LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

SENATE, No. 2371

STATE OF NEW JERSEY
219th LEGISLATURE

DATED: MAY 21, 2020

SUMMARY

Synopsis: Establishes NJ Hospitality Emergency Loan Program in EDA to provide no-interest loans to qualified small hospitality businesses; makes $100 million appropriation to EDA from federal funds for certain small business assistance.

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	Multi Year Loan Terms
State Cost	Indeterminate Increase of at least $100 million
State Revenue	Indeterminate Increase
Local Revenue	Indeterminate Increase

- The Office of Legislative Services (OLS) finds that the bill will result in an indeterminate increase in State costs of at least $100 million, which may be offset by an indeterminate increase in State and local revenues. The bill provides $100 million in federal coronavirus relief funding to the Economic Development Authority (EDA) to make loans and grants to businesses impacted by coronavirus, which includes not less than $5 million for the purpose of providing loans to hospitality businesses under a small business loan program for coronavirus relief. The EDA will realize costs to develop rule and regulation changes to existing loan programs, as well as administration costs to issue loans, review credit applications, and service the loans.

- The State would be likely to realize up to $100 million in eventual direct revenue from the repayment of loans as well as any fees attached to the loans, if applicable. This amount will be reduced by any defaults by borrowers, the overhead costs of the EDA, as well as the amounts issued as grants, which will not be repaid.

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- State and local governments are also in a position to realize additional tax revenue from coronavirus impacted businesses that borrow or receive grants under this program, to the extent that these loans and grants allow a business that is struggling due to economic impacts from the coronavirus to avoid going out of business or be more profitable than if they had not received the assistance. Additional 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. The amount of additional taxes the businesses will pay under this program cannot be known, so the magnitude of the impact is indeterminate.

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 makes a $100 million appropriation to the EDA from a portion of those federal block grant funds allocated to the State from the federal Coronavirus Relief Fund, established pursuant to the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, for use by the EDA to provide financial support, such as loans or grants, to small businesses generally for the costs associated with business operation interruptions caused by any State-required closures due to the impacts of coronavirus disease 2019.

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 increase in State costs of at least $100 million from the appropriation of federal funds.

The EDA will utilize the $100 million to provide loans and grants to businesses impacted by coronavirus, which includes not less than $5 million in loans to hospitality businesses. The EDA will realize costs to amend rules and regulations for the expanded loan programs, 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 $100 million, or the amount lent over the term of the loans through the repayment of loan balances. The amounts issued as grants will not be repaid. For the amounts lent, if any of the borrowers default on their loans, then the total amount received back may be less than the total amount lent. 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 or grant is successful in this regard, the loan is allowing a business to continue operating or improve its financial condition, thereby generating tax revenue for State and local governments that it would not have generated if it had not received assistance. In these cases, the loans would be indirectly responsible for the increase in taxes paid by these businesses because if not for the loans, they would have gone out of business or paid less due to their operating losses. However, it is difficult to ever quantify the magnitude of improvement in the finances of the business from an EDA loan or grant compared to any number of other macro or micro economic factors that also impact the business.

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.).