

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY, No. 3959

STATE OF NEW JERSEY
219th LEGISLATURE

DATED: MAY 12, 2020

SUMMARY

Synopsis: Establishes NJ Hospitality Emergency Loan Program in EDA to provide no-interest loans to qualified small hospitality businesses.

Type of Impact: Increased State cost; potential increase in State and local revenues.

Agencies Affected: New Jersey Economic Development Authority.

Office of Legislative Services Estimate

Fiscal Impact	<u>Multi Year Loan Terms</u>
State Cost Increase	Indeterminate
Indirect State Revenue Increase	Indeterminate
Indirect Local Revenue Increase	Indeterminate

- The Office of Legislative Services (OLS) finds that the bill will result in an indeterminate increase in State costs, which may be offset by an indeterminate increase in State and local revenues. The bill requires the Economic Development Authority (EDA) to make available no less than a total of \$5 million for the purpose of providing loans to qualified hospitality businesses under an existing small business loan program, but provides no source of funding for the loans, making it unclear what source of funding the EDA would use to cover the cost of the program. To the extent that the EDA is able to identify funding or future funding is appropriated for the program, the cost of this bill will be \$5 million for the program in addition to any costs to develop rules and regulations, as well as administration costs to issue loans, review credit applications, and service the loans.
- Assuming that money is available to run the program, the State would be likely to realize up to \$5 million in eventual direct revenue from the repayment of these loans as well as any fees attached to the loans, if applicable. This amount will be reduced by any defaults by borrowers.
- State and local governments are also in a position to realize additional tax revenue from hospitality businesses that borrow under this program, to the extent that these loans allow a

business that would have otherwise failed due to economic impacts from the coronavirus to continue operations after coronavirus social distancing restrictions are lifted. The taxes paid by these businesses will represent indirect revenues that State and local governments would not have realized if not for the loan assistance provided.

BILL DESCRIPTION

This bill establishes the “New Jersey Hospitality Small Business Emergency Loan Program” (loan program) and requires the EDA to offer loans, under an existing small business loan program administered by the EDA, to a “qualified hospitality business.” Under the bill, a “qualified hospitality business” is defined as a small hospitality industry-related business (hospitality business), as determined by the EDA using the latest four-digit North American Industry Classification System of codes that, as of the effective date of the bill, has been in operation for more than six months and, for that prior year, had annual sales revenue below \$2 million if in operation for more than 12 months, or had annual sales revenue below \$1 million if in operation for less than 12 months.

Under the loan program, an applicant is to provide to the EDA: 1) proof that the applicant has been in operation and generating revenue for at least six months; 2) an income statement showing the applicant had no more than \$2 million in annual sales revenue if in operation for more than 12 months, or had no more than \$1 million in annual sales revenue if in operation for less than 12 months; and 3) bills for which payment is sought, including proof of payments, or for a hospitality business in operation less than 12 months, a letter to the entity for which the money is due, the applicant has been current for 100 percent of payments during the time the hospitality business has been in operation and not past due in the month prior to the current month for which the hospitality business is applying for a loan under the loan program.

Loans made by the EDA through the loan program may only be applied to cover immediate, unavoidable expenses throughout the duration of the coronavirus emergency declared under Executive Order No. 103 of 2020, other than payroll costs as determined by the EDA. Loans to a hospitality business are to be of an amount not to exceed \$10,000 per month, be interest free, and have a 10-year term with payments deferred for nine months from the date of the beginning of the loan agreement. The bill requires the EDA to make available no less than a total of \$5 million for the purpose of providing loans to hospitality businesses under the loan program.

The bill allows the EDA to consult with the Division of Alcoholic Beverage Control in the Department of Law and Public Safety concerning EDA rules and regulations applicable to loans made to hospitality businesses that have been issued a license or permit to sell alcoholic beverages.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS finds that the bill will result in an indeterminate increase in State costs, which may be offset by an indeterminate increase in State and local revenues. Whether these costs and revenues will be realized will depend on whether a source of funding is identified to provide the

\$5 million or more in loans required under the bill. It is not clear whether the EDA will receive an appropriation of direct funds in order to cover the cost of these loans, or whether the EDA has an existing source of funds that it might utilize to either directly lend or leverage through its own borrowing to create a loan pool. If some form of EDA borrowing is utilized to capitalize the loan pool, then there would be additional EDA financing costs on top of the \$5 million or more to be lent. The EDA will also realize costs to develop rules and regulations for these hospitality loans, including the development of a loan application and loan terms and agreement. Once applicants apply for the loans, the EDA will realize administrative costs to review applications and to process loan paperwork. Once the loans are issued, there would then be costs to service the loans, including accepting payments, issuing loan statements and loan collections if a borrower does not make payments according to the loan payment schedule. The magnitude of these costs are indeterminate and will depend in large part on the behaviors of individual borrowers once the loans have been issued.

The EDA will likely realize up to \$5 million, or the amount lent over the term of the loans through the repayment of loan balances. These loans are to be for zero percent interest, so they would not be able to realize more than the original loan amounts issued back in loan payments. If any of the borrowers default on their loans, then the total amount received back may be less than \$5 million, or the total amount issued. The bill is silent on the fees that may be attached to these loans. If the EDA includes loan fees, they may represent an additional revenue stream on top of loan payments to cover some or all of the cost of creating, issuing, servicing, and administering the loans.

Finally, the intention of the loan program is to save hospitality businesses that were otherwise healthy businesses and are now at risk of going out of business due to the economic impacts of the coronavirus. If a loan is successful in this regard, the loan is allowing a business to continue operating and generating tax revenue for State and local governments that it would not have generated if it had gone out of business. In these cases, the loans would be indirectly responsible for the taxes paid by these businesses because if not for the loans, they would have gone out of business and not generated tax revenue. However, if the impact of the loans is not a material factor in the success of a business, then there would be little indirect benefit, and the net costs of the loan program would not have an offsetting indirect revenue benefit.

Section: Authorities, Utilities, Transportation and Communications

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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.).