LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 228
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: FEBRUARY 18, 2020

SUMMARY

Synopsis: Requires EDA to establish loan program for certain costs of electric-powered school bus purchases by local school districts and school bus contractors.

Type of Impact: Annual increases in State revenues and expenditures, annual local cost impact.

Agencies Affected: Local school districts, New Jersey Economic Development Authority.

Office of Legislative Services Estimate

Fiscal Impact	Annual
State Cost Increase	Indeterminate
State Revenue Increase	Indeterminate
Local Cost Impact	Indeterminate

- The Office of Legislative Services (OLS) finds that the New Jersey Economic Development Authority (EDA) will incur indeterminate annual increased costs to establish, administer, and fund the loan program. The magnitude of the annual cost increases will depend upon the number of loan applications received each year, amounts requested by local schools, and the source of the loan program funding, which cannot be known at this point.

- The EDA will realize indeterminate annual increased revenues in the form of loan repayments from schools that are issued loans, including any fees or other borrowing costs imposed pursuant to the terms of the loan agreements. The amount of the revenue increase will depend upon the interest rates and fees charged to borrowers, the total amount of loans issued, and the eventual loan default rate. None of this information can be projected at this point because the EDA is given discretion to design the loan program as it deems appropriate.

- The net annual impact on school district expenditures is indeterminate. EDA loans covering the cost difference between diesel school buses and electric school buses will reduce costs to schools assuming that 1) these loans carry a lower interest rate than schools would have otherwise faced for the purchase of an electric bus, and 2) the schools were already planning on purchasing electric school buses instead of diesel buses. If the schools would have

otherwise purchased diesel buses absent this legislation, then the schools will face increased initial costs for the electric bus purchase while likely realizing decreased costs in subsequent years for lower maintenance and fuel costs.

BILL DESCRIPTION

This bill requires the EDA, in consultation with the Department of Education and the New Jersey Motor Vehicle Commission, to develop and administer a loan program to facilitate the acquisition of electric-powered school buses by local school districts and school bus contractors.

The bill requires the authority to enter into a loan agreement with a local school district or school bus contractor that has received loan program application approval. Under the loan agreement, the authority is to provide a loan for the cost differential to a local school district or school bus contractor of purchasing an electric-powered school bus instead of a similar type of diesel or gasoline-powered school bus for use by the school district or school bus contractor. Under the bill, a loan is to bear interest at rates and terms deemed appropriate by the authority and contain other terms and conditions considered appropriate by the EDA that are consistent with the purposes of the bill and with the rules and regulations adopted by the authority to administer the loan program.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS finds that the EDA will incur indeterminate annual increased costs to establish, administer, and fund the loan program. The administrative costs will include the cost of setting loan terms and conditions, designing loan applications, advertising the loan program to local schools, processing loan applications, reviewing applicant credit, making loan determinations, and then administering the loans themselves. The EDA will also face costs to acquire the capital to fund the loan program, which will likely involve the issuance of a bond or other debt instrument.

In return, the EDA will realize indeterminate annual increased revenues in the form of loan repayments from schools that borrow from the program, including any fees or other borrowing costs imposed pursuant to the terms of the loan agreements. The bill gives the EDA discretion to determine appropriate loan rates and terms, so it is not clear how many fees and other charges the EDA will impose on borrowers. If the charges are too great and school districts have access to cheaper funding alternatives, then it is unlikely that many schools will participate in the loan program. If the subsidies are too great, then the EDA will be at risk of realizing losses on the program. Depending upon the difference between the EDA and school district bond ratings and borrowing ability, it is possible that the EDA could offer a loan product that both reduces costs for schools while also covering all of its costs to administer the loan program and pay its cost of capital. Although it is possible that the authority will realize some net cost under the program, the magnitude of net State costs or revenues are indeterminate due to a lack of foreknowledge about how the EDA will structure the loan program and the eventual size of the program.

The net annual impact on school district expenditures is indeterminate. The EDA loans are to cover the cost difference between diesel school buses and electric school buses and are likely to reduce costs to local schools assuming that these loans carry a lower interest rate than the schools would have otherwise faced for purchasing an electric bus. If the schools do not face a lower cost to finance their bus purchase through the EDA loan program than is available elsewhere, it is likely that the schools will simply utilize those alternate financing methods and the EDA will have fewer loan applicants. If the schools would have purchased diesel buses, but were incentivized to purchase electric buses under the program, then the schools will face increased initial costs for the electric bus purchase.

Electric buses can be approximately double the cost of a diesel bus equivalent. It will also be necessary for the schools to purchase charging equipment and may also face certain limited costs for new maintenance tools or training for bus maintenance staff. In exchange for these upfront costs, schools will face much lower fueling costs as the cost of electricity is much lower than diesel to travel the same distance. The schools will also realize greatly reduced maintenance costs because electric buses have fewer moving parts, have extended part replacement cycles, and do not require numerous parts such as air, fuel, and oil filters, spark plugs, mufflers, fuel pumps, oxygen sensors, timing belts, etc. Due to variance in the costs of electric buses, use conditions, and uncertainty about total expected life of electric buses, it is possible, but not certain, that the operating savings of electric buses will exceed the increased purchase price and financing costs to convert to electric buses.

Section:	*Authorities, Utilities, Transportation and Communications*
Analyst:	*Patrick Brennan* *Principal Fiscal Analyst*
Approved:	*Frank W. Haines III* *Legislative Budget and Finance Officer*

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.).