LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

SENATE, No. 452

STATE OF NEW JERSEY
216th LEGISLATURE

DATED: JUNE 24, 2015

SUMMARY

Synopsis:	"The New Jersey Social Innovation Act"; establishes social innovation loan pilot program and study commission within EDA.
Type of Impact:	Possible increase or decrease in State cost
Agencies Affected:	New Jersey Economic Development Authority (authority); Department of Health; Department of Human Services

Office of Legislative Services Estimate

Fiscal Impact	**Year 1**	**Year 2**	**Year 3**
State Cost	Indeterminate – See comments below		

- The program may result in reduced State costs through health care savings, but those savings may not be realized if the health care interventions do not provide the magnitude of savings necessary to generate a return for the lender.

- The authority is not permitted to place its own monies into a loan fund, or to expend more on the program than is available in the loan fund, so there should be no net cost to the authority. Without a legislative appropriation, the fund is limited to grants and public and private donations to the loan fund.

- While there is a possibility for cost savings through more efficient health care provision, the details of the loan and loan guarantee agreements that are formed under the program will be significant factors in determining whether those cost savings may be realized.

BILL DESCRIPTION

Senate Bill No. 452 (1R) of 2015 establishes a five-year social innovation loan pilot program (program) for the purpose of encouraging private investment in preventive and early intervention health care to reduce public expenditures related to those services. Under the bill, the authority is to establish the program, which guarantees loan agreements among lenders, eligible nonprofit organizations, and public sector entities. The loan agreements are to: (a) provide an eligible nonprofit organization with direct funding from a lender in exchange for the provision of public health services to a public sector entity; (b) require the public sector entity receiving public health services to define payments to the lender in an amount proportional to the amount of savings generated by the provision of public health services; and (c) authorize the lender to receive loan repayments from the public sector entity in exchange for the provision of funding to an eligible nonprofit organization. In the event that the anticipated savings are not achieved, the authority will provide a loan guarantee for the lender.

The bill establishes a non-lapsing, revolving fund called the "Social Innovation Loan Fund" (loan fund) which is to be used to guarantee program loans, to fund the program, and to pay for expenses related to the administration of the loan guarantees. The loan fund may be credited with monies from State appropriations, public or private donations, grant funding, and loan guarantee program fees.

The guaranteed loan requires an agreement among the parties establishing a method of measurement and verification to ensure that health care services were performed, calculates any public sector savings resulting from those services, and determines any interest rates or payments applicable to the agreements. The guarantees issued by the authority may be up to 100 percent of the value of the loan agreements with loan amounts not to exceed $3,000,000 per year or $15,000,000 in aggregate over the five-year pilot program period.

The bill requires the authority to solicit grants from philanthropic organizations or other private sources for the establishment and administration of the program and capitalization of the loan fund.

The bill establishes the "New Jersey Social Innovation Study Commission" (study commission) within the authority to assist the authority in administering the program and issue annual reports concerning the program. The bill requires the authority to oversee the study commission, to determine the membership and size of the study commission, and to appoint members to the commission. The bill specifies three statutory members of the study commission: the Director of the Office of Faith Based Initiatives in the Department of State; a representative from the Department of Health; and a representative from the Department of Human Services.

The bill directs the study commission to:

- identify the nonprofit organizations that will be eligible to receive loan guarantees from the authority;
- assist the authority in soliciting donations for the loan fund;
- help negotiate contract terms and conditions of the loan agreements among lenders, eligible nonprofit organizations, the authority, and public sector entities;
- determine the necessity of retaining an independent intermediary to assist the study commission in the performance of its duties or to perform the measurement and verification functions needed to execute the loan guarantees; and
- assist the authority, upon request, with any other issues related to the program.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services finds that it is not possible to determine the fiscal impact of this bill at this time. The bill permits public sector entities, which are most likely to be the Department of Health or the Department of Human Services (departments), to enter into loan agreements in which a nonprofit organization will provide health care intervention services on behalf of the departments that an individual patient would not otherwise be eligible to receive. These services are intended to prevent the need for other, more costly, health care services for these patients at a later point in time, where the department would face even greater costs for that patient. The departments would, in turn, provide payments to a lender based on the amount of money that the departments saved due to these interventions. The magnitude of these savings will depend on the nature of any agreements that ultimately take place, and it cannot be determined at this point what form those agreements will take, or the effectiveness of the intervention services in generating cost savings. The departments should face no costs as a result of these loan agreements because they are only making payments based upon their cost savings; however, it is possible that the departments may not accurately quantify the value of avoided future costs or attribute savings to these interventions because it is possible that there are other factors that could be responsible for the savings, resulting in actual increased costs rather than savings.

The authority may experience costs in the administration of this program if the authority would need to hire a new staff member to manage the activities associated with the loan fund and administer the program, and any overhead costs involved in issuing loan guarantees. The authority may also experience costs in connection with the activities of the study commission. The authority should be able to recover these costs through fees administered through the program and public and private donations, possibly resulting in no net cost.

The bill limits the total amount of loans guaranteed by the authority under the program to $15,000,000. If all loans are repaid in full, then the authority should only incur expenses relating to the provision of the guarantees; however, if there are no savings realized by the departments and no repayments made to the lenders, the loan fund may be responsible for the full $15,000,000. Regardless of the default rate on these loans, the net cost will depend on the source of monies deposited into the loan guarantee fund. If those monies are contributed from public and private donations or grants, then there would be no State funds at risk and no expected State cost; however, if the fund is capitalized through a general fund appropriation, the full amount of that appropriation would be at risk, and any loan defaults would represent a State cost. It is not clear whether an appropriation will be made to capitalize the loan fund.

The net cost to the State will ultimately be any State contributions to the loan fund which are expended on defaults of guaranteed loans, in addition to any cost of administering the program, less fees and donations, and less any net savings to the departments that are a party to the loan agreements.

Section:	*Authorities, Utilities, Transportation and Communications*
Analyst:	*Patrick Brennan* *Senior Fiscal Analyst*
Approved:	*David J. Rosen* *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.).