ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

[First Reprint]

ASSEMBLY, No. 4330

STATE OF NEW JERSEY

DATED: JUNE 16, 2021

The Assembly Appropriations Committee reports favorably Assembly Bill No. 4330 (1R).

This bill would create the "Economic Emergency Investment Stabilization Program" for the purpose of authorizing the New Jersey Economic Development Authority (EDA) to make direct equity investments in businesses that have been financially harmed by a "major economic emergency."

Under the bill, as amended, the EDA may enter into a "matching investment agreement" with a qualified business to invest between $100,000 and $1,000,000 in the business during a major economic emergency, and six months after the end of the major economic emergency. The bill directs the EDA to fund the program with: 1) amounts from the "Economic Recovery Fund"; 2) moneys received by the EDA from the prior sale of equity stakes in businesses under this program; and 3) other EDA moneys.

A business seeking EDA assistance under the bill must identify at least $1 of new outside investment, within 90 days of submission of the business's application, for each $1 of investment that the business is seeking from the authority. The EDA may match the amount of new investments in a business, up to $1 million, made during a funding round, however, EDAs total investment in a business is limited to a 25 percent overall equity stake in a business. An equity investment made by EDA under the bill must be on equal or better terms, for the authority, as those made by any of the outside investors. Under the bill, the EDA may only make an investment if it determines that the potential equity investment will be a material factor in the financial success or failure of the business during the major economic emergency, and that the business is likely, at the conclusion of the economic emergency, to return to a level of financial viability that will allow the authority to exit its equity stake without taking a loss on its investment. The bill, as amended, provides that EDA may maintain its investment in a business for no more than 10 years after the end of the major economic emergency, however, the bill authorizes EDA to maintain its investment for a longer period of time if it was unable to sell its investment during the first 10 years without taking a loss, and the anticipated increase in value by holding the investment for more than 10 years exceeds the public benefit that would accrue from selling the investment and using the proceeds for some other eligible use of the "Economic Recovery Fund." The bill, as amended, directs EDA, starting 12 months following the end of the major economic emergency, to start selling its equity investments under the bill, and to credit and deposit the proceeds therefrom to the "Economic Recovery Fund."

FISCAL IMPACT:

The Office of Legislative Services (OLS) finds that the bill will result in an indeterminate increase in State costs to make investments in qualified applicants, and depending on the performance of those investments, result an in indeterminate amount of State revenue representing the profit or loss from those investments. The EDA will also realize limited additional State revenue from application fees impose to offset its administrative costs in running the program.

The amount of investment will depend on the number of qualified applicants that are seeking new investments and are able to identify matching investments. The amount of these applicants and future investments cannot be known at this time.

The State revenue likely to be realized from these investments also cannot be known at this time because it will largely be dependent upon the future business performance of the applicants and the quality of the investment decisions made by the EDA. A comparable program does not exist to evaluate EDA investing activity against and the applicants to be invested in are also unknown at this point.

In addition to the direct performance of investing activity under the program, there is also the possibility of indirect State and local revenue gains through the economic incentive effect of taking equity takes in qualified applicants. If the investment has a material impact on the success of these businesses that would not have occurred if not for the program, that business success is likely to result in increased payment of various State and local taxes by the qualified applicants and their employees that can be indirectly attributed to the program.