



MEMORANDUM

Legislative Post Audit

800 SW Jackson Street

Topeka, Kansas 66612

Phone: (785) 296-3793

Web: www.kslpa.org

To: Senate Commerce Committee
From: Kristen Rottinghaus, Performance Audit Manager
Date: February 1, 2021
Subject: **Neutral Testimony on Senate Bill 66**

I appreciate the opportunity to provide neutral testimony on Senate Bill 66, which would extend and amend the angel investor tax credit program. We recently evaluated this program, and our findings may provide helpful context as you consider the bill.

In 2019, the Kansas Legislature assigned our office the responsibility to evaluate certain state economic development incentive programs (K.S.A. 46-1137). The angel investor tax credit is the first program we reviewed. Among other things, we found:

- **During 2015-2018, investors received \$20.2 million in income tax credits for investing \$51.5 million in Kansas businesses.** Investors came from 24 Kansas counties and 30 other states. Investment went to businesses in 8 Kansas counties, including \$32.6 million to Johnson County businesses.
- **During 2015-2018, the participating businesses generally appear to have met program intent.** State law requires participating businesses to have an innovative and proprietary product or service. Participating businesses operated in 31 industries. Most investments went to industries like scientific research, information technology, and pharmaceuticals.
- **We couldn't determine whether the program succeeded in getting participating businesses to stay in business and create jobs.** That's because state law doesn't provide benchmarks to measure success, and we couldn't determine causality. Department of Commerce officials told us they determine success by looking at whether businesses operate for at least 5 years and create jobs.
 - **From 2009-2019, the 181 participating businesses we reviewed created 212 net jobs and 28% operated for 5 years.** We compared participating businesses to a control group of similar Kansas businesses that didn't participate in the program. The non-participants stayed in business for about as long as participants but created more jobs.

- **But we couldn't determine whether those outcomes happened because of the program or something else.** The program may help lower quality businesses perform more like their higher quality peers, or it may not have a meaningful impact.
- **Finally, we included two recommendations for the Legislature's consideration.** First, we recommended the Legislature consider amending statute (K.S.A. 74-8136(g)) to shorten the requirement that participating businesses remain in Kansas for 10 years after getting investment. We also recommended the Legislature consider amending statute to clarify the angel investor tax credit program's goals, including specific benchmarks to measure program success.

You can find additional details about these and other findings in our full report, which is available at <https://www.kslpa.org/>. Thank you for your time today.