



# House of Representatives

General Assembly

**File No. 61**

January Session, 2003

House Bill No. 5285

*House of Representatives, March 25, 2003*

The Committee on Commerce reported through REP. GRAZIANI of the 57th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

## **AN ACT CREATING A MICROLOAN PROGRAM FOR MICROENTERPRISES.**

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

1 Section 1. (NEW) (*Effective October 1, 2003*) As used in sections 1 to 6,  
2 inclusive, of this act:

3 (1) "Community Economic Development Fund" means the entity  
4 established pursuant to subsection (b) of section 8-240k of the general  
5 statutes to accomplish the community economic development  
6 program.

7 (2) "Financial institution" means any trust company, bank, savings  
8 bank, credit union, savings and loan association, insurance company,  
9 investment company, mortgage banker, trustee, executor, pension  
10 fund, retirement fund or other fiduciary or financial institution.

11 (3) "Microenterprise" means any business, new or existing, with ten  
12 or fewer employees and annual gross revenues of less than five

13 hundred thousand dollars, including home-based and owner-operated  
14 businesses.

15 (4) "Microloan generation organization" means any community-  
16 based nonprofit organization that is capable of providing the services  
17 enumerated in section 3 of this act.

18 (5) "Nonstate funds" means funds that come from any source,  
19 including private foundations, federal or local governments, quasi-  
20 governmental entities or financial institutions, other than funds  
21 appropriated by the General Assembly.

22 (6) "Program" means the microloan program for microenterprises.

23 Sec. 2. (NEW) (*Effective October 1, 2003*) (a) There is established a  
24 pilot microloan program for microenterprises. The Community  
25 Economic Development Fund shall (1) provide microloans, not to  
26 exceed fifty thousand dollars, to microenterprises within the state in  
27 accordance with subsection (f) of this section, (2) provide grants, not to  
28 exceed twenty-five thousand dollars, to microloan generating  
29 organizations in accordance with section 4 of this act, and (3) identify  
30 and coordinate nonstate funds that may be available to fund the  
31 program.

32 (b) There is established an account to be known as the "microloan  
33 revolving account for microenterprises" which shall be a separate  
34 nonlapsing account within the General Fund. The account shall  
35 contain (1) any moneys allocated pursuant to subsection (c) of this  
36 section, and (2) any moneys required by law to be deposited into the  
37 account, including, but not limited to, any moneys appropriated by the  
38 state and interest payments and principal payments on microloans,  
39 minus reasonable and necessary expenses incurred by the Community  
40 Economic Development Fund in administering microloans and grants  
41 under the program established under this subsection. Any balance  
42 remaining in the account at the end of any fiscal year shall be carried  
43 forward in the account for the next succeeding fiscal year. The account  
44 shall be used to make microloans in accordance with subsection (f) of

45 this section, to make grants to microloan generating organizations in  
46 accordance with section 4 of this act, and to pay reasonable and  
47 necessary expenses incurred by the Community Economic  
48 Development Fund in administering such microloans and grants  
49 under the program established under this subsection.

50 (c) The Community Economic Development Fund may, at its  
51 discretion, transfer any of its available appropriations and any  
52 nonstate funds to the account established under subsection (b) of this  
53 section. The Community Economic Development Fund may  
54 participate with other lenders in loans to applicants in order to  
55 leverage the funds being loaned.

56 (d) In order to qualify for a microloan an applicant shall present  
57 evidence satisfactory to the Community Economic Development Fund  
58 that the amount loaned from the account established under subsection  
59 (b) of this section shall be matched by nonstate funds equivalent to one  
60 dollar for each one dollar loaned from the account, or by an in-kind  
61 equivalent for each one-dollar loaned from the account.

62 (e) Any microloan shall be used by a microenterprise for business  
63 start-up costs or the day-to-day operation of the business, in  
64 accordance with policies established by the Community Economic  
65 Development Fund pursuant to subsection (g) of this section. The  
66 proceeds from any microloan made pursuant to this section shall not  
67 be used by the microenterprise for the refinancing of existing loans.

68 (f) Each microenterprise applying for a microloan under subsection  
69 (a) of this section shall submit an application in such form and  
70 containing such information as the Community Economic  
71 Development Fund shall require. Security for the microloan shall be in  
72 accordance with underwriting and collateral requirements established  
73 by the Community Economic Development Fund pursuant to  
74 subsection (g) of this section. In addition to any other conditions of  
75 default under the microloan, the microenterprise shall be in default if  
76 the microloan is not used for the purposes set forth in subsection (e) of  
77 this section.

78 (g) The Community Economic Development Fund may establish  
79 policies and procedures to carry out the provisions of this section. Such  
80 policies and procedures may provide for microloan repayment terms,  
81 interest and security requirements, default and remedy provisions,  
82 and such other terms and conditions as the Community Economic  
83 Development Fund deems appropriate.

84 Sec. 3. (NEW) (*Effective October 1, 2003*) Grants made by the  
85 Community Economic Development Fund to microloan generating  
86 organizations shall be used to:

87 (1) Identify appropriate microloan applicants state-wide;

88 (2) Evaluate the need for a prospective microloan applicant's  
89 business in the community in which the microenterprise is or would be  
90 located;

91 (3) Evaluate community support for a prospective microloan  
92 applicant's business in the community in which the microenterprise is  
93 or would be located;

94 (4) Work in conjunction with other community-based nonprofit  
95 organizations, state and federal agencies and with the Community  
96 Economic Development Fund to assist prospective microloan  
97 applicants in preparing and finalizing business plans;

98 (5) Assist prospective microloan applicants in obtaining and  
99 submitting microloan applications in accordance with subsection (f) of  
100 section 2 of this act;

101 (6) Assist prospective microloan applicants in identifying and  
102 accessing other appropriate business resources, including those  
103 providing business management training;

104 (7) Track client data, level of service and outcome of services  
105 provided; and

106 (8) Submit regular reports to the Community Economic

107 Development Fund based on the grant agreement with the microloan  
 108 generating organization.

109 Sec. 4. (NEW) (*Effective October 1, 2003*) The Community Economic  
 110 Development Fund shall consider the following criteria in making a  
 111 grant to a microloan generating organization:

112 (1) Sources and sufficiency of operating funds for the microloan  
 113 generating organization;

114 (2) The ability of the microloan generating organization to provide  
 115 the services required under section 3 of this act; and

116 (3) The proven ability of the microloan generating organization to  
 117 identify and prepare successful applicants to economic assistance  
 118 programs similar to the program established in this act.

119 Sec. 5. (*Effective October 1, 2003*) Not later than June 30, 2005, the  
 120 board of directors, established in accordance with section 8-2401 of the  
 121 general statutes, shall submit a report of the status and results of the  
 122 pilot microloan program for microenterprises established under  
 123 section 2 of this act to the joint standing committee of the General  
 124 Assembly having cognizance of matters relating to commerce, in  
 125 accordance with section 11-4a of the general statutes.

126 Sec. 6. (*Effective July 1, 2003*) The sum of one hundred thousand  
 127 dollars is appropriated to the Community Economic Development  
 128 Fund, from the General Fund, for the fiscal year ending June 30, 2004,  
 129 for the program established in section 2 of this act.

This act shall take effect as follows:	
Section 1	<i>October 1, 2003</i>
Sec. 2	<i>October 1, 2003</i>
Sec. 3	<i>October 1, 2003</i>
Sec. 4	<i>October 1, 2003</i>
Sec. 5	<i>October 1, 2003</i>
Sec. 6	<i>July 1, 2003</i>

**CE**      *Joint Favorable*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

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**OFA Fiscal Note**

**State Impact:**

Agency Affected	Fund-Type	FY 04 \$
None	GF - Cost	\$100,000

Note: GF=General Fund

**Municipal Impact:** None

**Explanation**

The bill appropriates \$100,000 from the General Fund to the Community Economic Development Fund (CEDF) for FY 2004. HB 6548, the governor’s recommended budget for FY 2004 and FY 2005, does not contain funds for the CEDF. The CEDF is a nonprofit organization. The funds are to be used for a microenterprise loan program that the legislation establishes.

The bill also requires that the appropriated funds, loan repayments and any supplemental funds be deposited into a separate, nonlapsing General Fund account. There is no state agency associated with this appropriation, therefore it is unclear in what agency the nonlapsing account would be located.

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**OLR Bill Analysis**

HB 5285

**AN ACT CREATING A MICROLOAN PROGRAM FOR MICROENTERPRISES****SUMMARY:**

This bill establishes a loan program for microenterprises and authorizes the Community Economic Development Fund (CEDF) to administer it. CEDF is a nonprofit organization created by law to help economically distressed neighborhoods develop businesses and create jobs. New or established businesses qualify for loans if they employ 10 or fewer people and gross less than \$500,000 annually. Eligible businesses include those run by their owners or operate annually out of homes.

CEDF can lend up to \$50,000 to microenterprises that meet its lending criteria and can match the loan amount with an in-kind equivalent or funds from nonstate sources. It can keep some of the loan repayments to cover its administrative costs. CEDF can market the loans directly or through community-based nonprofit organizations. CEDF already makes similar loans to women- and minority-owned businesses that employ fewer than 50 people. It can use the funds the bill appropriates to make up to \$25,000 grants to these organizations for this purpose.

The bill appropriates \$100,000 in FY 2003-04 to the program, which CEDF can supplement with its funds and those it receives from banks, foundations, quasi-public agencies, and federal and local governments. CEDF must identify these sources and coordinate its funding with theirs. These, other appropriated funds, and loan repayments must be deposited in a separate, nonlapsing General Fund account. CEDF must report on the program's status and results to the Commerce Committee by June 30, 2005.

EFFECTIVE DATE: October 1, 2003, except for the appropriations provision, which is effective July 1, 2003.

**MICROLOANS**

Businesses can use the loans to cover their start-up costs or daily

operating expenses, in accordance with CEDF's policies and procedures. But they cannot use the loans to refinance existing loans. Borrowers are in default if they use the loans for this or any other purpose CEDF's policies and procedures prohibit.

Loan applicants must show how they will match the loan with an in-kind equivalent or funds from nonstate sources. CEDF must develop the loan application, which can require the applicant to provide any information CEDF needs to underwrite the loan. Applicants must complete this application in order to receive a loan.

The bill authorizes CEDF to set necessary loan terms and conditions, including repaying loans, providing interest and security, and acting in case the borrower stops repaying the loan. Borrowers must comply with CEDF's underwriting and collateral requirements.

## **GRANTS**

The bill allows CEDF to market the loans through nonprofit, community-based organizations. In doing so, CEDF can make up to \$25,000 grants to these organizations for:

1. identifying potential loan applicants;
2. evaluating the community's need and support for the business the loan will finance;
3. working with other similar organizations, government agencies, and CEDF to help applicants complete businesses plans;
4. helping applicants complete CEDF's loan application;
5. helping applicants use other business resources, including management training;
6. collecting data on the applicants they assisted, the services they provided, and how those services benefited the applicants; and
7. complying with CEDF's reporting requirements as specified in the agreement under which they received the CEDF grant.

CEDF must consider the following factors before it awards a grant:

1. the sources that fund the organization's operations and whether the funds are sufficient,
2. the organization's ability to perform the tasks listed above, and
3. whether the organization has had any experience helping potential loan applicants identify and access similar economic development programs.

## **BACKGROUND**

### ***CEDF***

The Office of Policy and Management created CEDF under PA 93-404 to run a program through which the state's housing and economic development agencies could finance community development projects in economically distressed communities. CEDF consists of three organizations:

1. CEDF Foundation, Inc. is a non-stock nonprofit charitable organization established to help communities implement economic development strategies, provide technical assistance to entrepreneurs and small businesses, and provide financing to small businesses.
2. CEDF Corporation is a for-profit wholly owned subsidiary of the foundation that invests the foundation's funds and runs its lending programs.
3. CEDF I, LLC is a partnership between the CEDF Corporation and several banks that oversees a \$10.2 million loan pool the corporation manages under an agreement with the LLC.

### ***Related Bill***

SB 452, which the Commerce Committee reported favorably to the Senate on March 13, allows CEDF to help low- and moderate-income people throughout the state to establish, maintain, and expand a business. Current law allows CEDF to do this only in state-designated economically distressed towns.

## **COMMITTEE ACTION**

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Commerce Committee

Joint Favorable Report  
Yea 21 Nay 0