Testimony of
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Before
The Commerce Committee
On
Senate Bill 540
"An Act Increasing the Aggregate Cap on the Insurance Reinvestment Fund Tax Credits and Renaming Such Funds Invest CT Funds"
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Senator Hartley, Representative Perone, members of the Commerce Committee. My name is Liddy Karter. I am the Managing Director of Enhanced Capital Partners with an office based in Stamford, CT. I am here today to testify in **strong support of Senate Bill 540** "An Act Increasing the Aggregate Cap on the Insurance Reinvestment Fund Tax Credits and Renaming Such Funds Invest CT Funds." Let me begin with a history of this fund and then provide the committee an overview of the value of this fund to the state's economy.

- History of need for risk capital in CT –
    - It is important to put the value of this capital to small businesses in CT in the context of CT's competitive small business investment position nationally and globally. From 1985 to about 2002, CT ranked #4 among states for venture capital deployed and managed. It diverged at that point for several reasons. The was a concentration of the largest venture funds in MA and CA and a large number of other states like NY and TX began to invest heavily in small business formation and growth. CT fell precipitously behind from 4th to 21st in terms of venture capital dollars invested per capita. We remained there for about a decade despite the stability of venture funds still headquartered and managed in CT.
    - We began to claw out way back starting in 2010 with the implementation of the Angel Tax Credit program to fund very early stage businesses and the Insurance Reinvestment Fund program to fund growth stage companies. Governor Malloy and his administration built on these successes with the implementation of CT Next to fund an ecosystem for innovation and entrepreneurship. This has born significant fruit. CT now ranks 9th in terms of venture investment per capita. Equally important is that we are the highest among all 50 states in terms of early stage investment per capita. This is a direct result of the CT Next program.
    - In innovation oriented economic development, the most effective strategy is to "grow your own". But there is no point in growing early stage companies only to give them up to neighboring states when they need additional growth capital. Over the past 4 years, CT has developed a network of universities, investors, large corporations and public institutions to start and grow businesses in our state. This

network adds jobs and vibrancy to our local economy. You can see from our portfolios that the CT network is broad based. It is not concentrated only in one area like the networks in NY and Boston. Our growth companies are spread across the state. They are in diverse industries from social media to advanced manufacturing with customers from all over the world. CT's innovation economy is a reflection of our varied economy. It is adding an innovative overlay that will drive us for this century. Supporting these growing companies is the task of the Insurance Reinvestment Fund Program.

- Types of capital IRF provides
  - The IRF fits into this ecosystem in a crucial way. Broadly we call this capital mezzanine debt. We offer the transitional capital between pure equity, very early stage venture capital and mature, later stage growth capital which is often provided by banks. Early capital is in particularly short supply because of the increased financial regulation of commercial banks. At the same time venture capital became less available when portfolio values were reduced in 2008 and institutional risks for pension funds and endowments were curtailed.
- How the IRF integrates with CI and DECD programs
  - Private mezzanine debt provided by the Insurance Reinvestment Fund dovetails with the CT Innovations' and DECD's equity and debt programs. The IRF program provides the continuum of capital that many growing small businesses require to move from publicly supported programs to completely private capital that might come as later stage venture capital funding, private equity funding or bank debt.
  - The strategy is working. The Insurance Reinvestment Funds program has catalyzed roughly 3.6 times in private capital for every dollar invested by the Insurance Reinvestment Funds. This totals roughly $537 million invested in 75 companies. In addition, CT Innovations and the DECD have invested $49 million in these same companies. These funds stimulate the economic ecosystem and provide a meaningful bridge to private capital.
  - These funds are efficient to administer. They do not require significant state employee activity. In fact one person at the DECD provides all the required oversight. The fund requirements are clear so it is easy to ensure that the requirements are met. The primary criterion to qualify for these funds is that 80% of the employees are residents, and therefore taxpayers to the state of CT.

- Results of IRF program to date
  - The IRF program has exceeded all the goals set out for it. The economic analysis shows that for every $1 spent on the IRF program $2.21 will be earned by the state. The return to the State comes primarily from income tax revenues and secondarily from reduced

unemployment costs. The program has created 640 jobs and retained 1972 jobs through December 31, 2014. This is approximately twice the number of jobs projected to be created or retained. Although it is not a requirement of the program it is worth noting that 99% of these jobs provided employees with health insurance. Also, we understand that the vast majority of these jobs are high skilled and pay well.

- The timing of the tax credit claims and the job creation requirements ensures that the program must be consistently net positive to the state. **No tax credits are claimed for the first four years of the investment period.** Essentially all of the $200 million of the program will be **invested within those four years** so the funds are put to work generating jobs **long before the tax credits are claimed over the remaining 6 years of the program.**
- All three of the qualified Insurance Reinvestment Fund managers have large pipelines of companies that need capital to grow and cannot find other capital. This program has been extraordinarily successful but we, as a state, cannot declare victory. With CT's strengths we could be the best state in which to grow companies. To achieve this we must sustain the strategic decision to stimulate that growth. We would like to continue to be part of the future of Connecticut and so **I ask you to renew this successful program. Please support Senate Bill 540.**