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Subcommittee on Communications, Technology, Innovation and the Internet

Betting on the Rest: Expanding American Entrepreneurship Outside Traditional Hubs

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Introduction

Chairman Thune, Ranking Member Schatz, thank you for the opportunity to testify before the Senate Commerce Committee's Subcommittee on Communications, Technology, Innovation and the Internet. The topic of spreading entrepreneurial activity is one I am deeply passionate about as I have been investing in early-stage healthcare companies for nearly 20 years. I founded Arboretum Ventures in Ann Arbor, Michigan, in 2002 with the goal of enabling meaningful healthcare system savings while maintaining excellent clinical outcomes. From 2016 until earlier this year, I served on the board of directors of the National Venture Capital Association (NVCA), and during my last year on the board I served as its board chair. In that capacity, I led industry initiatives to encourage the growth of emerging startup ecosystems and venture capital in more areas of the country.

As I prepared for this hearing, I reflected on my own entrepreneurial journey that took place outside traditional venture hubs. I would like to briefly share my personal story, along with my experience in the Midwest venture capital (VC) ecosystem and my thoughts on how startup success in under-ventured regions leads to a virtuous growth cycle.

I grew up in California and graduated from the University of California, Berkeley with a degree in bioengineering. After working for Proctor & Gamble in manufacturing and earning my MBA at Wharton, I spent 12 exciting years working for two medical device start-ups in the Bay Area – both of which were acquired by Eli Lilly and ultimately became the foundation of Guidant Corporation. However, while my career was advancing, my husband was not happy with his job in San Francisco and I became a reluctant trailing spouse as we moved to Ann Arbor, Michigan. I had 3 daughters in 18 months, (a single and a double), and then started a consulting business focused on local early-stage health care companies. After 8 years of consulting, I decided I wanted to work in venture capital but was unable to find a venture capital position in Ann Arbor. So I went to IRS.gov, filed for a tax ID number, and founded Arboretum Ventures in 2002.

Today, Arboretum is the largest venture capital firm in Michigan, with over $700 million under management across five funds. 90 percent of our capital is from institutional investors such as pension funds, foundations, and endowments. We have invested in more than 50 companies, helped over 8 million patients, and created over 4,000 jobs, most of which are located in the Midwest. In fact, we have at least one portfolio company in half the states represented by the

Senators on this subcommittee. We have had 13 large exits, with 40 percent of those being located just a few miles from our office in Ann Arbor.

I can say from experience that starting a venture capital firm from scratch is never easy and is especially challenging in regions outside traditional VC hubs such as San Francisco or Boston. There are a number of structural barriers that exist in under-ventured regions. The lack of investment capital constrains the number of startups that receive funding. Subsequent trickle down effects include: a reduction in the number of successful exits and secondary reduction of experienced employees who know how to scale a company, which then leads to limited investment capital due to lack of viable investment targets. This downward spiral can be near-insurmountable and requires private and public sector support to overcome.

My firm, Arboretum Ventures, owes a great deal of its success to the early support we received from the State of Michigan, both directly and indirectly. In 2002, when I founded Arboretum, the Michigan Economic Development Corporation (MEDC) decided it wanted to stimulate the formation of new venture funds. MEDC ran an RFP process with 17 competitors, awarding 2 winners with $250,000 each. The $250,000 was to cover the costs of raising the fund, but not salaries, and was only awarded once the fund had a first close of at least $5 million. We were one of the two winners and had a first close on Arboretum's first fund of $6 million. We continued to fund raise for the next two years and our first fund totaled $17 million. In 2006, Michigan launched the $95 million Venture Michigan Venture Fund (VMF) to invest in VC firms willing to open offices in the state. VMF served as a cornerstone investor (limited partner) for Arboretum and persuaded several regional funds to open Michigan offices and invest capital in local startups. Michigan also created "SmartZones" across the state – incubators with office space, entrepreneurship training, and other company incubation services – and worked alongside private sector organizations to grant millions to startups, leading to the creation of hundreds of jobs.

The actions taken by the state and private partners helped us overcome the barriers inherent to under-ventured regions and facilitated a culture of entrepreneurship in Michigan. Within Arboretum, we have seen how our early successful investments, including Ann Arbor-based companies HealthMedia (sold to Johnson & Johnson) and HandyLab (acquired by Becton Dickinson) led to additional venture and angel investor interest in our region and built an important base of local talent. In fact, we recently had our largest exit (i.e. completion of a successful investment) ever in NeuMoDx, a company that was founded by the two leaders behind HandyLab. Importantly, NeuMoDx is a leader in the COVID-19 testing market. More broadly, Michigan recently had one of its largest venture exits in cybersecurity, Duo Security, which was founded by employees from a previous Ann Arbor startup (Arbor Networks). This recycling effect is what propels local ecosystems forward.

The burgeoning venture ecosystem in Michigan has also highlighted that regions outside traditional hubs have unique advantages. With the lower cost of living, companies can be more capital efficient. In fact, the average Midwest startup only requires two-thirds of the funding an equivalent Bay Area company would need to reach a successful exit. We are also proud of the diversity in our region; Ann Arbor has one of the highest rates of women-founded VC startups in the U.S.

In my recent role as NVCA board chair, I was able to leverage my experiences and learnings from Michigan and became deeply involved in industry-wide efforts to build out emerging ecosystems off the coasts. Two examples of this, which I discuss in more detail below, are Venture Capital University and the recent change to the Volcker Rule, both of which greatly impact funds off the coasts. In addition, NVCA recently created Venture Forward, a 501(c)(3) that focuses on education, diversity, and inclusion, and ensuring best practices are shared nationwide, in essence breaking down the information barriers that provide incumbent regions built-in advantages over emerging ecosystems.

Michigan, the Midwest, and other under-ventured areas still have a long way to go before they can match the entrepreneurial maturity of the coastal hubs. In 2020, only 26 active VC firms were headquartered in Michigan[1]. Further, while the amount of venture capital assets managed by investors based in Michigan has grown steadily from $840 million in 2005 to over $4.3 billion in 2020, the amount managed by Michigan investors today represents just one-half of one percent of the nation's total venture capital assets under management.[2] These statistics notwithstanding, accelerating the startup ecosystems in Michigan and other under-ventured regions is more important than ever considering how globalization and new industrial rivals have shuttered hometown employers' doors and left many communities struggling. The global economy is changing fast and communities across the country must modernize and adapt or the challenges this country faces in terms of access to opportunity, competitiveness, and economic growth will only worsen. Purposeful and strategic policy efforts on the part of public and private-sector leaders can help these communities thrive in the new tech and knowledge-driven economy as the old economy fades from view.

<u>Impact of Entrepreneurship and Venture Capital</u>

Entrepreneurship has set the United States apart as the most dynamic economy in the world. The Kauffman Foundation found that new companies were responsible for nearly *all* net new job creation, and companies less than one year old have created an average of 1.5 million jobs per year over the past three decades.[3] Venture capital has played an instrumental role in startup activity, having backed iconic American companies like Genentech and Google, to more recent creations Zoom and Moderna.[4] A research paper produced by Stanford University found that of the 1,339 companies that went public between 1974 and 2015, 42 percent trace their roots to venture capital.[5] Those venture-backed companies account for an astounding 85 percent of all research and development spending by companies that have gone public since 1974.

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[1] 2020 MVCA Research Report, Michigan Venture Capital Association, *available at* https://michiganvca.org/wp-content/uploads/2020/04/2020-MVCA-Research-Report-Final-version-from-EntryPoint-low-resolution.pdf
[2] NVCA 2020 Yearbook, data provided by PitchBook.
[3] *The Importance of Young Firms for Economic Growth,* Kauffman Foundation, *available at* https://www.kauffman.org/resources/entrepreneurship-policy-digest/the-importance-of-young-firms-for-economic-growth/
[4] Jeff Farrah (NVCA Blog), *Creating the Next Moderna: What VC Offers the World and 3 Public Policy Lessons,* available at https://nvca.org/creating-the-next-moderna-what-vc-offers-the-world-and-3-public-policy-lessons/.
[5] *How Much Does Venture Capital Drive the U.S. Economy?,* Stanford Graduate School of Business (October 2015), *available at* https://www.gsb.stanford.edu/insights/how-much-does-venture-capital-drive-us-economy.
2 Id.

Venture-backed startup activity has historically been dominant in a handful of science and technology hubs, including northern California, Massachusetts, and New York. In recent years, new regions have come on the scene and show great promise for new company creation. A recent NVCA report found that

> Venture funding reached startups in all 50 states and the District of Columbia, 242 Metropolitan Statistical Areas (MSAs), and 397 Congressional Districts. Buffalo, NY, Boise City, ID, and Richmond, VA saw the biggest growth rate for annual number of VC investments over the past five years (for those MSAs with at least 15 in 2019). Bend, OR, Rochester, NY, and Grand Rapids, MI saw the largest annual growth for VC investment over the past five years (for those MSAs with at least $10 million VC investment in 2014 and 2019).

These are welcome developments for those of us who have worked to establish emerging startup ecosystems. As an investor in Michigan, I have been actively involved in encouraging these emerging ecosystems to deliver the benefits of startup activity to more areas of the country. I believe that policymakers, such as members of this committee, can partner with local investors and entrepreneurs to speed progress.

Understanding the Workings of Local Startup Ecosystems

Before getting into federal policy proposals that can spur greater entrepreneurial activity across the country, I would like to explain some of the workings of local startup ecosystems. Brad Feld, a VC in Colorado who was an early leader in the growth of one of the most successful noncoastal startup ecosystems in the country, succinctly listed the various components of local ecosystems in his book *Startup Communities*.[6] The most important component, of course, are the entrepreneurs, as without those individuals willing to take monumental risks nothing else matters. The other components are local and state governments, universities, investors, mentors, large companies, and service providers (meaning law firms, accounting firms, banks and others experienced in new company formation and growth). Each of these components must be present and prioritize supporting the entrepreneurs in the community in order to achieve success and further growth in their communities.

While entrepreneurs are the most important, VCs are the glue that brings this all together. We raise the funds, develop relationships with other components of ecosystems, and help our portfolio companies in their engagement with these entities. We are stewards of our ecosystems, and our success or failure is a leading indicator to investors in our funds of whether to deploy more capital to our communities. Individual entrepreneurs come and go and hopefully their companies are either acquired or go public and become incumbents themselves. But while our portfolio companies either move up or out, VCs only remain if we are successful. We can then raise another fund and get to work finding a new set of startups.

Startup ecosystems are inherently local constructs. In emerging ecosystems, many of the participants and much of the earliest stage capital come from within the community where the

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[6] Brad Feld, *Startup Communities, available at* https://www.amazon.com/Startup-Communities-Building-Entrepreneurial-Ecosystem/dp/1531886035.

startup is founded. As I noted above, nearly half of Arboretum's biggest exits happened within a short distance of our office. This is important to keep in mind because it underpins my thesis for how to expand economic opportunity in this country: prioritize policies that can empower local ecosystems and facilitate success for more startups and local VC funds.

Often, venture capital is confused with hedge fund investing, which through its focus on public companies has a more national and global perspective. It is easier to invest in mature companies across the country as investors can rely on revenues and other metrics to determine whether to invest. But startups have few, if any, predictable metrics. Our work as VCs is just beginning when we find promising companies. Once the first investment is made, we must then work closely with the management team on long-term strategy, plans to access further capital, efforts to bring professional structure to the company, and pretty much anything else that we can do to help achieve success. In fact, sometimes venture capital investments are made on the promise of the team as opposed to the technology, with the hope that we as VCs can help them find their full potential even if the initial idea is weak. It will often take 5 – 10 years of working with the entrepreneur, usually at the board level, to create a successful company.

Focusing on areas off the coasts can have substantial impacts on the local economy, and as successes occur, can create management teams that continue to start new companies in the same geography. As an example, in 2004 we invested in HandyLab, a diagnostic company founded by two University of Michigan PhD students. Five years later it sold to Becton Dickinson. Those two founders, along with the CEO, then went on to start three more healthcare companies that, over the next ten years, also became successful and sold to other large companies. The most recent diagnostic company, NeuMoDx developed by this team, has shipped over a million COVID-19 tests worldwide. The original two founders have created a critical mass of health care entrepreneurs in Michigan, with a substantial number of employees creating new technologies that greatly improve the treatment for patients worldwide.

Another important factor of the success of the companies off the coasts, is being able to attract new capital to that company from large coastal investors. It is important to note that for every \$1 invested in a Michigan startup by a Michigan VC firm, an additional \$45 of investment is attracted from VCs outside of Michigan. An example of this is from one of our earliest investments, Advanced ICU Care (AICU). AICU provides remote monitoring of patients in the ICU, i.e. it is a high-acuity telehealth provider headquartered in St. Louis, Missouri. We led the first round of investment into AICU to get it off the ground, and at the time the company only remotely monitored 22 ICU beds. As the company thrived, two large coastal investors led the next rounds of financings. Today, AICU serves nearly 100 hospitals and health systems, monitors over 1,100 beds, and cares for over 95,000 patients annually. Notably, AICU has taken a central role in the COVID crisis by helping hospitals manage their overwhelmed ICU units.

Building a successful new company is a herculean task where hard work, skill, great ideas, and even a bit of luck are all required. Many entrepreneurs do everything right and still do not make it in the end. That is how difficult it can be to find success in entrepreneurship. In order to facilitate growth in emerging ecosystems, all of the components of startup communities must work together to prioritize the success of startups. Many will nonetheless fail, but even one success can create momentum to remake the long-term prospects of an entire region.

A single successful startup exit can have multiple repercussions for a regional economy. The exit puts the region on the map for investors as a viable opportunity, the founders of the company often become angel investors or VCs themselves, coaching and investing in the next crop of entrepreneurs, and the VCs who were involved with the company get a greater chance to raise another fund and invest in a new set of local companies. Further, the company can become an important part of the ecosystem, becoming an acquirer of locally produced technology, as well as a source of potential entrepreneurs who work at an incumbent before striking out on their own.

Facilitating startup success in local communities is the single most powerful way to expand startup activity in a region. At Arboretum Ventures, we went from that initial investment of $250,000 to being the largest VC firm in the state, and we have created thousands of jobs across the Midwest and brought dozens of new technologies to advance American healthcare. But if our first fund had been unsuccessful, that economic activity may never have happened.

Policy Recommendations to Support Emerging Startup Ecosystems

Early-stage companies and their investors are very sensitive to policy changes, and perhaps emerging ecosystem participants are even more so. Members of this committee can support entrepreneurs in their state through the following policy proposals.

Technology Commercialization and Endless Frontier Act

As discussed above, commercialization of university research is a tried-and-true way to create new companies and deliver benefits to a university and taxpayers. Universities like Stanford and the Massachusetts Institute of Technology (MIT) have nearly perfected technology transfer, which has been a driver of entrepreneurship in northern California and Massachusetts. For example, as a result of its robust tech transfer practices, Stanford held equity in 203 companies as a result of licensing agreements as of August 2019.[7] In Fiscal Year 2019, "Stanford received $49.3 million in gross royalty revenue from 875 technologies."[8] These companies are major drivers of economic activity in Stanford's region. Sadly, many other highly regarded universities fail to commercialize technology as effectively. The mentality of too many universities is that technology developed on their campus is a nugget of gold that demands the highest upfront price possible, and little thought is given to the long-term benefits of establishing a pipeline of technologies that entrepreneurs, VCs, and angel investors can develop. In this scenario, everyone ends up with less gold. Policymakers can advocate with their local universities to engage with the entrepreneurial community to smooth the path to greater commercialization.

In addition, Congress should pass pro-innovation policies such as the *Endless Frontier Act*, which reprioritizes a commitment to federal basic research investment and technology commercialization efforts in emerging and critical technologies, such as artificial intelligence, quantum computing, clean energy, and biotechnology. The legislation recognizes the importance

[7] Stanford University Office of Technology Licensing, *2019 Annual Report*, https://web.stanford.edu/group/OTL/lagan/FY2019%20Annual%20Report/Stanford%20OTL-AR-2019.pdf.
[8] *Id.*

of innovation advancement occurring in communities across the U.S. and leverages partnerships between universities, business leaders, and other private sector entities to encourage greater economic activity through development and commercialization of technology.

To ensure success of the *Endless Frontier Act* and future proposals, I strongly encourage lawmakers to focus on new company formation, ensure the participation of both angel and venture capital investors, and improve and simplify university technology commercialization processes.

Protect Volcker Rule Reform

Earlier this year, federal regulators finalized reforms to the Volcker Rule, among them being a critical change that allows banks to once again invest in local venture capital funds. This change will encourage greater capital formation in emerging ecosystems. VC funds were an unintentional victim of an overly broad definition of "covered fund," which intended to prevent banks from moving risky proprietary trading from their balance sheets to sponsored funds for which they would still be liable for losses. Prior to passage of Dodd-Frank, banks played an important role investing in local VC funds that were generally too small to attract attention from larger institutional investors. Oftentimes, banks served as anchor investors in these funds, and were critical to the VCs ability to attract additional investment and deploy capital in promising local startups.[9] The regulators' action to open a new source of capital for venture capital funds is a meaningful change, particularly for new and emerging funds, local entrepreneurs, and startup communities. In fact, early interest in utilizing this new capital following the recent October implementation signals a long-term positive outcome for regional entrepreneurial ecosystems.

As lawmakers consider initiatives to encourage entrepreneurial activity and growth throughout the country, I strongly encourage continued support for this meaningful reform and opposition to any efforts, through regulatory action or legislatively, to reverse the change.

Startup Tax Policy

The innovative startup model generally uses investment capital to focus on research and growth activities to create long-term value. Investments in these activities often exceeds revenues for years while trying to build an idea into a successful company. This basic model of entrepreneurship necessarily generates net operating losses (NOLs) and research and development tax credits that should be available to offset income if the company becomes profitable. But because of the way certain rules in the tax code under Sections 382 and 383 are written, startups can lose the value of these tax assets for nothing more than raising a new financing round or undergoing an IPO, which was never the intent of the rules. For startups on a hypergrowth trajectory, this may not matter much, but for startups in sectors where large research dollars are required before any substantial revenue is generated and thus have lower growth trajectories, these NOLs and tax credits can be important for their future success.

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[9] Charlotte Savercool (NVCA Blog), "Let Banks Invest in Venture Capital Funds Once Again" November 15, 2018, *available at* https://nvca.org/let-banks-invest-venture-capital-funds/.

The loss of the value of tax assets creates a significant drag on startup values and venture returns in these areas and makes noncoastal startup and technology investment in general less attractive. Fortunately, there are several proposals introduced in Congress that would help to solve this problem and protect startup tax assets, improving the key metric for expanding startup activity, which is improving financial returns:

- *American Innovation Act* (Rep. Vern Buchanan) would create a conditional safe harbor for startups from Section 382 and 383;
- *IGNITE American Innovation Act* (Reps. Dean Phillips (D-MN) and Jackie Walorski (R-IN) would allow growth companies to monetize up to $25 million in NOLs and R&D credits in order to provide liquidity to innovative startups to sustain their activity through the economic crisis;
- *American Innovation and Jobs Act* (Sens. Maggie Hassan (D-NH) and Todd Young (R-IN) would expand the ability of startups to offset payroll tax obligations with accumulated R&D credits.

Carried Interest

A tax increase on carried interest capital gains would have its most damaging impact on small VC funds. As background, carried interest is the share of capital gains that VC fund partners receive if their funds are successful. For those that manage small VC funds, carried interest may be the only economic reason to participate in venture capital, as fees are often too small to even cover salaries. That was the case in my story, where I went without salary for several years because we did not have enough fee to all of our expenses, including 5 employees, rent, travel, accounting, and legal bills. In addition, the long lifespan of VC funds make realizations of carried interest less frequent than shorter-term investment classes. If taxes are increased on carried interest, the impact will fall most heavily on small regional funds, and in particular new fund formation. A lack of new VC funds will counteract any positive policies passed by the government as these are the glue needed when building up local ecosystems.

Startup Act

Introduced by Senators Moran, Warner, Blunt, and Klobuchar, the *Startup Act* has been an effective vessel in recent years for carrying pro-startup policies. For example, the *Startup Act* included tax policies (now in law) that made the R&D tax credit useful to early-stage companies. In addition to a number of other good ideas, the *Startup Act* includes a crucial "startup visa" that is a dedicated visa category for immigrant entrepreneurs. Foreign-born entrepreneurs have made incredible contributions to the U.S., having founded iconic American companies like HandyLab, Moderna, Tesla, and Intel. These accomplishments are *in spite of* immigration policy; not *because of* it. Presently, U.S. immigration law pushes away entrepreneurs who want to launch high-growth companies in our country, as we do not have a dedicated visa for foreign-born entrepreneurs like more than a dozen other countries do.[10] This means that immigrants who wish to create new American companies must struggle to fit into other visa categories that are not

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[10] Jeff Farrah (NVCA Blog) "Immigration Policy Isn't Working for the Economy. Let's Fix That." *Available at* https://nvca.org/immigration-policy-isnt-working-economy-lets-fix/.

designed with the entrepreneurial model in mind. Emerging ecosystems would benefit significantly from fresh entrepreneurial talent brought in by a startup visa.

Modernization of the SEC Definition of VC Fund/DEAL Act

Modernizing the SEC's definition of a venture capital fund to allow VCs to acquire more shares from angel investors, seed stage investors, and company founders without additional regulatory requirements would increase liquidity and returns in the early-stage startup ecosystem. Further, modernization of the definition could encourage venture capital funds to become anchor investors in emerging VC funds, a substantial opportunity for new and underrepresented fund managers similar to the role that banks can now play after changes to the Volcker Rule. These changes are especially important today as industry data demonstrates a significant decline in first-time and seed financings during the ongoing global pandemic.[11]

Leadership from Senator Mike Rounds (R-SD) and Representatives Trey Hollingsworth (R-IN) and Ben McAdams (D-UT) provides a bipartisan legislative solution to this challenge through the *Developing and Empowering our Aspiring Leaders* (DEAL) *Act.* Action on this bill would positively impact the venture capital industry, especially among early-stage investors who help form the foundations of an emerging entrepreneurial region.

<u>Industry Initiatives and Ways Policymakers Can Support Emerging Ecosystems</u>

Beyond policy advocacy, the venture industry—led by NVCA—is engaged in important initiatives to spread new company formation into more pockets of the country. For example, I was pleased to serve on NVCA's board when Venture Capital University (VCU) was created[12] to democratize access to venture education and increase diversity in the venture industry.[13] VCU has two components – VC University LIVE and VC University ONLINE.

VC University LIVE is a three-day educational program on venture finance, held in partnership with universities across the country. The program shines a spotlight on emerging ecosystems and expands the focus on VC beyond traditional venture hubs. VC University LIVE served more than 120 participants across its first two programs at the University of Michigan and Tulane University in 2019. In November 2020, VC University LIVE was held virtually with Southern Methodist University (Dallas), with more than 60 participants.[14] Full scholarships are core to VC University LIVE. The most recent program provided 24 full scholarships to individuals from historically underrepresented groups, with the cohort composed of: 54% women, 29% Black or indigenous people of color (BIPOC), 38% Hispanic, and 75% based outside the three traditional VC geographic hubs. The next VC University LIVE program will be held in partnership with the University of North Carolina at Chapel Hill in June 2021.

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[11] NVCA Venture Monitor Q2 2020, *available* at https://pitchbook.com/news/reports/q2-2020-pitchbook-nvca-venture-monitor.

[12] VCU is jointly produced by NVCA, Venture Forward (the 501(c)(3) supporting organization to NVCA), and Startup@Berkeley at the University of California, Berkeley, School of Law

[13] More information about VCU is available at *https://venturecapitaluniversity.com*

[14] Press Release: SMU and UNC-Chapel Hill Announced as 2020-21 VC University LIVE Hosts, *available at* *https://nvca.org/pressreleases/smu-and-unc-chapel-hill-announced-as-2020-21-vc-university-live-hosts*

Similarly, VC University ONLINE provides lectures, interactive assessments and quizzes, office hours, interviews with leading VCs, and monthly webinars, all of which teach participants the nuts and bolts of venture finance through a virtual setting and the opportunity to earn a certificate of completion. To date, the course has had five cohorts, offering education to more than 740 individuals across the country, including close to 100 full scholarships and 47 partial scholarships provided to individuals from historically underrepresented groups. The demographics of the most recent scholarship cohort is composed of 63% women, 73% BIPOC, and 75% based outside California, Massachusetts, or New York.

Policymakers can help spur entrepreneurial activity by meeting with entrepreneurs and investors in your local communities to understand their specific needs. Often, a given city has special attributes that may be leveraged to create new companies – perhaps a region benefits from a strong academic department at a local university, such as the exceptional robotics department at Carnegie Mellon that has led to the university's partnership with Uber and positions the Pittsburgh area well for economic growth. Each region must benefit from that which sets it apart from others. Policymakers can serve as a bridge between the various communities that are essential for a vibrant entrepreneurial ecosystem.

As referenced previously, venture capitalists must raise a fund from LPs. Large venture funds on the coasts tend to raise capital from endowments and pensions that are motivated to write larger checks to the funds in which they invest. Regional funds tend to be smaller and therefore struggle to raise capital from LPs that want to invest larger sums to meet their scale. Therefore, regional funds look to wealthy individuals, family offices, and regional and local banks to invest in their funds. Too frequently, local business leaders do not consider regional venture funds as an investment opportunity and are more inclined to invest their capital in public securities, real estate, or funds outside the local area. A shift in mentality is needed among these leaders to support emerging ecosystems. Policymakers can serve as champions for their local ecosystems to surface the exciting opportunities that exist to earn a return *and* create local economic opportunity.

Conclusion

I am grateful for this committee's attention to this important issue. Ultimately, there is much to be excited about regarding emerging startup ecosystems in diverse geographies. A combination of policy reforms and industry-led initiatives by national and local leaders will bring these regions to their true promise and the true beneficiary of this progress will be American patients, workers, and taxpayers.