

## **Statement of Connecticut Innovations, Incorporated Regarding S.B. 1280 An Act Recapitalizing Connecticut Innovations, Incorporated**

Connecticut Innovations, Inc. (CI) supports S.B. 1280 An Act Recapitalizing Connecticut Innovations, Inc. Section 1 of S.B. 1280 authorizes \$50 million in state bond funds to Connecticut Innovations for support of its existing programs and the development of several new programs. Section 2 makes amendments to C.G.S. 32-41v, Connecticut New Opportunities Fund.

### Section 1 - General Purpose Bonding

In 1989, the Connecticut legislature recognized that nurturing a technology-based economy was critical to the economic health and competitiveness of our state and that there was a serious void in early-stage technology funding. In response, the legislature pursued a technology-based economic development strategy by transitioning the Connecticut Product Development Corporation (CPDC) into Connecticut Innovations, a quasi-public authority that builds and enhances the technology-based economy in Connecticut. CPDC had been capitalized with state bond funds and \$29.3 million of those funds were transferred to the newly formed CI. From FY1989 through FY1995 the legislature provided CI with an additional \$36.5 million in bond funds for its programs and initiatives. With this funding, CI proceeded to make grants, loans and royalty-based investments to emerging technology-based entities. During this six-year period there were significant write-downs and write-offs.

In FY1995, CI shifted its investment strategy and began making primarily equity and near-equity investments. Since that shift, and with no additional infusion of cash from the State, CI has invested over \$134 million in companies and initiatives that support the technology economy, funded all of its own operating expenses and sent \$17.5 million back to the State of Connecticut to help balance the state budget. We have accomplished this by investing in sixty-four emerging companies as well as various technologies and people that have been expanding the state's bioscience, information technology, photonics and clean energy industries.

Exhibit A – Connecticut Innovations Impact Statement specifically details the results generated from CI's use of its initial bond funds. It illustrates that:

- Accounting for multiplier effects, between FY 1995 and FY 2002 CI's investments resulted in more than:
  - 5,580 additional job years in the state;
  - \$510 million in additional income (GSP) in the state;
  - \$32 million in additional tax revenues; and
  - \$1 billion leveraged in additional investment into Connecticut from over 60 private investors.

- CI has invested and/or deployed \$110.7 million in 64 Connecticut technology companies and \$24 million in other technology initiatives such as the BioBus, Technology Scholar Program and Yankee Ingenuity Technology Competition.
- CI maintains an active portfolio of 28 companies valued at \$39.1 million as of December 31, 2006. Forty-three percent of the portfolio consists of information technology companies, 35% bioscience companies and 11% energy companies.

That brings us to where we are today – an organization that is truly a capital asset of the State of Connecticut that needs an additional investment from the state in order to achieve its statutory mission. Right now, the demand on CI for capital is stronger than it has been in almost 10 years. Exhibit C – Demand for Capital illustrates this point. Our pipeline has 35 companies in it, six of which are start-up bioseed companies. All but one of these 35 companies are at the seed or early stage of their development. In total, our pipeline companies are requesting \$41 million in financing. We also have 17 solid pre-seed deals in our pipeline ready to be assigned to a case manager in our newly-formed technology and program management department. Additionally, in the last six months, CI has funded or committed to 5 deals. This demand is great not only for CI but also for the state because it demonstrates that with the right programs and initiatives, Connecticut can be an attractive place for entrepreneurs who want to build a business.

Attached to this testimony you will find Appendix C - Three Year Investment Plan which outlines how CI intends to put these bond funds, and the cash we currently have on hand, to work for Connecticut. Of the \$50 million in bonding in S.B. 1280:

- \$20 million will provide follow-on investments to our current portfolio. Right now we have 28 companies in the portfolio and we anticipate that we will need to make between 15 and 20 follow-on investments;
- \$25 million will be added to \$30 million of CI's existing cash resources to create a \$55 million pool of capital to provide seed and early stage rounds of financing. \$15 million of this pool of capital will be held in reserve and \$40 million of it will be used to invest in between 20 and 25 new companies. Of this \$40 million, \$5 million will be put into our newly created pre-seed support services program. CI launched this program in direct response to legislation that was passed but not funded during the 2006 legislative session.
- \$4 million will be used to support our Yankee Ingenuity Technology Competition and \$1 million will be used to offset the costs CI incurs providing administrative support to the State's stem cell initiative.

## Section 2 – New Opportunities Fund

In 2005, the legislature passed P.A. 05-129 An Act Establishing a Connecticut New Opportunities Fund allowing Connecticut Innovations to undertake a new \$50 million capital initiative. This initiative, the Connecticut New Opportunities Fund, was intended to be a public/private venture fund to which the State of Connecticut would provide a first loss

guarantee of \$25 million to the fund's private sector partners. For a variety of reasons, this concept never took hold and the fund was never launched.

S.B. 1280 proposes amendments to the initial legislation that allow the State of Connecticut to invest in the New Opportunities Fund and through its investment, leverage a significant amount of private sector capital. The amendments make the State of Connecticut a special limited partner of the New Opportunities Fund which will be managed by Connecticut Innovations (see Exhibit E). Private sector investors to the fund will be limited partners eligible for a return of capital and 80% of the return on investment based on the performance of the fund. As a special limited partner, the State too will be eligible for a return of capital but it will waive its share of the return on investment as an inducement to the private sector, limited partners.

As manager and general partner of the fund, Connecticut Innovations will receive an annual management fee and will be eligible for 20% of the return on investment based on the performance of the fund. CI will evenly split its portion of its return on investment with the State of Connecticut as a substitute for the return on investment the State is waiving as a special limited partner.

This is a new, exciting model that has greater potential for success than the model passed in 2005. It sends the private sector the message that Connecticut wants to partner with it to invest in and grow the State's technology economy. Everyone wins with this model. If the fund succeeds - the State and the private investors get their initial capital investment back; private investors get an enhanced return on investment; CI earns an annual management fee which will help it cover its operating expenses; and the State and CI share in CI's 20% return on investment.

CI's goal, upon passage of this bill, is to raise up to a \$100 million fund. The State would invest \$25 million which will leverage up to \$75 million from the private sector. Raising the private sector investment will not be an easy task. We will have to call on corporate and political leaders around the State, such as you, to assist in our effort. Unlike other venture funds, the New Opportunities Fund will have several constraints to overcome. Principally, the New Opportunities Fund will have a limited geographic scope, that is, it can only make investments in Connecticut. Most venture funds have the ability to invest around the globe. The New Opportunities Fund also has a restricted investment purpose. It will only be able to invest in technology companies that fit the mission of Connecticut Innovations. Finally, Connecticut Innovations must be able to convince the private sector investors that despite our "quasi-public" status, our interest in success is clearly aligned with their interest in success.

The model outlined above makes the State a "special" limited partner because under it the State waives its portion of the return on investment that limited partners are eligible for. This improves the amount of return on investment for the remaining limited partners. We expect that this will help attract investors to the fund. More may need to be done though to attract investors. One idea this committee may want to consider is adding a provision to

the bill allowing individuals and entities that invest in the New Opportunities Fund to receive a tax credit for all or a portion of their investment.

Across the country states are realizing the critical nature of stimulating early stage companies in their overall economic growth plans. Texas just announced another \$300 million for such a program. Many other states are taking a similar approach, with significant resources. A member of Governor Spitzer's transition team recently visited Connecticut Innovations to learn about how we operate. The New York governor wants to create a similar model for a \$1 billion program.

Connecticut Innovations is proud of the value it has brought to the State of Connecticut. Overall, our investments have had a positive impact on the state's economy. CI has the market position, skills and talent necessary to continue this success. We just need additional funds to carry on. CI has requested \$50 million and support of a new fund. In fact, Connecticut Innovations could deploy significantly more money in a variety of new and creative ways.

S.B. 1280 provides a short-term solution to our capital needs and creates a model for long-term growth. As always, CI looks forward to working with the Commerce Committee to advance not only this bill, but all of the committee's initiatives that support the technology economy.