FACT SHEET
New Jersey’s Subsidy Overhaul: One Step Forward, Five Steps Back

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When legislation overhauling New Jersey’s business subsidies was unveiled, New Jersey Policy Perspective called it “three steps forward, two steps back” – in other words, it made some needed improvements but included some provisions that stepped away from reform. At the time, the positives slightly outweighed the negatives. Now, after months of negotiations and amendments, the equation has changed dramatically: It’s more like “one step forward, five steps back.”

Under the overhaul, the five subsidy programs administered by the state Economic Development Authority (EDA) – which are designed to reward companies that meet certain obligations to “create” or “retain” jobs – will be consolidated into two. Remaining will be Grow New Jersey, focusing on job-related subsidies, and the Economic Growth and Redevelopment (ERG) program, involved more with redevelopment in certain areas of the state.

This analysis focuses on Grow New Jersey, since the rationale behind the state’s recent surge in subsidy awards has been to stoke New Jersey’s economic recovery and create good jobs. The overhaul bill will alter the landscape of the state’s subsidy policy, but it won’t do anything to make sure subsidies are given only where needed and that their effectiveness is regularly evaluated.

By approving this subsidy overhaul legislation, lawmakers will ensure that New Jersey will continue to be stuck in the same policy ditch – revving the engine, as these changes propose doing, won’t change that. The state will continue overemphasizing the use of subsidies for economic development, when research and real-life evidence shows subsidies are low on the list of reasons driving company location decisions. At the same time, those subsidies will create a major drain on state revenue, harming New Jersey’s ability to invest in the reasons higher up on that same list: good schools, safe communities, reliable and efficient infrastructure and a well-trained, highly-educated workforce.
What’s Bad About the Overhaul?

No Spending Cap

Deviating from current policy and from best practices, there is no limit to the amount of money EDA can award under Grow New Jersey, nor is there a cap on the annual amount of state revenues that these subsidy awards – which come in the form of tax credits to companies – will be allowed to drain from the state’s coffers. This is like flying blind: New Jersey lawmakers are authorizing subsidies while having no idea what the cost to the state will be. This is questionable policy and differs from the way the state handles funding for other programs.

Excessive Maximum Dollar Value of Deals

New Jersey’s trend in recent years towards controversial high-dollar subsidy awards is likely to continue under the revised Grow program. While the base maximum dollar value of a subsidy is relatively low in the context of these programs ($25 million), the abundance of bonuses, loopholes and special geographical target areas means that a company can receive up to $350 million over 10 years. That’s richer than any deal New Jersey has ever awarded (the Revel casino holds the current high of $261 million), and nearly nine times higher than the current maximum award under Grow ($40 million).

Volume Likely to Remain at Record Levels

As NJPP detailed in an April analysis, New Jersey’s subsidy activity has accelerated sharply in the past few years, with awards of $2.11 billion from the start of the decade through January 2013. That’s an average of $57.1 million per month – compared to $10.4 million per month over the previous decade. Even though the overhaul eliminates three of the five subsidy programs, the volume of subsidies awarded by New Jersey will likely remain at record levels. The Office of Legislative Services (OLS) estimates that the state will continue awarding over $1 billion in subsidies a year – and says it could be even more without a spending cap.

Loopholes Litter the Landscape

The number of loopholes in this bill has proliferated over the months that it has been negotiated and debated by lawmakers. As with any other kind of “reform,” the presence of numerous loopholes only serves to weaken any positive impact.

In this case, several key loopholes will enable companies receiving subsidies to eschew common-sense requirements on job quality. For the most part, New Jersey’s subsidy programs have tried to focus on high-quality jobs: There have been longstanding requirements that jobs eligible for subsidies be full-time, with health benefits, and there has also long been a policy that low-paid retail jobs are not eligible for state tax money. The overhaul bill creates loopholes to get around these requirements in specific situations, creating an uneven playing ground among subsidy-seeking companies and a state policy that rewards the creation of low-quality jobs.
Specifically, the bill makes exceptions to the ban on giving subsidies to retail facilities if they are 150,000 square feet or larger, at least half-filled with a full-service supermarket or grocery store and located in one of New Jersey’s four poorest cities (dubbed “Garden State Growth Zones” in the legislation). The retail ban is also waived if a project is “a tourism destination project” in the Atlantic City Tourism District.

The legislation also exempts these particular retail businesses from the prevailing standard of full-time employee. A full-time employee is defined in the bill as someone who works at least 35 hours a week and is offered health benefits by the company. But these retail projects don’t have to abide by this definition at all. Instead, the state will “accept a standard of service generally accepted by custom or practice as full-time employment in a supermarket, grocery store, or other like retail industry.” In other words, an industry gets to define the terms of regulation governing it. It’s worth noting that this is also an industry that often does not provide full-time employment or health benefits, particularly at mega-retail outlets that include grocery stores, like Walmart or Target.

In addition, another broad exception – on job and capital investment requirements – was inserted for companies locating anywhere in South Jersey’s eight counties. Companies locating in those counties can create or retain 25 percent fewer jobs than usually required and still receive a subsidy; in terms of capital investment, they are allowed to invest 33 percent less than usually required and still receive a subsidy.

**What’s Good About the Overhaul?**

*Job Shifting Becomes (Somewhat) Less Lucrative*

Under current EDA programs that allow companies to receive tax credits for retaining “at-risk” jobs, the grant formulas do not incorporate any difference between jobs that are new (at least to New Jersey) and jobs that stay here. In other words, a company can get just as much money for claiming it will ship 400 jobs to Pennsylvania and then not doing so as it would receive for actually bringing 400 Pennsylvania jobs to New Jersey. This has led to a large number of large subsidy deals given to companies who are simply moving their offices down the road or to the next town over (Prudential, Panasonic, Goya and Burlington Coat Factory are all prime examples).

Under the proposed overhaul, at-risk jobs will finally be treated differently than new jobs in two key ways. First, these jobs will only be eligible for 50 percent of the gross amount of tax credits that a new job at the same facility would be. Second, the threshold of jobs retained in order for a company to be eligible for a subsidy is higher than it is for new jobs. For example, the base job-creation threshold for companies would be 35 new jobs, but 50 retained jobs.

These are positive developments, but the legislation also includes key loopholes that would allow at-risk jobs to maintain equal footing with new positions. One exemption is for jobs at any U.S.
headquarters of an automobile manufacturer located in specific target areas (though not mentioned by name, this loophole seems to be a specific concession to Subaru, which is threatening to move its Cherry Hill headquarters to Pennsylvania), and the other is for jobs moved to a new location from a facility damaged by a federally declared disaster like Superstorm Sandy. While there is no question that the state should help businesses damaged by the storm, inserting an exemption that weakens a positive change to a job-subsidy program is not the way to do it.

More Sensible Targeting of Specific Industries

Under the current Grow New Jersey program, a company has to create or retain at least 100 jobs to be eligible for any kind of subsidy. As such, many of the grants have gone to large multinational corporations like Honeywell, Lockheed Martin and Burlington Coat Factory. In an effort to allow smaller businesses in potential growth industries to take part, the revised Grow program would lower job obligations to as low as 10 new (or 25 retained) jobs for a series of targeted industries (the lowest tier is for technology startups and manufacturing companies).

“Sunset” Provision and Call to Assess

While there is no financial cap on the subsidies in this overhaul, one key measure included in the bill would at least ensure that New Jersey’s policymakers must evaluate their decisions. The legislation includes provisions under which both remaining subsidy programs would automatically expire; companies will only be able to apply for subsidies through July 1, 2019 (though since awards are usually 10 years in duration, actual grant awards will continue to be dispersed until nearly 2030). It couples that with a call for an independent review of the programs’ efficacy, due by July 1, 2018. Under the review, the EDA would be in charge of retaining “a premier, not-for-profit, non-partisan entity” to review the subsidy programs, with a particular eye towards “a cost-benefit analysis,” whether or not the programs have met their stated goals and recommendations to improve “the operation and effectiveness” of the programs.

The sunset provision and the call for review are useful, but why wait nearly five years from now to undertake an independent review of the state’s subsidy programs? It would make more sense to conduct such a review before passing a major piece of legislation that changes and expands them.

Prevailing Wage

While New Jersey’s subsidy programs, as mentioned above, have focused mostly on well-paid full-time jobs for employers receiving state money, there weren’t often strong standards for other jobs created in the process – from construction to maintenance. The overhaul bill would change that, with two simple requirements: That construction and building maintenance workers on projects fueled in part by subsidies be paid no less than the prevailing wage rates.