2018 GovTech100: Raising the Profile

Ben Miller | January 8, 2018

America knows about Internet-connected juice machines that squeeze bags with roughly the strength of a pair of human hands, and salt shakers that also play music, and smart door locks that may not open if a software update goes wrong. This is the world of big tech investment, where a company with a zany idea may flare up and fizzle out or it may hit the stock market at a billion-dollar value.

Is there room in that world for technology that helps city hall update its application forms?

It's beginning to look like the answer is yes. In the past several years, the ecosystem of government-serving technology companies has seen an undeniable rise in financing activity, and it's been taking many forms: bigger deals, more investors, more companies, new ideas.

There are many possible explanations for why. State and local governments have become more willing to try implementing new systems using agile methodologies that fit better with the modern tech world. They are striking up pilot projects and demonstration agreements that let them try out new ideas before taking the kind of big-dollar risks that government is not amenable to taking. The rise of cloud computing has created an environment where small companies are better able to build products that can work for public agencies big and small.

Regardless of why, things are changing in the gov tech space. That's why *Government Technology* has, for three years now, put out a list of 100 companies serving government in unique, innovative, effective ways. When the first GovTech100 list came out in 2016, e.Republic Chief Innovation Officer Dustin Haisler — heavily involved in the list's creation — saw that many of the investors involved in the companies seemed like they were " experimenting around the edges." They would invest in one gov tech company to see how it would go.

Things look quite a bit different these days.

"It's no longer a test bed," Haisler said. "It's really starting to blossom into something that investors are more comfortable with."

Gov tech, with its emphasis on speeding up administrative functions and digging into old data sets, might not hold the national fascination like the gadgets America just unboxed for Christmas. But it's growing.

Now, what will that mean for government?

BIG MOVES

If investors weren't interested in gov tech, one might expect the deal landscape to look sparse and inconsistent, limited to well-established companies and with low price tags. Not so.

Especially in the past year, the gov tech market has experienced increasing interest from some big names and some high dollar-value deals to follow. *Government Technology* tracked six separate investment rounds that reached at least $10 million this year — in **Remix** , **OpenGov** , **Neighborly** , **Nextdoor** , **LiveStories** and **Optibus**. Most of them were Series A rounds, implying that if those companies were to go on and raise more capital in a year or two, they would attract even more money. Another that leans toward government clients, the drone navigation company **AirMap**, brought in a $26 million Series B in February 2017.

But there's been more activity further down the corporate growth road for gov tech companies too. Private equity firms, which tend to lean toward larger investments in more established companies and can end up buying out earlier investors, have been making waves in gov tech. In October 2016, **Warburg Pincus** made what was probably a minority-stake investment in **NEOGOV** , and in June 2017 **Serent Capital** made a similar investment in **Pondera** (see Growing Up Gov Tech, p. 26).

Then there are the ownership deals. In 2016, **Vista Equity Partners** bought **Granicus** and **GovDelivery**, two of the largest strictly software-as-a-service vendors that work entirely with state and local government, and merged them together. In 2017, **Berkshire Partners** purchased **Accela** in what they credibly called the largest gov tech investment deal ever. **Accela** CEO Ed Daihl hinted that the investment was somewhere between $500 million and $1 billion.

Finally, gov tech saw one of its own go public this year. Though the initial public offering for **ShotSpotter** wasn't quite on the order of magnitude of consumer apps like Snapchat, the gunshot-tracking firm raised $35.4 million — about $4.6 million more than it had anticipated. In the first five months after the IPO, the company's stock price rose.

NEW ENTRANTS

But underneath the flashy, headline-making big deals lies a bubbling ecosystem of smaller-scale activity and a host of new people getting involved in gov tech financing.

There are a few people in this space who have been established for some time: **Urban Us** has been around since 2013, the **Govtech Fund** launched in 2014 and the **Urban Innovation Fund** set up shop in 2016, though it is tied to the work of the older nonprofit **Tumml**.

Recently more people have been joining the market with capital pools dedicated either directly to gov tech or overlapping heavily with it. Toward the end of 2016, a former mayor of Philadelphia, former chief data officer of Chicago and New Jersey attorney general — among others — started a unique investment firm called **Ekistic Ventures**. And **Responder Ventures**, dedicated to funding public safety technology, is looking to set up its first official fund after a couple years of working with private money from the family of one of the founders.

A very conservative estimate — the bare minimum — would be that all these firms control some $70 million between them (which includes nearly $21 million raised by the **Govtech Fund** last November). They almost certainly manage much more than that.

That's not counting investors who are well-established but are only now beginning to look like more serious gov tech backers. Among these are **Salesforce Ventures**, which is that company's very active investing arm, and the private equity firm **Banneker Partners**.

Responder Ventures, one of the newer entrants to the space, said not all niches of the public-sector technology market are moving at the same pace. Public safety investing, the area Responder focuses on, seems like an awfully lonely place. Bryce Stirton, partner and managing director at the firm, said that when the team worked with **Motorola Solutions** to try to get an idea of what percentage of public safety company investment offerings get funded, the number was so low that the data didn't seem reliable.

"We have yet to find another investor actively willing to go in at the state and local level and work on selling to smaller agencies, which is really what it takes in public safety investing," Stirton said.

WHO'S INVESTING?

Here are some of the investment groups working in the gov tech space. For our interactive funding network map, go to **govtech.com/100**.

Andreessen Horowitz	**Responder Ventures**
Berkshire Partners	**Sequoia Capital (Remix)**
Ekistic Ventures	**Serent Capital**
GovTech Fund	**Urban Innovation Fund**
Motorola Solutions	**Urban.Us**
Pamlico Capital	**Vista Equity Partners**

Some of the most prominent startup accelerators in the space — those that work with very early stage companies and focus on business strategy as well as infusing a small amount of capital — have also started welcoming more gov tech entrepreneurs. These include the **Y Combinator**, **500 Startups** and **Techstars**. In the past year, **Urban Us** has started working with the New York accelerator **URBAN-X**, which has backing from the automaker **MINI**, to offer more opportunities for startups focused on urban problems and local government.

Maury Blackman, who was at the helm of Accela for more than 15 years as it grew into maturity, is on the bleeding edge of people jumping into gov tech investing. After leaving the company in October 2016, Blackman has revealed to *Government Technology* that he's turned to the finance side of the business, signing on as a limited partner with the **Urban Innovation Fund** and independently co-investing on several fundraising rounds for companies in the space.

COOL IDEAS

It's not just that investors are paying more attention to gov tech, either — there's a lot of entrepreneurship coming in too. Haisler said the government's lag time in following commercial-sector technology trends is an opportunity driver here. That is, the app-store mentality that exists for smartphones and has powered a new industry filled with niche developers is just starting to flourish in government. As a result, software seems to be getting more sophisticated.

“We’re starting to move into more mission-critical applications that do much more complex work and work with much more sensitive data,” Haisler said.

Perhaps the best showcase of that increasing entrepreneurship is in the number of unique, innovative ideas that newer companies are bringing to market.

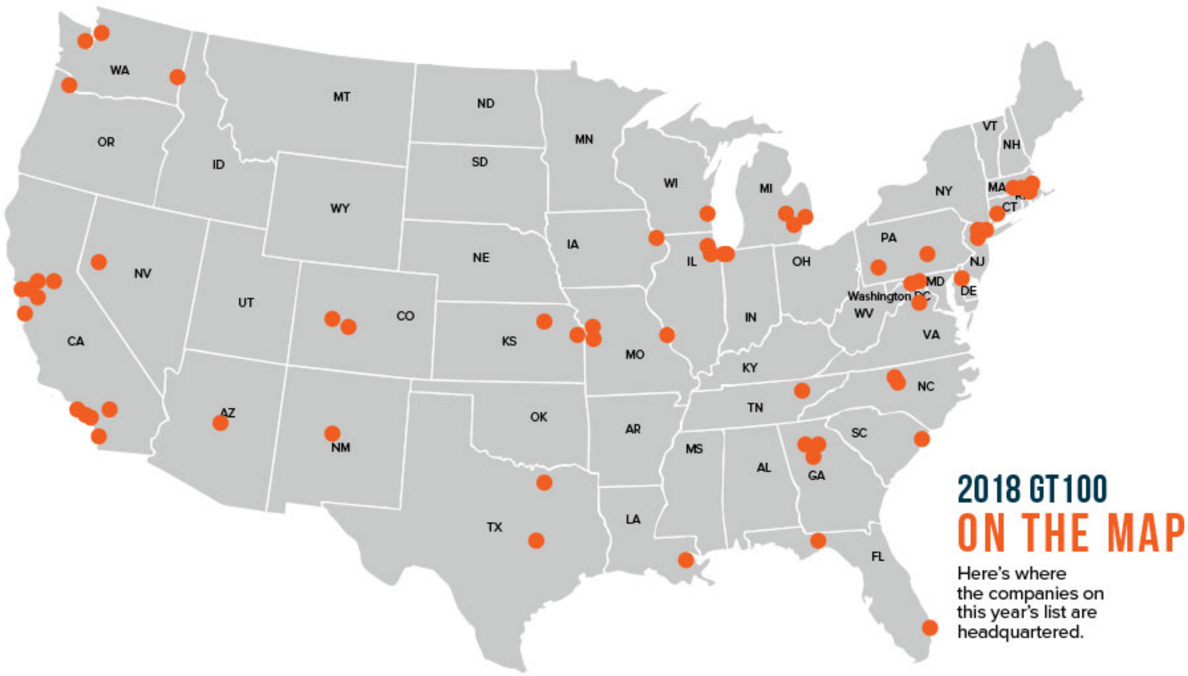
Artificial intelligence and machine learning algorithms are powering a lot of it. For example, **SADA Systems** launched an asset management platform in 2017 that uses machine learning to automatically transform data into a usable format, and can also parse through photos of infrastructure to find signs of damage. **Waycare** , which is in the process of setting up pilot projects across the U.S., is using machine learning to predict when and where traffic congestion and accidents will happen. **CivicScape** (see Growing Up Gov Tech, p. 26), like many other predictive policing companies, uses the technology to come up with risk scores. Unlike other companies, CivicScape is emphasizing transparency by publishing its code online.

Other companies are finding ways to serve government by solving funding problems in specific areas. **Callyo** has offered law enforcement a way to stream video through their existing cellphones, giving smaller police departments a way to access the technology without expensive body camera contracts. **Integrated Roadways**, currently setting up real-world tests in the Midwest, thinks it has a way for public roads to pay for themselves by stuffing them full of data-collecting, broadband-carrying hardware.

ClearGov and **ProudCity** are two companies that aren’t exactly brand new but have nonetheless brought innovative services to the table using data. The former has launched data dashboards that allow users to easily compare the same information across large numbers of jurisdictions with an emphasis on per capita numbers and financials. The latter has been canvassing the Web to better understand how governments use their own websites, and is planning on putting it all together and offering API access to people who want to study local governments’ Web presence.

AirMap is quickly establishing itself in the drone space, building software for airports as well as state and local government agencies to learn about drone flights and communicate with operators. **Binti** (see Growing Up Gov Tech, p. 26) has built software to dramatically speed up the process of approving foster-care families. **CityInsight** is bringing the municipal water bill to Amazon’s Alexa.

The list goes on.



Moreover, the U.S. gov tech ecosystem is becoming more global. After its private equity acquisition, Accela announced plans to open offices in Europe. **Sidewalk Labs** , a subsidiary of **Alphabet**, is working on plans to build a smart city from the ground up in the Toronto area.

There are also a lot of foreign companies establishing a presence in the U.S.; **Bang the Table** , **Citymart**, **UrbanLogiq** and **OpenDataSoft** have all set up shop here recently after getting their starts in other countries. Israel has become a burgeoning tech scene, and transportation-focused companies in particular have been coming to the U.S. from that country. Among them are **Optibus**, **Waycare** and **Waze**.

WHAT DOES IT ALL MEAN?

A growing infusion of investment money in the gov tech ecosystem might mean many things. But above all of it hangs one driving fact: Most investors want to see a return on their investment. And in the world of angels, venture capitalists and private equity firms, that means an exit.

In other words, if a company has taken private investment money, that usually means it is working toward someday being merged, acquired or going public.

So what does that mean for the governments those companies serve, and the citizens those governments serve?

Some people see it as a very good sign for government. Phil Bertolini, chief information officer of Oakland County, Mich., and founder of the G2G Marketplace that acts as a sort of beefed-up tech purchasing cooperative, said that solid financial backing is a sign of stability.

“The big fear of government is you buy a solution, you implement a solution and then the company goes belly up,” Bertolini said. “ There’s nothing worse than that.”

After all, a company’s failure might leave its government clients in the lurch when it comes to supporting users and maintaining the software. Government entities — especially the small and mid-sized ones that the G2G Marketplace primarily supports — typically look for software they can use for a long time. That might have something to do with the traditional way of procuring technology, but Bertolini thinks it’s often done out of necessity.

“After the recession and everything we’ve gone through, we don’t have endless pots of money,” he said. “So when we buy something, we kind of marry it. We make it part of the family.”

Investment money might also make a company faster at picking up new customers. For the small, nimble companies bringing innovative ideas to the table, that means more government customers trying out new ways of serving the public. Joe Iannello, CIO of Austin, Texas’, transit agency Capital Metro, has seen that first-hand. For years now, Iannello has been working with startups to try out their technology via demonstration agreements.

Those agreements, only a few pages long and typically turned around in a couple of days or weeks, benefit both Capital Metro and the company involved. The agency gets to try something new before committing to it, while the startup gets on-the-ground experience and maybe even some street cred it can take to potential customers.

Through those agreements, Capital Metro tried out mobile ticketing and eventually adopted it. More recently it has launched a ride-share-style on-demand service using vans called **Pickup**, and is trying out smart kiosks as well.

“If you go back in time, while they were startup companies, the startup companies to a large extent were playing off of the larger companies, maybe providing services in support of the bigger players,” Iannello said. “But for quite some time now, there [have been] startup companies that have their own solutions and they are focused on a particular solution, and many of them obviously have had great, great success … even though larger companies may have ventured into the territory.”

There’s some evidence that increased private investment has followed a spike in gov tech entrepreneurship. For this article, **Urban Us** used a machine learning algorithm to come up with a U.S.-centric list of 374 companies with a government connection, and then analyzed their market activity. Overall, both company foundings and funding rounds have increased noticeably since about 2012.

But entrepreneurship came first — the two years with the most company foundings were 2012 and 2013, while the years with the most completed funding rounds were 2013, 2015 and 2016.

It's worth noting that the observation is correlational, and correlation does not necessarily mean causation.

For Blackman, increased investment is a good sign. It means a better chance for new companies with new ways of doing things to really achieve influence in the public sector.

"What I'm excited about now is that I see a lot of entrepreneurs building very disruptive applications that will keep these bigger players on their toes, and there's the capital out there right now to really get things off the ground," he said.

It might not be so cut-and-dry. Abhi Nemani, who has served in data and innovation roles for Los Angeles and Sacramento, Calif., and who works to help startup founders better understand government, sees the possibility that investment in new companies might create incentives that don't really help government. In the fast-paced, high-expectation world of tech investment, he said, many people want to see hockey-stick growth at a new company within its first few years.

"The risk I see with gov tech companies taking venture capital dollars is a natural one, which is a bias toward sales, a bias toward revenue," Nemani said. "Because there's a deep skepticism in the venture capital world in selling to government, I think startups make bold commitments to revenue, which they use the venture capital to invest in."

Another pitfall that might tempt founders, he said, is going after huge clients. Though those contracts might bring in a lot of money, they will take up a lot of a company's time without necessarily teaching it how to work with smaller governments.

He thinks a smarter path is to grow a base of smaller local government customers. That strategy might not be so impressive to an investor working with a five-year horizon, he said, but it forms a solid foundation for growth and expertise.

"I would much more recommend a company in their first year go after 20 to 30 small contracts instead of two big ones," he said.

After all, if a tech solution is "part of the family" like Bertolini said, then a well-served government customer is a loyal one.

Blackman thinks that that foundation actually makes gov tech attractive to an investor, provided a company already has clients when it comes to the table.

"People are still cautious about investing in startups that are government-focused, but once they get some critical mass underneath them, investors love that because they understand that the [customer base] underneath that is sticky," he said.

It's not going to be the same story for every kind of company, either. Jonathan Sotsky, director of strategy and assessment for the nonprofit **Knight Foundation**, published a report in 2017 examining the phenomenon of generally slow growth among civic tech companies. When they took money, often from impact investors like the Knight Foundation, those startups didn't always put an emphasis on sales or defining a customer type for their products.

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Some people also worry that investment in innovative new companies will actually backfire in the long run. That is, if investment money puts a company on a path toward acquisition, then will all the new ideas eventually get sucked into the gears of corporate giants who sold governments the very solutions they’re now trying to improve upon?

The topic is very much open for debate.

“This is one of the deep questions that we have to figure out, is what does an exit strategy look like for gov tech companies?” Nemani asked.

Blackman thinks the presence of more investment will work in favor of government in the long term.

“When you bring in capital, you’re able to deploy resources that create user experiences that both citizens and government agencies get excited about,” he said.

And there is most definitely room left for disruption. Sensors, drones, artificial intelligence, blockchain technology — all are emerging opportunities that government is trying to figure out how to use.

“Now that investors are believing that gov tech is a viable investment opportunity for them, we’re only at the first few innings of an exciting nine-inning game,” Blackman said.

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