

# INNOVATE IN PA

## The Importance of Early Stage Investment

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SENATE POLICY COMMITTEE



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# INNOVATE IN PA

- ❖ Innovate in PA is an economic development “jobs” program designed to increase the availability and accessibility of early stage and venture capital in PA investment that will create family-sustaining jobs and develop innovative technologies
- ❖ SB 456 (Blake) was incorporated in Tax Code establishes the “Innovate in Pennsylvania” Program

# THE NEED FOR INVESTMENT CAPITAL

- ❖ The Commonwealth's revenues will ebb/flow with general economy, making it difficult to invest when revenues are down
- ❖ The need to support transformational businesses occurs both during UP and DOWN economies
- ❖ Pennsylvania is slipping in the national rankings

# THE NEED FOR INVESTMENT CAPITAL

- ❖ The first \$500,000 of ‘seed’ capital is typically the hardest for promising technology companies --- start-ups are often considered too risky for traditional financing and too risky even for many sophisticated and well-capitalized venture capital funds.
- ❖ Following investment of state funds, private investors become very interested - public \$\$ attracting and leveraging private capital

# GOALS

- ❖ Expected to generate approximately \$85 million in funding for investments in high-growth and promising companies
- ❖ Provide funding for the Ben Franklin Technology Partners (BFTP)
- ❖ Provide funding for the Life Sciences Greenhouses (LSGs)
- ❖ Proving venture capital funding
- ❖ Support PA's innovation ecosystem and increase private sector investment in PA

# BENEFITS

- ❖ Create/retain thousands of sustainable high-wage jobs
- ❖ Defer fiscal impact to future years and match timing of fiscal impact to the return on investment in companies
- ❖ Generate payroll, sales, business and corporate income tax revenues

# BENEFITS

- ❖ Keep the Commonwealth in a revenue-positive position by offsetting General Fund costs to be incurred in redeeming earned tax credits to the insurance industry over the life of the program (2014-2022)
- ❖ Utilization of proven return on program investments – over \$3 returned to the Commonwealth for every \$1 invested – by the Ben Franklin Technology Partners, Venture Investment Program, and Life Sciences Greenhouses

# SALE/AUCTION TAX CREDITS

- ❖ DCED authorized to sell up to \$100 million in tax credits against an insurance company's future premium tax liabilities to the state for any taxable year starting January 1, 2016 or later.
- ❖ Insurance companies subject to PA's 2% annual gross tax on insurance premiums are eligible to apply to DCED to purchase tax credits.
- ❖ To limit and postpone the cost to the general fund, no more than a total of \$20 million in tax credits may be applied against an insurance premium tax liability each year starting in 2017- 2022.
- ❖ The sale will be structured so that the tax credits with expectation of 80-85% or higher return to the state –netting for the program between \$80 and \$85 million

# WHY INSURANCE TAX CREDITS?

- ❖ Insurers collect cash premiums from customers and pay an annual gross tax to the state – it's a predictable, recurring source of state income
- ❖ Tax credits that offset these tax liabilities are attractive to insurance companies as a low-risk investment
- ❖ Bidders for tax credits are willing to invest cash today at a reasonable discount in exchange for reductions to tax payments in future years

# THE “MATCHING” PRINCIPLE

- ❖ Matching the “fiscal impact” with the timing of the expected returns
- ❖ Seed stage investments, typically, take 3-7 years to mature
- ❖ Commonwealth gets up-front cash infusion and can help facilitate investments in start-up companies

# FUNDS DISTRIBUTION

- ❖ 50% distributed to the Ben Franklin Technology Partners for use according to program guidelines
- ❖ 45% shall be distributed to the Venture Investment Program for use according to program guidelines including traditional venture or impact investments.
- ❖ 5% to the three regional biotechnology research centers for distribution in equal proportions to each regional biotechnology research center (Life Sciences Greenhouses)

# FUNDS DISTRIBUTION

- ❖ Established state Authority – Ben Franklin Technology Development Authority (BFTDA) has long-standing experience with deployment of investment capital
- ❖ Reporting - BFTDA has guidelines in place which include reporting and audit requirements