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# Georgia Lawmaker Introduces Bill to Create Venture Capital Fund

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Summary by taxanalysts

Georgia Rep. Allen Peake (R) has introduced legislation (HB 718) that would create a state venture capital fund financed by auctioning $200 million in insurance premium tax credits to in-state insurance companies.

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Georgia Rep. Allen Peake (R) has introduced legislation (HB 718) that would create a state venture capital fund financed by auctioning $200 million in insurance premium tax credits to in-state insurance companies.

The measure differs significantly from controversial certified capital company (CAPCO) investment tax credit programs proposed in Georgia and enacted in several states, according to a Georgia Budget and Policy Institute analysis released January 24.

"Importantly, HB 718 calls for Georgia taxpayers to receive the same return on investment that standard [venture capital] investors enjoy," wrote Wesley Tharpe, a policy analyst with the think tank, which this past year has strongly opposed CAPCO proposals. The bill would require both the state's original principal and 80 percent of the profits to be returned to the state, with the selected venture capital 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," Tharpe wrote.

HB 718, which has been referred to the House Insurance Committee, would generate $170 million in financing by requiring insurance companies to pay at least 85 cents per $1 in credits won through the auction. The bill would establish the Georgia Capital Acceleration Authority within the Department of Economic Development; the authority would select a third-party investment advisory firm to select the Georgia-based venture capital funds that ultimately would invest that money in state businesses.

According to Tharpe, the bill would require selected venture capital firms to share the investment risk with the state by requiring 10 percent to 50 percent of funds to come from private investors, depending on whether the selected firms focus on "early stage" or "growth stage" businesses.

Stephen Fleming, vice president of the Enterprise Innovation Institute at Georgia Tech, also analyzed the bill. On his Academic VC blog, he wrote that Georgia investments into the funds will be made over three years, coinciding with the sale of the tax credits. Thirty percent of the allocation would be directed to early-stage venture capital funds, and 70 percent would go into growth-stage venture capital funds, Fleming said.

According to Fleming, the Georgia proposal is similar to programs in other states -- "notably InvestSC and TNinvestco," he said.

Both Tharpe and Fleming said the new program would include measures aimed at ensuring transparency and accountability by requiring the third-party investment advisory firm to submit an annual performance report that includes the financial return on investments and the number of jobs created.

"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," Tharpe wrote. Reclaimed funds would remain with the newly created authority for future investment.

The Senate on January 23 rejected a bill (SB 203) that would create a $125 million tax credit investment pool for CAPCOs. Critics of such programs charge that taxpayers bear almost all of the risk and receive almost none of the profit.

The House had passed its substitute back in April, one day before lawmakers closed the first half of the General Assembly's regular session. The Georgia Budget and Policy Institute noted the development then, but reporters did not discover the CAPCO language until late last year; state lawmakers have since backed away from supporting the controversial proposal.

SB 203, however, technically is not dead, since lawmakers could still send it to a conference committee.

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