelors degrees, and advanced degrees. The public spends approximately $100,000 to produce a 100% publicly-funded (tuition-free) high school graduate. The lifetime earnings of a typical worker who enters the workforce with only a high school diploma will never repay to the taxpayers that public investment. It is only by investing further in post-secondary education that the public receives a positive return (in strictly economic terms) on its K-12 investment.

Table 3 shows how WI and MN compare in terms of educational levels and in terms of support for post-secondary education. Wisconsin compares favorably with both MN and the nation in producing high school graduates. But we fall seriously behind in terms of citizens who have Bachelors, Masters, Doctoral, and Professional degrees. And for those who may suspect WI has an overly large or overly expensive system of higher education, please note that MN has 52 public institutions of higher education (versus 31 for WI) and spent nearly $100million more (last year) than WI.

First and foremost, WI needs more jobs that call for college-level hires. There is a lot of hand-wringing about "brain drain," but if the jobs aren't available in WI, there is no way we can force college graduates to stay in WI simply to be unemployed. All of the recommendations I have given above are aimed at maintaining the kind of university and the kind of state environment that will be able to generate those new jobs.

Thank you again for the opportunity to testify today. I'd be happy to answer any questions you might have.

Table 1. *per capita* income in constant 1996 dollars[1]

	US	MN	WI	MN-WI
1980	$18,444	$18,692	$18,404	$188
2001	$27,642	$29,943	$26,400	$3,543
Real Growth	$9,198	$11,251	$7,996	

[1] Statistical Abstract of the United States, 122nd Edition, 2002

Table 2. Mean earnings by highest degree (US)[1]

Highest Degree	Mean Earnings	Approx Years in school	Approx years working[2]
no HS diploma	$16,121	11	54
HS diploma	$24,572	13	52
some college	$26,958	14	51
Associates Degree	$32,152	15	50
Bachelors degree	$45,678	17	48
Masters degree	$55,641	19	46
Doctoral degree	$86,843	22	43
Professional degree	$100,987	22	43

[1] Statistical Abstract of the United States, 122nd Edition, 2002
[2] Assuming retirement at age 65
[3] Constant 2001 dollars. Totals and differentials will be larger to the extent there is real growth

Table 3. Education in WI and MN (% with highest degree)[1]

	US	WI	MN
less than 8th grade	6.9%	4.7%	4.2%
less than 12th grade	11.5%	9.2%	6.3%
12th grade	29.5%	35.0%	30.9%
some college	20.5%	21.0%	23.4%
Associates degree	6.5%	7.4%	7.3%
Bachelors degree	16.1%	15.8%	19.4%
Grad/Prof degree	9.0%	6.9%	8.6%

<u>Number of Post-Secondary Schools</u>		WI	MN
Public		31	52
Private		37	61
Total		68	113

<u>State Appropriations for Higher Education</u>		WI	MN
Institutional Budgets		$891M	$940M

Student Financial Aid	$76M	$120M
Total	$968M	$1,060M

[1] Chronicle of Higher Educaiton, 2002-03 Almanac.
Data are for prior year (2001-02).

Table 1. ***per capita*** **income in constant 1996 dollars**[1]

	US	MN	WI	MN-WI	(MN-WI)*5million
1980	$18,444	$18,692	$18,404	$188	
2001	$27,642	$29,943	$26,400	$3,543	$20billion
Real Growth	$9,198	$11,251	$7,996		

[1] Statistical Abstract of the United States, 122nd Edition, 2002

Table 2. Mean earnings by highest degree (US)[1]

Highest Degree	Mean Earnings	Approx Years in school	Approx years working[2]	Expected lifetime earnings[3]
no HS diploma	$16,121	11	50	$806,050
HS diploma	$24,572	13	48	$1,179,456
some college	$26,958	14	47	$1,267,026
Associates Degree	$32,152	15	46	$1,478,992
Bachelors degree	$45,678	17	44	$2,009,832
Masters degree	$55,641	19	42	$2,336,922
Doctoral degree	$86,843	22	39	$3,386,877
Professional degree	$100,987	22	39	$3,938,493

[1] Statistical Abstract of the United States, 122nd Edition, 2002
[2] Assuming retirement at age 65
[3] Constant 2001 dollars. Totals and differentials will be larger to the extent there is real growth

Table 3. Education in WI and MN (% with highest degree)[1]

	US	WI	MN
less than 8th grade	6.9%	4.7%	4.2%
less than 12th grade	11.5%	9.2%	6.3%
12th grade	29.5%	35.0%	30.9%
some college	20.5%	21.0%	23.4%
Associates degree	6.5%	7.4%	7.3%
Bachelors degree	16.1%	15.8%	19.4%
Grad/Prof degree	9.0%	6.9%	8.6%
Number of Post-Secondary Schools			
Public		31	52
Private		37	61
Total		68	113
State Appropriations for Higher Education			
Institutional Budgets		$891M	$940M
Student Financial Aid		$76M	$120M
Total		$968M	$1,060M

[1] Chronicle of Higher Educaiton, 2002-03 Almanac.
Data are for prior year (2001-02).

Testimony by Terry W Grosenheider
Chair, Capital Formation Work Group
Wisconsin Economic Development Association

Prepared for the
Senate Select Committee on Job Creation
Wisconsin State Senate
Senator Theodore J Kanavas and Senator Cathy Stepp, Co-Chairs
411 South
State Capitol

Tuesday, August 19, 2003

We live in a state with an economy that is changing before our eyes. Since before World War II our economy has been the engine that has powered America. Briggs & Stratton, Kohler, OMC, Waukesha Engine, Tecumseh. We have supplied the paper that students used to learn and that parents used to clean their noses. Consolidated Paper, Kimberly Clark, Fort Howard Paper. We supplied the refreshments that quenched America's thirst. Miller, Pabst, Schlitz, Heilemans. Today with modern transportation systems, international capital markets, shifting demographics which move our markets further away and reduced trade barriers, we find these industries which are based upon mature technology and the abundance of natural resources in stress. As a result our economy is in transition. These industries were built with sweat equity by people that were willing to take great chances and significant risks. They were rewarded for those risks and at the same time they built the economy that sustained Wisconsin for more than a half a century.

We can lament the change that is taking place, we can complain about the changes that are taking place, we may even be able to slow down the changes that are taking place, we can certainly reduce the pain the changing economy inflicts.

But can we stop the changes? I don't think so. Do we want to stop the changes? I don't think so. These industries will continue to provide a strong economic base for Wisconsin, but we must also look to the future because these are mature industries subject to competitive pressures beyond our reach. Our future jobs and our future prosperity will come from where they have always come from, innovation and investment. We must continue to promote innovation and investment in these mature industries to sustain their vitality, but we must redouble our efforts to promote innovation and investment in businesses not yet born in order to build an even stronger economic future.

We need to feed the pipeline of business development to maintain the vitality of Wisconsin's future economy. More small businesses must be created by entrepreneurs and financed by small investors. Like a major league ball club, we have a choice. We can either buy our talent in the free agent market, or we can grow it on our farm teams.

We in Wisconsin have a tremendous work ethic, we also have shown that we can adapt and learn. We need to use those strengths to build a new Wisconsin future of our choosing. Our economy is strong, built on a bedrock of past generations, but we rank 47th nationally in the number of new business startups[1] . We have the strongest institutions of higher learning, but we have fewer Ph.Ds and Masters degrees per thousand residents than 35 other states. We are training more people than we are keeping. We have talked about the need to retain capital in the state, but we are a wealth poor state. We talk about the desire to create high skilled, high paying jobs, but on average we have fewer individuals earning high incomes. Some may consider that to be more "fair" or more "equitable", but it doesn't help to build the investment environment needed in order to create the next new economy. The last economy was based upon the sweat and ingenuity of a

[1] Corporation for Enterprise Development, Development Report Card for the States, New Companies,2000

lot of individuals who saw an opportunity and took it. Many failed, but their failures were the basis of another's success.

We need to create an environment in Wisconsin which rewards risk taking at the individual level, which rewards those who are willing to invest in the future. We need to change the risk/reward ratio in Wisconsin to favor investment in new, unproven companies and ideas because these will be the basis of the next Wisconsin economy. There has been a significant amount of discussion over the years about the conservative nature of Wisconsinites. We are not conservative because of our culture, we are conservative because Wisconsin's tax structure punishes those who are willing to take a risk. The number of new business startup proves it, and so does the lower per capita wealth of the average Wisconsinite.

One thing is certain, if we want a different result, if we want a better outcome, we need a different plan. The simple truth is that capital and investment will flow to where it can earn a better return. We need to create an environment where capital is treated more favorably. Where investors can reduce the risk of failure, and find a better return. This will increase the amount of capital available for new business startup and in conjunction with existing state programs and the efforts of countless individuals, it will increase the number of new business startups. These startups, and failures, in turn will lay the foundation for our future prosperity.

I would like to share with you a number of ideas that I believe can help lay the foundation for the next Wisconsin economy

1. Create a "Qualified New Business Venture" designation

The Qualified New Business Venture designation is market driven, the success of the New Business Venture is based upon the entrepreneur's initiative and ability to convince individual investors they have a marketable product, service or idea. It is not based upon the deep pockets of the state. The risk lies with the entrepreneur and the investor, not with the State. The State does play a crucial role, it creates the environment for success. A significant element would be to define "QUALIFIED NEW BUSINESS VENTURE".

Using "Qualified Businesses" for CAPCO purposes as a starting point, we would propose to designate a "Qualified New Business Venture" as a business headquartered in Wisconsin, with at least 51% of its employees in Wisconsin, an average annual net income of not more than $20 million during its 2 most recent fiscal years, a net worth that is not in excess of $75 million, not predominantly engaged in professional services provided by accountants, lawyers, or physicians, Is not engaged in the development of real estate for resale, banking or lending and does not make any loans to, or investments in, certified capital companies, and not be predominantly engaged in Trade or Leisure & Hospitality. Lastly, the entity must have been formed as a Wisconsin business within the prior three years and may not be more than 10 years old.

2. Facilitate the selling of venture investments by providing incentives for broker-dealers to assist "Qualified New Business Ventures" raise capital

These are emerging growth companies. Currently, broker-dealers usually refuse to get involved in the securities offerings for startups or emerging companies because they believe that the usual broker-dealer compensation structure is not commensurate with the amount of time and resources expended and the risks assumed in connection with their participation in such offerings. Therefore, the lack of experience and contacts by the founders of the issuer/company combined with lack of incentives necessary to attract broker-dealer assistance results in such companies not raising the capital that is essential to their success. It would be an unprecedented positive proactive stance for Wisconsin to provide additional incentives for broker-dealers to participate is such offerings and enhance the venture capital environment statewide.

Provide a tax credit to a broker-dealer of 10% of the first $500,000 raised in an offering of a qualified company in any 12-month period. This guaranteed payment would shift the current incentives and encourage qualified broker-dealers to assist emerging companies raise capital.

3. Create a tax credit for investors who invest in a "Qualified New Business Venture"

Many potential angels and other early stage investors hesitate to invest in startups. An investor-friendly tax policy will go a long way toward making both investors and entrepreneurs more bullish on Wisconsin. Encouraging high risk venture capital investments by implementing straight forward tax relief would be an effective method to increase the availability of venture capital.

20% on investments up to $100,000, 10% on investments over 100,000

4. Create a tax deferral of the gain for rollover of "Qualified New Business Venture" investments

Increasing the incentives to invest either in venture capital funds or directly into early stage companies is critical to developing a strong investor base and ensuring venture level financing is available to Wisconsin companies. Deferring gain on venture investments will induce existing angels to be more active, attract out of state angels to Wisconsin and build interest in venture capital opportunities by those who may not have otherwise considered them.

5. Provide a capital gains rate break for gains from non-QNBVs that are reinvested in a "Qualified New Business Venture"

> By providing investors with a lower or zero capital gains tax rate on capital gains that they reinvest in an early stage Wisconsin company, investors would have an incentive to recirculate money in Wisconsin and provide the much needed capital to support the state's venture capital industry.

6. Provide a capital gains tax break for gains from "Qualified New Business Venture" investments that are reinvested in local tax-free bonds

> More conservative investors may be more inclined to accept the inherent risks and invest in a Wisconsin venture capital fund or startup company if they knew the potential gains from a high-yield, yet risky, venture capital investment would be taxed at a lower or zero rate if reinvested in more secure municipal bonds. By providing a desirable exit strategy, the state could bring a new pool of investors into the venture capital industry and supply a new pool of local debt financing.

7. Provide a 60% to 100% capital gains exclusion on state taxes for investments by entities in a "Qualified New Business Venture"

> Currently there is a 60% capital gains exclusion for individuals investing in qualified small Wisconsin companies. This proposal

will encourage entities to invest in Wisconsin high-tech businesses on the same basis as is provided to individuals, and will provide an incentive for venture capital firms and other entities to look more favorably on investing in Wisconsin qualified high-tech businesses.

8. Direct DFI, Commerce and University to conduct and publish an annual characterization survey of "New Business Venture" formations to determine new business formation trends, identify barriers and obstacles faced by new businesses and potential needs of new businesses.

We need to better understand the types of companies being formed, determine which of those are adding significant value to the economy, determine the barriers to entry. We cannot do this without a characterization study. Just as a physician cannot prescribe a course of treatment without an examination and an understanding of the patient's needs, neither can we as economic development professionals or government hope to assist new business formations without a thorough understanding of their needs and the barriers they face.

9. Direct Commerce, University and DFI to develop a "5 Year Plan" to foster, facilitate and support the development and growth of "Angel Capital Networks". Reallocate staff as necessary.

Angel investing requires certain knowledges that can be acquired in one of two ways, either by experience or by education. With a growing base of angel networks many are gaining experience, but many more could benefit from a coordinated effort to provide information on the basic issues involved in "Angel Investing" including: due diligence, structuring & terms, valuation analysis, and exit strategies.

10. Direct Commerce to maintain an Internet accessible listing of "Qualified New Business Ventures".

Summary

We have an economy in transition, it is composed of mature companies in mature industries. Our rate of new business formations and investment in new business formations is among the lowest in the nation. We need to do more to build a sustainable pipeline of new business formations which will ensure the future vitality of our economy. The proposals I have outlined here today will redress the weaknesses we have, while taking advantage of our strengths and creating new opportunities and new possibilities for all Wisconsinites.

These proposals will:
- reduce the risk of investment in these critical economic sectors,
- increase the potential reward based upon the success of the enterprise,
- compliment the existing and future Venture Capitalists and CAPCOs by creating and funding more startup companies,

- lastly, these proposals will significantly increase the number of Wisconsinites involved in the process of creating and funding businesses.

Thank you for your attention.

Terry W Grosenheider

BA, University of Wisconsin Madison
MBA, Edgewood College

8 years with the Department of Commerce as Administrator of Divisions of Economic Development; Community Development; Marketing, Advocacy and Technology Development, and Executive Assistant

2.5 years with the Department of Financial Institutions as Deputy Secretary

Conceived, initiated and directed the development and organization of the Governor's Conferences on Capital (2001 and 2002)

Directed the development of, and successfully persuaded the legislature to adopt the "Next Economy" legislation

Directed the implementation of "Next Economy" securities regulatory reform

Conceived and directed the development of three major web based applications at the Department of Financial Institutions which have made it significantly easier to conduct business in the state of Wisconsin

756 North Milwaukee St., Suite 400, Milwaukee WI 53202

MMAC Metropolitan Milwaukee Association of Commerce

Council of Small Business Executives

www.mmac.org

August 19, 2003

Sens. Ted Kanavas and Cathy Stepp, Co-Chairs
and Members of the Senate Select Committee on Job Growth
State Capitol
Madison, WI

RE: Hearing on "Promoting Greater Capital Investment" and "Intellectual Property Utilization" as part of the ***Growing and Reforming our Wisconsin (GROW)*** Initiative

Dear Sens. Kanavas and Stepp and Members of the Committee:

The Metropolitan Milwaukee Association of Commerce (MMAC) is the state's largest regional business organization, promoting and protecting the interests of approximately 2,400 business members that represent over 300,000 employees in southeast Wisconsin. On their behalf, we appreciate the opportunity to provide input on the GROW initiative currently being considered by the State Senate.

In today's atmosphere of tight financial constraints in both the public and private sectors, the need to grow our economy has never been more important. In our public policy agenda, the *Blueprint for Economic Prosperity*, MMAC identified the need to increase capital attraction for early stage business as one of the key strategies to growth and the creation of high paying jobs.

In the Milwaukee area, we are very proud of the successes TechStar, a recent public/private start-up venture aimed at moving intellectual property from the academic setting into viable business models, is having. I believe you will be hearing directly from Lane Brostom of TechStar at today's hearing. One of the issues facing TechStar and others looking at company start-ups is the need for increased access to capital. To take advantage of the "new economy" and harness new technology opportunities to create high-paying jobs, entrepreneurship need to be nurtured. GROW's proposals for tax credits for investment in venture capital and business start-ups would go a long way in encouraging better access to capital in this crucial early-stage business development, as would further incentives for moving the research and development being done by Wisconsin's outstanding colleges and universities into the marketplace.

We have also talked a lot in government and business circles about fostering industry clusters and regional economies. These very important ideas need to be moved forward. A key to both issues, however, stems from the relationship between the state and local governments, the way they are financed, and how public dollars may be spent at both levels of government on economic development issues. We would encourage you to take this opportunity of exploring broad-reaching reform in economic development policies to also take a broad-reaching look at the role local governments play in economic development. The time is ripe to reform the relationship between state and local governments so both can be better tools in economic development and job creation.

A final issue we feel needs to be addressed is the disparity between traditional lending institutions and commercial lending institutions in Wisconsin. Wisconsin's current wage lien laws apply only to banks, not to commercial lenders. This has resulted in the decision by commercial lenders to not provide capital in the state of Wisconsin. As commercial lenders are often times the institutions more willing to take risks with entrepreneurs, we have cut our state off from access to millions of dollars that may have otherwise been available to those working in the type of business start-ups that are so crucial to growing our economy. We encourage you to consider including commercial lenders as equals with banks in Wisconsin's wage lien laws.

Thank you once again for allow us the opportunity to be a part of this important process and we look forward to continuing to work with you all as the exploration of these vital issues progress.

Sincerely,

Timothy R. Sheehy

Timothy Sheehy
President

Senate Select Committee on Job Creation
Hearing on Capital Investment

August 19, 2003

Testimony of Richard G. Chandler, President, Chandler Consulting, LLC

Introduction

Good afternoon. I'm Rick Chandler, President of Chandler Consulting, LLC, which provides public policy and government relations consulting services, concentrating on budget, tax and economic development issues. I'm representing the Wisconsin Realtors Association today.

I commend the committee for conducting a comprehensive review of Wisconsin's economic growth policies through these hearings. Economic growth is important because it means our citizens will have higher incomes. It means that state and local governments will have more resources to provide services. Most importantly, it means our children and grandchildren will have greater opportunities to pursue satisfying careers and make their homes in Wisconsin in the future.

From my previous jobs as Secretary of Revenue and State Budget Director, I know that healthy economic growth is needed to generate the resources for government to provide the services that our citizens want. A difference of a few percentage points in our economic growth rate can make a substantial difference in the resources available to government.

From the point of view of the Wisconsin Realtors Association, and the interests of the homeowners and business property owners the WRA represents, a thriving economy is essential to a good quality of life in our state, along with such things as a good education system, a reasonable tax climate, good environmental quality and a good transportation system.

At your last hearing, you heard Mike Mooney of the MLG Companies speak on behalf of the Wisconsin Realtors Association on regulatory issues. I'll be speaking today on more general economic development issues, particularly those affecting the area of capital investment.

You'll be hearing today from experts who can give the committee information on specific capital investment issues. I think I can be helpful in giving the committee a framework for considering the broad general issues that need to be addressed in the capital investment area.

General Comments

There is a growing public understanding that there are some disturbing economic trends in Wisconsin. Our income levels and growth rates lag the national averages. At the same time, we have many strengths which we should be able to take advantage of to enhance our economic growth.

There is no single silver bullet that will solve all our problems in the economic development area. We need a broad-based approach, addressing many areas.

While a state needs to do many things well to have good economic growth, a state can have a bad business climate if it ranks poorly in one or two areas. For example, a poor education system, or a heavy tax burden, can significantly impede a state's economic growth.

We've got to do everything possible to increase our economic growth rate. There are some things that may not be important to all businesses across the board but that we need to address because they are concerns to many businesses. We've got to try to address as many of these concerns as possible, because we've got to increase our economic growth rate at the margin to achieve our full potential.

The factors that are important to businesses in making location decisions have been addressed in detail by surveys done over the years by Professor Jon Udell of the UW-Madison. A recent survey of his found that the following factors were important to businesses and were given the following weights in making location decisions (both in the manufacturing and service sectors):

- Labor (education, skills, cost, productivity, attitude, labor-management relations) -- 35%
- Government (personal taxes, business taxes, regulations, government attitude, government services) -- 20%
- Markets and services (proximity to markets, availability and cost of financing, availability and cost of business services) -- 15%
- Community and geography (quality of life) -- 20%
- Other factors (availability and cost of energy, land, production facilities, raw materials and parts) -- 10%

All of these areas need to be addressed by a comprehensive economic growth strategy.

Promoting Capital Investment

The elements of creating a good environment for capital investment in a state include:

- Assuring that there will be adequate capital available by creating conditions in which investors can receive a good return on investment.
- Assuring that there are new ideas, technologies, products and services for which capital funding is needed.
- Assuring that there are plenty of entrepreneurs who have ideas and plans to use capital to start businesses.
- Assuring that businesses located in the state can obtain the human and financial resources they need to grow and expand at all stages of their development.

The issues that need to be addressed to promote capital investment and growth include:

1. **Capital availability**. There needs to be adequate capital available for investment in businesses at all stages of the business cycle, from angel investors (individuals with sufficient wealth, interest and expertise to invest in new business opportunities), venture capital companies, banks, investment banks and other sources. Capital will be available if there is the opportunity to receive an adequate return on investment and if there are people, ideas, products and services worth funding. In terms of providing an attractive return on investment, the committee can consider broad-based tax changes or more targeted tax incentives such as an expansion of the CAPCO program. The committee should also

consider policies that would encourage angel investors to participate in funding new ventures in Wisconsin.

2. **Entrepreneurs and small businesses**. A state ideally needs to have a culture that encourages people to look for opportunities and take risks in order to start new businesses. It also needs to have resources to assist and support new and growing businesses. The committee should consider what needs to be done to build on existing efforts by such entities as the Small Business Development Centers at the UW-Extension and the Weinert Center for Entrepreneurship at the UW-Madison to assist small businesses and foster a climate of entrepreneurship.

3. **Tax structure**. A state needs to have a tax system that assures that there will be an adequate return on invested capital after taxes. It also needs to have a tax system that is competitive in terms of the tax rates imposed on income and that encourages people with assets to invest to stay in the state and invest in businesses in the state.

   Wisconsin currently has a tax structure that imposes a much higher than average tax burden on its residents, especially in the income tax and property tax areas. The most recent U.S. Census Bureau figures on state and local tax collections (from 2000) show that we rank fifth in individual income tax collections per $1000 of personal income (about 50% above the national average) and eleventh in property tax collections (about 25% above the national average). Unfortunately, these are the highest-profile and most easily understood taxes. We have made some progress in reducing taxes in these areas in recent years. Wisconsin also has a higher estate tax than the majority of states. (Looking at all state and local taxes combined, we rank fourth, 15% above the national average.)

   The high income tax and property tax burdens can discourage workers from locating here, especially the knowledge workers (information technology workers, researchers, professionals, managers) needed by high-technology growth businesses. The estate tax burden can motivate individuals with significant funds to invest to relocate to other states. The committee should consider long-term efforts to reduce our income tax and property tax burdens and to bring our estate taxes in line with those in the majority of other states.

4. **Research and development and technology transfer**. A state needs to have an active research and development sector so that leading-edge technology and patentable inventions are produced and businesses have access to the ideas and products that are the foundations of successful companies. The committee should consider what mechanisms will most effectively encourage research and provide for the transfer of technology and inventions from the research stage to commercial use.

5. **Knowledge workers and high-technology companies**. To a large extent, capital tends to be attracted to locations and ventures that have a high concentration of knowledge workers and to companies that are making intensive and creative uses of technology, either in existing product areas or in new product areas, because knowledge workers and the use of technology help achieve the high growth rates that provide a good return on investment. The committee should consider ways to encourage more knowledge workers to locate in Wisconsin.

Conclusion

There is no one single approach that will lead to dramatically increased growth for Wisconsin's economy. Initiatives in many areas over a period of years are needed to improve our economic growth rate.

In particular, in the area of capital investment, efforts in several areas are needed. These initiatives will be synergistic. If more capital is available, more entrepreneurs will be able to get funding. If more entrepreneurs are seeking capital, more capital will be drawn to the state. As more ventures are started, future entrepreneurs will have more role models and advisers. As more ventures succeed, spin-offs will be generated and more capital will be accumulated that can be invested in future businesses.

Government can help improve the investment climate by setting up specific programs and by promoting the general policies that create an environment conducive to attracting capital and encouraging entrepreneurial activity.

Thank you for the opportunity to testify.

For further information, Rick Chandler can be contacted at (608) 628-0433.

THE NEED FOR GREATER VENTURE & GROWTH CAPITAL INVESTMENT IN WISCONSIN

TESTIMONY OF DR. DAVID J. WARD BEFORE THE WISCONSIN SENATE SELECT COMMITTEE ON JOB CREATION / August 19, 2003

1. **INTRODUCTION & BACKGROUND**
    - **President of NorthStar Economics**
    - **Founding member of the Origin Investment Group in La Crosse, Wisconsin**
    - **PHD in Finance from UW Madison**

2. **Wisconsin is behind in the venture capital game**
    - **Historical footnotes**
    - **Comparison to Minnesota**

	2001	2002
United States	$41,296,000,000 (4,712 Deals)	$21,192,000,000 (3,012 Deals)
Minnesota	$542,000,000 (93 Deals)	$327,000,000 (55 Deals)
Wisconsin	$94,000,000 (25 Deals)	$64,000,000 (11 Deals)

3. **We need policies that promote "venture investing" at all levels on the venture (and growth) capital continuum**
    - **The Venture Capital Continuum handout**
    - **We need to scale up our thinking and investment goals**

4. **Wisconsin is making progress in angel investing**
    - **Many active individual angels**
    - **Six active angels groups Madison (2), Milwaukee (2), La Crosse, Chippewa Valley**
    - **Several groups interested in forming**
    - **Over 100 angel investors**
    - **$12-15 million seed investments since 2000**

5. **We need to educate the public about the importance and function of venture and growth capital. We need to change our culture with regard to taking investment risk, accepting failure and celebrating success.**

The Venture Capital Continuum

In this guide, NorthStar Economics, Inc. identifies and analyzes an assortment of venture finance investment approaches and existing Wisconsin venture resources that are available to enhance **new economy** growth. Our Guide provides instruction about venture finance institutions and organizations (both formal and informal) and reviews different investment steps that address stages of the entrepreneurial financing process. These stages of investment financing are defined below:

1 | Seed

Small amount of capital provided to an inventor entrepreneur to prove a concept and to qualify for start-up capital. This may involve product development and market research as well as building a management team and developing a business plan.

2 | Start-Up

Capital provided to companies completing product development and initial marketing. Companies may be in the process of organizing or they may be in business for a year or less, but have not sold their product commercially. Usually such firms will have made market studies, assembled key management, developed a business plan and are ready to do business.

3 | Early Stage

Small amount of capital provided to an inventor entrepreneur to prove a concept and to qualify for start-up capital. This may involve product development and market research as well as building a management team and developing a business plan.

4 | Expansion

Working capital provided for the expansion of a company that is producing and shipping and has growing accounts receivable and inventories. Although the company has made progress, it may not yet be showing a profit.

5 | Later Stage

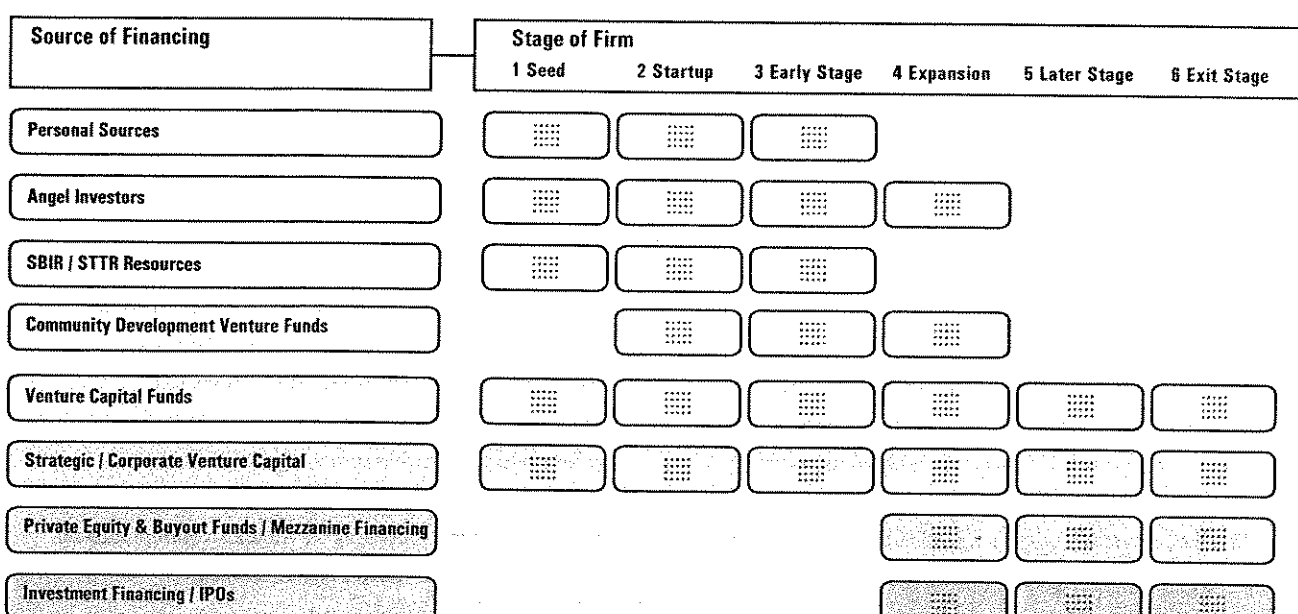
Capital provided for major expansion of a company whose sales volume is increasing and has reached breaking even or profitability. Funds are used for further plant expansion, marketing, working capital or development of an improved product.

6 | Exit Stage

Acquisition financing provides funds to finance an acquisition of another company. Management/Leverage Buy-Out funds enable an operating management group to acquire a product line or business.

Between and within these timeframes or stages of financing (entrepreneurial timelines), different kinds of risk capital are provided through and in combination with a broad variety of capital institutions, venture players and participants. Figure A (below) identifies the array of entities that provide equity and equity-like venture finance to growth business opportunities in Wisconsin. An observer can easily note the broad variety of participating entities and varying types and amounts of capital that are available. Wisconsin's risk capital needs are served through a variety of angel investors, Small Business Investment Companies (SBICs), seed- and early-stage growth venture funds, as well as later expansion and buyout funds, besides investment bankers. In Figure A, intermixing of these types of risk capital are juxtaposed within stages of the business formation processes. The observer should note the close interrelationships of these venture finance players.

Wisconsin Venture and Growth Capital Markets Figure A | Source: NorthStar Economics, Inc.



Testimony of
Andrew Cohn
Wisconsin Alumni Research Foundation (WARF)
Select Committee on Job Creation
August 19, 2003

Chairman Kanavas and members of the Committee thank you for the invitation to speak and thank you for:

- your support of education at the University of Wisconsin;
- your support of research;
- and your support of high technology as an important key to Wisconsin's future.

WARF, the not-for-profit supporting organization of the University of Wisconsin – Madison, is its exclusive patent management organization. We have a unique and rich relationship with the university that dates back to 1925. Because of the brilliance of the researchers at this university, WARF has been and continues to be one of the most respected and successful organizations of its kind in the country. Recently it was announced that the University of Wisconsin–Madison and WARF ranked **sixth** among all U.S. Universities with 81 patents issued last year. WARF receives over 300 invention disclosures from UW- Madison scientists annually, and files between 150 to 200 patent applications. This intellectual property generates over 100 income generating license agreements each year, including agreements with companies started by faculty and staff of the university. We presently have equity in 30 faculty start-up companies; all but one are located in Wisconsin.

WARF also has a subsidiary that provides technology services to all UW System campuses, WiSys Technology Foundation – the not-for-profit subsidiary that provides the same high quality technology transfer assistance to the other four year UW system universities. Our hope is that WiSys can help each of the universities of the UW System stimulate their local economies. This is an ambitious undertaking - a partnership between WARF and the UW System. WiSys can't do it alone and it must be done. The System wants to help but they need the financial support from the state to ensure success.

WARF has a rich history and continues to prosper with its highly professional staff. **We are inspired each day by the genius of research that occurs at this university** with researchers like Hector DeLuca, the UW and WARF's most prolific inventor. Hector is an inventor on more than 100 current WARF U.S. patents and his technology benefits victims of disease around the world. The majority of WARF's licensing income is generated by Hector's patents. And at a time when mere mortals retire, Hector started his own company, Deltanoid, which just completed a very lucrative pharmaceutical agreement with Pfizer. Hector's company is just one example of many start-ups that WARF promotes to act as an economic stimulus engine for the future of our state.

While preparing for today's hearing I was asked to provide some remarks regarding the recent opening of WARF's San Diego office. WARF's mission is to benefit UW-Madison and the State of Wisconsin. In keeping with that mission, our policy is to license our technologies on a non-exclusive basis whenever possible. In fact, 70 percent of our license agreements are non-exclusive and licensed to a wide variety of companies, both in and outside of the state. Furthermore, many of WARF's inventions were created through federal research grant dollars and are known as "research tools" or used in basic research; meaning that these inventions are tools used by academic and industry researchers to use as building blocks in their research.

In addition, since these inventions or tools are funded through the National Institutes of Health (NIH), the federal government mandates that they must be licensed broadly. This usually also involves licensing them at very low rates.

Therefore, in order to maximize the return to the university and the state, it is essential for WARF to execute as many licenses as possible. Since WARF had already been marketing and selling these "research tools" to Wisconsin based companies we began to look at other markets in the country where it would make sense to initiate marketing and the sale of these tools.

Based on this analysis, it became obvious that San Diego was an area with a high density of potential customers and so we decided to locate a sales associate in this market and to open an office. To date, WARF's strategic plan appears to be working in that this individual has been able to cover the costs associated with this venture.

Let me be clear. WARF's focus has been and continues to be, providing technology to companies located in Wisconsin. However, there are some lessons that we can learn from California. However, none of them involve how to balance a budget, nevertheless some valuable lessons.

San Diego is one of the fastest growing biotech markets in the world. The mix of high-tech industry and academic institutions in the same geographic area has proven to be incredibly successful. This is a model that WARF and WiSys along with the UW Research Park, UW-Madison's new Office of Corporate Relations, the Wisconsin Technology Council and the State of Wisconsin are committed to developing. This partnership is critical to energizing the State of Wisconsin's economy through the transfer of inventions from our universities.

You also asked WARF to suggest action items to promote employment growth in our state. I would offer the following suggestions:

The Draper Fund is a program funded jointly by the State Department of Commerce and WARF. It provides funding for professors to conduct additional research to enable their inventions to be marketed to industry. Over the past years the university has had to turn away as many projects as it has funded because of a lack of funds. These funds leverage private research support as well as federal grants and would lead to additional high paying jobs that would keep Wisconsin graduates from leaving the state.

CAPCO provides incentives to the insurance industry to invest in Wisconsin companies. The program has demonstrated that it can create jobs and new companies and needs reauthorization. Perhaps this process could be examined and the types of industry expanded to participate in the program.

The Madison Initiative was a partnership initiated in 1999 between WARF, the UW Foundation, and the State of Wisconsin. Each partner was to contribute $5 million annually to recruit star faculty to the Madison campus. The idea was to foster interdisciplinary research that would lead to cutting edge discoveries, new technologies and new companies that would create the high paying jobs Wisconsin needs to retain its graduates. In fact, one of the first professors recruited under this program brought federal grants to UW-Madison worth well over $3 million annually which resulted in 20 jobs in his laboratory. The inventor is the founder of one of WARF's start up companies. After tremendous early success the State of Wisconsin pulled out of the partnership in 2001. The state's role in this partnership is critical. UW-Madison's lead as a major research university will be seriously jeopardized if the Madison Initiative is not reinstated by all partners.

Wisconsin has the opportunity to be the leader in job creation because of the exciting discoveries continually being made at the University of Wisconsin. It is extremely important that scientists and venture capitalists know that they are welcome in Wisconsin. Legislation that restricts research sends a powerful negative message to both communities that their intellectual and monetary investments are at risk. I urge you above all to do no harm to the long-term efforts that are being made to grow a biotechnology industry in Wisconsin.

Please do everything you can to maintain the state investment in our university and in our future.

State of Wisconsin Investment Board

MAILING ADDRESS
PO BOX 7842
MADISON, WI 53707-7842

121 EAST WILSON ST
MADISON, WI 53702
(608) 266-2381
FAX: (608) 266-2436

August 19, 2003

Senator Ted Kanavas, Co-Chair
Senate Select Committee on Job Creation
Room 20 South
State Capitol

Senator Cathy Stepp, Co-Chair
Senate Select Committee on Job Creation
Room 7 South
State Capitol

Dear Senator Kanavas and Senator Stepp:

Thank you for the opportunity to appear before the Committee to discuss how our investment activities contribute to Wisconsin's economy.

We have a fiduciary responsibility to invest in the best interests of the trust funds we manage. For that reason, investments in Wisconsin must meet the same due diligence standards that apply to other investments. However, we do make special efforts to seek out investment opportunities in-state that will benefit the trust funds we manage.

In 2002, SWIB had $8.5 billion invested in companies that are headquartered in Wisconsin or that have 20 or more Wisconsin employees. This total included nearly $1.0 billion of new investments in Wisconsin. Attached is a summary of our Invest in Wisconsin Program. It includes several recent initiatives that are putting additional capital to work in the State. The summary also includes comments about attracting more capital investment in Wisconsin based on our experience in working with the venture capital industry.

I hope the Committee finds this information helpful.

Sincerely,

Patricia Lipton
Executive Director

cc: Members, Senate Select Committee on Job Creation

State of Wisconsin Investment Board: Impact on the Wisconsin Economy

August 2003

❖ SWIB Overview

- $60 billion under management
  - 90% of funds managed are the Wisconsin Retirement System (WRS) Trust Funds
  - 10th largest public pension fund in the US
  - 19th largest public or private pension fund in the world
  - Over 80% of $2.6 billion annual WRS benefit payments funded by investments
- Investments can only be made in the best interests of the trust funds

---

❖ Invest in Wisconsin Program

- Special efforts to explore investment opportunities in state
- Includes Wisconsin businesses from family-owned to billion-dollar corporations
- Wisconsin investments must meet same standards that apply to all investments
- $8.5 billion invested. Nearly $1.0 billion of new investments in Wisconsin in 2002:
  - $445 million in high quality commercial paper issued by public utilities and other Wisconsin companies
  - $370 million in certificate of deposits from Wisconsin banks and thrifts
  - $75 million in private equity and market rate loans to Wisconsin companies
  - $60 million in public stocks of 17 Wisconsin companies
- Goal: $2.7 billion to $4.5 billion in new investments in Wisconsin by 2007
- Program is structurally sound. SWIB is able to do its job and benefit the state.

- **Certificate of Deposit Program: $450 million allocation**

  - SWIB receives competitive return on purchases of CDs from Wisconsin banks
  - Source of capital that banks can put to work in their local communities
  - 136 banks and thrifts participate
  - Increased program by $50 million in August 2003 to a total of $450 million

- **Wisconsin Private Debt Program: $400 million allocation**

  - Long-term, fixed rate loans to businesses with demonstrated track record
  - Wisconsin companies must pass the same credit tests that are used to evaluate companies outside the state.
    - Minimum loan is typically $3 million. The maximum loan is determined by the borrower's ability to support debt. Average loan is about $10 million
    - Over 100 businesses have received financing totaling $1.2 billion over the past 18 years. Many companies have had multiple loans as business expanded.
    - SWIB typically has $300 million to $400 million in Wisconsin loans outstanding
    - Currently about 30 companies have loans, including Kohl's Department Stores, Johnson Bank, Regal Ware and Marcus Corporation.

Stocks and Bonds

- Stock investments in younger companies with newly developing products and services (e.g., Bone Care International; Third Wave Technologies). Initial Public Offerings (e.g. Colbolt)
- Stocks of major export companies (e.g., Rockwell International, Kraft Foods, Johnson Controls).
- Commercial paper (e.g. Harley Davidson, Snap-on Tools, Alliant Energy)

- **Venture capital initiatives: $150 million allocation**
  - Investments in early-stage companies
  - Higher risk than stocks and bonds, but potential for higher return
  - SWIB invests primarily in venture capital funds that select individual companies to invest in
  - In 1999, initiative to invest <u>$50 million</u> in life sciences and technology. Expectation that at least 75% will be invested in Wisconsin. To date:
    - $25 million to Mason Wells: Milwaukee venture capital firm (e.g., TomoTherapy)
    - $20 million to Venture Investors: Madison venture capital firm (e.g., NameProtect and Deltanoid)
  - In 2003, an additional <u>$100 million</u> was allocated with at least 50% expected to be invested in Wisconsin. To date:

    Investment based on legislation
    - $30 million to Baird Venture Partners: Milwaukee venture capital firm
    - $60 million to Frazier Technology Ventures: setting up Madison office
  - Not all funds have been used; $21.6 million is invested in companies to date.

- <u>**State Working to Attract Capital Investment in Wisconsin**</u>
  - Wisconsin venture capital industry is small. Success requires:
    - Venture capitalists with ability to take start-up companies through stages of development
    - Financial management and marketing skills and infrastructure to support venture industry
    - Investors want attractive return on their investment. Can take five or more years to realize. Returns in the venture capital industry have not been strong for several years.

– SWIB is 40% of all the V.C. $ invested in WI (!)

➢ Wisconsin's strengths:

- World-class research at Wisconsin universities and medical centers
- Cutting-edge computer design, medical imaging and controls systems businesses
- Venture capital firms have historically focused on East and West coasts. Untapped opportunities in the Midwest
- SWIB's initiatives help to develop venture capital industry in Wisconsin and to attract additional venture funding to the State.

Tom Still, president
Wisconsin Technology Council
Testimony to the Senate Select Committee on Job Creation
August 19, 2003
Room 411-S, State Capitol

Thank you, co-chairs Kanavas and Stepp and members of the committee, for your interest in creating high-growth jobs and businesses for the Wisconsin economy. This hearing and the Legislature's overall effort to serve as a catalyst for such growth are both timely and necessary. You're to be congratulated for taking on the challenge.

The Wisconsin Technology Council is an independent, non-profit board that serves three key functions:

1. The science and technology advisors to the governor and the Legislature. We also work closely with the state Department of Commerce.
2. A catalyst for the creation of high-growth, high-tech jobs and businesses.
3. An umbrella group for a range of tech-based organizations, including our own Wisconsin Innovation Network.

The council itself is chaired by Mark Bugher, director of the University Research Park, from whom you will hear later today, and includes 40 members from tech-based businesses, research, venture capital, law, education and government. Personally, I'm very proud of this group, not only because they represent some of the best thinkers in Wisconsin's technology sector, but because they work hard as a board and as citizens of Wisconsin.

The Tech Council's policy development role is best captured by two recent documents:

1. Vision 2020: A Model Wisconsin Economy. This was first published in the fall of 2002 and will be reprinted within a month.
2. Our July 2003 "white paper" to the Governor's Economic Growth Council and the Legislature, in which we built upon the ideas spelled out in Vision 2020 and offered more specific recommendations about how to accelerate Wisconsin's high-growth economy.

Within that white paper, the Tech Council focused on four challenges that face Wisconsin as it seeks to move ahead as a high-growth, high-tech state. I firmly believe we've got many of the elements in place – but in our competitive world, we cannot afford to rest on our laurels. We must leverage the assets we already have and create new assets, and new incentives, for growth.

The four sections of our white paper deal with:

1. Human capital. Remember when the advisers to then-candidate Bill Clinton urged him to follow the simple motto, "It's the economy, stupid"? Today, the economy is still the issue -- but there's no margin for being stupid. The creation of high-growth jobs and businesses depends on having adequate numbers of Knowledge Workers – people who have the skills to fill tomorrow's jobs. That's why our new motto is "It's the people, smarty." Our Human Capital Committee has made several recommendations for building that base of knowledge workers, including creation of an Education Tax Credit that would give companies, workers and the market a chance to work together.
2. Infrastructure. Wisconsin needs a 21st century infrastructure in order to have a 21st century economy. Our report stressed the need for more reliable energy, which is absolutely essential for information technology, biotechnology and advanced manufacturing companies. It also calls for a more open and competitive telecommunications structure, a transportation network that links the "I-Q Corridor" between Chicago and Minneapolis, and government regulations that allow businesses to move in an efficient and predictable manner.
3. Technology development. Beginning with Vision 2020, the Tech Council has emphasized the need for technology clusters, research centers of excellence and the proposed Institute for Interdisciplinary Research. To compete in a global marketplace, we need to work with our emerging tech and manufacturing clusters and identify centers of excellence. Wisconsin has world-class technology in a number of areas. What it needs is a better network for transferring that technology to the marketplace. And it must be a market pull versus a technology push.
4. Investment capital. It's no secret that Wisconsin, at least in its recent history, has lagged in attracting capital. As Vision 2020 reported, the state has been attracting only a percentage of the venture capital invested in neighboring states, such as Minnesota and Illinois. We also run below the national average in some other important capital categories, such as federal aid and federal grants through SBIR and STTR. On a positive note, the UW-Madison, the Medical College of Wisconsin and the Marshfield Clinic do an excellent job of attracting research dollars, which is a form of capital in itself.

In its latest white paper, the Tech Council concluded that Wisconsin has many of the characteristics that are viewed as essential ingredients to a vibrant, high-tech economy, but that it lacks sufficient venture capital to start and grow many of the businesses with the greatest potential. Why is this important? Because companies backed by such capital tend to create well-paying jobs, wealth and other economic benefits, including tax revenues. They are the "gazelles" that pace the rest of the economy.

Recognizing the need, the Tech Council urges the state of Wisconsin to:

1. Expand the CAPCO program by at least $200 million over 10 years and permit additional in-state insurance companies to invest in CAPCOs. I won't dwell on this because you'll hear later from other speakers on CAPCO.
2. Create tax incentives for seed capital investments in Wisconsin tech start-ups, specifically: (a) Create a tax credit for investors who invest seed capital in

Wisconsin tech start-ups (b) Create a tax deferral of the gain that would otherwise be recognized upon the sale of an investment in a tech start-up, if that investment is rolled into another seed-level investment.

3. Ensure there is state staffing support within the state Department of Commerce for the SBIR-STTR program.
4. Encourage the State of Wisconsin Investment Board to give public employees the option of investing some limited portion of their retirement accounts in a retirement fund which is primarily focused on investing in Wisconsin-oriented technology companies.
5. Repeal the state law that can make investors in a Wisconsin corporation personally liable (i.e., liable for amounts beyond the amounts they have already invested in that Wisconsin company) for up to six months of unpaid employee wages, even if the shareholder has no participation in the operation of the company. No other state has a provision of this sort in its corporate statutes, and potential investors are often shocked when they learn about it. It discourages investment in Wisconsin start-ups and encourages entrepreneurs to go out of state.
6. Boost the state's research expenditures tax credit and its research facilities tax credit to spur investment.
7. Encourage the state to be an investor in the creation of the Institute for Interdisciplinary Research and research Centers of Excellence.
8. Increase funding for the Innovation and Economic Development grant program, which is administered by the UW System, and which provides seed grants to enterprises seeking to perform applied research on technologies that have the potential to improve the state's economy.

Wisconsin's economy has been shaped and reshaped over the years by citizens and policymakers who adapted quickly to changing times. We now stand at just such a crossroads in the history of the state. To build a 21st century economy, Wisconsin must make the most of its people, resources and opportunities, and meet the challenges posed by the rise of the "Knowledge Economy." We must foster a tax and regulatory climate that encourages innovation. We must incubate a culture that values risk-taking and which attracts enough investment capital to fund our best and most marketable ideas.

Thank you for inviting me.

Getting Government to Think
Dan Ross, Director
125 North Hamilton Street
Madison, Wisconsin 53703
(608) 225-9087
www.execpc.com/~dross/ggtg

GGtT

A think tank with less algae.

Uninvited Testimony
Select Committee on Job Creation

August 19, 2003

I wanted to point out the irony that your committee is charged with creating better jobs in Wisconsin, yet three of your members have signed on to legislate anti-gay discrimination, in a state that led the nation in banning such discrimination 20 years ago. Do you seriously think that banning equal civil marriage rights for gays and lesbians--something that is already not recognized in Wisconsin--will improve the economic climate?

It is well known that large, successful technology companies are leaders in treating all their employees equally. This includes going above and beyond, and providing health insurance and family medical leave to employees who are gay or lesbian and who have a long-term "domestic partner." Obviously, these companies would have an easier time of this if civil marriage were available to all of their employees.

I'm surprised that a software executive like Senator Kanavas would be apparently unaware of this fact. Microsoft, Intel, IBM, Apple, Adobe, Xerox, Hewlett-Packard, Dell,...the list goes on, of companies who have to go the extra mile to treat all of their employees fairly. That they are willing to go that extra mile should tell that their corporate values include valuing all of their employees. If, as Senator Kanavas stated at the committee's formation, "Wisconsin cannot grow unless we provide a climate for growth," he should carefully consider if he is doing all he can to provide that climate.

Senator Stepp has said that the committee's work will be to streamline regulations "to show the rest of the country that Wisconsin won't throw up obstacles to your business." Then why create a climate that is unwelcoming to corporations who might have legally-married gay and lesbian employees in other states or countries? Or, for that matter, why send a message that companies which choose to treat their gay and lesbian employees fairly are of lesser value to Wisconsin?

Senator Leibham's expertise on who shouldn't be allowed to marry, based on his experience as a single person, almost doesn't deserve comment. But you would think he'd have more respect for his 300+ constituents who are in cohabiting gay or lesbian couples. If people in his own district are shown such disrespect, how will he treat new and growing employers across the state?

—

Comments of Sen. Gwen Moore
Before the Senate Select Committee on Job Creation
Regarding Promoting Capital Investment in Wisconsin
August 19, 2003

Senators Kanavas and Stepp and other members of the Select Committee on Job Creation, I am pleased to appear before you today to offer my suggestions and observations regarding the need for additional capital investment in Wisconsin. I share the premise of the Committee Chairs that additional capital investment is critical in accomplishing our goals of increasing jobs and income for Wisconsinites.

While I would be happy to provide my thoughts, in general, on the need for additional capital investment in Wisconsin companies, I would like to focus my comments on a particular capital formation program of which I have particular knowledge and expertise.

Rep. David Ward and I collaborated during the 1997-1998 legislative session when we introduced the Certified Capital Company (CAPCO) program to Wisconsin. During that session, we learned that there was a program operating in Louisiana, Missouri and Florida which had been successful in raising hundreds of millions of dollars in venture capital for small businesses in those states. We modeled our legislation after those successful programs, and our legislature approved the Wisconsin CAPCO program in the spring of 1998.

Our original CAPCO program raised $50 million in venture capital for small Wisconsin businesses. This money was raised by offering tax credits to insurance companies willing to invest in the CAPCO program.

As I am proud to note, this is the *only* venture capital fund which requires, by law, that every investment of dollars from the fund *must* be in a small Wisconsin business. Specifically, the law requires that in order for a business to receive money from the CAPCO funds, the business must:

- Be located and headquartered in Wisconsin,
- Be in need of venture capital and unable to obtain conventional financing
- Have no more than 100 employees, and at least 75% of those employees must be in Wisconsin
- Have no more than $2 million in net income per year and a net worth not exceeding $5 million.

Representative Ward and I sponsored this legislation six years ago because we realized that there were many small businesses and entrepreneurs who were not able to find any venture capital in Wisconsin. Therefore, these businesses and people left the state. We also realized that the lack of venture capital contributed to the number of college and university graduates who left the state each year looking for opportunities elsewhere in the country.

The CAPCO program became law in Wisconsin in July of 1999, and the first CAPCOs were certified by the Wisconsin Department of Commerce late that year. Those CAPCOs then raised the $50 million in venture capital funds and began talking to prospective recipients in the first quarter of 2000.

We are pleased that these CAPCO funds appear to be accomplishing some of our major goals. The CAPCO investments are:

- Leveraging other venture capital investments from both inside and outside Wisconsin.
- Increasing employment *in Wisconsin* at the companies receiving funds
- Helping small Wisconsin companies that are paying their Wisconsin employees very good annual wages (More than $50,000 annually, on average)
- Generating tax revenue for the state through the income, property and payroll taxes paid by these companies and their employees.

Although we are pleased with this initial success, we are also painfully aware that Wisconsin remains starved for additional venture capital. During 2000, while the venture capital industry had $225 b*illion* under management nationally, Wisconsin had only $145 *million* under management. That is less than one percent of the national total!

From conversations with the CAPCO representatives in the state I have learned that they are reviewing hundreds of applications for these limited funds. Therefore, it is obvious that our initial $50 million will not satisfy the state's hunger for additional venture capital. With this in mind, Rep. Ward and I were discussing the need for additional CAPCO funds even before the tragic events of September 11th. However, those events, and the resulting effects on our national and Wisconsin economies, added an element of urgency which did not exist before that date.

If we approve additional CAPCO funds, we will not satisfy the entire need for venture capital in Wisconsin. However, we can feel confident in knowing that *all* of those additional dollars will be invested in small Wisconsin companies. No other venture capital fund, either in Wisconsin or outside of Wisconsin, can make that guarantee.

We can also feel confident that these dollars will be put to work in helping to create good paying jobs in Wisconsin companies that are contributing additional tax revenue to the state at a time when that revenue is critical to the state's well being. That fact has become even more critical since Rep. Ward and I introduced our original CAPCO legislation in 1997.

I am pleased that you have also invited a representative of the CAPCO's operating in Wisconsin to speak before your committee today. John Neis, from Venture Investors

LLC, will be able to provide the committee with a good statistical update on the kinds of investments which the CAPCOs have made in Wisconsin, and the jobs and wages which have resulted from those investments.

Since the first CAPCO law became operational in Wisconsin in 1999, Rep. Ward and I have had discussions with a variety of individuals who have made suggestions concerning how our Wisconsin CAPCO program could be improved. We have studied and evaluated these suggestions and appreciate the good input we have had from the program's administrator,(the Department of Commerce,) as well as from others, including the existing CAPCOs and some recipients of the first CAPCO funds. While I strongly endorse approving additional CAPCO funds as part of an overall economic development program for the state, I also endorse minor modifications to the CAPCO program which will make it even more effective in accomplishing its goals. Among the suggested modifications are:

- Requiring all the CAPCOs to have Wisconsin offices and staff (this requirement is currently in the Rules for the program, but not in the statutes)
- Requiring more timely filing of reports with the Department of Commerce
- Requiring the CAPCOs to have Department of Commerce approval before they make their investments in individual small Wisconsin businesses. Ward OK w/ this too
- Adding a provision which says that the Joint Legislative Audit Committee may direct the Legislative Audit Bureau to perform a performance evaluation audit of the program
- Deleting a provision in the current law which allows a CAPCO to be "decertified" (not regulated by the state) after 10 years. This change will ONLY allow CAPCOs to be "decertified" after thay have invested 100% of their certified capital.
- Clarifying that there will be a new certification process for CAPCOs if new funds are approved. This will allow new CAPCOs to be part of the program.
- Making the effective date for any tax credits July 1, 2005, thereby ensuring that there will be NO fiscal impact on this biennial budget if additional CAPCO funds are approved.
- Making the tax credits available to ALL Wisconsin insurance companies, not just those that pay the premium tax.

With the CAPCO program we are helping to keep entrepreneurs and Wisconsin college graduates in the state, we are creating good paying jobs, we are leveraging other venture capital investments in the state, and we are generating new tax revenue for the state. We simply need more CAPCO funds if we are to multiply the good that is already being accomplished with the first $50 million in CAPCO funds.

Thank you for the opportunity to appear before you today concerning this important topic.