



Senate

General Assembly

File No. 634

February Session, 2018

Substitute Senate Bill No. 541

Senate, April 23, 2018

The Committee on Finance, Revenue and Bonding reported through SEN. FONFARA of the 1st Dist. and SEN. FRANTZ, L. of the 36th Dist., Chairpersons of the Committee on the part of the Senate, that the substitute bill ought to pass.

***AN ACT PROMOTING INNOVATION, ENTREPRENEURSHIP AND
INTRAPRENEURSHIP IN THE STATE.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 32-39f of the 2018 supplement to the general
2 statutes is repealed and the following is substituted in lieu thereof
3 (*Effective July 1, 2018*):

4 (a) On or after June 2, 2016, Connecticut Innovations, Incorporated
5 shall establish a subsidiary, to be known as CTNext. On and after July
6 1, 2018, CTNext shall be a body politic and corporate to be known as
7 "CTNext". Such corporation is constituted a public instrumentality and
8 political subdivision of the state and the exercise by the corporation of
9 the powers conferred in this chapter shall be deemed and held to be
10 the performance of an essential public and governmental function.
11 CTNext shall not be deemed to be a department, institution or agency
12 of the state.

13 (1) The [purposes] primary purpose of CTNext shall be to foster
14 [innovation, start-up and growth stage businesses and entrepreneur
15 community building; to serve as a catalyst to protect and enhance the
16 innovation ecosystem;] and oversee the growth and continuous
17 improvement of a state-wide entrepreneurial ecosystem that is
18 supportive of Connecticut innovators and entrepreneurs and to initiate
19 changes to practices that the CTNext board of directors deems to be
20 outdated to improve such ecosystem; to maintain an active and
21 conspicuous presence at all nodes of such ecosystem and continuously
22 increase connections between such nodes; and to regularly reassess the
23 health of such ecosystem, identify its changing needs, adopt initiatives
24 or adapt existing initiatives to meet such needs and regularly inform
25 the General Assembly of such needs by proposing recommended
26 legislation deemed necessary or desirable by the CTNext board of
27 directors.

28 (2) The further purposes of CTNext shall be to support the growth
29 of start-up and growth stage businesses; to promote entrepreneur
30 community-building; to connect start-up and growth stage
31 entrepreneurs with other start-up and growth stage entrepreneurs and
32 with state, federal and private resources; to facilitate the establishment
33 of innovation places and the development, growth and evolution of
34 innovation places individually and in mutually supportive connections
35 to other innovation places; to facilitate mentorship for start-up and
36 growth stage entrepreneurs; to provide technical training and
37 resources to start-up and growth stage businesses and entrepreneurs;
38 [and] to facilitate innovation and entrepreneurship at institutions of
39 higher education; and to identify areas in which current practices and
40 policies at such institutions are not realizing their full potential.

41 (3) CTNext shall do all things necessary and proper to carry out the
42 purposes set forth in subdivisions (1) and (2) of this subsection.

43 (4) CTNext shall not be an employer, as defined in section 5-270.
44 Connecticut Innovations, Incorporated shall establish CTNext
45 pursuant to the provisions of section 32-11e, except that at least half of

46 the members of the CTNext board of directors shall not be required to
47 be members of the board of directors of Connecticut Innovations,
48 Incorporated or their designees or officers or employees of the
49 corporation. No further action is required for the establishment of the
50 subsidiary, except the adoption of a resolution for the subsidiary.
51 CTNext shall constitute a successor authority to Connecticut
52 Innovations, Incorporated in accordance with the provisions of
53 sections 4-38d, 4-38e and 4-39, for the purposes of the powers in
54 subdivisions (22), (28) and (40) of section 32-39 transferred from
55 Connecticut Innovations, Incorporated to CTNext pursuant to section
56 32-39.

57 (b) CTNext shall be overseen by a board of directors, which shall be
58 known as the CTNext board of directors or the CTNext board. The
59 CTNext board of directors shall consist of eleven members, a majority
60 of whom shall be serial entrepreneurs representing a diverse range of
61 growth sectors of the Connecticut economy. By education or
62 experience, such members shall be qualified in one or more of the
63 following: Start-up business development, growth stage business
64 development, investment, innovation place development, urban
65 planning and technology commercialization in higher education. The
66 CTNext board shall consist of the following members: (1) One
67 appointed by the Governor for an initial term of two years; (2) one
68 appointed by the speaker of the House of Representatives for an initial
69 term of two years; (3) one appointed by the president pro tempore of
70 the Senate for an initial term of two years; (4) one appointed by the
71 majority leader of the House of Representatives for an initial term of
72 one year; (5) one appointed by the majority leader of the Senate for an
73 initial term of one year; (6) one appointed by the minority leader of the
74 House of Representatives for an initial term of one year; (7) one
75 appointed by the minority leader of the Senate for an initial term of
76 one year; (8) two jointly appointed by the chairpersons of the joint
77 standing committee of the General Assembly having cognizance of
78 matters relating to finance, revenue and bonding for an initial term of
79 two years; and (9) the executive director of Connecticut Innovations,
80 Incorporated and the Commissioner of Economic and Community

81 Development, both of whom shall serve ex officio. Thereafter, all
82 members shall be appointed by the original appointing authority for
83 two-year terms. Any member of the board shall be eligible for
84 reappointment. Any vacancy occurring other than by expiration of
85 term shall be filled in the same manner as the original appointment for
86 the balance of the unexpired term. The appointing authority for any
87 member may remove such member for misfeasance, malfeasance,
88 wilful neglect of duty or failure to attend three consecutive board
89 meetings. For the purposes of this section, "serial entrepreneur" means
90 an entrepreneur having brought one or more start-up businesses to
91 venture capital funding by an institutional investor and "growth stage
92 business" means a business (A) that has been incorporated for ten
93 years or less, (B) that has raised private capital, and (C) whose annual
94 gross revenue has increased by twenty per cent for each of the three
95 previous income years of such business.

96 (c) All initial appointments to the board of directors shall be made
97 not later than September 1, 2016. [The chief executive officer of
98 Connecticut Innovations, Incorporated shall schedule the first meeting
99 of the board, which shall be held not later than October 15, 2016.] The
100 chief executive officer of Connecticut Innovations, Incorporated shall
101 be the chairperson of the board. The CTNext board shall meet at least
102 quarterly, and at such other times as the chairperson deems necessary.

103 (d) Members of the CTNext board of directors may not designate a
104 representative to perform in their absence their respective duties under
105 this section or section 32-39g, as amended by this act.

106 (e) The [chairperson shall, with the approval of the] members of the
107 CTNext board of directors [, appoint] shall approve the appointment of
108 an executive director of CTNext who shall be an employee of CTNext
109 and paid a salary prescribed by the members. The executive director
110 shall supervise the administrative affairs and technical activities of
111 CTNext in accordance with the directives of the board.

112 (f) Each member of the CTNext board of directors shall serve
113 without compensation but shall be entitled to reimbursement for such

114 member's actual and necessary expenses incurred in the performance
115 of such member's official duties.

116 (g) Members may engage in private employment, or in a profession
117 or business, subject to any applicable laws, rules and regulations of the
118 state regarding official ethics or conflict of interest.

119 (h) A majority of the directors of the CTNext board then seated shall
120 constitute a quorum for the transaction of any business or the exercise
121 of any power of CTNext. For the transaction of any business or the
122 exercise of any power of the authority, and except as otherwise
123 provided in this section or section 32-39g, as amended by this act, the
124 CTNext board may act by a majority of the members present at any
125 meeting at which a quorum is in attendance.

126 (i) CTNext shall continue as long as it has obligations outstanding
127 and until its existence is terminated by law, provided no such
128 termination shall affect any outstanding contractual obligation of
129 CTNext and the state shall succeed to the obligations of CTNext under
130 any contract. Upon the termination of the existence of CTNext, all its
131 rights and properties shall pass to and be vested in Connecticut
132 Innovations, Incorporated.

133 (j) [It] Notwithstanding any provision of the general statutes, it shall
134 not constitute a conflict of interest for a trustee, director, partner or
135 officer of any person, firm or corporation, or any individual having a
136 financial interest in a person, firm or corporation, to serve as a member
137 of the CTNext board of directors, provided such trustee, director,
138 partner, officer or individual [complies with all applicable provisions
139 of chapter 10, except as provided in this subsection] shall abstain from
140 deliberation, action or vote by the board in specific respect to such
141 person, firm or corporation. All members shall be deemed public
142 officials and shall otherwise adhere to the code of ethics for public
143 officials set forth in chapter 10, except that no member shall be
144 required to file a statement of financial interest as described in section
145 1-83.

146 Sec. 2. Section 32-39g of the 2018 supplement to the general statutes
147 is repealed and the following is substituted in lieu thereof (*Effective July*
148 *1, 2018*):

149 (a) For the purposes enumerated in subsection (a) of section 32-39f,
150 as amended by this act, CTNext is authorized and empowered to:

151 (1) (A) Employ such assistants, agents and other employees as may
152 be necessary or desirable who shall not be employees, as defined in
153 subsection (b) of section 5-270; (B) establish all necessary or
154 appropriate personnel practices and policies, including personnel
155 practices and policies relating to hiring, promotion, compensation,
156 retirement and collective bargaining, which need not be in accordance
157 with chapter 68 but may be in accordance with the personnel practices
158 and policies of Connecticut Innovations, Incorporated; and (C) engage
159 consultants, attorneys and appraisers as may be necessary or desirable
160 to carry out its purposes in accordance with this section;

161 (2) Receive and accept grants or contributions from any source of
162 money, property, labor or other things of value, to be held, used and
163 applied to carry out the purposes of this section subject to such
164 conditions upon which such grants and contributions may be made,
165 including, but not limited to, grants or contributions from any
166 department, agency or instrumentality of the United States or this state
167 for any purpose consistent with this section;

168 (3) Make and enter into all contracts and agreements necessary or
169 incidental to the performance of its duties and the execution of its
170 powers under this section, including contracts and agreements for
171 such professional services as CTNext deems necessary, including, but
172 not limited to, financial consultant and technical specialists;

173 (4) Procure insurance against any liability or loss in connection with
174 its property and other assets, in such amounts and from such insurers
175 as it deems desirable, and procure insurance for employees;

176 (5) Account for and audit funds of CTNext and funds of any

177 recipients of funds from CTNext;

178 (6) Establish advisory committees to assist in accomplishing its
179 duties under this section, which may include one or more members of
180 the CTNext board of directors and persons other than members;

181 (7) Serve as a resource to start-up and growth stage entrepreneurs in
182 this state by (A) providing counseling and technical assistance in the
183 areas of entrepreneurial business planning and management, financing
184 and marketing for start-up and growth stage businesses; and (B)
185 conducting business workshops, seminars and conferences with local
186 partners, including, but not limited to, in-state public and independent
187 institutions of higher education, municipal governments, regional
188 economic development districts, private industry, chambers of
189 commerce, small business development organizations and economic
190 development organizations;

191 (8) Facilitate partnerships between innovative start-up and growth
192 stage businesses, research institutions and venture capitalists or
193 financial institutions;

194 (9) Increase the quantity and availability of capital for start-up and
195 growth stage businesses and entrepreneurs including, but not limited
196 to, angel investors and venture capitalists;

197 (10) Promote technology-based development in the state;

198 (11) Encourage and promote the establishment of and, within
199 available resources, provide financial aid to advanced technology
200 centers;

201 (12) Maintain an inventory of data and information concerning state
202 and federal programs that are related to the purposes of this section
203 and serve as a clearinghouse and referral service for such data and
204 information;

205 (13) Promote and encourage and, within available resources,
206 provide financial aid for the establishment, maintenance and operation

207 of incubator facilities;

208 (14) Promote and encourage the coordination of public and private
209 resources and activities within the state in order to assist technology-
210 based business entrepreneurs and business enterprises;

211 (15) Promote science, engineering, mathematics and other
212 disciplines that are essential to the development and application of
213 technology;

214 (16) Coordinate its efforts with existing business outreach centers, as
215 described in section 32-9qq;

216 (17) Provide financial aid to persons developing smart buildings, as
217 defined in section 32-23d, incubator facilities or other information
218 technology intensive office and laboratory space;

219 (18) Coordinate the development and implementation of strategies
220 regarding technology-based talent and innovation among state and
221 quasi-public agencies, including the creation and administration of the
222 Connecticut Small Business Innovation Research Office to act as a
223 centralized clearinghouse and provide technical assistance to
224 applicants in developing small business innovation research programs
225 in conformity with the federal program established pursuant to the
226 Small Business Research and Development Enhancement Act of 1992,
227 P.L. 102-564, as amended from time to time, and other proposals;

228 (19) Encourage the retention of younger generation start-up
229 entrepreneurs in the state;

230 (20) Promote entrepreneurship among students, faculty and alumni
231 of institutions of higher education;

232 (21) Make planning grants to entities seeking to apply for
233 innovation place designation pursuant to section 32-39l, provided each
234 such entity demonstrates that its proposed innovation place meets the
235 purposes set forth in section 32-39k;

236 (22) Encourage and promote the establishment of business
237 accelerators, including, but not limited to, a satellite of a major national
238 business accelerator;

239 (23) Make higher education entrepreneurship grants-in-aid
240 recommended by the Higher Education Entrepreneurship Advisory
241 Committee pursuant to section 32-39t; and

242 (24) Do all acts and things necessary or convenient to carry out the
243 purposes of this section and the powers expressly granted by this
244 section.

245 (b) CTNext shall:

246 (1) Develop a plan to facilitate stronger relationships between
247 Connecticut businesses and institutions of higher education in order to
248 support entrepreneurial research and entrepreneurial talent
249 development;

250 (2) Create an informational Internet web site that (A) lists services,
251 programs or events offered to entrepreneurs; (B) serves as an online
252 community for entrepreneurs; (C) lists current research projects related
253 to entrepreneurship and innovation being conducted by professors at
254 institutions of higher education; (D) provides information concerning
255 innovation and entrepreneurial programming available at institutions
256 of higher education, including, but not limited to, engineering,
257 computer science and bioscience; and (E) connects businesses seeking
258 to buy Connecticut made products for their business inputs;

259 (3) Publicize such informational Internet web site and any
260 workshops, seminars and conferences facilitated by CTNext;

261 (4) Advise the Governor, the General Assembly, the Commissioner
262 of Economic and Community Development, the president of The
263 University of Connecticut and the president of the Connecticut State
264 Colleges and Universities on matters relating to science, engineering
265 and technology that may have an impact on state policies, programs,
266 employers and residents, and on job creation and retention;

267 (5) Designate innovation places pursuant to sections 32-39j to 32-
268 39m, inclusive;

269 (6) Annually develop, update and implement a strategic state-wide
270 innovation and entrepreneurship marketing plan for the promotion of
271 Connecticut as an innovation and entrepreneurship hub. The executive
272 director shall report, in accordance with the provisions of section 11-
273 4a, to the joint standing committees of the General Assembly having
274 cognizance of matters relating to commerce and finance, revenue and
275 bonding, on or before February 1, 2017, and annually thereafter,
276 concerning the content of such plan;

277 (7) Establish a program to provide growth grants-in-aid to
278 businesses in this state for the purposes of facilitating the growth of
279 start-up businesses that have transitioned to growth stage businesses.
280 CTNext shall establish an application process for such grants-in-aid
281 and shall prioritize such grants-in-aid for uses most likely to facilitate
282 the growth of such businesses, including, but not limited to, sales
283 assistance, marketing, strategy, organizational development,
284 technology assistance, bid assistance, beta testing of products for new
285 purchasers and prototype development. Such grants-in-aid shall not
286 exceed twenty-five thousand dollars per applicant and shall be
287 conditioned upon a one-third match from the applicant;

288 (8) Connect entrepreneurs in innovation places designated pursuant
289 to section 32-39m with existing municipal and state resources to assist
290 such entrepreneurs with regulatory compliance; [and]

291 (9) Adopt a comprehensive program evaluation and measurement
292 process to ensure that CTNext's programs are administered
293 appropriately and efficiently, comply with statutory requirements, are
294 cost effective and are achieving the purposes set forth in section 32-39f,
295 as amended by this act; [.]

296 (10) Develop and operate a state-wide service hub to deliver
297 entrepreneurial support services to facilitate the implementation of any
298 recommendations included in a report by the grant recipient under

299 section 32-39q; and

300 (11) Implement the provisions of sections 3 and 4 of this act.

301 (c) On or after July 1, 2018, the executive director of CTNext shall
302 hire five employees in addition to the employees employed prior to
303 July 1, 2018. Each such new employee shall have experience as an
304 entrepreneur and shall be responsible for CTNext outreach efforts to
305 entrepreneurs and individuals. Such outreach shall aim to increase the
306 level of communication between nodes within the innovation
307 ecosystem and the number of such nodes, connect entrepreneurs and
308 individuals who may be of assistance to entrepreneurs to the CTNext
309 network, act as liaisons between the CTNext board of directors and
310 institutions of higher education in the state, attend business or other
311 events featuring entrepreneurs on behalf of CTNext and perform other
312 responsibilities and duties as assigned by the executive director of
313 CTNext or the CTNext board of directors. Any such new employee
314 may serve as an entrepreneur-in-residence under section 3 of this act.

315 Sec. 3. (NEW) (*Effective July 1, 2018*) The executive director of
316 CTNext shall establish and operate an Entrepreneurs-in-Residence
317 program that shall replace and incorporate any similar program run by
318 CTNext or Connecticut Innovations, Incorporated prior to July 1, 2018.
319 Such program shall identify highly experienced entrepreneurs who
320 have been involved in the successful creation of innovation-based
321 start-up companies and early-state venture deals and shall retain their
322 services to match them with entrepreneurs and companies in the
323 CTNext network to provide advice and assistance. Such retention may
324 be on a paid or volunteer basis, as agreed to by the entrepreneur-in-
325 residence and the CTNext board of directors, except that an employee
326 of CTNext serving as an entrepreneur-in-residence shall serve on a
327 voluntary basis.

328 Sec. 4. (NEW) (*Effective July 1, 2018*) The executive director of
329 CTNext shall establish:

330 (1) A proof of concept fund to provide grants of up to fifty thousand

331 dollars to support commercialization activities that are relevant to key
332 industries in the state and are based on research conducted at
333 institutions of higher education in the state. Such grants shall be
334 awarded on a competitive basis and any applicant for such grant shall
335 demonstrate, in a form and manner prescribed by the executive
336 director, such applicant's intent to commercialize aspects of such
337 research. Such grants may be awarded directly to the applicant or to a
338 company involved in such research or commercialization efforts; and

339 (2) A program to incentivize the formation of at least five new
340 venture capital funds in the state. CTNext may invest up to eight
341 million dollars per fund only if private investors invest at least one and
342 one-half times the amount CTNext pledges to invest in the new fund.
343 Any such fund shall be subject to the following requirements:

344 (A) All such amounts invested shall be invested in start-up
345 companies located in the state and an investor shall have an office
346 located in the state; and

347 (B) Any partner in a fund established under this subdivision may
348 buy, after five years from the date of the establishment of the fund,
349 CTNext's equity stake in the fund plus interest at an annual rate
350 agreed upon by the partner and the executive director.

351 Sec. 5. Section 32-35 of the general statutes is repealed and the
352 following is substituted in lieu thereof (*Effective July 1, 2018*):

353 (a) [There] On and after October 1, 1989, but prior to July 1, 2018,
354 there is hereby created a body politic and corporate to be known as
355 "Connecticut Innovations, Incorporated". Such corporation is
356 constituted a public instrumentality and political subdivision of the
357 state and the exercise by the corporation of the powers conferred in
358 this chapter shall be deemed and held to be the performance of an
359 essential public and governmental function. Connecticut Innovations,
360 Incorporated shall not be construed to be a department, institution or
361 agency of the state. On and after July 1, 2018, Connecticut Innovations,
362 Incorporated shall be established as a subsidiary corporation of

363 CTNext, established pursuant to section 32-39f, as amended by this act.

364 (b) The subsidiary corporation shall be governed by a board of
365 seventeen directors. Nine members shall be appointed by the
366 Governor, six of whom shall be knowledgeable, and have favorable
367 reputations for skill, knowledge and experience, in the development of
368 innovative start-up businesses, including, but not limited to, expertise
369 in academic research, technology transfer and application, the
370 development of technological invention and new enterprise
371 development and three of whom shall be knowledgeable, and have
372 favorable reputations for skill, knowledge and experience, in the field
373 of financial lending or the development of commerce, trade and
374 business. Four members shall be the Commissioner of Economic and
375 Community Development, the president of the Connecticut State
376 Colleges and Universities, the Treasurer and the Secretary of the Office
377 of Policy and Management, who shall serve ex officio and shall have
378 all of the powers and privileges of a member of the board of directors.
379 Each ex-officio member may designate his deputy or any member of
380 his staff to represent him at meetings of the corporation with full
381 power to act and vote in his behalf. Four members shall be appointed
382 as follows: One by the president pro tempore of the Senate, one by the
383 minority leader of the Senate, one by the speaker of the House of
384 Representatives and one by the minority leader of the House of
385 Representatives. Each member appointed by the Governor shall serve
386 at the pleasure of the Governor but no longer than the term of office of
387 the Governor or until the member's successor is appointed and
388 qualified, whichever is longer. Each member appointed by a member
389 of the General Assembly shall serve in accordance with the provisions
390 of section 4-1a. A director shall be eligible for reappointment. The
391 Governor shall fill any vacancy for the unexpired term of a member
392 appointed by the Governor. The appropriate legislative appointing
393 authority shall fill any vacancy for the unexpired term of a member
394 appointed by such authority.

395 (c) The Governor shall appoint a chairperson from among the board
396 members. The directors shall annually elect one of their number as

397 secretary. The board may elect such other officers of the board as it
398 deems proper. Members shall receive no compensation for the
399 performance of their duties hereunder but shall be reimbursed for
400 necessary expenses incurred in the performance thereof.

401 (d) Each director of the subsidiary corporation before entering upon
402 his duties shall take and subscribe the oath or affirmation required by
403 article eleventh, section 1, of the Constitution. A record of each such
404 oath or affirmation shall be filed in the office of the Secretary of the
405 State. The board of directors of the subsidiary corporation shall adopt
406 written procedures, in accordance with the provisions of section 1-121,
407 for: (1) Adopting an annual budget and plan of operations, including a
408 requirement of board approval before the budget or plan may take
409 effect; (2) hiring, dismissing, promoting and compensating employees
410 of the corporation including an affirmative action policy and a
411 requirement of board approval before a position may be created or a
412 vacancy filled; (3) purchasing, leasing or acquiring real and personal
413 property and personal services, including a requirement of board
414 approval for any nonbudgeted expenditure in excess of five thousand
415 dollars; (4) contracting for financial, legal, bond underwriting and
416 other professional services, including a requirement that the subsidiary
417 corporation solicit proposals at least once every three years for each
418 such service which it uses; (5) awarding loans, grants and other
419 financial assistance, including eligibility criteria, the application
420 process and the role played by the subsidiary corporation's staff and
421 board of directors and the Department of Economic and Community
422 Development and including deadlines for the approval or disapproval
423 of applications for such assistance by the subsidiary corporation on
424 and after July 1, 1996; and (6) the use of surplus funds to the extent
425 authorized under this chapter, or other provisions of the general
426 statutes.

427 (e) Notwithstanding the provisions of any other law to the contrary,
428 it shall not constitute a conflict of interest for a trustee, director,
429 partner or officer of any person, firm or corporation, or any individual
430 having a financial interest in a person, firm or corporation, to serve as a

431 member of the board of directors of Connecticut Innovations,
432 Incorporated, provided such trustee, director, partner, officer or
433 individual shall abstain from deliberation, action or vote by
434 Connecticut Innovations, Incorporated in specific respect to such
435 person, firm or corporation.

436 (f) The subsidiary corporation shall have the authority to contract
437 with the Department of Economic and Community Development for
438 administrative or other services.

439 (g) As of October 1, 1989, all powers, duties and personnel of the
440 Connecticut Product Development Corporation shall be transferred to
441 Connecticut Innovations, Incorporated, in accordance with the
442 provisions of section 4-38d. As of October 1, 1989, all cash, notes,
443 receivables, liabilities, appropriations, authorizations, allocations, and
444 all other assets and properties of the Connecticut Product
445 Development Corporation shall be transferred to Connecticut
446 Innovations, Incorporated. Such transfer shall not affect the validity,
447 enforceability or binding nature of any contract or agreement for
448 financial aid made by the Connecticut Product Development
449 Corporation under the authorization of this chapter prior to October 1,
450 1989.

451 (h) The subsidiary corporation shall provide funding for the
452 operation of the Connecticut Small Business Innovation Research
453 Office in accordance with subdivision (18) of subsection (a) of section
454 32-39g, as amended by this act.

455 Sec. 6. Section 12-217bbb of the 2018 supplement to the general
456 statutes is repealed and the following is substituted in lieu thereof
457 (*Effective July 1, 2018*):

458 (a) As used in this section, (1) "accumulated credits" means credits
459 allowed under sections 12-217j and 12-217n that have not been taken
460 through the last income year completed prior to the date of an auction
461 under this section, (2) "commissioner" means the Commissioner of
462 Economic and Community Development, and (3) "chief executive

463 officer" means the chief executive officer of Connecticut Innovations,
464 Incorporated.

465 (b) (1) The commissioner, in consultation with the Commissioner of
466 Revenue Services and the chief executive officer, shall hold an
467 innovation investment fund tax credit auction, at such time and as
468 frequently as the commissioner deems appropriate and effective, to
469 allow taxpayers with accumulated credits to utilize such credits in
470 exchange for making an investment as provided under subsection (c)
471 of this section.

472 (2) For each tax credit auction, the commissioner shall specify, in
473 consultation with the chief executive officer, the deadline for
474 submitting a bid, the minimum number of cents for each dollar of
475 accumulated credit that may be bid and the information required to be
476 included with such bid. Each bidder shall submit a sealed bid and the
477 commissioner shall select, in consultation with the chief executive
478 officer, the winning bid or bids based upon the amounts of
479 accumulated credits the bidder proposes to exchange, the amounts the
480 bidder proposes to invest for such exchange and any other criteria the
481 commissioner and the chief executive officer deem appropriate to
482 evaluate the bids.

483 (c) The commissioner shall invest the amounts received from the
484 winning bidder or bidders in the winning bidder's corporate venture
485 fund, subject to the following requirements:

486 (1) All investments shall be made under the advisement of a
487 representative of Connecticut Innovations, Incorporated, who is a
488 member of the corporate venture fund's investment committee;

489 (2) The amount invested in a corporate venture fund pursuant to
490 this subsection shall be not less than five million dollars and not more
491 than ten million dollars;

492 (3) All such amounts invested shall be invested in (A) start-up
493 businesses located in the state, or (B) spin-off companies located in the

494 state from the bidder's research and development department;

495 (4) The portion of profits attributable to such investments shall be
496 divided equally between the state and the bidder and the state's share
497 shall be deposited in the General Fund; and

498 (5) The bidder agrees to reinvest the bidder's profits attributable to
499 such investments in the bidder's corporate venture fund.

500 (d) In lieu of holding a tax credit auction under subsection (b) of this
501 section, the commissioner, in consultation with the chief executive
502 officer, may: [enter]

503 (1) Enter into an agreement with a taxpayer with accumulated
504 credits to allow such taxpayer to utilize such credits in exchange for
505 making an investment as provided under subsection (c) of this section.
506 The requirements applicable to investments under said subsection (c)
507 shall apply to investments made pursuant to an agreement under this
508 subsection, except that the number of cents for each dollar of
509 accumulated credit may be negotiated by the commissioner, in
510 consultation with the Commissioner of Revenue Services, and the
511 taxpayer; and

512 (2) Enter into an agreement with a taxpayer without accumulated
513 credits to make an investment as provided under subsection (c) of this
514 section.

515 (e) The commissioner shall continue to hold tax credit auctions
516 pursuant to subsection (b) of this section or proactively seek
517 agreements under subsection (d) of this section, or both, until a
518 minimum of two deals with different corporate venture funds are
519 reached, provided nothing in this subsection shall be construed to
520 prohibit the commissioner from continuing to hold such auctions or
521 enter into such agreements after two deals have been reached.

522 (f) The total amount of investments made under this section and the
523 accumulated credits used under section 12-217aaa, at full value, shall
524 not exceed fifty million dollars in the aggregate.

525 (g) (1) On and after July 1, 2020, the credits allowed under this
526 section may be claimed against the tax imposed under chapter 219 or,
527 notwithstanding the limits imposed under section 12-217zz, this
528 chapter, with respect to the following income years of the taxpayer: (A)
529 With respect to the income year in which the taxpayer made the
530 investment required under this section and the next succeeding
531 income year, zero per cent; and (B) with respect to the second full
532 income year succeeding the year in which the taxpayer made the
533 investment required under this section, an amount and on a schedule
534 for such second full income year and next succeeding income years as
535 agreed to by the commissioner, in consultation with the Commissioner
536 of Revenue Services, and the taxpayer that made the investment.

537 (2) Credits allowed under this section may be sold, assigned or
538 otherwise transferred, in whole or in part.

539 (h) Tax credit auctions and agreements under this section may be
540 held or entered into for five years after the date the first such auction
541 or agreement is held or entered into, whichever is earlier.

542 Sec. 7. Section 32-235 of the 2018 supplement to the general statutes
543 is repealed and the following is substituted in lieu thereof (*Effective July*
544 *1, 2018*):

545 (a) For the purposes described in subsection (b) of this section, the
546 State Bond Commission shall have the power, from time to time to
547 authorize the issuance of bonds of the state in one or more series and
548 in principal amounts not exceeding in the aggregate one billion seven
549 hundred fifty-five million three hundred thousand dollars, provided
550 (1) one hundred forty million dollars of said authorization shall be
551 effective July 1, 2011, and twenty million dollars of said authorization
552 shall be made available for small business development; (2) two
553 hundred eighty million dollars of said authorization shall be effective
554 July 1, 2012, and forty million dollars of said authorization shall be
555 made available for the Small Business Express program established
556 pursuant to section 32-7g and not more than twenty million dollars of
557 said authorization may be made available for businesses that commit

558 to relocating one hundred or more jobs that are outside of the United
559 States to the state; and (3) seventy-five million dollars of said
560 authorization shall be effective July 1, 2018. Any amount of said
561 authorizations that are made available for small business development
562 or businesses that commit to relocating one hundred or more jobs that
563 are outside of the United States to the state, but are not exhausted for
564 such purpose by the first day of the fiscal year subsequent to the fiscal
565 year in which such amount was made available, shall be used for the
566 purposes described in subsection (b) of this section. For purposes of
567 this subsection, a "small business" is one employing not more than one
568 hundred employees.

569 (b) The proceeds of the sale of said bonds, to the extent of the
570 amount stated in subsection (a) of this section, shall be used by the
571 Department of Economic and Community Development;

572 (1) [for] For the purposes of sections 32-220 to 32-234, inclusive,
573 including economic cluster-related programs and activities, and for the
574 Connecticut job training finance demonstration program pursuant to
575 sections 32-23uu and 32-23vv, provided;

576 (A) [three] Three million dollars shall be used by said department
577 solely for the purposes of section 32-23uu and not more than five
578 million two hundred fifty thousand dollars of the amount stated in
579 said subsection (a) may be used by said department for the purposes of
580 section 31-3u; [.]

581 (B) [not] Not less than one million dollars shall be used for an
582 educational technology grant to the deployment center program and
583 the nonprofit business consortium deployment center approved
584 pursuant to section 32-41l; [.]

585 (C) [not] Not less than two million dollars shall be used by said
586 department for the establishment of a pilot program to make grants to
587 businesses in designated areas of the state for construction, renovation
588 or improvement of small manufacturing facilities, provided such
589 grants are matched by the business, a municipality or another

590 financing entity. The Commissioner of Economic and Community
591 Development shall designate areas of the state where manufacturing is
592 a substantial part of the local economy and shall make grants under
593 such pilot program which are likely to produce a significant economic
594 development benefit for the designated area; [.]

595 (D) [five] Five million dollars may be used by said department for
596 the manufacturing competitiveness grants program; [.]

597 (E) [one] One million dollars shall be used by said department for
598 the purpose of a grant to the Connecticut Center for Advanced
599 Technology, for the purposes of subdivision (5) of subsection (a) of
600 section 32-7f; [.]

601 (F) [fifty] Fifty million dollars shall be used by said department for
602 the purpose of grants to the United States Department of the Navy, the
603 United States Department of Defense or eligible applicants for projects
604 related to the enhancement of infrastructure for long-term, on-going
605 naval operations at the United States Naval Submarine Base-New
606 London, located in Groton, which will increase the military value of
607 said base. Such projects shall not be subject to the provisions of
608 sections 4a-60 and 4a-60a; [.]

609 (G) [two] Two million dollars shall be used by said department for
610 the purpose of a grant to the Connecticut Center for Advanced
611 Technology, Inc., for manufacturing initiatives, including aerospace
612 and defense; [, and]

613 (H) [four] Four million dollars shall be used by said department for
614 the purpose of a grant to companies adversely impacted by the
615 construction at the Quinnipiac Bridge, where such grant may be used
616 to offset the increase in costs of commercial overland transportation of
617 goods or materials brought to the port of New Haven by ship or vessel;
618 [.] and

619 (2) [for] For the purposes of the small business assistance program
620 established pursuant to section 32-9yy, provided fifteen million dollars

621 shall be deposited in the small business assistance account established
622 pursuant to said section 32-9yy; [.]

623 (3) [to] To deposit twenty million dollars in the small business
624 express assistance account established pursuant to section 32-7h; [.]

625 (4) [to] To deposit four million nine hundred thousand dollars per
626 year in each of the fiscal years ending June 30, 2017, to June 30, 2019,
627 inclusive, and June 30, 2021, and nine million nine hundred thousand
628 dollars in the fiscal year ending June 30, 2020, in the CTNext Fund
629 established pursuant to section 32-39i, which shall be used by CTNext
630 to provide grants-in-aid to designated innovation places, as defined in
631 section 32-39j, planning grants-in-aid pursuant to section 32-39l, and
632 grants-in-aid for projects that network innovation places pursuant to
633 subsection (b) of section 32-39m, provided not more than three million
634 dollars be used for grants-in-aid for such projects; [.]

635 (5) [to] To deposit two million dollars per year in each of the fiscal
636 years ending June 30, 2019, to June 30, 2021, inclusive, in the CTNext
637 Fund established pursuant to section 32-39i, which shall be used by
638 CTNext for the purpose of providing higher education
639 entrepreneurship grants-in-aid pursuant to section 32-39g, as amended
640 by this act;

641 (6) [for] For the purpose of funding the costs of the Technology
642 Talent Advisory Committee established pursuant to section 32-7p,
643 provided two million dollars per year in each of the fiscal years ending
644 June 30, 2017, to June 30, 2021, inclusive, shall be used for such
645 purpose; [.]

646 (7) [to] To provide (A) a grant-in-aid to the Connecticut Supplier
647 Connection in an amount equal to two hundred fifty thousand dollars
648 in each of the fiscal years ending June 30, 2017, to June 30, 2021,
649 inclusive, and (B) a grant-in-aid to the Connecticut Procurement
650 Technical Assistance Program in an amount equal to three hundred
651 thousand dollars in each of the fiscal years ending June 30, 2017, to
652 June 30, 2021, inclusive; [.]

653 (8) [to] To deposit four hundred fifty thousand dollars per year, in
654 each of the fiscal years ending June 30, 2017, to June 30, 2021, inclusive,
655 in the CTNext Fund established pursuant to section 32-39i, which shall
656 be used by CTNext to provide four hundred fifty thousand dollars in
657 each of the fiscal years ending June 30, 2017, to June 30, 2021, inclusive,
658 for the purposes of growth grants-in-aid pursuant to section 32-39g;

659 (9) To deposit five million dollars in the CTNext Fund established
660 pursuant to section 32-39i, which shall be used by CTNext to hire five
661 additional employees over the next five years commencing July 1,
662 2018, and for other personnel expenses. Each such new employee shall
663 have experience as an entrepreneur and to be responsible for CTNext
664 outreach to entrepreneurs and individuals in accordance with the
665 provisions of subsection (c) of section 32-39g, as amended by this act.

666 (c) All provisions of section 3-20, or the exercise of any right or
667 power granted thereby which are not inconsistent with the provisions
668 of this section are hereby adopted and shall apply to all bonds
669 authorized by the State Bond Commission pursuant to this section, and
670 temporary notes in anticipation of the money to be derived from the
671 sale of any such bonds so authorized may be issued in accordance with
672 said section 3-20 and from time to time renewed. Such bonds shall
673 mature at such time or times not exceeding twenty years from their
674 respective dates as may be provided in or pursuant to the resolution or
675 resolutions of the State Bond Commission authorizing such bonds.
676 None of said bonds shall be authorized except upon a finding by the
677 State Bond Commission that there has been filed with it a request for
678 such authorization, which is signed by or on behalf of the Secretary of
679 the Office of Policy and Management and states such terms and
680 conditions as said commission, in its discretion, may require. Said
681 bonds issued pursuant to this section shall be general obligations of the
682 state and the full faith and credit of the state of Connecticut are
683 pledged for the payment of the principal of and interest on said bonds
684 as the same become due, and accordingly and as part of the contract of
685 the state with the holders of said bonds, appropriation of all amounts
686 necessary for punctual payment of such principal and interest is

687 hereby made, and the Treasurer shall pay such principal and interest
688 as the same become due.

689 Sec. 8. (*Effective July 1, 2018*) (a) For the purposes described in
690 subsection (b) of this section, the State Bond Commission shall have
691 the power from time to time to authorize the issuance of bonds of the
692 state in one or more series and in principal amounts not exceeding in
693 the aggregate fifty-five million dollars.

694 (b) The proceeds of the sale of such bonds, to the extent of the
695 amount stated in subsection (a) of this section, shall be used by CTNext
696 for the purposes of section 4 of this act as follows: (1) Fifteen million
697 dollars for the proof of concept fund established pursuant to
698 subdivision (1) of said section; and (2) forty million dollars for the
699 venture capital fund program established pursuant to subdivision (2)
700 of said section.

701 (c) All provisions of section 3-20 of the general statutes, or the
702 exercise of any right or power granted thereby, that are not
703 inconsistent with the provisions of this section are hereby adopted and
704 shall apply to all bonds authorized by the State Bond Commission
705 pursuant to this section. Temporary notes in anticipation of the money
706 to be derived from the sale of any such bonds so authorized may be
707 issued in accordance with section 3-20 of the general statutes and from
708 time to time renewed. Such bonds shall mature at such time or times
709 not exceeding twenty years from their respective dates as may be
710 provided in or pursuant to the resolution or resolutions of the State
711 Bond Commission authorizing such bonds. None of such bonds shall
712 be authorized except upon a finding by the State Bond Commission
713 that there has been filed with it a request for such authorization that is
714 signed by or on behalf of the Secretary of the Office of Policy and
715 Management and states such terms and conditions as said commission,
716 in its discretion, may require. Such bonds issued pursuant to this
717 section shall be general obligations of the state and the full faith and
718 credit of the state of Connecticut are pledged for the payment of the
719 principal of and interest on such bonds as the same become due, and

720 accordingly and as part of the contract of the state with the holders of
721 such bonds, appropriation of all amounts necessary for punctual
722 payment of such principal and interest is hereby made, and the State
723 Treasurer shall pay such principal and interest as the same become
724 due.

725 Sec. 9. (NEW) (*Effective July 1, 2018*) (a) Notwithstanding any
726 provision of the general statutes, the Insurance Commissioner, in
727 consultation with the CTNext board of directors, shall establish an
728 Insurtech Regulatory Sandbox initiative to facilitate the development
729 of new technologies and types of insurance for start-up insurance
730 companies that do not have the capital or labor resources to comply
731 with the insurance requirements of the state. Such initiative shall begin
732 to be implemented not later than January 1, 2019. Such initiative shall:

733 (1) Establish conditions for participating in the Sandbox and
734 provide for an application process for new companies to be accepted
735 into the Sandbox. The commissioner shall accept all applicants that
736 meet such conditions, except that the commissioner may limit in the
737 first two years of the initiative the number of companies allowed to
738 participate in the Sandbox;

739 (2) Provide that the commissioner shall waive the requirement to be
740 licensed in the state for participating companies;

741 (3) Establish a light regulatory framework of only the requirements
742 the commissioner deems crucial to impose on participating companies
743 to protect consumers;

744 (4) Designate an employee or employees to exclusively oversee and
745 manage the administration of the Sandbox;

746 (5) Permit consumers in the state to purchase products offered by
747 participating companies while ensuring that such consumers are aware
748 that such products are offered under reduced regulatory oversight;

749 (6) Establish the maximum number of policyholders or named
750 insureds or customers and the maximum amount of risk exposure each

751 participating company may have. The commissioner may specify the
752 demographics that each such company may serve, so as to protect
753 consumers who are least able to make informed choices about
754 insurance products and understand the relevant risks of a product
755 offered by such company;

756 (7) Ensure the Sandbox is structured to match the pace of product
757 offerings and the growth of participating companies, including
758 allowing for more rapid product testing and product adjustments on a
759 weekly or more frequent basis;

760 (8) Allow participating companies to remain in the Sandbox for an
761 initial period of twelve months. The commissioner may establish
762 conditions to allow for an extension of such period;

763 (9) Establish clear steps participating companies shall meet to
764 demonstrate such company's product or service is viable and can be
765 made available to the wider market; and

766 (10) Establish reporting requirements for participating companies.

767 (b) The commissioner may remove a participating company from
768 the Sandbox at any time if the commissioner determines there is an
769 unreasonable risk to policyholders or customers of such company.

770 (c) Not later than July first annually, the commissioner shall submit
771 a report in accordance with the provisions of section 11-4a of the
772 general statutes, to the joint standing committees of the General
773 Assembly having cognizance of matters relating to insurance,
774 commerce and finance, revenue and bonding, summarizing the
775 number of participating companies in the initiative, any products or
776 services such companies offer, any products or services that have been
777 deemed to be viable or offered to the wider market, any participating
778 companies that have established themselves in the state and become
779 licensed insurance companies and any other information the
780 commissioner deems relevant.

781 Sec. 10. (Effective July 1, 2018) (a) Not later than January 1, 2019, the

782 executive director of CTNext shall submit legislative recommendations
783 to the General Assembly for the establishment of a program or
784 programs to incentivize the formation of state-based seed and preseed
785 funds and ensure access to follow-on venture capital funding for start-
786 up businesses in the state. Such program or programs shall seek to
787 capitalize a fund of funds model with strong ties to the state
788 employees retirement fund, other institutional investors or the state's
789 large presence of hedge fund investors, and such recommendations
790 shall include recommended levels of funding for each program.

791 (b) The CTNext board of directors and the chief executive officer of
792 Connecticut Innovations, Incorporated shall conduct a study of the
793 credit established pursuant to section 12-704d of the general statutes.
794 The study shall include, but not be limited to, (1) an analysis of (A) the
795 efficacy of the angel investor program in promoting the formation of
796 new business ventures in the state, particularly with respect to the
797 scale and magnitude of the number of such ventures created in
798 proportion to the overall economy of the state, (B) the structure of the
799 program and its impact on the state's entrepreneurial ecosystem, and
800 (C) the economic value created per tax credit dollar expended, and (2)
801 policy or legislative changes recommended by the board or the chief
802 executive officer. Not later than January 1, 2019, such report shall be
803 submitted in accordance with the provisions of section 11-4a of the
804 general statutes to the joint standing committees of the General
805 Assembly having cognizance of matters relating to commerce and
806 finance, revenue and bonding.

807 (c) Not later than January 1, 2019, the CTNext board of directors, in
808 consultation with the chief executive officer of Connecticut
809 Innovations, Incorporated, shall make recommendations to the
810 General Assembly for the establishment of an intrapreneurship
811 program or programs to promote innovative activity within
812 established companies in the state, such activity to be aimed at solving
813 problems or addressing market opportunities identified by such
814 companies and leading to the formation of new spin-off start-up
815 businesses supported by such parent company.

816 (d) Not later than January 1, 2019, the Connecticut Technology
 817 Council, in consultation with the CTNext board of directors, a leading
 818 business association in the state selected by the council, the
 819 Commissioner of Economic and Community Development and the
 820 president of The University of Connecticut, shall submit a report, in
 821 accordance with the provisions of section 11-4a of the general statutes,
 822 to the General Assembly that makes recommendations for:

823 (1) Procedures to be implemented to identify emerging industries
 824 and emerging transitions in established industries that have the
 825 potential to produce economic growth in the state, such as the
 826 microbiome industry and the application of cyber-physical systems
 827 and dynamic data processing to manufacturing; and

828 (2) Procedures to be implemented to develop and implement
 829 strategies for the growth of the emerging industries identified
 830 pursuant to subdivision (1) of this subsection, ensure the success of
 831 established industries in the state to adapt to emerging transitions
 832 identified pursuant to subdivision (1) of this subsection and align state
 833 resources to support such efforts.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2018</i>	32-39f
Sec. 2	<i>July 1, 2018</i>	32-39g
Sec. 3	<i>July 1, 2018</i>	New section
Sec. 4	<i>July 1, 2018</i>	New section
Sec. 5	<i>July 1, 2018</i>	32-35
Sec. 6	<i>July 1, 2018</i>	12-217bbb
Sec. 7	<i>July 1, 2018</i>	32-235
Sec. 8	<i>July 1, 2018</i>	New section
Sec. 9	<i>July 1, 2018</i>	New section
Sec. 10	<i>July 1, 2018</i>	New section

Statement of Legislative Commissioners:

In Sections 4(2) and 9(a)(6), a technical change was made for consistency with standard drafting conventions and accuracy,

respectively; and in Section 7(b)(9), "commencing July 1, 2018," was inserted for clarity.

FIN *Joint Favorable Subst. -LCO*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 19 \$	FY 20 \$	Out Years
Resources of the General Fund	GF - Uncertain	See Below	See Below	See Below
Treasurer, Debt Serv.	GF - Potential Cost	See Below	See Below	79.5 million total
Insurance Dept. ¹	IF - Cost	84,712	169,423	See Below

Note: GF=General Fund; IF=Insurance Fund

Municipal Impact: None

Explanation

Sections 1 - 5 have no fiscal impact to the state by changing the organizational relationship between Connecticut Innovations (CI) and CTNext. The bill shifts CTNext to be the parent agency of CI, and CI the subsidiary of CTNext. The bill does require CTNext to hire five employees and implement new programs using General Obligation (GO) bond funds, the costs of which are described in sections 7 and 8, but otherwise makes no changes to the underlying programs in CTNext and CI.

Section 6 results in an uncertain revenue impact because: 1) it is uncertain how many, if any, additional businesses would choose to participate in the program, and 2) it is unclear how tax credits held by any such business would be impacted by such participation.

¹ The fringe benefit costs for employees funded out of other appropriated funds are budgeted within the fringe benefit account of those funds, as opposed to the fringe benefit accounts within the Office of the State Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes for other appropriated fund employees is 87.66% of payroll in FY 19 and FY 20.

Section 7 obligates \$5 million of funds previously authorized for the Manufacturing Assistance Act to hire five additional CTNext employees. This may change the rate of expenditure of the authorized GO bonds, with a commensurate change in future debt service payments.

Section 8 authorizes \$55 million in GO bonding for additional programs within CTNext. To the extent that the authorized bonds are allocated by the State Bond Commission, the state would need to repay the principal amount of the bond plus associated fees and interest. If bonds were approved for use and issued in FY 19, the state could begin repayment of up to \$2.75 million in FY 20. A later issuance date would not result in repayment cost in the biennium.

Section 9 of the bill requires the Insurance Commissioner, in consultation with the CTNext board of directors, to establish an Insurtech Regulatory Sandbox initiative by January 1, 2019, designate an employee to exclusively oversee and manage the administration of the Sandbox, and submit a report summarizing the results of the initiative annually. The Insurance Department will likely need to hire an Insurance Program Manager with a full year cost to the Insurance Fund of \$169,423 for salary and fringe benefits. The FY 19 costs reflect a half year of salary and fringe benefits (\$84,712).

The Out Years

Under current market conditions, the state would repay a \$55 million bond over 20 years at an approximate total cost of \$79.5 million (for principal and interest, including the initial \$2.75 million payment described above), or approximately \$3.98 million per year on average.

The ongoing fiscal impacts identified in the Insurance Fund above would continue into the future subject to inflation.

OLR Bill Analysis**sSB 541*****AN ACT PROMOTING INNOVATION, ENTREPRENEURSHIP AND INTRAPRENEURSHIP IN THE STATE.*****SUMMARY**

This bill makes organizational changes in Connecticut Innovations (CI), the state's quasi-public venture capital agency, and creates new programs to stimulate and sustain commercial innovation and the formation and growth of new businesses.

The organizational changes affect the relationship of CI and its subsidiary, CTNext. Under current law, CI mainly provides venture capital to new businesses bringing innovative new products and services to the market. CTNext focuses mainly on developing and maintaining the wider "ecosystem" that nurtures these activities, often connecting innovators with entrepreneurs and supporting their endeavors.

The bill reverses the relationship between these entities, making CTNext the parent corporation and CI the subsidiary. In doing so, it requires CTNext to hire five outreach staff and do more to develop and maintain the state's ecosystem. It also creates programs to (1) place experienced entrepreneurs in new businesses, (2) provide grants for determining a research project's commercial potential, and (3) capitalize Connecticut-based venture capital funds.

The bill also requires CTNext and several other entities, by January 1, 2019, to submit recommendations and studies to the legislature on various innovation and entrepreneurial issues, including the angel investor tax credit program's effectiveness and innovation and entrepreneurship in established companies.

Additionally, the bill authorizes a new program to stimulate innovation in the insurance industry. It requires the insurance commissioner to create a framework that reduces the regulatory requirements on new startup insurance companies that develop new insurance related products and services, but lack the means to comply with the state's insurance laws.

The bill also extends the stranded tax credit program to businesses that do not have unused research and development credits. Under current law, businesses may exchange unused credits for investments in their own corporate venture capital fund.

Lastly, the bill makes technical changes.

EFFECTIVE DATE: July 1, 2018

§§ 1, 2, 5, & 7 — ORGANIZATIONAL CHANGES

CI-CTNext Relationship (§§ 1& 5)

The bill reverses the relationship between CI and CTNext. Under current law, CI is the state's quasi-public venture capital agency that the legislature established in 1989 to, among other things, stimulate and encourage the research and development of new technologies and the growth of new technology-based businesses (CGS § 32-39). CTNext was established in 2016 as a CI subsidiary to foster innovation, support start-up and growth-stage businesses, and build entrepreneur communities.

The bill makes CTNext the parent agency and CI its subsidiary. In doing so, it makes CTNext a quasi-public state agency, transferring to it CI's status as a body politic and corporate and a public instrumentality and a state political subdivision created to perform an essential public function.

Expanded CTNext Mission (§§ 1 & 2)

The bill revamps and expands CTNext's statutory mission. Among other things, CTNext's current mission includes fostering innovation, start-up, and growth-stage businesses and building entrepreneurial

communities. The bill instead requires CTNext to focus on the broader, macro-level ecosystem that supports innovation and entrepreneurial community building. It specifically requires CTNext to:

1. oversee the growth and continuous improvement of a statewide entrepreneurial ecosystem,
2. improve it by changing practices CTNext's board deems outdated,
3. maintain an active and conspicuous presence at ecosystem nodes and continuously increase their connections,
4. regularly reassess the ecosystem's health,
5. identify its changing needs,
6. adopt or adapt initiatives to meet those needs, and
7. regularly inform the legislature about the ecosystem's needs and recommend legislation the board deems necessary or desirable to address them.

The bill aligns CTNext's specific duties with these new, ecosystem-level purposes. It requires CTNext to develop and operate a state-wide hub to deliver entrepreneurial support services to help implement the recommendations of the statutorily required study assessing the state of innovation and entrepreneurship in Connecticut (CGS § 32-39q).

The bill also requires CTNext to address micro-level needs. Specifically, it must:

1. support the growth of start-up and early stage businesses;
2. promote entrepreneurship community building;
3. facilitate the development, growth, and evolution of innovation places and their mutually supportive interconnections, in addition to establishing these places, as current law requires;

and

4. identify areas in which their practices and policies fail to realize the institutions' full potential to facilitate innovation and entrepreneurship, which CTNext must do in addition to facilitating innovation and entrepreneurship at institutions of higher education, as current law requires.

Lastly, the bill authorizes CTNext to do all things necessary and proper to fulfill its statutory mission.

Expanded CTNext Staffing Capacity (§§ 2 & 7)

The bill requires CTNext's executive director to hire, on or after July 1, 2018, five employees, who must be in addition to those CTNext employed before that date. Each new employee must be an experienced entrepreneur and conduct outreach to entrepreneurs and individuals.

The bill specifies the new employees' outreach objectives. They must:

1. increase the number of places that support innovation and entrepreneurship (i.e., nodes) and the level of communications between these nodes;
2. connect entrepreneurs and the people who can help them to the CTNext's network;
3. act as liaisons between the CTNext's board and the state's higher education institutions;
4. attend, on CTNext's behalf, business or other events that feature entrepreneurs; and
5. perform other duties and responsibilities the board or executive director assigns to them.

The new employees may serve as entrepreneurs-in-residence (see

below).

The bill funds the new employees' positions by using \$5 million of an existing bond authorization for the Department of Economic and Community Development's (DECD) Manufacturing Assistance Act Program. It requires DECD to deposit \$5 million in the CTNext fund for this purpose.

CTNext Executive Director Appointment (§ 1)

The bill requires the board to approve the appointment of CTNext's executive director, but does not specify who makes the appointment. Under current law, the board's chairperson, with the board's approval, appoints the executive director.

Board Members' Conflict of Interest (§ 1)

The bill specifies that CTNext's board members must (1) abstain from deliberating, acting, or voting with respect to a person, firm, or corporation in which they have a financial interest or serve as a trustee, director, partner, or officer and (2) comply with the State Code of Ethics, as they must under current law. Current law allows members with these types of associations or financial interests to serve as long as they comply with the code, which includes abstaining from taking an official position on a matter if they have a substantial conflict of interest.

§§ 2-4, 6, 8, & 9 — PROGRAMMATIC INITIATIVES AND CHANGES

The bill establishes three new CTNext programs, authorizes bonds to fund two of them, and adds their implementation to CTNext's statutory duties (§ 2). The bill also (1) expands the existing stranded tax credit program and (2) creates a new program to support start-up insurance businesses.

Entrepreneurs-in-Residence (§ 3)

The bill requires CTNext's executive director to establish and operate an Entrepreneurs-in-Residence program, which must replace and incorporate any similar CTNext or CI program that existed before

July 1, 2018. The program must match highly experienced entrepreneurs with entrepreneurs and businesses in CTNext's network to provide advice and assistance.

An entrepreneur satisfies this criterion if he or she has been involved in successfully creating innovation-based startups and early-state venture deals. The entrepreneur may serve on a paid or volunteer basis, as the entrepreneur-in-residence and the CTNext board agree. A CTNext employee may also serve as an entrepreneur-in-residence, but only on a volunteer basis.

Proof of Concept Fund (§§ 4 & 8)

The bill requires CTNext's executive director to establish a fund to support activities intended to evaluate commercial applications for academic-based research (i.e., proof of concept) that is relevant to the state's key industries. She must do this by providing grants of up to \$50,000 to applicants who demonstrate their intent, in a form and manner she prescribes, to find commercial applications for the research. She must award the grants on a competitive basis to the applicant or a company involved in the applicant's research. The bill authorizes up to \$15 million in general obligation (GO) bonds for the grants.

Venture Capital Fund Formation (§§ 4 & 7)

The bill also requires CTNext's executive director to encourage the formation of at least five new Connecticut-based venture capital funds and authorizes up to \$40 million in GO bonds for this purpose. It allows CTNext to invest up to \$8 million per fund if private investors also invest an amount that equals at least 150% of the CTNext's investment.

Any fund receiving a CTNext investment must:

1. invest all of its the funds—the CTNext and private capital—in Connecticut-based startups;
2. require its investors to have an office in Connecticut; and

3. allow, no sooner than five years after a fund's establishment, its partners to buy CTNext's equity stake plus interest at an annual rate agreed to by the fund's partners and the executive director.

Stranded Tax Credit Program Extended (§ 6)

The bill extends the stranded tax credit program to businesses with research and development corporation business tax credits they can otherwise use to reduce their taxes. Under current law, the program allows a business with credits it earned but cannot claim (usually because the credits' value exceeds the business's tax liability) to exchange them for making certain capital improvements or investments. The business must first enter into an agreement with the DECD commissioner to make this exchange.

The bill allows a business without accumulated credits to also enter into an agreement with the DECD commissioner to make investments in its corporate venture fund.

Insurtech Regulatory Sandbox Initiative (§ 9)

By January 1, 2019, the bill requires the insurance commissioner, in consultation with CTNext's board of directors, to establish and implement an initiative to help develop new technologies and types of insurance for start-up insurance companies that lack the capital and labor resources to comply with the state's insurance laws and regulations (i.e., Insurtech Regulatory Sandbox Initiative or Sandbox).

The initiative must have several components. It must:

1. establish the conditions new companies must meet to participate in the Sandbox;
2. accept all applicants that meet these conditions, unless the commissioner chooses to limit the number of participants, which she may do only for the Sandbox's first two years;
3. provide an application process for admission to the Sandbox;
4. waive the licensure requirements for its participating

- companies;
5. institute a regulatory framework that is the minimum the commissioner deems necessary to protect consumers;
 6. designate an employee or employees to exclusively oversee and manage the Sandbox's administration;
 7. allow Connecticut consumers to purchase the participating companies' products, but with the knowledge that they do so under reduced regulatory oversight;
 8. establish the maximum number of policyholders or named insured or customers and the maximum amount of risk exposure for each participating start-up;
 9. protect those consumers who are least able to make informed choices about insurance products and their relevant risk,
 10. allow the commissioner to specify the demographic groups each company may serve;
 11. ensure that the Sandbox can keep up with the pace of participating companies and their product offerings, which it may do by allowing them to test and adjust their products every week or more frequently;
 12. allow a start-up to remain in the Sandbox for no more than one year, but authorize the commissioner to set conditions under which they can stay longer;
 13. set clear steps for a start-up to demonstrate that its products and services are viable and ready for the wider market; and
 14. impose reporting requirements on the participating start-ups.

The bill allows the commissioner to remove a start-up from the Sandbox whenever she determines there is an unreasonable risk to the start-up's customers or policyholders.

Starting July 1, 2019, the commissioner must annually report to the Insurance; Commerce; and Finance, Revenue and Bonding committees on the Sandbox, summarizing:

1. the number of participating start-ups,
2. the products and services they offer and the ones that were deemed viable and offered to the wider market,
3. participating companies that established themselves in Connecticut and were eventually licensed, and
4. any other relevant information.

§ 10 — POLICY RECOMMENDATIONS AND REPORTS

The bill requires CTNext, CI, and several other entities to submit recommendations and reports to the legislature on several innovation and entrepreneurship issues.

State-based Seed and Preseed Funds

By January 1, 2019, the bill requires CTNext’s executive director to recommend to the legislature how the state can:

1. encourage the formation of state-based seed and preseed funds capitalized by other funds that (a) specialize in investing in such funds (i.e., fund of funds model) and (b) have strong ties to the state employees retirement fund, other institutional investors, or Connecticut-based hedge fund investors and
2. ensure that the state’s business startups have access to follow-on venture capital funding.

The recommendations must include proposed funding levels for each program.

Angel Investor Tax Credit Program

The bill requires CTNext’s board of directors and CI’s chief executive officer to study the angel investor tax credit program and

report the results to the Commerce and Finance, Revenue and Bonding committees by January 1, 2019. The program provides a 25% personal income tax credit, up to \$250,000, for people who invest at least \$25,000 in a CI-approved business.

The study must analyze the program's effectiveness, recommend policy or legislative changes, and analyze:

1. the extent to which the program promotes the formation of new businesses in the state, particularly the scale and magnitude of the number of new business ventures in proportion to the state's overall economy;
2. the program's structure and its impact on the state's entrepreneurial ecosystem; and
3. the economic value created by the tax revenue the state forgoes due to the credit.

Intrapreneurship Programs

By January 1, 2019, CTNext's board, in consultation with CI's chief executive officer, must submit recommendations to the legislature to establish programs for promoting innovative activity within established businesses (i.e., intrapreneurship). The programs must (1) help these businesses solve problems or address market opportunities they identify and (2) support the formation of new spin-off businesses.

Emerging Industries and Transitions

By January 1, 2019, the bill also requires several entities to submit recommendations to the legislature pertaining to emerging industries and transitions. The recommendations must be prepared by the nonprofit Connecticut Technology Council in consultation with CTNext's board of directors, a leading Connecticut business association the council selects, DECD commissioner, and UConn president.

The recommendations must identify procedures for:

1. identifying emerging industries and emerging transitions in established industries that can produce economic growth in the state and
2. developing and implementing strategies to help (a) emerging industries grow and (b) established industries successfully adapt to emerging transitions.

The recommendations must also address how the state can align its resources to develop and implement these strategies.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 36 Nay 11 (04/05/2018)