

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: CS/HB 705 Targeted Economic Development

SPONSOR(S): Economic Development and Tourism Subcommittee; Workman

TIED BILLS: **IDEN./SIM. BILLS:** SB 546

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Economic Development & Tourism Subcommittee	11 Y, 0 N, As CS	Collins	West
2) Economic Affairs Committee	15 Y, 0 N	Collins	Creamer

SUMMARY ANALYSIS

House Bill 705 amends s. 288.9625, F.S. to include innovation businesses among the entities eligible to receive assistance from the Florida Institute for the Commercialization of Public Research (Institute). The bill also grants the Institute the ability to create corporate subsidiaries, and, as long as it does not interfere with its core mission, may charge for services provided to private companies and affiliated organizations whose products are developed by the research and development activities of a publicly supported college, university, or research institute.

The bill also creates s. 288.96255, F.S. which would establish the Florida Technology Seed Capital Fund (Fund) as a corporate subsidiary of the Institute. The Fund will be administered by the Institute for the purpose of fostering greater private-sector investment funding, encouraging seed-stage investments in start-up companies, and advising companies how to restructure existing management, operations, or production in order to attract advantageous business opportunities.

This bill has no fiscal impact on state funds.

The effective date of this bill is July 1, 2013.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Current Situation

The Florida Institute for the Commercialization of Public Research was created by the Legislature in 2007¹ as a non-profit organization tasked with working collaboratively with the technology licensing and commercialization offices of Florida's publicly supported universities and research institutions. It focuses on assisting in the creation of investable companies that in turn create jobs in innovation industries within the state. The Institute's mission is economic development through the commercialization of new discoveries generated from publicly funded research. The Institute supports new company formation and growth activities that result in increased job creation, capital investment, and revenue generation.

Florida universities and research institutions are conducting ground-breaking research and discovery that spurs the creation of new products and companies. With a research base of over \$2 billion, the Institute plays a critical role in helping to uncover the most commercially-viable opportunities, and then supporting them with hands-on services and funding to increase their likelihood of success. Competing with 38 states that have similar initiatives, Institute programs enhance Florida's entrepreneurship and innovation ecosystem at the early stages, with assisted companies growing and creating high-wage, high-skill jobs thereby strengthening Florida's economy and competitive position worldwide.²

Presently, the Institute operates two seed funding programs: the Seed Capital Accelerator Program and the Florida Research Commercialization Matching Grant Program. The purpose of each is to attract capital investment into Florida-based startup companies, to foster effective management, growth, capitalization, technology protection, or marketing and business success.

Seed Capital Accelerator Program

In 2010 the Legislature appropriated \$10 million for the deployment of the Institute's Seed Capital Accelerator Program which provides loans ranging from \$50,000 to \$300,000 to qualified startup companies. These qualified companies are required to raise private, approved, matching funds thereby leveraging the state's investment and inducing additional private capital into Florida-based companies. The Institute notes that, to date, it has received over 80 applications for funding and committed \$6 million to 20 different companies. Of this, \$3.6 million has been dispersed to 12 companies who have directly created 75 jobs averaging \$74,000 in salary while raising \$12 million in private funds. The Institute expects the balance of the funding to be committed by the end of FY 2013 with projections of over 5,000 jobs to be created within the next 5-10 years.

Florida Research Commercialization Matching Grant Program

This program was created to match Federal Phase I and Phase II Small Business Innovation Research and Small Business Technology Transfer awards, both administered by U.S. Small Business Administration. The Institute developed and launched the program early in 2011, awarding nearly \$2.8 million to 13 companies statewide. Grantees have leveraged state funds to apply for and win additional federal grants and contracts, create direct high-wage, high skill jobs within their organizations, and engage local contractors to support development and manufacturing activities. All available funds in this program have been disbursed by the Institute resulting in 47 direct new jobs average \$60,000 in salary in addition to 9 new contracting positions. In addition, Federal grants awarded these companies over \$7 million.³

¹ Section 288.9625, F.S.

² The Florida Institute for the Commercialization of Public Research, *Annual Report*; June 30, 2012.

³ *Ibid*, 5

Effect of Proposed Changes

Expanded Purpose of the Florida Institute for the Commercialization of Public Research

The bill changes the purpose of the Institute to include assisting in the commercialization of products developed by the research and development activities of innovation businesses. The Institute may:

- Create corporate subsidiaries.
- Develop or accrue ownership, royalty, patent, or other rights over or interest in companies or products in connection with financing provided directly to client companies.
- Deliver and charge for services to private companies and affiliated organizations so long as doing so does not interfere with the core mission of the Institute.
- Not use its capital in support of private companies or affiliated organizations whose products were not developed by research and development activities of a publicly supported college, university, or research institute, or any other organization.

Florida Technology Seed Capital Fund

The Institute is directed to create the Florida Technology Seed Capital Fund as a corporate subsidiary. The purpose of the Fund is to foster greater private-sector investment funding, encourage seed-state investments in start-up companies, and advise companies on the restructuring of existing management, operations, or production in order to attract greater business opportunities.

The bill directs the Institute to establish an advisory board consisting of venture capitalists and early-stage investors who will advise and guide the fund in addition to making funding recommendations. The administration of the Fund will be the responsibility of the Institute. Administrative fees associated with the Fund will be determined by the advisory board. The state will annually evaluate the activities and results of the funding.

The bill requires the Institute to use a thorough and detailed process modeled after the best practices of the investment industry to evaluate each proposal. To approve a company for investment, the Institute must consider if:

- The company has a strong intellectual property position, capable management team, readily identifiable paths to market or commercialization, significant job-growth potential, the ability to provide other sources of capital to leverage the state's investment, and the potential to attract additional funding.
- The company has been identified by a publicly funded research institution.
- The company operates in a targeted industry.⁴
- The company has been identified by an approved private-sector lead investor who has demonstrated due diligence typical of start-up investments in evaluating the potential of the company.
- The advisory board and fund manager have reviewed the company's proposal and recommend it.

The Fund may make an investment if a company is approved for funding by the Institute and:

- The individual investment range is between \$50,000 and \$300,000.
- The total invested in a single company does not exceed \$500,000.
- There is a one-to-one match of private-sector investment for seed fund investments up to \$300,000.
- There is a two-to-one match of private sector investment for seed fund investments over \$300,000.

⁴ Section 288.106(2)(q), F.S.

In addition, the Institute may:

- Provide a company with value-added support services in the areas of business plan development and strategy, the preparation of investor presentations, and other critical areas identified by the Institute to increase its chances for long-term viability and success.
- Encourage appropriate investment funds to become preapproved to match investment funds.
- Market the attractiveness of the state as an early-stage investment location.
- Collaborate with state economic development organizations, national associations of seed and angel funds, and other innovation-based associations to create an enhanced state entrepreneurial ecosystem.

The Institute is required to annually evaluate the activities and results of the funding, taking into consideration that seed investment horizons span anywhere from 3 to 7 years.

B. SECTION DIRECTORY:

Section 1: Amends subsections (2), (9), (10), and paragraph (a) of subsection (11) of section 288.9625, F.S. to expand the scope of services offered by the Florida Institute for the Commercialization of Public Research.

Section 2: Creates section 288.96255, F.S. to establish the Florida Technology Seed Capital Fund as a corporate subsidiary of the Institute.

Section 3: Provides an effective date of July 1, 2013.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

This bill could have a positive impact on the private sector by stimulating more capital investment within the state.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill does not require a municipality or county to expend funds or to take any action requiring the expenditure of funds. The bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate. The bill does not require a reduction of the percentage of state tax shared with municipalities or counties.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

On March 13, 2013, the House Economic Development and Tourism Subcommittee adopted one amendment. The amendment was adopted to:

- Remove the provision requiring the Florida Technology Seed Capital Fund to consist of \$50 million.
- Remove language setting a cap of 5% on administrative costs associated with funds appropriated to the Fund as none have been appropriated, and replace with language allowing the advisory board to determine administrative costs paid out of the Fund.
- Clarify that the definition of target industry, as used in this bill, has previously been defined in statute.
- Address potentially confusing language in the bill related to individual company investment caps.

The analysis has been updated to reflect the amendment.