



PATRICK TESTIN

STATE SENATOR

DATE: January 17, 2024
RE: **Testimony on Senate Bill 878**
TO: Senate Committee on Economic Development
FROM: Senator Patrick Testin

Good morning Chairman Feyen and Committee Members,

Thank you for the opportunity to testify on Senate Bill 878.

Wisconsin has many of the vital ingredients necessary to continue building a vibrant innovation-based economy. This includes a world class education system, a well-funded pension system, a robust state government system, research institutions and large corporations. To attempt to address the needs of the startup ecosystem, the Wisconsin State Legislature passed 2013 Wisconsin Act 41, which created a public/private venture capital fund now known as the Badger Fund. The fund provided capital to be deployed to first-time Wisconsin venture capital fund managers.

Prior to the enactment of the most recent state budget, the Badger Fund totaled \$32.6 million, comprised of \$25 million from the State of Wisconsin, \$7.1 million from private investors and \$500,000 from SMK, the Fund Manager. With 100% of the capital in the Badger Fund being committed to portfolio funds, the state budget allocated an additional \$25 million to the Badger Fund in order to continue investing in Wisconsin-based businesses.

AB 890 makes changes to the Badger Fund to further enhance the fund and ensure Wisconsin start-ups can utilize the fund in the most efficient way possible by adding the following requirements:

1. Reinvesting proceeds from the state's business investments back into the fund ("evergreening"),
2. Requirements for WI-Based Employees
3. Requirements for matching state investments with funding from private (non-state) funds
4. Reporting Requirements

Again, thank you for the opportunity to testify in support of SB 878 and I am happy to take any questions.



ROBERT WITTKÉ

STATE REPRESENTATIVE • 62nd ASSEMBLY DISTRICT

Senate Committee on Economic Development and Technical Colleges
January 17, 2024

Chair Feyen and Committee Members:

Thank you for holding a public hearing on Senate Bill 878, the funds of funds investment program.

Historically, Wisconsin has struggled to attract startup businesses, despite many advantages: a world-class university system, a well-funded pension system, a robust state government system, research institutions and large corporations. While the startup situation in Wisconsin has improved, other neighboring states are investing at much higher rates and our startup rate remains much lower than it could be.

Wisconsin's engine for venture funding is the Badger Fund of Funds which was created in the 2013-14 session and passed Act 41. Three dozen investments in young companies in a variety of Wisconsin sectors have been funded by the Badger Fund of Funds according to the Wisconsin Technology Council "Wisconsin Portfolio". Significant restraints exist for the Badger Fund of Funds and that is why Senate Bill 878 (SB 878) is so important.

The bill would:

- Reinvests proceeds from the state's business investments back into the fund "Evergreening"
- Clarifies language for Wisconsin businesses to grow and expand
- Requires matching state investment with funding from other sources
- Requires the investment manager to report annually on its reinvested money

SB 878 would open opportunities for Wisconsin businesses to thrive and will incentivize investment in Wisconsin startups.

Again, thank you for holding a public hearing on SB 878.

Senate Committee on Economic Development and Technical Colleges

January 17, 2024

2023 Senate Bill 878

On behalf of Entrepreneurial Advisory Service, LLC

Testimony of Mike B. Wittenwyler

In an effort to address the needs of Wisconsin's startup ecosystem, the Wisconsin State Legislature passed 2013 Wisconsin Act 41 which created a public / private venture capital fund now known as the Badger Fund of Funds. Since its creation, the Badger Fund has provided capital that has been deployed to first-time Wisconsin venture capital fund managers.

2023 Wisconsin Act 19 (the "2023-25 Biennial Budget") invests an additional \$25 million into the existing the Badger Fund program. Other than this continued funding, the 2023-25 Biennial Budget does nothing to change the operation of the Badger Fund program.

Senate Bill 878 makes a series of technical changes to ensure the continued success of the program.

Sunset the 3-year Horizon Requirements for WI-Based Headquarters and WI-Based Employees.

Amend program language to specify that, if a business that has been provided an investment from a venture capital fund ("VCF") relocates its headquarters outside of Wisconsin or fails to employ at least 50% of its full-time employees in Wisconsin within three years of the fund's *initial* investment, then the business must promptly pay the investment back to the VCF.

Current Law. The current provision can be interpreted to mean that the 3-year Wisconsin-based headquarters and Wisconsin-based employee requirements restart each time an investment is made by the VCF in the business, rather than only being measured from the date of the VCF's initial (i.e., first) investment in the business.

Evergreening Proceeds from Investments. Within 24 months after receiving the proceeds from investments of the moneys contributed by the State, the investment manager must commit 90% of the gross proceeds to investments in VCFs headquartered in Wisconsin. The gross proceeds must be held in an escrow account at a bank with its headquarters in Wisconsin until the investment manager reinvests the funds.

Current Law. The investment manager pays all gross proceeds from the State's investments to the Secretary of the Department of Administration for deposit to the general fund on an annual basis, up to \$25,000,000. It also requires that the investment manager pays 90% of the gross proceeds to the Secretary for deposit to the general fund after \$25,000,000 is deposited to the general fund.

Requirements for Matching Evergreened Proceeds with Funding from Other Sources. When gross proceeds are reinvested into VCFs, a match of \$2 from sources other than the investment manager are required for every \$1 of moneys reinvested, when averaged across all VCF recipients (i.e., when measured at the Badger Fund of Funds level).

Current Law. Currently, the Act does not contain a matching requirement for evergreened proceeds on the Badger Fund of Funds level; however, there is a matching requirement for State contributions that are invested on the individual business level. Specifically, every \$1 of investment of monies contributed by the State must be matched by the VCF, with (on average) \$2 of investment in each business from sources other than the investment manager. Repealing and replacing this provision essentially moves the \$1: \$2 matching requirement from being measured on the individual business level for State contributions, to being measured at the Badger Fund of Funds level for evergreened proceeds.

Requirements for Matching State Investments with Funding from Other Sources. When money contributed by the State is invested into VCFs, each VCF must ensure that the State is never the sole investor in an individual business investment. Also, when averaged across all individual businesses receiving investments, the VCF must ensure that it at least matches any money contributed by the State with sources other than the investment manager.

Current Law. VCFs must at least match each investment made in individual businesses that are from State contributions with sources other than the investment manager. As stated above, when measured across all investments in individual businesses, every \$1 of investment of monies contributed by the State must be matched by the VCF, with (on average) \$2 of investment in each business from sources other than the investment manager.

Reporting Requirements. The investment manager must provide annual reports on its reinvested money in the same fashion in which it currently provides annual reports for the money the State had contributed that the investment manager has subsequently invested. Also, the DOA is required to submit, no later than March 1, 2024, a report to the Joint Committee on Finance that includes a comprehensive assessment of the performance to date of the investment program; any recommendations that DOA has for improvement of the program; and any recommendations the State of Wisconsin Investment Board has for improvement of the program.

Current Law. There were similar reporting requirements for the DOA in 2015 and 2018. This new reporting requirement simply makes the DOA provide a 2024 progress report in the same manner it provided its progress reports in 2015 and 2018.