

**SENATE, No. 973**

---

**STATE OF NEW JERSEY**  
**217th LEGISLATURE**

---

INTRODUCED FEBRUARY 4, 2016

**Sponsored by:**

**Senator M. TERESA RUIZ**

**District 29 (Essex)**

**Senator JAMES BEACH**

**District 6 (Burlington and Camden)**

**SYNOPSIS**

“Early Childhood Innovation Act”; establishes early childhood innovation loan pilot program and study commission within EDA.

**CURRENT VERSION OF TEXT**

As introduced.



**(Sponsorship Updated As Of: 2/12/2016)**

1 AN ACT establishing an early childhood innovation loan pilot  
2 program and supplementing Title 34 of the Revised Statutes.

3

4 **BE IT ENACTED** *by the Senate and General Assembly of the State*  
5 *of New Jersey:*

6

7 1. This act shall be know and may be cited as the “Early  
8 Childhood Innovation Act.”

9

10 2. As used in this act:

11 “Authority” means the New Jersey Economic Development  
12 Authority established pursuant to P.L.1974, c.80 (C.34:1B-1 et  
13 seq.).

14 “Early childhood innovation loan fund” or “fund” means the  
15 fund established pursuant to section 5 of this act.

16 “Eligible organization” means a nonprofit organization that is  
17 exempt from federal taxation pursuant to section 501(c)(3) of the  
18 federal Internal Revenue Code (26 U.S.C. s.501(c)(3)), that has  
19 applied for participation in the early childhood innovation loan pilot  
20 program established pursuant to section 3 of this act, and is selected  
21 by the study commission as qualified to receive a loan guarantee  
22 from the “early childhood innovation loan fund” established  
23 pursuant to section 5 of this act.

24 “Pilot program” means the early childhood innovation loan pilot  
25 program established pursuant to section 3 of this act.

26 “Study commission” means the New Jersey Early Childhood  
27 Innovation Study Commission established pursuant to section 4 of  
28 this act.

29

30 3. a. There is established a five-year early childhood  
31 innovation loan pilot program within the New Jersey Economic  
32 Development Authority to administer and determine the  
33 effectiveness of an early childhood innovation loan pilot program.  
34 The pilot program shall concern nonprofit early childhood services  
35 with the purpose of encouraging private investment in early  
36 childhood programs to reduce federal, State, and municipal  
37 expenditures related to those services. The pilot program shall  
38 assess the feasibility of expanding an early childhood innovation  
39 loan pilot program Statewide and expanding the scope of early  
40 childhood innovation loan guarantees, made pursuant to subsection  
41 b. of this section, beyond the early childhood sector.

42 b. Under the pilot program established pursuant to subsection  
43 a. of this section, the authority shall guarantee loans issued to  
44 eligible organizations for the provision of early childhood services  
45 which generate positive social outcomes and public sector cost  
46 savings. Each loan shall be facilitated by the study commission  
47 established pursuant to section 4 of this act and consist of:

1 (1) A lending agreement between an eligible organization, a  
2 lender, and a public sector entity which provides: (a) the eligible  
3 organization with direct funding from a lender in exchange for the  
4 provision of early childhood services; and (b) the public sector  
5 entity with early childhood services in exchange for defined  
6 payments to the lender in an amount proportional to the amount of  
7 public sector savings generated by the provision of those services.

8 (2) A loan guarantee agreement between the authority and all  
9 parties to the lending agreement from paragraph (1) of this  
10 subsection which shall require the lending agreement to conform to  
11 any loan requirements established pursuant to this act or by the  
12 authority; and

13 (3) An agreement between the authority, the public sector entity  
14 making performance payments, the eligible organization, and the  
15 lender which agrees to a method of measurement and verification of  
16 the early childhood services to be performed, how the public sector  
17 savings are to be calculated, how the interest rate will be  
18 determined, and how funds will flow between the parties according  
19 to each of the agreements made pursuant to this subsection.

20 c. Up to 100 percent of the value of a loan agreement entered  
21 into pursuant to subsection b. of this section may be guaranteed by  
22 the authority, provided that the total amount of all loans guaranteed  
23 under the early childhood innovation loan pilot program established  
24 pursuant to this act shall not exceed \$15,000,000.

25 d. The authority, in cooperation with the study commission and  
26 the Department of Children and Families, the Department of  
27 Education, and the Department of Human Services, shall offer to  
28 guarantee loans made pursuant to subsection b. of this section  
29 utilizing funds from the early childhood innovation loan fund  
30 established pursuant to section 5 of this act to finance a project  
31 undertaken for the purposes of subsection b. of this section. The  
32 authority shall consider the following factors:

33 (1) The economic feasibility of the project;

34 (2) The degree to which the project will advance Statewide and  
35 regional strategies and objectives;

36 (3) The degree to which the project maximizes the leverage of  
37 other State funds; and

38 (4) The factors listed in paragraph (1) of subsection e. of section  
39 4 of this act.

40 e. A lender or nonprofit organization seeking to participate in  
41 the early childhood innovation loan pilot program shall submit an  
42 application in such form as the authority shall require. The  
43 application shall include any information the authority determines is  
44 necessary in consideration of the provisions of P.L.2011, c.123  
45 (C.52:14B-21.1 et seq.).

46 f. A loan guarantee agreement entered into pursuant to  
47 subsection b. of this section shall provide that any loan guaranteed  
48 by the authority shall: (1) be for a loan having a fair effective

1 interest rate as determined by the authority; and (2) contain other  
2 terms and conditions considered appropriate by the authority that  
3 are consistent with the purposes of this act and with rules and  
4 regulations promulgated by the authority to implement this act.

5 g. (1) Consistent with federal law, rule, or regulation, each  
6 eligible organization that receives a loan guarantee under this act  
7 shall undergo an audit, at the organization's own expense, at least  
8 once every two calendar years. The authority shall designate an  
9 auditor to conduct the audit.

10 (2) If an audit is performed under a requirement of federal law,  
11 rule, or regulation, the authority shall waive the audit required in  
12 this subsection with respect to all issues addressed by the federally-  
13 required audit report. However, the authority may require an audit  
14 of matters that are not, in the authority's judgment, addressed by the  
15 federally-required audit report including, but not limited to,  
16 measurement and verification of early childhood services and public  
17 sector savings.

18 h. A loan guarantee agreement made pursuant to subsection b.  
19 of this section shall provide that any loan guarantee issued by the  
20 authority shall be voided if the terms and conditions of the  
21 agreement are violated by any party to that loan securitization  
22 agreement.

23 i. The authority shall solicit grants from interested public or  
24 private sources for the establishment and administration of the pilot  
25 program and study commission as well as the capitalization of the  
26 early childhood innovation loan fund established pursuant to section  
27 5 of this act.

28 j. The pilot program shall expire on the 30th day following the  
29 closing of all loans guaranteed pursuant to this act.

30

31 4. a. The authority shall oversee a study commission, entitled  
32 the "New Jersey Early Childhood Innovation Study Commission,"  
33 established for the duration of the pilot program.

34 b. The membership and size of the study commission shall be  
35 determined by the authority. The authority may consider a variety  
36 of professionals, including early childhood, lending, and social  
37 finance experts, for membership on the study commission. The  
38 study commission shall organize as soon as practicable after the  
39 appointment of the study commission members, shall select a  
40 chairperson from among its membership, and shall appoint a  
41 secretary who need not be a member of the commission. At least  
42 one member of the study commission shall be a representative of  
43 the Department of Children and Families, one member shall be a  
44 representative of the Department of Education, and one member  
45 shall be a representative of the Department of Human Services. All  
46 members of the study commission shall serve for terms concurrent  
47 with the effective period of the pilot program.

1 c. Any vacancy in the membership of the study commission  
2 shall be filled in the same manner in which the original appointment  
3 was made.

4 d. The study commission may request the assistance and  
5 services of employees of any other State department, board, bureau,  
6 commission, task force, or agency as it may require and as may be  
7 available. Members of the study commission shall serve without  
8 compensation, but shall be entitled to employ stenographic and  
9 clerical assistance and incur traveling and other miscellaneous  
10 expenses as the study commission may deem necessary in order to  
11 perform its duties, within the limits of the funds made available to  
12 the study commission for its purposes. The study commission may  
13 meet at the call of its chairperson at the times and in the places the  
14 study commission may deem appropriate and necessary to fulfill its  
15 duties, and may conduct public hearings at a place or places as the  
16 study commission shall designate. The study commission shall  
17 conduct its meetings in accordance with the "Senator Byron M.  
18 Baer Open Public Meetings Act," P.L.1975, c.231 (C.10:4-6 et  
19 seq.).

20 e. It shall be the duty of the study commission to aid the  
21 authority in the administration of the early childhood innovation  
22 loan pilot program and to issue annual reports detailing the progress  
23 of the pilot program. Specifically, the study commission, in  
24 cooperation with the authority and the Department of Children and  
25 Families, the Department of Education, and the Department of  
26 Human Services, shall:

27 (1) Identify the nonprofit organizations that will be eligible to  
28 receive loan guarantees from the authority. The study commission  
29 shall make this determination taking several factors into  
30 consideration which shall include, but not be limited to, the size and  
31 identity of the target population that benefits from the nonprofit  
32 organization service provider, the projected financial value of the  
33 improvements as a result of the early childhood innovation loan  
34 investments, including projected public sector savings, ability to  
35 repay the loan in full, the ease of the measurability of the outcomes,  
36 and an analysis of impacts beyond financial savings and returns,  
37 such as social outcomes;

38 (2) Assist the authority in soliciting donations from  
39 philanthropic organizations and other private sources to capitalize  
40 the loan fund;

41 (3) Negotiate contract terms and conditions between early  
42 childhood innovation loan recipients and any public entity for  
43 whom the recipient is performing early childhood services,  
44 including the development of metrics to project and measure both  
45 financial and social outcomes, and the identification of independent  
46 third parties to measure and evaluate outcomes;

47 (4) Determine whether an independent intermediary with  
48 expertise in the areas of social finance and early childhood should

1 be retained to: (a) assist the study commission in the performance  
2 of its duties under this section; or (b) perform the measurement and  
3 verification activities required in the agreements entered into  
4 pursuant to paragraph (3) of subsection b. of section 3 of this act,  
5 and to identify appropriate independent intermediaries to  
6 recommend to the authority if the study commission determines that  
7 intermediary services should be retained; and

8 (5) Any other purposes related to the pilot program for which  
9 the authority requests assistance.

10 f. Not later than one year following the effective date of this  
11 act, and annually for four years thereafter, the study commission  
12 shall submit to the Governor and, pursuant to section 2 of P.L.1991,  
13 c.164 (C.52:14-19.1) to the Legislature, a report containing a study  
14 and evaluation of the pilot program. The report shall include, but  
15 not be limited to, a description of any eligible organizations funded  
16 by the early childhood innovation loans, State, federal, and  
17 municipal financial savings related to the issuance of early  
18 childhood innovation loans, the expected loan performance and  
19 projected payment schedule, the number of people serviced by the  
20 eligible organization, a comparison of the population serviced by  
21 the eligible organization and a similarly situated control group, and  
22 any community impact related to the pilot program.

23 g. The study commission shall submit its fifth and final report  
24 to the Governor and, pursuant to section 2 of P.L.1991, c.164  
25 (C.52:14-19.1) to the Legislature, within 90 days of the expiration  
26 date of the pilot program, including any recommendations for  
27 legislative action it deems appropriate. The study commission's  
28 final report shall include, but not be limited to, an analysis of the  
29 feasibility of implementing a permanent early childhood innovation  
30 loan program Statewide, sectors outside of non-profit early  
31 childhood in which social lending could be successfully applied, the  
32 estimated costs for the creation and administration of the permanent  
33 early childhood innovation loan program, projected State, federal,  
34 and municipal savings from administering the permanent program, a  
35 calculation of the loan performance realized from the pilot program,  
36 a calculation of the State, federal, and municipal savings accrued  
37 through the pilot program, and an analysis of non-financial  
38 outcomes, such as community impact and preventive results. The  
39 study commission shall expire on the 30th day after the date of the  
40 issuance of its final report, or upon the expiration of the pilot  
41 program, whichever occurs later.

42

43 5. a. To implement the early childhood innovation loan pilot  
44 program, the authority shall establish and maintain a special non-  
45 lapsing, revolving fund called the early childhood innovation loan  
46 fund which may be credited with:

47 (1) moneys appropriated by the State for the purpose of the  
48 fund;

- 1       (2) moneys received by the authority from any public or private  
2 donations to guarantee the loans issued pursuant to section 3 of this  
3 act;
- 4       (3) any moneys as may be available to the authority from grants  
5 or other forms of assistance established to support early childhood  
6 activities by the authority or by other State agencies or authorities;  
7 and
- 8       (4) moneys received from eligible organizations in the form of  
9 any applicable fees.
- 10      b. Loan funds may be used by the authority for the following  
11 purposes:
- 12       (1) guaranteeing loans issued pursuant to subsection b. of  
13 section 3 of this act;
- 14       (2) reasonable and necessary expenses incurred by the authority  
15 related to the administration of the early childhood innovation loan  
16 pilot program and the study commission; and
- 17       (3) administrative expenses for the provision of loan guarantees  
18 issued pursuant to subsection b. of section 3 of this act.
- 19      c. The amount of loans guaranteed by the authority pursuant to  
20 subsection b. of section 3 of this act shall not exceed \$3,000,000 per  
21 year or \$15,000,000 in the aggregate over five years, as determined  
22 by the authority.
- 23      d. The authority shall not issue a loan guarantee in an amount  
24 greater than the available and uncommitted moneys in the loan  
25 fund.
- 26      e. The authority may charge fees in connection with  
27 applications for participation in the early childhood innovation loan  
28 pilot program as it deems reasonable to cover authority expenses in  
29 administering the pilot program and issuing loan guarantees.
- 30
- 31      6. The authority shall appoint a director to manage the  
32 activities associated with the early childhood innovation loan fund  
33 established pursuant to section 5 of this act. The director shall  
34 receive compensation as determined by the authority.
- 35
- 36      7. The authority shall issue a report six months after the  
37 effective date of this act and annually thereafter not later than  
38 September 15, to the Governor and, pursuant to section 2 of  
39 P.L.1991, c.164 (C.52:14-19.1) to the Legislature concerning the  
40 financing of the pilot program as described in section 5 of this act,  
41 undertaken with monies from the early childhood innovation loan  
42 fund. The initial report and each annual report required under this  
43 section shall include a description of the pilot program funded by  
44 loans issued to eligible organizations and a detailed analysis of the  
45 consideration given to the factors set forth in subsection d. of  
46 section 3 of this act.

1       8. The authority shall adopt pursuant to the "Administrative  
2 Procedure Act," P.L.1968, c.410 (C.52:14B-1 et seq.), any rules or  
3 regulations necessary to effectuate the purposes of this act.  
4

5       9. This act shall take effect on the first day of the fourth month  
6 following the date of enactment, but the authority may take such  
7 anticipatory administrative action in advance thereof as shall be  
8 necessary for the implementation of this act.  
9

10

11

STATEMENT

12

13       This bill establishes a five-year early childhood innovation loan  
14 pilot program for the purpose of encouraging private investment in  
15 early childhood services to reduce public expenditures related to  
16 those services.

17       Under the bill, the New Jersey Economic Development Authority  
18 (EDA) is to establish a pilot program to guarantee loan agreements  
19 among lenders, eligible nonprofit organizations, and public sector  
20 entities. The loan agreements are to: 1) provide an eligible nonprofit  
21 organization with direct funding from a lender in exchange for the  
22 provision of services to a public sector entity; and 2) require the  
23 public sector entity receiving early childhood services to make  
24 defined payments to the lender in an amount proportional to the  
25 amount of savings generated by the provision of early childhood  
26 services. In the event that the anticipated savings are not achieved,  
27 the EDA is to provide a loan guarantee to the lender.

28       The EDA, lender, and eligible nonprofit organizations are also  
29 required to establish a method of measurement and verification that  
30 ensures early childhood services were performed, calculating any  
31 public sector savings resulting from those services, and determining  
32 any interest rates or payments applicable to the agreements. The  
33 bill allows the guarantees issued by the EDA to be up to 100  
34 percent of the value of the loan agreements, with loan amounts not  
35 to exceed \$3,000,000 per year or \$15,000,000 in the aggregate over  
36 the five-year pilot program period.

37       The bill establishes a non-lapsing, revolving fund called the early  
38 childhood innovation loan fund which is to be used to guarantee  
39 pilot program loans to fund the loan program and to pay for  
40 expenses related to the administration of the loan guarantees. The  
41 loan fund may be credited with monies from State appropriations,  
42 public or private donations, grant funding, and loan guarantee  
43 program fees. The EDA is not to issue a loan guarantee in an  
44 amount greater than the available and committed moneys in the loan  
45 fund.

46       The bill requires the EDA to solicit grants from philanthropic  
47 organizations or other private sources for the establishment and



1 administration of the pilot program and capitalization of the loan  
2 fund.

3 The bill establishes the New Jersey Early Childhood Innovation  
4 Study Commission within the EDA to assist the EDA in  
5 administering the pilot program and issue annual reports concerning  
6 the pilot program. The bill requires the EDA to oversee the study  
7 commission, to determine the membership and size of the study  
8 commission, and to appoint members to the study commission. A  
9 representative of the Department of Children and Families, a  
10 representative of the Department of Education, and a representative  
11 of the Department of Human Services are to be members of the  
12 study commission.

13 The bill directs the study commission to: 1) identify the  
14 nonprofit organizations that will be eligible to receive loan  
15 guarantees from the EDA; 2) assist the EDA in soliciting donations  
16 for the loan fund; 3) help negotiate contract terms and conditions of  
17 the loan agreements among lenders, eligible nonprofit  
18 organizations, the EDA, and public sector entities; 4) determine the  
19 necessity of retaining an independent intermediary to assist the  
20 study commission in the performance of its duties or to perform the  
21 measurement and verification functions needed to execute the loan  
22 guarantees; and 5) assist the EDA, upon request, with any other  
23 issues related to the program.