

Free-market advocacy group says state government “lacks expertise” to manage proposed \$100 million VC fund

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A free-market advocacy group is calling on Governor Tony Evers to remove a proposed **\$100 million venture capital fund** from the state’s budget proposal, citing concerns over the ability for state government to make sound investments in early-stage startups.

The Wisconsin Free Market Coalition said Evers’ proposed fund is “risky” and that policymakers would “better serve taxpayers by working to create an even playing field for all entrepreneurs and businesses,” the organization said in a letter to legislators Wednesday.

The WFMC is composed of the **Badger Institute**, the **Maclver Institute**, the **Wisconsin Institute for Law & Liberty** and **Americans for Prosperity-Wisconsin**.

“After a year of COVID-19 and government-imposed hardships on businesses, the desire to help invigorate private enterprise is understandable. But this is the wrong way to go about it. We encourage you instead to look for ways to streamline the path for entrepreneurs to succeed without putting \$100 million at needless risk,” the letter reads in-part.

While lawmakers on the Republican-controlled Joint Finance Committee cut hundreds of items from Evers’ budget, the governor’s \$100 million venture capital fund of funds survived.

Evers’ “Wisconsin Fund” has received support from eight former secretaries of the Wisconsin Economic Development Corp. and the former state Department of Commerce – the group includes five appointed by Republican governors and three by Democratic governors.

Evers’ Wisconsin Fund is also supported by the **Wisconsin Technology Council**, the **Wisconsin Startup Coalition** and the **Wisconsin Fund Coalition**.

These organizations have said the Wisconsin Fund would bridge a gap in funding for early stage companies, who need capital to develop products, perform initial marketing and branding, hire key employees and begin business operations. Supporters have also said new businesses in the state have been challenged to secure Series A round funding, and that a fund of this size is critical for entrepreneurial growth in Wisconsin.

“Startups are the leading net creator of jobs,” said Matt Cordio, Wisconsin Startup Coalition co-founder. “Who wouldn’t want more high-growth startup activity creating jobs in Wisconsin? It’s a non-partisan issue.”

Supporters also argue that without this fund, many of Wisconsin’s early-stage companies would move closer to the coasts where most venture funds are located, or they would go out of business before reaching their full potential.

“The venture fund offers an opportunity to assure that Wisconsin entrepreneurs have the opportunity to stay and grow their business in our state as they compete on a national and global stage,” WEDC secretary and CEO Missy Hughes said in a statement.

The Wisconsin Fund is structured as a fund of funds model, meaning \$100 million would be divided among sub-funds that would in turn make investments in emerging companies in Wisconsin. For every \$1 the state fund invests in a startup company, a private investor would match the investment with \$2, according to Evers’ proposal.

The WEDC board of directors would establish an oversight board for the Wisconsin Fund, and select multiple private fund managers to manage no more than 25% of the fund.

However, WFMC questions the ability of government officials or their designees to make investment decisions, saying the selection process would “distort the marketplace” and favor new businesses over their long-established taxpaying competitors.

The organization also argues that unless the advisory board invests in companies themselves, the investment process “may well be made without sufficient diligence or objectivity,” the letter said.

“Administrative efforts and state resources should aim to limit the regulatory burden and create a pro-growth tax structure that makes the state competitive and contributes to broad economic flourishing,” the WFMC said in the letter.

Other states like Ohio, Michigan and Illinois leverage similar public-private VC initiatives to attract outside investments, and organizations backing the Wisconsin Fund are pointing to their success.

Michigan was recently identified as the **fastest-growing venture capital state** in the country, with an increase in venture dollars from \$300 million in 2016 to \$3.1 billion last year, according to **Crunchbase**.

“How did Michigan do it? It seeded its own clouds with public and private money that drew dollars and expertise from other states to invest in Michigan-born companies, especially those companies with enough traction to succeed,” the Wisconsin Fund Coalition wrote in a rebuttal to WMFC’s letter to legislators.

Wisconsin has made investments in startup companies since 2013 with the passage of Act 41 that created the Badger Fund of Funds, which is a similar concept to the Wisconsin Fund. Act 41 was proposed by former Governor Scott Walker and received approval from both houses of the Legislature.

BFOF started with a \$25 million commitment from the state and has since grown to approximately \$66.7 million. As of March 2021, BFOF deployed about \$20 million to five funds to invest in Wisconsin companies.

Of the \$20 million, about \$7.6 million of the Badger Fund has been matched by \$26.1 million in private funding to support 25 businesses. Of the 25 businesses, two have ceased operations, according to a Department of Administration quarterly **report**.

While venture investments aren’t typically measured solely on job creation, the Badger Fund’s active portfolio companies employ 181 people, including adding 100 employees since receiving investment. The total quarterly payroll for these employees is \$3.6 million, and the average employee salary is \$81,000, according to the report.

At the time of the Badger Fund’s inception, the state selected a private company called Sun Mountain Kegonsa to manage the fund. The partnership formed by New Mexico-based Sun Mountain Capital and Fitchburg-based Kegonsa Capital Partners invested \$500,000 of its own capital in the Badger Fund.

Act 41 does not require the Badger Fund’s sub-fund managers to invest capital in their respective funds. However, each fund manager has invested between 1% and 2.5% in each

fund, which range in size from \$6 million to \$13 million, Badger Fund of Funds partner Ken Johnson said.

One of many factors that differentiates the Wisconsin Fund from the Badger Fund is that even though capital may be raised from out-of-state investors, capital raised by the Badger Fund must be deployed in Wisconsin-based startups.

The Wisconsin Fund’s \$100 million is required to be invested in Wisconsin-based companies, but matched funds from private investors could be invested in companies based elsewhere.

By allowing the Wisconsin Fund’s matched capital the flexibility to be deployed elsewhere, the state’s fund could serve as a magnet for private investors throughout the country, generating more private investment in Wisconsin-based companies, according to the Wisconsin Fund Coalition.

“Whether it’s the current track record of the Badger Fund of Funds or larger fund of funds in other states, the initial state investment is always followed by a significant investment by both in and out of state private investors,” said Tom Still, president of the Wisconsin Technology Council.

Still also says if Wisconsin Fund is approved in the final budget, it would be managed by a private sector company, which would be selected through a transparent request for proposal process led by the WEDC’s advisory board. That private entity would then select six to eight private funds led by skilled investors, he added.

“Wisconsin can choose to continue to let the biggest venture capital states – California, Massachusetts, New York and Texas – control 85% of the U.S. asset class. Or it can move to the next stage in a process that has already covered 16 years of bipartisan support in the Wisconsin Legislature and governor’s office. The latter is the logical choice,” the Wisconsin Coalition said in a letter to legislators.

The WFMC’s letter can be found [here](#), and the Wisconsin Fund Coalition’s rebuttal letter can be found [here](#).

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