

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 2371

with committee amendments

STATE OF NEW JERSEY

DATED: MAY 7, 2020

The Senate Budget and Appropriations Committee reports favorably and with committee amendments Senate Bill No. 2371.

As amended and reported, this bill establishes the “New Jersey Hospitality Small Business Emergency Loan Program” (loan program) and requires the New Jersey Economic Development Authority (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, including, but not limited to, code number 3121 (Beverage Manufacturing) and code number 7223 (Special Food Services), 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,” Pub.L.116-136, 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.

COMMITTEE AMENDMENTS:

The committee amended the bill to:

1) make 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” created under the CARES Act to provide financial support 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;

2) require the EDA to make available no less than a total of \$5 million for the purpose of providing loans to qualified hospitality businesses under the loan program;

3) change one of the eligibility requirements of a hospitality business to provide that a hospitality business is to have had, for that prior year, annual sales revenue below \$2 million if in operation for more than 12 months, or below \$1 million, if in operation for less than 12 months; and

4) include in the definition of a hospitality business the North American Industry Classification System code number 3121 (Beverage Manufacturing and code number 7223 (Special Food Services); and

5) make grammatical corrections.

FISCAL IMPACT:

The Office of Legislative Services 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, included in that \$100 million is

not less than \$5 million for the purpose of providing loans to hospitality businesses under a small business loan program for coronavirus relief. The cost of this bill will be \$100 million for the loans and grants issued using this appropriation, which may include 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. These costs may result in less than the full \$100 million being directly issued to businesses.

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.

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 they will pay under this program is a counterfactual question that simply cannot be known, so the magnitude of the impact is indeterminate.