

ADVANTAGE CAPITAL

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Testimony of:

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Submitted to the Senate Commerce Committee
Hearing on HB 2168
Establishing the Ad Astra Rural Jobs Act

Chairwoman Lynn and Members of the Senate Commerce Committee:

Thank you for the opportunity to testify in support of HB 2168, the Ad Astra Rural Jobs Act (“Ad Astra”).

Many rural small businesses can’t get bank financing to help them grow and expand. The Ad Astra Bill would help. Rural Investment companies (“ICs”) will make longer term (six years or more), at-risk investments into these Kansas small businesses. This patient capital will help the businesses continue to have their financing needs met by local banks and provide them with a national network of co-investors. The ICs managers will serve on company boards, mentor entrepreneurs, connect them with their network of hundreds of other businesses, and assist the companies with personnel and finances as they grow.

Existing Kansas based businesses that will participate in Ad Astra can come from across a breadth of industries including, but not limited to, advanced manufacturing, plant sciences, agribusiness, mining, clean energy, cybersecurity, information technology, defense, life sciences and biotechnology. In addition, the companies must have fewer than 500 employees and less than \$15 million of revenue during the previous year.

Private sector management of the investments is a key to the success of Ad Astra. Federally licensed and regulated Rural Business Investment Companies (RBICs) and Small Business Investment Companies (SBICs) apply for the state to become ICs. Qualified applicants are given permission to raise private capital into Kansas-only ICs:

- Every dollar raised (i.e., 100%) of the funds raised comes from the private sector.
- A portion of the private dollars, 60%, are eligible for a future tax credits that can be clawed back.

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- The credits are only available to be claimed after every private sector dollar is invested in rural Kansas; and then they can only be claimed at a rate of 1/5 per year.
- The rest of the private capital, approximately equal to credit-based portion, must be raised and invested into the ICs to match. Notably, this private capital match receives no tax credits.
- 10% of the total funds raised must come from the ICs partners themselves.

To qualify, an applicant SBIC or RBIC must provide an investment strategy to the state. It must be reviewed by a third-party economist and found to be revenue-positive for the state by creating jobs that bring an economic impact that exceeds the cost of the credits. It is reasonable to expect 4-6 ICs to be approved and fully funded; however, 90+ SBICs and RBICs would qualify to become ICs.

The participating ICs will raise a combined maximum of \$166MM of private funds and invest 100% of it in qualified rural small businesses located in the state within 24 months. No more than 20% of the money in an IC can be invested in any single business.

Investors cannot be paid profits until the IC either (A) proves it met its job targets, or (B) it pays severe penalties to the state. This additional protection, is *innovative and unique* to access to capital programs. It serves to align the interests of the state, taxpayers, small business and investors. Furthermore, if at any point during the six-year compliance period a participating IC falls out of compliance, and fails to fix the non-compliance, tax credits associated with that investment are recaptured retroactively by the state.

Finally, this approach, when compared to other models like funds-of-funds or direct appropriations and investments by state agencies, shifts the risk *away* from the state. The risk is put on the tax credit investors to assure compliance and it is placed upon the private matching capital to assure job creation. Other approaches place too much risk on the state and likely expose the state to investment strategies that send tax payer dollars out of Kansas. Ad Astra strongly assures this will not happen.

Again, thank you for your time and consideration of this important legislation to create jobs in Kansas.

Sincerely,



Jeff Craver
Principal