



MEMORANDUM

TO: Members of the Authority

FROM: Tim Sullivan
Chief Executive Officer

DATE: February 7, 2024

SUBJECT: Main Street Acquisition Support Grant

Summary

The Members are asked to approve:

1. Creation of the Main Street Acquisition Support Grant product - a pilot product under the Main Street Recovery Fund that will offer a grant of up to \$50,000 to reimburse an eligible NJ small business for closing costs related to a New Jersey commercial property that the business will purchase to operate from.
2. Utilization of funding from the Main Street Recovery Fund, as follows:
 - Up to \$5 million to capitalize the Main Street Acquisition Support Grant pilot product, with delegation to the Chief Executive Officer to increase total grant funding up to \$10 million if demand exceeds the \$5 million in available funding.
 - Up to \$500,000 to support the Authority's administrative costs for the Main Street Acquisition Support Grant product.
 - Up to \$500,000 to hire temporary staff if application volume requires additional administrative support.
3. Delegation of authority to the Chief Executive Officer to approve eligible applications for the Main Street Acquisition Support Grant in accordance with the terms set forth in this memo and attached program specifications.

Background

On January 7, 2021, Governor Phil Murphy signed the New Jersey Economic Recovery Act of 2020 (ERA) into law. The ERA presents a strong recovery and reform package that addresses the ongoing economic impacts of the COVID-19 pandemic and position New Jersey to build a stronger and fairer economy that invests in innovation, in our communities, and in our small

businesses the right way, with the protections and oversight taxpayers deserve. Tax incentives and other investment tools are critical to economic development, and when used correctly they can drive transformative change that uplifts communities and creates new opportunities for everyone. On July 7, 2021, Governor Murphy signed P.L. 2021 c.160, further improving the programs established under the New Jersey Economic Recovery Act of 2020.

One of the 15+ programs created by the ERA is the Main Street Recovery Finance Program, a small business support program under which individual financial assistance products have been created with a common purpose of supporting the growth and success of small businesses in New Jersey. As of today, \$200 million has been appropriated for the Main Street Recovery Fund, which funds several individual products.

On August 11, 2021, the Members approved special adopted rules creating the Main Street Recovery Finance Program. These rules established two initial products under the Main Street Program – the Small Business Lease Assistance Grant and the Small Business Improvement Grant. The Members later approved the creation of additional products under Main Street including the Main Street Micro Business Loan, Main Street Lenders Grant and the Small Business E-commerce Program. Over the course of approving each of these individual products, Members were advised that requests to create additional products under the Main Street Recovery Fund may be forthcoming. This item represents a request to create another pilot product under the Main Street Fund – the Main Street Acquisition Support Grant.

This product will provide a grant to NJ small businesses after they have recently closed on the purchase of a commercial property. This product aligns with other grant products established under Main Street and by the NJEDA, which provide direct funding to small and micro businesses in the form of lease assistance and business improvement grants, as well as low-interest, forgivable loans and E-commerce technical assistance support. With this new product, the Authority is seeking to support NJ small business owners that are looking to grow into a New Jersey commercial property from which they will be operating. This grant will also help the NJ small business owner have more liquidity after a major purchase to be able to support their operating needs. This will result in the higher chance of survival and longevity through this post-COVID time period.

Product Details

The Main Street Acquisition Support Grant will be a grant product that will offer a reimbursement of closing costs up to \$50,000 to eligible NJ small businesses that have purchased a commercial property in which their business will operate from. This product will help support small business that have made a substantial investment and recently purchased a commercial building, the closing must occur after the application for this product is made available to the public, and the application for the grant must be made no later than one year from closing in order to be eligible.

As part of the process to acquire a commercial property, the small business would go through an underwriting and closing process and must close on a loan through a conventional lender, ensuring that the applicant meets the necessary debt service coverage ratio to qualify for the loan. For the purposes of this product, the Authority will consider a conventional lender to be any SBA lender, CDFI, MDI, bank, credit union, or any state, county, city administered loan

with underwriting standards.

Once the closing on the commercial property is complete, the small business owner would then apply to NJEDA for the grant.

The Main Street Acquisition Support Grant is only available to small businesses after a real estate closing, and businesses are not eligible to apply in advance of a scheduled closing. This is to ensure that the business has adequately demonstrated to their lender the ability to repay their mortgage. However, despite the fact that this grant is a reimbursement of a portion of closing costs, it will still provide a liquidity infusion during the early stage of property ownership, which can be a financially stressful time, particularly if the property needs renovations or improvements.

The NJEDA will require that the property remains occupied by the grantee for a minimum of five years. If the property is sold, fully leased, or the applicant no longer occupies their minimum square footage prior to the end of the five-year compliance period, then the grant recipient will be required to repay a pro-rated portion of the grant. Repayment of the grant will be prorated based on the years of compliance, with 20% reductions for each full year the applicant is compliant with the terms of the grant.

Application Process

This pilot product will be available online at njeda.com until the total funding pool is exhausted or for three years from the date applications are made available to the public, unless the Authority closes the application period earlier in order to modify or amend this product prior to launching a new phase. Applications will be reviewed on a first-come, first-served basis, based on the date and time that the Authority receives the completed application. Staff will market and promote this product to our lending partners and the community during our normal outreach efforts.

Eligible Applicants

Applicants, which can be for-profit or non-profit entities, must also meet the following requirements to be eligible under this grant product:

- Must meet the SBA definition of a small business based on their NAICS code.
- Closing must have taken place after the application was open to the public and grant application date must be no later than one year from date of closing.
- Applicants must provide a current Tax Clearance Certificate from the NJ Division of Taxation prior to receiving NJEDA approval.
- Applicants must be in substantial good standing prior to approval with NJEDA, the NJ Department of Labor, and NJ Department of Environmental Protection, with all decisions of substantial good standing at the discretion of those entities.
- Only a new purchase is eligible; the closing cannot be a refinance of an existing loan.
- Vacant land is not eligible for this grant.
- If a real estate holding company purchases the property, the small business that will be occupying the location must apply and the holding company will be a co-applicant. The applicant must still meet the SBA's definition of a small business that will be located on and operate from the purchased property. Furthermore, the real estate holding company must either be wholly owned by the applicant small business or have the same owners and

ownership percentage as the small business. If the holding company that purchased the property is not wholly owned by the applicant or does not have the same owners and ownership percentage as the small business, then the applicant will be ineligible for this product.

Completed Applications

As per 19:31-5.4 applicants must provide a completed application which includes:

- The name of the applicant;
- The contact information of the applicant;
- The prospective future address of the applicant (if different);
- The organizational type of the applicant;
- The principal products and services and three-digit North American Industry Classification System number;
- The New Jersey tax identification number;
- The Federal tax identification number;
- The most recent three Federal tax returns filed (if applicable);
- The total number of full-time and part-time employees of the applicant, in New Jersey at the time of application, and three months prior to the submission of the application;
- The comprehensive list of the applicant's locations in New Jersey and the function performed at each location;
- A completed legal questionnaire disclosing all relevant legal matters in accordance with the Authority debarment and disqualification rules at N.J.A.C. 19:30-2;
- Submission of a tax clearance certificate, pursuant to P.L. 2007, c. 101;
- WR 30, payroll reports, or equivalent documentation for the quarter preceding submission of application;
- A certification under the penalty of perjury from the applicant, or an authorized agent of the applicant, that the information provided in the application is true; and
- Any other necessary and relevant information as determined by the Authority for any product or for a specific application. Which may include:
 - A deed that has been filed after the closing of the property.
 - HUD-1 Statement or other closing documents to verify closing costs paid out.
 - Any of the following to document a relationship between a real estate holding company and small business (applicant) – partnership agreement, bylaws, formation documents, or operating agreement to establish ownership structure and ownership percentages.
 - A certification provided by the holding company, if any, that it will provide a five-year deed restriction on the property that restricts a property transfer.
- The Authority will confirm with the New Jersey Department of Labor and Workforce Development, Department of Environmental Protection, and the Department of the Treasury that the applicant is in compliance by being in substantial good standing with the statutes, rules, and other enforceable standards of the respective department, or, if a compliance issue exists, the eligible business has entered into an agreement with the respective department that includes a practical corrective action plan, as applicable.

While the Authority anticipates that most applications will provide a complete set of required information needed to evaluate the application, staff will follow up with applicants if additional

information or documentation is needed.

Grant Awards

Eligible applicants can receive up to \$50,000 per EIN and for a single eligible location.

The grant amount will be determined by utilizing a HUD1 statement or other satisfactory closing statement such as a Closing Disclosure or Settlement statement to identify all the closing costs associated to the loan. The grant will be based off the closing costs paid minus the purchase price of the building, business, or any payoffs. The loan must result from an arm's length commercial transaction with a conventional lender, including a CDFI, MDI, SBA lender, credit union or any state, county, or municipality that administers commercial loans with standard underwriting criteria. Only closing costs paid by the applicant are eligible to be reimbursed.

Terms and Conditions

As part of the application, the business must certify that they will operate from this property for a five-year compliance term period that begins after execution of the grant agreement with the NJEDA. Properties without a commercial building are not eligible for this grant. There is no minimum square footage that the commercial building must be in order to be eligible, and a business may lease a portion of the building so long as the grant recipient is also operating from the building. NJEDA will not be requiring that the grant recipient occupy 51% of the building based on the fact that this requirement is a barrier for small businesses in downtowns to be able to access the product as commercial properties within a downtown often have layouts in which a sizable portion of the building is inoperable space. However, NJEDA will require that the small business (applicant) occupy at least 1,000 square feet of the total usable square footage of the purchased property. There is no restriction on the size of the property that was purchased.

To ensure the property is not sold or transferred without its knowledge, NJEDA will file a deed restriction on the property. The restriction may be released after five years if the applicant is in compliance with the grant. If the property is sold or fully leased out, or if the grantee no longer occupies the minimum of 1,000 square feet prior to satisfaction of the 5-year compliance period, repayment of all or a portion of the grant will be necessary. Repayment of the grant will be prorated based on the years of the compliance, with 20% reductions for each full year of compliance.

In case of a grant default, the five-year compliance period and the term of the deed restriction will be extended for as long as the default remains outstanding and uncured. At the sole discretion of the NJEDA, grantees may be able to cure a default by restoring its good standing and satisfying the remaining (extended) compliance period, or by repaying all or a prorated amount of the grant based on the years of compliance.

NJEDA Small Business Lease Grant awardees are eligible for this product. Any time remaining on their compliance period for their lease grant will be added to the 5-year deed restriction for this product.

Since the grant is not exceeding the \$50,000 threshold under ERA Main Street Recovery Program statute, the purchased property site will not be subject to New Jersey labor compliance

requirements. Also due to the statute, grantees must enforce minimum wage requirements for their employees and/or co-applicant employees occupying the purchased property. This means that each full-time or part-time employee employed by the small business be paid not less than \$15.00 per hour or 120 percent of the minimum wage fixed under subsection (a) of section 5 of P.L. 1966, c. 113 (N.J.S.A. 34:11-56a4), whichever is higher, except that the small business shall pay not less than 120 percent of the minimum wage to an employee who customarily and regularly receives gratuities or tips for the entire compliance period. Any tenants, other than the grantee, that occupy the purchased property are not subject to the minimum wage requirement.

Awardees will certify annually that they are operating out of the property and meeting the wage requirements per section 5 of P.L. 1966, c. 113 (N.J.S.A. 34:11-56a4) if they have employees.

Diversity & Inclusion

The Main Street Recovery Finance Program statute requires the Authority to complete a disparity study for the purposes of establishing policies, practices, protocols, and, if appropriate, minimum percentages of Main Street Recovery Finance Program funding to be set aside for eligible small businesses and microbusinesses that are minority-owned business enterprises or women-owned business enterprises. The Authority is currently in the process of undertaking this study and does not yet have the ability to reserve a portion of funding specifically for minority or women-owned businesses. Instead, staff proposes that Authority reserves 40% of the initial program pool (\$5 million) for applicants that purchase property in a census tract that was eligible to be selected as eligible New Jersey Opportunity Zone (i.e., a New Market Tax Credit census tract). Should the CEO execute delegated authority to increase funding to up to \$10 million, the additional funding would not be subject to the 40% set aside.

There are 715 census tracks that were eligible to be Opportunity Zones in New Jersey. Setting aside a portion of available funding of at least 40% to support entities located in these census tracts further reinforces the State's commitment to helping to ensure all Opportunity Zone eligible tracts in New Jersey receive opportunities for investment that are equitable and inclusive. If the requests for this product exceed and the window is closed NJEDA will process all the eligible applications to utilize the funding. If additional funds are added to the \$5 million, then staff is seeking delegated authority for the CEO to decide how the funds should be utilized.

Fees & Administrative Expenses

Staff is also requesting up to 5% of total program funding (up to \$250,000 for the first \$5 million in program funding, and up to an additional \$250,000 if funding is increased by the second \$5 million) to cover the Authority's administrative costs. This amount would be in addition to the amount requested for this product and would be funded from the Main Street Recovery Fund.

Staff also requests up to \$500,000 to hire temporary staff if the volume of applications requires additional staffing support. This additional amount would also be funded from the Main Street Recovery Fund.

Eligible applicants will be required to pay a \$500 approval fee once they are approved for their grant. After they have paid their fee, they will then execute their grant agreement and their funds will be disbursed.

Delegated Authority

Finally, the Members are requested to approve delegation to the Authority's CEO to designate staff to approve individual applications to the Main Street Acquisition Support Grant in accordance with the terms set forth in the attached product specifications. Then the delegated authority for the CEO to allocate up to \$5 million in additional grant funding if needed, not to exceed \$10 million for this product.

Recommendation

The Members are asked to approve:

1. Creation of the Main Street Acquisition Support Grant - a pilot product under the Main Street Recovery Fund that will offer a grant of up to \$50,000 to reimburse an eligible NJ small business for closing costs related to a New Jersey commercial property that the business will purchase to operate from.
2. Utilization of funding from the Main Street Recovery Fund, as follows:
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 - Up to \$500,000 to hire temporary staff if application volume requires additional administrative support.
3. Delegation of authority to the Chief Executive Officer to approve eligible applications for the Main Street Acquisition Support Grant in accordance with the terms set forth in this memo and attached program specifications.



Tim Sullivan, CEO

Prepared by: Christina Fuentes and Naimah Marshall

Attachments

Exhibit A – Product Specifications