

Legislative History for Connecticut Act

PA 16-204

SB401

Senate 1612-1616, 1699-1701 8

Commerce 514-532, 587-589 22

House Transcripts have not been received. They are available on CGA website, but are not the Official copy. Contact House Clerk for assistance (860) 240-0400 **30**

**Transcripts from the Joint Standing Committee Public
Hearing(s) and/or Senate and House of Representatives
Proceedings**

**Connecticut State Library
Compiled 2017**

S - 695

**CONNECTICUT
GENERAL ASSEMBLY
SENATE**

**PROCEEDINGS
2016**

**VOL. 59
PART 5
1368 – 1703**

kbk
SENATE

245
April 28, 2016

programs are in place so that we can honor our veterans the way they certainly should be honored.

THE CHAIR:

Senator Fasano.

SENATOR FASANO (34TH):

Thank you, Madam President. I have no further questions.

THE CHAIR:

Thank you. Will you remark further on the bill? Will you remark further on the bill? Senator Flexer. Okay.

SENATOR FLEXER (29TH):

I make a motion that we place this item on our Consent Calendar, Madam President.

THE CHAIR:

Seeing no objections, so ordered, ma'am. Mr. Clerk.

THE CLERK:

On Page 17, Calendar 434, substitute for S.B. No. 401, AN ACT CONCERNING THE CONNECTICUT BIOSCIENCE INNOVATION FUND AND INVESTMENTS BY CONNECTICUT INNOVATIONS, INCORPORATED. There are amendments.

THE CHAIR:

Good evening, Senator Hartley.

kbk !
SENATE

246
April 28, 2016

SENATOR HARTLEY (15TH):

And good evening to you, Madam President. I move acceptance of this Joint Committee's favorable report and passage of the bill, Madam.

THE CHAIR:

The motion is on acceptance and the passage. Will you remark

SENATOR HARTLEY (15TH):

Yes, indeed. Thank you, Madam. This bill makes changes to CI; that's Connecticut Innovations.

There are a number of technical changes and there are several substantive changes, which primarily will allow CI to more effectively deploy its resources, and will actually help Connecticut Innovations to move towards being self-sustaining, the result of which will also help to recapitalize some of CI's programs.

Madam President, there is an amendment, and the Clerk is in possession of LCO No. 4668. I ask that the Clerk please call, and I be granted leave to summarize, Madam.

THE CHAIR:

Mr. Clerk.

THE CLERK:

LCO No. 4668, Senate "A", offered by Senators
Hartley, Frantz, Crisco, et al.

kbk
SENATE

247
April 28, 2016

THE CHAIR:

Senator Hartley.

SENATOR HARTLEY (15TH):

Thank you, Madam President. I move adoption.

THE CHAIR:

The motion is on adoption. Will you remark

SENATOR HARTLEY (15TH):

Yes. Thank you, Madam President. This amendment makes several changes to the Connecticut Bioscience Innovation Fund, requiring that the original amount of the loan, or financial assistance, from CBIF be credited back to the CBIF account, and any returns, earning in excess of the original loan can then be credited to CI's unrestricted fund.

Additionally, it allows for typically what we call follow on funding, which would basically be for an entity that they had initially funded that has grown to the next stage, so that they can continue to support that growth.

I move adoption, Madam.

THE CHAIR:

The motion -- Senator Frantz.

SENATOR FRANTZ (36TH):

kbk
SENATE

248
April 28, 2016

Yes. Thank you, Madam President. Just to clarify the language, through you, Madam President to Senator Hartley.

THE CHAIR:

Please proceed, sir.

SENATOR FRANTZ (36TH):

Thank you so much. I would just like to make sure that everybody in the circle understands that the amendment calls for the return of capital, or investment, to CI before any funds, in addition to that, you know, after a liquidity event, comes back to CI and goes to the CI account.

THE CHAIR:

Senator Hartley.

SENATOR HARTLEY (15TH):

Thank you, Madam President. Yes, indeed. I think that that was one of the -- through you, Madam President -- important changes that we made as this bill went through its various iterations, that we in no way would want to diminish the original fund of CBIF, and therefore the principal would always be maintained effectively, forming a revolving loan. Beyond that, any earnings would then be allowed to go into an unrestricted fund, which gives flexibility to the organization.

Through you, Madam President.

THE CHAIR:

kbk
SENATE

249
April 28, 2016

Senator Frantz.

SENATOR FRANTZ (36TH):

Thank you. Through you, Madam President. Thank you for that clarification, Senator. It makes infinite sense; I'm in support of it, and thank you.

THE CHAIR:

Thank you. Will you remark further on the amendment? Will you remark further?

If not, I'll try your minds. All those in favor please say Aye.

SENATORS:

Aye.

THE CHAIR:

Opposed? Senate "A" is adopted. Will you remark further on the bill? Senator Hartley.

SENATOR HARTLEY (15TH):

If there is no objection, Madam, I would ask that this be placed on a Consent Calendar.

THE CHAIR:

Seeing no objection, so ordered. Mr. Clerk.

THE CLERK:

On Page 32, Calendar 66, S.B. No. 180, AN ACT CONCERNING PERMANENCY HEARINGS, YOUTH ADVISORY

kbk
SENATE

332
April 28, 2016

SENATOR DUFF (25TH):

Thank you, Madam President. And on Calendar Page 9, Calendar 359, S.B. 455; I'd like to place that item on our Consent Calendar.

THE CHAIR:

So ordered. Seeing no objection, so ordered, sir.

SENATOR DUFF (25TH):

Thank you, Madam President. And if the Clerk can now call the items on the Consent Calendar, followed by a vote of our Consent Calendar tonight.

THE CHAIR:

Mr. Clerk, when you can, please call the Consent Calendar.

THE CLERK:

On Page 1, Calendar 83, S.B. No. 183; Page 2, Calendar 132, S.B. No. 205; on Page 4, Calendar 237, S.B. No. 298; Page 5, Calendar 285, S.B. No. 317; on Page 8, Calendar 346, S.B. No. 338; Page 9, Calendar 372, S.B. No. 346; also on Page 9, Calendar 359, S.B. No. 455; on Page 10, Calendar 374, H.B. No. 5327; Page 12, Calendar 386, H.B. No. 5379; on Page 14, Calendar 405, S.B. No. 365; Page 17, Calendar 434, S.B. No. 401; Page 17, Calendar 438, S.B. No. 267; Page 32, Calendar 69, S.B. No. 186; and on Page 33, Calendar 85, S.B. No. 187; also on Page 33, Calendar 129, S.B. No. 202; Page 34, Calendar 138, S.B. No. 137; also on Page 34, Calendar 139, S.B. No. 140; on Page 35, Calendar

kbk
SENATE

333
April 28, 2016

186, S.B. No. 262; Page 36, Calendar 203, S.B. No. 240; Page 36, Calendar 222, S.B. No. 301; Page 36, Calendar 226, S.B. No. 179; on Page 37, Calendar 249, S.B. No. 122; Page 38, Calendar 257, S.B. No. 139; on Page 40, Calendar 333, S.B. No. 289; and on Page 41, Calendar 349, S.B. No. 300.

THE CHAIR:

Mr. Clerk, will you call for a roll call vote on Consent Calendar 1. The machine is open.

THE CLERK:

Immediate roll call has been ordered in the Senate on the Consent Calendar for today. Immediate roll call in the Senate.

THE CHAIR:

Senator Gomes; Consent Calendar. Senator Hartley; thank you.

All members have voted. All members have voted. The machine will be closed. Mr. Clerk, will you call the tally, please?

THE CLERK:

On today's Consent Calendar

Total Number of Voting	36
Those Voting Yea	36
Those Voting Nay	0
Absent and Not Voting	0

kbk
SENATE

334
April 28, 2016

THE CHAIR:

The Consent Calendar passes. (Gavel)

Are there any points of personal privilege? Senator Leone. Senator Leone?

SENATOR LEONE (27TH):

Yes. Yes, Madam President, just for a purpose of an announcement?

THE CHAIR:

Please proceed, sir.

SENATOR LEONE (27TH):

For just -- for the General Law Committee, we'll have a meeting for a referral 15 minutes prior to the start of the first session tomorrow. Thank you.

THE CHAIR:

Thank you; so noted. Senator Winfield.

SENATOR WINFIELD (10TH):

Yes, thank you, Madam President. The Housing Committee will be meeting at 10:30 outside the House Chamber.

THE CHAIR:

Senator Coleman.

SENATOR COLEMAN (2ND):

**JOINT
STANDING
COMMITTEE
HEARINGS**

**COMMERCE
1 – 632**

**2016
INDEX**

COMMISSIONER SMITH: It is - in the language we've requested - because we want to have the flexibility to work with the banks in whatever way they would feel it would work for them. So, the Guarantee Program might be a good option - the SBA does that effectively today with banks around the region - but there might be other pooled asset-type structures we might want to use or perhaps we would ask for equity with banks, as well.

SENATOR HARTLEY (15TH): So, are you engaged in those conversations presently?

COMMISSIONER SMITH: We are awaiting the legislative process to see if the language would allow us to convene and discuss this with banks.

SENATOR HARTLEY (15TH): Okay. Are there further questions? Thanks very much, Commissioner. I appreciate it. I hope we haven't ruined your schedule too much.

COMMISSIONER SMITH: No, no. Thank you.

SENATOR HARTLEY (15TH): I'm understanding that Senator Leone is not going to be with us today. So, next up in the batting circle is Matt McCooe from CI.

Good morning, and for the purposes of the record, would you both identify yourself? Thank you.

MATT MCCOOE: Sure. Senator Hartley, Representative Perone, Senator Frantz, Representative Camillo and distinguished members of the Commerce Committee, my

SB401

name is Matt McCooe, and with me is my partner and COO and CFO, Phil Siuta.

PHILIP SIUTA: Good morning.

SENATOR HARTLEY (15TH): Thank you much for being with us. You may proceed, sir.

MATT MCCOOE: Thank you for the opportunity to provide testimony in support of Senate bill 401, AN ACT CONCERNING THE CONNECTICUT BIOSCIENCE INNOVATION FUND AND INVESTMENTS BY CI. So, Senate bill 401 seeks to make a number of important changes to CI's ability to use the funding at its disposal. So, largely technical in nature, these changes are intended to allow CI to use the funds currently at its disposal and to allow CI to become a more self-sustaining organization for the state.

Specifically, Senate bill 401 proposes to have the returns on the CBI Fund, which currently revert back to the fund, itself, to revert back to Connecticut Innovations, into our general funding. Given that CI provides sourcing, we manage the companies and the deal flow comes from our current processes and team, we think it's appropriate that we make these changes. More importantly, while the proposal does not change how we currently deploy our resources, it is going to provide CI greater flexibility in the redeployment of those funds. The additional flexibility promises to relieve the pressure on other programs that CI manages, and it reduces the need to request additional bond funds, as we do periodically, to recapitalize our current programs. That's the first change that we're proposing.

PUBLIC HEARING

Number two relates to our definition of an early-stage business. Currently, the number of qualifications for an early-stage business is a bit complex for companies, and we'd like to simplify it and just make it a simple \$2 million of annual commercial revenues. Anything below that, we would define as an early-stage company. Secondly, we would like to make a change that allows CI to take our existing portfolio companies in which we've already invested and also to allow, going forward, companies in which we will invest from the Bioscience Fund to allow us to do follow-on funding. This is a really important change in the venture capital world because a lot of times, the major job growth will come as the companies mature and grow. For example, Alexion, which Catherine was talking about earlier, that was a CI portfolio company. If you're not in the follow-on rounds, which might take you past the seven-year mark, you can very often not be a participant in the returns that would flow back to the fund, otherwise. It also allows us to fund companies, which we're already in from CI, to move those investments over to the Bioscience Fund to most effectively apply our funding into companies which are already growing, which are in the state, that we know really well [indiscernible 1:01:31.9] already believe in.

Finally, Senate bill 401 would allow CI to invest in private equity funds to attract additional venture capital funds to the state. At a recent dinner that was held, one of the comments - we had a listening tour for the last seven months, but also very recently, we had a dinner with a number of entrepreneurs in the Fairfield County area - and a common complaint was that there are less than the

number of fingers on my hand of venture capital funds that exist here in the state today, and it would be a great boon to our current portfolio companies to have more venture capital firms reside in the state. It's a well-known fact that VCs like to invest in their own backyard, and the fact that there's money available in New York and in Boston and other parts of the country is quite true, but it doesn't change the fact that the VCs are looking to invest locally. So, by recruiting some firms to come to Connecticut, to reside in Connecticut, to invest in Connecticut companies, we believe would be a great addition to our state's ecosystem. We are confident that these changes that we've proposed, which have already received endorsement from the CI Board and from the Bioscience Board, will better allow CI to deploy the resources at our disposal.

There are a couple other minor changes that we have proposed - one of which is not included here in the bill - which we floated to the committee, which we would like the ability to sort of go back and forth with you on going forward, one of which is allowing - not just the Eli Fund, not the existing fund - but would also the Bioscience Fund to participate in a venture capital fund. So, it's more about the - it's a technical change - but it relates to which pool of funds it would draw from, and it would give us the flexibility to draw from either.

SENATOR HARTLEY (15TH): Thank you very much, Matt. Did you give us language on those additional tweaks?

MATT MCCOOE: Yes, ma'am.

PUBLIC HEARING

SENATOR HARTLEY (15TH): Okay. Well, thank you very much for being with us today. Of course, we welcome you - this is kind of a maiden voyage here - but there's much to do, as I think you've recognized and commented in the past. Just generally, have you floated these changes with the treasurer - do you have any input from the treasurer's office here?

MATT MCCOOE: We have not. We have spoken to - one of our board members does work in the treasurer's office, and we're spoken to him - Rich Gray. I believe, Phil, you spoke to him recently and he said he was supportive?

PHILIP SIUTA: He had questions regarding the bill because they are doing similar stuff on a larger scale and wonder if we could be effective on this level, and all we're asking is the opportunity to try. So, you know, the treasurer is going in in the \$50 to \$100 million range, and we're looking at probably the \$5 to \$10 million commitment over a series of years. So, whether we have the leverage to attract the VC firms was his question, but he supports our efforts to go forward.

MATT MCCOOE: We also work really closely with the venture firms and we know them quite well, so a lot of this business is personal relationships, and there are people who we've spoken with who have indicated that they would consider locating to Connecticut from New York and other areas if CI were to come up with funding.

SENATOR HARTLEY (15TH): That's the venture capitalists in the State of Connecticut. They kind of follow a lead investor, and how are we

PUBLIC HEARING

cultivating those lead investors to make it attractive for them? You need boots on the ground typically, and are you working on that side of the issue, as well? Someone had recently said to me, "Well, you know, I always thought we were more competitive than New York," and I pointed out – well, New York City, yes – but New York as a whole, maybe not. So, we find ourselves kind of in that predicament.

MATT MCCOOE: Yeah. So, I'll give you one quick example. So, there's a Yale – one of the thought leaders in healthcare IT – he's a true national gem, not just a Connecticut gem, and he's got an unbelievably great idea that he's working on with his wife. We spent all day yesterday in an offset meeting, helping him put the business plan together, talking about investor presentations, the next six months' rollout, and the Bioscience Fund would give him the half million dollars that he would need to get the business far enough along to get the pilot studies done at Yale and elsewhere to finish the technology product and get it ready for Series A investment. We've spoken with Canaan Partners, which is the largest venture fund here in the state with Steve Bloch, who is the GP there, and I've had several conversations with him, and he is saying, "Do this – half a million dollars into this company – I love it. If things go well in the pilots, I'm there to do the follow-on rounds." That's what the Bioscience Fund is for, and that's a quote – that's a paraphrase of his view. So, Senator Hartley, in that case, we are the ones who get the company ready to attract the larger follow-on rounds.

SENATOR HARTLEY (15TH): Thank you, Matt. I'll defer to my colleague, Senator Frantz.

SENATOR FRANTZ (36TH): Thank you, Madam Chair. Matt, welcome to Connecticut. We are very lucky to have you, given your track record and your experience. I think this is going to be a great month for CI, and I'd like to express that on behalf of the entire committee and anybody else in the room today. Thank you for choosing Connecticut. We know you had a lot of choices, and to come and serve the State of Connecticut is not the easiest thing in the world to do. You have to come up and testify and do all those kinds of government things. And, you don't have as much flexibility as you would in a normal VC firm, but you're doing a great job so far, and I have great hopes for the future.

So, getting down to some of the details of your proposals here. In trying to attract venture capital firms to Connecticut, they would - just to reiterate - you said it before but just to reiterate - they would be based in Connecticut, and they would invest in Connecticut companies. You did mention that you had talked to at least a few - can you describe them very briefly? Are they well capitalized, big ones, high profile?

MATT MCCOUE: Sure. So, the great thing about this program is that we can enlist some of the leading scientists and entrepreneurs in the state. Dr. Craig Crews, who some of you may know, spoke with a group called Versant Ventures on our behalf. Versant is a large Bioscience Fund. They are a biotech only, early-stage fund. They're based in New York City, and the notion - just an example -

we're not talking about anything concrete but just to give you an idea of what we're talking about - they would set up an office in Connecticut. They would have a permanent person who is based and works in either Fairfield County or in New Haven, where most of our biotech companies are located. And the way it would work, Senator Frantz, is - let's say we were to do a \$2 million investment, for example. They would commit that our \$2 million would be invested in Connecticut-based companies, and it would lead the investment. What happens in those cases is when Versant leads a deal, they can get management teams in, they can get additional people to follow on, so they become the leader on our behalf of the company.

There's another firm based in New Haven that we know and love and have worked with quite closely. They are trying to raise a Series B or a second fund. We would catalyze them and catalyze Yale to make the Anchor, LP, investment to get the funds up and running, and they could use our support to make that happen. And again, our dollars would be invested in Connecticut-only companies, but we would share in the collateralized returns from the entire fund.

SENATOR FRANTZ (36TH): Thank you for that answer. And Matt, there's logic to the idea of taking proceeds from the Bioscience Fund and putting it into the more general CI venture capital pool to invest in other areas. It's difficult to get that money deployed, and there is a lot of it, and so I understand the logic. Is there anything else you'd like to tell us in terms of opportunity cost - both in terms of being able to deploy the resources but, also, the return potential?

MATT MCCOOE: Yes, thank you. That's an insightful question because there is an internal dynamic which is really important, which is the team, itself. As I said earlier, some of the best - I would say 95 percent of the best Bioscience deals in the state - are CI portfolio companies today. And to incentivize our team to move those deals over to the Bioscience Fund, it is really important that they feel like their interests are aligned. If their interests are not aligned, if they feel like the money is going to go elsewhere, then it's not going to perpetuate this organization that they've committed 10, 20, 25 years to. So, they feel quite strongly about that particular clause, Senator Frantz. It's really important to my partners and my team.

SENATOR FRANTZ (36TH): That's a great answer. So, thank you very much, Matt, and Phil, thank you, too.

SENATOR HARTLEY (15TH): Thank you, Senator Frantz. Further comments from committee members?

Yes, Representative Becker.

REP. BECKER (19TH): Good to see you. Thanks for coming in. I'm a little confused. So, you want to take the monies that are supposed to be returned to the Bioscience Fund and have them go into a general fund for any investment. And what you just were talking about, I think, were the bioscience investments and companies who want to make sure that the resources will be there.

MATT MCCOOE: The bioscience team.

REP. BECKER (19TH): Team.

MATT MCCOOE: So, that's an internal dynamic, as you know, that's not to be disregarded, right? So, going backwards a little bit - well more than half of our current portfolio is in bioscience, and our team is very dedicated already to bioscience. It's about 10 years from now and 15 years from now, as those returns start to flow back, does that go to the Bioscience Fund - only a small fraction of which goes to support the current jobs and operations of CI - or does it go to the overall CI fund to be deployed according to however the CI Board deems most rewarding for the state and for our taxpayers? So, it would be for allocation across the portfolio because in 10 years or 15 years from now, we may be on to nanosciences or some new initiative.

REP. BECKER (19TH): Right, but the - so, right now, as it stands today, money is returned to the Bioscience Fund, which can be used for investment in Bioscience opportunities, as well as funding the positions within CI that support that, is that correct?

MATT MCCOOE: Right now, it's said that it just goes back into the fund for purposes which are not really well defined, right?

PHILIP SIUTA: Right. The monies that were returned to the CBI Fund are only eligible for investments that are qualified investments and the language - the same language that we can give out. What this allows us to do is - you know, the returns are expected 3, 5, 10 years from now -

MATT MCCOOE: Fifteen -

PHILIP SIUTA: Yeah, especially when you're dealing with bio. So, we're asking for the opportunity that these funds will all be initially given to CBIF-qualified investments and when returns come in, that they are allowed to be redistributed in the best interest of the state for investments - not just the ones qualified for CBIF.

REP. BECKER (19TH): But, Matt, when you were talking about your team and making sure those positions are covered or positions throughout CI - you're talking about - if this money is unrestricted, CI could use it to pay internal folks their salaries, benefits, etc.?

MATT MCCOOE: It's for the sustainability of the organization and to continue to do the follow-on investments. So, right now, we've got 100 portfolio companies, and in 10 years, we're going to start to see these returns back. We'll have 250 companies possibly, Representative, so you would need a team of people there to manage such a large portfolio. So, it's for both because you really need a team to manage it, and you need to be able to do the investments that are important for our companies. It's for both.

REP. BECKER (19TH): And the provisions today allow for you to pay for the portion of your team that supports the bioscience investments or not? Or only the investments, themselves?

PHILIP SIUTA: With the legislation as it stands today, Connecticut Innovations is allowed to take 5 percent of the bonding it receives from CBIF for its administrative costs. The administrative costs outweigh that currently right now -

REP. BECKER (19TH): Okay, so.

PHILIP SIUTA: - by a good number.

REP. BECKER (19TH): Right. And I guess a concern I would express is - if the state intends to focus on bioscience, and bioscience is an area, as you know, that takes a long time for innovations to be developed, to be brought to market, etc., and you need to have sustained investment - I think at least one of the purposes of this fund is to show that we're committed to doing that. So, to take returns whenever they may come in and say we're just going to put that into the - make it unrestricted so it can be invested in any type of venture that CI could get involved in - would clearly dilute the State's commitment to bioscience, itself.

If the goal of this is to, perhaps, make more money available to support CI's team that's involved in that area, then maybe we can more narrowly define it or make a larger percentage available to support that team. But I'm a little leery of just making these funds unrestricted if the primary intention of creating the fund in the first place was to show a long-term commitment to this particular field while we're trying to bring Connecticut to the forefront - I mean, it's somewhat of a leader now, but it's certainly - I mean, California has large investments that are sustained - I certainly wouldn't want to

PUBLIC HEARING

send a signal that we're diluting our interest or our sustained interest in this particular field where we put in large investments to date with Bioscience Connecticut, with Jackson Labs, and all of the things that you're doing with smaller start-ups that are part of this ecosystem that we want to continue to focus on and build.

So, I personally have a few reservations about completely having the returns go to an unrestricted fund and would ask whether you would consider something more narrowly drafted that, perhaps, could help you defray some of your team's costs without necessarily freeing this money for any type of investment. Thoughts?

MATT MCCOOE: I completely understand your point, Representative, and I think it's a valid concern. A \$200 million fund over a 10-year period, I think is a very serious demonstration of the State's commitment, and this is really about the returns 15 years from now. So, we're looking out quite a bit. I think the legislation didn't really address in great detail how those funds were going to be treated when they kicked back in. So, back to that really smart group people who I work with - they are looking at that and they are thinking about that. So, finding some way to align the team at Connecticut Innovations with the interests of the Commerce Committee, I think is a worthy goal, and I'm happy to pursue that conversation with you.

REP. BECKER (19TH): Thank you, Matt. Thank you, Madam Chair.

SENATOR HARTLEY (15TH): Thank you, Representative Bennett.

Representative Perone.

REP. PERONE (137TH): Thank you very much. So, just to sort of clarify – from your vantage point, you're looking at sort of how the longevity of the fund, the longevity of the team and the stability of the team is being perceived, and you feel that sends a significant signal from that standpoint – that's how I'm kind of reading what you're saying. It's just that the –

MATT MCCOOE: The signaling to my partners who have been there for 10, 20 years is important.

REP. PERONE (137TH): Gotcha. Right. Okay, thank you very much.

MATT MCCOOE: It's really about building the right kind of culture at CI, which is what I've spent – as you know – the last eight months focusing on.

REP. PERONE (137TH): And you're doing a great job. Thank you very much for your work on that.

MATT MCCOOE: Thank you.

SENATOR HARTLEY (15TH): Thank you, Representative Perone. And so, Matt, you mentioned that the admin at CI is about 5 percent and that the actual cost of running the operation exceeds that – did I hear you say that?

PUBLIC HEARING

MATT MCCOOE: Yeah. If you were to add up the salaries and the administrative work and the burden rate of 80 percent that we put on top of the people who – and we're adding person now who's going to need more assistance with it. The likelihood is that, over time, it may or may not meet the five percent, but that would be something that we would need to look at exactly. That's not something that I think we've examined closely.

PHILIP SIUTA: Yeah, just in this year's budget. So, the CBI funding allowed is \$15 million. We would get five percent of that, or \$750,000 for administrative costs. Our administrative costs, without considering employment, is about \$1.3 million. So, after fully staffing this fund – now we have people from the other team dedicated to CBIF, as well – it would far exceed that \$1.3, as well. So, taking an estimate, I would say to run the CBI Fund effectively is about \$2 million a year, and we would receive \$750,000 back in administrative costs.

MATT MCCOOE: And we're also managing the Regenerative Medicine Fund with the same team and the Eli Fund with the same team, [indiscernible 1:21:23.7], so there's a little bit of cross over.

SENATOR HARTLEY (15TH): And so, do you do any comparative assessment to see what other organizations like CI do with regard to admin and how you compare?

MATT MCCOOE: We went through this last year, right Phil?

PHILIP SIUTA: We have done – just for the CBIF investment – this is not back ending it with any other costs like accounting or legal. This \$1.3 million that I spoke of is for peer reviews, personnel, consulting, contractors. The law requires that approved deals that have a peer review with AAAS, and the costs for that are \$1.3. I'm not back loading that number with any –

MATT MCCOOE: [indiscernible 1:22:16.2] audit, evaluation exercises.

PHILIP SIUTA: Yeah. I'm not [indiscernible 1:22:18.2] anything like that that's out there.

SENATOR HARTLEY (15TH): Thank you, Phil. So, on a little bit of that same discussion – how would you compare what CI does to a private investment firm? Are you –

MATT MCCOOE: Yeah, so the typical structure for a venture firm is between 2 and 3 percent fees on assets under management plus 20 percent carried interest on the returns.

SENATOR HARTLEY (15TH): Uh huh. Is there any part of the operation that might appropriately be privatized?

MATT MCCOOE: I think the notion of using some of the bioscience funds to invest in venture firms that would come to the state is a form of privatizing, right? So, it's taking some of the investments that you're [indiscernible 1:23:29.0] done ourselves and bringing in the private sector and then partnering with them. I would say that this is a movement

PUBLIC HEARING

toward privatizing a piece of our business. But, we don't receive carried interest, right? But the biggest thing that our team does not share in their returns.

SENATOR HARTLEY (15TH): So, how would you respond to the comment that CI is risk adverse when you compare yourselves to - on the private side?

MATT MCCOOE: I've not heard that comment, but I haven't been here that long. I've had a lot of conversations with people. I would challenge that, respectfully, Senator Hartley, because - for example, in the deal I mentioned earlier where we're going to go in - we're the first investor in, in most cases. We go in by ourselves quite often. We're investing at the academic research level where all others fear to tread. We'll do the first round investment in a very small company, where it is very, very difficult. There are no other institutional investors that will do those deals. With the majority of the deals that we do, we are the only institutional investor participating. We try to get friends and family and angels to come in alongside of us. And, when we've taken a lot of the risks off the table, we've proven to the team that management is qualified and there's a product. That's when the institutional venture capital firms want to come in. They do not want to play at the most early pre-seated stage, where the biosciences invest and where CI often invests.

SENATOR HARTLEY (15TH): And so, I saw some numbers that I haven't had a chance to vet - but it showed the failure rate - and CI was measured somewhere in the range of 27%, whereas in the industry, it was

57% on fail rate. Of course, I look at that and I'm torn because we're talking about state taxpayer money here, so those things don't exactly resonate that way with me, but I'd be interested in your comments.

MATT MCCOUE: So, I spent a lot of time thinking about this and spending time with these very early-stage companies, and I'm always blown away by the will to survive of early-stage companies. Just when you think that there's no possible way that they will find another dollar, another investor or another customer, they somehow manage to pull a rabbit out of their hat, and will allow the company to survive another year. In most private venture capital firms, we write those off. They're referred to as the living dead, and so they'll take a zero on that, even though the company may go on and may still have jobs and may be eking out a living, the private sector very often will have to write those off to a zero if they don't believe that they're going to get a return. CI is in a different position, where we do care about those jobs and we do care about keeping those entrepreneurs' dreams alive, so we continue to support those companies. So, that may be a facet of it, but I would say that the other piece of it is that our portfolio is quite young. The jobs bill in 2011 - that's when there was a big hockey stick in terms of our portfolio companies. A young portfolio is a company that has a lot of companies that are not going to survive - you just don't know yet which will be in which bucket. And so, the one thing I can assure you that, over time, the numbers will start to look the same as a private sector fund. In fact, I would expect that because we are so early stage and we do

PUBLIC HEARING

go in so early, that we would have a higher failure rate than others – for just the fact that we're investing before the company even has a product on the market.

SENATOR HARTLEY (15TH): So, I'm not looking and hoping that you have a failure rate, but I just wanted to hear your comment on that.

MATT MCCOOE: Yeah, yeah. No, that's a great – it's a – I spent a lot of time thinking about that.

SENATOR HARTLEY (15TH): I appreciate that. Further comments from committee members? Seeing none –

Thank you so much for being with us and for your patience and waiting. I appreciate it.

MATT MCCOOE: Okay. Thank you very much.

SENATOR HARTLEY (15TH): I look forward to continuing to work with you. Is Senator Leone still with us? No, he is not. It is now time to go to the public sign-up sheet.

Our first person is a person very familiar to myself, as well as to my colleagues, and that is Fran Pastore. Thank you Fran for being with us this morning.

FRAN PASTORE: Thank you, Senator Hartley.

SENATOR HARTLEY (15TH): And, I hate to say this, but you know we've that egg timer thing going, right?



3

What's next starts here.

TESTIMONY SUBMITTED TO THE COMMERCE COMMITTEEMarch 15, 2016By Matt McCooe, CEO
Connecticut Innovations

**SB 401: AN ACT CONCERNING THE CONNECTICUT BIOSCIENCE INNOVATION FUND
AND INVESTMENT BY CONNECTICUT INNOVATIONS, INCORPORATED.**

Senator Hartley, Representative Perone, Senator Frantz, Representative Camillo and distinguished members of the Commerce Committee. Thank you for the opportunity to provide testimony in support of SB 401: An Act Concerning the Connecticut Bioscience Innovation Fund and Investment by Connecticut Innovations, Incorporated.

As you know, Connecticut Innovations (CI) is the leading source of financing and ongoing support for Connecticut's innovative and growing companies. By offering flexible financing, strategic guidance and introductions to valuable partners, we stimulate and promote technological innovation and encourage the development of new products and inventions. We enable promising businesses to attract capital and talent, and help Connecticut's economy grow and thrive.

Senate Bill 401 seeks to make a number of important changes to CI's ability to use the funding at its disposal. Though largely technical in nature, these changes are intended not only to allow CI to more effectively deploy its resources, but also to allow CI to become more self-sustaining as an organization.

Specifically, SB 401 proposes to have the returns on the Connecticut Bioscience Innovation Fund (CBIF) investments, which currently revert back to the fund itself, to accrue instead to CI. Given that CI provides sourcing and managing of investments to the fund, as well as deal flow from pending and existing CI portfolio companies, such a change seems warranted. More importantly, while this proposal does not affect how CBIF resources are originally deployed, it will provide CI greater flexibility on the redeployment of those funds. This additional flexibility promises to relieve the pressure on the other programs that CI manages and reduces the need for CI to request bond funds periodically to recapitalize those programs.

Senate Bill 401 also simplifies the definition of an "early-stage business" to a business that has yet to achieve annual commercial revenues in excess of two million dollars. Furthermore, it proposes to allow follow-on CBIF investments in companies that were "start-ups" or "early-stage" when first funded by CI or CBIF, but have since grown. By having the ability to utilize CBIF funding for



What's next starts here.

follow-on investing in later stage businesses, CI hopes to continue to assist those companies that the agency believes will generate jobs growth and generate positive investment returns.

Finally, SB 401 provides legislative clarification that CI can use its own resources (e.g., its Eli Whitney Fund) to invest in private equity funds to attract additional venture capital to the state. Such capital is critical to the continued development of the burgeoning bioscience and high tech sectors in the state.

We are confident that the important changes in SB 401, which have received the endorsement of the CI and CBIF boards, will allow CI to better and more effectively deploy the resources at its disposal. Thank you in advance for your consideration.

Salemi, Kathy

From: Mike Hyde <Mike.Hyde@jax.org>
Sent: Monday, March 14, 2016 5:49 PM
To: Salemi, Kathy
Cc: Painter, Polly
Subject: S.B. 425

Dear Ms. Salemi:

SB445

I am writing in support of Senate Bill 425, which calls for the formation of a bioscience and health data network collaborative task force to study broadband options for Connecticut.

The Jackson Laboratory is very interested in securing ultra-high-capacity (10 gigabyte/second-plus) access to the internet. This kind of connectivity is crucial to moving and manipulating very the large volumes of data that are generated in our genomic research projects.

If S.B. 425 is enacted and such a task force is formed, The Jackson Laboratory will supply a senior official to serve on the task force.

I regret that I will not be able to attend the hearing on this bill tomorrow, but please let me know if I can be of further assistance.

Best regards,
Mike Hyde

Mike Hyde
VP External Affairs and Strategic Partnerships
The Jackson Laboratory
Bar Harbor, ME | Farmington, CT | Sacramento, CA
207.288.6049 t | 207.266-0499 m
mike.hyde@jax.org
www.jax.org

The Jackson Laboratory: *Leading the search for tomorrow's cures*

The information in this email, including attachments, may be confidential and is intended solely for the addressee(s). If you believe you received this email by mistake, please notify the sender by return email as soon as possible.