



Workforce Needs Top California Trade Group's Policy Agenda

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California trade group BayBio's updated state legislative agenda prioritizes the interrelated issues of science education and development of a skilled workforce, and introduces some new tax reform proposals valued by area start-ups.

As for the more pressing industry problem - the capital crisis - locals are hoping President Barack Obama and the federal government will provide some immediate financial relief as part of a national economic stimulus package.

BayBio released its IMPACT 2009 report, an assessment of the state of the life sciences industry in California and a 2009 state policy agenda, on Jan. 14 at the Grand Hyatt hotel in downtown San Francisco.

The release was timed with the 27 annual J.P. Morgan Healthcare conference, held Jan. 12 to 15, a few blocks away at the Westin St. Francis Hotel.

In 2008, California life science companies had 1,294 treatments and technologies on the market, up from 984 in 2007. Considering that there are 210 treatments in late-stage development, BayBio suggests state leaders must create a more biotech-friendly environment in order to reap revenue benefits as firms mature and move into the manufacturing phase of development.

Genentech's late-2006 decision to build a state-of-the-art biotherapeutic "fill/finish" facility in Hillsboro, Ore., is symbolic of the challenges facing California in hanging on to its industry, said Hoyoung Huh, board member of BayBio and CEO of start-up BiPar in Brisbane, Calif. (1"The Pink Sheet" DAILY, Nov. 6, 2008).

As companies move into the manufacturing phase, a broader skill set is required, the IMPACT report notes. BayBio's 2009 report includes a new recommendation to increase state-sponsored training of licensed clinical laboratory scientists and medical lab technicians.

"There is tremendous job growth potential we are not entirely harnessing. It makes a lot of sense to make the investment right now, when we need these jobs," said BayBio President Matthew Gardner.

Another new proposal calls for greater funding of the UC Discovery Grants Program in order to stimulate more early-stage research in the private sector.

Furthermore, the trade group wants a statewide strategy aimed at attracting and retaining qualified math and science teachers, since California ranks near the bottom of 50 states when it comes to eighth grade science education.

Technology is one of the major strengths of the California economy and yet from a general education perspective, the state is "not in good shape," said Corey Goodman, head of Pfizer's new Biotherapeutics and Bioinnovation Center in South San Francisco, Calif. (2"The Pink Sheet" DAILY, Oct. 10, 2008).

The state is "not where you would expect it to be, certainly not in math or science," said Goodman, also a BayBio board member. The industry's future depends on having an influx of bright students to ultimately become bright employees, he said.

"We have to do something about workforce education in biotech and healthcare, to make sure we are training students in math and science and ultimately steering them into the right kind of education [to match] what the workforce needs," Goodman said in an interview.

New tax proposals emerge in BayBio agenda

On the tax policy front, BayBio is proposing allowing companies to access new investments quickly through the transfer of net operating losses.

According to the proposal, start-up companies would be able to sell the value of their net operating losses covering a period of 14 years to established life sciences companies. The buyer receives a tax write-off in exchange.

The proposal builds on BayBio's success last year in getting the state of California to extend companies' rights to tax deductions for past net operating losses from 10 to 20 years at the time they reach profitability.

The proposal would also ease M&A activity, Huh said. Presently in California, if companies merge in order to grow and share complementary technologies, they lose tax benefits associated with NOL.

"Given that the IPO market doesn't exist and given that private funding is probably how biotechs will grow for the foreseeable future, this severely limits options favorable to a company," he said.

California budget crisis limits policy changes this year

Despite the dire need for stimulus, securing passage of biotech-friendly reforms in California is a lot more challenging this year. The sagging housing market and losses in personal and corporate income taxes have created a severe budget crisis that has California running out of cash within the first quarter of 2009.

"I view the California proposals as sound and laudable but, in my personal view, hopeless in 2009, given what the legislature and governor have created," said Alan Mendelson, senior partner and co-chair of the Venture Technology Group at Latham & Watkins.

The most pressing issue facing the industry - the number of companies with six months of cash left - is best handled on the national level, Mendelson observed. According to Rodman & Renshaw's database, 55 biotechs fall into this category.

"If we don't find a way to fix that in some fashion, a whole slew of companies will go up in smoke and a lot of great scientists will lose their jobs," Mendelson said.

Among other proposals, the national Biotechnology Industry Organization is advocating that firms receive a refund of NOLs at a discounted rate to offset qualified research expenses in lieu of claiming other tax benefits (3"the Pink Sheet" DAILY, Nov. 14, 2008).

Obama has signaled that he wants to provide substantial funding to stimulate the economy, creating and saving jobs in the process. The NOL proposal would fit the bill.

"That federal proposal would be not a total solution, but it would be a contributing part of the solution," Mendelson said.