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Corporate Subsidy Overhaul Taking New Jersey Further Down a Dangerous Path

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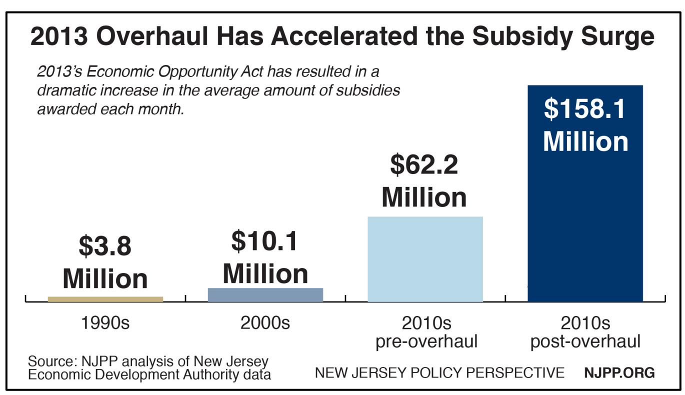
Because of legislative changes made in 2013, New Jersey's surge in corporate tax subsidies has risen to unprecedented levels, further cramping New Jersey's ability to invest in schools, transportation and other areas known to be greater drivers of job creation.

This policy shift comes at an enormous cost to Garden State taxpayers. This despite two important facts: tax levels play a minor part in business location decisions, and tax breaks – unlike investments in such public assets as schools, transportation and higher education – are not proven to grow a state's economy.

It's no mystery why that's the case, considering that state and local taxes make up less than 5 percent of the cost of doing business. In other words, while most companies will gladly take a tax break, few will move to a location *solely because of it.* 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, according to surveys of executives.

And New Jersey is not only neglecting these key assets *right now* in favor of ineffective tax breaks. It is also making it harder to maintain and improve those assets *moving forward,* creating a damaging cycle of disinvestment that puts the state's future at risk. Each dollar of subsidy New Jersey approves is a dollar it stands to lose in the coming years, making it even harder to restore key investments in the very things that corporations put at the top of the list when deciding where to locate their business.

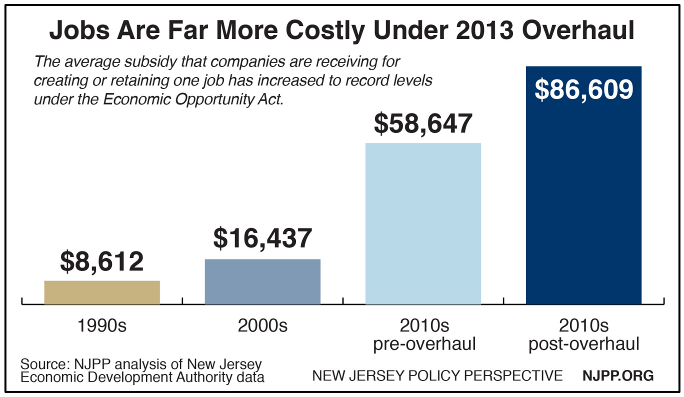
This month marks the two-year anniversary of Gov. Christie's signing into law the "Economic Opportunity Act of 2013," which upped the ante on New Jersey's business tax subsidy programs, dramatically expanding their reach, making them more generous to corporations and removing many key financial safeguards, including most limits on how much the state can spend on subsidies.



In the 22 months since the state Economic Development Authority (EDA) – which manages these programs – began approving subsidies under the new law, the volume awarded by New Jersey has skyrocketed, exacerbating an already surging reliance on these tax breaks since 2010.

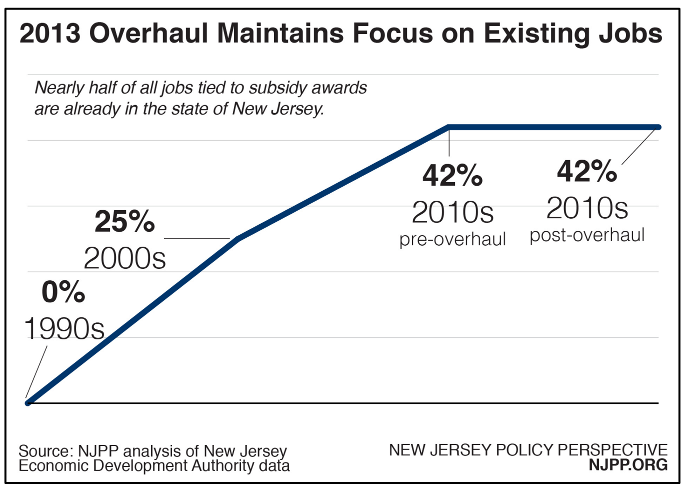
Since December 2013 New Jersey has approved \$3.5 billion in tax subsidies, bringing the total since January 2010 to \$6.5 billion. That's more than five times as much as were awarded in the entire previous decade, when the state approved \$1.2 billion.

And it's not just the overall amount of subsidies that has exploded. These tax breaks have become far more lucrative to the corporations receiving them – and far more expensive to taxpayers – with the state giving up more and more tax dollars for each job a subsidy recipient creates or retains.



So far in 2015, for example, each job is costing taxpayers \$98,930 – more than five times more than the cost of \$18,266 in 2009.

And what's worse, nearly half of these jobs are already here in New Jersey. This is because the tax breaks maintain a focus on retaining jobs that corporations threaten – often idly – to move to other states. The result is that New Jersey taxpayers are often footing the bill – sometimes in its entirety – for profitable corporations to build new headquarters down the road from their current locations.



New Jersey's policymakers need to rein in this surge in subsidies before more damage is done to the state's economy and before the bills we're passing on to future taxpayers become even larger. Restoring spending caps and fixing the broken test used to determine a project's economic impact should be a top priority for legislators concerned with the state's financial well-being.

Restoring spending caps on the total amount New Jersey can give in subsidies – not just how much a particular company can receive – would be a great victory for accountability and would increase the legislature's key role in oversight. Caps would prevent subsidy programs from growing beyond a predetermined amount without attracting the attention of lawmakers. The lack of a cap is a real threat because the legislature writes the law governing subsidies but then hands off implementation to the autonomous EDA.

New Jersey should also create an *annual* cap on the amount of subsidies that can be approved. 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 it has in the past.

A cap would also force the state to be more selective in approving subsidy applications. 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.

New Jersey policymakers also need to revise the “net benefits test” used to vet subsidy deals to have taxpayer benefits matched to the number of years a corporation is required to provide the jobs and the investment it promises. Currently, taxpayer benefits are estimated for up to 35 years, while corporations only have to uphold their end of the bargain for, at most, 15 years. Not only is it nearly impossible to project business practices 35 years into the future (think back to 1980), but corporations are currently free to “take the money and run,” leaving the taxpayer holding the bill.

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