Ad Astra Rural Jobs Act
Summary

The Ad Astra Rural Jobs Act ("AARJA") is designed to incent the formation of private capital to be invested in rural small businesses in high growth sectors. The RJA provides flexible financing assistance through both venture investment and growth capital lending to accelerate the expansion of the existing and new rural small businesses.

Summary

Federally licensed and regulated Rural Business Investment Companies (RBICs) and Small Business Investment Companies (SBICs) apply for the State to become Rural Investment Companies ("ICs"). Qualified applicants are given explicit permission to raise private capital into a state-only IC that will be eligible for up to a 15% net annual tax credit that is delayed for the first two years and claimed only in years 3-6 of the life of the fund. Additionally, more private capital must be raised and invested into the ICs to match the value of the credit. Ten percent (10%) of the total fund capital must come from the fund managers themselves.

To qualify as a fund manager, an applicant SBIC or RBIC must show it has raised and invested significant capital ($100M) in the past, with $50M invested in rural areas. It also must provide and investment strategy that will 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 5-10 ICs to be approved and fully funded.

The participating ICs must raise their funds and invest 100% of it in qualified small businesses located in the State within 24 months. In order to qualify, small businesses must have fewer than 500 employees and show less than $15 million in revenue during the previous year. A rural area is an area with fewer than 60,000 inhabitants, not adjacent to a contiguous urbanized area.

A IC will provide flexible and patient capital in the form of debt or equity to the small business and may not be paid fees of any kind for the service provided prior to year six. No more than 20% of the fund can be invested in any single business.

All private capital must remain at work in a qualified business through the sixth anniversary of a ICs fundraising. If capital is repaid it must be reinvested into another qualified business with no new tax credits issued. No distributions or fees can be taken by an IC prior to the sixth year, thereby aligning the interests of the State, taxpayers, small business and investors. If at any point during the six-year compliance period a participating IC falls out of compliance and fails to cure the non-compliance, tax credits associated with that investment are recaptured retroactively by the State.

During this time period, the ICs will serve as patient investment capital to these Kansas rural small businesses. This will help the businesses to continue to receive follow-on investments and other access to capital from the ICs and their national network of co-investors. The ICs' managers will serve on company boards, mentor entrepreneurs and assist the companies in the effort to grow.

SUGGESTED AMENDMENT: Upon exiting the program after year six, an IC must test its revenue creation. This should be changed to job creation across its portfolio of investments and tied to the projected job creation from its initial application. If job creation falls short, based on a sliding scale, the IC will owe part of its cash distributions to the State, thereby lowering the value of the credit.

AARJA Economic Development Best Practices in Place

State Tax Payer Protection

- Draconian claw back clause in the event of non-compliance

Alignment of Interests

- No fees or distributions can be taken until the program concludes

Small Business Targeting

- Small businesses with less than 500 employees and less than $15M in annual revenue qualify
- High growth industries
- No single business can receive more than 20% of an RGF's investment

Private Capital Requirement

- SBICs and RBICs must raise 100% of the capital from private sources

Economic Impact Standards

- Each participating SBIC or RBIC must complete a front-end revenue impact assessment to determine fund strategy impact on State revenue; the ratio must show at least a 1:1 return or greater
- SUGGESTED AMENDMENT**:** Funds will test job creation at the end of the fund like and pay significant cash proceeds to the State if job numbers fall short

Federal Credibility

- Tied to the SBIC and RBIC programs operated through the US Small Business Administration and the US Department of Agriculture

Right-Sized Incentive

- A 24 month delayed tax credit of 15 percent for 4 years requires new leveraged private capital to be brought into the fund.
- Credits will be limited to the first $166 million of capital raised can be spread out and claimed only after the ICs perform.