Bill # 323

# Entrepreneur's Tax Credit

**Legislative Hearing on Raised Bill No. 323**

**Presented by: Mary Anne Rooke**
**Managing Director, Angel Investor Forum**

**Prepared by: Liddy Karter**
**lkarter@kartercapital.com, 203 376 7958**

3/2/2010

## Active Angel Investor

Mary Anne Rooke

- Managing Director, Angel Investor Forum
  - Active Angel in CT for 4 years
- Background:
  - Born, raised & schooled in CT
  - Moved out of CT to start business career
    - Boston - 5 years
    - Silicon Valley - 20 years
  - Financial & management roles: Auditor to CFO
    - Public & private business
    - Start-ups to Fortune 500 companies

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## Active Angel Investor

Liddy Karter

- Managing Director, Karter Capital Advisors, llc
- Director and founder of Angel Investor Forum,
  - Chair Public Policy Comm. Angel Capital Assoc.
- Background:
  - Director of Innovation Pipeline Accelerator
    - A program of the CT Technology Council sponsored by the DECD
  - CFO of CT based, VC backed, software co, sold to NCR
  - CEO of CT based, Angel backed, environmental co, sold to waste company
  - Investment Banker: Morgan Stanley
  - Yale MBA, Columbia B.A.

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## Active Angel Investor

- Angel Investors are a key ingredient needed to stimulate and build an active & vibrant Entrepreneurial Community.
- CT is not a leader not a leader in helping early stage business grow & stay in CT
- CT does not yet have a strong Angel investment community
- Angel Investor Forum is building the Angel Investor network in CT

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## Strongly Support Bill #323

- Bill as written is fine
- Only change would be to have a third party, not CI, evaluate the effectiveness of the credit annually.
- Excellent to combine the sidecar fund and the SBIR support within the same organization as these will work collaboratively.

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## Leverage Private Capital

- National Angel Investing status
- Angel Investor Forum
- Wisconsin Model
- Ohio Model
- Lerner Roadmap
- CT Roadmap for Job growth

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## AIF's Sponsors and Affiliates

- Cash Sponsors:
  - Foley Hoag, Boston Based Law Firm
  - Hinckley Allen & Snyder, Boston Based Law Firm
  - CT Innovations
- In Kind Sponsors
  - CT Technology Council
  - CT Center for Advanced Technology
  - Robinson Cole
  - Wiggin & Dana
  - Accounting Resources Inc
  - Yale University
  - UConn



## AIF's Challenges

- Cash to pay for an Executive Director
- Operating in a vacuum in an uncoordinated environment
- Watching entrepreneurs go elsewhere
- Watching capital flow to NY and Boston



## Other State's Angel Stimulus

- Tax Credits: Wisconsin Example
  - Stimulates membership in Angel Groups
  - http://www.angelcapitalassociation.org/dir_resources/state_policy_issues.aspx
  - http://www.wisconsinangelnetwork.com/uploads/uploads/2009%20Wis%20Portfolio%20web.pdf
- Side car funds: Ohio example
  - Pays for Administrative staff through 2% fees
  - www.bioenterprise.com
- See: www.angelcapitalassociation.org.



WISCONSIN TECHNOLOGY COUNCIL

Angel Network

Funding and support:

*and private sponsors*



## WAN - Membership

- Angel Networks
- Angel and Early Stage Funds
- Venture Funds
- Corporate Strategic Partners

*-Members have access to Deal-flow Pipeline*
*-Currently there are 28 investor-member organizations*
*-Representing over 250 individual investors, funds with hundreds of millions*
*-Members listed at WAN website*



## Wisconsin Act 255: Tax Credits

| | Angel Investment | Early Stage Seed Investment Fund |
|---|---|---|
| Income Tax Credit: | 25% (per investment) *(12.5% per year - 2 yrs)* | 25% (per investment) |
| Effective Date: | January 1, 2005 | January 1, 2005 |
| Maximum Annual Aggregate Amount of Tax Credits Per Year: | $3.0 M (2005) $18.25M (2011) | $3.5 M (2005) $18.75M (2011) |
| Maximum Investment Per Company: | $1 M (2005) $8 M (2011) | $3 M (2005) $8 M (2011) |

Joe Kremer WAN
Jkremer@wisconsinangelnetwork.com



*lkarter@kartercapital.com*

## Thank you

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Mary Anne Rooke
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Bill # 323
Letters of Support

February 28, 2010

With reference to Raised Bill No. 307 #323
AN ACT IMPLEMENTING THE RECOMMENDATIONS OF THE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE CONCERNING ANGEL INVESTORS AND PROGRAMS IMPLEMENTED BY CONNECTICUT INNOVATIONS, INCORPORATED

I would like to express my strong support for legislation that would encourage angel investing in Connecticut businesses through a tax credit.

As an active angel investor, in my view the credit would have the following benefits :
1. Promote new ventures to start in Connecticut knowing that they could have more extensive access to difficult to find angel funds
2. Jumpstart innovation in Connecticut through a shorter funding cycle for start-up businesses, especially those that are technology focused
3. Stimulate more investors and entrepreneurs to see Connecticut as a state that encourages business formation and growth

I look forward to seeing such legislation pass in the immediate term, so that the benefits outlined above can be realized as soon as possible.

Sincerely

Craig Mullett

146 Tupelo Lane
Guilford, CT 06437

**Testimony on General Assembly Bill #307** ↓#323 **3 March 2010**

My name is Joseph DeMartino. I am Connecticut native who spent most of my working career out of the state while working as a software executive in both Northern California and Boston. I came back to Connecticut in the early 90s and settled in Glastonbury for family reasons but for career reasons continued to work in the Boston Area.

After retiring from the software business in 2007 following the sale of the company I was with to a private equity firm I began looking for opportunities to apply my skills closer to home. I became involved in Angel investing with the Angel Investor Forum here in Connecticut and over the past 2.5 years have made investment in 10 companies. I am currently President of AIF.

During my time in both Silicon Valley and along Boston's 128 corridor I experienced an environment that supported and encouraged both investment in and the growth on new businesses. I watched many of the small companies I was involved with grow and then spin off other companies which in turn attracted investment and support.

A recent Harvard study on geography and entrepreneurship shows a high correlation between the presence of small firms and long term job growth. Here is an excerpt from Xconomy on the report:

> Glaeser and Kerr use the presence of small firms as a proxy for entrepreneurship and find, that all else being equal, regional economic growth is highly correlated with an abundance of smaller firms. Specifically, they found that a 10 percent increase in the number of firms per worker in a metropolitan region in 1977 was associated with a nine percent increase in employment growth in that region between 1977 and 2000. Looking more closely at the connection between small independent firms and subsequent growth, they report that a 10 percent increase in average establishment size in 1992 was associated with a 7 percent decline in subsequent employment growth due to new startups. Regions with lots of small firms, in other words, tend to experience faster job growth than those with a few big ones.

The environment in Connecticut has been less than I had hoped for encouraging the establishment and growth of new businesses. I have watched as new CT companies get off the ground only to look at other geographies when it comes time to expand. Lack of workforce depth and difficulty attracting capital are prime reasons I hear for companies moving elsewhere.

The proposed Tax Credit for Angel investors and related legislation such as the sidecar fund will, I believe, encourage more investors to put money

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# What Makes a City Entrepreneurial?

David Luberoff 2/25/10

Why are some metropolitan areas so much more entrepreneurial than others? Silicon Valley seems almost magically entrepreneurial, with a new startup on every street corner, but in declining Rust Belt cities such startups are far and few between.

In a new Policy Brief published by Harvard's Rappaport Institute for Greater Boston, which is sponsoring a series of talks on geography and entrepreneurship, economists Edward Glaeser and William Kerr report that high levels of entrepreneurship are closely correlated with regional economic growth, which means that local policy makers who are looking for ways to rev the economic engines of their cities often are interested in policies that can generate more entrepreneurship.

Glaeser and Kerr use the presence of small firms as a proxy for entrepreneurship and find, that all else being equal, regional economic growth is highly correlated with an abundance of smaller firms. Specifically, they found that a 10 percent increase in the number of firms per worker in a metropolitan region in 1977 was associated with a nine percent increase in employment growth in that region between 1977 and 2000. Looking more closely at the connection between small independent firms and subsequent growth, they report that a 10 percent increase in average establishment size in 1992 was associated with a 7 percent decline in subsequent employment growth due to new startups. Regions with lots of small firms, in other words, tend to experience faster job growth than those with a few big ones.

If the relationship between an abundance of smaller firms and urban success is real, Glaeser and Kerr ask, then why are some regions more entrepreneurial than others? One possibility is that there might be particularly high returns for entrepreneurs in particular places and in particular industries. However, data on the value of shipments per worker does not support this hypothesis.

In contrast, they report, the data do support the idea—put forward in earlier work by both AnnaLee Saxenian (on the computer industry in the early 1990s) and by the late Ben Chinitz (on why New York City was outperforming Pittsburgh in the late 1950s)—that the presence of many small firms creates an infrastructure that makes it easier for new firms to enter the local marketplace.

They add that the data also seem to support a third explanation: that for a variety of reasons, some areas may have a greater supply of entrepreneurs. For example, places with more educated workforces generally have more startup growth, especially in industries that depend upon college-educated workers. Such industries, moreover, are more likely to locate in higher-amenity regions, particularly those with favorable climates.

Recognizing the powerful correlations between entrepreneurship and regional economic growth, state and local policymakers may want to do more to encourage entrepreneurship in their communities. Glaeser and Kerr warn, however, that policymakers should proceed cautiously, because economic research is only just beginning to fully understand key issues.

Bills: 307 + 323

Ms Liddy Karter

February 25, 2010

Dear Liddy,

I understand that you will be testifying Monday March 1, 2010 in a Connecticut legislative hearing in which the legislature is considering granting a 25% tax credit to accredited investors/angels who invest in new startup or early stage companies in Connecticut.

I wish I could join you but we are nearing commercialization of one of our companies, Jetera Inc. and I just can't spare the time as much as I would like to join you. Can I impose on you to offer my opinion on this matter, if the opportunity presents itself?

I'm aware of this legislation and I urge our legislators to pass this bill into law. I can't imagine a more effective piece of legislation in Connecticut to generate the many positive benefits I anticipate. Among these are:

1. Additional available funds to invest in more new companies
2. Easier funding availability to new startups so they spend less time fundraising and more time building the business
3. Significant numbers of new employees hired to work in these new enterprises
4. A more conducive climate that encourages new businesses to start up here in Connecticut, rather than across the border in New York or Rhode Island

When I think of some of the worst legislation our federal government has imposed on us, I'm so pleased to see that on a state basis our legislators have more between their ears than the apparent dust between the ears of many federal legislators for considering this very beneficial bill.

Sincerely,

Thomas P. McClain
Investor, Angel & Entrepreneur
294 West Mountain Road
Ridgefield CT 06877

Bill # 307 & 323

# Saltash Partners LLC

*Investing in American Ingenuity*

Marc Louargand
Principal

February 27, 2010

Distinguished Members
of the Connecticut General Assembly

*Re: AN ACT IMPLEMENTING THE RECOMMENDATIONS OF THE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE CONCERNING ANGEL INVESTORS AND PROGRAMS IMPLEMENTED BY CONNECTICUT INNOVATIONS, INCORPORATED.*

Honorable Chairman and members of the Committee:

My name is Marc Louargand. I reside at 1189 Prospect Avenue in West Hartford, CT. I am an active Angel investor and a member of the Board of Directors of the Angel Investor Forum of Connecticut. I am an economist and former professor of finance and real estate at the University of Massachusetts and MIT. I am retired from an institutional investment firm I co-founded which is headquartered in Hartford with offices around the globe and over 100 employees in Hartford. My career has focused on understanding local, regional and national economies and property markets.

Despite much focus by economic development groups on the relocation of large firms to bring jobs to their geography, such efforts bring rare successes and they come at high cost. Extensive research in the past three decades has shown that most job growth comes from small firms. Many of these firms are in growth industries but the vast majority of rapidly growing firms are in mature industries. Innovation drives these firms and their job growth. These are exactly the type of firms that are the focus of Angel investors.

The establishment of an Angel investment tax credit will substantially increase the ability of investors to fund small, high growth firms. Alternative efforts to support growth by focusing on specific industries are helpful but they miss the majority of job-creating enterprise. A generic tax credit supports growth in all industries. At the Angel Investor Forum, we try to invest in local firms but also find opportunities elsewhere. The presence of an investment tax credit would tip the scales in favor of a local investment on many occasions when the decision between opportunities might go another way.

Angel investors have limited resources. An investment tax credit would stretch those resources and allow additional investments from the same allocation amount. A twenty-five percent tax credit would potentially increase Angel investment in growth firms by as much as twenty-five percent per year.

Respectfully submitted,

Marc Louargand, Ph.D.

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#323

## Testimony on General Assembly Bill #307 3 March 2010

Good afternoon members of the General Assembly. Thank you for the opportunity to testify on Bill #307.

My name is William D. (Will) Hill. I am a transplanted advocate of Connecticut residing in Farmington since 1997. That year I came to work in Connecticut for The Stanley Works in New Britain as VP of Engineering & Technology and Corporate Officer responsible for innovation and product development. My role was to generate new products to drive growth at Stanley after prior years of flat sales. For the previous 24 years I worked for Black & Decker in various positions first in engineering then in marketing and finally leading product development for B&D and DeWalt power tools and accessories.

In April 2005 I retired from Stanley to become VP of marketing and sales for a fuel cell start up company in Livermore, California. The year and a half that I was in Silicon Valley opened my eyes to the capability of start up companies to drive economic growth. In Silicon Valley there is a culture around innovation in start-ups that is energizing and exciting. I saw first hand that this culture keeps young people in California even though the cost of living is higher than Connecticut.

When I came back to Connecticut in late 2006 I started looking for similar companies and opportunities here. During that search I became familiar with and joined two groups – the Angel Guild and Angel Investor Forum. These two groups identify, fund and mentor start-up companies. In these groups I came to appreciate the huge pool of talent and assets in Connecticut represented by individuals with backgrounds similar to mine. These individuals have a tremendous depth of experience and insight, as well as the assets, that can fund and mentor start-up companies.

Many of the young entrepreneurs I work with have great ideas but are short on the marketing and general business experience required to successfully commercialize a product. Angel investors can fill this experience void.

In the last 4 years I have personally invested in six start-up companies. Unfortunately this is close to my limit as a private investor to maintain a sensible level of asset diversification. This is a problem common to many of our members. An investment tax credit would offset part of our risk and allow us to invest in more companies.

In summary the tax credit of Bill #307 will help to activate Connecticut's pool of experienced investors to fund and mentor the start-up companies that are critical to creating jobs in our state and retaining our talented young people.

Thank you,

William D. Hill

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