

Improve technology development,
delivery and transfer



Build Wisconsin's
supply of human capital



INVESTING IN NEXT- GENERATION JOBS

2015 WHITE PAPERS



Improve access to capital for
Wisconsin entrepreneurs



Enhance Wisconsin's startup
and business climate

Produced by



Wisconsin
Technology
Council



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For over 30 years, URP has been connecting the communities of research and technology, government, and academia to advance innovation and entrepreneurship in Wisconsin and beyond.





The role of the Tech Council

The Wisconsin Technology Council is the bipartisan, non-profit science and technology policy adviser to the governor and the Legislature, as reaffirmed through Executive Order 51. The Tech Council periodically issues “white papers” and special reports to assist those policymakers.



*Tom Still
President*



*Toni Sikes
Board Chairwoman*

And many are ideas brought forward by members of our Wisconsin Innovation Network and others – entrepreneurs, investors, service experts and researchers – who attend our events and seminars.

Some would suggest bold ideas won’t fly in Wisconsin for political or budgetary

The ideas offered in the Tech Council’s 2015 white papers are intended to set the table for a renewed public discussion about improving the state’s tech-based economy.

They include emerging priorities as well as restatements and updates from previous white papers, legislative proposals or executive branch proposals. Some are based on our knowledge of innovative ideas in other states.

reasons. But that’s what some observers said about Wisconsin’s Act 255 investor tax credits program and the Badger Funds of Funds program, both recommended in past white paper reports and embraced by lawmakers.

We are pleased to offer our 2015 white papers report to you, and invite you to read on to learn more about the depth and breadth of Wisconsin’s tech-based economy.

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Executive summary

Recommendations in the Wisconsin Technology Council's 2015 white papers report fall into four major categories:



Improve access to investment capital



Enhance the startup and business climate



Expand the supply of human capital



Improve technology development, delivery and transfer

Within those four broad categories, specific recommendations to the governor and Legislature include:

- ❶ Raise the \$8 million cap on credit-eligible investments in an Act 255 firm, unchanged since 2005, to \$12 million.
- ❷ Raise the credit from 25 percent to 40 percent for the first \$1 million in eligible investments.
- ❸ Increase Wisconsin's investment in venture capital over time to help fuel the state's entrepreneurial growth.
- ❹ Eliminate state capital-gains taxes on investments held, three years or longer, in a Wisconsin business.
- ❺ End tax on capital raised by C corps deemed "foreign corporations" making sure changes are targeted to firms of a certain size, age and other factors.
- ❻ Establish a process to leverage unused Act 255 credits via legislative approval for WEDC to handle as a direct matching fund to privately vetted investments.
- ❼ Create and sustain a Wisconsin follow-on platform to federal SBIR Program.
- ❽ Grow the next generation of Wisconsin early stage capital professionals akin to the state of Michigan model.
- ❾ Create a merger and acquisition "strike force" or "welcome wagon" to work with companies that acquire Wisconsin-based companies and help them acclimate to the state.
- ❿ Adopt a benefit corporation as a new corporate legal entity in Wisconsin.



The art of the deal: Wisconsin Early Stage Symposium 2014. Photo: Bob Modersohn

- ☁️ Revise legislative requirements for “schedule of expenditure” reports that place extra costs and administrative burdens for startup companies.
- ☁️ Review unemployment compensation/workers compensation taxes on small businesses.
- ☁️ Continue to focus on the need for enhanced broadband connectivity in Wisconsin.
- ☁️ Enhance access to out-of-state power.
- ☁️ Make it easier for Wisconsin to participate in the “sharing economy.”
- 📡 Support state funding for the Youth Options and Course Options programs, which enable students to earn college credits while still in high school.
- 📡 Make student financial aid more broadly available.
- 📡 Encourage support from the Department of Workforce Development for creation of an “information assurance” training program to ensure that Wisconsin have trained professionals in cybersecurity and related fields.
- 📡 Build upon interdisciplinary clusters and “centers of excellence” first highlighted in the Tech Council’s “Vision 2020: A Model Wisconsin Economy.”
- 📡 Support the creation of enhanced cyberstructure in Wisconsin.
- 📡 Work with the state’s congressional delegation to identify ways Wisconsin companies and institutions can help meet national science and technology priorities (National Academy of Sciences).

- 📡 Renew 2002/2009 “Future of Research” resolution, which encouraged the state not to enact laws or rules that put the state at a competitive disadvantage in terms of technology research and development.

In addition to recommendations to state policymakers, recommendations to Wisconsin’s congressional delegation include:

- 📡 Keep the existing “accredited investor” threshold currently being reviewed by the Securities and Exchange Commission (individual income exceeding \$200,000 or joint income with a spouse exceeding \$300,000 and/or \$1 million net worth).
- 📡 Support for the HALOs Act, or “Helping Angels Lead Our Startups Act,” which provides clearer definition of what constitutes “general solicitation” and clearly exempting demo fairs, pitch conferences and angel group presentations.
- 📡 Create a federal tax credit, similar to Wisconsin’s Act 255 tax credit program that would incentivize investing in technology startups.
- 📡 Create new visas for U.S.-educated students and entrepreneurs.
- 📡 Eliminate artificial per-country caps for employment based immigrant visas.

To read past white papers and other policy reports, visit our web site at www.wisconsin technologycouncil.com.



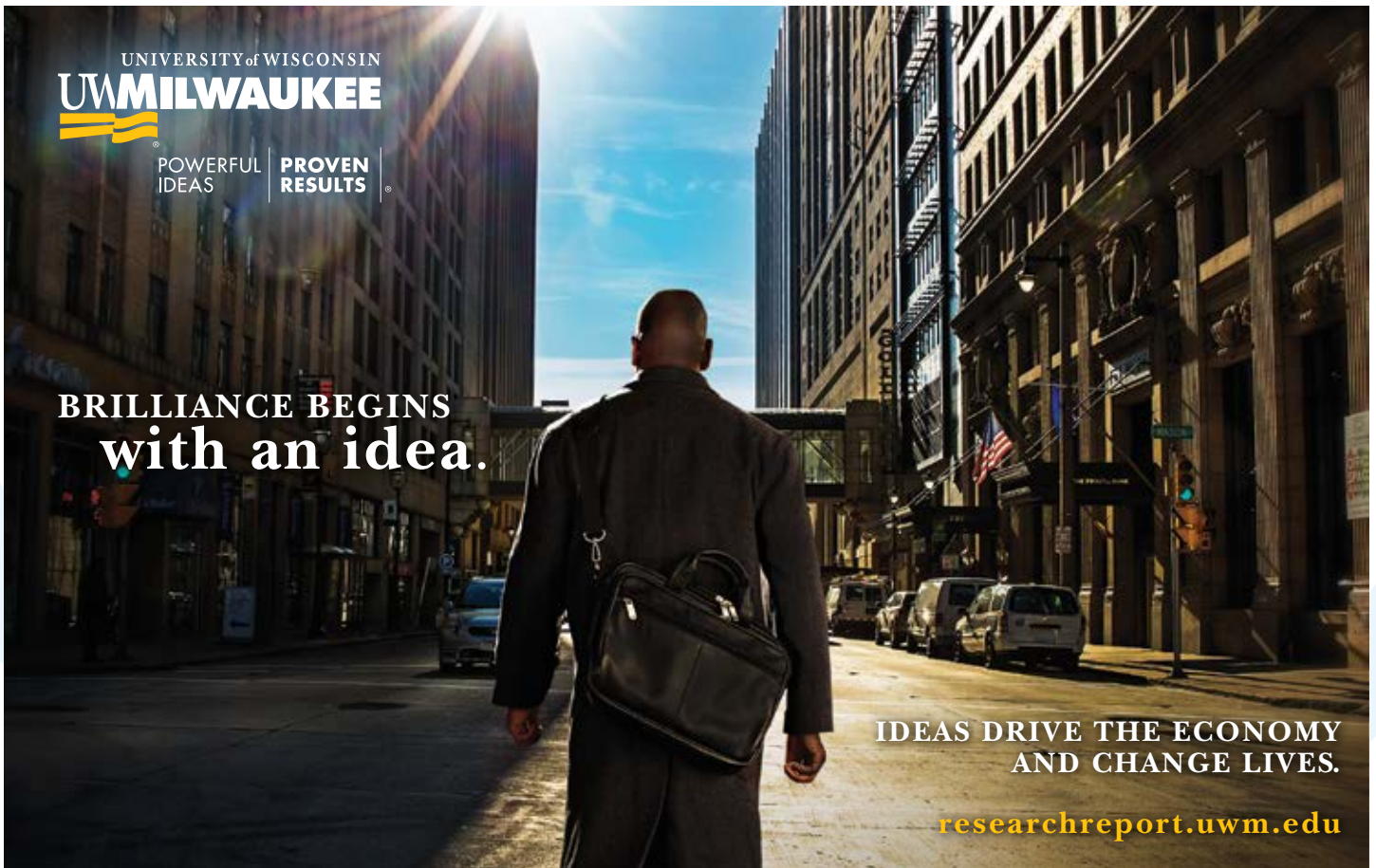
How past editions of our ‘White Papers’ have helped

Past white papers have contributed to or been primarily responsible for a number of executive and legislative branch actions:

- Passage of the Badger “Fund-of-Funds” in 2013. This \$25 million investment by the state will be matched by private dollars on a 2-to-1 basis as the venture capital fund becomes established in 2015;
- Passage of AB-729 in 2014, which allows the UW System to pursue classified research projects through a mechanism that allows for faculty governance with regular reporting to the Legislature;
- Passage of the Act 255 investor tax credits (2004) and revisions to the nationally recognized program (2009 and 2013);
- Creation of the Wisconsin Angel Network, which has expanded from five networks and angel groups in early 2005 to two-dozen early stage groups today;
- Expansion of the scope of allowable bonding projects for the Wisconsin Health and Educational Facilities Authority;
- Repeal of the shareholder wage lien law, which discouraged investment in Wisconsin startup companies;
- Improvements in laws governing entrepreneurial activity by University of Wisconsin faculty;
- Improvements in processes and regulations vital to expanding broadband availability, especially in rural Wisconsin;
- Extension of the “single-sales factor” sales apportionment for corporate income to technology and service firms in Wisconsin;
- Enactment of an Education Tax Credit to assist employers in hiring and training workers;
- Support for the “Emerging Technology Centers” concept within the UW System, which was first envisioned as Centers of Excellence in the Tech Council’s Vision 2020 report; Support for an Interdisciplinary Research Center, also through Vision 2020, which was consistent with the Wisconsin Institutes for Discovery and Morgridge Institute for Research, which opened in December 2010;
- Broader recognition of the economic value of academic research and development in Wisconsin, which attract nearly \$1.3 billion in sponsored research each year;
- Creation of the I-Q Corridor branding concept and support for multi-state relationships;
- Extension of funding for the WiSys Technology Foundation, which assists UW System campuses in transferring technology to the marketplace.



Tech Council partners and programs





Improve access to investment capital

Raise the \$8 million cap on credit-eligible investments in an Act 255 firm, unchanged since 2005, to \$12 million.

Many Wisconsin early-stage companies, especially in the life sciences and advanced manufacturing sectors, would benefit from the ability to offer investors additional tax credits for future funding rounds. These later-stage funds can be difficult to raise, but they can be an important link for a company to be on a path to accelerating job growth.

Raise the credit from 25 percent to 40 percent for the first \$1 million in eligible investments.

The first \$1 million of financing is often the most difficult raise for an early stage company. It is often most risky for investors, as many companies are just starting out and have little revenue. Raising the Act 255 credit to 40 percent for just this stage of a company's fundraising process would encourage the state's active angel community to back companies earlier.

Increase Wisconsin's investment in venture capital over time to help fuel the state's entrepreneurial growth.

The passage of the \$25 million Badger Fund-of-Funds program in 2013 was a good start, but Wisconsin continues to fall behind comparable states in the number of venture-capital backed companies, homegrown venture capital firms and overall entrepreneurial activity. States such as Michigan and Ohio have seen much larger dollar programs contribute to their states' respective venture capital ecosystems, leading to significant growth in new company formation. In Michigan, there has been a more than 100 percent growth in companies receiving venture capital, spurring new jobs and the supporting services that come along

with growth in the industry. As the Badger Fund of Funds becomes operational, and budget conditions allow, the state should increase the amount it contributes to venture capital to leverage more private dollars coming in from out-of-state and from within. The state should also be flexible as the existing program evolves with an eye toward flexibility on how private dollars can be invested and expanding the sectors which can be considered for investment.

Eliminate state capital-gains taxes on investments held, three years or longer, in a Wisconsin business.

There have been proposals in recent years to completely eliminate state capital-gains taxes on long-term gains (held a minimum of five years) in Wisconsin businesses. Many investors have said three years would be more attractive, given the nature of software and other IT investments. Wisconsin currently is middle of the pack among the 50 states in taxing capital gains. Until 2009, however, Wisconsin taxed them at a maximum of just 2.7 percent. That rate was among the dozen lowest in the nation, including the seven states that don't tax income at all, whether it's from wages or stock sales. Lawmakers interested in this idea sought fiscal estimates early in 2014 and remain interested in pursuing the idea in early 2015. A phased-in approach to reducing capital gains on privately held companies on the primary issuance of shares would enhance investment in high-growth companies.





Elevator Pitch Olympics: Wisconsin Early Stage Symposium 2011. Photo: Joseph W. Jackson III

End tax on capital raised by C corps deemed “foreign corporations” making sure changes are targeted to firms of a certain size, age and other factors.

The best way to accomplish this within the Department of Financial Institutions is to exempt companies below a certain annual revenue level (\$10 million), employee size (fewer than 100 with 51 percent or more in Wisconsin) and age (10 consecutive years or less), ensuring that it applies only to emerging companies. Most startup companies in Wisconsin are – or should be if they expect to get professional financing – C corporations. Most of them, if they expect to get professional money, are incorporated in Delaware. The reasons for this are numerous and startup companies in most states do the same thing. At issue is a provision in the tax code/DFI regulations whereby these companies are considered “foreign corporations” because they are registered out of state and they owe taxes on the money they raise in a financing round. This is a major issue in that investors do not want their money going to pay taxes. It is one thing to pay taxes on earned income, but investment dollars are hard to come by. Besides, these companies are doing business in Wisconsin; their staff is in Wisconsin and most if not all the investment dollars are spent in Wisconsin. A bill correcting this was drafted in early 2014; an initial fiscal estimate from the state Department of Financial Institutions was overly broad because the parameters included larger companies, and the bill was not introduced in the spring. It should be brought back for consideration in 2015.

Establish a process to leverage unused Act 255 credits via legislative approval for WEDC to handle as a direct matching fund to privately vetted investments.

Reinvesting tax credit funds into the state’s most-promising companies would help with needed financing of growing firms, while also providing a potential return for the state. This would allow WEDC another option beyond the general Jobs Tax Credit, which is manufacturing oriented. The parameters of the concept is (1) do not upset the success and structure of the existing Act 255 program; (2) ensure that Act 255 credits in the budget do not go “unused”; (3) provide greater incentive for investors to invest at the riskiest end of the venture capital continuum...a place where there is the most need.

Create and sustain a Wisconsin follow-on platform to federal SBIR Program.

The federal SBIR program was established in 1982 and has been extended by Congress. It is a merit-based grant program that awards grants to researchers and companies with ideas that appear most likely to move into the commercialization stage, meaning creating viable companies and jobs. Only about one in 12 SBIR applicants receive grants. Wisconsin has done fairly well in this program over time. Investors consider the program highly credible because it is conducted across 10 federal agencies and provides non-dilutive financing to promising companies. Several states have created matching grant programs. Michigan, Oklahoma, North Carolina, Kentucky, Connecticut and Montana are among the examples. Typically, the maximum amounts available through state matching grants vary according to Phase 1 and Phase 2 SBIR awards. A Wisconsin platform has been instituted by WEDC and should be continued and expanded in the state’s 2015-17 budget cycle.

Continued on page 8



Improve access to investment capital, cont.

Grow the next generation of Wisconsin early stage capital professionals akin to the state of Michigan model.

Michigan’s program provides the opportunity for venture capital firms to receive state support to help with the costs of bringing in younger venture capital professionals, many of whom would otherwise leave the state for coastal jobs. Wisconsin could model a similar program, with also including angel and other early-stage funds statewide.

Create a merger and acquisition “strike force” or “welcome wagon” to work with companies that acquire Wisconsin-based companies and help them acclimate to the state.

One of the best ways to “recruit” companies from outside Wisconsin is to work with those larger firms that acquire Wisconsin-based companies. While WEDC already endeavors to touch companies in many ways, this could become a special mission of a constitutional officer such as the lieutenant governor.

Develop ‘ExpertLink’ platform for investors

* A challenge for angel investors in Wisconsin – and thus an impediment to more network creation – is they are often asked to invest in complicated software platforms or medical imaging devices, but they don’t necessarily know enough about the technology to take the risk. Short of hiring an attorney (before a deal is made), there aren’t a lot of places to get high-level help quickly. “ExpertLink” would be a database platform to connect investors, entrepreneurs and others with specific advice from experts across Wisconsin (or passionate about Wisconsin) in targeted areas. Think a more exclusive “LinkedIn” for early stage investment support – plus a platform that could also be used by organizations in search of mentors or companies seeking advisors and/or board members. Angel and other early stage investors in Wisconsin have expressed excitement about the concept, which would be best executed by The Wisconsin Technology Council, and the Wisconsin Angel Network, with help from WEDC.

Continue to raise the profile of Wisconsin companies with out-of-state investors

* While there appears to be increased interest among venture capitalists in other states in Wisconsin companies, drawing the attention of those investors on a regular basis remains a challenge. We already do so through our conferences and other events, but another approach is to engage investors in a “road show” in Wisconsin for a series of meetings with selected companies. This would be constructed in a way that could attract coastal investors, but also regional investors who might have more reason to travel to Wisconsin given their existing deal footprints. A typical tour might include a presentation in a major city by an investor, preceded by or followed by meetings with companies and research institutions, public or private, and accelerators that would tend to act as a support platform for such companies.

RECENT NEW INVESTORS IN WISCONSIN DEALS

Baird Capital



BrightStar
WISCONSIN

DRIVE CAPITAL



AMERICAN FAMILY
VENTURES

Google
capital



GREAT OAKS
VENTURE CAPITAL



CHICAGO
VENTURES

Chrysalis
VENTURES



Monitor, track data and suggest improvements to ongoing crowdfunding efforts

* Equity crowdfunding – effectively Kickstarter but for equity in startup companies – has become a popular proposal around the United States for how to help entrepreneurs raise investment capital. But the rules, both those implemented in states like Wisconsin and also the ones proposed at the federal level, are causing worry for some of the costs, requirements and complexity of the programs. In fact, some observers believe the programs are “a disaster waiting to happen.” As many experienced early stage investors and entrepreneurs know, most startup companies fail even using the current, less costly fundraising processes. There are also questions around whether companies that use such programs will be able to raise follow-on capital from more sophisticated investors. Some watchers expect the federal rules to be unveiled in late 2014 or early 2015, but in Wisconsin Act 52 allowed companies to begin raising money through “internet site operators” on June 1, 2014. Wisconsin issuers can raise up to \$1 million from state residents, or up to \$2 million if the issuer provides an audit to prospective investors and the state regulators. So far, one company has reported an offering through the single registered platform. Tracking these offerings in number and effectiveness will be an important tool in making recommendations to legislators and regulators for how such fundraising can be done effectively and safely for investors.

Items of federal interest:

Keep the existing “accredited investor” threshold currently being reviewed by the Securities and Exchange Commission

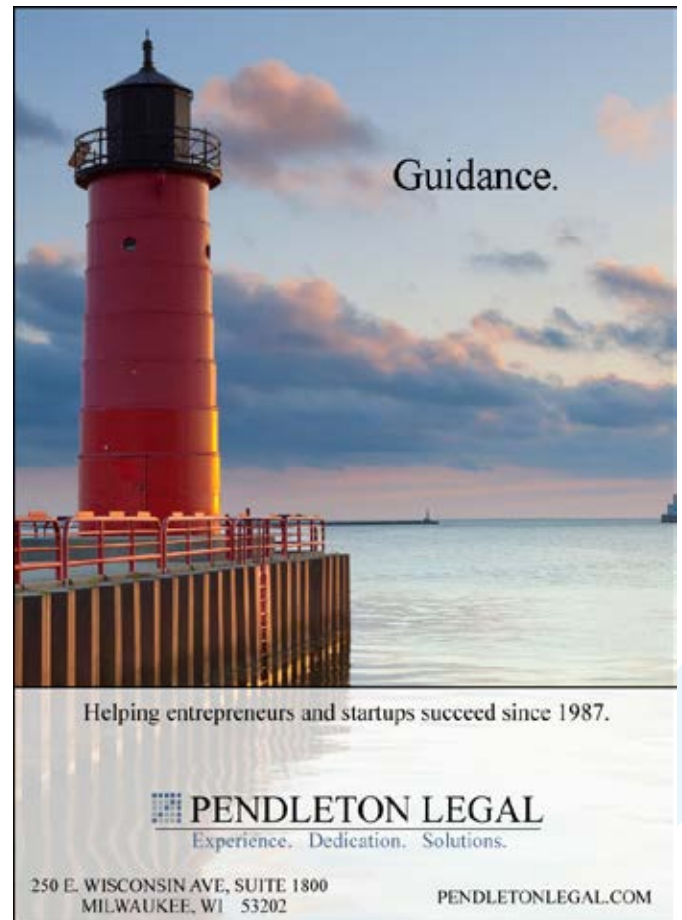
(individual income exceeding \$200,000 or joint income with a spouse exceeding \$300,000 and/or \$1 million net worth). An increase in the threshold would have a devastating effect on the number of angel investors in Wisconsin and many other “flyover” states, with some saying it could cut the numbers of state investors in half.

Support for the HALOs Act, or “Helping Angels Lead Our Startups Act,” which provides clearer definition of what

constitutes “general solicitation” and clearly exempting demo fairs, pitch conferences and angel group presentations. Telling or pitching your company’s story to investors and others is an integral component to an entrepreneurs’ journey. Federal regulators should make clear that those critical elements will not lead to serious penalties for unsuspecting entrepreneurs.

Create a federal tax credit, similar to Wisconsin’s Act 255 tax credit program that would incentivize investing in technology startups. A bill has been introduced in the House.

Make permanent the 100 percent exclusion on capital gains from investments in small startup companies.



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Accelerate startup growth with Act 255

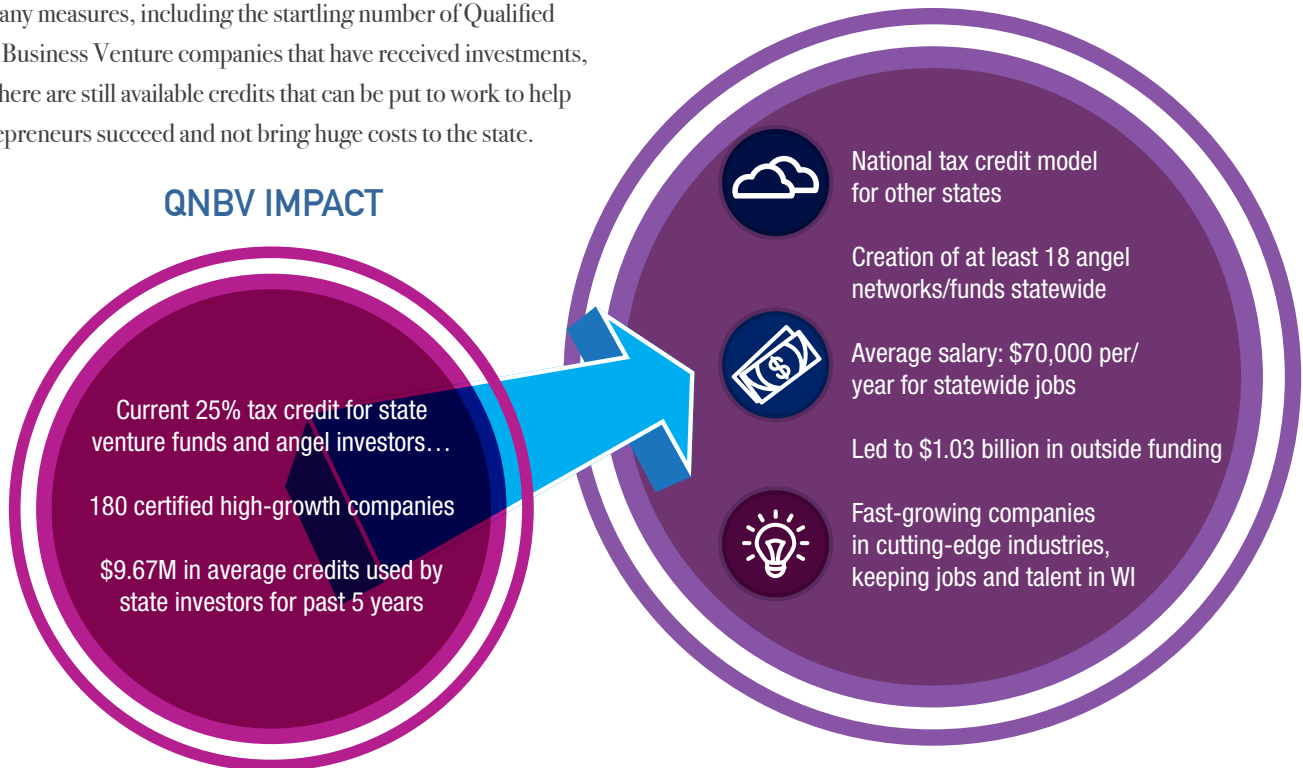
Just over 10 years ago, a bipartisan effort led to the enactment of Wisconsin Act 255. This legislation created a national model for developing, promoting and leveraging early stage investment capital in Wisconsin. Numerous states have replicated these tax credits, including the Big Ten Conference states of Minnesota, Illinois and Nebraska.

While the Act 255 tax credits that took effect in 2005 helped meet the capital needs of companies in the earliest stages, there has never been enough local venture capital – nor enough venture capital attracted from beyond Wisconsin’s borders – to keep those companies growing close to home. One effort to address that concern is the new “fund of funds” venture capital program passed during the 2013 legislative session.

The Act 255 investment tax credit program has been a success by many measures, including the startling number of Qualified New Business Venture companies that have received investments, but there are still available credits that can be put to work to help entrepreneurs succeed and not bring huge costs to the state.

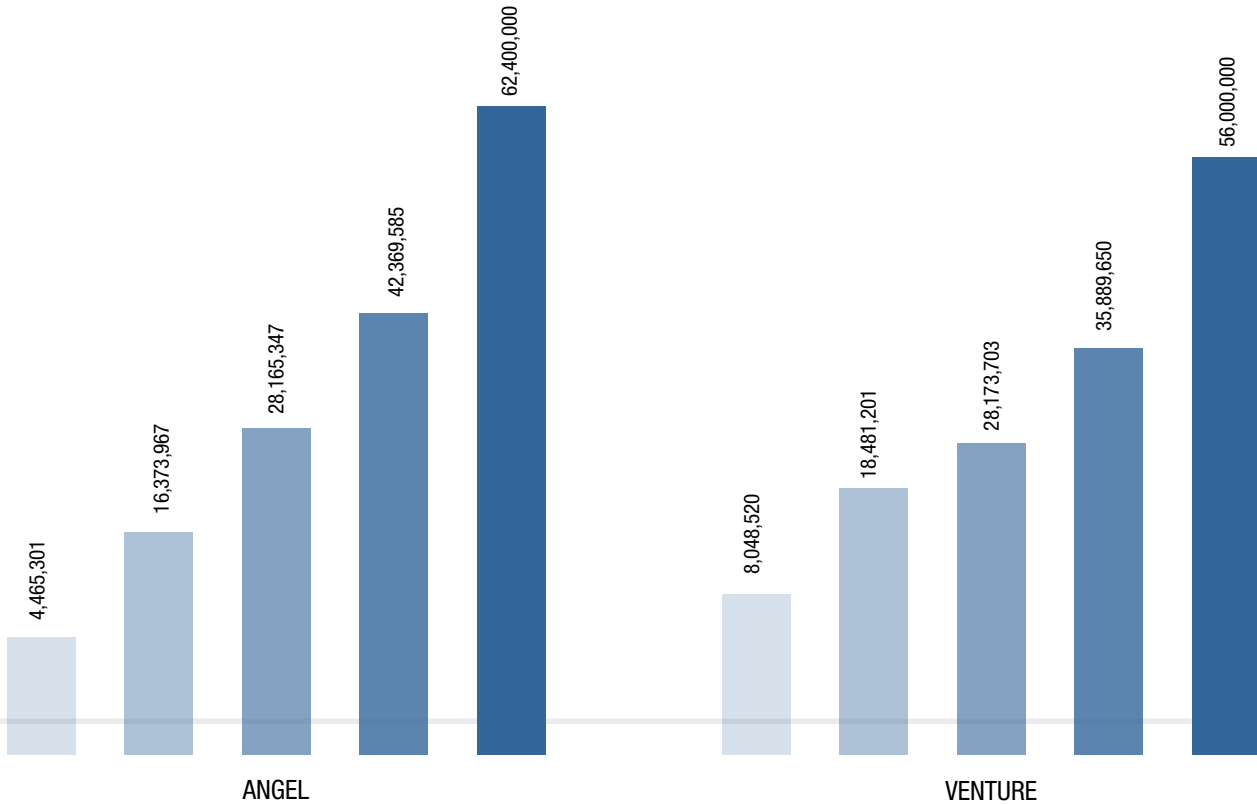
Because of the program’s success, state officials have expanded and made the availability of tax credits more flexible in stages since 2005. The available credits as of the last reporting from WEDC, the state agency which runs the program, exceeded \$110 million between angel and venture/seed investing tax credits. These are pooled credits that can be used, today, to help Wisconsin startups as they grow the state tomorrow.

QNBV IMPACT



AVAILABLE ACT 255 TAX CREDITS

2010 2011 2012 2013 2014



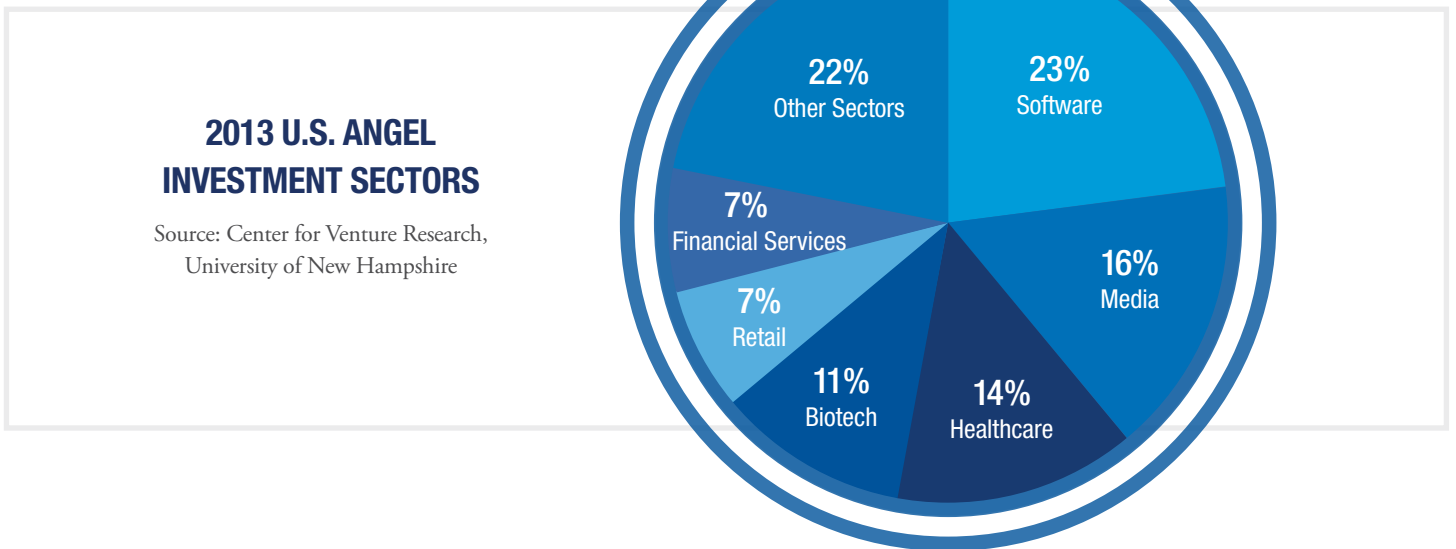
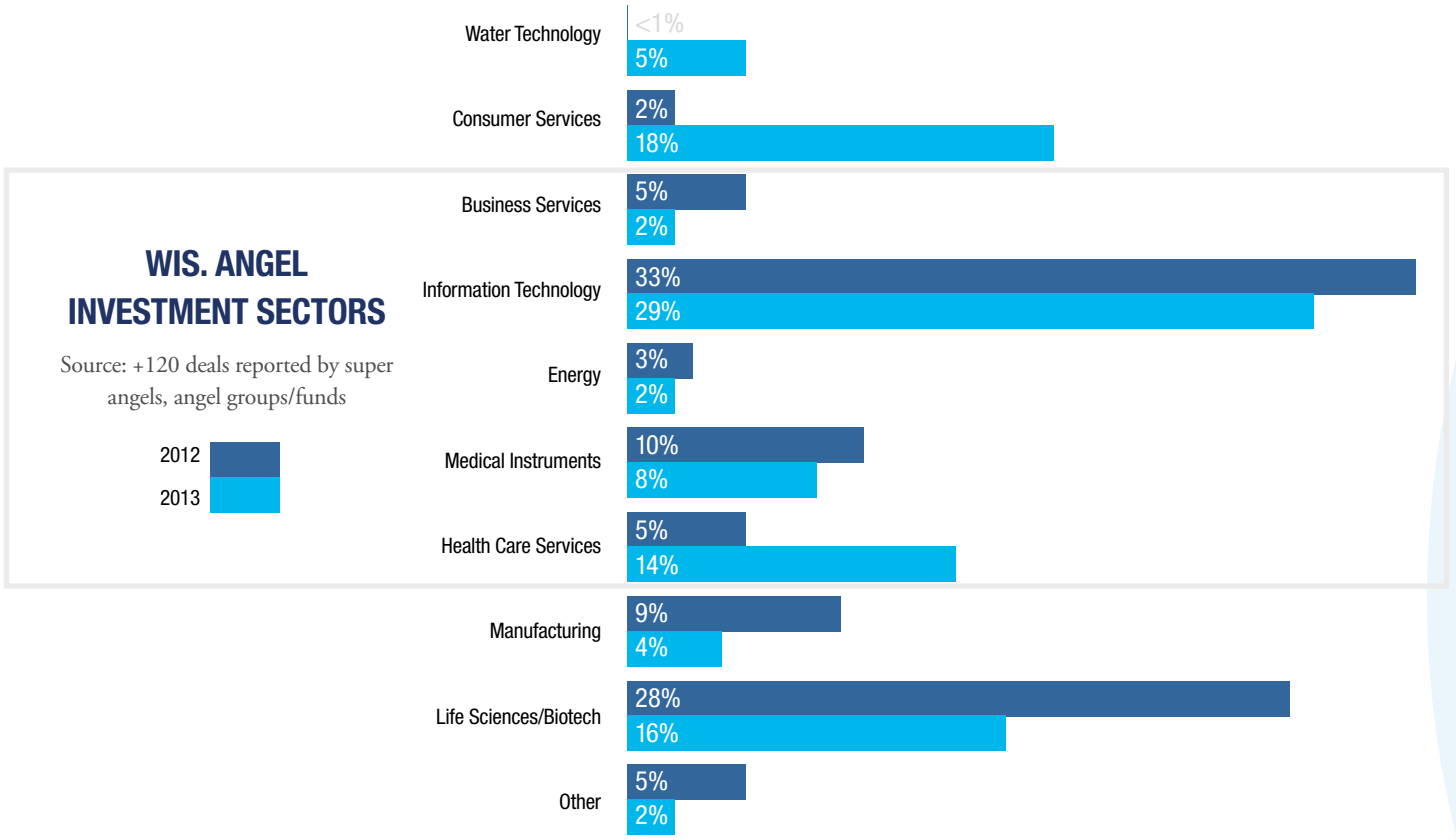
3 USES TO FURTHER ACCELERATE WISCONSIN

1. Raise the \$8 million cap on credit-eligible investments in an Act 255 firm, unchanged since 2005, to \$12 million.
2. Raise the credit from 25 percent to 40 percent for the first \$1 million in eligible investments.
3. Establish a process to leverage unused Act 255 credits via legislative approval for WEDC to handle as a direct matching fund to privately vetted investments.



Accelerate startup growth with Act 255, cont.

WHAT GETS FUNDED:



WisBusiness: The Show

In today's economy, business issues are more important now than ever. That's why WisBusiness.com and the Wisconsin Technology Council are joining on a new venture to provide fresh coverage of Wisconsin business news. The biweekly Web feature is called "WisBusiness: The Show," which is webcast to more than 20,000 state business leaders and policymakers through WisBusiness.com and the Wisconsin Technology Council. It is produced by Tweedee Productions of Madison.



Hosted by Liz Schrum for the Wisconsin Technology Council

Inside Wisconsin Commentary with Tom Still of the Wisconsin Technology Council



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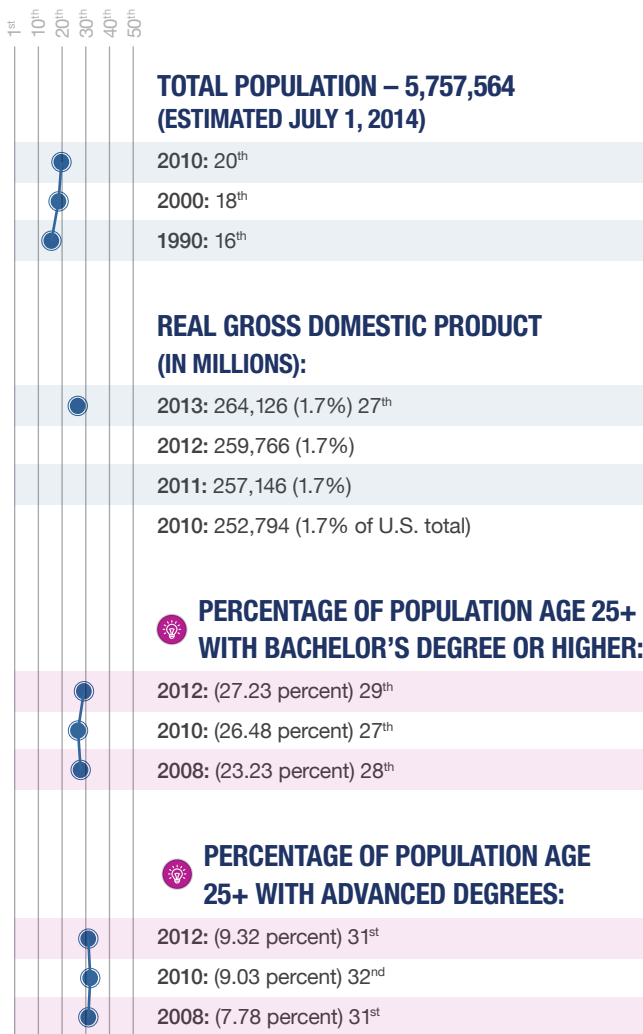
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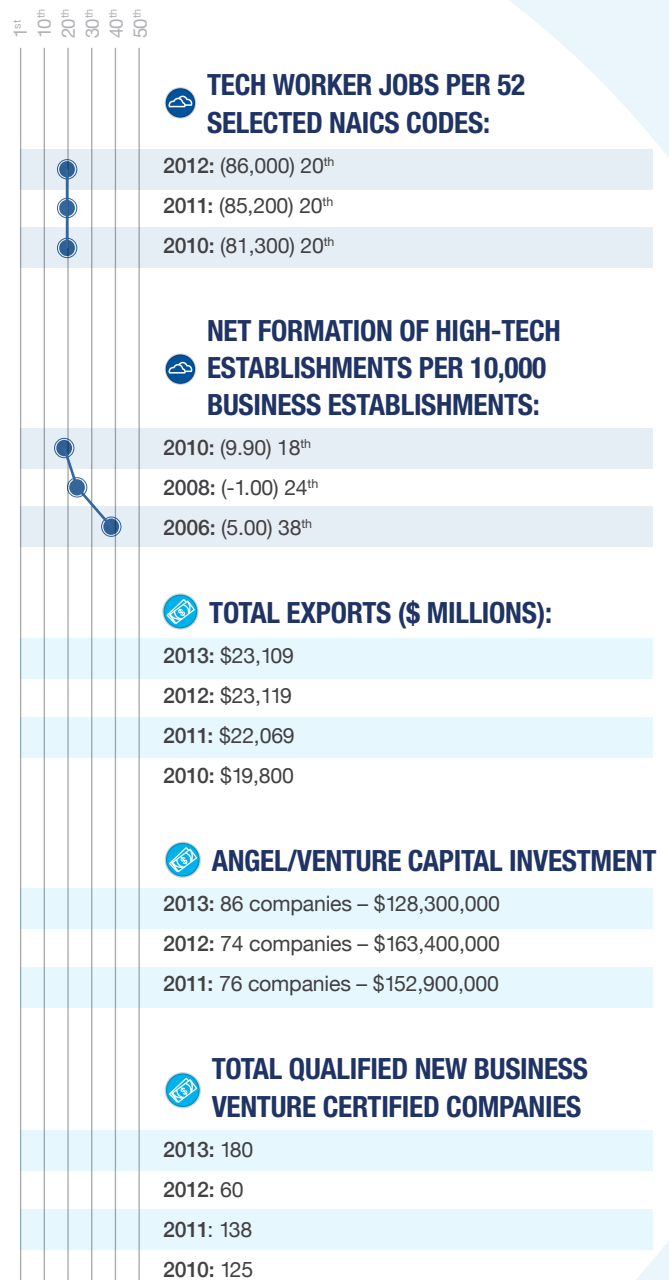
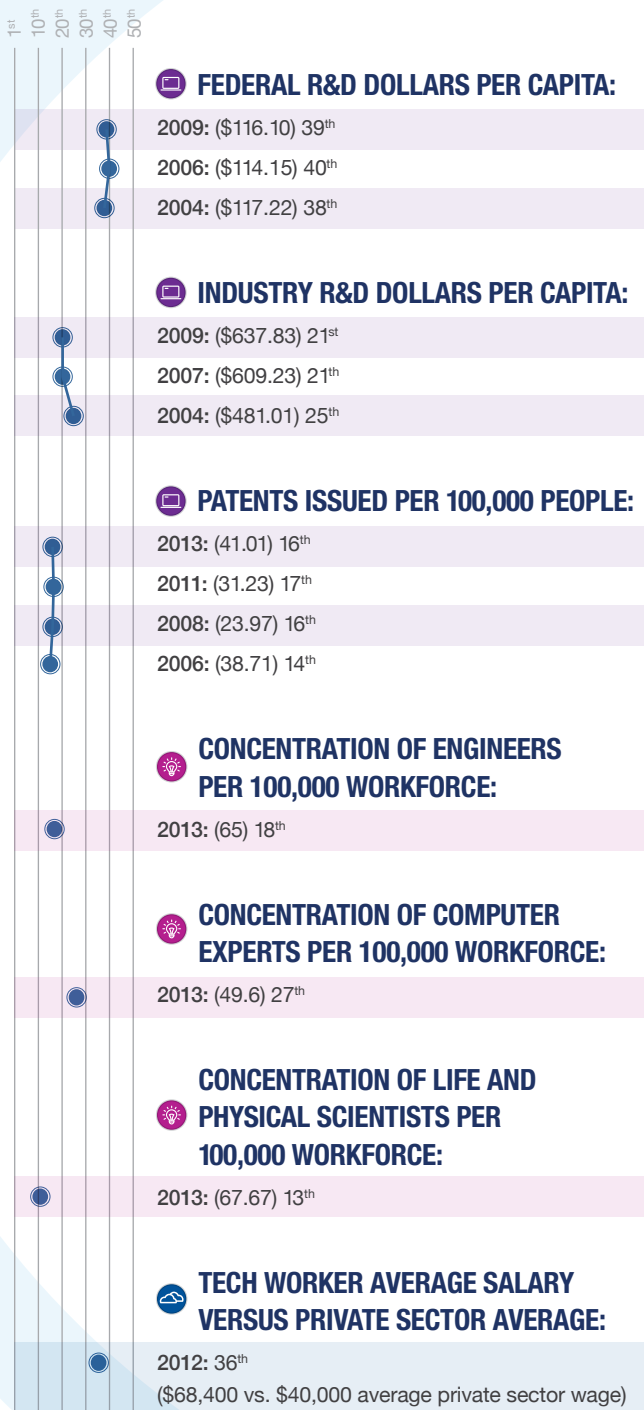
Tech metrics

The Tech Council gathers or has access to a wide range of data regarding various indicators that measure the progress of the economy. Driving off our past research and metrics established by “Vision 2020: A Model Wisconsin Economy,” as well as other sources, we have created a credible source of data in the following areas: investment capital, intellectual property, higher education degrees, patents, research and development grants, SBIR grants, federal R&D dollars, industry R&D dollars, workforce standing, tech worker jobs and salaries, net new company creation, exports and more. This provides a periodically updated platform for measuring Wisconsin by indicators that truly propel the high-growth economy. All rankings below reflect Wisconsin’s standing among the 50 states for the given year.



- 📈 Improve access to investment capital
- 💡 Expand the supply of human capital

- 🌐 Enhance the startup and business climate
- 📡 Improve technology development, delivery and transfer



Sources:

U.S. Census Bureau, Wisconsin Economic Development Corp., The Milken Institute State Tech and Science Index, Wisconsin Technology Council, Wisconsin Angel Network, National Science Foundation, State Science and Technology Institute, TechAmerica Cyberstates 2013 report



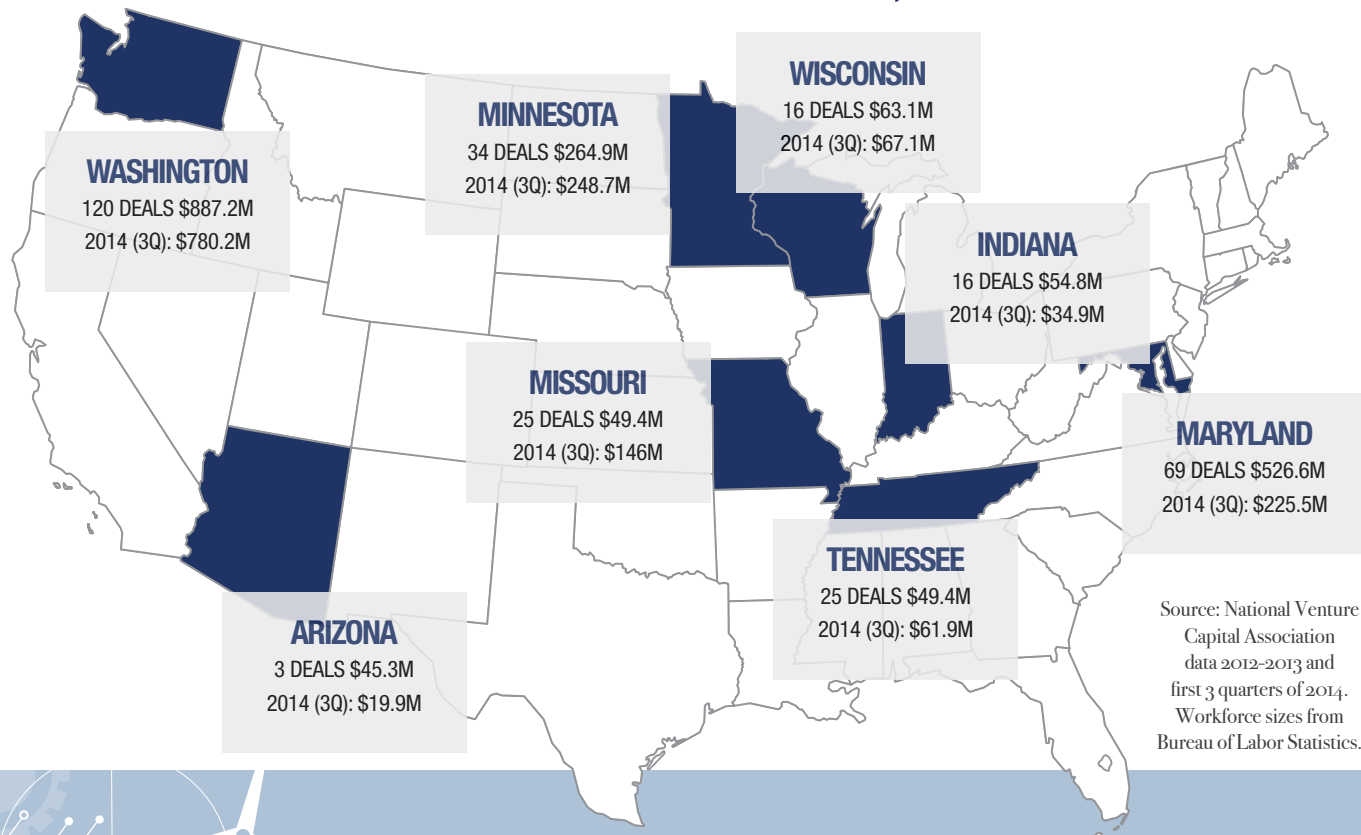
Midwest raises venture capital flag

Beginning in the late 1990s, peak years for venture capital investments nationally, private-sector leaders in the Midwest and Wisconsin began to realize that a powerful economic wave was passing by the region.

That wave was venture capital, which was transforming economies in California, Massachusetts and New York. Years later, Midwest states have made recent progress, buoyed by strong public-private partnerships that drive entrepreneurial growth and activity, but are still looking to catch up with the venture boom in other regions.

A recent Brookings Institution report found that despite 33 percent of all U.S. research and development dollars and 35 percent of National Institutes of Health research grants being spent in the Great Lakes states, less than 14 percent of all venture capital is invested in the region. Additionally, a number of the Midwest's large pension funds back some of the largest deals and funds on the coasts, making the region a "donor" when it comes to attracting and retaining start-up capital.

PEER STATE AVERAGES FOR VC DEALS, DOLLARS



Source: National Venture Capital Association data 2012-2013 and first 3 quarters of 2014. Workforce sizes from Bureau of Labor Statistics.

More than 30 states have launched efforts to address these venture capital shortages by leveraging state dollars to help startups, including in Wisconsin with the recent passage of Act 41, which created a new Badger “Fund of Funds” program. But the work isn’t finished to ensure that Wisconsin doesn’t fall behind peer states.

The most recent census data shows Wisconsin is home to nearly 2 percent of the U.S. population, but comes nowhere near that for its share of total venture capital investments. In fact, Wisconsin ranks 17th in workforce size, but is consistently farther down the list in venture capital deals and dollars invested. In 2012, for instance, Wisconsin came in 22nd in dollars invested, and 27th in deals done, based on data from the National Venture Capital Association. In 2013, the state ranked 26th in deals and 30th in dollars, a downward trend line with worrisome outcomes for economic growth. Considering states like California and Massachusetts have been epicenters of the risk economy for decades, it’s perhaps no surprise that Wisconsin is lagging comparably. But the state is also lagging when compared to seven states that have workforces roughly the size of its 2.5 million non-farm worker base.

For 2012, Wisconsin ranked sixth out of those comparable eight states for total deals and fifth for dollars invested. The state was third worst of those states in 2013 for deals, and beat out only Indiana when it came to dollars raised by state companies.

Meanwhile, neighboring states like Michigan and Minnesota are surpassing Wisconsin’s recent deals by nearly fourfold. Although the numbers provide only a snapshot in time, there are clear trends heading upwards in Michigan, a state that began investing in its emerging economy twelve years ago when it passed the first of several “fund of funds” programs.

“The bottom line is they have done a great job in Michigan through a patient, sustained public-private effort,” said John Neis, managing director of Madison-based Venture Investors LLC, which has an office in Ann Arbor. “They found the will and the way to stick with it, and now they have the results to show for it.”

Since 2008, Michigan has seen more than \$120 million invested into entrepreneurs each year. A recent report showed that there has been 84 percent growth of venture capital professionals in the state, and a 45 percent spike in the amount total venture capital under management by firms in Michigan. Thirty-three venture firms have opened offices in Michigan, compared to just a handful in Wisconsin, almost all indigenous to the state. One venture capitalist even recently made the case that Ann Arbor has a more dense venture capital environment than startup epicenter Silicon Valley.



MICHIGAN

9 angel networks/funds
 33 venture firms operating
 2 corporate venture funds
 3 “fund of funds” (Total of \$319 million)
 \$1.6 billion under management
 7% of total U.S. capital under management

WISCONSIN

16 angel networks/funds
 9 venture firms operating
 1 corporate venture fund
 1 fund of funds (\$25 million)
 \$339 million capital under management
 .18% of total U.S. capital under management



As Wisconsin begins a journey to build a more robust startup economy, it can look to its own successful efforts like the widely-copied Act 255 tax credits, robust growth in angel investment activity, and university initiatives churning out research, ideas and prepared graduates. But Michigan also provides instructive lessons in how to build capital infrastructure for startup success.





Enhance the startup & business climate

Revise legislative requirements for “schedule of expenditure” reports that place extra costs and administrative burdens for startup companies.

The Wisconsin Legislature enacted s.238.03(3)(a) of the statutes setting reporting requirements for the WEDC, and extending some of those requirements to small companies that are recipients of grants or loans. It has created an extra layer of reporting for those companies and is diluting the value of competitive grants and loans received from WEDC, which, at present, has little choice but to carry out the law. Among other things, the law requires each recipient of a grant or loan under the program of at least \$100,000 submit to the corporation, within 120 days after the end of the recipient’s fiscal year in which any grant or loan funds were expended, a schedule of expenditures of the grant or loan funds, including expenditures of any matching cash or in-kind match, signed by the director or principal officer of the recipient to attest to the accuracy of the schedule of expenditures. The recipient shall engage an independent certified public accountant to perform procedures, approved by the corporation and consistent with applicable professional standards of the American Institute of Certified Public Accountants, to determine whether the grant or loan funds and any matching cash or in-kind match were expended in accordance with the grant or loan contract. The board shall also require the recipient of such a grant or loan to make available for inspection the documents supporting the schedule of expenditures. The law duplicates existing safeguards already in place for monitoring WEDC grants and loans, and has become a limiting factor for many emerging companies.

Review unemployment compensation/workers compensation taxes on small businesses.

One of the impediments to business startups in Wisconsin is the fact that taxation rates for certain payroll taxes, such as unemployment compensation, does not fully distinguish between large and small businesses. The Wisconsin UC tax rate is 3.6 percent of payroll—the seventh highest in the country for new businesses. Only Pennsylvania, Kansas, New Hampshire, Arkansas, Illinois and Connecticut are higher, according to the Tax Policy Center (Urban Institute and Brookings Institution). A separate study by Anderson Economic Group reported that Wisconsin was among the nation’s top 10 states in unemployment taxes as a share of pre-tax gross operating surplus, based on 2012 taxes paid. Wisconsin was ranked the 23rd highest nationally in workers’ compensation tax rates in 2014, down from 12th in 2012, in a survey conducted by the Oregon Department of Consumer and Business Services. Despite that progress, an emerging problem appears to be medical costs for WC that far exceed market and national averages. These are issues that can be brought to the attention of specific state boards that routinely monitor the respective laws.

Enhance access to out-of-state power.

Continue our support for efforts to increase Wisconsin’s access to out-of-state electric power, primarily renewable wind power from the west, as well as the safe, efficient transmission of in-state electric power. This approach is most cost-effective over time than building new generation plants and would continue the state’s efforts to reduce reliance on coal-fired plants, which are coming under tighter regulatory scrutiny from the federal government.





Investors discuss the state's venture climate at the 2013 Wisconsin Early Stage Symposium. Photo: Bob Modersohn

Continue to focus on the need for enhanced broadband connectivity in Wisconsin.

Progress has been made on several fronts, but pockets of need remain, especially if rural Wisconsin is to remain a viable place for people to live and work in a mobile technology age. Wisconsin should support the National Wireless Initiative and support reform of the Universal Service Fund. The board should also reiterate its support for efforts to build stronger high-end infrastructure that can facilitate research and development projects in our major metro centers. Further implementation of the 2013 law related to wireless tower placement should be encouraged, as well.

Make it easier for Wisconsin to participate in the “sharing” economy.

In a number of sectors, companies have become successful in what is known broadly as the “sharing” or peer-to-peer economy. This is a collaborative consumption model in which participants share access to products or services, rather than having individual ownership. These systems take a variety of forms, often leveraging information technology to empower individuals, corporations, non-profits and

government with information that enables distribution, sharing and reuse of excess capacity in goods and services. Examples include ride-sharing, accommodations, products, services and more. Wisconsin should provide state-level guidance to ensure that such companies and innovations are not unduly restricted by local regulations that may, in some cases, “fence in” older economic models.

Work to increase prize support for the Governor’s Business Plan Contest

* State support for the GBPC has remained at \$50,000 per year from its inception, despite a track record that now includes about 265 finalists who have collectively raised \$160 million in angel, venture, grants and venture debt over time. Those same finalists have stayed in business much longer than normal when compared to U.S. startup rates – and they are creating jobs and exits. Examples of significant public support for similar contests include 43North in Buffalo, N.Y., which is a \$5-million contest; the \$3-million Rice University contest; and the \$1-million Mass Challenge in Massachusetts. The Tech Council covers the cost of administering the contest and raises private dollars and service prizes.

BPC BY THE NUMBERS, 2004-2014:



- 11 – Years
- 2,905 – Total Entries
- 293 – WI Communities
- \$160 million - Angel, venture, grants and venture debt raised over time
- Survey: 77% still in business



Expand the supply of human capital

For Wisconsin to be competitive in the knowledge economy, we need “brain workers.”

Seamless transitions between secondary and post-secondary institutions cuts the time needed to earn a degree and enhances student learning. The state of Wisconsin has enacted two programs – Youth Options and Course Options – which enable students to earn college credits while still in high school. The intention of the Legislature in enacting these programs was to exempt the student from the burden of paying. However, the programs were structured in a way that created a financial disincentive for school districts to participate, and the promise of these programs is not being realized. Parallel programs in Minnesota, which are funded by the state rather than the local district, are producing results far outstripping those in Wisconsin. The Wisconsin Technology Council urges that the state fund Youth Options and Course Options in a way that achieves the legislative intent in school districts across the state.

Make student financial aid more broadly available.

Demographic trends show that Wisconsin faces a growing talent shortfall across all fields. Wisconsin has an array of excellent public and private postsecondary institutions that are growing enrollments and graduates.

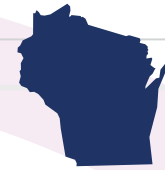
However, Wisconsin young – and not so young – people face challenges in accessing educational opportunities for which they qualify. According to state figures, in 2010, 61,000 Wisconsin students received student aid from the state (Wisconsin Grants). However, 76,000 Wisconsin students were turned away because the funding was not available. The Wisconsin Technology Council joins the presidents of the University of Wisconsin System, the Wisconsin Technical College System, and the Wisconsin Association of Independent Colleges and Universities in calling for student aid for Wisconsin students who have been left behind. Aid to students is an investment in human capital and in Wisconsin’s competitiveness.

Encourage support from the Department of Workforce Development for creation of an “information assurance” training program to ensure that Wisconsin have trained professionals in cybersecurity and related fields.

This, in concert with the work of the Wisconsin Security Research Consortium and the UW System, will help Wisconsin better compete in a rapidly growing segment of classified and non-classified work.



Conversations at 2014 Wisconsin Early Stage Symposium. Photo: Bob Modersohn



The Tech Council supports, in concept, the following ideas and will develop specific proposals as necessary:

- Establish an “Entrepreneur-in-Residence” program to help capture the attention of CEO candidates with proven track records, especially in past venture-backed companies, to match them with emerging growth companies in need of seasoned leadership.
- Create tax-free zones around universities to attract and retain businesses.
- Support efforts to enhance early-childhood education, which has a nationally proven cost-benefit ratio.
- Encourage a global perspective on education at all levels, including greater emphasis on foreign-language instruction and study-abroad experiences.
- Encourage youth to take part in entrepreneurial ventures through programs such as the Youth Entrepreneurs in Science (YES) business plan contest, business education classes, extracurricular clubs and other related efforts.

WISCONSIN COLLEGES BY THE NUMBERS

13 –
UW System four-year campuses

13 –
UW System two-year colleges

16 –
Wisconsin Technical College System districts with 47 campuses

23 –
Independent colleges and universities

Wisconsin Health & Educational Facilities Authority

WHEFA, created by the Legislature in 1973 (Chapter 231, Wisconsin Statutes), has been providing active capital financing assistance to Wisconsin non-profit health care institutions since 1979. In July 2013, WHEFA's charter was permanently expanded to permit all Wisconsin 501(c)(3) non-profit organizations access to WHEFA's low-cost capital financing. As of December 31, 2014, WHEFA successfully completed 25 financings totaling over \$910 million during the first half of its fiscal year. 65% percent of the bonds issued were used to refinance outstanding debt, thus substantially reducing debt service costs. Five borrowers used WHEFA for the first time.



As of December 31, 2014, WHEFA has participated in 778 bond issues in excess of \$20 billion over its 35-year history.

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Technology development

Build upon interdisciplinary clusters and “centers of excellence” first highlighted in “Vision 2020: A Model Wisconsin Economy” and renewed in 2012 white papers.

Take a horizontal view of national priorities and how they align with Wisconsin strengths; “grand challenges” in energy, water, air, next-generation computing and transportation.

Support the creation of enhanced cyberstructure in Wisconsin, which could include leveraging the work of specific technology clusters, supporting the emergence of regional technical computing centers, and enhancing broadband development. This could begin with the 2015-17 state budget, which could include support for a shared set of technical computing resources that could be used by collaborating government, academic and commercial organizations. This platform for technical computing resources would, in turn, support a broad range of technology clusters in Wisconsin. It would also lay the groundwork for an Applied Research Laboratory that would compete for federal agency funding to address regional “grand challenges” that align with national challenges.

Work with the state’s congressional delegation to identify ways Wisconsin companies and institutions can help meet national science and technology priorities (National Academy of Sciences).

This may include development of an Applied Research Laboratory to serve as a bridge between federal agency funding and state resources. There are notable examples of such labs in the United States, including the Stanford Research Institute, Lawrence Berkeley Labs, Lincoln Labs, Argonne National Lab, the Santa Fe Institute and Battelle Memorial Institute. These labs are major economic contributors directly and indirectly, through their roles as science and technology accelerators. Through existing institutions such as The Milwaukee Institute, the Midwest Energy Research Consortium and the Morgridge Institute for Research, Wisconsin has the makings of a platform to attract an affiliated federal laboratory.

First, do no harm: Avoid research restrictions

The Tech Council has been on record since 2001 as opposing state-based regulations or laws that put Wisconsin researchers and companies at a competitive disadvantage in terms of technology research and development. Please visit www.wisconsinstechnologyconcil.com to read and learn more.



: Investors Scott Button, Tim Keane and Bob Okabe give feedback at the 2014 Elevator Pitch Olympics (L-R) Photo: Bob Modersohn

WISCONSIN'S INTERDISCIPLINARY TECHNOLOGY CLUSTERS

The model below shows how Wisconsin's top industries connect across different sectors, with information technology increasingly playing a larger role in massive markets such as healthcare, advanced manufacturing and energy technologies.

Many of the recommendations in this publication are ways state policymakers can continue to support existing growth industries while emphasizing the skills, programs and investments needed for future jobs in Wisconsin.

INFORMATION TECHNOLOGY

Examples: Software design & publishing, cybersecurity, data analytics, social media, eCommerce, communications, media & design, cloud architecture, mobile applications, networking

HEALTHCARE

Examples: Personalized medicine, regenerative medicine, genomics, diagnostics, medical devices, electromedical equipment, healthcare services, health information systems

CLEANTECH & BIOAGRICULTURE

Examples: Power & controls, energy storage/efficiency, alternative energy production, pollution controls, fresh water tech, genetically modified organisms, land conservation, manure treatment systems, digesters

ADVANCED MANUFACTURING

Examples: Personalized medicine, regenerative medicine, genomics, diagnostics, medical devices, electromedical equipment, healthcare services, health information systems



Federal science & technology priorities

The National Academy of Sciences has outlined 14 “grand challenges” for engineering in the 21st century – any one of which, if met, would improve how we live. Wisconsin scientists, researchers and companies are positioned to help with all of those challenges, especially if existing resources are properly tapped.

Those challenges are:

- Make solar energy affordable
- Provide energy from fusion
- Develop carbon sequestration methods
- Manage the nitrogen cycle
- Provide access to clean water
- Restore and improve urban infrastructure
- Advance health informatics
- Engineer better medicines
- Reverse-engineer the brain
- Prevent nuclear terror
- Secure cyberspace
- Enhance virtual reality
- Advance personalized learning
- Engineer the tools for scientific discovery

www.nasonline.org

In many ways, these challenges already align with emerging or proposed centers of excellence in Wisconsin. Here are a few examples:

Engineering physics programs at the UW-Madison are providing leadership in **nuclear fission and fusion research**, from safe disposal of waste to next-generation fission reactors to helium-3 as a potential fusion source.

Health informatics programs at the Medical College of Wisconsin, Marquette University, the Marshfield Clinic and the UW-Madison, as well as major companies such as Epic Systems, the Marshfield Clinic and Aurora Health Care, are combining R&D with clinical care.





Tech Council President Tom Still talks with UW Chancellor Becky Blank and UW-Milwaukee Chancellor Mark Mone at the 2014 Wisconsin Early Stage Symposium. Photo: Bob Modersohn

Energy research tied to the Wisconsin Energy Initiative, the Wisconsin Energy Research Consortium and the Great Lakes Bioenergy Research Center, among others, is examining a full range of energy solutions. Those include **solar energy**, a sector that has a significant private-sector footprint in Wisconsin, and **next-generation biofuels**.

Research on **carbon sequestration** and the **nitrogen cycle** is being conducted through the UW-Madison, the U.S. Forest Products Laboratory and other UW System and private colleges. It parallels research interests in the state's agricultural and forestry sectors.

Milwaukee is home to the Water Council and the UW-Milwaukee School of Freshwater Sciences, the only graduate school of its kind in the United States. These leverage the region's long-term strengths in research, environmental science and commercial applications. **Clean water technology** resources are not confined to the Milwaukee area, however, with significant research clusters in Madison and beyond.

Nanotechnology research will become a source of developing tomorrow's **scientific tools of discovery**, and Wisconsin has existing research and corporate strengths in that field. Many life sciences companies in Wisconsin are predominantly "toolkit" companies, meaning they make research tools as well as diagnostics.

Many Wisconsin institutions and companies are helping to **engineer better medicines**, as well as the delivery systems for those medicines. The state is also a leader in emerging technologies for the production of molybdenum 99, with two promising

companies located in Rock County. This medical isotope, which is used 50,000 times daily in the United States alone, will become scarce as existing nuclear reactors age and eventually close.

Wisconsin should press to become a **cybersecurity** leader through its academic institutions and related private consortia. The Wisconsin Security Research Consortium and its Wisconsin Information Security Center will help attract research related to cybersecurity, a growing national concern from federal as well as corporate perspectives. A Wisconsin Cybersecurity Center of Excellence has been proposed.

The UW-Madison Waisman Center has been a leader in research related to the **brain and human development** for nearly four decades, with a focus on the sources and potential cures for developmental disabilities as well as neurodegenerative diseases.

The Morgridge Institute for Research within the Wisconsin Institutes for Discovery has educational research among its core research areas, including methods that could enhance **personal learning** and **virtual-reality experiences**.

As the state builds its tech-based clusters and centers of excellence, it should measure progress against those challenges. The reasons are practical: Job creation is likely to be tied to those sectors and federal and private support for research will likely be driven by established priorities, especially in an era of tight budgets.





Skating to the puck: Keep eyes on emerging sources of Jobs

Hockey great Wayne Gretzky is credited with proclaiming, “I skate to where the puck is going to be, not where it has been.”

Maybe Gretzky should have become an economist after he hung up his hockey gear. His advice is salient off the ice as well as on.

As members of the Wisconsin Legislature suit up for the start of their 2015 session and a budget debate that is likely to last until summer, they should skate toward the “puck” of predicted economic growth rather than chasing prosperity where it was years ago.

Sectors such as manufacturing and agriculture will continue to fuel the Wisconsin economy in many ways, of course, but they will not necessarily lead the charge in creation of net new jobs.

As the economy continues to transform itself nationally, globally and in Wisconsin, other sectors more in line with changing conditions are producing comparable – if not greater – numbers of jobs. Quite often, those emerging sectors are yielding the best-paying jobs, as well.

Wisconsin must recognize changes in the national and global economies and understand how to make those shifts work for Wisconsin. National forecasts help to tell the story:

Total employment is expected to increase nationally by 14 percent from 2010 to 2020, according to the U.S. Bureau of Labor Statistics. That follows a 2 percent decline in 2000-2010. However, the 20.5 million jobs expected to be added by 2020 will not be evenly distributed across major industry and occupational groups. Changes in consumer demand, improvements in technology and other factors will contribute to the nation’s changing employment structure.

The Georgetown University Center on the Economy and Workforce took it a step further with state-specific figures that help to understand Wisconsin’s need for workers with post-secondary education and training.

By 2020, the center predicted, Wisconsin will have 649,000 job openings that will require at least some post-secondary training, compared to 392,000 that will not. Georgetown analysts also predicted that 62 percent of all jobs in Wisconsin will require some post-secondary training by 2020. The national estimate is 65 percent.

Here is how the Georgetown center analyzed job growth in selected major sectors in Wisconsin:



Agriculture, Forestry, Fishing and Hunting: Up 310 jobs from 89,110 in 2010 to 89,420 in 2020/ 0 percent growth.

0%

Construction: Up 6,270 jobs from 130,200 in 2010 to 136,470 in 2020/ 5 percent growth.

5%

Manufacturing: Up 13,460 jobs from 367,890 in 2010 to 381,350 in 2020/ 4 percent growth.

4%

Wholesale and retail trade: Up 26,790 jobs from 402,330 in 2010 to 429,120 in 2020/ 6.6 percent growth.

6.6%

Finance and insurance: Up 28,810 jobs from 157,390 in 2010 to 186,200 in 2020/ 18 percent growth.

18%

Professional, Scientific and Technical Services: Up 14,890 jobs from 127,510 in 2010 to 142,400 in 2020/ 12 percent growth.

12%

Administrative, Support, Waste Management and Remediation: Up 34,050 jobs from 138,790 in 2010 to 172,840 in 2020/ 25 percent growth

25%

Health care and social assistance: Up 66,470 jobs from 325,220 in 2010 to 391,690 in 2020/ up 20 percent.

20%

Other significant Wisconsin categories predicted to show double-digit growth in employment are:

Information (10 percent)

10%

Arts, design, entertainment and recreation (28 percent)

28%

Educational services (27 percent)

17%

Management of companies and enterprises (17 percent)

Transportation and warehousing (11 percent)

11%

Wisconsin's growth depends on attracting and retaining companies and people in industries that add diversity and resilience to the economy.

If policymakers want to keep Wisconsin's young people at home and attract them from elsewhere, the state must exude a sense of opportunity, collaboration and excitement ... and skate toward the puck where it is heading.





Employment projections: 2008-2018

Select jobs and sectors represented in Wisconsin:

FASTEST GROWING

- 1. Biomedical engineers 72.0%
- 2. Network systems and data communications analyst 53.4%
- 3. Financial examiners 41.2%
- 4. Medical scientists, except epidemiologists 40.4%
- 5. Biochemists and biophysicist 37.4%

MOST RAPIDLY DECLINING

- 1. Pulp, paper, and paperboard mills -44.2%
- 2. Basic chemical manufacturing -52.2%
- 3. Cutlery and handtool manufacturing -13.2%
- 4. Manufacturing and reproducing magnetic and optical media -8.9%
- 5. Ventilation, heating, air-conditioning, and commercial refrigeration equipment manufacturing -36.7%

Source: U.S. Census Bureau

A significant indicator of Wisconsin’s information technology industry is the annual *Cyberstates* report by the TechAmerica Foundation. The latest report, which covered 2012 information, showed:

- Wisconsin is the 20th ranked cyberstate in terms of jobs, with 86,000 tech workers in 52 NAICS codes.
- Wisconsin added 800 jobs between 2011 and 2012, which ranked 20th in the nation.
- Tech firms in designated NAICS codes employed 3.8 percent of all private sector workers in Wisconsin in 2012; other sectors also have similar workers imbedded in their overall workforce, according to sources such as The Milwaukee Institute.
- Tech workers earned an average wage of \$68,400 in 2012, which was 71 percent higher than Wisconsin’s average private-sector wage.
- Wisconsin’s total tech payroll in 2012 was \$5.9 billion, good for 22nd nationally.
- There were 5,400 tech establishments in Wisconsin in 2012, which ranked 23rd nationally.
- Wisconsin ranked 3rd nationally in electromedical equipment with 6,200 jobs.
- The state ranked 9th nationally in electronic components with 7,000 jobs.
- Wisconsin ranked 10th nationally in software publishers with 8,300 jobs.

A separate 2014 report by the TechAmerica Foundation showed Wisconsin’s position as an exporter of tech products and services:

- There are 22,300 jobs in Wisconsin supported by tech exports, good for 15th among the states.
- Wisconsin ranked 15th overall among the 50 states in tech exports.
- By sector, Wisconsin ranked 15th in exports of computer equipment, 19th in communications equipment, 24th in audio and video equipment, 22nd in semiconductors and electronic components, 9th in measuring and control equipment and 10th in magnetic and optical equipment.





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