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Testimony on House Bill No. 2689
F. Nicholas Franano, MD
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Dear Chairman Tarwater, Vice Chairman Corbet, Ranking Minority Member Frownfelter, and Members of the Committee,

Thank you for the opportunity to testify in support of renewal of Kansas Angel Investment Tax Credit Program. In 2015, the Kauffman Foundation released a report titled "The Importance of Young Firms for Economic Growth". Using Census Bureau statistics, the authors showed that new businesses account for nearly all net new job creation in the US. Unfortunately, the report also showed that new business startup activity has been declining nationally over the last four decades, indicating a long-term problem for US economic growth. The report also showed how some of these new, innovative businesses grow rapidly, producing jobs and economic growth while others fail and wind down. The Kauffman report also highlighted how state laws and policies can affect an individual's ability to start a business and the growth and survival of these high-potential firms and how policymakers at the state level can help create an environment more conducive to business formation and growth.

I grew up in Franklin County, went to the University of Kansas as an undergraduate and then on to the University of Kansas Medical School. After that I went east to Johns Hopkins Hospital where I trained as an interventional radiologist. In 2000 I came back home and went on to found three life sciences companies in Kansas, one making new drugs and two making new medical devices for the treatment of patients with kidney failure, stroke, and cancer with the potential to generate billions of dollars in global sales. God and the FDA willing we are planning to launch our first commercial products in 2021 and transition from a research and development company to a commercial company making new products available to physicians and patients worldwide. Looking back, building these companies has been a long, hard effort. As most entrepreneurs running early stage, high growth potential firms will tell you, raising capital is the single most important factor in determining success or failure. Thankfully, we have had the support of the Kansas Legislature and the Kansas Department of Commerce along the way, through the Kansas Angel Investor Tax Credit Program. Absent that, I don't think our companies would have survived the passage through the "valley of death" that all life sciences firms must travel on the way from to rapid growth and profitability. Nearly all of the investors in our companies made the decision to invest, in part, on knowing some of that risk would be mitigated by the State of Kansas through the KAITC program. While the Kansas citizens gain tremendously from the jobs and economic growth created by rapidly growing companies like Garmin, Cerner and Koch it is the earliest investors in these companies that bore the majority of the risk in getting them started. The KAITC program steps into that breach mitigating some of that risk and providing incentives for these individual investors to risk their savings to help drive the growth of these high potential firms.

I would like to highlight two things about the KAITC program that I believe make it special. First, it broadens opportunity for Kansans. As a child of high-school educated parents from rural Kansas with limited access to capital, the program helped me compete and win in the global economy. Second, the KAITC program is extraordinarily efficient and conservative. It provides \$6M of support each year to dozens of high growth potential new businesses with a small staff and low administrative costs. Rather than building a bureaucracy to source and evaluate new investment opportunities, make investments, and manage an investment portfolio (as many states have), the KAITC program provides resources alongside private investors that are making market-based decisions with their own capital. In this way, the KAITC program helps these businesses grow in a very efficient way, while leaving the job of picking winners and losers to the market. I ask you to consider why the KAITC program is generally highly regarded and widely supported while the KTEC program lost support over time and was eventually ended? One reason, I think, is that the KTEC program made its own decisions about what investments to make and what investments to pass on, which created two problems. First, since KTEC representatives were not investing their own money, the decision-making was susceptible to political influence. Second, since most investors make one investment for every 10 – 20 investments they are offered, the program was creating dozens of unhappy Kansans for each happy one. Over time, this contributed to an overall lack of support. Conversely, the KAITC program supports many more firms each year by granting them the opportunity to provide credits to investors. When those firms are successful in raising capital, they feel good about the help they received from the State of Kansas. When those firms are not successful in raising capital, they also feel good about the help they received and tend to own the failure themselves.

In closing, I would say that if the House, Senate, and Governor do not support the renewal of the KAITC program they may be able to “book” some savings in the next few years but the net effect of lost economic growth and tax revenue over time will be much, much larger.

Sincerely,



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