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Fact Sheet

Bill Analysis: House Bill 718 (LC 34 3233S)

House Bill 718 Calls for New Business Investment Program

Bill embraces best practices but should be judged against competing priorities

by Wesley Tharpe, Policy Analyst

Overview

Venture capital (VC) is a vital form of financing for many startup companies and entrepreneurs, especially those in technology sectors. Recently, many of Georgia's political and business leaders have argued that the state has a shortage of VC which makes Georgia less competitive and hinders long-term economic growth.

In an effort to strengthen the state's venture capital market, House leaders crafted House Bill 718, a proposal currently before the House Insurance Committee, which calls for the creation of an expensive new tax credit program – deemed "Invest Georgia" – aimed at expanding access to capital for Georgia businesses. See GBPI's recent report, *CAPCO: A Bad Investment for Georgia* for an in-depth analysis of the broader VC issue, including the pitfalls of another VC alternative—CAPCO—a fundamentally-flawed model with a poor track record in other states.

Cost

Invest Georgia would cost $200 million over four years, with the fiscal impact increasingly each year between FY 2014-2017.The cost to Georgia taxpayers would be $35 million in FY 2014, $45 million in FY 2015, $55 million in FY 2016, and $65 million in FY 2017.

What the Bill Would Do

It is clear that HB 718 differs significantly from the CAPCO scheme. While CAPCO is a poorly-designed giveaway with little to no economic benefit, HB 718 embraces a number of the guiding principles for sound "venture capital policy."

If HB 718 is passed, here is how the new program would work:

- Georgia would create $200 million worth of tax credits in Georgia's insurance premium tax, which would be auctioned directly to in-state insurance companies. Companies purchasing credits would be eligible to claim a certain portion of them annually for four years starting in FY 2014.
- Insurance companies would be required to pay at least 85 cents for every dollar of tax credit, a transaction that would generate approximately $170 million worth of investment capital over four years. Over time this funding would be allocated to certain Georgia-based VC firms, primarily those that invest in "technology, health care, life sciences, agribusiness, logistics, energy and advanced manufacturing" industries.
- The funding would be managed by a new entity, the Invest Georgia Authority, which would exist within the Department of Economic Development. The Authority would be comprised of five members appointed by the governor, lieutenant governor and speaker.

- The Authority would select a third party "investment advisory firm," which would be charged with evaluating and selecting the VC firms based on their management structure, investment strategy and "commitment to Georgia" (e.g. history of investment in the state). The appointed board of the Authority would have final discretion over all allocation of funds.
- The bill would require selected VC firms to share the investment risk with the state, specifically by requiring 10-50 percent of funds to come from private investors, depending on whether selected firms focus on "early stage" or "growth stage" businesses.
- The new program would include measures aimed at ensuring transparency and accountability. The third party program administrator would be required to submit an annual report on the Authority's performance, including the financial return on investments and the number of jobs created by the program. HB 718 also includes certain "clawback" provisions that allow the state to reclaim tax credits from insurance companies that fail to provide the agreed-upon funds.
- Importantly, HB 718 calls for Georgia taxpayers to receive the same return on investment that standard VC investors enjoy. The bill would require both the state's original principal and 80 percent of the profits be returned to the state, with the selected VC firms receiving the other 20 percent of profits. This differs drastically from CAPCO, where private companies are entitled to keep both the original taxpayer funds and the investments' total profit.
- The reclaimed funds would not be returned to the state's General Fund, instead remaining with the Authority as an "evergreen" fund for future investment.

Policy Consideration: Must be judged against competing spending priorities

There is a strong case to be made that increased access to VC could help strengthen Georgia's economy, and HB 718 embraces many of the best practices of other state programs. The proposed program includes measures to ensure transparency and accountability and protects taxpayers' investment from being given away to private interests for little benefit in return.

At the same time, the proposal comes on the heels of four years of deep budget cuts, with additional cuts to such important economic drivers as the University System and the Technical College System included in the FY 2013 budget (see GBPI's recent budget overview, *FY 2013 Budget Analysis: Higher Education*). In fact, the governor projects a budget deficit in FY 2014 of an additional $320 million. HB 718 must be judged within the context of competing priorities.

Therefore, if lawmakers choose to proceed on HB 718, they should ensure that its high price tag – $35-65 million per year for fiscal years 2014-2017 – does not further undermine funding for areas vital to Georgia's economic health. If the bill passes, do we cut education by $35 million in FY 2014 to support this type of business investment effort? Tax bills such as HB 718 must be revenue neutral with the costs offset by either identifying other tax breaks for elimination or by increasing taxes in other ways.