

Mike Kuglitsch

STATE REPRESENTATIVE • 84TH ASSEMBLY DISTRICT

DATE: February 17, 2014
RE: **Testimony on 2013 Assembly Bill 761**
TO: The Assembly Committee on Jobs, Economy, and Small Business
FROM: Representative Mike Kuglitsch

Thank you Madam Chairwoman and Committee members for hearing Assembly Bill 761 this afternoon.

In 2005, Wisconsin implemented the early stage investment program, also known as Act 255, and has used this program to leverage millions of dollars into small businesses across the state. It has been extremely successful, and has been a model for other states since its enactment.

Despite the success of the program, some of the credits go unused every year. The goal of this program is to use these credits for their intended purpose of investments into small business that are in need of capital. While Qualified Fund Managers and angels have routinely used the credits, many institutional investors don't have a tax-related incentive to engage in early stage financing for emerging Wisconsin businesses.

Assembly Bill 761 calls for the WEDC to allocate at least 25%, but not more than 50% of the unused Act 255 credits to Act 255 Qualified Fund Managers through a bidding process. The transaction would include a dollar-for-dollar match between WEDC and the Qualified Fund Managers for 100% of the value of the unused credits. This would require any participating Wisconsin based fund to invest 100% of the value of the unused credit and to split the profits of the investments with the state. The allocated credits may then be transferred to institutional investors who are willing to make investments in Act 255 Qualified New Business Ventures.

The bill states that a fund manager must make investments in businesses no later than three years after receiving the credits and must keep their investments for five years. We feel this time-line guarantees quick investments into the marketplace, but grants enough time to make smart investments.

As explained above, the state will receive an additional 50% of the investment returns, less expenses and federal and state taxes. With the profits being split between the investors and the state, we will benefit in the long run, by being able to put more money back into the program or other programs within the WEDC.

To make certain this program remains transparent; we have included some reporting requirements to ensure the books stay open to the public. To accomplish this, each year, the Qualified Wisconsin Fund Manager must submit a report to WEDC, which includes the name of each business receiving an investment, the amount received, and the number of jobs created for each business. The report could be added to the annual report of WEDC given to the legislature each year.

The success of the Act 255 program has been promising. Assembly Bill 761 will help Wisconsin achieve its goal of increasing investments in emerging industries. This legislation is a tool to expand our portfolio and continue to make private capital available to growing businesses.



February 17, 2014

TO: Assembly Committee on Jobs, Economy and Mining
FROM: Tom Still, president, Wisconsin Technology Council
SUBJECT: Assembly Bill 761

Dear Chairperson Williams and members of the committee:

Thank you for the opportunity to speak in favor of Assembly Bill 761 and to provide you with some background information that not only speaks to the importance of this bill, but to your continued efforts to set Wisconsin apart in the national – even global – competition for early stage capital.

The purpose of Assembly Bill 761 is to establish a process by which unused Act 255 investor tax credits can be allocated in a way that would fully reimburse the state while putting the credits to work in the form of direct investments by Act 255-certified investors in Wisconsin's Qualified New Business Venture companies.

In other words, this bill would enhance the ability of Wisconsin investors to make more and/or larger investments in Wisconsin companies.

If passed, this bill would become the latest example of innovation – driven in no small part by the Legislature – around support for Wisconsin's early stage economy.

Here are some recent examples of Wisconsin ideas and initiatives that have received national attention:

- In its annual report on trends in tech-based development, the State Science and Technology Institute cited Wisconsin and New York as two recent examples of creative approaches to capital development. This was due to the Legislature's overwhelmingly support for a "fund-of-funds" that will begin with a \$25 million state investment and attract matching private dollars.
- That same report by SSTI cited Wisconsin's decision to amend state securities laws to permit equity crowdfunding.
- It also highlighted the Wisconsin Economic Development Corp.'s \$300,000 investment in the BrightStar Wisconsin Foundation, which is beginning to invest in Wisconsin companies.
- The SSTI also praised the UW-Madison's investment in its "Discovery to Product" initiative to help move good ideas from the laboratory to the marketplace. That's an idea funded, in part, by the Legislature's UW System Incentive Grants. Only last week, the UW System and WEDC announced creation of a \$2 million fund to help transfer technology from other system campuses.
- Finally, SSTI cited three workforce development bills passed by this body to better connect talent with jobs.
- The latest Halo Report by the Angel Capital Association cited a Wisconsin angel network, Wisconsin Investment Partners, as one of the nation's most active in the third quarter of 2013.
- Milwaukee's Golden Angels Network was cited in another Halo report as one of the top groups in the nation for dollars invested per deal.
- In a recent report on Colorado's efforts to create a statewide angel network, Xconomy cited the experience of our own Wisconsin Angel Network, as well as the overall success of Wisconsin's Act 255 investor tax credits program.

While Wisconsin still has a long way to go before it builds a truly competitive venture capital market, its foundation in earlier parts of the financing spectrum is strong.

We see that almost weekly in investments in emerging, private companies, and in announcements by investors that they are looking at Wisconsin or raising funds in anticipation of opportunities here. We also see it in the continued popularity of the Governor's Business Plan Contest, which this year attracted nearly 300 entries.

Over its first 10 years, finalists in that contest have raised at least \$125 million in private equity and merit-based grants. That's a testimony to the fact that small business startup and survival rates can be enhanced by the right training and coaching.

AB 761 is part of a persistent effort to make Wisconsin's early stage economy as vibrant as it can be. That effort requires a full ecosystem – from the right intellectual property to the right investors. We are pleased to support this latest step toward building that culture.

Thank you.

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Committee Chairperson Williams and committee members,

Thank you for allowing me to speak today on this very important piece of legislation.

My name is Steve Lyons and I am the President of the Wisconsin Growth Capital Coalition. With me is Jason Smith, a member of the Wisconsin Growth Capital Coalition, Wisconsin-based venture investor and expert on these type of job creation efforts.

I will give a brief history of who we are, and then discuss why we strongly support this legislation.

The Wisconsin Growth Capital Coalition was formally created in 2013 to promote, support, and facilitate economic growth by enhancing the availability of early stage capital in Wisconsin.

The WGCC is a group of early stage investors, emerging companies and service professionals who work with the state's high-growth economy. The coalition's goal is to see the adoption of legislative initiatives that help this sector, help the economy, and create jobs in Wisconsin.

The WGCC supports Assembly Bill 761 and we ask that final language passed includes the language that is included in this bipartisan legislation introduced by Representatives Kuglitsch and Kahl.

Allocating unused Act 255 investor tax credits

Background

Wisconsin's Act 255 investor tax credits law has worked well since it took effect on Jan. 1, 2005, leveraging at least \$150 million in private investment in nine years. It has worked best on the angel investor side, as noted by investors and companies in Wisconsin as well as national organizations that have followed the Wisconsin experience.

In the last two years alone, ACT 255 credits have created more than 1,500 jobs. But as we know, there is much more to be done.

The issue

Despite the overall success of the law, some credits are unused in any given year, primarily because venture capital firms find them harder to deploy for structural reasons related to how the typical venture fund is financed. Essentially, limited partners who are already tax-exempt (i.e., pension funds) do not realize the benefit of the credits. The goal of this bill is to allocate unused credits through a process that would allow them to be put to use by investors who would fully reimburse the state for their use.

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Our proposal

Beginning in 2014, and in each year thereafter, the Wisconsin Economic Development Corp. may allocate at least 25 percent, but no more than 50 percent, of unallocated credits to certified Act 255 investment funds. Such an allocation would be done through an application process that is expected to produce a dollar-for-dollar return to the state or more; would not disrupt the flow of the Act 255 program itself; and will provide institutional investors with more incentive to take on risk by making larger investments into Wisconsin-based funds focused only on early stage companies.

The impact

This would allow more and bigger investments made into Wisconsin early stage companies, thus increasing the supply of venture capital to entrepreneurs in the state.

This will help Wisconsin-based, certified Act 255 companies by providing the opportunity for more follow-on investments after their initial or "seed" rounds, thereby providing much needed support to the active risk-taking angel investors in Wisconsin.

Thank you for holding a hearing on this important piece of legislation.

I ask that this bipartisan piece of legislation be voted on to help build our economy, create jobs and assist Wisconsin-based small companies.