

# MIKE KUGLITSCH

STATE REPRESENTATIVE • 84<sup>TH</sup> ASSEMBLY DISTRICT

DATE: December 12, 2017  
RE: **Testimony on 2017 Senate Bill 398**  
TO: The Senate Committee on Revenue, Financial Institutions and Rural Issues  
FROM: Representative Mike Kuglitsch

Thank you, Mr. Chairman and Committee Members for holding a public hearing on Senate Bill 398. 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 194 certified businesses within the state. Roughly 30 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, 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 SB 398.



# TOM TIFFANY

STATE SENATOR • 12TH SENATE DISTRICT

## Testimony on Senate Bill 398 and Assembly Bill 489

### Senate Committee on Revenue, Financial Institutions and Rural Issues

December 12<sup>th</sup>, 2017

Thank you Chairman Marklein and members of the Senate Committee on Revenue, Financial Institutions and Rural Issues for holding a public hearing on Senate Bill 398 and Assembly Bill 489 which seeks to raise the investment ceiling of \$8 million on credit-eligible companies for the purposes of being certified as a QNBV to \$12 million.

Act 255 set an investment ceiling of \$8 million on credit-eligible companies. After nearly 12 years, inflation alone indicates that the ceiling placed in 2005 is far too low. Additionally, there are more capital-intensive operations that simply require more capital investment to fuel their growth.

There is no one-size-fits-all solution to growing young companies. According to the Department of Revenue, there are 211 certified qualified new business ventures (QNBV). Last year six QNBVs received the maximum allowable eligible investments bringing the total to reach the threshold to eleven. Of those certified QNBVs, 22 have received more than \$4 million of investments and could reach the threshold within the current biennium. There are also several QNBVs who previously reached the statutory limit and who may want to recertify as a QNBV. In total, WEDC believes this bill could reach about 35 different companies.

Startup companies help grow our communities by hiring within the community, often utilizing resources (people, investment, real estate) in the community as well. I believe we in the legislature need to ensure that we create solutions that work across industries rather than hamstringing particular ones simply because they are more capital-intensive. SB 398 and AB 489 will ensure we continue to grow Wisconsin's home-spun startups and continue to push investment in small businesses across the state. We would appreciate your support for SB 398 and AB 489.

Tom Tiffany  
Wisconsin State Senate  
12<sup>th</sup> Senate District



**Dec. 12, 2017**

**TO: Senate Committee on Revenue, Financial Institutions and Rural Issues**  
**FROM: Tom Still, president of the Wisconsin Technology Council**  
**RE: Senate Bill 398/Assembly Bill 489**

**Dear Chairman Marklein and members of the committee:**

One of Wisconsin's most successful strategies for spurring the growth of young companies for the past decade or so has been its Qualified New Business Venture law, known as the "Act 255" investor tax credits law because of how the law was titled when it passed.

The program provides tax credits to qualified Wisconsin investors who put money into young companies with some sort of technology base, even if the company is aligned with a more traditional sector such as manufacturing or agriculture.

Since it took effect in 2005, the Act 255 program has prompted at least \$466 million in private investments in emerging companies that have earned QNBV status through the Wisconsin Economic Development Corp. (previously, the Wisconsin Department of Commerce) based on standards set by a law that has changed only incrementally over time.

It's a rigorous vetting process that, once completed, earns the angel and venture capital equivalent of a "Good Housekeeping Seal of Approval" for young companies. Potential investors in Wisconsin often won't consider companies that are not QNBV-certified because they trust in the process enough to know it's worth taking a closer look.

They also like the tax credits, which are worth \$1 in state relief for every \$4 invested. There are scores of examples of investors who took a chance on a young company knowing the credits would help mitigate the risk or allow them to invest more than they had planned.

About \$116.5 million in credits have been granted over time, all retroactive to the actual investment, and nearly 1,200 new jobs have been created in the past six years

alone. The law has been a model for investment tax credit laws in other states and a major reason why Wisconsin's early stage investment community has grown from a handful of venture and angel funds or networks in the early 2000s to about 40 such groups today.

In 2016, for example, about \$276 million in angel or venture capital was invested in 136 Wisconsin companies – 84 of which were QNBV-certified.

As time passed, however, some parts of the law aged. One update, as embodied in SB 398 and its Assembly companion, is lifting the lifetime cap on credit-eligible investments in any single company from \$8 million to \$12 million.

The \$8 million cap has been in place about nine years, and inflation alone suggests it should be raised. The biggest problem is that many tech-based companies, including those in agribusiness and manufacturing, are so capital-intensive that it takes more money to fuel their growth. The typical venture capital investment of 2005 is not the norm in 2017.

So far, 14 emerging companies in Wisconsin have been "capped out," meaning those companies hit the \$8 million investment ceiling that yielded \$2 million in credits for their investors. Another 20 are poised to bump against the ceiling soon, based on an analysis by the Legislative Fiscal Bureau.

This change is timely because most of the companies at or near the \$8 million ceiling are poised for rapid growth – if they can land more investment dollars. Those companies are statistically likely to produce large numbers of good-paying jobs, as well.

Sometimes overlooked is how much those emerging companies buy in supplies, goods and services from other companies across Wisconsin. That supply-chain effect means a company based in Madison, Milwaukee or Menomonie may be buying equipment or other services from firms in Rhinelander, Green Bay or Wausau. In that sense, the entire state has a stake in the success of young, tech-based companies.

Three examples come quickly to mind:

- Ab E Discovery. This company has an antibiotic-free strategy to promote natural immune functioning in animal agriculture.

- Complete Phytochemical Solutions. This company has an improved and certified analysis of cranberries.
- Lactic Solutions. Through an engineered bacterium, this company provides increases efficiency of fermentation to produce biofuels such as ethanol.

Collectively, these companies have suppliers, consultants or partners in 29 counties ranging from Kenosha to Douglas. Twenty are north of Columbia County and 13 are clustered in northwest Wisconsin.

That's just three companies. In 2016, when the Tech Council reported on the economic impact of academic research on Wisconsin, all but four of 72 counties showed a private spillover effect. That was from a study by the University of Michigan.

Increasingly, there will be companies in rural Wisconsin that bump against the \$8 million investment ceiling. Several trends help to explain why:

- The growth of the Tech Council Investor Networks. In 2004, there was only one angel fund outside the Madison-Milwaukee corridor. Today, there are a dozen such funds or networks.
- Creation of the Badger Fund of Funds, which is beginning to invest through member funds such as the Winnebago Seed Fund, the Idea Fund of La Crosse and more.
- Interest in building the tech-based economy. For example, the Tech Council has chapters in several locations around the state and there is strong interest in more economic diversity. A Feb. 27 session in Ashland will help highlight what's happening in northwest Wisconsin, for example.
- The growth of the WiSys Technology Foundation, which is producing more intellectual property on campuses outside Madison and Milwaukee. There were a record 64 disclosures in the last fiscal year, up from about two-dozen just five years ago.

The stars are aligned for Wisconsin to produce more companies that will raise the kind of capital needed to succeed. Raising the Act 255 cap as outlined in SB 398 and AB 489 will help them along their way.

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# Survey of Three UW-Madison Companies & Their Role on Economic Development Across WI

## THREE UW-MADISON STARTUP COMPANIES SURVEYED:

### Ab E Discovery

(Antibiotic-free strategy to promote natural immune functioning in animal agriculture)

### Complete Phytochemical Solutions

(improved, new and certified analysis of cranberries)

### Lactic Solutions

(increased efficiency of fermentation to produce alcohol)

# 29

## WI counties affected

(shown in red)



\*information provided courtesy of the Advocacy Consortium for Entrepreneurs (ACE)

Chairman and members of the Committee, Thank you for inviting me to speak here this morning. My name is Todd Asmuth. I am here as the President of SHINE Medical Technologies, but also as a member of the new product and new company community. I am working in my 6<sup>th</sup> startup and have been a board member and investor in over 30 other companies. I grew up in Milwaukee, lived outside of the state for 14 years and have lived in Madison for the last 14 years. I am strongly in favor of the Wisconsin Idea, which I understand as, research and expertise developed in the Universities can benefit the citizens of the State, the country and the world.

SHINE Medical is building a plant in Janesville, WI to make medical isotopes. This is a key medical industry raw material that is used in 20M US medical procedures annually for the detection of heart disease and cancer. If you think of a heart stress test, the treadmill test, where they inject a radioactive tracer into the body, so the camera can see bloodflow through the heart, then you understand what we are making.

Nobody makes this product in the US today, in fact nobody makes this product in North America today, Canada just shutdown their 60 year old research nuclear reactor that used to make these isotopes. SHINE is 7 years in to a 10-year project to replace that capacity but with a better method. President Trump has many things that I disagree with, but I agree with him that we should develop technologies here, make things here. To clarify what we are doing SHINE is going to Make American Isotopes Again.

Our research came out of the UW where our founder Greg Piefer invented a way to manufacture the same isotopes we use today, but it an more efficient, safer and greener way. His invention replaces the use of a nuclear research reactor with a nuclear accelerator. SHINE has 60 employees based in Janesville, WI and we are ramping up to 170 over the next two years. Currently we have 11 open positions for which we are recruiting. We have our federal regulatory permit to build the plant, over \$120M in orders from GE Healthcare and other companies, have broken ground

This is not an easy business to get into, so far we have raised \$90M primarily from private investors but also from federal, state and local government. We have been helped by UW, WARF, WEDC, the City of Janesville, the Federal Department of Energy and the local private investment community.

We are a manufacturing company with a medical market, but there is a really clear public benefit as we come to market. You start with the 170 jobs which are a primarily a mix of engineering and operations jobs. We have a program with Blackhawk Technical College in Janesville to train the operators we will need to run the plant. Then you look at the construction project workforce of 300-400 people for 2 years. In addition, we have along list of local vendors for concrete, steel rebar, tanks, vessels, pipes, asphalt and engineering and construction services.

From there, you look at the medical benefit of having access to these isotopes for patients in Wisconsin, the US and the world. On a pro-rata basis, we estimate 350K patients in Wisconsin use these isotopes each year. We project that we will have over \$100M in profits by 2025 and there will be a large investor return, much of which will be reinvested, and a significant tax base – payroll taxes, real estate taxes, dividend and capital gain taxes. That said we have needed the support of these Wisconsin institutions to get to where we are today. Our foreign competitors were 100% government funded. For SHINE, government funds have helped us achieve key milestones that de-risk the technology and the regulatory hurdles so that the private market can fund the growth capital

We have larger plans past the medical isotope industry in Janesville for the next stage of the technology.

Mr. Chairman and Committee members, thank you for listening today. I would be happy to answer any questions



