New Jersey’s Surge in Business Tax Subsidies Reaches New Heights

Over $4 Billion in Corporate Tax Breaks Awarded So Far This Decade

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New Jersey has awarded more than $4 billion in tax subsidies and credits to businesses this decade in a largely unsuccessful attempt to spur economic activity and boost the state’s crawl out of the Great Recession. As the total amount of subsidies has boomed, so has the cost of deals with individual companies, with a sharp increase in those worth more than $100 million. Meanwhile, the cost of a job tied to a subsidy award has nearly tripled, leaving companies on the
hook for far fewer jobs on a per-dollar basis than ever before. And an increasing share of New Jersey subsidies are going to retain jobs that are considered “at risk” of leaving the state instead of creating new positions. All of these troubling trends – which members of both political parties helped set in motion – have been accelerated by 2013’s overhaul of the state’s subsidy programs.

Despite the ballooning costs, only a narrow slice of New Jersey’s business community is granted such assistance – all of this decade’s awards have gone to just 252 of New Jersey’s approximately 200,000 companies. In other words, about 1 percent of New Jersey’s businesses have benefited from the tax shift that the subsidy programs create while the other 99 percent are left to make up for the revenue the state will lose.

The unprecedented growth in subsidies, however, has so far done little to significantly improve the state’s economy. Four and a half years into the surge, New Jersey’s economic recovery remains far behind that of its neighboring states and the nation. Just 40 percent of the jobs New Jersey lost in the recession have been recovered (including only 48 percent of private-sector jobs); the state has the highest share of workers who have been unemployed for more than six months; and New Jersey continues to lead the nation in the percentage of homeowners (one in twelve) who are in foreclosure.

The lack of economic payoff thus far for New Jersey isn’t surprising, since state taxes – whether actual rates or, in this case, tax breaks – are not the primary or even tertiary factor influencing business location and job creation decisions. It’s no mystery why, considering that state and local taxes make up less than 5 percent of the cost of doing business. While most companies will gladly take a tax break, few will move to a location solely because of it – as many as 9 out of 10 hiring and investment decisions subsidized with tax breaks would have occurred even without the subsidy. Other factors, like proximity to markets, a well-educated workforce and safe communities with high-quality schools and access to transportation, are far more important.

The sharp uptick in subsidies has also put an additional strain on the state budget through at least the next decade, at a time when other pressures are already making it difficult for the state to pay for the services its citizens require. This means it will be harder for New Jersey to adequately invest in the vital public assets that are the building blocks of a strong economy like high-quality K-12 education, higher education that is accessible to all, public-private partnerships involving research institutions, as well as clean, safe communities and affordable, efficient transportation systems.

New Jersey policymakers can – and should – take concrete actions to slow the subsidy surge and bring more transparency and accountability to the use of these tax breaks by: placing meaningful caps on spending; requiring more information from companies receiving subsidies; including automatic sunset provisions; eliminating subsidies for existing jobs or developing more stringent standards for these awards; revising the test used to determine the economic impact of a tax subsidy; and working more closely with neighboring states.
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Subsidy Awards Skyrocket and Become More Lucrative

New Jersey has awarded a total of $4,023,053,508 in subsidies to 252 companies this decade, a rate of $75.9 million per month. Prior to this decade’s surge, which has been one of the largest in the nation, subsidies were awarded at a rate of $10.1 million per month in the 2000s and $3.8 million in the late 1990s (prior to July 1996, these state subsidy programs did not exist). (See Appendix A for more information on the programs and the definitions used in this report.)

New Jersey’s Surge in Subsidies Has Not Just Been in the Total Amount Awarded, But the Amount of Revenue the State is Giving Up Per Job.

This decade, the $4 billion in subsidies that have been awarded are linked to an estimated 83,960 permanent jobs, a rate of $47,916 per job. In previous decades, the per-job costs were much lower: $16,430 in the 2000s and $8,612 in the 1990s.

Some of the growing cost can be attributed to more subsidy awards this decade for redevelopment projects not tied specifically to job creation, like the tax breaks promised to resuscitate the stalled American Dream megamall in the Meadowlands or granted to Prudential to help build its new building in downtown Newark. Still, policymakers often tout the job-creation aspect when boasting about the projects.
When one focuses only on the jobs-related subsidy programs, the per-job cost this decade stays historically high at $33,853, compared to $16,591 in the 2000s and $8,612 in the 1990s.

In addition, almost all of New Jersey’s largest subsidy deals have come in the last four years. Of the top 10 awards, all but two came this decade, including five that exceeded $200 million.

The bottom line: any way you look at it, the state is not only awarding more subsidies, it is giving out awards that are far more generous overall and in their cost per job.

**Paying Companies to Stay and Shifting Jobs Around the Region**

Some of New Jersey’s highest-profile subsidy “wins” this decade are hollow victories, as the state increasingly uses public tax dollars to merely shift private economic activity and jobs around the state – consider the $210.8 million tax break for Prudential to vacate its office space in Newark’s Gateway Center and build a new tower a few blocks away; the $102.4 million subsidy to Panasonic to move its headquarters one train stop, from Secaucus to Newark; the $81.9 million award to Goya Foods to move one mile from Secaucus to Jersey City; or the $40...
million grant for Burlington Coat Factory to build a new facility (on land it already owned) less than half a mile away from its current location on Route 130.

This increasing focus on retaining “at-risk” jobs that companies are threatening to move to another state, instead of targeting new jobs for New Jersey, is borne out in the rising share of existing jobs tied to subsidy awards, which has nearly doubled this decade, to 43 percent from 25 percent in the 2000s. No subsidies were put toward at-risk jobs in the 1990s.

In other words, nearly half of the jobs tied to New Jersey’s tax subsidies already exist in the state. But it’s even a larger share – closer to 60 percent – when one looks only at the jobs-related subsidy programs.

Companies need only to state they are considering alternate locations to receive state tax subsidies. While no one wants jobs to leave New Jersey for other states, it’s far from clear whether a tax break is reason enough for a company serious about leaving to change its mind, or if threats to move jobs are merely a convenient way for companies to secure another tax reduction and improve their bottom lines.

This increased focus on retaining these jobs invariably takes attention away from undertaking more robust efforts to bring new jobs here, investing in the important business-development resources the state already has or helping grow the companies and entrepreneurs that are committed to staying here. For instance, lawmakers have constrained funding for New Jersey’s 12 Small Business Development Centers, keeping it flat at $250,000 during the entire subsidy surge, far lower than its $1 million pre-recession level and lower than the average of $1.1 million that other states spend on similar efforts.4

Meanwhile, many of the jobs New Jersey is bringing to the state are being poached from other parts of our region. For example, of the 15 Grow New Jersey awards for new jobs only, the majority went to companies moving jobs here from elsewhere in the region (six from New York
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City, two from Pennsylvania, one from New York’s Rockland County and one from Long Island).

Using subsidies to lure jobs across state lines, while a political feather in the cap of New Jersey’s leaders, does little to actually grow the economy. What’s more, while New Jersey gets some direct revenue from bringing close-by jobs here, it loses out on much of the usual spillover spending, as many of the employees continue to live, shop and dine where they did before, instead of relocating to New Jersey.

“When states compete through subsidies and preferential taxes for specific businesses, the overall economy suffers,” said the Director of Research of the Federal Reserve Bank of Minneapolis in testimony before Congress. “From the states’ point of view, each may appear better off competing for particular businesses, but the overall economy ends up with less of both private and public goods than if such competition was prohibited.”

As a state sandwiched between two major cities, New Jersey’s economic success is tied to the regional economy much more so than many other states. Policymakers would be wise to consider the broader regional implications of their subsidy offerings, rather than simply engaging in an arms race with their neighbors.

Regional growth – or the lack thereof that results from cross-border subsidy wars – is not just an academic concern. In the Kansas City metro area, which includes both Kansas and Missouri, 17 of the region’s top executives (including representatives from Hallmark Cards and Sprint Nextel) have decried the “economic border war” and called for a moratorium on using subsidies to lure businesses from one part of the region to the other. The executives pointed out that they support subsidies in concept, but because of the region’s “unique bi-state community,” the use of subsidies had been largely perverted.

“Too often these incentives are being used to shuffle existing business back and forth across the state line with no net economic benefit or new jobs to the community as a whole. At a time of severe fiscal constraint the effect to the states is that one state loses tax revenue, while the other forgives it,” read the executives’ letter to the governors of both states. “The states are being pitted against each other and the only real winner is the business who is ‘incentive shopping’ to reduce costs. The losers are the taxpayers who must provide services to those who are not paying for them.”

The executives asked the governors to work together to “develop parallel legislation to reduce this unproductive use of tax incentives” and to redefine what constitutes a “new job” for the purpose of a tax subsidy.

“‘New jobs’ should be redefined to exclude jobs attracted to the states from counties bordering the state line in the Greater Kansas City [metro area] and counties contiguous to those counties,” the letter continues. “We can’t grow this community if we’re using our incentives to steal from each other instead of attracting real new economic growth.”
2013 Overhaul Opens the Floodgates

Last year, New Jersey policymakers approved a major overhaul of the state’s business subsidy programs. Known as the Economic Opportunity Act (EOA), it streamlined the programs and tweaked the two that remained – Grow New Jersey (focused on jobs-related projects) and Economic Redevelopment and Growth (ERG, focused on redevelopment projects). Most importantly, the law dramatically expanded the reach of New Jersey’s subsidy programs, increased the total subsidy amount any one company could receive, created more generous award amounts than the old programs provided for comparable projects and removed most caps on the subsidies (a $600 million cap is in place on residential redevelopment projects, but none exists for jobs-related subsidies or commercial redevelopment projects).

The Economic Development Authority (EDA), the state agency that manages the subsidy programs, began approving subsidies under the new law in December 2013, and through the first six months the volume awarded by New Jersey has skyrocketed, to $165.3 million per month.

Overall, New Jersey has awarded $992 million in business subsidies to 38 projects during the period: $667 million to jobs-related projects and $325 million to redevelopment projects. Those subsidies are linked to an estimated 16,488 permanent jobs, a rate of $60,310 per job.
Considering only the jobs-related subsidy program (Grow New Jersey), the per-job awards under the EOA remain very high, at $55,326 per job.

Meanwhile, the share of existing jobs tied to subsidy awards remains high under the overhaul (42 percent), and is even higher – 57 percent – when one focuses only on Grow New Jersey.
There was likely a queue of subsidy-seeking businesses waiting for the new law to take effect, so that may be skewing the first half-year’s numbers to the high side. However, with the absence of a meaningful spending cap to control costs, it is likely that the subsidy volume will remain at record highs until at least July 1, 2019, when the revised programs will expire unless the legislature renews them. While the EDA told the Office of Legislative Services (OLS, the state’s professional, non-partisan legislative support office) that the new law “has not been in the marketplace long enough to accurately project” how much subsidy money will be awarded through 2019, OLS estimates that New Jersey will continue to award over $1 billion a year.

But the overall increase in subsidies is only one part of the EOA’s role in the subsidy surge. It will also likely result in another big increase in the amount New Jersey awards for each job or dollar of investment, because it has reduced the number of jobs and amount of private capital investment required for each state dollar awarded. (OLS suggests the per-job and per-dollar amounts could “roughly double.”)

As the state puts more of its money on the line, its return, in the form of increased tax revenue, “is likely to shrink substantially,” OLS continues. For New Jersey to even maintain its current rate of return – not to mention increase it – new subsidy awards will have to result in substantially more job creation and additional private investment, or higher-paying jobs and higher profitability at subsidized companies, than subsidies did previously. If this doesn’t occur across the board, New Jersey’s already meager return from business subsidies is likely to shrink under the new law.

**When Chickens Come Home to Roost**

During the best of economic times, focusing on business tax subsidies to grow a state economy is ineffective, as decades of research and real-world experience has shown. But during a financial crisis as severe as the one facing New Jersey, the current subsidy surge is far more than just ineffective – it’s a grave threat to the state’s future.

New Jersey is already facing the consequences of decades of putting off tough decisions. Lawmakers’ chronic neglect of the state’s financial obligations – for pensions, health care costs and debt payments – has come home to roost. Getting back on track is slow, difficult and painful. The cost of meeting these obligations is projected to rise by $5 billion over the next five years before the annual increases become less drastic. All in all, the cost is expected to rise by $6.3 billion over the next eight years.

While this financial crisis is now widely acknowledged, far less attention has been paid to the long-term strain that will result from the subsidy surge, even though the long-term revenue loss could easily rival the increased costs of meeting pension, health care and debt obligations.

New Jersey is projected to lose at least a cumulative $2.9 billion in revenue due to the subsidy surge – and that’s just over the next five years, according to the EDA’s own projections.
Since the decreased tax payments from subsidy awards tend not to begin until several years after the award is granted, the immediate revenue loss is far smaller than what it will ultimately grow to. What’s more, the projections through 2019 barely account for the bulk of the surge that has already occurred – much less the expected continued growth of subsidy awards through the end of the decade – so we can expect revenue loss to continue to increase exponentially from 2019 through at least 2030.

Granted, the companies and projects that have received subsidies will be generating revenue and economic activity for the state that will help offset some of the revenue loss. The key questions are just how much economic benefit will these tax breaks generate, and – more importantly – would that economic activity occur without New Jersey awarding such generous subsidies? To take it one step further, would not the state have benefited much more by investing instead in education, transportation, health care and other public assets that are proven to grow the economy?

**Measuring a Subsidy’s Impact is Tricky Business**

When responding to NJPP’s ongoing concerns over the subsidy surge, New Jersey policymakers and officials usually point to the “net benefits” test that the EDA uses for most subsidy applicants, which is supposed to ensure that any approved project will provide an economic benefit at least 10 percent higher than the subsidy amount (Grow New Jersey projects in Camden are required only to provide a break-even benefit). In other words, the state says it only judiciously awards subsidies that “will result in a net positive impact to New Jersey.”
While the test is a laudable attempt to gauge the impact of subsidies and provides reasonable approximations of some direct and indirect economic activity they are anticipated to produce, it ignores a number of important factors and has crucial flaws – the combination of which has led the Office of Legislative Services (OLS) to question the test’s accuracy.\(^{13}\)

*The test can’t predict what would happen if the subsidy were not awarded at all.*

Applications for subsidies require that companies demonstrate that the subsidy is a “material factor” to the company’s decision (for Grow New Jersey) or that there is a “project financing gap” (for redevelopment projects). However, there is no way to determine the accuracy of these statements, particularly the “material factor” claim. But given the evidence that tax breaks and rates are rarely the drivers of location decisions, there is certainly reason for strong skepticism. In the end, “it is not possible to know the decision that a business would have made” if a subsidy were not offered or had a different dollar amount, OLS notes.

*The test assumes zero economic activity if no subsidy is awarded.*

If a project doesn’t happen, or if a company leaves the state, that doesn’t mean all related economic activity is lost. “When a company leaves the state and leaves behind 100 unemployed persons and vacant property, the state will not experience a permanent reduction in revenue equal to all of the collections associated with that business,” OLS explains. “Eventually another use will be developed for the property and the unemployed state residents will eventually find new jobs or start new businesses of their own.”

In other words, it is not a zero-sum game: while economic activity certainly decreases with the loss of a large employer or if a proposed project falls through, it is not a 100-percent loss.

*The test fails to account for how the tax shift enabled by a subsidy will affect other businesses.*

When taxes are decreased for a lucky few businesses but not for 99 percent of businesses, it creates an uneven economic playing field. Existing businesses that haven’t received a subsidy are put at a disadvantage, since they aren’t getting the same tax breaks as their competitors and may also lose business to them. This “could impact the competitive marketplace in ways that cannot be easily predicted and calculated,” OLS says.

*The test relies on benefits accrued over a longer period of time than some subsidy-receiving companies are required to stay in New Jersey.*

Imagine that you’re renting an apartment or a house and you pay the owner up front for one month. You’d rightly expect to receive a one-month commitment from the owner in return. If instead the owner told you she could only offer you a 15-day commitment in return for a month’s rent, at which point she’d be free to look for better offers, any rational person would refuse such a deal. Yet that’s pretty much how the state’s agreement with some companies receiving subsidies works.
For Grow New Jersey subsidy awards, for example, New Jersey calculates the net benefits of a project over a period between 20 and 35 years. But the state only requires the company to maintain the project and related employment for a maximum of 15 years. If the company decides to close a facility, leave the state or drastically downsize after that, it “will not be subject to any penalties under the program, but the net benefits assumed by the EDA will surely fail to be realized.”

**Missing the mark: The case of Revel casino**

One of the largest subsidy awards in New Jersey history was the controversial $261.4 million ERG award to the Revel casino project in Atlantic City. Since the subsidy was awarded in 2011, the casino, which opened in the spring of 2012, has struggled to attract enough visitors to make money, and its owners filed for bankruptcy protection in 2013. While New Jersey has not disbursed any of this subsidy yet, since ERG projects must generate revenue to get the tax credit, Revel’s case highlights how easily – and how greatly – economic projections in the net benefits test can miss the mark.

According to EDA’s projections, Revel was going to generate $650 million in state and local tax revenue and create 5,500 full-time jobs over the subsidy’s 20-year period. By spring of 2014, it was expected to have generated about $14 million in state tax revenue, of which approximately $600,000 was going to be given up via the ERG subsidy. But the casino posted operating losses of nearly $250 million in its first two full years of operation. And despite the promise of 5,500 full-time jobs, as of February Revel had only 1,762 full-time employees (it employed another 986 people part time).

With all of these facts in mind, OLS asked the EDA a multi-part question this spring: is the agency’s initial economic projection still realistic; if not, what accounts for the forecasting errors, what lessons has EDA learned as a result and does this “raise concerns about the accuracy and reliability of the EDA’s net benefit model?”

While acknowledging the “discrepancy” between the projection and reality, EDA responded that the net benefit model was “sound” and that the recession, Superstorm Sandy and increased competition from other states have hindered Revel’s economic performance.

This response leads to two more questions.

One, shouldn’t EDA have seen in 2011 that New Jersey’s recovery would be slow and that gambling competition from other states would continue to grow? In fact, one of the arguments against New Jersey stepping in to bail Revel out was that Atlantic City was already declining (it had been losing gambling revenue since 2006) and facing increased competition from New York, Delaware and Pennsylvania. And even in the more optimistic days of early 2011, just before the Revel award was approved, economic forecasters were predicting growth “so slow that the average number of jobs in the state will not surpass the 2007 peak until 2017.”
And two, if unexpected events like Sandy can drastically alter economic projections, doesn’t that raise legitimate questions about putting too much stock in the net benefit forecasts?

**Why Tax Breaks (and Tax Rates) Don't Drive Business Decisions**

Economic development officials value business tax incentives as tools needed to compete with other states,” began a recent blue-ribbon report to New York’s Tax Reform and Fairness Commission. But the reality, the report continued, tells a different story:

There is, however, no conclusive evidence from research studies conducted since the mid-1950s to show that business tax incentives have an impact on net economic gains to the states above and beyond the level that would have been attained in the absence of incentives. Nor is there conclusive evidence from the research that taxes, in general, have an impact on business location and expansion decisions.\(^{19}\)

This report is merely the latest in a long line of reports that have come to the same conclusion.

“Although common practice, subsidies are highly controversial,” a 2011 national report by Good Jobs First finds. “A large body of literature from academics, state auditors, investigative journalists and nonprofit research groups finds many recurring problems.”\(^{20}\)

Some of the most common problems may sound familiar to New Jerseyans:

- The tendency to give subsidies to companies that do not really need them, for projects and hiring that would have happened without public assistance.
- The role of site location consultants in pushing states and localities to bid against one another, especially for big projects, routinely resulting in lucrative subsidy packages of more than $100,000 per job.
- The focus on short-term job creation/retention rather than long-term economic development.
- The competitive disadvantage or tax shift imposed on non-participating companies.
- The revenue drain that can result from forgoing taxes from firms receiving subsidies. This makes it more difficult to fund vital public services like education and public safety, just as the firms’ arrival can increase the demand for those very services.

Strikingly, these kinds of subsidies are awarded “not only in the absence of evidence that they really work, but in the face of growing evidence that they do not – or at least that they are only of marginal importance to businesses’ decision as to where to locate.”\(^{21}\)
Tax breaks are a nice “icing on the cake” for businesses, but they fall short of being an effective way to entice large employers to relocate, since relative tax liability is rather low on the list of factors that influence corporate relocation decisions. State and local taxes make up less than 5 percent of the cost of doing business. In fact, robust public services in a given location – which are often cut as scarce tax dollars fly out the door in the form of subsidies – are just as significant a factor as taxes, if not more so.\(^\text{22}\)

But it’s not just academics and researchers who have concluded that subsidies are of limited importance. Some New Jersey subsidy boosters and executives have been saying the same thing.

“That’s one ingredient in making a corporate decision,” EDA chairman Al Koeppe said of tax cuts and subsidies in January, responding to Gov. Cuomo’s proposal to cut business taxes and offer new incentives. “But there is a host of other considerations, including quality of life, access to transportation, distribution, quality of the workforce. … The bottom line for corporations is a little broader than the tax incentives.”\(^\text{23}\)

Attorney Ted Zangari, who has helped shape New Jersey subsidy policy for over a decade, made a similar point last June.

“Financial incentives only move the needle when all other conditions are roughly equal,” he said. “We need an educated workforce, stable taxes, a friendly regulatory environment, and good schools.”\(^\text{24}\)

Eye-care company Bausch & Lomb said the subsidies it received were not the primary reason it chose New Jersey as the headquarters for its pharmaceuticals division. “We came for the talent and the location,” CEO Brent Saunders said in December 2012.\(^\text{25}\) The CEO of Botox maker Allergan made similar comments in September 2012 after the company decided to open an R&D center in Bridgewater, for which it received a subsidy. “The biggest driver [of the company’s relocation decision],” said David Pyott, “is the ability of the educated, trained workforce.”\(^\text{26}\)

The bottom line: New Jersey needs to take a more balanced approach to subsidies. These tax breaks need to be just a part – a small part, we suggest – of the state’s job-creation and economic-development strategy.

It is crucial that New Jersey’s leaders take the long view on job creation and invest in the kinds of opportunities – high-quality K-12 education, higher education that is accessible to all, public-private partnerships centered on research institutions, as well as clean, safe communities and affordable, efficient transportation systems – that will continue to make New Jersey a magnet for research and enterprise, and an attractive place to locate a business.

**Recommendations**
To help control the subsidy surge, there are a number of actions New Jersey policymakers could – and should – take:

**Place Caps on Spending.** Returning overall spending caps to all of New Jersey’s subsidy programs would be a great victory for accountability and would increase the legislature’s key role in oversight. Caps prevent subsidy programs from growing beyond a predetermined size without attracting the attention of lawmakers – a real threat in a state like New Jersey, where the legislature writes the law governing the programs but then hands it off to an autonomous agency to award and manage the grants.

New Jersey should not only place an overall cap on subsidy programs, as it has done in the past; it should also break that larger number down to create an annual cap. This helps prevent the program from hitting the initial cap earlier than expected and having it simply increased by legislators before the program expires (as happened with the Urban Transit Hub program).

A cap would also force the state to be more selective in approving subsidy applications and, in essence, make the process more competitive; as it stands now, if a company meets the minimum requirements, the state has no compelling reason to reject the application, since there is no limit on the amount it can award.

**Require More Information:** New Jersey has improved the information it provides to the public about state subsidies over the past few years, including producing annual reports on tax breaks and other tax expenditures since 2010, but a huge hole remains. The state also needs to honor a mandate to create a Unified Economic Development Budget, which is designed to provide more detailed information from all corporations receiving at least $100,000 in state subsidies, including how many jobs have been created, how much they pay, whether those jobs are full- or part-time and whether they include health coverage. The state Treasury Department has never produced this report, despite being required to do so by legislation passed in 2007.

After claiming for several years that it was in the works and would be forthcoming, Treasury changed course this year and told the Office of Legislative Services that the report would require information that the state can’t share due to “agreements with the Internal Revenue Service respecting the safeguarding and sharing of confidential taxpayer information.”

If Treasury is correct, the legislature should work with the department to amend the 2007 law so a Unified Economic Development Budget can become a reality. If Treasury is incorrect, it should stop stalling and start issuing these reports annually.

**Include Automatic Sunset Provisions:** The Economic Opportunity Act rightly includes an automatic sunset – or expiration – for Grow New Jersey and ERG. This is important because it forces policymakers to reconsider the tax breaks to see if they are meeting their goals, rather than allowing the subsidies to continue without further examination. When considering future subsidy
programs, the legislature should be sure to include this provision. Or, better yet, the state could adopt umbrella legislation that would place an automatic sunset on all subsidy programs.

**Eliminate Subsidies for Existing Jobs or At Least Develop More Stringent Standards for Them:** The practice of rewarding companies that threaten to leave New Jersey is problematic, as is the state’s increasing use of this “strategy.” New Jersey should take a page from its neighbor across the Hudson River, which has recently signaled it will limit the use of tax subsidies to keep companies that are threatening to flee.  

But if New Jersey policymakers aren’t willing to take this common-sense step, they should at least develop more stringent standards that would limit subsidies for jobs supposedly at risk of being moved to another state.

One of the positives of 2013’s subsidy overhaul was that it took a first step in this direction by finally treating retained jobs differently than new jobs. First, these jobs are now only eligible for 50 percent of the gross amount of tax credits that a new job at the same facility would be. Second, the number of jobs that must be retained for a company to be eligible for a subsidy is higher than the number of new jobs required at a firm that is relocating. For example, a company moving here from Connecticut must bring only 10 new jobs to qualify for a subsidy, while a company already here would have to keep 25 existing jobs to be eligible for the same award. (There are, however, loopholes that effectively eliminate any difference between new and existing jobs in certain situations.)

Policymakers should build on that progress by placing a cap on the percentage of subsidy dollars that can go to existing jobs. Ideally, this cap would reflect the minimal economic growth created by retaining jobs, as well as the obvious fact that not all threats to leave the state are real; we suggest 10 percent as a good place to start.

**Revise the Net Benefits Test:** New Jersey should take steps to ensure that it uses a realistic calculation of a project’s net benefits to the state. Preferably, it would reduce the number of years for which it projects the benefits of a subsidized project, since the 20-plus year horizon it uses now is inherently uncertain and risky, especially given that companies receiving Grow New Jersey subsidies only have to agree to hold up their end of the bargain for 15 years. Alternately, it could require companies receiving subsidies to commit to staying in the state for a longer period of time so they can’t “take the money and run.”

**Work with New Jersey’s Neighbors:** Instead of operating in a vacuum that ends at New Jersey’s borders, policymakers and leaders should develop a mutually beneficial subsidy policy with our neighboring states rather than competing with them to move jobs back and forth. Doing so could allow the entire region to move forward with an economic-development strategy that would benefit all partners, rather than benefiting one state at the expense of another and doing nothing for the region as a whole.
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Appendix A: Definitions, Notes on Methodology and Program Totals

In this report, NJPP defines subsidies as the five incentive programs authorized in current and previously enacted statutes managed by the New Jersey Economic Development Authority (EDA): the Business Employment Incentive Program (BEIP), the Business Retention and Relocation Grant program (BRRAG), the Economic Redevelopment and Growth program (ERG), the Grow New Jersey assistance program and the Urban Transit Hub tax credit program.

All five programs involve(d) what’s essentially a trade between the state and a business or developer: a reduction in future tax liability in return for some agreed-to level of capital investment and/or job creation/retention. In short, the subsidies are tied to performance: without meeting the statutory goals governing the subsidies, the full tax credit is not granted by the state.

Our analysis uses subsidy award amounts and approved dates rather than subsidy disbursements, because of the lag time, usually of several years, between award of the subsidy and initial disbursement of the tax benefit. The best way, therefore, to gauge the current priorities of state policymakers is by their current actions and by the amounts of the subsidies approved under their watch. When earlier subsidy awards have been revised, NJPP uses the most recent amount provided in the EDA’s public reports.

Our analysis uses primary data from EDA reports, and is current as of June 1, 2014.

The Programs

The Business Employment Incentive Program

New Jersey awarded grants under the Business Employment Incentive Program (BEIP) from 1996 to 2013. The program diverted 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. “New” employees included jobs previously in place in other states that are transferred to New Jersey. The total subsidy was capped at $50,000 per worker. BEIP was phased out as part of 2013’s Economic Opportunity Act (EOA).

New Jersey awarded $1.6 billion in BEIP grants to 498 projects, though it is likely that the total amount disbursed will climb higher than the amount awarded. That’s because while $1.5 billion in BEIP grants have been paid out thus far, only four of the 108 projects receiving $230 million in BEIP grants this decade have received any disbursements to date.

The Business Retention and Relocation Assistance Grant program

The Business Retention and Relocation Assistance Grant (BRRAG) program was enacted in 2004 as a revision of an earlier business retention program. It authorized an annual corporate income tax credit of $3,000 per employee to businesses considering expansion or threatening to
leave the state. The program, which was by far the smallest of the five, was phased out at the end of 2013 as a result of the EOA.

Under the BRRAG program, New Jersey awarded $124 million to 82 projects.

The Economic Redevelopment and Growth program

Unlike BEIP and BRRAG, the Economic Redevelopment and Growth grant (ERG) is not directly dependent on job creation or retention. Instead, ERG is intended to encourage development or redevelopment; as a result, many of its recipients are hotels, shopping malls and similar projects. ERG’s bottom line is to encourage redevelopment in areas where traditional financing might not be feasible.

ERG grants are a form of “tax increment financing” given to developers for up to 85 percent of the annual increase in state and/or local tax revenues generated by a project in a qualifying area (much of the state is now classified as a “qualifying area”). The total subsidy award can cover up to 40 percent of a project’s cost in certain situations. ERG can be applied to increases on 19 different taxes for as long as 20 years, and now also includes an exemption from increased local property assessments in certain cities for as many as 10 years.

ERG is one of two subsidy programs surviving under the EOA. There is a cap of $600 million on residential ERG projects but no cap on commercial projects. Residential ERG applications must be submitted by June 30, 2015; commercial ERG grants will be awarded until the program expires on July 1, 2019.

To date, New Jersey has approved $1.2 billion for 30 ERG projects.

The Grow New Jersey assistance program

Grow New Jersey is New Jersey’s newest subsidy program, enacted in January 2012. Initially, Grow New Jersey grants were taken from the same pot of money the legislature allocated to the Urban Transit Hub program, and it was largely seen as a way to level the playing field between suburban and urban projects.

What started as a modest jobs subsidy program with total per-company awards capped at $40 million has become a huge program with a ceiling of $350 million per company.

Grow New Jersey allows companies to reduce their Corporation Business Tax liability for a period of up to 10 years for bringing new jobs to New Jersey or keeping “at-risk” jobs in the state. Award levels are now determined by a formula that depends on the location, the industry and the types of jobs involved. Several “bonuses” also exist to sweeten the pot. (For a detailed breakdown of the tiers and eligibility requirements, see the EDA’s website at http://bit.ly/edagrownj)
Grow New Jersey is the state’s only remaining jobs-related subsidy program after 2013’s overhaul, and there is no cap on the total amount that can be awarded through its expiration on July 1, 2019.

To date, New Jersey has awarded $1.2 billion in Grow New Jersey credits to 50 businesses.

*The Urban Transit Hub tax credit program*

The Urban Transit Hub program, which was signed into law in 2008, was intended to spur investment in New Jersey’s urban areas near transit hubs. The program, like ERG, was not explicitly tied to job creation. Instead, Hub credits were based on the amount of capital investment in approved projects. The program was phased out under the EOA.

New Jersey approved $1.3 billion in tax credits to 27 projects under the Urban Transit Hub program.
Appendix B: The Geography of New Jersey’s Subsidy Awards
New Jersey’s Surge in Business Tax Subsidies Reaches New Heights

Which Counties Have Been Awarded the Most & Least Subsidy Money?

Hudson County has received 31 percent of the state subsidy awards, coming in far ahead of any other county at $1.03 billion. The next four highest counties are Essex ($864 million), Bergen ($586 million), Middlesex ($555 million) and Somerset ($351 million).

The only county to receive no money is Cape May. The next four lowest counties are Warren ($1 million), Sussex ($1 million), Ocean and Hunterdon ($7 million each).

### KEY
- **$500M+**
- **$250M-$500M**
- **$100M-$250M**
- **$<100M**

### Table: Counties Awarded

<table>
<thead>
<tr>
<th>County</th>
<th>Total Awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlantic</td>
<td>$303M</td>
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<tr>
<td>Bergen</td>
<td>$586M</td>
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<tr>
<td>Burlington</td>
<td>$242M</td>
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<tr>
<td>Camden</td>
<td>$109M</td>
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<tr>
<td>Cape May</td>
<td>$0</td>
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<tr>
<td>Cumberland</td>
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<tr>
<td>Essex</td>
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<td>Hunterdon</td>
<td>$7M</td>
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<tr>
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<tr>
<td>Union</td>
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</tr>
<tr>
<td>Warren</td>
<td>$1M</td>
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</table>

Source: NJPP analysis of New Jersey Economic Development Authority data

Notes: When multiple locations were included in one award, the approved amount was evenly divided between locations. Several BRRAG awards still list TBD as location and were not included here.

Endnotes
New Jersey had 191,736 companies in 2011, the most recent year for which data is available from the U.S. Census Bureau’s Statistics of U.S. Businesses (http://www.census.gov/econ/susb/)


New Jersey Office of Legislative Services, Legislative Fiscal Estimate of A-3680, October 2013, http://www.njleg.state.nj.us/2012/Bills/A4000/3680_E2.PDF

Ibid 8


Ibid 8


Ibid 7


Ibid 8

Ibid 8

Ibid 8


Ibid 7


New Jersey’s Surge in Business Tax Subsidies Reaches New Heights


