

Legislative Update

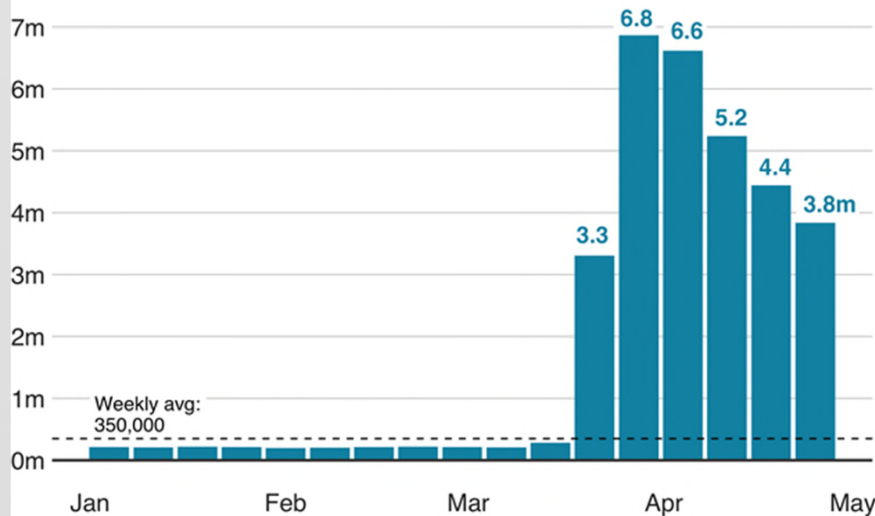
June 10, 2020



Economy

More than 30m people in the US have filed for unemployment benefits in last six weeks

Weekly total of new unemployment claims in 2020



Source: US Bureau of Labor Statistics, 30 April 2020, 14:00 GMT



Disruption

- The Economy is facing unprecedented disruption. Shelter-in-Place orders have caused many businesses to shut down entirely.
- Unemployment is expected to reach record highs. Unemployment reached 14.7% in April.
- Most of the world's largest economies are in recession. GDP fell 4.5% in the first quarter and some estimates for the second quarter anticipate a decrease of over 40%.
- State of New Jersey is facing a \$20 to \$30 billion deficit.

Industries in Turmoil

MANY INDUSTRIES WILL NOT RECOVER FOR YEARS

There are a number of industries that cannot be expected to recover for years to come. Even as the economy begins to reopen, travel, entertainment, restaurants will continue to face significant challenges.



STR and Tourism Economics projects a loss of \$2.8 billion per week in June. Oxford Economics estimates that 70% of Hotel employees are laid off or furloughed. AHLA estimates that 38,743 direct Hotel jobs lost in NJ.



According to Mobility Market Outlook tourism revenue will be down over 33%. Tourism represents nearly 10% of New Jersey's jobs and around \$50 billion in economic activity.



Retail is an industry that has been under attack from online sales. Bankruptcies have already begun with Neiman Marcus, J-Crew and JC Penny filing.



New Jersey Restaurant & Hospitality Association believes 15% to 18% of restaurants are not expecting to reopen.

Moody's Investor Service

OUTLOOK CHANGES TO **NEGATIVE** AS CORONAVIRUS INTENSIFIES SEVERITY AND LENGTH OF RECESSION

May 4th, 2020

“The outlook for US local governments is changing to negative from stable as our expectation of the duration and intensity of the coronavirus impact on the economic downturn grows in severity. The slow recovery will impair revenue and pressure operating reserves.”

“The US economy will contract by 5.7% in 2020, according to our projections, with a full return to pre-coronavirus levels in the third quarter of 2021.”

“The crisis has altered the daily operating environment for both governments and individuals...High unemployment and significant reductions in discretionary spending...will linger beyond the social shutdown.”

“The likely prolonged recovery will necessitate continued flexibility to adjust to changing economic conditions...”

Government Challenges



Reduced Revenues - Near Term

- Taxes/PILOTs
- Parking Fees
- Beach Fees
- Hotel Taxes
- Construction Fees
- Court Fees
- State aid
- Interest Income
- Hotel Occupancy Tax

Increased Expenses – Near Term

- Enforcement of social distancing rules
- Testing facilities
- Public Safety – Overtime Expenses

Increased Expenses – Long Term

- Reduction in value of commercial properties
- Continued underperformance of revenue streams
- Pressure on State budget

Existing Tools to Offset the Fiscal Impact

Strategy	Result
Furloughs and Reduced Headcount	Municipalities will be shorthanded to provide necessary services during the crisis
Use of Existing Surplus Funds	Credit rating downgrade and increased costs of borrowing, future tax increases
Special Emergency Notes (“SENs”)	Cost overruns/revenue shortfalls are not eligible for SENs
Emergency Notes	Must be paid off in subsequent fiscal year
Tax Anticipation Notes (“TANs”)	Only provides short term cash relief – must provide cashflows that show repayment within the year.

Coronavirus Relief Bonds (CRBs)

A3971/S2475

Sponsors

Assembly

Senate

Benson	Singleton
Coughlin	Gopal
DeAngelo	Scutari
DeCroce	Greenstein
Reynolds-Jackson	Bateman
Verrelli	Madden
Jasey	O'Scanlon
Murphy	Sacco
Spearman	
Lopez	
Quijano	

CRBs

- Typical budget tools for New Jersey Governments do not allow for recovery of lost revenue.
- CRBs will allow municipalities to spread the unexpected financial burden of the next twenty-four months over at least a ten-year period.
- This will protect taxpayers from facing large tax increases during a time when they and the economy are most vulnerable.

Key Bill Components

- Allows municipalities to borrow for lost revenue as well as increased expenses.
- Maximum borrowing amount without Local Finance Board Approval is lesser of 20% of prior year's budget or up to debt limit.
- The debt can be repaid over a maximum of ten years without Local Finance Board Approval.
- Can be issued as Bonds and/or Notes. Notes may have a maturity up to 24 months.

This Bill is permissive not required.

Status of A3971

- May 14, 2020 – Passed by the Assembly (57-20-3)
- May 14, 2020 – Assembly refers bill to Senate Community and Urban Affairs Committee
- June 10, 2020 – Bill not yet scheduled before Senate Committee
- NJ League sends form of local unit resolution and Mayor letter in support of A3971, found here:

DRAFT RESOLUTION FOR A3971/S2475

<https://www.njlm.org/DocumentCenter/View/8484/051520-Draft-Resolution-on-CRB-A3971-S2475>

DRAFT LETTER OF SUPPORT FOR A3971/S2475

<https://www.njlm.org/DocumentCenter/View/8483/05152020-Draft-Letter-of-Support-for-A3971S2475>

A4175

State \$5B Borrowing Bill

- Authorizes the State to borrow pursuant to any federal stimulus program to provide financial assistance to local government units.
- Local government units must show:
 - serious financial distress due to COVID-19.
 - immediate budgetary need.
 - “a constrained ability to raise sufficient revenues to meet budgetary requirements that substantially jeopardizes the fiscal integrity of the local government unit.”
- Application to Director. Regulations needed.
- Amount borrowed would be a loan to the local government units.
- A4175 does not provide local government units with authorization to undertake loan.
- Would provide access to Federal Municipal Liquidity Fund.
 - Currently 2.67% interest rate.
 - State credit.
 - Limited to two years.

Status of A4175

State \$5B Borrowing Bill

- June 4, 2020 - Passed by the Assembly (52-28-0)
- June 4, 2020 - Received in the Senate, Referred to Senate Budget and Appropriations Committee.



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