

Lawmaker Has Cash Lure For High-Tech

By Hugo H. Ottolenghi

November 26, 2001

Miami Daily Business Review

Young high-tech companies could receive a financial boost and a little more respect if legislation to be introduced Nov. 27 by state Sen. Ron Klein becomes law.

The Boca Raton Democrat will propose authorizing managers of the state's employee retirement fund to invest upwards of \$100 million in venture capital funds that target information technology and biotechnology companies.

Klein pushed the bill, which has other provisions, through the Senate in the last full session, but the measure died in the House.

Proponents of the bill say the money would help feed a local market that has been starved of new cash. The investments would also improve Florida's standing in the nation's technology and venture capital communities by showing the state's commitment to homegrown high-tech.

"By letting venture capitalists know we are serious, we will bring them down here," Klein says.

"The state directing capital in the state is a very good idea," says John H. Hill Jr., managing director of Hyde Park Capital Partners in Tampa. The firm advises venture capitalists, most of them outside Florida, about investments in young companies. He's a high-tech booster in Florida.

Hill and Klein say that Florida ranks behind states such as California, Massachusetts and North Carolina that have put state employee retirement monies into venture capital companies. Klein modeled parts of his bill on programs in those states.

California Public Employees' Retirement System, the largest state pension plan in the nation, has been the most aggressive. CalPERS has \$8 billion invested and another \$20 billion committed to what are called alternative investments, which includes venture capital funds.

Florida is also trailing another half-dozen states from New York to Hawaii that have set up venture capital programs, trusting between \$13 million and \$100 million to private fund managers, according to Private Equity Analyst, a Boston-based newsletter for the venture capital industry. The Illinois program, for example, obliges funds to invest all their money in that state.

Klein's bill does not impose that same condition, but fund managers must open an office in Florida to be eligible for capital.

The requirement is a good one, Hill says, because venture capitalists tend to invest close to home.

Even a small slice of Florida's \$88.5 billion retirement fund would be tempting, says Bob White, who is raising money for a venture capital fund in North Carolina's Research Triangle Park. A venture capitalist for three decades, he says his firm would consider opening a Florida office if that provided access to state money.

White says the North Carolina program, while still small, has already had an impact far beyond that state's borders. "People outside the country who represent quality funds internationally are intrigued" and looking at ways they can participate, he says.

Hill says that the availability of state retirement money would spur creation of several venture capital funds, possibly one at his firm. Hyde Park, he recalls, wanted to start a fund when the firm was formed. Hill and his partners visited Tallahassee to see whether the state board would invest. However, they canceled the fund after finding no interest in their plan.

State money could fill a void in federal-backed financing, says Eric Chen, an adviser to Crossbow Ventures, a venture capital firm in West Palm Beach. Crossbow has put about 70 percent of its \$140 million in Florida companies. The Small Business Investment Co. program, in which Crossbow participates, provides capital to funds but restricts its use to companies with revenues. The state money could fill a gap for early-stage companies that aren't yet eligible.

However, limiting the state's initial investment to about \$100 million is prudent, Chen says. The state board will learn how to work with venture capitalists before committing larger sums to funds that weigh in at \$1 billion or heavier.

Chen sees the state's involvement as a long-term project, one that should be measured not only by the return to the retirement fund, but by an increase in the state's tax base, the number of tech jobs created and the number of research scientists attracted to the state.

Chen cautions not to expect that the state's involvement will put Florida on par with Silicon Valley.

"This is not going to turn us into Stanford overnight," he says. "It's a first step."