

A SURGE IN SUBSIDIES

Corporate tax breaks climb past \$822 million

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NEW JERSEY POLICY PERSPECTIVE

New Jersey has been providing tax breaks to corporations in the name of economic development for 220 years. In the past 15 months, though, the Legislature and governor have been on an unprecedented spending spree that will depress revenues for schools, police and other vital services for years in the future.

The state's first attempt at a subsidy might have provided lawmakers a lesson, but then it's been a while.

In 1791, the Legislature granted a ten-year tax abatement to the Society for Establishing Useful Manufactures, a sort of venture capital group led by Alexander Hamilton, who was also serving at the time as Secretary of the U.S. Treasury. The legislation – signed into law by Governor William Paterson amid predictions of 20,000 new jobs – gave Hamilton's society the right to condemn lands; charge tolls on roads and waterways; and raise \$100,000 through a lottery. Historians Barbara and Stephen Salmore called the subsidies to Hamilton a “perpetual monopoly” on 700 acres of land alongside the Passaic River, a tract that eventually became the city of Paterson. Hamilton envisioned a huge industrial development that harnessed the thundering Great Falls to power dozens of factories. Within five years, only a handful of factories had opened and the society was broke. It would be a century before Paterson fully realized its industrial potential, as the Silk City.

Today, more than two centuries after the state gave Hamilton's society *carte blanche*, New Jersey continues to provide corporations with often generous subsidies on the expectation they will hire thousands of workers and generate net new tax revenue.

The Legislature has been quick to facilitate this effort, expanding subsidy programs in the past two years with the hope that

tax credits and grants will prompt businesses to hire more workers and grow the state's economy. The fault in that logic, aside from its trickle-down foundations, is that it misinterprets the job situation in the current economy. With big productivity gains and stagnant wages, many big businesses are sitting on huge cash hordes. What's keeping these newly flush businesses from hiring, according to a number of prominent economists, is skepticism about the economy's ability to sustain even minimal growth now taking root.

The desire for jobs in New Jersey is obvious. In March of 2011, nearly 203,000 fewer people held jobs than in March of 2008. The unemployment rate lingers at 9.3%, according to the state Department of Labor and Workforce Development. The state has been slow to recover those lost jobs. Last month, the Labor department reported just 9,600 new jobs were created in February. At that rate the state won't return to pre-recession employment levels until 2013. You'd think there'd be a lot more hiring, given how many tax subsidies the state has awarded recently.

With the Legislature fully on board, Governor Christie has opened the throttle to provide corporations with tax-break subsidies. Through just four programs, his administration has awarded \$822 million in tax credits and grants to 69 New Jersey businesses. The deals range from a \$1,700 credit for a small printing company in Carlstadt to a \$261 million grant to facilitate construction of a casino in Atlantic City. The average grant is close to \$12 million, although half are for \$1.2 million or less. The subsidies are administered by the Economic Development Authority, which is working closely with the Lieutenant Governor's office as part of the administration's strategy to provide tax breaks to businesses.

BEIP

The state's Business Employment Incentive Program has been around for more than a decade. It is meant to encourage businesses to hire new employees by diverting to the employer up to 80 percent of state personal income taxes paid by each new employee for a period of up to 10 years (even if the job existed in another state and is simply "new" to New Jersey). The subsidy is capped at \$50,000 per worker. The theory is that the state would not have realized any revenue without the new job and that it will benefit in other ways, too, such as sales tax revenues on increased spending by the new employee. The EDA claims that 445 BEIP grants since 1996, worth over \$1.4 billion, "supported the creation of an estimated 82,785 new jobs." If that estimate is correct, that's about 5,500 jobs a year at a cost of about \$17,000 a job.

The state has executed 35 BEIP grants since February 2010, totaling \$47.6 million.

Business Employment Incentive Program (BEIP)	
Name	Amount
Intrasphere Technologies	12,420,000
Atlantic Coast Media Group	3,696,397
Torus US Services	3,092,000
Watson Pharmaceuticals	3,038,000
SCS Commodities Corp.	2,723,710
Standard Chartered Bank	2,555,000
Aricent US Inc.	2,377,636
Proximo Spirits	2,300,000
Archimedes Pharma	2,142,000
Shionogi USA	1,836,450
Otsuka America Pharmaceutical, Inc.	1,449,375
Dr. Reddy's Laboratories	1,364,220
Catapult Holdings	1,160,000
Pinnacle Foods Group	919,800
Princeton Information, Inc	656,166
Oxford Instruments	642,900
Asurion Insurance Services	642,000
I.D. Systems	619,050
Williams Sonoma Direct	587,722
PNY Technologies	579,950
Global Compliance Services	541,000
JFC International Inc.	425,845
Quidsi, Inc	411,750
Hotel Connections	330,150
Diversified Foam	173,985
CCS Materials, Inc.	158,535
Alice & Olivia	156,975
Ansman USA	126,518
Innopharma	119,831
hhgregg	118,750
Metrovision	91,023
Exel Inc.	72,000
Broadway Kleer Guard Corporation	37,500
Pitney Bowes	30,900
Bind-Rite/Union Graphics	1,694
Total:	3,374,712

BRRAG

The Business Retention and Relocation Assistance Grant program was signed into law in 2004, as a revision of an earlier business retention program. It gives the state authority to give a corporate income tax credit of \$1,500 per employee per year to businesses that are considering expansion, or who might otherwise leave New Jersey for another state. The law was amended in 2007 to lower the job creation threshold at which businesses may qualify from 250 retained full-time jobs to 50 retained full-time jobs. In 2010, the program was amended to double the per-job benefit to the corporation, from \$1,500 a year to up to \$3,000. The changes also allow a qualifying business to sell unused tax credits to any other business for at least 75 percent of their value. In July of last year, Governor Christie held a media event at the Honeywell Intl. headquarters in Morris Township to sign the beefed up BRRAG legislation. Such incentives, Governor Christie said, are “crucial to economic growth in our state.” The changes, according to Lieutenant Governor Guadagno, would result in 10,000 new jobs for New Jersey. In the nine months since that news conference, the state’s BRRAG grants have skyrocketed, from \$2 million to \$27.2 million.

In all, the state has awarded 14 BRRAG grants since January 2010, totaling \$29.2 million. The largest was \$14 million to Bayer Health Care.

ERG

Unlike BEIP and BRRAG, the actual award amount of an Economic Redevelopment and Growth grant isn’t tied to jobs. It’s a subsidy to encourage development or redevelopment. ERGs are given to developers for up to 75 percent of the annual incremental increase in state and or local tax revenues generated by a project in a qualifying area (although much of the state qualifies). The award can be applied to increases on 19 different taxes and may extend out to 20 years. The aim is to redevelop areas where traditional financing might not be feasible.

The state has awarded 10 ERG grants since February 2010, totaling \$351.1 million. The largest was \$261.4 million to the Revel casino in Atlantic City.

UTHTC

Business Retention and Relocation Assistance Grant (BRRAG)	
Name	Amount
Bayer Healthcare	14,094,000
Church & Dwight	10,000,000
Ferraro Foods	1,129,500
UPS	1,111,500
Evonik Degussa	1,017,000
PNY Technologies	455,000
Bracco Diagnostics Inc.	398,250
Amcor Specialty Packaging Glass Tubing Americas	387,000
Pinnacle Foods Group	186,200
Excalibur Group Inc.	159,750
Scientific Design Co.	152,100
Marine Container Services	59,400
NexAge Technologies	56,100
Total	29,205,800

Economic Redevelopment and Growth Grant (ERG)	
Name	Amount
Revel Casino	261,364,000
Cedar Shopping Centers, Inc	20,400,000
Halsey Street Teachers Village	17,400,000
DTCC	14,600,000
Port Imperial South	8,893,049
Embassy Suites Hotel	7,900,000
Courtyard by Marriott	6,583,637
Saker Shop-Rite	5,000,000
Intercontinental Indigo Hotel	4,700,000
Pagano Real Estate	3,090,000
Newark Screens	1,202,032
Total Approved ERGs	351,132,718

The Urban Transit Hub Tax Credit is meant to encourage redevelopment within a half-mile radius of NJ Transit, PATH, PATCO or light rail stations in Newark, Trenton, Paterson, Hoboken, Elizabeth, East Orange, Jersey City, New Brunswick (and within one mile in Camden). The program provides corporate income tax credits equal to 100 percent of qualified capital investments made within an eight year period, and the tax credits may be sold for up to 75 percent of their original value. It is restricted to large projects with a minimum of \$50 million in capital investment and at least 250 full-time workers.

The state has made 10 UTHTC awards since May 2010, totaling \$394.3 million. The largest was \$102.4 million to Panasonic earlier this year. Others have gone to some of the most widely recognized corporate names in New Jersey, among them Verizon, Bayer, Novo Nordisk, Church & Dwight, and even iconic Campbell Soup.

Campbell is a good example. Last month, the state approved a \$41.2 million Urban Transit Hub Tax Credit to help it pay for the second phase of its \$100 million renovation of its Camden headquarters, which is 0.7 miles (i.e., more than half a mile) from the Walter Rand Transportation Center in Camden (and separated by Interstate 676). The award, which is 80 percent of the expected cost of phase two, includes \$2.6 million for construction management and \$6.3 million for furniture. Campbell has agreed to move 49 of its employees from Cherry Hill to Camden and hire five new employees in each of the next 10 years.

The city of Newark has also been a focal point of the subsidy programs. Nine projects located in the city have garnered nearly \$208 million in tax subsidies, including the controversial \$102.4 million Urban Transit Hub Tax Credit allocated to the electronics giant Panasonic to facilitate a move of its headquarters from Secaucus to a new site under construction in Newark, near Penn Station. The grant was necessary, the state said, to keep Panasonic in New Jersey. The company had threatened to move – possibly to Brooklyn, Chicago or Atlanta. For its side of the deal, Panasonic will relocate 800 current employees to Newark and hire 200 to 250 new employees. That pencils out to \$408,000 or more in lost revenue per new job.

Other subsidies in Newark include ERGs to help build two

Urban Transit Hub Tax Credit (UTHTC)	
Name	Amount
Panasonic Corporation	102,408,062
Wakefern Food Corporation	58,400,000
Transit Village Associates	55,100,000
Daily News	41,600,000
Campbell's Soup Co.	41,224,519
Wakefern Food Corporation	29,200,000
133 Somerset and Albany Streets; (Boraie Devt)	19,886,090
RBH-TRB Newark Holdings	17,384,620
Newark Farmers Market	15,700,000
36-54 Rector Street (Boraie Development)	13,377,967
Total	394,281,258

hotels, a Courtyard by Marriott and an Intercontinental, along with \$35 million in two separate grants for the Halsey Street Teachers Village; \$44.9 million to renovate a food warehouse and distribution site shared by Wakefern and Newark Farmers Market; \$13.4 million to redevelop the site of a former school on Rector Street and \$1.2 million to a company owned by basketball star Shaquille O’Neal to open a movie theater.

Any benefits derived from these tax subsidies – redeveloping blighted urban areas in Newark or elsewhere are desirable outcomes – must be weighed against the costs. In the case of these four tax programs alone, the state is conceding \$822 million in revenue over the next 10 to 20 years. That’s more money than the state collects in a year from the gasoline tax. It’s the same amount the governor cut in school funding for the current fiscal year.

Some would argue that investing those tax dollars in the public schools would create an even greater incentive to attract and retain businesses in New Jersey, because more than a cut-rate tax climate, strong companies care about a highly educated workforce, efficient infrastructure and safe cities.

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