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LETTER FOR FINANCE COMMITTEE ON SENATE BILL 28

Senator John Fonfara
Co-Chair, Finance, Revenue and Bonding Committee
Room 3700, Legislative Office Building
Hartford, CT 06106

Representative Patricia Widlitz
Co-Chair, Finance, Revenue and Bonding Committee
Room 3700, Legislative Office Building
Hartford, CT 06106

Dear Senator Fonfara, Representative Widlitz and Members of Committee,

I am writing to offer my support for the Governor's recommendation to replenish the Angel Investment Tax Credit with $3 million in funding, and extend the program through 2016. However, I am opposed to new Section 7(g) of Senate Bill 28 that establishes a recapture provision against the tax credit.

In addition to being an Angel Investor, I am the Chief Executive Officer of an early-stage company that has relied upon Angel Investments in the past and is currently finalizing an additional round of funding that will include Angel Investments. Our company, SmartPay Solutions, LLC is headquartered in Southington, Connecticut and is a Connecticut Innovations portfolio company. We are on the approved list of companies that are eligible for Angel Investor Tax Credit investments in the State of Connecticut. We currently have a workforce of ten highly-skilled employees, all based in Connecticut. We expect our organization to grow to about 135 employees within the next four years. We believe that Connecticut has people with the type of experience we will require, and we look forward to playing a small role in strengthening the State's economy.

But capital, especially in the early stages of a company, is the fuel we need to get there. We've seen the surveys showing Connecticut in unfavorable light compared to other states that are more amenable to early stage business development. There are areas where our business climate could be more accommodating. But two areas where Connecticut excels is the Connecticut Innovations organization and how the State encourages Angel Investing.

I've worked with start-ups and venture capital- and private equity-backed companies across the U.S. and it is my opinion that Connecticut Innovations is top-shelf among their peers from other states, both in the way the organization is structured, and in the professionalism of their leadership and team.

The Angel Investor community in the State is also a tremendous asset for us. We are fortunate to have so many individual investors who are willing to risk their money and share their time and experience with start-ups. Whether grouped together in the well-regarded Angel Investor Forum or similar consortiums or acting independently, we need to embrace this important source of early stage capital. We also need to ensure that their money stays here in Connecticut as much as we can, rather than leaking out to New York, Massachusetts or other states all over the country where it may be more welcomed.

Angel Investing is probably the most high-risk form of investing because of the very early stage at which the investments are made. Most companies never survive beyond the initial Angel rounds and in those cases, 100% of the investment is lost. Connecticut's Angel Investor Tax Credit can soften the blow, and in many cases, may tilt the scale as to whether an Angel Investment is made or not made.

Section 7(g) of Senate Bill 28 that establishes a recapture provision against the tax credit diminishes the attractiveness of making Angel Investments in Connecticut. I realize the intent of this provision is to ensure that companies don't receive investments where Connecticut tax credits are granted, only to later move out of state. I understand this and

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support the concept. But Angel investors have no, or very little, control over the management of the companies in which they invest. Companies in which angels invest may be sold, relocate or hire and fire employees at their discretion. Under new Section 7(g), the investor will be obligated to repay all or a portion of the credit received, through no fault of the investor, for decisions made by a company's management to sell the company, relocate outside of Connecticut or fail to maintain 75% of its workforce from Connecticut residents within two years after the investor's investment.

When a company does fail, its final act may be a "fire sale" of whatever scant assets the company may have remaining. This may be furniture or computer equipment, trademarks, website domain names, and other assets that may have some negligible value to another party. Section 7(b) of the proposed law would deem this a sale and subject the Angel Investor to a recapture of the credit they received. This would be on top of the existing pain caused by the loss of their Angel Investment.

Many investors simply will not take that risk and, instead, will choose to invest their money in more friendly climates such as New York and Massachusetts, as was the case prior to Connecticut having the Angel Investment Tax Credit in place. At the very least, new Section 7(g) will not encourage angel investment in Connecticut companies, which is the purpose of the tax credit program.

While Connecticut does have an outstanding group of Angel Investors as residents, we are still at a distinct disadvantage in angel investment resources when compared to larger pools of angels located in nearby New York City and Boston, not to mention Silicon Valley and Seattle. The Angel Investment Tax Credit has significantly increased the number of investors, the number of deals, and therefore the start up activity in Connecticut. At a time when we are last in the nation in start up activity, Connecticut should be finding ways to enhance the number of start-ups, rather than present limitations on the only source of funding for this critical stage of a company's growth.

For these reasons, I urge you to remove Section 7(g) from Senate Bill 28. Thanks for taking the time to hear my view.

Sincerely,

Steve

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cc: Representative William Aman
Representative Joe Aresimowicz
Senator Gary LeBeau
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