

Bioscience Tax Incentives Task Force
Minutes
July 18, 2006 Meeting

Present: Co-chairs Phil Syrdal and Steve Simpson, Rep. Dell Raybould, Rep. Margaret Henbest, Phil Bradley, Lacey Menasco (sitting in for Shelby Kerns) and OST staff Julie Howard and Ricky Bower.

Absent: Sen. Chuck Coiner, Sen. Russ Fulcher, Dave Zanecki, Dave Cooper, Walt Sinclair.

Agenda

- Introductions/Overview of HR 054 mandate/Goals and deliverables of Task Force

- History (how this Task Force came to be)
 - Background on 2005 Legislative Biotechnology Task Force and HR 054
 - Dept of Ag Biotechnology Committee

- Angel Investment Tax Credit Proposal Discussion
 - Review 2005 proposed legislation by STAC
 - What are other states doing and how have they fared
 - Mechanics of proposal

- Framework for Idaho Incentives
 - Amounts, Applications, NOLs, Lifespan, etc.
 - Idaho ROI report

- Other states tax incentives
 - Discussion on other proposals the task force might want to consider

- Next steps for Aug. 1 meeting/Discuss STAC Aug. 8 meeting presentation

Meeting was called to order and introductions made. It was noted that Sens. Coiner and Fulcher had only received appointments to this task force in the previous week and had said they would be unable to make this first meeting.

Co-chairs Syrdal and Simpson reviewed with members the House Concurrent Resolution 054, which enabled this task force. (PDF of HCR 054 is in attached documents) HCR 054

calls on this task force to study tax incentives in Idaho that will build and support the state's biosciences sector, and for the task force to submit a report by the end of this calendar year. Co-chair Syrdal explained how HCR 054 and the task force are a direct effort of the 2005 Legislative Biotechnology Task Force.

(The 2005 Legislative Biotechnology Task Force final report and recommendations is available at:

<http://www.legislature.idaho.gov/sessioninfo/2005/interim/biotechfinalreport.pdf>)

HCR 054 was worked on by the Office of Science & Technology along with Rep. Ann Rydalch and Phil Syrdal to meet recommendation #2 in that document.

Syrdal's comments: "Idaho has a wealth of biotechnology resources that are not being developed. We have a real opportunity for increased numbers of high-paying jobs and significant revenues through our bioscience infrastructure. Idaho needs to capture this opportunity for self-determination by positioning itself here and facilitating the growth of this new industry." This type of seed capital is notoriously difficult to access in Idaho at the present time and must be encouraged.

Co-chair Simpson explained that he and task force member Phil Bradley are members of the Boise Angel Alliance and previously worked on proposed legislation for an Angel Investment Tax Credit. Simpson explained that angel investors help start-up companies get funding and grow, resulting in more jobs and more diversity to Idaho's economy. He said that while the focus is typically on venture capital for high tech and high growth firms, venture capital firms invest funds in far fewer companies than angel investors. In addition, venture firms make their investment when the companies are further along and that few funding options are available for tech firms in their early stages.

Rep. Dell Raybould said there are two issues legislators will want addressed when presented with any tax incentives:

- Will companies doing business now get benefits from the tax incentives? If so, that creates the negative perception that existing companies are receiving a "windfall" and nothing new is occurring.
- Would this be for new companies coming into Idaho? "We need to be talking about building new businesses and not just giving dollars to companies that would be here anyway."

In addition, Rep. Raybould said Idaho clearly needs to build incentives that bring new businesses to Idaho and help start-up businesses grow and stay in the state. "These new businesses create jobs and create wealth and create a better quality of life for Idahoans."

Co-chair Syrdal said any proposals need to be prefaced with the reason Idaho needs to expand its tax incentives and why the biosciences industries are a place to focus these efforts. He noted that HCR 054 outlines these reasons quite well.

The task force discussed the Angel Investment Tax Credit proposal that was supported by the Governor's Science & Technology Advisory Council in 2005.

Bradley: "Some states invest directly into new businesses and are horrible at it. This program is a way for the state to invest in building companies, but by using individual investors to make the investment decisions and take the risks."

Co-chair Simpson: "This type of program encourages investors to invest more and potentially take on more risk."

Rep. Raybould suggested that any type of tax credit could have a sunset clause or "call to action" time frame, otherwise companies and investors wouldn't be spurred to action.

Rep. Henbest added that it could also include a "built-in process" whereby the incentive program is reviewed to see whether it works.

Rep. Raybould added that a reporting mechanism could be added to the program so that Commerce & Labor, as a credible impartial agency, could do an audit of the program and subsequently provide a report to the Legislature. "If we did that and had success stories to tell, it would be an important public relations effort for future tax credits. We've done a poor job in looking at our tax incentives and what they've done and brought into the state coffers."

Additional discussion on this point suggested a reporting requirement on investors and companies that take advantage of a tax credit program so that the state can determine whether the program works by changing behavior and growing businesses.

Rep. Henbest: "Tax incentives are important. We have to be competitive with other states – and then we have to justify to taxpayers what we're doing."

Co-chair Syrdal said it is not a primary objective to create a tool that recruits companies from outside Idaho, but rather a tool that helps Idaho grow its own companies from the ground up. Task force members were in agreement on this point.

Rep. Raybould said some constituents would wonder why Idaho would want to expand its economic base, thus creating more traffic and other growth issues. He said the task force needs to be prepared to answer those types of questions.

Co-chair Simpson said expansion of the economic base gives the state the potential of providing good job opportunities for our graduates so they can stay in the state rather than having to leave to find suitable jobs.

Rep. Henbest said the answer is that the state is seeking to provide more local opportunities for its current and next generations. These opportunities will pay more than twice the state's average wage.

Rep. Henbest and Co-chair Syrdal asked that Commerce & Labor staff again request that a representative from the Idaho Tax Commission attend these task force meetings. Rep. Henbest said that Idaho's tax situation is currently in turmoil and that the Tax Commission can help them understand the context of their mission.

The task force drafted a format (shown below) that will provide the framework for developing the proposed tax credit program at their next meeting. Commerce & Labor staff will flesh out the worksheet with some options derived from other states' programs and distribute to task force members to spur their thoughts and suggestions well before the next meeting.

Co-chair Syrdal said the next meeting will focus solely on filling out the worksheet and creating a tax credit program that the task force will then present to the Governor's Science & Technology Advisory Council on Aug. 8 in Post Falls. Final edits will be made and the proposed legislation finalized at the August 15th meeting of the Task Force.

The task force adjourned. The next meeting is Tuesday, Aug. 1, at Commerce & Labor offices, 700 W. State St., second floor, executive conference room.

Worksheet to develop Idaho Bioscience Tax Incentive

Amount of Credits

Eligibility/Qualifications

- Companies
- Investors

Transferability

- Credits
- Net operating losses

Process

Forecast & risk/reward of program

Reporting requirements

- Companies

- Investors

Lifespan of Incentive Program