

To: Senator LeBeau
Representative Berger
Members of the Commerce Committee

Date: March 15, 2012

Testimony to the Commerce Committee
In support of Raised House Bill # 5466:
AN ACT CONCERNING SOCIAL ENTERPRISE BUSINESSES

I am writing in support of Raised House Bill No. 5466. I am an attorney practicing law in the state of Connecticut since 2008. For two years I have been interested in the concept of social enterprise and became a volunteer fellow at RESET Social Enterprise Trust in Farmington, CT, in an effort to learn more about the subject.

RESET is an organization which is devoted to promoting, preserving and protecting social enterprise. At RESET I have conducted research on social enterprise and its business law implications and general significance. I fully support the passage of a bill introducing a unique corporate structure, known as Social Enterprise Business, or SEB, for business owners.

There are several states which have already passed legislation related to two types of social enterprises, L3Cs and benefit corporations. This SEB legislation is based on the statutory structure of benefit corporations but it can be distinguished because it serves to create more safeguards and protections to ensure the legitimacy of the social enterprise. Namely, it expands fiduciary duties of officers and directors to protect non-monetary considerations. Now, the duties of directors are not only to shareholders and the bottom-line, but also to employees, the community and the environment.

RESET has introduced me to several start-up social entrepreneurs. I have met MBA students whose concentrations are in the area of social enterprise. The idea is literally on the cusp of a global tipping point. These new start-ups need to legitimately operate with provisions created by statute. Connecticut must remain competitive in the marketplace and offer this additional corporate option for business owners. Otherwise, business owners will seek to incorporate elsewhere.

Below are suggestions to the current text of the bill that mirror concerns of the Connecticut Bar Association and others who critique the language of HB 5466.

- Section 4(a) should read “certificate of incorporation”, not “articles of incorporation” to reflect CT law.

- A “Dissenter’s Rights” clause should be added so that a shareholder of a business converting to a Social Enterprise Business has the right to receive a cash payment for the fair value of their shares in the event that they do not consent to the conversion.
- Section 4(a), 4(b) & 4(c) are too broad and ripe for misunderstanding. Terminology like “unreasonable”, “fair”, “certain classes” and “when practicable” should be eliminated. A process that simply sets a multiplier cap on the difference between compensation of the highest level employee as compared to the lowest level employee would be more workable.
- Section 4(d) needs to specify that the distribution to a specific public benefit is to an actual charitable organization so that there is no confusion about taxation.

Thank you for your attention to this important matter. I urge your support of the bill and I am available for any questions or concerns you may have.

Sincerely,

Rebecca Paolino, Esq.
Gerace & Associates
21 Oak Street
Suite 604
Hartford, Connecticut 06106
rebecca.paolino@gmail.com
(203) 592-9146

Resident of the town of Farmington, Connecticut