

Opening Statement

The Ben Franklin Technology Partners

Wednesday, March 6, 2019

Pennsylvania Senate Appropriations Committee

The Honorable Pat Browne, Chairman

The Honorable Vince Hughes, Democratic Chairman

Regarding 2019/20 Fiscal Year Budget for the Ben Franklin Technology Development Authority

Chairman Browne, Chairman Hughes, and members of the Senate Appropriations Committee: Good afternoon and thank you for the opportunity to discuss the needs of the Ben Franklin Technology Partners (Ben Franklin; BFTP) and the fiscal year 2019-2020 budget request for the Ben Franklin Technology Development Authority (BFTDA).

2019-20 Budget Request

Pennsylvania's proposed 2019-20 General Fund budget would continue to transfer \$14.5 million to the Ben Franklin Technology Development Authority, which would fund Ben Franklin Technology Partners at the reduced level of \$14 million. While we appreciate our inclusion in the proposed budget, the appropriation is about half of the amount that Ben Franklin Technology Partners has received over most of its history.

Since 2007-08, funding for Ben Franklin, one of the most widely known and emulated state technology-based economic development programs in the nation, has dropped roughly 50 percent, from approximately \$28 million to \$14 million per year. These reduced levels have put Pennsylvania at a competitive disadvantage with other states that are investing heavily in innovation and high-tech economic development. Ben Franklin is already unable to invest in some deserving young companies and has seriously short-funded others because of that sharp decline in state funding over the last decade. In addition, investments to help established manufacturers compete internationally by leveraging innovation are hurt.

The result is lost opportunity for Pennsylvania. Less funding means fewer highly paid, sustainable jobs now and in the future. This budget level imperils the extremely effective, efficient, and highly successful economic development engine that Ben Franklin Technology Partners has become over more than 35 years of experience.

Ben Franklin Technology Partners History

I think we can all agree that economic development -- and especially the commitment to grow our innovation and tech-driven sectors -- is a shared priority, and has been for some time. In 1982, the Pennsylvania General Assembly, with broad bipartisan support, created the Ben Franklin Technology Partners to promote technological innovation and stimulate job growth and economic well-being across the Commonwealth. The strategy has worked.

Over the past 35 years, Ben Franklin has delivered impressive results. As one of longest-running and most successful technology-based economic development programs in the country, Ben Franklin has invested in more than 4,500 technology-based companies, boosted the state's economy by \$25 billion and generated 148,000 new jobs since its inception.

But Pennsylvania was not immune to the impacts of the global financial crisis in 2008, when we saw our economy suffer and state tax revenues decline. In response, tough choices had to be made. Between fiscal years 2008-09 and 2011-12, state funding for the BFTDA was reduced from \$50.7 million to just \$14.5 million in a series of drastic cuts. The Ben Franklin Technology Partners saw their allocation of that BFTDA funding reduced by nearly 50%, from approximately \$28 million to \$14 million, where it has remained for the past eight years.

Ben Franklin Technology Partners Today

Today, operating at a diminished but efficient manner because of those cuts, the program continues to represent a global standard in technology-based economic development that has been copied and consulted frequently by other regions, states, and nations. The portfolio companies our investments have nurtured have developed new products and services, improved manufacturing capabilities, identified new markets, built management teams, and increased client sales -- all as a direct result of Ben Franklin investments and support.

Ben Franklin continues to work diligently to develop technology and growth-based eco-systems throughout Pennsylvania. That work includes investments in promising technology-based early-stage firms and funding for innovation adoption in established manufacturers. In addition, BFTP invests significant financial and human resources to build entrepreneurial support networks and provide effective and proven business and technical expertise to founders and their teams. Together, these investments create fertile ground for technology-based firms to plant roots, build companies, and expand their operations.

These are wise investments for the prosperity of the Commonwealth. The most recent independent evaluation of BFTP's full impact showed that Ben Franklin returns \$3.90 in additional state tax revenue for every \$1.00 the state invested into the program from 2012 to 2016. Since 1989, BFTP has created 54,000 additional jobs in clients in industries that pay 52% more than the average non-farm wage in PA. Ben Franklin is a proven revenue-generator for the state. The analysis was conducted by the Pennsylvania Economy League and KLIOS Consulting, both nonpartisan research organizations. A copy of that report has been made available to all committee members.

What is the Problem?

Unfortunately, these successes, the reputation that Pennsylvania has built through the Ben Franklin program, and our ongoing momentum are all at risk unless funding is restored to the necessary level. Ben Franklin, facing increasing costs and decreasing state support, has already had to decline some investments and seriously short-fund others. BFTP relies on state funding to enable the crucial early-stage investment support we provide to entrepreneurs as well as to fund many of the necessary support activities that build the entrepreneurial eco-system and help entrepreneurs grow their companies.

We also face increased competition in stimulating and attracting the best innovations and fast-growing start-ups with other states, including our neighboring states. A recent analysis of state funding support

for technology-led economic development programs in 13 comparable states found that Pennsylvania's per capita spending of \$1.37 was the second to lowest. The average state spending per capita in that study was more than four times our level, at \$5.67, with some states spending as much as \$16 to \$18 per person. As an example, Maryland's Governor Hogan recently announced a proposal that would increase technology-based economic development funding to nearly \$54 million or \$8.87 per Maryland resident.

By comparison, Pennsylvania's proposed 2019-20 General Fund budget requests \$14.5 million for the BFTDA. We're grateful for the recognition of the value and importance that Ben Franklin brings to the state economy and its residents. But this amount, if continued, will not be enough funding to sustain operations and investments that so many of our clients rely on to become successful.

The creation of jobs and additional tax revenue from the clients we support can take seven to 10 years to materialize. Today, Pennsylvania benefits from the investments that Ben Franklin made a decade or more ago. As our neighboring and competitive states begin to outpace our investment, Pennsylvania could easily become technology laggards instead of technology leaders.

Inadequate funding limits the creation of highly paid, sustainable jobs and slows the growth of attractive technology-based industries for decades to come. These budget cuts squander 35 years of well-established networks, earned expertise, and state money, as well as the elusive "secret sauce," that have made BFTP so productive. What we lose by underfunding Ben Franklin now will be lost permanently. At stake here is the continued growth of vibrant technology sectors, led by the Ben Franklin Technology Partners, as well as the future prosperity of the Pennsylvania economy.

Innovation is happening all around us. States that harness that innovation and the subsequent start-ups associated with it are capturing a disproportionate share of economic growth. Pennsylvania must invest appropriately in innovation to compete and excel.

Ben Franklin Technology Partners Operations

Ben Franklin is one of the most successful and modeled state technology-based economic development programs in the nation. Our support for early-stage firms falls into three primary categories: investment capital into start-ups, support services, and development of networks and ecosystems that spawn entrepreneurial activity and develop successful innovation-led businesses.

All start-ups need capital to succeed. Most small businesses begin with founders' funds and then move to friends and family and/or other sources of external funding. Ben Franklin serves as one of the earliest investors of this outside capital, providing convertible loans to well-vetted, innovation-based startups. The capital that Ben Franklin provides is often the first institutional funding that our clients receive. Because Ben Franklin has a very positive reputation among venture funds, angel investors, and other institutional investors, being a BFTP client is a significant endorsement for a young firm. The additional consideration afforded companies that are in the Ben Franklin portfolio allows state funding to be leveraged with private funding. Ben Franklin investments grow Pennsylvania companies efficiently.

Ben Franklin investments fill a critical void in the capital market for these high-growth, tech-based firms. The for-profit venture capital industry and capital providers continue to move further away from supporting pre-seed and early-stage companies and prefer to wait until companies have grown, which lowers their risk. Ben Franklin addresses this funding gap and provides the investments and support that

venture capital does not. We do not compete with venture capital partners; we play a critical role in the development of their deal pipelines and future investments.

Our work begins with the investment but does not stop there. We often work with companies for many years, providing additional business and technical support to help clients grow and thrive in Pennsylvania. This portfolio management work is highly engaged, requiring significant staff time and resources. Reduced state funding means less dedicated support as staff work to manage ever increasing client loads.

Ben Franklin Technology Partners also provides enterprise-wide solutions for established manufacturers. These investments allow Pennsylvania companies to compete more effectively on an international level through the application of technology. By linking clients with technical and operational resources from Pennsylvania's colleges and universities, BFTP provides expertise in process or product improvement, and new product or process development. Ben Franklin's resources have the proven capability to address clients' areas of opportunity from operations, process flow, and facility planning, through materials, new formulations, and strategic growth.

Not All Impacts are Financial.

Externalities are events or effects that result from business operations that are not readily measured by traditional metrics. From a company's perspective, these outside effects can be positive or negative. While Ben Franklin is first and foremost a technology-based economic development engine, the program generates very positive externalities throughout Pennsylvania's business technology ecosystem.

Ben Franklin funds start-ups in a wide range of industries, including medical devices and diagnostics, computer software and hardware development, telecommunications, healthcare information technology and benefits administration, manufacturing, biotech and pharmaceutical, robotics and many more. These clients are not only creating high-wage, family-sustaining jobs; they are tackling significant market-driven challenges; and sometimes creating breakthrough products and processes that improve the human condition.

BFTP have deep expertise in developing pipelines of companies that are addressing real societal needs. The state could further leverage our investment and development expertise to help engage the startup community to provide solutions for many of the challenges facing the state like an aging population and infrastructure, government and healthcare efficiencies, as well as inclusive growth opportunities.

Technology and innovation continue to shape our daily lives in new and meaningful ways. Pennsylvania has the tools and ingredients to drive growth but needs the appropriate resources to fully capitalize on these exciting growth opportunities.

Now is the Time.

Personal financial advisors often tell their clients to pay themselves first. This advice says that we should always save and invest for our financial futures while funding today's needs. Investing in Ben Franklin is Pennsylvania's investment in the future. Restoring funding for BFTP ensures that we will continue to develop promising technology-based companies and the highly paid, sustainable jobs they create. These companies, and the eco-systems that support and encourage them, create environments that are

attractive to employees, other entrepreneurs, and highly desirable established companies that are considering relocation.

These are smart investments that yield results for taxpayer dollars. Based on the aforementioned PEL study findings, Pennsylvania received \$350 million in additional tax receipts as a direct result of Ben Franklin investments in client firms. Another \$36 million in state tax receipts flowed from related Ben Franklin client services, for a total of \$386 million. That's just between 2012 and 2016.

Ben Franklin's track record speaks for itself. And our commitment to growing the state economy and creating highly paid, sustainable jobs for Pennsylvanians is unrivaled. But underfunding Ben Franklin Technology Partners puts all of that at risk.

Reduced funding for Ben Franklin means fewer innovative start-ups, fewer high-paying jobs, a weaker entrepreneurial ecosystem in Pennsylvania, and a smaller return for the Commonwealth and its taxpayers. Our competitive and neighboring states are increasing their investments. Ohio is investing more than \$23 million and New York is at nearly \$56 million; even Delaware is investing \$4.45 per person, more than tripling Pennsylvania. The programs these states are funding are largely modeled on Ben Franklin, and our program is regarded as best practices for these programs.

It's time to recommit to the future of Pennsylvania. We are poised for growth and ready to lead. Invest in the Ben Franklin Technology Partners and invest in Pennsylvania's future.