



ARIZONA  
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## Arizona Angel Investment Tax Credit Overview

January 25, 2016





## **ECONOMIC IMPACT OF ARIZONA'S ANGEL INVESTMENT TAX CREDIT PROGRAM**

During the 2005 legislative session, Senate Bill 1335 passed, providing a much needed program to expand the seed capital market in Arizona. The bill's intent was to encourage angel investors to increase their investments in Arizona early-stage technology businesses. The Angel Investment Tax Credit Program (the "Program") is established by A.R.S. § 41-1518 and is administered by the Arizona Commerce Authority (ACA). Starting in 2006, a certified investor is eligible to claim a tax credit equal to 30% of the investment made. If the certified small business is a rural or bioscience business, the credit is equal to 35% of the investment.

The credit creates various benefits for the participants and the state:

- (1) Certified investors that invest in certified small businesses receive a tax credit that incentivizes and encourages a culture of investment into small businesses, including the ability to achieve a major venture capitalist goal of reducing risk through application of the tax credit to offset their early stage investment.
- (2) Increased awareness and funding potential from angel investors towards the small businesses certified by the Program.
- (3) The state receives new tax revenues generated by small businesses certified in the Program through continued operations and sustained growth.

Since inception in 2006, the Program has been successful, with 125 small businesses receiving approximately \$62 million in certified investments. Additionally, 234 unique companies have become certified since the program's inception. These businesses combined employed over 1,000 employees at the time of certification and had a payroll of approximately \$65 million. These positions are quality jobs, generating an average job multiplier effect of approximately 2.3 on Arizona's economy.

### **OUTCOMES FROM THE \$20 MILLION IN TAX CREDITS APPROVED TO DATE INCLUDE:**

- (1) More than \$420 million in seed capital, venture capital, and other sources of financing has been raised by 94 of the 125 certified businesses. (In addition to the \$62M raised through the credits for investments under the Program. This is a ROI of 1,750%.)
- (2) A combined economic impact on Arizona's economy of the certified businesses to date of an estimated \$1.3 billion.
  - a. The economic impact in 2015 alone is estimated to be \$332.7 million.
- (3) State and local tax revenues alone generated by the 94 small businesses is estimated to be \$44 million to date – and will grow as operations continue to ramp-up in Arizona.
  - a. The expected annual state and local revenue generated from 2015 going forward is \$9.9 million.
  - b. Tax revenues generated represent a 2.35 : 1 return on investment (\$25 million in excess of monies contributed; the state is already "in the black" under this program.).

- (4) The Program is generally recognized by participating small businesses as being one of the primary reasons, (i) they were able to secure private funding sources and (ii) they are still active in Arizona today.

Following are Program facts and figures, broken down by year since inception:

**Impact of the Recipients of the AZ Angel Investment Credit, 2006 - 2015**

Program Variable	2006-2012	2013	2014	2015	Total
Small Business Certifications	275	57	46	39	<b>417</b>
Investment Certifications	751	149	89	55	<b>1,044</b>
Investment Value (\$MM)	\$41.7	\$9.5	\$7.4	\$3.4	<b>\$62.0</b>
Credits Authorized (\$MM)	\$13.4	\$3.1	\$2.1	\$1.4	<b>\$20.0</b>

Source: Arizona Commerce Authority

**Overview of the 2015 Calendar Year Program Applicants (applied for credit Jan. – Jul. 2015)**

- The Program authorized \$1.4 million in credits.
- 39 small businesses were certified and received a combined 55 investments totaling \$3.4 million.
- The Program is subject to a \$20 million lifetime cap. This cap, or funding allocation, was reached in July of 2015.

**Overview of the 2014 Calendar Year Program Applicants (applied for credit in CY2014):**

- The Program authorized \$2.1 million in credits.
- 46 small businesses were certified and received a combined 89 investments totaling \$7.4 million.

**Overview of the 2013 Calendar Year Program Applicants (applied for credit in CY2013):**

- The Program authorized \$3.1 million in credits.
- 57 small businesses were certified and received a combined 149 investments totaling \$9.5 million.
- The wages paid by the small businesses benefiting from the Program were \$57,700, 30% higher than the state’s average wage.
- The average certified investment received by a business was \$63,400.

**Overview of the 2006 – 2012 Combined Calendar Year Program Applicants (applied for credit between CY2006 and CY2012):**

- The Program authorized \$13.4 million in credits.
- An average of approximately 39 small businesses were certified each year and received a combined 751 investments totaling \$41.7 million in funding.
- The wages paid by the small businesses benefiting from the Program were \$64,700.
- The average certified investment received by a business was \$55,500.

**Companies Certified by the Angel Investment Tax Credit Program in CY2014 – 2015 (duplicates removed):**

- Alert GPS Holdings, Inc.
- Ananzu (d.b.a. Eggcyte)
- Applied Microarrays, Inc.
- appsFreedom, Inc.
- Aqwastream, LLC
- Arete Group LLC
- Avanti Industries
- Brightguest LLC
- CampusLogic, Inc
- Cancer Prevention Pharmaceuticals
- Cardinal Devices
- Claimsparency LLC
- Clear Demand, Inc
- ClearVoice, Inc.
- Codelucida LLC
- Contatta, Inc.
- Crowd Mics
- Cybersponse, Inc
- Delivery IT, Inc.
- DEPCOM Power, Inc.
- Endo Vantage
- EZ Dump Commercial, Inc.
- F3 Foods
- FilterMag Internations, Inc.
- Future Transit Systems, LLC
- Genomics USA
- Global Cancer Diagnostics Inc.
- HealthTell, Inc.
- INanoBio
- Iris PR Management, Inc.
- Iron Horse Diagnostics, Inc
- iTel Companies, Inc.
- JatroBiofuels, LLC
- Late Living, LLC
- Lattice Biologics Inc.
- Life Games, Inc.
- MarLytics, LLC (d.b.a. LawLytics)
- MISOM Consulting Services, Inc.
- MistoBox
- MSDx, Inc.
- NLP Technologies
- NuvOx Pharma, LLC
- Orb Health, Inc.
- Outski, Inc.
- ParkX LLC
- Picmonic, Inc.
- Pinnacle Transplant Technologies
- PlayAbility Toys, LLC
- Pledgewin LLC
- Post.Bid.Ship, Inc.
- Proactive Lifetime Health , LLC
- Pure Chat, Inc.
- RBar Organic
- Rehnu, INC
- ReplyBuy.com
- Response Analytics, Inc
- Revolutionary Medical Devices
- Ryver, Inc. F/K/A Contatta, Inc.
- Serious Integrated, Inc
- Shelvspace Inc.
- Solar Pool Technologies
- Splyt Easy, LLC
- Study Sauce
- Superior Silica, LLC
- Sycara, Inc
- Tempronics Inc.
- Tiltify, Inc.
- Tiplly, Inc.
- Triage Now LLC
- VisionGate, Inc
- Webiron, LLC
- Zero Shock Seating, LLC

All figures are provided by the companies and aggregated by the ACA.

**FISCAL IMPACT OF THE ANGEL INVESTMENT TAX CREDIT, CY2006 - 2014**

In order to better assess the impact of the Program, the ACA contracted with Elliott D. Pollack & Company (hereinafter referred to as “Pollack”) to run an economic impact model demonstrating the estimated fiscal and economic impact that the awarded applicants of the Program have had on Arizona.

The inputs used were either (1) provided to the ACA upon application for certification, (2) provided to the ACA via a survey administered in November-December of 2014, or (3) obtained from information obtained through CBI Insights.com, CrunchBase.com or other similar databases.

To the best knowledge of the ACA, all figures included in the study are accurate and verified. Only the 94 companies that received an investment while certified and are known to be still active in Arizona were included in the inputs for the study.

**Figure 1: Assumptions Used in Angel Investment Tax Credit Program Economic Impact Study**

Angel Investment Tax Credit Program Economic Impact Study Assumptions					
Project Description					
	2006 - 2012	2013	2014	2015	Total
New Construction, Renovations	\$14,361,060	\$4,787,020	\$4,787,020	\$0	\$23,935,100
FF&E	\$6,154,740	\$2,051,580	\$2,051,580	\$0	\$10,257,900
Equipment (R&D)	\$20,515,800	\$6,838,600	\$6,838,600	\$0	\$34,193,000
<b>Total Capital Investment<sup>1/</sup></b>	<b>\$41,031,600</b>	<b>\$13,677,200</b>	<b>\$13,677,200</b>	<b>\$0</b>	<b>\$68,386,000</b>
Operations <sup>2/</sup>					
	2006 - 2012	2013	2014	2015	Average
Total jobs (average)	334	848	1,056	1,378	562
Average annual wage	\$69,317	\$68,357	\$69,963	\$68,878	\$69,186
Total building square feet (avg.)	167,071	424,000	528,000	689,000	281,050
Locally purchased supplies (avg.)	\$334,143	\$848,000	\$1,056,000	\$1,378,000	\$562,100
Other Assumptions					
Net assessed value of building per sf	\$50	\$50	\$50	\$50	
Square feet per employee	500	500	500	500	
Commercial Assesment Ratio	20.0%	19.5%	19.0%	18.5%	
<i>Multiplier: Average Professional, Scientific &amp; Technical Services</i>					
1/ Figures represent the impacts of the industry during the year represented.					
2/ Figures at stabilized operating levels					
Sources: Elliott D. Pollack & Co., ACA					

For the purposes of this study, it was assumed that all 94 active certified businesses had the same number of employees in each year of operations unless (i) actual numbers were provided by the company via the survey or (ii) an updated application for certification under the Program was submitted that included the latest employment figure.

For each of the 94 companies, the following information was available from different sources broken down by company and included as inputs for the study:

*From applications submitted to the ACA:*

- Number of employees
- Avg. wage paid to employees
- Industry

*From survey of certified businesses that received investment:*

- Capital/funding raised
- Employment figures
- Annual payroll/wage
- Annual capital expenditure
- Current revenues

From *CBInsights.com*:

- Total funding raised
- Acquisition status

The following is a short explanation of each of the assumptions:

- *Capital Investment*: assumes that
  - 7% of total expenditures (or funding received) is spent on tenant improvements or construction;
  - 10% is spent on new machinery or equipment;
  - 3% is spent on furniture and fixtures; and
  - 80% is spent on operating expenditures (e.g. wages, rent, services rendered).
    - 80% (or \$273 million) of the investment assumed paid towards operating costs has \$0 worth of impact in this study.
- *Total Jobs*: accounts for jobs employed by the small businesses certified by the Program through 2015.
- *Annual average wage*: calculated using the weighted average wage for all businesses for each year. The average for 2006–2012 is the weighted average wage of the sum of the gross payroll divided by the total employees of all of all recipients in 2006–2012.
- *Total building square feet*: based on a 500 square feet per employee average provided by Pollack.
- *Utility usage per year*: this figure is unknown and was therefore not accounted for in the calculations.
- *Locally purchased supplies*: assumes that each recipient spends on average \$1,000 per employee per year on local office supplies (paper, chairs, supplies, other).
- *Net assessed value of building per sf*: based on industry averages provided by Pollack.
- *Square feet per employee*: see above, “Total building square feet.”
- *Commercial Assessment Ratio*: the model uses a varying ratio by year because (i) a reduction enacted in 2005 to decrease the assessment ratio from 25% to 20% from 2005–2010 was in place and (ii) a reduction enacted in 2011 to decrease the assessment ratio from 20% to 18% is in place.
- *Percent of equipment subject to use tax*: assumes no equipment purchased would be exempt under A.R.S. § 42-5159(B)(14).
- *Multiplier*: based on the Minnesota Implan Group’s IMPLAN industry multiplier for Professional, Scientific, and Technical Services, the most common industry in terms of employment. (see pages 8-9 for a list of the NAICS codes used).

All assumptions used take precaution to be as conservative as possible, as to not exaggerate the potential fiscal impact of the Angel Investment Tax Credit Program on Arizona’s economy.

**Figure 2: Economic Impact Summary**

Economic Impact of the Angel Investment Tax Credit Program , 2006 - 2015

Construction Economic Impact						
	2006-2012	2013	2014	2015	Total	
<b>Total Economic Output</b>	<b>\$24,987,060</b>	<b>\$8,329,020</b>	<b>\$8,329,020</b>	<b>\$0</b>	<b>\$41,645,100</b>	
Operations Economic Impact						
	2006-2012	2013	2014	2015	Total	
DIRECT	Jobs 2,339	848	1,056	1,378	5,621	
	Wages \$162,133,542	\$57,966,736	\$73,880,928	\$94,913,884	\$388,895,090	
INDIRECT & INDUCED	Jobs 1,983	709	903	1,161	4,756	
	Wages \$93,531,000	\$33,439,000	\$42,619,000	\$54,753,000	\$224,342,000	
TOTAL	Jobs 4,322	1,557	1,959	2,539	10,377	
	Wages \$255,664,542	\$91,405,736	\$116,499,928	\$149,666,884	\$613,237,090	
<b>Total Economic Output</b>	<b>\$568,427,958</b>	<b>\$203,225,586</b>	<b>\$259,020,904</b>	<b>\$332,759,460</b>	<b>\$1,363,433,908</b>	
NOTES: All figures are intended only as a general guideline as to how the State could be impacted by the project.						
Source: Minnesota Implan Group, Elliott D. Pollack & Company, ACA						

Figure 2 demonstrates the estimated impact of the companies certified under the Program on Arizona’s economy. The “Total Economic Output” is the measure of impact that the recipients of the credit had on the gross state product for each year. The total impact of the recipients to date totals \$1.36 billion in added economic output. The direct jobs that each of the recipient companies employs generate the most impact on the economy.

**Figure 3: Fiscal Impact Summary**

Fiscal impact of the Angel Investment Tax Credit Program

Construction / FF&E Revenue Generated					
	2006-2012	2013	2014	2015 2/	Total
State	\$1,181,600	\$357,000	\$357,000	N/A	\$1,895,600
County	\$259,800	\$86,600	\$86,600	N/A	\$433,000
City	\$485,640	\$161,880	\$161,880	N/A	\$809,400
<b>Total Revenue</b>	<b>\$1,927,040</b>	<b>\$605,480</b>	<b>\$605,480</b>	<b>N/A</b>	<b>\$3,138,000</b>
Operations Revenue Generated					
	2006-2012	2013	2014	2015	Total
State	\$8,549,600	\$2,957,600	\$3,753,600	\$4,836,000	\$20,096,800
County	\$3,747,500	\$1,398,400	\$1,763,300	\$2,267,200	\$9,176,400
City	\$4,788,820	\$1,748,140	\$2,208,380	\$2,845,290	\$11,590,630
<b>Total Revenue</b>	<b>\$17,085,920</b>	<b>\$6,104,140</b>	<b>\$7,725,280</b>	<b>\$9,948,490</b>	<b>\$40,863,830</b>
1/ Figures at stabilized operating levels					
2/ There is no capital investment input for 2015, so there is no impact estimated					
Sources: Elliott D. Pollack & Co., ACA					

Figure 3 shows the tax revenues generated at the state, county, and city level based on the Pollack model. The estimated fiscal impact of the 94 companies certified to date through 2015 is \$44.0 million, a revenue to cost ratio of 2.2 : 1.

The estimated fiscal impact calculates benefits received by Arizona for all years in which the Program has been active. Continued operations beyond 2015 will result in augmented benefits to the State.

Additional notes on the impact study:

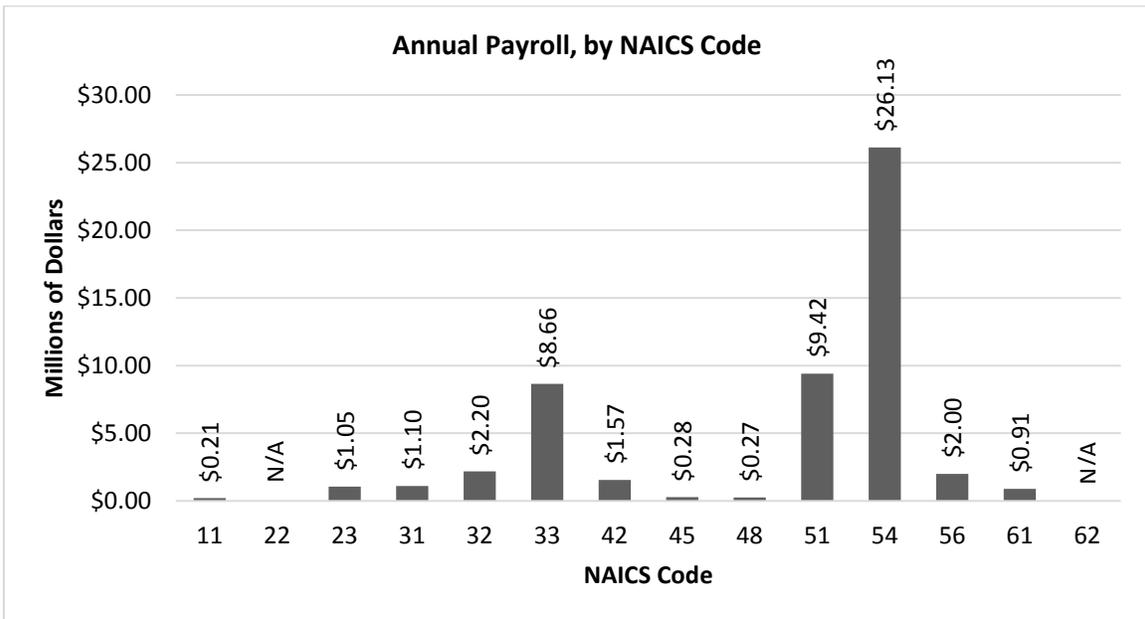
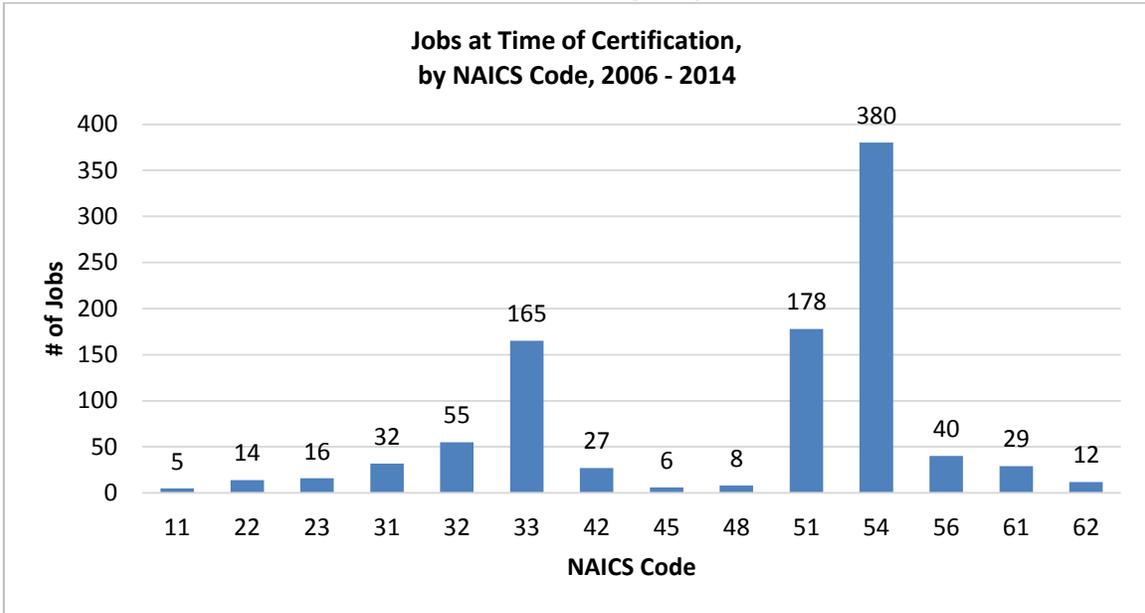
The assumptions made for the EIS are believed to be conservative, and do not include items such as (but not limited to):

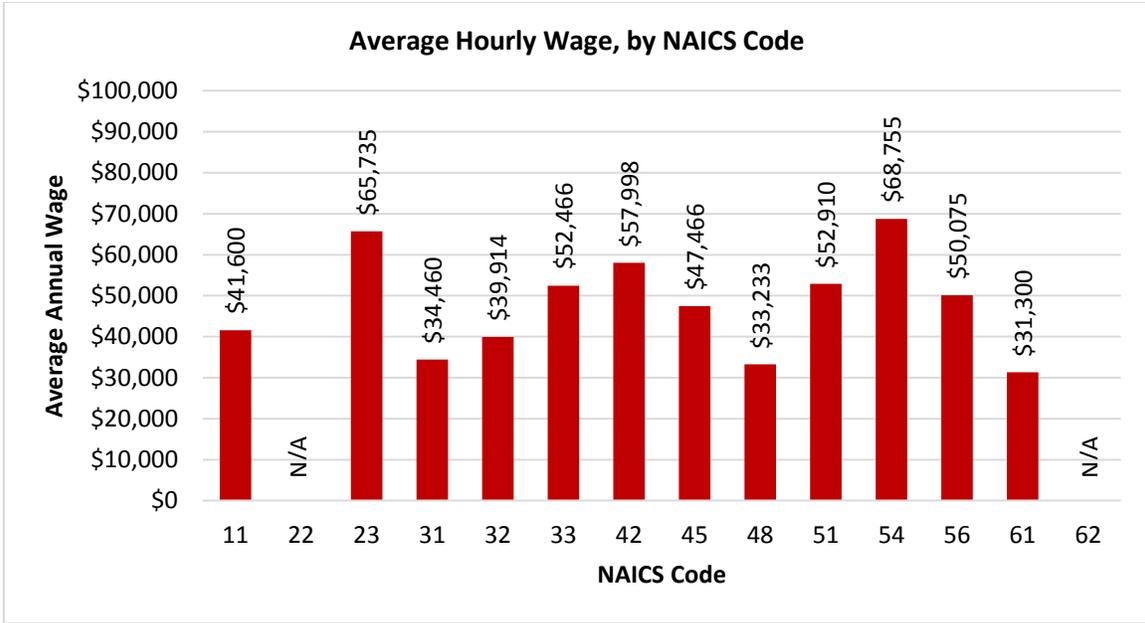
- Corporate income taxes
- Transaction privilege tax (TPT) on utilities

The full impact study prepared by Pollack can be obtained on request from the Arizona Commerce Authority.

The following charts show the total jobs and wages associated with the companies certified by the ACA through the Program from 2006 – November 2014 and is based on the North American Industry Classification System (NAICS) code that each small business self-assigned upon submission. NAICS codes 31-33 (Manufacturing), 51 (Software / IT), and 54 (Professional, Scientific Services) were the predominant industries receiving the credit in terms of total jobs affected and total wages expended.

**Breakdown of Jobs and Wages by NAICS Code**





**Description of NAICS Code:**

**11:** Agricultural Technology

**22:** Household Appliances

**23:** Construction

**31:** Food, Beverage, and Apparel Manufacturing

**32:** Printing Activities, Chemicals Manufacturing

**33:** Electronics, Machinery, and Technological Equipment Manufacturing

**42:** Merchant Wholesalers; Durable Goods

**45:** Non-Store Retailers (A&D Related)

**48:** Data Processing, Hosting, Other

**51:** Publishing Industries (Except Internet)

**54:** Professional, Scientific, and Technical Services

**56:** Administrative & Support Services

**61:** Educational Services

**62:** Health Care & Social Assistance

**Rural Small Businesses Certified by the ACA for the Angel Investment  
Tax Credit Program; 2006 - 2015**

<b>Date Certified</b>	<b>Certified Small Business</b>	<b>City, Zip</b>	<b>NAICS</b>	<b># of Employees</b>
3/20/2013	Stat Coordinations, LLC	Flagstaff, 86001	541511	2
4/20/2011	Sedona Energy Labs LLC	Flagstaff, 86001	332312	4
1/28/2010	Nest Energy Services LLC	Prescott Valley, 86314	335999	2
3/13/2009	Protein Genomics, Inc.	Sedona, 86336	325414	2
12/4/2008	Cynature Networking & Consulting, Inc.	Sierra Vista, 85635	541000	2
9/24/2008	Eco Emissions Systems, Inc.	Payson, 85547	423120	4
8/29/2008	Cardiolert Systems	Cave Creek, 85331	334510	2
8/14/2008	SenesTech, Inc.	Flagstaff, 86001	541700	2
7/30/2008	Vortex Pure Water, LLC	Prescott, 86301	339999	2
6/13/2008	Celeritive Technologies, Inc.	Cave Creek, 85331	511210	2
10/25/2006	Switzer Medical Research, LLC	Flagstaff, 86001	541710	2
9/12/2006	Global Building Systems, Inc.	Prescott, 86301	3312	2
7/5/2006	Algal Technologies, Inc.	Holbrook, 86025	325412	2

**Notable Small Businesses Certified by the ACA for the Angel Investment  
Tax Credit Program (2006 – Present)**

<b>Date First Certified</b>	<b># of Certs</b>	<b>Certified Small Business</b>	<b>Employment at Cert.</b>	<b>Latest Cert. Employment</b>	<b>Est. Funding Raised</b>
8/7/2006	1	Infusionsoft	34	650	\$127.9M
10/25/2006	1	HTG Molecular Diagnostics	7	90	\$110.0M
12/2/2010	1	WebPT	14	275	Undisclosed
6/3/2011	2	Calimmune, Inc.	3	48	\$47.3M
10/21/2008	2	Provista Life Sciences	2	N/A	\$19.5M
1/9/2012	3	VisionGate	6	7	\$15.7M
5/30/2008	5	Salutaris Medical Devices	2	8	\$10.7M
1/22/2008	3	Tempronics, Inc.	2	7	\$8.9M
9/15/2006	3	Regenesis Biomedical, Inc.	14	27	\$8.6M
6/17/2015	1	Ryver, Inc.	8	8	\$7.9M
2/14/2011	4	Cancer Prevention Pharmaceuticals, Inc.	2	8	\$7.8M
5/27/2015	1	CampusLogic, Inc.	16	16	\$7.5M
6/20/2012	3	Contatta, Inc.	9	16	\$6.5M
3/18/2011	4	Serious Integrated, Inc.	3	8	\$5.9M
3/19/2012	1	Stimwave Technologies, Inc.	5	N/A	\$5.3M
1/19/2013	2	Picmonic, Inc.	11	24	\$5.1M
8/31/2011	3	Rehnu, Inc.	2	2	\$4.5M
10/26/2012	2	Instant Bioscan, LLC	2	13	\$4.4M
2/8/2013	2	appsFreedom, Inc.	6	6	\$4.4M
3/23/2010	4	Response Analytics, Inc.	7	5	\$4.3M
4/3/2014	1	FilterMag International, Inc.	7	N/A	\$3.4M
1/2/2008	3	Ambature	2	10	\$3.2M
8/25/2010	1	Post.Bid.Ship (formerly TruckItNow)	2	N/A	\$3.1M
1/28/2010	4	Strongwatch Corp.	2	6	\$3.0M
10/9/2012	1	AdiCyte, Inc.	2	N/A	\$2.6M