
OLR Bill Analysis

sSB 838

AN ACT ESTABLISHING A FUND FOR BIOSCIENCE INNOVATION.

SUMMARY:

This bill establishes the Connecticut Bioscience Innovation Fund (CBIF) to finance a wide range of commercially viable bioscience projects that will create jobs while lowering health care costs and improving the delivery of health care services. It capitalizes the fund by authorizing up to \$200 million in state General Obligation (G.O.) bonds over 10 years and allows the proceeds to be granted, loaned, or invested in projects proposed by start-up or early stage businesses, colleges and universities, and nonprofit organizations (eligible recipients).

The bill establishes a 13-member advisory committee to oversee the fund's operations and requires Connecticut Innovations, Inc. (CII), the state's quasi-public economic development agency, to administer the fund under the committee's supervision. The committee must establish the application process and eligibility requirements for financial assistance. It must also approve all expenditures except those to (1) repay the bonds and (2) reimburse CII for its cost to administer fund.

CII must manage the fund's assets; provide financial assistance to eligible recipients; and prepare the fund's annual plan, budget, and report, which must be reviewed and approved by the committee. By law, unchanged by the bill, CII provides different types of financial assistance, including equity investments, to businesses developing a wide range of technology-based products, techniques, and services. The bill allows CII to continue providing this assistance without risking or spending its funds to administer CBIF.

EFFECTIVE DATE: Upon passage

CONNECTICUT BIOSCIENCE INNOVATION FUND

The bill establishes CBIF to finance projects to improve the delivery of health care services, lower health care costs, and directly or indirectly create bioscience jobs. The projects can involve improvements or developments in services, therapeutics, diagnostics, and devices in pharmaceuticals, bioscience, biomedical engineering, medical care, medical devices, medical diagnostics, personalized medicine, health information management, and other related disciplines.

Nonprofit corporations, accredited colleges and universities, and for-profit start-up or early-stage businesses can propose the projects. Early stage businesses are those that have been operating for no more than three years and are developing or testing a product or service that is not yet available for commercial release or available only in a limited manner, including clinical trials or market testing of prototypes.

The fund can provide grants, credit extensions, loans, loan guarantees, equity investments, or any other form of financial assistance. Eligible recipients can use this assistance to pay for facilities; necessary furniture, fixtures, and equipment; materials and supplies; peer reviews; proof of concept or relevance; compensation; and other costs the advisory committee approves (see below).

Besides providing financial assistance to eligible recipients for the reasons described above, the fund must repay the bonds in the amounts the State Bond Commission requires and cover CII’s administrative costs.

FUNDING

Bond Authorizations

The bill capitalizes the fund by authorizing up to \$200 million in state G.O. bonds over 10 years, as Table 1 shows.

Table 1: Annual Bond Authorization for CBIF

<i>FY</i>	<i>Amount</i>
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2013	\$10 million
2014	\$10 million
2015	\$15 million
2016	\$15 million
2017	\$25 million
2018	\$25 million
2019	\$25 million
2020	\$25 million
2021	\$25 million
2022	\$25 million

When approved, the bill deems the principal amount of each bond to be an appropriation and an allocation. It also deems the approval the governor's allotment for such capital outlays, as required under the law.

As a rule, the State Bond Commission cannot issue more bonds in a year than the schedule allows. But, if the advisory committee does not use the amount authorized for a fiscal year, the bill allows that amount to be added to following year's authorization. In addition, the bill allows the cost of issuing the bonds and any capitalized interest to be added to each year's total bond authorization.

As with other bond authorizations, the bill allows the treasurer to issue temporary notes before selling the bonds under the bill. (These notes are repaid with the proceeds from the bond sale.)

Issuance Requirements

Under the bill, bonds cannot be issued until CII and the state (acting through the Office of Policy and Management and the state treasurer)

enter into a memorandum of understanding (MOU) on the bond issuance, which the State Bond Commission must approve. The MOU may include provisions regarding the extent to which federal, private, and other available funds should be added to the bond proceeds. The bill specifies that the MOU satisfies the bonding statutes' standard requirements.

Managing the Fund's Assets

CII must manage the fund by holding, administering, investing, and disbursing its assets, as the bill requires. It must put funds from the following sources in the fund:

1. money the law requires or permits to be deposited in the fund;
2. public or private contributions, gifts, grants, donations, bequests, or devises made to it;
3. principal and interest payments on loans CII makes with the fund's assets; and
4. returns on the fund's equity or other investments, including loan repayments, guarantee fees, royalties, options, warrants, debentures, and all forms of remunerations received in return for the fund's financial assistance.

Lastly, CII must carry forward any of the fund's year-end balance to the next fiscal year.

The bill allows CII to deposit money the fund receives, or already has, in an institution it chooses. The institutions receiving these funds must invest or pay them as CII directs. CII may tap these deposits to make payments for the purposes the bill authorizes.

The bill specifies that the CBIF is not a General Fund account and is available only for the purposes the bill authorizes.

ADVISORY COMMITTEE

Composition

The bill establishes a 13-member advisory committee to oversee the

fund. The committee consists of four members appointed by the governor; one appointed by each of the six top legislative leaders; the public health and economic and community development commissioners or their designees, who serve as ex officio voting members; and CII's executive director, who serves as the committee's chairperson. The governor and the legislative leaders must make their appointments by July 1, 2013.

Qualifications

The appointing officials must appoint members who have skill, knowledge, and experience in health care delivery systems, medical devices, life science, insurance, or information technology-related businesses and sciences. These members serve the same term as the official who appoints them, but must hold their position until that official appoints a successor. Appointing officials fill any vacancies for the term's balance.

Compensation

The members receive no compensation for their service, but must be reimbursed for their actual and necessary expenses while performing their official duties.

Meetings

The chairperson must call the committee's first meeting by September 30, 2013, and the committee must meet at least quarterly thereafter and when the chairperson deems it is necessary. The committee may transact business or exercise its powers only when it has a quorum (i.e., seven members present). In these situations, the committee must decide matters by a majority vote of the attending members.

Conflict of Interest

The bill specifies that it does not constitute a conflict of interest for committee members to be affiliated with an eligible recipient or hold a financial interest in that recipient, as long as they abstain from any deliberation, action, or vote specifically related to that recipient. The affiliation can be as a trustee, director, partner, officer, manager,

shareholder, proprietor, counsel, or employee.

Approving Financial Assistance

The advisory committee must establish a process for receiving and approving financial assistance applications that includes guidelines and terms for receiving such assistance. The guidelines and terms must include:

1. provisions requiring that applicants operate in Connecticut or relocate all or part of their operations here as a condition of receiving the assistance,
2. limits on total grant and loan amounts,
3. grant and loan eligibility requirements that encourage and support collaboration among eligible recipients,
4. requirements for peer reviews,
5. a process for CII to screen applications for strength and eligibility before presenting them to the committee for its consideration,
6. objectives for returns on investments, and
7. any other guidelines and terms the committee determines are necessary and appropriate to further the fund's objectives.

Expenditure Control

The advisory committee must approve all CBIF expenditures except those made to CII to cover its administrative costs and the amounts required by the State Bond Commission to repay the bonds issued to capitalize the fund. The committee must exercise expenditure control by approving expenditures for:

1. specific purposes;
2. budgeted amounts, with variations the committee authorizes when it approves the budget; or

3. financial assistance to eligible recipients, subject to any limits, eligibility requirements, or conditions the committee may impose.

CII's FUND ADMINISTRATION DUTIES

Besides managing CBIF's assets and providing financial assistance, CII must use the fund to cover the bill's administrative requirements. Specifically, it must provide any staff, office space and systems, and administrative support needed to do so. In administering the fund, CII may use any of its statutory powers as the state's venture capital and technology innovation arm (e.g., enter into agreements providing financial assistance for marketing new and innovative services based on the use of specific technologies, products, techniques, services, or processes).

CII's administrative responsibilities include preparing an annual operations plan and operating and capital budget, which it must do for each fiscal year beginning January 1, 2014. It must submit these documents to the advisory committee for review and approval no later than 90 days before the fiscal year begins.

CII must recover its administrative costs from the fund's assets. These costs include peer reviews, professional fees, allocated staff costs, and other out-of-pocket costs CII attributes to operating and administering the fund. The bill limits the total reimbursement for these costs to 5% of the fund's total annual allotment, as specified in the operating budget.

By April 15, 2014, and annually thereafter, CII must report on the fund's activity to the advisory committee, providing any available information on the fund's status; its operational performance; the type, amount, and recipients of the financial assistance it provided; and any returns on the fund's investment. The committee must review the report and, upon approving it, submit it to the Appropriations; Commerce; Public Health; Higher Education; and Finance, Revenue and Bonding committees.

COMMITTEE ACTION

Commerce Committee

Joint Favorable Change of Reference

Yea 15 Nay 2 (03/07/2013)

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 39 Nay 11 (04/16/2013)