

Bioscience Tax Incentives Task Force

Minutes

August 1, 2006 Meeting

Present: Co-chairs Phil Syrdal and Steve Simpson, Rep. Dell Raybould, Sen. Charles Coiner, Phil Bradley, Shelby Kerns, Dave Cooper, Walt Sinclair; and Commerce & Labor Deputy Director Karl Tueller, OST staff Julie Howard and Ricky Bower; Idaho Tax Commission staff Dan John; Idaho Deputy Attorney General Craig Bledsoe
Absent: Rep. Margaret Henbest, Sen. Russ Fulcher, Dave Zanecki.

Agenda

- Working agenda to focus solely on a worksheet to develop an Idaho tax incentive that provides investment stimulus to the technology and biosciences industry. Worksheet outline can be found online within minutes of July 18 meeting.

Meeting was called to order and introductions made. A brief overview of the task force and the previous meeting took place to update all attendees.

Karl Tueller explained that this group is working on an item that is of interest and fits into the ongoing mission of the Governor's Science & Technology Advisory Council. He said task force co-chairs Steve Simpson and Phil Syrdal would both attend the Council's next meeting, Aug. 8 in Post Falls, to report on task force progress regarding tax incentives.

Co-chair Syrdal asked the task force what elements should be covered in a "preamble" to the proposed legislation they would draft at this meeting. Along with background information on how this fits into the state science & technology strategy, the group collectively agreed these elements should be prominent to explain the purpose and need for an investment incentive for the biosciences:

- Encourage and stimulate development of targeted industries important to Idaho
- Stimulate creation of good, high-paying jobs
- Stimulate early-stage risk capital
- Encourage and stimulate research and development activities
- Provide a focus on home-grown technologies and companies
- Set the stage in Idaho to capture future venture capital investments
- Attract and keep a bright and knowledgeable workforce
- Aggressively compete for investment in Idaho tech companies
- Raise investment to build on Idaho's existing strengths in technology, biomedical and agriculture

- Bioscience start-ups are considered even riskier ventures for investors than technology firms, requiring more of an incentive to encourage growth
- The bioscience industry is a high-growth competitive industry throughout the world
- Many states are competing for investment, especially the Western states

A discussion ensued regarding what definition of biosciences would be used and what companies would qualify as biosciences firms. Phil Bradley said the term could be defined very broadly. He pointed out that even business intelligence software firm ProClarity Corp. could be classified as a biosciences firm because one of its biggest clients is in the biosciences industry and uses the software for biosciences purposes. Because of frequent crossovers between biosciences and the broader technology industry, task force members agreed to broaden the use of the tax credit they would propose for all technology firms. They also agreed that the overall incentive is meant to stimulate investment in high-growth firms that would provide overall benefit to the Idaho economy.

Walt Sinclair said an investment incentive in technology and the biosciences makes good sense for Idaho because it supports the state's traditional industry of agriculture as it evolves to biosciences. "This is an opportunity to support our traditional economy and promote our future economy at the same time," he said.

The task force discussed and agreed that the amount of a tax credit to investors in early-stage technology and biosciences firms needed to be high enough to stand out among the other 21 states currently offering similar tax credits.

Co-chair Syrdal said the tax credit should be focused on directing investment into areas that are going to benefit Idaho.

Rep. Raybould said providing incentives for investments into Idaho-grown technology, such as those spun-out of the Idaho National Laboratory, would be important. "These firms need capital investment. They need help getting the idea out of the lab and expanded into businesses."

The group discussed the fact that Idaho is a highly innovative state with many start-up companies emerging. Rep. Raybould said the state gains an advantage from innovators creating products and having those products developed in Idaho.

A short discussion took place regarding the fact that traditional venture capital focuses on more mature companies and that there are few financing options for start-up technology and bioscience firms. Karl Tueller said there is a "funding gap" for start-up entrepreneurs in Idaho and that more early-stage investment is needed before companies are profitable or "venture-ready." Syrdal said biosciences firms can need \$2 million or more in start-up capital to get to a point in their lifecycle where large investors or venture capital firms would be interested in providing additional funding.

The group agreed that the focus of a tax credit should be on providing an incentive for early-stage start-ups, where companies have the most difficulty attracting capital and investors face the greatest risk. In addition, a higher incentive would be important to offer in the biosciences because of the riskier nature of these ventures and the added amount of time and capital required to move these companies to profitability.

Dave Cooper said the task force might also allow banks to take advantage of the tax credits. Banks traditionally do not invest in high-tech or biosciences start-ups because they are considered too risky, he said. A tax credit, however, might allow them to mitigate some risk and consider providing capital to these types of businesses, he said.

Co-chair Syrdal cited a report from the state of Wisconsin showing a 65 percent rise in investments after they started a similar tax credit program.

The remainder of the session outlined a potential Idaho Investment Tax Credit having these parameters:

Amount of credit – 35 percent tax credit for investors into early-stage technology companies; the amount would be raised to 45 percent if the early-stage firm is doing work in the biosciences.

The task force would like to continue to explore the possibility of offering this tax credit to out-of-state investors, in order to draw additional capital to Idaho. For that reason, the group is considering two potential caps: \$25 million over 5 years if it applies to in-state investors only; \$50 million over 5 years if the program applies also to out-of-state investors by using transferability of credits.

Technology companies would be limited to \$1 million of investment each year that qualifies for the tax credit, with a \$2 million total cap (if the firm files for qualification in subsequent years). Biosciences companies would be limited to \$2 million of investment each year that qualifies for the tax credit, with a \$4 million total cap (if the firm files for qualification in subsequent years).

Eligibility of Investors –An investor, individual or entity, would be limited to no more than 20 percent ownership of the company.

Eligibility of Companies – Qualifying companies would have net assets less than \$5 million or net annual revenue less than \$5 million. Firms could have a book value of no more than \$5 million (to focus the credit on early-stage firms), and must have Idaho as their primary place of doing business, with at least half of their employees and half their assets in the state.

Transferability – A subcommittee of the task force will meet to discuss how out-of-state investors could use the tax credit, thus encouraging outside funds to invest in Idaho start-ups. A final decision will be made at the August 15th meeting.

Process – An independent, three-person committee would be established in conjunction with Idaho Commerce & Labor to review and certify companies that apply to qualify under this program. This committee would meet monthly to review applications. A 6-person oversight committee would be established that would consist of the three-person review committee and one appointee each from the Idaho Senate, the Idaho House and the Governor’s office. This oversight committee would meet annually to review the program, suggest any needed modifications, and to oversee program reporting.

Reporting requirements – Companies and investors would be required to provide certain data that would enable the Idaho Legislature to determine the success of the program. This data would include information including: amount of investment, jobs created, additional capital attracted, projection of assets and additional employees. A draft reporting criteria will be prepared for the task force Aug. 15 meeting for review.

Lifespan of program – The lifespan is initially set to sunset after 5 years, but would include criteria that would allow renewability of the tax credit program. These criteria will be based upon a review of the annual reports noted in the section above.

The task force adjourned until its next meeting, 8-11 a.m. Aug. 15 at Commerce & Labor offices.