

SESSION OF 2011

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2054

As Amended by Senate Committee on
Commerce

Brief*

HB 2054, as amended, would restructure the responsibilities of agencies and other state entities involved with economic development.

The bill would abolish the Kansas Technology Enterprise Corporation (KTEC) and transfer most of its duties and responsibilities to the Department of Commerce and the Secretary of Commerce. A function related to matching funds for federal research funding would be transferred to the Board of Regents. The bill would transfer all current policies, assets, and necessary employees to the two respective state agencies. Any conflict over the disposition of property, functions, or resources would be resolved by the Governor.

The Department would be allowed to engage in seed-capital financing for the development and implementation of innovations or new technologies for both existing and emerging Kansas businesses. At the discretion of the Secretary, the Department of Commerce would have the discretion to dispose of any investment or equity that had been made previously by KTEC.

The Department of Commerce would be authorized to finance research and development projects at Centers of Excellence located in state. The Commerce Department would be required to provide technical referral services to businesses and to encourage Kansas educational institutions to establish technical information databases and industrial

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

liaison offices. The Department also would be authorized to administer the Angel Investor Tax Credit.

The Board of Regents would be responsible for administering the State's matching grants that are used at Kansas universities for the federal Experimental Program to Stimulate Competitive Research (EPSCoR) Program. Part of the State's matching effort is conducted using the Strategic Technology and Research (STAR) Fund which would be transferred to the Board's control as well.

The bill would abolish the position that KTEC appoints to the Kansas Bioscience Authority's Board of Directors. The bill would make the Commerce Secretary an *ex officio* voting board member. This provision would take effect upon publication in the *Kansas Register*, and the bill's remaining provision would take effect on July 1, 2011.

The bill also would replace most ancillary references to KTEC found in various statutes with the applicable terms of Department of Commerce, the Secretary of Commerce, or the Board of Regents. Obsolete references to KTEC would be deleted.

Background

HB 2054 was introduced at the request of the Acting Secretary of Commerce. It is part of the Governor's plan to reorganize the executive branch.

Established in 1987, KTEC has the responsibility to create and maintain employment in Kansas by fostering innovation, stimulating the commercialization of new technologies, and promoting the creation, growth, and expansion of Kansas enterprises. To achieve its goals, KTEC works to promote entrepreneurial development, increase capital availability, help businesses adapt technology for new products and services, and identify specialized technology clusters that will grow the Kansas economy.

The Angel Investor Tax Credit Program is available to individuals who provide seed-capital financing for new and existing small Kansas businesses. Companies seeking investment from accredited angel investors must first be certified by KTEC. An angel investor may claim no more than \$250,000 in tax credits in any tax year. Angel Tax Credits may be sold under certain circumstances. They may be sold only once, and the buyer has to be another angel investor. KTEC serves the role of a clearinghouse when credits are sold.

EPSCoR is a federally funded matching program that assists states, such as Kansas, which have historically received a disproportionately low per-capita average of federal research funding. Universities are eligible to compete in EPSCoR grant competitions sponsored by six federal agencies. Currently KTEC is authorized to be the administrator for state matching funds.

The Acting Secretary of Commerce spoke in favor of the bill, saying that the Commerce Department would expand upon the work that already has been accomplished. It was estimated that \$1.7 million in savings could be achieved through the reorganization.

The CEO of KTEC spoke in opposition to the bill, saying that KTEC has been a counter-force to the recent economic recession. KTEC reported statistics that showed 899 companies were assisted during FYs 2007 through 2010. Over the course of four fiscal years, those companies generated an estimated \$1.15 billion in sales revenue. During the same time period, 2,043 new jobs were created by those companies, and 1,620 jobs were retained. The agency estimated that in FY 2010, \$3.36 in taxes was collected by the state for every \$1.00 spent on state investment. In 2009 a special interim committee recommended to the Legislature that KTEC remain a stand-alone state agency. KTEC estimated that \$500,000 could be saved by consolidating functions within the Department of Commerce.

Neutral testimony was provided by the KansasBio Association which gave examples of five start-up companies that were assisted by KTEC.

No fiscal note was available at the time of the hearing.

The House Committee amended the bill to assign the Centers of Excellence to Department of Commerce instead of the Board of Regents. This change reflects the Governor's recommended budget for the Commerce Department. There are currently four Centers of Excellence in Kansas located in Manhattan, Lawrence, Wichita, and Pittsburg which provide technical research to Kansas companies, primarily start-up companies.

The House Committee also deleted language which would have made the Commerce Department exempt from the State's purchasing laws. KTEC's statutory framework exempts the agency from following purchasing procedures. The Committee's remaining amendments make the bill grammatically consistent and less ambiguous.

The Senate Committee on Commerce deleted the provision that would have retained the KTEC Board and changed it into an advisory board. The Senate Committee also amended the bill to permit the Commerce Secretary to dispose of investment assets which KTEC had made. According to subsequent oral testimony provided by KTEC, the agency currently has invested approximately \$8 million in entrepreneurial companies. The portfolio's current value would be indeterminate at this time because there may not be a secondary market for each asset. The Committee also amended the bill to designate the Commerce Secretary as an *ex officio* voting board member of the Bioscience Authority.