



House Commerce, Labor, and Economic Development Committee

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Testimony by:
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Proponent SB90

Expanding the Culture of Entrepreneurship in Kansas

Chairperson Tarwater, and members of the House Commerce Committee, thank you for giving us time to speak in support of Senate Bill 90 and provide a short overview of NetWork Kansas and how the entrepreneurship tax credit works.

The Kansas Economic Growth Act of 2004 created the Kansas Center for Entrepreneurship, which does business as NetWork Kansas. By statute, we serve as “the central portal for entrepreneurs seeking business assistance and financing options in Kansas.” We do this in partnership with the Secretary of State’s office and the Kansas Department of Commerce.

The primary source of funding for NetWork Kansas loan programs, entrepreneurship programs, operations, and the Entrepreneurship Community Partnership comes through the Entrepreneurship Tax Credit. The Entrepreneurship Tax Credit allows NetWork Kansas and E-Communities to raise funds each year for these programs and partnerships. The Entrepreneurship Tax Credit annual allocation is \$2 million. For the individual donor, it is NOT refundable but does have a carry forward provision.

Before 2018, we averaged 98% utilization of the tax credit or \$1.96 million each year. However in 2018, we were only able to utilize 69% or \$1.37 million of the tax credit. This represents a significant amount of funds lost to loan programs and entrepreneurship programming for rural areas and distressed areas of urban centers. We think the participation of banks will help us get back on track.

Let me explain how the Entrepreneurship Tax Credit currently works. Individuals and corporations donate to the Kansas Center for Entrepreneurship, Inc. and receive a state income tax credit. NetWork Kansas sends each donor a receipt for their tax credit. At

the end of the year, we send an excel spreadsheet to the Kansas Department of Revenue so they can cross reference it with tax returns filed by each individual donor. Senate Bill 90 will allow banks the opportunity to utilize the tax credit under the privilege tax provision. This provision was omitted from the original legislation in 2004. The only other change with SB90 is to raise the amount of tax credits that can be utilized by individuals, corporations, and banks from \$50,000 to a cap of \$100,000. The tax credit is not designated to a specific community or organization that donated. The funds are kept in a general account and benefit the entire state.

Now I'd like to briefly describe two of the areas that are funded by the Entrepreneurship Tax Credit, the NetWork Kansas referral center and our StartUp Kansas program. Erik Pedersen will talk about the Entrepreneurship Community Partnership.

History

When Erik and I were hired in May of 2005 to launch NetWork Kansas, the first piece of the Kansas Economic Growth Act that really laid the foundation for the entire Kansas ecosystem was to "establish a central portal to connect entrepreneurs to resources" which meant to create a statewide partner network. Let me give you a definition of NetWork Kansas partner: "A NetWork Kansas partner is any nonprofit or government sector organization or office that provides some type of business building service to entrepreneurs and small businesses."

Examples include KDOC business development staff, small business development centers, university commercialization centers, certified development companies that provide funding, economic development directors across the state, all of the state departments such as the department of labor and revenue, the secretary of state's office, SBA, USDA, etc.

An entrepreneur or small business anywhere in the state or outside the state can contact the referral center, tell us their situation and we will connect them to one or more of our partners based upon their particular need.

We launched the NetWork Kansas referral center in March of 2006 with 264 partners, we now have more than 550 partners across the state. We have received more than 28,000 inbound contacts since our launch and made more than 55,000 referrals.

We launched our StartUp Kansas program in August 2006. StartUp Kansas is focused almost entirely on rural businesses and is funded by the entrepreneurship tax credit. Since inception, StartUp Kansas has provided more than \$7.34 million in matching loans to 247 businesses throughout the state and leveraged more than \$37.58 million in additional capital. These loans represent 16% of the total capital in each deal. Other notable statistics with the current portfolio: 36% of the businesses are startups and 68% of the businesses are in towns with a population of 5,000 or less. Fifty-three (53) percent of StartUp KS loans have bank involvement. The StartUp Kansas program gave us the idea for the Entrepreneurship Community Partnership. Now I'd like to turn it over to Erik Pedersen, to discuss this nationally recognized program.

Thank you.

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*Loan numbers as of 1/31/19