
OLR Bill Analysis

sHB 6467 (as amended by House "A")*

AN ACT CONCERNING THE SMALL BUSINESS EXPRESS PROGRAM.

SUMMARY

This bill makes changes to the Department of Economic and Community Development's (DECD) Small Business Express program (EXP), generally increasing flexibility in the department's administration of the program and allowing for increased participation by private lenders. The bill eliminates certain administrative provisions concerning participant eligibility criteria, application process, and funding priority. It also makes the following changes to the program's components:

1. expands the revolving loan fund's allowed uses and eliminates related requirements on the uses, amounts, rates and terms, and prioritization of these loans;
2. allows the DECD commissioner, in consultation with Connecticut Innovations (CI), to establish a new EXP component and eliminates the job creation incentive and matching grant components;
3. removes the requirement that there be no more than two minority business revolving loan funds (MBRLFs) and increases the maximum size of loans these funds can provide; and
4. makes changes to the administration and funding allocation of the EXP component operated in collaboration with Connecticut-based banks.

The bill also (1) creates a new requirement for loan loss reserve accounts under the Connecticut Capital Access Fund program; (2) makes changes to DECD's EXP and annual reporting requirements and

the legislative hearing requirements related to the department's audit and annual report; and (3) makes it a goal of the department that by July 1, 2026, EXP (a) be self-funded and (b) have a default rate of 20% or less for small businesses receiving assistance.

Additionally, the bill eliminates (1) a requirement that the DECD commissioner work with eligible applicants to provide a package of EXP financial assistance, with the ability to refer these applicants to the Subsidized Training and Employment program or other appropriate state programs, and (2) the commissioner's ability to, at his discretion, partner with lenders in the Connecticut Credit Consortium to fulfill the program requirements.

It also makes technical and conforming changes.

*House Amendment "A" replaces the underlying bill, which also made changes to the EXP, and, among other things, (1) makes various changes to (a) the program's administration and components and (b) DECD's EXP and annual reporting requirements and legislative hearing requirements; (2) creates new EXP program goals for DECD; and (3) makes technical and conforming changes.

EFFECTIVE DATE: July 1, 2021, except the provisions related to DECD's annual reporting requirements and the legislative hearing requirement are effective upon passage.

ELIMINATED ADMINISTRATIVE PROVISIONS

Eligibility Criteria

The bill changes eligibility criteria for a small business to receive assistance under the EXP program by (1) eliminating the requirement that a business have been registered for at least 12 months and (2) modifying the maximum employee requirement to simply require the business have no more than 100 employees. Under current law, to be eligible for EXP financial assistance, a business must: (1) have employed no more than 100 employees on at least half of the working days in the previous 12 months and (2) have been registered to conduct business for at least 12 months.

As is the case under existing law, to be eligible, a business must also (1) operate in Connecticut and (2) be in good standing with all state and local tax payments and with all state agencies.

Application Process and Funding Priority

The bill eliminates certain EXP provisions related to application process and funding priority, including those:

1. requiring the DECD commissioner to establish a streamlined application process;
2. requiring approved small businesses to receive funding within 30 days after submitting a completed application to DECD; and
3. requiring the DECD commissioner to prioritize funding for small businesses creating jobs and allowing him to do so for those (a) in Connecticut’s economic base industries (e.g., precision manufacturing, business services, bioscience, green and sustainable technology, and information technology); (b) attempting to export products or services to foreign markets; and (c) located in CTNext-designated innovation places.

CHANGES TO EXP COMPONENTS

Currently, EXP funding is available to eligible businesses in the form of a loan or a grant through five components:

1. the revolving loan fund,
2. the job creation incentive component,
3. the matching grant component,
4. up to two MBRLFs, and
5. a private lender component operated in collaboration with Connecticut-based banks.

Among other things, the bill eliminates the EXP program’s job creation incentive and matching grant components and eliminates the

cap on the number of MBRLFs. The bill also adds a new component, to be established in consultation with CI, and expands the revolving loan fund's allowed uses.

Revolving Loan Fund Purposes Expanded

Under current law, DECD can provide loans to eligible small businesses through the revolving loan fund. The bill expands this by allowing the department to also provide loan guarantees, loan portfolio guarantees, portfolio insurance, and grants under this EXP component.

The bill also eliminates provisions in current law addressing permissible loan uses; loan amounts, rates and terms; and prioritization of loans issued from this fund. (Currently, this component provides loans ranging from \$10,000 to \$100,000 for a term of up to 10 years and a maximum 4% interest rate. DECD must prioritize applicants that plan to create new jobs that will be maintained for at least a year.)

New Component in Collaboration With CI

The bill allows the DECD commissioner to establish and operate, in consultation and collaboration with CI, a new EXP component. The new component can provide financial assistance consistent with CI's powers and the provisions and purposes of the (1) Connecticut Works Fund and (2) Connecticut Capital Access Fund. CI may administer the component in collaboration with DECD.

The Connecticut Capital Access Fund program is designed to provide portfolio insurance to participating financial institutions to help them make loans that are somewhat riskier than conventional loans. The Connecticut Works Fund provides direct loans for eligible projects and includes a loan guarantee program to encourage participating lenders to provide additional credit on more favorable terms.

Eliminated Job Creation Incentive and Matching Grant Components

The bill eliminates the EXP program's job creation incentive and matching grant components.

Under current law, businesses that receive job creation incentive loans may use the funds for training, marketing, working capital, or other DECD-authorized business expenses that support job creation. Loans range from \$10,000 to \$300,000 and the DECD commissioner may allow deferred loan payments and forgive all or part of a loan.

Under current law, businesses that receive matching grants may use the funds for ongoing or new training, working capital, machinery and equipment purchases, construction, relocation costs, rent payments, and other DECD-authorized business expenses. This EXP component provides eligible businesses with grants ranging from \$10,000 to \$100,000. To receive a grant, a business must match the state award dollar-for-dollar, unless located in a distressed municipality.

Minimum MBRLF Requirement and Raised Loan Cap

The bill eliminates the requirement that there be no more than two MBRLFs, instead requiring a minimum of one. Additionally, it increases, from \$100,000 to \$500,000, the maximum size of loans these funds can provide.

Private Lender Component's Administration and Funding Cap

Existing law allows DECD to establish, in consultation with private lenders, a new EXP component comprised of (1) loan guarantees, (2) short-term loans used as a bridge to private sector financing, and (3) the transfer of loans issued under the revolving loan fund or job creation incentive fund. The bill requires CI to administer this component in collaboration with DECD, if the department establishes it.

The bill eliminates the requirement that no more than 10% of available EXP funding be allocated to this component.

CONNECTICUT CAPITAL ACCESS FUND PARTICIPATION

Under current law, participation agreements between CI and a financial institution participating in the Connecticut Capital Access

Fund program (see above) must establish a separate loan loss reserve account owned and controlled by CI but earmarked to cover losses on loans enrolled by a financial institution in the program. The bill requires that these loan loss reserve accounts be located within (1) the financial institution entering the participation agreement or (2) a third-party financial institution approved by CI.

DECD REPORTING REQUIREMENTS

The bill (1) reduces the frequency, from biannually to annually, of the DECD commissioner's report on the EXP program to the General Assembly and (2) makes the report due February 1, beginning in 2022.

The bill also requires this report, and DECD's annual report due on the same day under existing law, to include available data on (1) the default rate of small businesses that received EXP assistance and (2) participating lenders' progress in becoming self-sustainable. It removes the requirement that these reports include data on the number of small businesses that applied to the program.

LEGISLATIVE HEARING REQUIREMENTS

Under current law, within 60 days after the state auditors submit an audit of DECD or a stand-alone performance audit of the department's incentive programs, the Appropriations; Finance, Revenue and Bonding; and Commerce committees must hold, individually or jointly, one or more public hearings on these reports and certain analyses and data the department is required to include in its annual report. The bill eliminates the requirement that the DECD audits be subject to this particular hearing requirement and adds DECD's annual report data on the EXP program as a required component to be included in the hearing or hearings.

Under the bill, these hearings must be held annually, with the first held by April 1, 2022. (Existing law, unchanged by the bill, requires the legislature to hold hearings on state agency audit reports, unless the requirement is waived by the chairpersons of the committee of cognizance.)

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute

Yea 23 Nay 0 (03/22/2021)

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 49 Nay 0 (05/03/2021)