

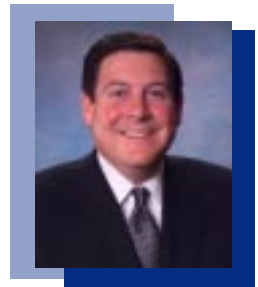


Illinois alters investment strategy to help high-tech industry

by Laura A. Tomaka

In August, Illinois lawmakers enacted legislation that gives the state treasurer's office the authority to invest a portion of its overall investment portfolio in venture capital funds, which will be used to attract, expand and retain high-risk, high-growth technology-based businesses in the state.

Under the newly created Technology Development Account, the state treasurer is given, for the first time, the flexibility to invest up to 1 percent of the state's investment portfolio in venture capital funds. With a total portfolio currently at about \$5 billion, that gives the



Sen. Kirk Dillard

treasurer about \$50 million to invest outside of the traditional financial markets of stocks, bonds and mutual funds.

Not only are new and emerging technology businesses among those most vulnerable to failure, they often lack traditional financing sources to sustain them through the seed and early stages of development. For these reasons, supporters of this investment strategy view it as an important step to growing and sustaining the technology sector in Illinois.

"The availability of capital, especially venture capital, is a crucial component of maintaining and recruiting startup technology companies in Illinois," says Sen. Kirk Dillard, who served as the Senate's primary sponsor of the legislation that granted the use of this investment tool.

"The state's stepping up with the private sector to partner in venture capital and help expand business in [Illinois]," adds the Republican from Hinsdale.

For the past few years, the treasurer's office has sought more investment flexibility so that it could make more capital available to startup technology companies. "If we're going to grow our economy in Illinois, we obviously can't ignore the technology sector," explains Martin Noven, deputy chief of staff for law and policy with the Illinois state treasurer's office.

The state will not directly invest in individual companies, nor will it manage venture capital funds through this program. Rather, the state will join with sources of private equity in investing in venture capital funds, which, in turn, will provide capital to individual companies. A review board consisting of academics, state officials and venture capitalists will advise the treasurer's office on all potential investments in venture capital funds.

The law mandates that the state's investments must be spread across years, as well as across funds. No more than one-third of the autho-

rized money — \$50 million — can be invested in any one year, and the state's portion in any one venture capital fund cannot exceed 10 percent of the fund's total investments. This diversifies the number of funds in which the state puts its money, spreads risk across a number of investors and prevents the state from being the major contributor to any one fund.

"It's good portfolio management; you don't want to put all your money in one year or two years," argues Jim Downing, president of the Illinois Venture Capital Association.

"You also don't want government dollars to be the majority of any one fund. You want the private sector to also have the buy-in as to the abilities of a venture capital manager."

Focus on Illinois startups

The venture capital funds receiving the state's investment must be based in Illinois or have at least one managing partner in Illinois. There is no requirement that all investments be kept in Illinois, but the program will give preference to state businesses and investors seeking to invest in Illinois.

"The 100 percent state-focused-type programs have not been as effective or as successful," Noven explains. "We wanted to be like a private investor, where we could look for the funds that are the best."

However, Noven expects in-state companies to benefit from the capital investments. "We're looking at the commitment to first consider Illinois companies, and we're looking at their [fund managers'] track record for investing in Illinois companies. We want to put more investment dollars in those folks' hands — the ones who are putting money in Illinois."

Downing agrees: "Here in Illinois, we would like to showcase our abilities and

say, look, you can invest in Illinois private equity funds and get as good, if not better, returns than if you invest in funds outside of the state."

With a number of top-ranked schools and federal laboratory facilities, Illinois already has a good record when it comes to the development and presence of technology-based business, and the state consistently ranks relatively high when compared to technology development in other states.

Many other states have already started using the kind of investment strategy that has just begun in Illinois. Officials say the state needs to advance in this area in order to address a shortage of capital investment for startup businesses

and to stay economically competitive, both regionally and nationally.

"We're really losing out because we weren't competitive in that arena," admits Noven, who adds that the first investments should be made by early 2003. Supporters of the new program are hopeful that making more capital available for entrepreneurs also will help create new jobs and revenue for Illinois.

Noven points to the loss of Illinois graduates in the technology fields to coastal states, such as Massachusetts and California, and the need to provide the opportunity and incentive for these graduates to remain in the state through an improved entrepreneurial environment.

"Creating the technology industry has the collateral benefit of creating jobs in Illinois," says Noven.

Dillard adds: "We need to do everything that we can in state government to let us have a friendly technological and biotechnological climate. Ultimately, this should mean that Illinois will add jobs and potential revenue."

"This new legislation becomes even more crucial to keep Illinois among the high-technology leaders as the economy has slowed. Illinois has been in the top five states with respect to high-technology companies, but we really believe that we belong up there among the top one or two [states]," continues Dillard, who has served as chair of the Senate's High Technology Task Force, which has studied strategies for the development and commercialization of technology in the state.

The Technology Development Account is one of the latest of a number of efforts in Illinois to

improve the entrepreneurial climate and encourage the development of technology and technology-related businesses. It

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Martin Noven

Illinois treasurer's deputy chief of staff

is reflective of a growing recognition in Illinois that in order to remain competitive, the state needs to grow its technology industry.

These recent efforts include the investment of \$3 million in technology startup centers at several universities across the state and the \$2 billion VentureTECH program, which is focused on investing state resources in technology and research and development.

"The future is going to be in technological innovations and biotechnology, even though things have slowed down for the past 18 months or so," Dillard believes. "In the future, any state that is going to move forward has got to grow technology and biotech. We've been a leader, and we want to continue to be a leader." ✨