



## Fiscal Estimate Narratives

DOA 1/19/2024

LRB Number	23-2138/1	Introduction Number	SB-0878	Estimate Type	Original
<b>Description</b> fund of funds investment program					

### Assumptions Used in Arriving at Fiscal Estimate

Senate Bill 878 (SB-878) contains several provisions targeted at the management of the Badger Fund of Funds (Fund) created under 2013 Wisconsin Act 41 as a public/private venture fund. Prior to the enactment of 2023 Wisconsin Act 19, the Fund contained \$32,600,000. This was comprised of \$25,000,000 from the State of Wisconsin, \$7,100,000 from private investors, and \$500,000 from Sun Mountain Kegonsa (SMK), the investment manager. At this time, 100% of the capital in the Fund was committed to portfolio funds. In 2023 Wisconsin Act 19, an additional \$25,000,000 was allocated to the Fund to invest in venture capital funds.

The Capital Finance Office (CFO) within the Department of Administration (Department) receives monthly updates from the investment manager, is responsible for submitting progress reports on behalf of the investment manager and instructs the escrow agent to release funds to SMK when they request capital calls.

This includes evergreening investments by reinvesting proceeds from the \$25,000,000 received in fiscal years (FY) 2013-14 and 2023-24 back into the fund to make it self-sustainable without additional investment from the legislature. This is accomplished by the investment manager holding in escrow the proceeds of its investment until they have allocated 90% of the gross proceeds to venture capital funds headquartered in the state.

This also includes a requirement that at least 50% of the full-time employees from businesses receiving funds from the Fund must live within Wisconsin within three years, or invested funds would have to be paid back to the Fund.

Additionally, this bill requires a match of \$2 from sources other than the investment manager for every \$1 of money invested from the Fund, when averaged across all venture capital fund recipients. This entails a requirement that each business investment includes private (non-state) funds and that the fund investment be at least matched by private funds.

SB-878 sets a limitation on the investments manager's management fee as not to exceed one percent of the sum of the following: \$25 million received from the state in FY 2013-14 and that the first \$5 million be raised from other sources; \$25 million received from the state in FY 2023-24; and any amounts reinvested through the proceeds of its prior investments.

Lastly, SB-878 includes reporting requirements, including that the investment manager must provide annual progress reports on the reinvested money. This practice and information is similar to what CFO currently provides as progress reports for the funds the state has contributed, which contains information regarding how the funds have been invested.

The Department would be required to submit a report to the Joint Committee on Finance containing a comprehensive assessment of the performance to-date of the investment program, any recommendations that the Department has of the program, and any recommendations the State of Wisconsin Investment Board has for improvement of the program by no later than March 1, 2024. The requirement of the Department to provide progress report updates was also similarly required in 2015 and 2018.

The fiscal oversight of the proposed is anticipated to be absorbed by current position and expenditure authority in the CFO. Additionally, there is no anticipated direct impact to the State's General Fund based upon the provisions under the bill.

### Long-Range Fiscal Implications