LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

SENATE, No. 3344

STATE OF NEW JERSEY
220th LEGISLATURE

DATED: DECEMBER 14, 2022

SUMMARY

Synopsis: Establishes NJ Non-Profit Loan Guarantee Pilot Program within EDA.

Type of Impact: State expenditure increase.

Agencies Affected: New Jersey Economic Development Authority.

Office of Legislative Services Estimate

Fiscal Impact	Year 1	Years 2 – 20
State Expenditure Increase	Marginal Impact	Indeterminate Potential Impact

- The Office of Legislative Services (OLS) concludes that the bill would result in a marginal cost increase for the Economic Development Authority associated with the creation and administration of the New Jersey Non-Profit Loan Guarantee Pilot Program, as well as a potential increase in expenditures associated with the repayment of any loan for which the authority guarantees and the borrower defaults.

- To implement the program, the authority is expected to incur a marginal increase in administrative expenses, which costs may result from the development of program guidelines, the review of application materials, the effectuation of loan guarantee agreements, and the submission of program reports. Because the authority has recent experience administering similar programs, the OLS assumes that these expenses can be supported using existing staff and resources.

- The bill requires the authority to maintain such reserves as are necessary to secure the balance of any loan guarantees provided under the program. Depending on the total value of loan guarantees provided by the authority, and the reserve balances deemed necessary to secure these guarantees, both of which may be determined by the authority, the bill is expected to reduce the total monies that may be otherwise available for expenditure by the authority.

- In the event that an approved borrower defaults on a guaranteed loan, the authority would also be expected to incur increased expenditures associated with the repayment of the outstanding

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balance of the guaranteed portion of the loan. Because the OLS is unable to predict the total value of all loan guarantees provided by the authority, or the rate at which borrowers will default on these loans, the OLS is unable to estimate the magnitude of this potential impact.

- The OLS notes that the operation and administration of the program would be supported by such funding as the authority deems necessary, from the Economic Recovery Fund, to effectively implement the program, as well as any other funds that the authority may receive for the program. Consequently, the OLS is unable to predict the total amount of funding that the authority will elect to make available for the program.

BILL DESCRIPTION

This bill requires the Economic Development Authority to establish the New Jersey Non-Profit Loan Guarantee Pilot Program to provide financial assistance in the form of loan guarantees to non-profit organizations. Specifically, this financial assistance would be used to finance the construction of new physical spaces that are capable of generating income sufficient to repay the loans.

A non-profit organization that seeks a loan guarantee would be required to submit an application to the authority. In addition to any other information that the authority may deem appropriate, the applicant would be required to prove that the non-profit organization has: (1) been determined by the federal Internal Revenue Service to be a tax-exempt organization pursuant to federal law; (2) been in existence for 10 years prior to the effective date of the bill; and (3) received financial assistance from the State before the date of enactment of the bill. Thereafter, the authority may approve an application if the authority determines that the applicant has a record of financial stability, good reputation, and credit worthiness, and the loan for which the application has been submitted is expected to result in the creation of 10 or more full-time jobs and generate income sufficient to repay the loan.

After approving an application, the bill requires the authority to enter into an agreement with a participating bank and the non-profit organization to guarantee a direct loan or revolving line of credit provided by the participating bank to finance the construction of a new physical space by the non-profit organization. However, the bill provides that the value of each loan guarantee agreement may not exceed $15 million per qualified applicant, nor may the term of each agreement exceed 20 years. The bill also requires the authority to establish sufficient reserves and liquid reserves to provide a sufficient and actuarially sound basis for its pledges contained in any loan guarantee agreement entered into under the bill.

Additionally, the bill requires the authority to establish a special revolving fund, known as the New Jersey Non-Profit Loan Guarantee Fund, to implement the program. Under the bill, the authority would be required to deposit the following monies into the fund: (1) such amounts from the Economic Recovery Fund as the authority deems necessary to effectively implement the program, subject to the availability of funds; (2) any monies received by the authority from the repayment of the monies in the guarantee fund used to provide loan guarantees pursuant to the bill and interest thereon; and (3) any other monies of the authority, including but not limited to, any monies available from other business assistance programs administered by the authority that are authorized and determined by the authority to be deposited in the fund.

Beginning 24 months following the effective date of the bill, and each year thereafter in which a loan guarantee agreement remains in effect, the authority would also be required to prepare and submit a report concerning the operations of the program.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS concludes that the bill would result in a marginal cost increase for the Economic Development Authority associated with the creation and administration of the New Jersey Non-Profit Loan Guarantee Pilot Program, as well as a potential increase in expenditures associated with the repayment of any loan for which the authority guarantees and the borrower defaults. However, the OLS is unable to quantify the magnitude of these potential expenditures because it is unable to predict: (1) the total funding that will be made available for the program; (2) the total value of loan guarantees that will be approved by the authority; (3) the reserve requirements that will be established for these loan guarantees; and (4) the rate at which borrowers will default on guaranteed loans.

To implement the program, the authority is expected to incur a marginal increase in administrative expenses, which costs may result from the development of program guidelines, the review of application materials, the effectuation of loan guarantee agreements, and the submission of program reports. However, the OLS notes that the authority has recent experience in administering similar loan guarantee programs, including the New Jersey Entrepreneur Support Program, which according to the authority's 2020 Annual Report, supported investments in 13 companies with more than $2 million in loan guarantees. Given this experience, the OLS assumes that the administrative expenses incurred by the authority in the implementation of the program can be supported using existing staff and resources.

Notably, the bill requires the authority to maintain such reserves as are necessary to secure the balance of any loan guarantees provided under the program. Consequently, depending on the total value of loan guarantees provided by the authority, and the reserve balances deemed necessary to secure these guarantees, both of which may be determined by the authority, the bill is expected to reduce the total monies that may be otherwise available for expenditure by the authority.

For context, the authority currently guarantees certain loans using monies from the Economic Recovery Fund. According to the authority's audited financial statements for the year ending December 31, 2020, the authority's reserve requirement for these loan guarantees is based on a debt-to-worth ratio of 5 to 1, where "debt" represents the exposure and commitments to loan guarantees, and "worth" represents the deposits available for payment. Assuming that the authority adopts similar reserve requirements for this program, the initial reserves required for the program would equal approximately one-fifth of the total value of guaranteed loans. In this scenario, the OLS notes that the amount of required reserves would decrease over time, as borrowers' principal payments reduce the authority's exposure to guaranteed loans, until the provisions of all loan guarantee agreements expire approximately 20 years after the date of enactment.

In the event that an approved borrower defaults on a guaranteed loan, the authority would also be expected to incur increased expenditures associated with the repayment of the outstanding balance of the guaranteed portion of the loan. However, because the OLS is unable to predict the total value of all loan guarantees by the authority, or the rate at which borrowers will default on these loans, the OLS is unable to estimate the magnitude of these potential expenditures.

As permitted by the bill, the operation and administration of the program would be supported by such funding as the authority deems necessary, from the Economic Recovery Fund, to effectively implement the program, as well as any other funds that the authority may receive for the program. Given this allowance, the OLS is also unable to predict the total amount of funding that the authority will make available for the program.

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).