LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 2089
STATE OF NEW JERSEY
220th LEGISLATURE

DATED: SEPTEMBER 26, 2023

SUMMARY

Synopsis: Permits small businesses to qualify for loans from EDA for costs of energy audit and making energy efficiency or conservation improvements.

Type of Impact: Annual increase in State expenditures and revenue.

Agencies Affected: New Jersey Economic Development Authority.

Office of Legislative Services Estimate

Fiscal Impact	Year 1	Year 2 and After
State Expenditure Increase	Indeterminate	Indeterminate
State Revenue Increase	None	Indeterminate

- The Office of Legislative Services (OLS) concludes that the bill will result in an indeterminate annual expenditure increase for the New Jersey Economic Development Authority associated with the administration of the low-interest loan program. The OLS also expects the repayment of program loans to result in annual increases in revenues for the authority.

- However, the OLS is unable to determine the magnitude of these anticipated expenditure and revenue increases due to multiple factors. Specifically, the OLS cannot predict the demand for loans authorized by the bill, the amount of funding that would be provided by the authority for the loans, future interest rates that may impact any profit from the loans, and whether or not these loans would be paid back in full by the borrowers.

BILL DESCRIPTION

This bill requires the authority, in consultation with the Board of Public Utilities and the Department of Community Affairs, to establish and administer a program that makes loans available to eligible small businesses for certain costs of energy audits and energy efficiency or conservation improvements.

The bill permits the authority to make one or more low-interest loans available to an eligible small business for 100 percent of any unreimbursed costs to the small business of an energy audit of any of the small business's buildings that is conducted by a contractor licensed by the board. Additionally, the bill permits the authority to make low-interest loans available to an eligible small business for 100 percent of any unreimbursed costs for the purchase and installation of all energy efficiency or conservation equipment at any of the small business's buildings as a result of the energy audit.

Additionally, this bill amends statutory law to allow the authority to administer low-interest loans that are used by eligible small businesses for certain costs of energy audits and energy efficiency or conservation improvements.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the bill will result in an annual indeterminate expenditure increase to the authority attributable to the issuance of low-interest loans to qualified small businesses and the administrative expenses incurred over the duration of the loan program. The OLS also expects the authority to experience annual revenue increases associated with the repayment of program loans.

However, the OLS cannot determine the magnitude of these fiscal impacts, and by extension their net fiscal effect on the State, because there is a lack of information on several key variables, such as the total amount of money to be lent, the average interest rate of the loans to be issued, the default rate of borrowers, the cost of administering the loan program, the cost of capital for lending by the authority, and the amount of any loan application and issuance fees. Notably, the OLS cannot predict the demand for loans authorized by the bill, or the amount of funding that would be provided to the authority for the loans.

The bill provides for loans to be set at a term not to exceed 10 years and for the interest rate not to exceed three percent or one-half of the prime interest rate as reported in a newspaper published and circulating in New York City, whichever is greater. By issuing loans with lower interest rates, OLS notes that the authority may realize little, if any, profit from its lending activity since the interest rate of any loan issued by the authority for this program is likely to be comparable to the amount of interest paid by the authority in securing the capital used to issue the loan. The authority typically imposes fees on applicants in order for the authority to cover administrative costs, such as application review and loan issuance, directly incurred from the program. The number of issued loans and the associated loan amounts would directly contribute to the bill's fiscal impact if those loans end in default. Likewise, loans that are paid in full and the interest payments received by the authority would partially offset any costs resulting from loans in default or administrative expenses.

Section: *Authorities, Utilities, Transportation and Communication*

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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.).