

Mike Kuglitsch

STATE REPRESENTATIVE • 84TH ASSEMBLY DISTRICT

DATE: January 27, 2016
RE: **Testimony on 2015 Assembly Bill 718**
TO: The Assembly Committee on Jobs and the Economy
FROM: Representative Mike Kuglitsch

Thank you, Mr. Chairman and Committee Members for holding a public hearing on Assembly Bill 718. The biggest hurdle many emerging companies face is lack of capital and this legislation builds upon the success of an already successful program.

Currently in Wisconsin, investors of Qualified New Business Ventures (QNBV) can receive a nonrefundable tax credit of 25% of their total investment into any certified QNBV. To achieve QNBV certification from the Wisconsin Economic Development Corporation, companies must meet the following measures:

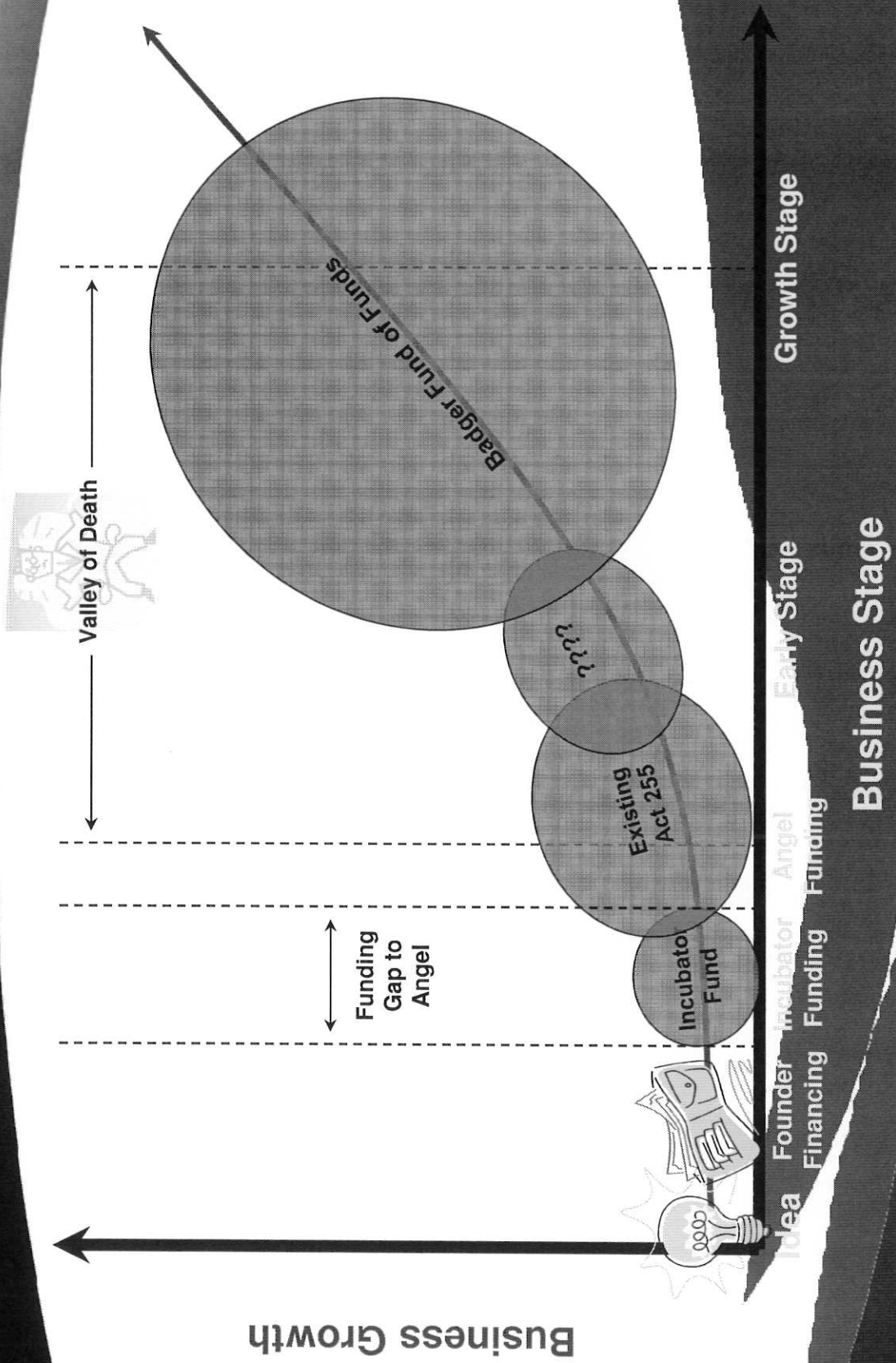
- Headquartered in Wisconsin
- At least 51 percent of employees based in the state
- Have fewer than 100 employees
- In operation for 10 consecutive years or less
- Offer significant potential or increasing jobs or increasing capital investment in Wisconsin
- Have not received aggregate private equity investment in cash of more than \$10 million

Under current law, the maximum amount of investment dollars that qualify for angel and early stage seed credits is \$8 million. This legislation raises the cap from \$8 Million to \$12 million. This change will entice investors across the state to continue to invest in Wisconsin's growing businesses. According to the Wisconsin Economic Development Corporation, there are currently 190 certified businesses within the state. Roughly 20 of these certified companies are approaching or have reached the current maximum threshold. Many of these companies have expressed interest in continued participation of the program if the cap was raised from \$8 to \$12 million and they have also indicated their need for additional capital moving forward.

These businesses have already been vetted and have been receiving investment capital from angel and venture investors across the state. In terms of the capital continuum, many of these businesses that have met the cap, are in what many call the valley of death. It is at this point where capital becomes harder to obtain. This tool will continue to incentivize money flowing to already successful businesses and move Wisconsin's private sector forward in terms of job and company creation.

As legislators and members of the Committee on Jobs and the Economy, I believe it is imperative to deploy as many tools as possible to connect capital with emerging industries. Without capital, these small businesses can get lost and die on the vine. Thank you for allowing me to testify and I ask that you support AB 718.

The Capital Continuum





January 27, 2016

To: Assembly Committee on Jobs and the Economy
From: Tom Still, president, Wisconsin Technology Council

Thank you, Rep. Neylon and committee members for the chance to speak with you today.

In addition to our hands-on work with investors, entrepreneurs and others, the Wisconsin Technology performs an advisory role to the Legislature, the governor and affected state agencies on science and technology issues in Wisconsin.

One such issue is the continuing need for investment capital in Wisconsin to drive the creation and growth of young companies.

Assembly Bill 718 addresses that need by updating Wisconsin's successful investor tax credit program – commonly called the Act 255 tax credits – to raise the 11-year-old cap on credit-eligible investments in any one company.

The cap on such investments has not changed since Act 255 took effect in January 2005, more than a decade ago. Meanwhile, just as costs have climbed in other sectors of the economy, so has the cost of growing early stage companies.

This bill would raise the existing \$8 million cap on angel and venture capital investments eligible for 25 percent state tax credits to \$12 million in any single "Qualified New Business Venture" company.

That means investors in such companies would be eligible for up to \$3 million in credits versus the current \$2 million.

Why is this important? There are many reasons:

- A number of QNBV companies in Wisconsin are at or near the current \$8 million cap on investments. That means investors in those

companies, many of which are poised for a breakout, have less of an incentive to invest in the next round.

- In May 2015, a Legislative Fiscal Bureau memo to the Legislature's Joint Committee on Finance estimated there were nearly 40 young companies at or near the \$8 million limit.
- Here are a few examples: **Flugen** has exhausted its available credits. They are a developer of vaccines and treatments with unique cross-strain protection and long-lasting immunity for influenza and require additional funding for clinical trials. **Madison Vaccines** will have used three-quarters of its available credits and will have insufficient credits available for their next anticipated round. They are developing plasmid DNA vaccines for prostate cancer patients, to improve and extend patients' lives. They have product candidates in all three stages of prostate cancer: pre-metastatic, metastatic, and late-stage castrate-resistant disease. **Silatronix** is almost out of available credits. They are commercializing a new class of patented materials based on organosilicon compounds for use in energy storage devices like lithium ion batteries, enhancing thermal stability, safety, and cost-efficiency. **Healthmyne** has only used half of their available credits, but the credits that remain could be insufficient for the next targeted round of financing this year. They are a developer of an analytics software that can rapidly search health systems' medical imaging databases and overlay relevant patient data, allowing doctors to make better, faster decisions. **TAI Diagnostics** raised \$8.2 million in its Series A in 2015 (a major portion of which was credit-eligible, if not all). They are a developer of a blood test which measures circulating donor-specific cell-free DNA to monitor the health of transplanted organs, replacing costly and invasive tissue biopsies. **Virent** has reached the limit. It produces biofuels, bio-plastics and chemicals from renewable plant sugars. **Zurex Pharma** and **Zurex PharmAgra** has also reached the cap. On the medical side, Zurex focus on compounds that help avoid infections for people who need catheters, such as dialysis patients. On the animal side, it's largely about preventing mastitis in dairy cows. **Invenra** produces biologics with an emphasis on antibodies, often used in biological "toolkits" for drug testing and production. **SHINE Medical Technologies** is the Rock County-based producer of Moly-99 for medical radioisotopes. Wisconsin has a great chance to actually lead in this worldwide market. SHINE has exceeded the cap and hopes to raise a Series B round in Wisconsin soon.

- Raising the \$8 million cap to \$12 million won't deplete the available pool of Act 255 credits. There is still plenty of room under the program's overall annual cap in any given year. This change does NOT mean there will be fewer credits available for investments in startups.
- Raising the \$8 million cap to \$12 million attracts four new private dollars for every dollar in state credits paid out. The state is among the first beneficiaries of such economic activity because companies use investment dollars to hire people, buy equipment, acquire supplies and rent or lease space.
- The original reason for the \$8 million cap has long since passed. When the Legislature created the tax credits through a bipartisan act, there was a concern that credits wouldn't be spread among a broad base of companies or "gobbled up" by a few major investors. Time has shown that scores of companies have accessed the credits by becoming QNBV certified. Also, the pool of Wisconsin investors has grown considerably in the past 10 years – and has done so in parts of the state that previously did not see significant angel and venture investment.
- Raising the \$8 million cap to \$12 million will help some of Wisconsin's most promising young companies cross the goal line. Startups are important, but so is nurturing companies that are scaling up and reaching the point where they can create significant numbers of jobs. Very often, early "seed" investments must be followed by larger investment rounds.
- Finally, passing AB 718 in this session of the Legislature would help spark a surge of investment that could push Wisconsin's angel and venture numbers higher in 2016. The past two years have demonstrated strong progress; this bill would put more fuel in the tank.

The Tech Council applauds Rep. Kuglitsch and other members of the Legislature for bringing this bill to your attention. We urge your consideration and passage.

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