

INNOVATE PA
WRITTEN TESTIMONY
BEN FRANKLIN TECHNOLOGY PARTNERS
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Innovate PA will provide a critical and timely investment in Pennsylvania's most promising entrepreneurs and reinvigorate the Commonwealth's innovation economy. This initiative invests a portion of the funds raised from the auction of tax credits into the Ben Franklin Technology Partners (BFTP), which has a thirty-year track record of creating sustainable, high-quality jobs and is a verified generator of tax revenue for the Pennsylvania treasury. With proven expertise and established networks of support, BFTP is the country's acknowledged gold standard for innovation-based economic development. An initiative of the Department of Community and Economic Development and funded through the Ben Franklin Technology Development Authority, BFTP has strict guidelines already in place for reporting and auditing requirements. In partnership with Pennsylvania's venture capital community, the funds provided through Innovate PA will permit BFTP to help address the "capital gap" for early-stage technology companies that the last recession widened. This will allow our brightest entrepreneurs to unleash a wealth of new technology being developed in Pennsylvania's universities, industries and garages, and will ensure the Commonwealth's economy remains diverse, growing and globally competitive.

The creation and development of innovative technology companies is critically important to the long-term success of Pennsylvania's economy. The last century has shown that innovation-driven breakthroughs (personal computer, internet, mobile phone, etc.)

fundamentally change society and become significant drivers to the U.S. economy. A recent example of this rapid change is the mobile software applications industry that went from near zero to \$6.8 billion in sales between 2006 and 2010 and is projected to be \$25 billion by 2015¹. It is imperative that the Pennsylvania economy not only create jobs for today but also create the jobs of tomorrow. Economists are increasingly highlighting the importance of small business and innovation to our nation's economy. A recent report from the Kauffman Foundation and others tell us that all of the net job growth in the US economy from 1977 – 2005 was provided by firms between one and five years old². The Santa Monica-based economic think tank, the Milken Institute, says that “Entrepreneurial capacity and behavior are the prime drivers of economic growth and job creation. ... Over the long-term, cities with strength in entrepreneurship will be among our Best Performing Cities – large and small.”³ In contrast, those states that do not place an emphasis on innovation and entrepreneurship will find themselves in a dangerous downward spiral of fewer competitive industries, less investment and out-migration of highly skilled workers.

Consistently supported by five Governors and all intervening legislatures, BFTP has worked to increase Pennsylvania's competitiveness since its founding in 1982, in the wake of the steel industry's collapse. The creation of BFTP was an effort to keep Pennsylvania from ever again being too reliant on one industry by leveraging the Commonwealth's

¹ MarketsandMarkets, *World Mobile Applications Market - Advanced Technologies, Global Forecast (2010 - 2015)*, (August, 2010)

² Dane Stangler and Robert E. Litan, *Kauffman Foundation Research Series: Firm Formation and Economic Growth, Where Will the Jobs Come From* (Nov. 2009), p. 9

³ The Milken Institute, *Best-Performing Cities: Where America's Jobs Are Created and Sustained* (Nov. 2004)

college and university resources and providing the capital and expertise necessary to bridge that research base and product commercialization. In the last decade, BFTP's high-value offering of seed investments, expert business mentoring, technology commercialization and incubation services has proved critical for young companies to gain the commercial traction that launches them toward explosive growth. This growth has resulted in nearly 70,000⁴ high-paying new jobs and more than \$17 billion added to Pennsylvania's Gross State Product⁵. In addition, with the help of the BFTP endorsement, early-stage firms receiving Ben Franklin investment have attracted an average of \$24 in follow-on financing for every dollar BFTP invested in the company. In the last five years alone, this equates to \$1.8 billion⁶ of new investment, much of it imported from outside the Commonwealth. In recent years, BFTP has received top honors for its programs supporting innovation and entrepreneurship from the U.S. Economic Development Administration, State Science and Technology Institute, National Venture Capital Association, National Business Incubation Association, and International Economic Development Council, to name a few. Most recently, in the *Enterprising States* report by the US chamber of commerce, the BFTPs were listed among selected "types of investment {s} the public and private sectors can make now to improve the economy in the future."⁷

⁴ National Venture Capital Association VC Jobs Count as provided by BFTP since program inception: http://www.nvca.org/index.php?option=com_content&view=article&id=375&Itemid=680

⁵ Pennsylvania Economy League, *A Continuing Record of Achievement: The Economic Impact of Ben Franklin Technology Partners 2002-2006* (February, 2009)

⁶ Ben Franklin Technology Partners Annual Report 2011, *Turning Ideas into Jobs* (February, 2012)

⁷ US Chamber of Commerce and the National Chamber Foundation, *Enterprising States: Recovery and Renewal for the 21st Century* (June, 2012), pg. 102 & 2

These accolades flow from demonstrated impact. In 2009, the BFTP retained the Pennsylvania Economy League, a nonpartisan research organization, to conduct an independent, objective evaluation⁸ of its long-term economic impact on Pennsylvania's economy. When comparing the companies funded by BFTP with a control group of other similar companies started at the same time, the study found that the BFTP companies outperformed the control group and created significantly greater economic impact for Pennsylvania:

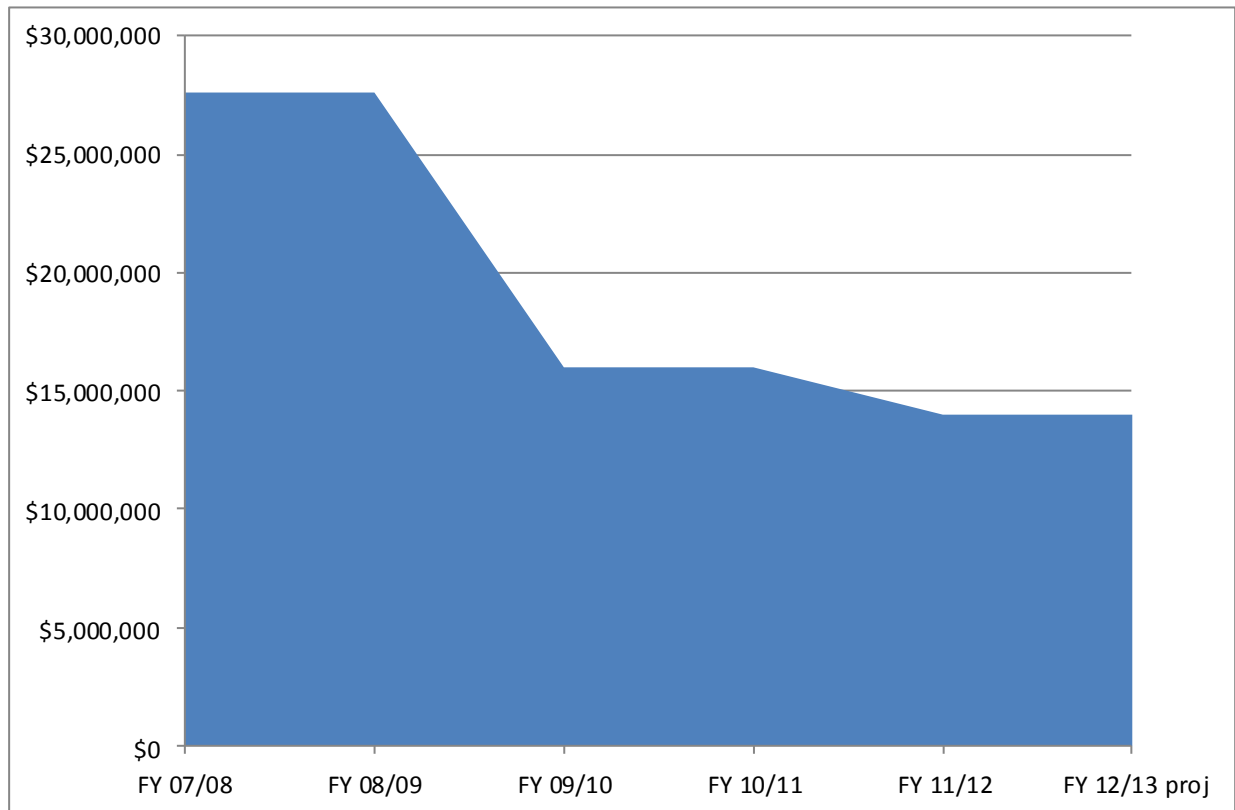
- ✓ For every dollar invested into the BFTP, the Commonwealth garnered a \$3.50 payback in additional state tax revenues.
- ✓ From 1989-2006, the BFTP boosted the state's economy by more than \$17 billion.
- ✓ From 1989-2006, the BFTP generated 125,827 job years for the Commonwealth. (A job-year is equivalent to the number of years of full-time work created by the program.)
- ✓ BFTP client companies created jobs with an average wage approximately 33% higher than the Pennsylvania non-farm average.

Numerous states have modeled their programs after BFTP, which was one of the first in the country. Now, 40+ states have innovation-based economic development efforts and BFTP has presented or hosted delegations from more than 17 nations studying the BFTP model's success with recent interest from Estonia, Finland and Russia. Many of our

⁸ Pennsylvania Economy League, *A Continuing Record of Achievement: The Economic Impact of Ben Franklin Technology Partners 2002-2006* (February, 2009)

border states have been putting sizeable investments into their technology-based economic development efforts. The state of Ohio’s ten year, \$1.6 billion “Third Frontier” Program is the biggest example, but New York’s \$200 million “regional economic development awards” and Maryland’s \$84 million “InvestMaryland” are two recent examples.

BFTP FUNDING LEVELS SINCE FISCAL YEAR 2007/08



Due to the budget pressures caused by the recession, BFTP funding has been reduced more than 50% since fiscal year 2007/08. When combined with existing BFTDA appropriation levels, Innovate PA will bolster the BFTP budget until budget-line appropriations can be restored to their necessary levels. BFTP significantly enhances the success of high-growth potential entrepreneurs, stimulates innovation in established

manufacturers, and creates and retains jobs that translate into increased tax revenue for the Commonwealth and a better quality of life for citizens. Innovate PA will allow Pennsylvania to benefit from the foresight of its leadership 30 years ago in creating a technology-based economic development organization that is now the envy of the world.

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