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GovTech 100: Our Second Take on an Emerging Marketplace

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Paul W. Taylor | January 4, 2017

#govtech is trending. Strongly.

It is an overnight success 30 years in the making. As our masthead suggests, we have been covering the intersection of government and technology for more than three decades. So why the GovTech 100, and why now?

As we see it, technology in government has reached an inflection point. With states and localities themselves spending nearly $100 billion annually on IT, the public sector has always been a massive consumer of technology and a major market for the companies serving them. But over the last several years there has been a fundamental shift in what was a surprisingly staid market. In fact, 2013 and the ignominy of HealthCare.gov will likely go down as the tipping point between the traditional government technology industrial complex and something entirely new.

Much of this shift is driven by developments in technology — from ubiquitous connectivity, mobility and the cloud to powerful data analytics. But importantly, these technologies have combined not only to create game-changing platforms like Google, Facebook and Uber, but have also fostered a generational renaissance in public activism under the label of civic tech that's harnessed open data to hack the way government works.

What is a GovTech company?

A firm focused on providing solutions for state, local or federal governments, deriving the majority of their revenues from the public sector. GovTech companies can be

categorized among four domains: Administration, Service Delivery, Civic Tech and Smart Infrastructure.

The 2017 GovTech 100 stands on the shoulders of all of this. If civic tech is a movement, gov tech is a market; a growing portfolio of truly scalable, digital solutions addressing the tough, complicated problems that governments face, from health care and public finance to urban planning and public safety. It combines public-sector mission and private-sector entrepreneurship and innovation, bringing with it engineering prowess and financial resources otherwise unavailable to government. Gov tech companies differ from incumbent industry players in that their products and services are designed to solve problems specific to government, rather than treating government as a secondary market for products developed with the private sector in mind.

We launched the GovTech 100 to mark a uniquely disruptive moment in the evolution of technology and the relationship between public and private sectors. In his 2016 book *The Third Wave*, Steve Case, AOL co-founder and CEO turned investor sees government as the co-creator of a future as both regulator and customer. Case contends that what matters is not hardware and software but relationships as central to confronting " all kinds of … especially complicated … new and novel challenges" rooted in the increasing ubiquity of the Internet in every part of our lives.

This evolving relationship between government, industry and technology holds the promise to change the way whole sectors — health care, education, human services, finance and agriculture — work, opening a first-of-its-kind opportunity for governments both small and large to harness powerful new tools that can dramatically improve public-sector outcomes, build more livable places, and let citizens engage more meaningfully in the governance of their communities.

The list is meant to be representative, not comprehensive. These are not all the companies in the government technology market space, nor do they necessarily represent the biggest players. You won't find companies like Microsoft here because government is only one of many market segments it serves and represents less than half of its annual revenues.

These players run the gamut of government technology, from the energy sector to data analytics to back-end administrative solutions to citizen engagement tools.

What is happening in the market?

2016 was a year of steady growth in the gov tech market. This included the merger of Granicus and GovDelivery and speculation of a possible future IPO for Accela. This year's cohort attracted more than $185 million in fresh investment with a growing number of new venture and private equity firms active in the space, evidenced by Warburg Pincus' investment in NeoGov. Other recent entrants to the market include Vista Equity Partners, Ekistic Ventures and the Urban Innovation Fund, to name a few.

Stonly Baptiste, co-founder of the venture capital firm Urban.us, is upbeat in his assessment. "Certainly 2016 has been a great year for government technology, from the … opportunity side, which is cities that are willing and wanting to adopt innovation — a few signals there, including the number of cities that have pursued or deployed open data strategies as one indicator, the number of cities that have shaped out innovation officer roles, and more broadly and maybe even more tellingly the number of customers and the size of deals that government technology companies have been able to pick up in the course of this last year."

Baptiste said he saw plenty of reason this year to think that cities are increasingly eager to explore new technology as a means to solve problems. And there are new technologies to explore. More than 40 businesses are new to the list in 2017, representing a mix of the mature — like Cityworks, founded in 1986 — and the new — like ProudCity, which launched in 2016.

On the volatility side, one of the inaugural 100, SnapSense, failed and another, MySidewalk, lost its founder in early December. The publicly traded companies that have been serving the gov tech market for years produced mixed results in 2016. As we went to press, NIC (Nasdaq: EGOV), best known for self-funded state portals, ended the year up 29 percent while Taser (Nasdaq: TASR) slipped by about 5 percent and Tyler Technologies (NYSE: TYL) fell 17 percent for the year.

The 2017 list comes at a time of political transition after eight years of an activist Obama administration, the legacy of which includes financial and other supports for government modernization, including the General Services Administration's 18F and the United States Digital Service, a startup at the White House. Both groups extended their reach to states and localities, which may have to look elsewhere for assistance on such matters under the new administration.

Things are looking less certain for 2017 on other fronts too. Some market-watchers have been speaking for years about the influx of cash into Silicon Valley tech ventures and wondering whether it might be too much.

"People are cautious," said Julie Lein, managing partner of the Urban Innovation Fund. "There are a lot of people talking about the fact that there are so many growth-stage startups that haven't had liquidity."

Still, Lein remains bullish on the still-nascent gov tech space as the technology becomes ever more sophisticated, the challenges facing the public sector more complex, and the intention of government to address vexing problems for themselves — but not by themselves.

"I do think that for a long time when people saw challenges in their cities and communities, they expected cities or nonprofits to have solutions to those challenges," Lein said. "I think more and more, and especially over the last decade, people are starting to create solutions for themselves."

Who's Investing?

Here are some of the investment groups working in the gov tech space.

1 / Andreessen Horowitz	6 / O'Reilly AlphaTech Ventures
2 / GovTech Fund	7 / Urban Innovation Fund
3 / Greylock Partners	8 / Urban.Us
4 / Motorola Solutions	9 / Vista Equity Partners
5 / Omidyar Network	10 / Warburg Pincus

Her fund's first gov tech investment was in Valor Water Analytics, which earned a place on this year's list.

2017 brings a great deal of pent-up demand to gov tech. There are macro trends to be exploited in transportation and the electrical grid with continuing advancements in autonomous vehicles and distributed energy generation. There are also the non-trivial challenges of implementing and managing body camera programs for law enforcement in the many cities that have promised them. At the micro level, voters worked their way through 162 statewide ballot measures in 2016, authorizing significant changes in, among other areas, marijuana, gun control, health care and the minimum wage. Regulatory changes in these and other areas will create the need for software to handle things such as licensing, permitting, reporting and tracking.

There has also been persistent interest among investors and government in data services. The movement to open up government data — including a wave of data Web

portals and publishing platforms from companies such as Socrata and OpenGov — has laid the foundation, many believe, for the commercial sector to unlock new value. Some of that data might be useful for improving performance, for example. Some of it might be useful for budgeting.

And some of the value might be unseen right now. Baptiste sees potential in machine learning, which involves crafting algorithms that become "smarter" over time as they handle more and more tasks, to draw new insights from government data.

"I think governments will be looking for opportunities to get some help for all of the data that they've opened up and collected and now they're scratching their heads and going, 'What was the point, beyond looking innovative?'" he said.

As chief innovation officer at e.Republic, the parent organization of *Government Technology*, Dustin Haisler is the creator and lead researcher of the [GovTech 100](#). He shares Baptiste's enthusiasm for machine learning in government and sees a growing role for artificial intelligence as public services morph to meet public demand and fundamentally change the underlying cost structure.

"The abundance of open and closed data in government has led us to this pivotal moment, where a new technology, like artificial intelligence, can finally unlock new value that we can only begin to imagine," Haisler said. "AI just might be the killer app that government agencies have been looking to use on their data. The fraud detection firm Pondera's technology begins to hint at the exciting possibilities here."

As gov tech continues to mature, it will inevitably come to terms with other market dynamics. The early acquisition of market share, mergers, IPOs and (as importantly) business failures, represent both growth and some measure of correction as startups find their footing, or don't. And incumbent industry players may become the elephants in the room. The incumbents have a few options — compete from a position of financial strength, acquire to capture government-specific expertise and products, or adapt the Steve Case strategy and partner.

Staff writer Ben Miller contributed to this story.

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