LEGISLATIVE FISCAL ESTIMATE

SENATE COMMITTEE SUBSTITUTE FOR

SENATE, Nos. 3144 and 1534

STATE OF NEW JERSEY
220th LEGISLATURE

DATED: DECEMBER 8, 2021

SUMMARY

Synopsis: The "New Jersey Social Innovation Act"; establishes social innovation loan pilot program and study commission within EDA.

Type of Impact: Possible impact on State costs.

Agencies Affected: New Jersey Economic Development Authority; Department of Health; Department of Human Services.

Office of Legislative Services Estimate

Fiscal Impact	**Five year pilot program period**
State Cost Impact	Indeterminate

- The Office of Legislative Services (OLS) finds that 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, or if the valuation placed on health care interventions does not accurately reflect future health care costs for those that receive the interventions.

- 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. If the program is unsuccessful, the loss will be limited to the source of donations to the fund used to guarantee the loans.

- 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.

BILL DESCRIPTION

This bill establishes a five-year social innovation loan pilot program for the purpose of encouraging private investment in treatment and prevention services to reduce public expenditures related to those services.

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Under the bill, the New Jersey Economic Development Authority (EDA) is to establish a pilot program to guarantee loan agreements among lenders, eligible nonprofit and for-profit organizations, and public sector entities. The loan agreements are to:

1) provide an eligible nonprofit or for-profit organization with direct funding from a lender in exchange for the provision of public health care services to a public sector entity;

2) require the public sector entity receiving public health care services to make defined payments to the lender in an amount proportional to the amount of savings generated by the provision of public health care services; and

3) authorize the lender to receive loan repayments from the public sector entity in exchange for the provision of funding to an eligible nonprofit or for-profit organization.

The EDA, in cooperation with the "New Jersey Social Innovation Study Commission," established pursuant to the bill, and the Department of Human Services, is to offer to guarantee loans utilizing funds from the social innovation loan fund, also established pursuant to the bill.

The EDA, lender, and eligible nonprofit and for-profit organizations are also required to establish a method of measurement and verification that ensures health care services were performed, calculating any public sector savings resulting from those services, and determining any interest rates or payments applicable to the agreements. The bill allows the guarantees issued by the EDA to 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 the aggregate over the five-year pilot program period.

The bill establishes a non-lapsing, revolving fund called the "social innovation loan fund," which is to be used to guarantee pilot program loans to fund the loan 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, federal funds, and loan guarantee program fees. The EDA is not to issue a loan guarantee in an amount greater than the available and committed monies in the loan fund.

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

The bill establishes within the EDA a study commission to assist the EDA in administering the pilot program and issue annual reports concerning the pilot program. The bill requires the EDA to oversee and staff the study commission, to determine the membership and size of the study commission, and to appoint members to the study commission. The Executive 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 are to be members of the study commission.

The bill requires the study commission to annually submit to the Governor and to the Legislature a report containing a study and evaluation of the pilot program. The report is to include, but not be limited to: a description of any eligible organizations funded by the social innovation loans; State, federal, and municipal financial savings related to the issuance of social innovation loans, including Medicaid savings; the expected loan performance and projected payment schedule; the number of people serviced by the eligible organization, a comparison of the population serviced by the eligible organization and a similarly situated control group; and any community impact related to the pilot program. The study commission is to submit its fifth and final report to the Governor and to the Legislature, within 90 days of the expiration date of the pilot program, including any recommendations for legislation it deems appropriate.

The bill directs the study commission to perform other duties enumerated in the bill.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS finds that it is not possible to determine the fiscal impact of this bill at this time. Under the program, a non-profit will receive a loan from a private bank. The bank loan is guaranteed by the authority. Public sector entities, which are most likely to be the Department of Health or the Department of Human Services (departments), will participate in special loan agreements in which a nonprofit organization will provide health care intervention services on behalf of the departments to individuals that would not otherwise be eligible to receive those services. The departments would, in turn, provide payments to a lender for each intervention service provided based on the amount of money that the department expects to save due to these interventions.

One possible example of these intervention services could be weight management to help working age patients postpone or prevent the development of heart disease and diabetes which would have to be treated in later life under Medicaid insurance, which the State helps to fund. Even postponing the onset of heart disease and diabetes could represent significant savings to the Medicaid program. The magnitude of these savings will depend on the nature of any agreements that ultimately take place between the departments, non-profits, the authority, and banks, and it cannot be determined at this point the details of those agreements, 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 or the interventions could prove to be ineffective, resulting in actual increased costs rather than savings.

The departments will likely realize increased direct costs during the five-year program period in the form of payments for services that they would not have otherwise been provided, while the avoided costs are uncertain and will be based on the specific interventions and costs the department is hoping to avoid. The risk of losses are expected to be mitigated by the fact that the departments will be voluntarily entering into these agreements, and it is expected that they are only going to accept terms where they estimate that they will realize savings even after discounting for the uncertainty of the effectiveness of the interventions and for the time value of pulling future expenses forward.

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 may be able to recover these costs through fees administered through the program and public and private donations.

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 administrative 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.

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* *Principal Fiscal Analyst*
Approved:	*Thomas Koenig* *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.).