

**SENATE, No. 696**

**STATE OF NEW JERSEY**  
**218th LEGISLATURE**

PRE-FILED FOR INTRODUCTION IN THE 2018 SESSION

**Sponsored by:**

**Senator M. TERESA RUIZ**

**District 29 (Essex)**

**Senator JAMES BEACH**

**District 6 (Burlington and Camden)**

**SYNOPSIS**

“Early Childhood Innovation Act”; establishes early childhood innovation loan pilot program and study commission within EDA.

**CURRENT VERSION OF TEXT**

Introduced Pending Technical Review by Legislative Counsel.



1 AN ACT establishing an early childhood innovation loan pilot  
2 program and supplementing Title 34 of the Revised Statutes.

3

4 **BE IT ENACTED** by the Senate and General Assembly of the State  
5 of New Jersey:

6

7 1. This act shall be know and may be cited as the “Early  
8 Childhood Innovation Act.”

9

10 2. As used in this act:

11 “Authority” means the New Jersey Economic Development  
12 Authority established pursuant to P.L.1974, c.80 (C.34:1B-1 et  
13 seq.).

14 “Early childhood innovation loan fund” or “fund” means the  
15 fund established pursuant to section 5 of this act.

16 “Eligible organization” means a nonprofit organization that is  
17 exempt from federal taxation pursuant to section 501(c)(3) of the  
18 federal Internal Revenue Code (26 U.S.C. s.501(c)(3)), that has  
19 applied for participation in the early childhood innovation loan pilot  
20 program established pursuant to section 3 of this act, and is selected  
21 by the study commission as qualified to receive a loan guarantee  
22 from the “early childhood innovation loan fund” established  
23 pursuant to section 5 of this act.

24 “Pilot program” means the early childhood innovation loan pilot  
25 program established pursuant to section 3 of this act.

26 “Study commission” means the New Jersey Early Childhood  
27 Innovation Study Commission established pursuant to section 4 of  
28 this act.

29

30 3. a. There is established a five-year early childhood innovation  
31 loan pilot program within the New Jersey Economic Development  
32 Authority to administer and determine the effectiveness of an early  
33 childhood innovation loan pilot program. The pilot program shall  
34 concern nonprofit early childhood services with the purpose of  
35 encouraging private investment in expanded early childhood programs  
36 including, but not limited to, preschool education, and child nutrition,  
37 health, early intervention, home visitation, and other services, to  
38 improve short-term and long-term outcomes for young children and  
39 reduce long-term costs. The pilot program shall assess the feasibility  
40 of expanding an early childhood innovation loan pilot program  
41 Statewide and expanding the scope of early childhood innovation loan  
42 guarantees, made pursuant to subsection b. of this section, beyond the  
43 early childhood sector.

44 b. Under the pilot program established pursuant to subsection a.  
45 of this section, the authority shall guarantee loans issued to eligible  
46 organizations for the provision of early childhood services which  
47 generate positive social outcomes and public sector cost savings. Each

1 loan shall be facilitated by the study commission established pursuant  
2 to section 4 of this act and consist of:

3 (1) A lending agreement between an eligible organization, a  
4 lender, and a public sector entity which provides: (a) the eligible  
5 organization with direct funding from a lender in exchange for the  
6 provision of early childhood services; and (b) the public sector entity  
7 with early childhood services in exchange for defined payments to the  
8 lender in an amount proportional to the amount of public sector  
9 savings generated by the provision of those services.

10 (2) A loan guarantee agreement between the authority and all  
11 parties to the lending agreement from paragraph (1) of this subsection  
12 which shall require the lending agreement to conform to any loan  
13 requirements established pursuant to this act or by the authority; and

14 (3) An agreement between the authority, the public sector entity  
15 making performance payments, the eligible organization, and the  
16 lender which agrees to a method of measurement and verification of  
17 the early childhood services to be performed and child outcomes  
18 defined by the method of measurement, how the public sector savings  
19 are to be calculated, how the eligible organization and public sector  
20 entity will monitor and ensure compliance with federal and State laws  
21 and regulations, including laws and regulations regarding children  
22 with disabilities as defined by the Individuals with Disabilities  
23 Education Act, 20 U.S.C. s.1400 et seq., Section 504 of the  
24 Rehabilitation Act of 1973, 29 U.S.C. s.794, or Title II of the  
25 Americans with Disabilities Act of 1990, 42 U.S.C. ss.12131-12165,  
26 how the interest rate will be determined, and how funds will flow  
27 between the parties according to each of the agreements made pursuant  
28 to this subsection.

29 (4) In the event that the Department of Education is the public  
30 sector entity that is a party to an agreement under paragraph (1), (2), or  
31 (3) of this subsection for the provision of an early childhood service to  
32 a school district, the school district shall also be a party to the  
33 agreement.

34 c. Up to 100 percent of the value of a loan agreement entered into  
35 pursuant to subsection b. of this section may be guaranteed by the  
36 authority, provided that the total amount of all loans guaranteed under  
37 the early childhood innovation loan pilot program established pursuant  
38 to this act shall not exceed \$15,000,000.

39 d. The authority, in cooperation with the study commission and  
40 the Department of Children and Families, the Department of  
41 Education, and the Department of Human Services, shall offer to  
42 guarantee loans made pursuant to subsection b. of this section utilizing  
43 funds from the early childhood innovation loan fund established  
44 pursuant to section 5 of this act to finance a project undertaken for the  
45 purposes of subsection b. of this section. The authority shall consider  
46 the following factors:

47 (1) The economic feasibility of the project;

- 1 (2) The degree to which the project will advance Statewide and  
2 regional strategies and objectives;
- 3 (3) The degree to which the project maximizes the leverage of  
4 other State funds; and
- 5 (4) The factors listed in paragraph (1) of subsection e. of section 4  
6 of this act.
- 7 e. A lender or nonprofit organization seeking to participate in the  
8 early childhood innovation loan pilot program shall submit an  
9 application in such form as the authority shall require. The application  
10 shall include any information the authority determines is necessary in  
11 consideration of the provisions of P.L.2011, c.123 (C.52:14B-21.1 et  
12 seq.).
- 13 f. A loan guarantee agreement entered into pursuant to subsection  
14 b. of this section shall provide that any loan guaranteed by the  
15 authority shall: (1) be for a loan having a fair effective interest rate as  
16 determined by the authority; and (2) contain other terms and  
17 conditions considered appropriate by the authority that are consistent  
18 with the purposes of this act and with rules and regulations  
19 promulgated by the authority to implement this act.
- 20 g. (1) Consistent with federal law, rule, or regulation, each  
21 eligible organization that receives a loan guarantee under this act shall  
22 undergo an audit, at the organization's own expense, at least once  
23 every two calendar years. The authority shall designate an auditor to  
24 conduct the audit.
- 25 (2) If an audit is performed under a requirement of federal law,  
26 rule, or regulation, the authority shall waive the audit required in this  
27 subsection with respect to all issues addressed by the federally-  
28 required audit report. However, the authority may require an audit of  
29 matters that are not, in the authority's judgment, addressed by the  
30 federally-required audit report including, but not limited to,  
31 measurement and verification of early childhood services, child  
32 outcomes defined by the method of measurement, and public sector  
33 savings.
- 34 h. A loan guarantee agreement made pursuant to subsection b. of  
35 this section shall provide that any loan guarantee issued by the  
36 authority shall be voided if the terms and conditions of the agreement  
37 are violated by any party to that loan securitization agreement.
- 38 i. The authority shall solicit grants from interested public or  
39 private sources for the establishment and administration of the pilot  
40 program and study commission as well as the capitalization of the  
41 early childhood innovation loan fund established pursuant to section 5  
42 of this act.
- 43 j. The pilot program shall expire on the 30th day following the  
44 closing of all loans guaranteed pursuant to this act.
- 45 4. a. The authority shall oversee a study commission, entitled the  
46 "New Jersey Early Childhood Innovation Study Commission,"  
47 established for the duration of the pilot program.

1       b. The study commission shall consist of the following 15  
2 members:

3       (1) one representative of each of the Department of Children and  
4 Families, the Department of Education, and the Department of Human  
5 Services;

6       (2) one member appointed by the President of the Senate and one  
7 member appointed by the Minority Leader of the Senate, both of  
8 whom shall be members of the public with demonstrated expertise in  
9 issues relating to the work of the commission;

10       (3) one member appointed by the Speaker of the General  
11 Assembly and one member appointed by the Minority Leader of the  
12 General Assembly, both of whom shall be members of the public with  
13 demonstrated expertise in issues relating to the work of the  
14 commission; and

15       (4) eight members appointed by the Governor: one member upon  
16 the recommendation of the New Jersey Education Association; one  
17 member upon the recommendation of the New Jersey School Boards  
18 Association; one member upon the recommendation of the New Jersey  
19 Principals and Supervisors Association; one member upon the  
20 recommendation of the New Jersey Association of School  
21 Administrators; one member upon the recommendation of the Garden  
22 State Coalition of Schools; one member upon the recommendation of  
23 the Advocates for Children of New Jersey; one member upon the  
24 recommendation of the New Jersey Child Care Association; and one  
25 member upon the recommendation of the New Jersey Chapter of the  
26 American Academy of Pediatrics. All members of the study  
27 commission shall serve for terms concurrent with the effective period  
28 of the pilot program.

29       The study commission shall organize as soon as practicable after  
30 the appointment of its members, shall select a chairperson from among  
31 its members, and shall appoint a secretary who need not be a member  
32 of the commission.

33       c. Any vacancy in the membership of the study commission shall  
34 be filled in the same manner in which the original appointment was  
35 made.

36       d. The study commission may request the assistance and services  
37 of employees of any other State department, board, bureau,  
38 commission, task force, or agency as it may require and as may be  
39 available. Members of the study commission shall serve without  
40 compensation, but shall be entitled to employ stenographic and clerical  
41 assistance and incur traveling and other miscellaneous expenses as the  
42 study commission may deem necessary in order to perform its duties,  
43 within the limits of the funds made available to the study commission  
44 for its purposes. The study commission may meet at the call of its  
45 chairperson at the times and in the places the study commission may  
46 deem appropriate and necessary to fulfill its duties, and may conduct  
47 public hearings at a place or places as the study commission shall  
48 designate. The study commission shall conduct its meetings in

1 accordance with the “Senator Byron M. Baer Open Public Meetings  
2 Act,” P.L.1975, c.231 (C.10:4-6 et seq.).

3 e. It shall be the duty of the study commission to aid the authority  
4 in the administration of the early childhood innovation loan pilot  
5 program and to issue annual reports detailing the progress of the pilot  
6 program. Specifically, the study commission, in cooperation with the  
7 authority and the Department of Children and Families, the  
8 Department of Education, and the Department of Human Services,  
9 shall:

10 (1) Identify the nonprofit organizations that will be eligible to  
11 receive loan guarantees from the authority. The study commission  
12 shall make this determination taking several factors into consideration  
13 which shall include, but not be limited to, the size and identity of the  
14 target population that benefits from the nonprofit organization service  
15 provider, the projected financial value of the improvements as a result  
16 of the early childhood innovation loan investments, including  
17 projected public sector savings, ability to repay the loan in full, the  
18 ease of the measurability of the outcomes, and an analysis of impacts  
19 beyond financial savings and returns, such as social outcomes;

20 (2) Assist the authority in soliciting donations from philanthropic  
21 organizations and other private sources to capitalize the loan fund;

22 (3) Negotiate contract terms and conditions between early  
23 childhood innovation loan recipients and any public entity for whom  
24 the recipient is performing early childhood services, including the  
25 development of metrics to project and measure both financial and  
26 social outcomes, and the identification of independent third parties to  
27 measure and evaluate outcomes;

28 (4) Determine whether an independent intermediary with expertise  
29 in the areas of social finance and early childhood should be retained to:  
30 (a) assist the study commission in the performance of its duties under  
31 this section; or (b) perform the measurement and verification activities  
32 required in the agreements entered into pursuant to paragraph (3) of  
33 subsection b. of section 3 of this act, and to identify appropriate  
34 independent intermediaries to recommend to the authority if the study  
35 commission determines that intermediary services should be retained;  
36 and

37 (5) Any other purposes related to the pilot program for which the  
38 authority requests assistance.

39 f. Not later than one year following the effective date of this act,  
40 and annually for four years thereafter, the study commission shall  
41 submit to the Governor and, pursuant to section 2 of P.L.1991, c.164  
42 (C.52:14-19.1) to the Legislature, a report containing a study and  
43 evaluation of the pilot program. The report shall include, but not be  
44 limited to, a description of any eligible organizations funded by the  
45 early childhood innovation loans, State, federal, and municipal  
46 financial savings related to the issuance of early childhood innovation  
47 loans, the expected loan performance and projected payment schedule,  
48 the number of people serviced by the eligible organization, a

1 comparison of the population serviced by the eligible organization and  
2 a similarly situated control group, and any community impact related  
3 to the pilot program.

4 g. The study commission shall submit its fifth and final report to  
5 the Governor and, pursuant to section 2 of P.L.1991, c.164 (C.52:14-  
6 19.1) to the Legislature, within 90 days of the expiration date of the  
7 pilot program, including any recommendations for legislative action it  
8 deems appropriate. The study commission's final report shall include,  
9 but not be limited to, an analysis of the feasibility of implementing a  
10 permanent early childhood innovation loan program Statewide, sectors  
11 outside of non-profit early childhood in which social lending could be  
12 successfully applied, the estimated costs for the creation and  
13 administration of the permanent early childhood innovation loan  
14 program, projected State, federal, and municipal savings from  
15 administering the permanent program, a calculation of the loan  
16 performance realized from the pilot program, a calculation of the State,  
17 federal, and municipal savings accrued through the pilot program, and  
18 an analysis of non-financial outcomes, such as community impact and  
19 preventive results. The study commission shall expire on the 30th day  
20 after the date of the issuance of its final report, or upon the expiration  
21 of the pilot program, whichever occurs later.

22  
23 5. a. To implement the early childhood innovation loan pilot  
24 program, the authority shall establish and maintain a special non-  
25 lapsing, revolving fund called the early childhood innovation loan  
26 fund which may be credited with:

27 (1) moneys appropriated by the State for the purpose of the  
28 fund;

29 (2) moneys received by the authority from any public or private  
30 donations to guarantee the loans issued pursuant to section 3 of this  
31 act;

32 (3) any moneys as may be available to the authority from grants  
33 or other forms of assistance established to support early childhood  
34 activities by the authority or by other State agencies or authorities;  
35 and

36 (4) moneys received from eligible organizations in the form of  
37 any applicable fees.

38 b. Loan funds may be used by the authority for the following  
39 purposes:

40 (1) guaranteeing loans issued pursuant to subsection b. of  
41 section 3 of this act;

42 (2) reasonable and necessary expenses incurred by the authority  
43 related to the administration of the early childhood innovation loan  
44 pilot program and the study commission; and

45 (3) administrative expenses for the provision of loan guarantees  
46 issued pursuant to subsection b. of section 3 of this act.

47 c. The amount of loans guaranteed by the authority pursuant to  
48 subsection b. of section 3 of this act shall not exceed \$3,000,000 per

1 year or \$15,000,000 in the aggregate over five years, as determined  
2 by the authority.

3 d. The authority shall not issue a loan guarantee in an amount  
4 greater than the available and uncommitted moneys in the loan  
5 fund.

6 e. The authority may charge fees in connection with  
7 applications for participation in the early childhood innovation loan  
8 pilot program as it deems reasonable to cover authority expenses in  
9 administering the pilot program and issuing loan guarantees.

10  
11 6. The authority shall appoint a director to manage the  
12 activities associated with the early childhood innovation loan fund  
13 established pursuant to section 5 of this act. The director shall  
14 receive compensation as determined by the authority.

15  
16 7. The authority shall issue a report six months after the  
17 effective date of this act and annually thereafter not later than  
18 September 15, to the Governor and, pursuant to section 2 of  
19 P.L.1991, c.164 (C.52:14-19.1) to the Legislature concerning the  
20 financing of the pilot program as described in section 5 of this act,  
21 undertaken with monies from the early childhood innovation loan  
22 fund. The initial report and each annual report required under this  
23 section shall include a description of the pilot program funded by  
24 loans issued to eligible organizations and a detailed analysis of the  
25 consideration given to the factors set forth in subsection d. of  
26 section 3 of this act.

27  
28 8. The authority shall adopt pursuant to the "Administrative  
29 Procedure Act," P.L.1968, c.410 (C.52:14B-1 et seq.), any rules or  
30 regulations necessary to effectuate the purposes of this act.

31  
32 9. This act shall take effect on the first day of the fourth month  
33 following the date of enactment, but the authority may take such  
34 anticipatory administrative action in advance thereof as shall be  
35 necessary for the implementation of this act.

36  
37

38 STATEMENT

39  
40 This bill establishes a five-year early childhood innovation loan  
41 pilot program for the purpose of encouraging private investment in  
42 expanded early childhood services, to improve short-term and long-  
43 term outcomes for young children, and reduce long-term costs. The  
44 early childhood programs and services would include, but not be  
45 limited to, preschool education, and child nutrition, health, early  
46 intervention, home visitation, and other services.

47 Under the bill, the New Jersey Economic Development Authority  
48 (EDA) is to establish a pilot program to guarantee loan agreements



1 among lenders, eligible nonprofit organizations, and public sector  
2 entities. The loan agreements are to: 1) provide an eligible nonprofit  
3 organization with direct funding from a lender in exchange for the  
4 provision of services to a public sector entity; and 2) require the  
5 public sector entity receiving early childhood services to make  
6 defined payments to the lender in an amount proportional to the  
7 amount of savings generated by the provision of early childhood  
8 services. In the event that the anticipated savings are not achieved,  
9 the EDA is to provide a loan guarantee to the lender.

10 The EDA, lender, eligible nonprofit organization, and the public  
11 sector entity are to enter into an agreement which establishes a  
12 method of measurement and verification of the early childhood  
13 services to be performed and child outcomes defined by the method  
14 of measurement, how the public sector savings will be calculated,  
15 how the eligible organization and public sector entity will ensure  
16 compliance with State and federal laws and regulations including  
17 those in regard to children with disabilities, how the interest rate  
18 will be calculated, and how the funds will flow between the parties.  
19 In the event that the Department of Education is the public sector  
20 entity that is a party to an agreement for the provision of an early  
21 childhood service to a school district, the school district will also be  
22 a party to the agreement.

23 The bill provides that up to 100% of the value of a loan  
24 agreement may be guaranteed by the EDA, with loan amounts not  
25 to exceed \$3,000,000 per year or \$15,000,000 in the aggregate over  
26 the five-year pilot program period.

27 The bill establishes a non-lapsing, revolving fund called the early  
28 childhood innovation loan fund which is to be used to guarantee  
29 loans made under the pilot program and to pay for expenses related  
30 to the administration of the loan guarantees. The loan fund may be  
31 credited with monies from State appropriations, public or private  
32 donations, grant funding, and loan guarantee program fees. The  
33 EDA is not to issue a loan guarantee in an amount greater than the  
34 available and committed moneys in the loan fund.

35 The bill requires the EDA to solicit grants from philanthropic  
36 organizations or other private sources for the establishment and  
37 administration of the pilot program and capitalization of the loan  
38 fund.

39 The bill establishes the New Jersey Early Childhood Innovation  
40 Study Commission within the EDA to assist the EDA in  
41 administering the pilot program and issue annual reports detailing  
42 the progress of the pilot program. The study commission will  
43 consist of 15 members including: one representative from each of  
44 the Departments of Children and Families, Education, and Human  
45 Services; one public member appointed by the President of the  
46 Senate and one public member appointed by the Minority Leader of  
47 the Senate; one public member appointed by the Speaker of the  
48 General Assembly and one public member appointed by the

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1 Minority Leader of the General Assembly; and eight members  
2 appointed by the Governor upon the recommendation of various  
3 educational and social service organizations.

4 The bill directs the study commission to: 1) identify the  
5 nonprofit organizations that will be eligible to receive loan  
6 guarantees from the EDA; 2) assist the EDA in soliciting donations  
7 for the loan fund; 3) help negotiate contract terms and conditions of  
8 the loan agreements among lenders, eligible nonprofit  
9 organizations, the EDA, and public sector entities; 4) determine the  
10 necessity of retaining an independent intermediary to assist the  
11 study commission in the performance of its duties or to perform the  
12 measurement and verification functions needed to execute the loan  
13 guarantees; and 5) assist the EDA, upon request, with any other  
14 issues related to the program.