NEW JERSEY POLICY PERSPECTIVE

Taking Care of Business: Does It Cost Too Much?
By Sarah Stecker
December 2003

**Table of Contents**



# Foreword

We gave money to the XYZ Company, and the XYZ Company hired people. Is the notion that the people were hired because of the money a case of economic principles playing out-or just pretzel logic? Is it real or is it politics? These are valid questions to ask about a largely hidden side of state spending.

It's not about whether the State of New Jersey should invest in its economy and take steps to make sure this is a place offering opportunity. It's about how. Increasingly, states have become enthralled by providing incentives in various and expanding forms to businesses that agree to move there or, if already there, to remain. These business incentives are given 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.

Maybe the best way to build an economic climate hospitable to business and job-creation is the old-fashioned way: fully investing in areas like schools, colleges, job training, transportation infrastructure and environmental protection. Such spending has a proven record of success. But it is hard to measure. So, elected officials find it useful to point to specific programs as a way to tally how many people have been hired during their term. But if "job creation" is a way to tout the accomplishments of an officeholder by using statistics that are hard to refute (the jobs were created; it just isn't clear how much incentives really mattered), then there is a need to change this climate.

As matters stand, reforms in the practices that this report details are unlikely to occur. When it comes to offering bounties for businesses, no state will unilaterally disarm. Nor will sound economics win out when, even though they are defended on economic grounds, the proliferation of business incentives is essentially a political matter. Excellent work is being conducted around the country to help bring the necessary climactic change. We hope this report will help spur discussion and action in New Jersey as well. Our citizens need the tools to get involved in deciding how a growing share of their taxes is be spent.

People can make a difference. According to a recent study in Minnesota, which passed the nation's first economic development accountability law in 1995, more accountability in business incentive policies has led to heightened civic engagement and, not surprisingly, higher standards.[1]

There is strong reason to believe that the Business Employment Incentive Program discussed in this report, as well as other incentives, may not be the wisest use of tax dollars. But to recommend termination of such programs based on current knowledge of their cost effectiveness or how efficiently they allocate resources would be as unsound from a policy standpoint as calling for their continuation or expansion. Not enough is known, and that is the point. It is in the interest of policy makers and taxpayers alike to find out whether the money now given to businesses through various incentives and tax breaks could better help the economy in the long run if spent in other ways. The recommendations in this report are aimed at provoking debate that addresses these important issues.

We do not call upon New Jersey to be heroic; much of what is recommended on these pages reflects policy already enacted in other states. The strongest supporters of current policy should want these measures as much as the biggest skeptics. Indeed, if tax dollars are the lure they are touted to be, no one loses by shining a spotlight on the process-disclosing, monitoring, auditing and evaluating who gets what, and what the state gets in return. And if they are not, we need to know that too. The large and growing state investment in incentives for businesses is too important to be taken on faith.

NJPP thanks Policy Analyst Sarah Stecker for the thorough work that went into Taking Care of Business. Senior Policy Analyst Mary E. Forsberg's assistance was indispensable and Jeanne Weber provided valuable help in digging up data and documents. Input from Greg LeRoy, Executive Director of Washington-based Good Jobs First, as well as from researchers in several states, helped us to develop a context for this issue outside New Jersey. New Jersey Future helped in evaluating the BEIP program in terms of land-use policies. We appreciate the time taken by Caren Franzini, Rose Smith and Dominick DeMarco of the New Jersey Economic Development Authority to explain the workings of BEIP.

We deeply appreciate a grant from The Stern Family Fund that made this report possible.

- Jon Shure

# Executive Summary

**BACKGROUND**

Today, more than 40 states offer businesses some form of incentives aimed at influencing their decisions to move there or stay there. In New Jersey, one of those is the Business Employment Incentive Program (BEIP).

Created in 1996, BEIP gives cash grants to businesses that hire a certain number of people. To get the money, the state takes from the treasury and gives to the company an amount equal to between 10 and 80 percent of the amount that the company withheld for New Jersey Gross Income Tax from those new employees. More than $60 million has been paid out so far but nearly $770 million would be paid out over 10 years if all the companies in the program hire all the people they anticipate hiring.

Fifty-two percent of BEIP grants have gone to firms that are already in New Jersey and planning to expand. Although BEIP grants have gone to firms relocating from 21 states and four countries, 84 percent of the out-of-state BEIP recipients are from New York, Connecticut, Pennsylvania and Delaware, with the vast majority coming from New York.

The five largest BEIP grant payouts have been to: Goldman Sachs & Co.; Lord Abbett & Co.; Hoechst Marion Roussel, Inc. (now Aventis); Pharmacia (now Pfizer); and KPMG Peat Marwick.

After first eliminating funding for BEIP in his proposed Fiscal Year 2004 budget, Gov. James E. McGreevey signed a law in September 2003 that revived the program and made significant changes.

The new BEIP targets certain desirable areas of the state for growth and requires businesses to provide health insurance for new employees. While BEIP previously required some companies to hire as many as 75 people to get a grant, now no company has to hire more than 25 and some can hire as few as 10. Previously, the state was required to pay for BEIP grants through an annual appropriation in the state budget. The new law allows the Economic Development Authority to issue bonds to pay for BEIP grants and for other business assistance programs. Another significant change is that now, for the purpose of qualifying for BEIP, companies are allowed to include as new hires Pennsylvania residents who work in New Jersey and pay income taxes to Pennsylvania.

One month after the law was signed, the state Economic Development Authority board approved issuance of up to $70 million in bonds for existing BEIP grants and up to $60 million in new money for business assistance programs. It also voted to lock in the current interest rate in anticipation of borrowing to pay for BEIP grants in Fiscal Years 2005-2007.

## RECOMMENDATIONS

In evaluating BEIP, this report questions whether the mission of "creating jobs" is an end in itself and argues that such programs should be looked at against a backdrop of other considerations. Those considerations fall into such categories as fiscal prudence, corporate responsibility, social concerns, public input and accountability. The report recommends:

- BEIP should be funded from current revenue only, subject to limitations of the budget in any given year. No funds should be borrowed to pay the grants.
- No BEIP money should be paid to companies for employees who pay no New Jersey income tax.
- Companies should be allowed to receive either a BEIP grant or local property tax abatement-but not both.
- To make BEIP a stronger engine for economic redevelopment, grants should go only to businesses locating in economically distressed areas.
- BEIP grants should be available only to companies that locate in places that promote sound land use and "smart growth" principles.
- Companies receiving BEIP grants should be required to pay all workers a "living wage," or at least the amount needed for self-sufficiency.
- Job cuts that a company makes at any New Jersey location should result in a lowered BEIP grant, and if the company's job losses statewide exceed the number of people hired at a BEIP site, the grant should be terminated.
- Businesses that incorporate outside the US in order to avoid paying taxes should not qualify for BEIP grants.
- CEO pay and state Corporate Business Tax payments should be required on the BEIP application and considered in evaluating whether a company needs a BEIP grant.
- To facilitate public participation, information about upcoming Economic Development Authority meetings should be more available and detailed, including prominent display on EDA's web site.
- New Jersey should adopt a clear, consistent disclosure policy on business incentives, with information available both through a searchable database on the EDA web site and in files at EDA headquarters that members of the public can view without having to submit written requests.

- BEIP should be terminated on Jan. 1, 2005 if, before that date, the State of New Jersey has not produced a detailed study that includes evaluation of the program's effectiveness in creating jobs and its impact on state revenue.
- New Jersey should compile and publish as part of the annual state budget document, a yearly Tax Expenditure Budget that would detail how much revenue the State of New Jersey forgoes as the result of tax breaks for businesses, broken down by company to give a clear picture of state priorities.
- The state should also produce a Unified Development Budget, which would annually aggregate all forms of spending by the state on economic development, including comprehensive information about the costs and benefits of all development subsidies of the state.

## THE LARGER ISSUE

There is a larger issue with regard to BEIP and all other such programs. It is this: Does the rationale underlying these programs make sense? Supporters of BEIP say the program costs taxpayers nothing because the money being given out by the state comes from revenues that would not exist but for the program attracting businesses to New Jersey. But many economists and business people have stated that business incentives are, at most, a marginal part of the decision as to where a firm will locate.

And, while it cannot be said with certainty that every BEIP job in New Jersey exists solely because of this incentive, it can assuredly be said that every dollar doled out from the state treasury to a BEIP grantee is no longer in the treasury-to educate a child, repair a bridge, train a worker or in some other way improve New Jersey's overall quality of life and its long-range appeal to business.

In addition, business incentives also raise the issue of fairness to businesses. Such incentives may give a competitive edge to one firm over another in the same line of business. Many question whether picking winners and losers in this manner is the appropriate job of the public sector.

## CONCLUSION

Since creating BEIP in 1996, New Jersey has made significant changes to the program. Over this period, the state has conducted no evaluations of the program, including some required by the law that established BEIP. No attempts have been made to determine the degree to which BEIP really is an impetus for businesses to move to New Jersey or for New Jersey businesses to expand in the state.

Nor has New Jersey done a thorough job of integrating BEIP with other important public policy imperatives. The result is a program that gives money to businesses but for the most part is unconnected to larger concerns that affect the well-being and quality of life of New Jersey citizens.

# Introduction

With his signature on a piece of legislation, Gov. James E. McGreevey gave new life to the New Jersey Business Employment Incentive Program (BEIP), which was created in 1996 and has given more than $60 million in cash grants to companies that either relocate to New Jersey or expand their operations in the state.

At first, his proposed state budget for the 2004 Fiscal Year eliminated all funding for BEIP. But Governor McGreevey in early September 2003 signed a bill that took BEIP from being a program considered unworthy of a state appropriation to one that was reinstated, refurbished and provided with a robust new funding mechanism aimed at protecting it from further budget battles. The new BEIP measure passed by 35-2 in the State Senate and 63-15 in the Assembly.

BEIP is just one of many programs New Jersey offers to entice businesses. And New Jersey is just one of many states offering such deals. By focusing on one program in one state, this report presents a glimpse at how business incentives operate. It examines assumptions underlying BEIP and similar programs, in order to draw some conclusions aimed at stimulating debate about a large and growing-though little known or evaluated-area of state spending.

In addition to exploring how the original Business Employment Incentive Program operated and who received grants, this report explains the new changes and offers recommendations based on information learned about this program and on the experience other states have had with similar programs.

**More than 40 states offer businesses some form of tax concessions or similar incentives.**

According to a report by the Council of State Governments in 2000, more than 40 states offer businesses some form of tax concessions or similar incentives.1 These concessions and incentives have increased in recent years to where it is estimated that states and cities in the United States spend more than $50 billion a year-often with little public knowledge or internal scrutiny-on such subsidies.

Some experts date the upsurge in business incentive programs to the late 1970s and early 1980s, when traditional boosterism turned increasingly aggressive. This was prompted by a "slowdown in national economic activity and greater mobility of capital," that resulted in a "new war between the states." One of the most publicized deals during that time was New York City's awarding in 1988 of a $235 million incentive package to Chase Manhattan to prevent the financial firm from moving 5,000 jobs to New Jersey.

Today, New Jersey and other states use hard-hitting campaigns with glossy brochures, web sites, broadcast ads and catchy slogans to tout programs they argue offer a better deal to businesses than those offered in neighboring states and regions. As Gov. Christie Whitman put it at a 1997 press conference with officials from four firms getting BEIP grants: "New Jersey truly is open for business."[2]

# BEIP Basics

An initiative of the Whitman Administration in 1996, the stated aim of the Business Employment Incentive Program is to attract out-of-state businesses to New Jersey and retain those already in the state. Like other incentive programs, BEIP operates under the premise that strategies to create new jobs will strengthen a state's economy through the additional tax revenue as well as business and consumer spending that comes with employment.

As spelled out in the law that created BEIP, if the state Economic Development Authority (EDA), which runs the program, determines that a business's decision to relocate or expand will "result in a net increase in new employment at the project," if it concludes that BEIP would be a "material factor" in that decision and if the business hires a specified number of new employees, the State of New Jersey will take money out of its treasury and give it to that business in annual installments for up to 10 years.

**BEIP does not provide tax credits or loans or exotic financing arrangements. What it offers is cold cash.**

BEIP does not provide tax credits or loans or exotic financing arrangements. What it offers is cold cash: grants equal to between 10 and 80 percent of the amount that a company withholds from its employees for their New Jersey Gross Income Tax payments.

Governor Whitman signed BEIP into law after bills creating the program were passed unanimously by the state Legislature. The BEIP statute was modeled after the Ohio Job Creation Tax Credit Program, begun three years earlier. Today, many states have programs similar to BEIP-the common thread being that money withheld by the company to pay its employees' state income tax goes to the company in some form, instead of into the state treasury.

BEIP's first grant to a business was approved in July 1996. As of August 2003, 278 companies had been offered 311 BEIP grants (a company can be eligible for multiple grants if the firm forecasts it will create new jobs at more than one project) and the state had diverted $60.4 million from the treasury to give to BEIP grantee firms. These companies, according to EDA statistics, hired 50,122 people.

All told, companies that have received BEIP money, or stand to receive it in the future based on agreements signed with EDA, have said they plan to create 68,197 jobs. If companies hired all those people, the state would be paying more than $768 million, an average of more than $2.7 million per company. The eventual payout is so large because BEIP money is given to companies for a number of years. In fact, about 90 percent of BEIP agreements between businesses and the state are for a 10-year period.

According to EDA records, more BEIP grants-52 percent-are for companies already in New Jersey and planning to expand than for those making a move into the state. Among non-New Jersey businesses, BEIP grants have gone to firms relocating from 21 states and four countries. New Jersey's closest neighbors-New York, Connecticut, Pennsylvania and Delaware-make up 84 percent of out-of-state BEIP recipients, with the vast majority coming from New York (70 percent of all out-of-state grants; Pennsylvania is next with 12 percent).

The five largest payments of BEIP grants have been:

- $8.97 million, Goldman Sachs & Co.
- $5.75 million, Lord Abbett & Co.
- $4.95 million, Hoechst Marion Roussel, Inc./Aventis
- $4.89 million, Pharmacia/Pfizer
- $3.58 million, KPMG Peat Marwick

Looking to the future and based on the numbers of people that companies said in their applications they anticipate hiring-as opposed to those hired to date-the top five would be:

- $173 million, Goldman Sachs
- $37.5 million, Merrill Lynch & Co.
- $30 million, Pharmacia/Pfizer
- $28.2 million, Paine Webber Group, Inc. & Affiliates
- $24.6 million, Hoechst Marion Roussel, Inc./Aventis

In terms of the number of BEIP grant agreements a company has signed, Goldman Sachs leads with five. Morgan Stanley & Co. has signed four.

The New Jersey Economic Development Authority has primary responsibility for administering BEIP. The Commerce and Economic Growth Commission (successor to the state Department of Commerce and Economic Development) and the Division of Taxation in the Department of the Treasury also play significant roles-the first in marketing the program, the other in verifying information provided by individual companies.

Only new, full-time positions in the state or transferred from another state to New Jersey can be counted toward determining a company's eligibility for BEIP and the eventual amount of money it can receive. The regulations also allow counting the jobs of workers rehired or called back from a bona fide layoff during the years of the grant to be eligible.

In 1998, BEIP was expanded to include owners of partnerships and limited liability companies as well as regular employees of such companies. This has the effect of raising the potential size of BEIP awards to certain companies. For example, Lord Abbett & Co., a private money management company, was awarded a BEIP grant for a relocation that brought jobs with an anticipated average annual salary of $228,000 per employee, including partners.[3] The state awarded Lord Abbett 80 percent of regular employee withholding and 50 percent of partners' estimated taxes. At those rates, the company would receive from the state treasury $15.5 million over 10 years if it hires the number of employees specified in the grant agreement.

In contrast, Ball Plastic Container Corp. projected that its BEIP jobs would come with an average annual salary of $28,000. If it hires the specified number of people over 10 years, Ball would get $315,560.

**The number of people that a company says in its BEIP application that it anticipates hiring often**

**bears no resemblance to what actually happens.**

When BEIP was created, a company had to hire at least 75 people to qualify for a grant, unless it located in an economically disadvantaged municipality-in which case only 25 people had to be hired. There were more than 50 municipalities in 16 counties so designated, based on such criteria as the number of school-age children receiving Temporary Assistance for Needy Families (welfare), availability of public housing and property values lower than the state average.[4] As of the summer of 2003, 37 percent of BEIP grants had gone to companies locating in these distressed areas.

A company need not hire all the people specified in the grant agreement before it can receive money from the state. It need only hire the minimum number required for eligibility. In fact, the number of people that a company says in its BEIP application that it anticipates hiring often bears no resemblance to what actually happens. Of companies approved for BEIP grants in the program's first three years, at least 53 percent have not yet reached the job numbers listed in their applications.

The percentage might be even higher because companies that have been disqualified from BEIP for failing to meet the minimum eligibility numbers within two years are no longer listed by EDA as grantees. In contrast, Minnesota's annual report on state and local business subsidies includes the percentage of businesses that do not reach their job and wage goals after two years.

In deciding the amount and term of a BEIP grant, EDA is required by law to give priority to full-time jobs that pay on average at least 1.5 times the state's $5.15 per hour minimum wage, which amounts to $7.73 per hour. Jobs at retail facilities and financial, stock and commodities exchanges are not eligible for BEIP grants. Also ineligible for BEIP grants are jobs held by family members of owners who have at least a 15 percent stake in the profits of the company. The family members excluded are children, grandchildren, parents and spouses.

## Getting a BEIP Grant

The Commerce and Economic Growth Commission is the marketing agent for BEIP, publicizing the program to companies as part of its efforts to promote all of the state's business incentives. Once a company shows an interest in BEIP, the EDA takes over.

Each business that wants to be considered for the program pays a $500 fee and submits a BEIP application that goes through several layers of EDA staff review. If EDA staff makes a positive determination, the application is voted on at a public meeting of the board of the Economic Development Authority. The board has seven public members and four alternates appointed by the Governor, as well as five cabinet-level officials who serve by virtue of their positions and one non-voting member who represents the Camden Economic Recovery Board. A BEIP grant, like any other action by EDA, can be overturned by the Governor's veto of Authority meeting minutes.

The BEIP application includes such information as:

- Time schedule for hiring new employees
- Types of jobs
- Number of jobs broken down by the salary ranges of under $18,000; $18,001-30,000; $30,001-50,000; $50,000-plus
- How the BEIP project will affect any other company-owned New Jersey facilities
- All state or local financial subsidies a company is getting for expansion, relocation or new business
- Other states competing against New Jersey for the proposed new business activity and documentation of their offers
- A statement of the role the BEIP grant will play in the company's decision to expand or locate in New Jersey

Additionally, the application asks about a company's labor record, including whether it has violated minimum wage standards or laws banning discrimination or harassment in the workplace, and it asks if companies have broken any environmental laws that resulted in paying fines exceeding $1 million -though having done any of these things is not necessarily grounds for being refused a grant.

The application specifies that information provided by companies is subject to public disclosure. But, much of the information is obtainable by the public only through filing a state Open Public Records Act (OPRA) request. This filing involves completing an OPRA form and submitting it to EDA along with fees to cover labor, copying, supplies, delivery and any extra services required by the request. An OPRA request submitted to EDA for this report yielded application information in a timely fashion, but did not include information documenting competing offers from other states, nor did it include information on legal actions facing the company. It should be noted that, based on the $14 fee for filing this OPRA request, getting similar information for every current BEIP project would cost more than $4,000.

After reviewing a company's financial statements, EDA determines the recommended dollar amount and length of the grant by ranking a company according to such factors as the number of workers to be hired and their average wages, the type of industry, extent of private investment in the project and location of the business.[5]

When all these steps have been followed, a commitment letter is issued to the business, which it must return in 30 days or face possible rescission of the grant. Next, EDA sends a grant agreement, which must be returned in 60 days. BEIP companies submit yearly reports to EDA on the number of workers hired, with the first BEIP payment coming in the calendar year after the minimum number of employees are hired and the state has certified receipt of income tax being withheld from those employees. The report to EDA must include a business's state and federal tax returns and such payroll records as the tax withholdings for each worker.

EDA sends these reports to the Division of Taxation to be compared with state tax records. Once the State Treasurer certifies the withholdings, the actual amount of a company's annual grant is calculated by multiplying the state income tax withheld from employees under the BEIP grant by the grant award percentage. The EDA also calculates a 1.5 percent annual fee of no less than $500 or more than $10,000.

Under law, a BEIP grant can be awarded only if it is a "material factor" in a company's decision to move to New Jersey or expand in the state. A BEIP application is rejected outright if a company already has purchased land or a building-on grounds that the company cannot show that the grant would be a material factor in its decision to move to or expand in New Jersey.

EDA determination of whether a BEIP grant would be a material factor can also be made on a case-by-case basis. One example is that of a company whose BEIP grant would have represented such a small percentage of the company's annual revenue that EDA decided the grant could not be a major influence on the company's locational decision.

It is not possible to discern what percentage of BEIP applications are rejected on grounds that the company already decided to make the move or because the likely grant would have been too small for the company to contend it would be a material factor in the decision. EDA says it does not track this information.

Even if a company hires more than the minimum number of employees needed to qualify for BEIP, its grant could be reduced below the agreed upon percentage of employee withholding if the company does not hire as many people as projected in the application. But there is no hard and fast rule for whether to reduce the grant in such situations or by how much. Temporary obstacles to filling positions would be less likely to result in a grant reduction than would a long-term change in business plans.

If a business fails to maintain employment at the level indicated in its BEIP agreement or otherwise fails to comply with the agreement for any two consecutive years, EDA can terminate the agreement. EDA has the power to audit a BEIP company's payroll records during the term of the grant. Additionally, the law allows the state "clawback" rights under which it can take back BEIP money if a company does not abide by the terms of the agreement or other state laws-or if it leaves the state short of a time period equaling 1.5 times the term of the grant (15 years for a company with a 10-year grant).

Other circumstances under which EDA can withhold, reduce or terminate payment of all or part of a BEIP grant include submission of false or misleading information or failure to submit relevant information, insolvency, bankruptcy or other conditions affecting the financial integrity of the business. Minnesota takes recapture of business subsidies a step further than New Jersey's BEIP rules. That state requires businesses that fail to meet subsidy agreement goals for jobs and wages to pay back the subsidy plus interest to the state or local agency that gave the incentive. And Illinois's newly enacted subsidy disclosure law requires annual reporting of the number of defaults and recaptures.

# Meet The New BEIP

**One of the biggest differences between the "old" and "new" BEIP involves the funding mechanism.**

Governor McGreevey's Fiscal Year 2004 budget, released in February 2003, eliminated funding for BEIP. But after announcing the program's suspension because the state budget crisis was putting pressure on revenues, McGreevey in June of 2003 responded to severe criticism from business groups by instead proposing to keep the program-with significant changes in funding, eligibility criteria and other aspects.

Some of the changes in the new BEIP law were recommended by the Business Incentives Study Commission that the Governor created to suggest ways to improve BEIP and assure the necessary funding.[6]

» One of the biggest differences between the "old" and "new" BEIP involves the funding mechanism. From its inception until this year, money given out to companies in BEIP grants came from annual appropriations in the state budget. But the new law gives the state an additional way to fund the grants: by borrowing. EDA can issue bonds to pay for BEIP grants if no appropriation is authorized in the state budget.

Not only can bonds be used to pay BEIP grants, but now EDA also can borrow to pay for other business assistance programs for targeted industries-biotechnology, pharmaceuticals, financial services, high tech, transportation and logistics. The principal and interest owed on the bonds will be repaid from the state's general fund. In the latter category, the state can borrow money equal to the amount of income tax withheld for an employee and not used for the actual BEIP grant. In other words, if a company gets a grant equal to 80 percent of the tax withheld, the state can issue bonds in an amount equal to the other 20 percent. This "residual" can be used for new business assistance programs.

EDA has been quick to take advantage of this new funding option. At its October 2003 meeting, the Authority voted to approve issuance of up to $70 million in bonds to pay for existing BEIP grants.[7] It also approved up to $60 million in bonds to pay for new business assistance programs. And the Authority went further, locking in the current interest rate for the next three fiscal years in anticipation of borrowing up to $231 million to pay BEIP grants in Fiscal Years 2005 through 2007.

» Another major change in the program is in the number of people a company must hire to qualify for BEIP money. Previously, companies had to add 25 new workers if they located in what was, under the statute, an economically distressed municipality and 75 if they located elsewhere. Now, most companies must hire only 25 people in any municipality. The exception is a 10-employee minimum for companies involved in advanced computing, advanced materials, biotechnology, electronic device technology, environmental technology and medical device technology.

» The new BEIP counts as eligible toward a company's grants some employees who pay no income tax to New Jersey. Previously, people who worked in New Jersey but lived elsewhere and paid taxes to their state of residence could not be counted. This change is aimed at making BEIP a stronger incentive for companies to move from Pennsylvania to

New Jersey. The change has no effect on people who work in New Jersey and live in New York because the tax agreement between the two states directs that people pay income tax to the state where they work. But the implications with regard to Pennsylvania are dramatic because the Pennsylvania-New Jersey tax agreement requires people to pay income tax where they live, not where they work. So, for the first time, a Pennsylvania resident working in New Jersey and paying income tax to Pennsylvania would qualify as a hire for purposes of determining a company's eligibility for BEIP.

## More Money, Less Accountability

BEIP grants to a company amount to between 10 percent and 80 percent of the money withheld for state income tax from that company's new employees-the ones whose hiring qualified the company for a grant in the first place. Tax withholdings beyond the percentage going out as a BEIP grant are called "residual." And from BEIP's inception in 1996 until September 2003, the residual went into the state treasury-specifically the Property Tax Relief Fund, like all income tax receipts-to be used for such things as aid to schools and municipalities.

But from now on, the state treasury might not end up with a penny from income taxes paid by workers whose jobs qualified their companies to receive BEIP grants. That's because the new BEIP law lets the state Economic Development Authority use what it doesn't give out in grants for two other purposes: new business assistance programs and paying companies the portion of BEIP grants attributable to workers who work in New Jersey but pay state income tax to Pennsylvania because they live there.

And as with BEIP grants, the new law gives EDA authority to sell bonds to cover the residual up front, with the treasury paying it all back over time. In October 2003, EDA did just that when it authorized borrowing up to $60 million for the residual to pay for new business assistance programs.1 Among the first new programs to come from residual withholdings is a $10 million venture fund for new biotech and life sciences companies. The following illustrates how using the residual might work with three hypothetical BEIP companies. Let's assume that:

- Each company hires 160 new workers (as of August 2003, BEIP businesses had hired, on average, 162 new workers)
- All new employees are single for state income tax withholding purposes
- Each worker earns $50,000 per year and pays $805 in state income taxes
- Each company withholds a total of $128,800 annually (160 jobs x $805) from its BEIP-eligible workers

» The state previously gave between 10 percent and 80 percent of employees' personal income tax withholding to the company. Now, the state will give a company between 10 percent and 50 percent. For partnerships, the new figure is 10 percent to 30 percent instead of the previous 10 percent to 50 percent. The only exception is that the grant percentage can still go up to 80 percent for regular employees and 50 percent for partners if a company "promotes smart growth and the goals, strategies and policies of the State Development and Redevelopment Plan." Steps a company can take to get the higher grants include locating in Planning Areas 1 or 2 of the State Plan; in a distressed municipality; in a brownfields site; within a halfmile of a rail station or bus hub; or within five miles of a university with which it works cooperatively on research and development.

» For the first time, BEIP grants will have dollar caps. For grants made after July 1, 2003, the amount a company receives cannot, on average, exceed $50,000 per employee.

» Under the new BEIP, only employees who receive health insurance coverage can be counted toward a company's eligibility for grants awarded after July 1, 2003. The previous law did not require health insurance on new jobs under BEIP grants.

» The new BEIP stipulates penalties for companies that do not submit to EDA the required annual report that is to include the number of new hires counting toward fulfillment of the terms of the BEIP grant. Now, failure to submit the report or omission of job numbers can result in loss of that year's BEIP payout. But forfeiture is prevented if the EDA's Chief Executive Officer decides there are extenuating circumstances, like a natural disaster that destroys computer records.

A company in Jersey City is awarded an 80 percent grant because it locates in a "smart growth" area. A company in Upper Freehold gets a 50 percent grant, the maximum allowed for a non-smart growth location. And a company in Cape May is awarded a 10 percent grant, the minimum allowed for a nonsmart growth location.

**ALLOCATION OF BEIP GRANTS AND RESIDUAL**

| BEIP Project | BEIP Grants | Residual |
|---|---|---|
| Jersey City Company | $103,040 (80%) | $25,760 (20%) |
| Upper Freehold Company | $64,400 (50%) | $64,400 (50%) |
| Cape May Company | $12,880 (10%) | $115,920 (90%) |
| **Totals:** | **$180,320** | **$206,080** |

The above illustrates how allowing distribution of both BEIP grants ($180,320) and residual withholdings ($206,080) has the potential to greatly expand resources for business incentive programs. It also greatly increases the EDA's discretion.

Instead of only paying a portion of employees' income tax withholding to a BEIP company, the authority now can apportion the entire amount, with the rest going for other programs, within certain guidelines.

This should raise some concerns. Not only has the state failed over the years to meet the requirements for evaluating BEIP's effectiveness, the new law does not require annual reporting on how the residual is spent. Further, it has been the case in the past that borrowed money is spent with less scrutiny than that appropriated in the budget-and at least in the near future it appears likely that the state will, indeed, borrow to spend the residual. The effect, then, is to provide the independent authority that administers business incentive programs, and the programs it administers, with more funding and discretion-but less accountability.

1 State of New Jersey. New Jersey Economic Development Authority Board Meeting. October 14, 2003.
2 State of New Jersey. Office of the State Treasurer. "Treasurer Announces BEIP Investment Program to Stimulate Bio-Tech Business, Job Growth." September 30, 2003.

# Evaluating BEIP

According to the statute that created it, the purpose of the Business Employment Incentive Program is to "foster job creation" in New Jersey. Aside from the issue of how well BEIP or any business incentive does-or can-accomplish this, questions arise about whether such a program meshes with other imperatives and meets tests of accountability. Is the mission of "creating jobs," an end in itself or should business incentive polices and programs be looked at against a backdrop of other considerations? This report argues the case for the latter. Recommendations in this section offer suggestions for making BEIP a more relevant and effective tool of public policy, and to establish a degree of public participation commensurate with the spending of large amounts of tax dollars.

### FISCAL PRUDENCE

The addition of a borrowing component-the sale of bonds-as an alternate method of paying for BEIP has been described as a way to make sure companies can count on funding even in times of a state budget shortfall. The argument put forward is that businesses require a degree of certainty in their planning that the vagaries of the economy's impact on state budgets cannot guarantee.

The free market itself, of course, offers no such assurances. In any given year, a company must face the possibility of changes in economic circumstances that will cause loss of business, reduction in profits or some other undesirable result. The new BEIP law, however, pledges that the State of New Jersey will step in to mitigate one effect of a bad economy. It will virtually guarantee that money from the BEIP program will flow, even if the state has to go into debt to do so.

Questions of equity arise as well. Not only does the borrowing option mean taxpayers might be paying off bonds for 20 years, long after the jobs "created" might have disappeared, but it also puts business incentive programs into a separate, first-in-line category when it comes to the claim on public dollars. It has not been the state's practice-nor should it be-to borrow money to make sure property taxes do not rise when state aid to municipalities and schools is frozen or cut. The state does not float bonds to prevent college students from paying higher tuition or senior citizens from paying higher co-pays for medicine if budget cuts cause these outcomes. Cities and towns, school boards, college students and seniors-it could be argued-also would like certainty from year to year.

It is important to point out that the new BEIP law does not stipulate that bonding can occur only in the case of a state budget shortfall. Indeed, the Governor could fail to recommend an appropriation and the Legislature could decide not to appropriate funds for BEIP and use the money for something else, safe in the knowledge that bonds can be sold to finance BEIP instead. In effect, New Jersey would be using both its current and future resources to pay for present obligations. Neither does the law place a limit on the total amount of money that can be borrowed or how often bonds can be sold.

✓ For all of these reasons, BEIP should be funded from current revenue only and be subject to limitations of the state budget in any given year; business incentives such as this should not require taxpayers to pay interest on bonds.

After Governor McGreevey in February 2003 declared his intention to suspend BEIP, Pennsylvania announced an intensified effort to lure jobs from New Jersey.[8] Then, New Jersey brought BEIP back and changed it so New Jersey companies can count toward their eligibility workers who live in, and pay taxes to, Pennsylvania. As a result, employers will get money based on what the co-chair of the Business Incentives Study Commission, who supports the change, described as "phantom payroll taxes."[9] It also means that New Jersey will count toward grant eligibility employees who do not contribute any income taxes to support New Jersey public services.

This runs counter to a fundamental premise of BEIP-that it gives companies money that came from the taxes collected on workers whose jobs were created by the incentive in the first place. If New Jersey receives no taxes from an employee because he or she pays them instead to Pennsylvania, then the state is giving away something it never had. That is a net loss to New Jersey taxpayers.

✓ No BEIP money should be paid to companies for employees who pay no New Jersey tax; if that means a company has not hired enough people to otherwise qualify for BEIP funds, no grant should be awarded.

The state is not the only governmental entity in New Jersey that gives financial incentives to businesses. Municipalities are heavily engaged in the practice of abating property taxes for firms that locate within their boundaries. Like BEIP does at the state level, these abatements deprive local governments of revenue needed to provide services. And, as the New Jersey Business and Industry Association noted in a 2001 report, "coupling BEIP grants with tax abatements may provide too great a competitive disadvantage to non-participating businesses."[10] Such a practice also raises questions of just how much taxpayers should subsidize a particular business.

✓ Companies should be allowed to receive either a state BEIP grant or local property tax abatement-but not both.

## SOCIAL CONCERNS

Businesses have gotten BEIP grants to locate all across New Jersey, regardless of whether their doing so promotes economic development where it is needed most or contributes to wise land use. The new BEIP strengthens provisions concerning sound land use and urban redevelopment. But the effort should be more wholehearted if it is to be meaningful. BEIP previously said a company had to hire 75 people if it located outside of an economically distressed municipality and 25 people if it went to a distressed municipality. The new BEIP drops the distinction, providing money for hiring 25 or more people regardless of location, and 10 people for some targeted industries.

✓ To make BEIP a stronger engine for economic redevelopment, grants should be available only to businesses locating in economically distressed areas.

According to an analysis of approved BEIP grants through March 2003 conducted for this report by New Jersey Future, several BEIP grants have gone to businesses locating in areas that clearly conflict with the goals of the State Development and Redevelopment Plan. BEIP grants were awarded to firms in Mount Olive, Upper Freehold, Pennington and Lafayette, where all of the land is in fringe, rural and environmentally sensitive planning areas where the State Plan recommends limiting further development.

More than 100 other BEIP grants were given to businesses locating in municipalities where some of the land is in areas where development is encouraged under the State Plan, and some is not. While further research would be required to determine how many of these grants are for businesses locating outside areas 1 or 2, it seems likely that some were. The new BEIP law is a step in the right direction in that it gives a higher grant to companies whose location decision promotes smart growth. But more is needed.

✓ BEIP grants should only go to companies that locate in places encouraged by the State Plan or in some other specified way promote sound land use.

Effective business incentive policy ought also to be clear about promoting high-road, good jobs. The new requirement that no job can count toward a BEIP grant unless the employer provides health insurance corrects a glaring omission from previous policy. Some states, cities and counties take additional measures, like requiring dental benefits, sick leave, retirement benefits, paid vacations, holidays and child care.

By directing EDA to "give priority" to jobs paying at least 1.5 times the state minimum wage, the BEIP statute shows some recognition of the existing need. But the reality is that 1.5 times the present $5.15 per hour minimum wage-$7.73-brings a full-time worker only $16,078 a year. A 2002 report by Legal Services of New Jersey showed the yearly income needed for a single-parent, one-child family to meet basic needs with no government assistance ranged from $28,623 in Camden County to $39,090 in Somerset County.[11] This makes clear how large the gap is between what companies are encouraged to pay under BEIP and what workers really need.

By contrast, many states require that subsidized companies pay in excess of the federal minimum wage. Delaware, for example, says that businesses benefiting from its Strategic Fund Grants must pay wages that meet the state's self-sufficiency standard. Other jurisdictions, including Burlington, Vt. and New Britain, Conn., mandate that businesses that get subsidies inform lowwage workers about the Earned Income Tax Credit.

✓ Companies receiving BEIP grants should be required to pay all workers at least the amount needed for self-sufficiency or a "living wage" if one is set by state law.

## CORPORATE RESPONSIBILITY

Companies qualify for money from BEIP if they hire a specified number of workers at a particular location in New Jersey-even if they reduce the workforce at other locations. AT&T, for example, signed a BEIP agreement in 1998 that would give the company $8.6 million if it hires 1,500 people at a site in Middletown. But AT&T laid off 3,500 New Jersey employees from 1996 to 1998. The net effect is that BEIP might compensate a company for the loss of 2,000 jobs.[12]

Merrill Lynch was approved in 1997 for BEIP funds relating to its facilities in Hopewell and Plainsboro, while the firm was laying off workers in other parts of New Jersey. The Star-Ledger reported in late 1998 that Merrill would cut 800 jobs in New Jersey and still receive its BEIP grant and several other incentives for the Hopewell project including a $25 million sewer line, $77 million in road improvements and a $135 million bond sale to purchase computer equipment that the state would lease to Merrill Lynch.[13]

✓ A company's employment situation in a BEIP location should not be viewed in isolation from its other activities in the state. Job cuts at any New Jersey location should result in a lowered grant, based on how much the cuts reduce the net job growth; if job losses in the state outnumber persons hired at a BEIP site the grant should be terminated.

Nationwide, businesses increasingly have been adopting the practice of incorporating in another country to reduce or avoid federal and state tax obligations. Among businesses that have been approved for BEIP grants and have moved in name only to an offshore site while keeping operations and management in the United States are Tyco and Ingersoll-Rand. Both list Bermuda as their homes for tax purposes. It is a highly questionable use of tax dollars to subsidize companies that engage in such behavior to avoid their own tax obligations and in so doing, increase the tax obligations of American citizens and legitimately US-based companies.

✓ BEIP money should be available only to firms incorporated in the US or that are legitimate subsidiaries of foreign companies and paying taxes accordingly.

The BEIP application form calls for disclosure of certain information so state officials can determine whether the grant is likely to be a significant factor in a company's location decision. But that information does not include such data as how much the company is paying in New Jersey Corporate Business Tax-if it already has facilities in the state-or how much it pays its CEO and other top executives.

This is important information. For example, a company paying only the $500 Alternative Minimum Tax to New Jersey is already, in effect, having its bottom line reduced by the taxpayers. And, a company that decides to pay what might be seen as an exorbitant salary to top people has made a business decision that seemingly argues that its financial condition is strong enough as to not merit assistance from taxpayers.

✓ CEO pay and state Corporate Business Tax payments should be required on the BEIP application, and the answers should be considered in deciding whether the company needs a grant.

## PUBLIC INPUT

Public input is important in any area where decisions are made about how to spend tax dollars. However, the commission created in 2003 to recommend ways to change BEIP was not representative of a wide range of potential views. Of its 27 members, 14 were associated with commercial real estate firms or developers. With the exception of three government representatives, all the other members were business consultants, businesspeople or business lobbyists. The commission has completed its work, so it cannot be expanded. But there are other areas where broader public input should be encouraged.

One is at the monthly meetings of the Economic Development Authority, where decisions are made on BEIP grants and other business incentives. Notification published in advance of the meetings is hard to find, appearing in the legal notices section of the Star-Ledger and Times of Trenton newspapers and on a bulletin board in the State House. And they are sparse in details. The bulletin board notice lists only the date, time and place of the meeting;

the newspaper announcements include a small amount of information on a few of the projects to be discussed. In contrast, the New York City Industrial Development Agency, which makes decisions similar to those made by EDA in New Jersey, posts its meeting schedule and agenda prominently on its web page. The information includes detailed descriptions of each project under consideration.

## Payoffs For Layoffs

Since 2001, at least eight companies that received BEIP payouts totaling $10.5 million have laid off at least 2,794 workers in New Jersey.1 The firms, in order of the size of their BEIP payments, are Pfizer, Medco Health Solutions, CIGNA, Sprint, National Discount Brokers, IDT Corporation, A&P and Continental Airlines.

Pfizer (formerly Pharmacia) has received $4.9 million in BEIP payouts for a Bridgewater site. Pfizer announced a major statewide layoff starting in June 2003-the same month the firm received its second BEIP payout. As of August 2003, Pfizer had not informed the state how many New Jersey workers would be laid off.

In October 2003, Medco Health Solutions (formerly Merck- Medco) announced a 90-worker layoff in Franklin Lakes and Montvale. Medco got BEIP grants for the Franklin Lakes location as well as a Willingboro site. The announced layoff came seven months after the company received its most recent BEIP payout in April 2003, bringing Medco's total BEIP payment to $1.9 million as of July 2003.

CIGNA insurance company initiated a 93-worker layoff in Rockaway, less than Five months after starting a 71-worker layoff, National Discount Brokers received $731,658 from BEIP. Both the layoffs and the grant involved Jersey City facilities. The brokerage firm began another round of layoffs in June 2002-this time letting go 138 workers in Jersey City.

A little more than a year after beginning a 104-worker layoff in Hackensack, IDT Corp. received a $367,902 BEIP payout for jobs in Newark.

After receiving BEIP payouts over four years totaling $74,047 for a Paterson location, supermarket giant A&P started laying off 209 workers in North Bergen in March 2002. The state was notified of the layoffs only a few months after making its most recent BEIP payout to A&P. Not only did the company lay off workers at the same time it was being rewarded by taxpayers for hiring others, but in some years it also was paying only $200 a year in state corporate business taxes-as was revealed in testimony by a company official at a legislative hearing on Corporate Business Tax reform.2 Six months after getting a BEIP payout in March 2001 for its Newark location, Continental Airlines began laying off more than 2,000 workers at Newark International a month before receiving a BEIP payout in 2002 for a Jersey City location. The BEIP disbursement was CIGNA's second that year, bringing its total payout to $1.5 million. Within two months after receiving a payout in the fall of 2002 of a BEIP grant for sites in Mahwah, Teterboro and Bedminster, Sprint began an 89-worker layoff in Mahwah. The fall payout was the fourth in a series of five BEIP payouts totaling $1.04 million.

Airport in the wake of a sharp business decline following the September 11 attacks on the World Trade Center and Pentagon.

1. State of New Jersey. Department of Labor. "WARN Notices." September 2001-April 2003. http://www.state.nj.us/labor/warn/warnindex.html and Krauskopf, Lewis. "Medco cuts 90 employees." NorthJersey.com. October 9, 2003.
2. Great Atlantic & Pacific Tea Company. Assembly Budget Committee. June 17, 2002.

✓ To facilitate public participation, information on upcoming meetings of the EDA should be more detailed and available than they are now, including prominent placement on the Authority's web page.

The quantity of information made publicly available by EDA from the BEIP applications is not always consistent. A copy of one company's December 1999 BEIP application, requested as part of the research for this report, was sent with several portions blacked out. Information omitted included the place from which the business was moving; how many employees were moving; how the new site in New Jersey would affect any of the business's existing New Jersey sites; a salary-range breakdown for anticipated new hires; and how much the company planned to invest in land, infrastructure and other aspects of the project.

Asked why so much was omitted, EDA's response was that it fell under the category of information that could put the company at a competitive disadvantage. EDA, however, then decided to send another copy of the application with more information revealed, saying that upon further review it felt more of the information should be considered public. The second copy blacked out only the dollar investment by the business in the new project. The bottom line is that the question of whether information might be harmful to a company's competitive stance should be better balanced against the public's right to know in a way that makes the maximum disclosure possible.

In many ways, Minnesota is a model disclosure state. The law there requires that every year a comprehensive report be sent to the legislature on state and local subsidies. The report is posted on the state website. It summarizes all subsidy information, including the number of jobs created and benefits paid. The state summary also includes reports from businesses on how much they received in subsidies, number of persons hired and at what wage ranges, the date that job and wage goals will be met, all financial assistance by all government entities, where the business was located before it was subsidized and the name and address of the parent company, if any. New Jersey compiles such information but does not disclose it except upon request under the Open Public Records Act. And most of the data is not aggregated, so it would be necessary to request information for each company.

## BEIP Companies and CEO Pay

Companies applying for BEIP grants are not asked in the application process how much they pay their Chief Executive Officers. If they were, the answers would raise some interesting questions. Case in point: How important to a company could a yearly grant of $3 million be if the firm is paying its CEO five times that amount in the same year? The contrast between CEO pay and BEIP grants would seem to indicate that BEIP money isn't the "material factor" it is supposed to be with regard to a company deciding where to locate.

The following table details CEO pay in 2002 or 2001 at seven companies that stand to receive some of the highest BEIP grants. CEO pay for one year is compared with the annualized value of the 10-year BEIP grants payable if each firm hired the number of workers listed on its BEIP application. The annualized value of a BEIP grant is arrived at by dividing the total BEIP grant by 10 years, the full term of these grants.

| Company | CEO/Chairman of the Board | Annual Pay | Annualized BEIP Grants |
|---|---|---|---|
| Merrill Lynch | David Komansky | $14.4 million | $3.75 million |
| Pharmacia (now Pfizer) | Fred Hassan (former) | $17.2 M | $3 M |
| JP Morgan Chase Bank | William Harrison | $21.9 M | $2.31 M |
| Morgan Stanley & Co. | Philip Purcell | $11.7 M | $1.27 M |
| Marsh & McLennan Cos. | Jeffrey Greenberg | $117.9 M | $1.25 M |
| Lehman Bros. | Richard Fuld | $12.5 M | $1.15 M |
| Schering-Plough | Richard Kogan (former) | $24.4 M | $990 thousand |

✓ New Jersey should adopt a clear, consistent disclosure policy that makes it easier for interested people to find out all subsidies that companies are seeking from the state, what they are offering in return and what the state is giving them. This information should be in a searchable database posted on the EDA web site and in files maintained at EDA headquarters so the public can view the information without having to submit written requests.

## ACCOUNTABILITY

The 1996 BEIP law was specific in creating the following mechanisms to hold the program accountable for the effective use of tax dollars:

- A study by the state Department of Commerce and Economic Development (in 1998, the department was replaced by the Commerce and Economic Growth Commission) to determine minimum funding required to implement BEIP and to give major consideration to the rate of return for each job created as a result of BEIP grants.
- An annual report by the Department of Commerce and Economic Development to the Governor, Senate President and Assembly Speaker due by October 31 of each year, including the number of agreements entered into during the preceding year, a description of each BEIP project, the number of jobs created, income tax revenue received from withholdings, amounts awarded as grants and an update on the status of BEIP grants executed before the preceding fiscal year.
- After BEIP's fifth year, an assessment by the State Treasurer and Department of Commerce and Economic Development of the program's effectiveness in creating jobs and its impact on state revenues. The deadline stated in the law for submitting this evaluation was January 1, 2000.

Of these three accountability tools, only the annual reports have been done. They contain only the most basic information and are not posted on the state website. Such states as Illinois, Ohio and Connecticut post annual subsidy reports on their websites.[14]

The evaluation that was to include the rate of return on BEIP jobs was-according to a search of public records and the recollections of state government officials-never conducted by the Department of Commerce and Economic Development, nor its successor, the Commerce and Economic Growth Commission. Neither was the five-year study. What would such evaluations find? It is hard to say, but interesting to note that an evaluation the North Carolina Department of Commerce commissioned to examine that state's major business incentive program concluded that only four percent of the jobs claimed under the program could actually be said to have been induced by it.

North Carolina's evaluation was done because the state requires that this program be evaluated every two years and the results made public. The program also is subject to a "sunset" provision under which it can be terminated if it is shown to be boosting businesses' bottom lines instead of creating jobs and increasing investments.

BEIP should be terminated on Jan. 1, 2005 if, before that date, the State of New Jersey has not produced a detailed study that includes evaluation of the program's effectiveness in creating new jobs and its impact on state revenues.

In its annual reporting on BEIP, the state should track and disclose the number of jobs projected and actually created by companies in the specific salary ranges that currently are asked about on the BEIP application. Currently, the highest salary range on the application is "$50,000-plus," but reporting should have more breakdowns at higher levels to give a more useful look at wages.

EDA also should report job-creation numbers in greater detail. Specifically, it should list not only how many people were hired by companies receiving BEIP grants but also how many of these employees or other employees of the company have been laid off that year. Such information would facilitate an accurate assessment of the return on BEIP grant money. Two further steps need to be taken on a regular basis to give legislators and the public a fuller, more objective picture of state priorities and spending trends.

**1. Tax Expenditure Budget**
As part of the yearly state budget document, it would include such information as how much revenue New Jersey forgoes as the result of tax breaks given to various companies for whatever reasons-broken down by company to provide a clear picture of state priorities. Easy access to this information would promote meaningful debate over how to use state financial resources, recognizing that money not taken in due to a policy decision is the same as money spent. Today, New Jersey is one of only 13 states that have no form of tax expenditure reporting.

**2. Unified Development Budget**
This is an annual report by state government, separate from the regular budget, that aggregates all forms of spending by the state on economic development, not limited to tax expenditures but also covering such programs as loans, grants, infrastructure assistance and vocational education. It would include comprehensive information about the costs and benefits of all development subsidies of the state. Texas and Illinois require unified development budgets.[15]

# The Larger Issue

As this report shows, BEIP clearly could be more accountable. The rules on qualifying for BEIP grants could do more to enhance economic development and meet environmental, social and accountability imperatives. The funding could be more consistent with sound fiscal practice.

But there is an even larger issue with regard to BEIP, and all programs that award tax dollars in one form or another to companies that locate, relocate or hire a specified number of people in New Jersey. It is this: Does the rationale underlying these programs make sense?

In creating and continuing BEIP, supporters have advanced several principal, closely related points on its behalf. BEIP, they say:

- Brings and retains jobs
- Costs taxpayers nothing
- Brings new revenue to municipalities from property taxes and to the state from sales and income taxes

- Promotes broader economic development because grantee companies and their employees use the services of other businesses in New Jersey

Central to this argument is the assumption that BEIP is the driving force behind businesses coming to or staying in New Jersey. This was stated by then Commerce Commissioner Gualberto Medina when he told a legislative hearing in 1998: "The Business Employment Incentive Program is a revenue neutral program. Grants are given to companies that would not have come to New Jersey-in fact, they certify that they would not have come to New Jersey-but for the BEIP grant."[16]

Similarly, the *Philadelphia Inquirer* reported that Governor Whitman "contends the program costs New Jersey taxpayers no money because it brings business into the state that would otherwise go elsewhere."[17]

More recently, the President of the New Jersey Business and Industry Association said of the revamped BEIP, "Best of all, the program pays for itself."[18]

**Does the rationale underlying these programs make sense?**

But the view expressed by these supporters of BEIP is true only if every dollar given to companies from BEIP out of the state treasury is a dollar that never would have been in the state treasury but for BEIP's power to lure businesses into locating or expanding in New Jersey. And everything that those businesses and their employees spend in New Jersey would not have been spent-would not have contributed to the economy-but for BEIP's influencing the decision to come or stay.

Such reasoning increasingly flies in the face of what is known about how businesses operate.

As Ledebur and Woodward note, "The strongest argument in favor of using public money to attract new plants and expansion is straightforward: a jurisdiction would receive no new tax revenue, jobs, or other benefit if a firm chose an alternative location. The critical question then becomes whether incentives have any discernible influence on private location choices."

Former Alcoa CEO Paul O'Neill helped to answer that question at his US Senate confirmation hearing when he was appointed as Treasury Secretary in 2001:

"If you are giving money away, I will take it. If you want to give me inducements for something I am going to do anyway, I will take it. But good business people do not do things because of inducements, they do it because they can see that they are going to be able to earn the cost of capital out of their own intelligence and organization of resources."[19]

Ledebur and Woodward offer support for O'Neill's assertion that fundamental business realities are more important than government-offered incentives: "Most studies show that incentives have little influence on location decisions," they wrote. "Governments have little or no control over the fundamental determinants of a firm's demand and costs."

## Corporate Irresponsibility

Among companies with the largest payouts from BEIP, five have significant blemishes on their corporate responsibility records. Goldman Sachs & Co., Aventis, Pharmacia (now Pfizer), Bristol-Myers Squibb and Schering-Plough have faced penalties for pollution and business practices for which they were accused of hurting consumers and investors.

Goldman Sachs has gotten a BEIP payout of nearly $9 million. The federal Securities and Exchange Commission announced in September 2003 that Goldman Sachs had agreed to pay $9.3 million to settle a charge of illegally trading on inside information that the US Treasury would stop selling 30- year bonds.1 Five months before that announcement, the firm agreed to pay $110 million towards an industry settlement in connection with conflicts of interest in stock research.2 Five other firms in BEIP were also part of the settlement: Merrill Lynch & Co., Morgan Stanley, JP Morgan Chase, Bear Stearns and Lehman Brothers.3

Pharmaceutical company Aventis, created by the merger of Hoechst Marion Roussel and Rhone-Poulenc, has been paid $4.9 million from BEIP. In October 2001, Aventis was penalized $33.1 million in fines for submitting false information to the US Food and Drug Administration.4

Pharmacia and it successor company, Pfizer, have been paid $4.8 million from

Bristol-Myers Squibb has received $3.5 million from BEIP. In April 2003, Bristol-Myers Squibb settled charges that it had violated antitrust laws. The settlement, for $55 million, was made with the 50 states, District of Columbia and five US territories. State officials from across the country charged that Bristol- Myers Squibb violated antitrust laws by blocking entry of less expensive, generic versions of the cancer-fighting drug Taxol into the US market.6

Schering-Plough has benefited from a BEIP payout of $646,728. In September 2003, the pharmaceutical company agreed to pay $1 million to settle an SEC charge that it violated a regulation that prevents companies from disclosing marketmoving information to analysts prior to dissemination to the general public. Richard Kogan, who was Schering-Plough's CEO at the time, also agreed to pay $50,000 as part of the SEC settlement.7 Additionally, Schering-Plough paid a record $500 million fine levied by the federal Food and Drug Administration in 2002 for "failure to comply with Good Manufacturing Practices."8

1 "SEC Acts Against Goldman, Others in '01 30-Yr Bond Trades." Market News International. September 4, 2003.
2 "Bond-trading tip yields SEC settlements." Philadelphia Inquirer. September 5, 2003.
3 White, Ben. "$1.4 Billion Wall Street Settlement Approved."Washington Post.

BEIP. In 2001, the federal Environmental Protection Agency imposed $27,168 penalties against Pharmacia's facilities in Peapack and Puerto Rico for violating the Emergency Planning and Community Right-to-Know Act (EPCRA), enacted by Congress to help communities protect public health, safety and the environment from chemical hazards.5

November 1, 2003.
4 United States. Department of Health and Human Services. Food and Drug Administration. "Protecting the Public Health: FDA Pursues an Aggressive Enforcement Strategy." June 30, 2003. www.fda.gov/oc/whitepapers/enforce.html
5 United States. Environmental Protection Agency. "Enforcement & Compliance History Online (ECHO)." www.epa.gov/echo
6 "States Settle Antitrust Suit with Bristol-Myers Squibb Company." National Association of Attorneys General AG Bulletin. April 2003.
7 "Schering-Plough Pays $1M to Settle Regulation FD Charges." Securities Litigation & Regulation Reporter. September 24, 2003.
8 United States. Department of Health and Human Services. Food and Drug Administration. "Protecting the Public Health: FDA Pursues an Aggressive Enforcement Strategy." June 30, 2003. www.fda.gov/oc/whitepapers/enforce.html

Successful businessman and Mayor of New York Michael Bloomberg put it more bluntly. Deriding tax incentives as only marginal to a healthy business, he said, "If you're down to that incremental margin you don't have a business."[20]

Closer to home, a top official at Roseland-based Automatic Data Processing said in a panel discussion, "Before looking at a New York location or a New Jersey location, we are looking at the whole package. Incentives are probably going to end up being 10 percent or 15 percent of that decision."[21]

It is clear, then, that business incentives are less a case of "build it and they will come" and more like, "offer it and they will take it, but they might well have come anyway." Gabe and Kraybill found that incentives do not influence business's choices about hiring more workers.[22] Their study examined whether incentives stimulate job creation in existing businesses and whether businesses overestimate the number of jobs they will create to receive more lucrative incentive packages from the government. The study found business incentives have little positive effect-and even at times a negative impact-on actual jobs created by expanding companies. The statistical analysis in the study showed that, on average, businesses taking incentives hired fewer workers than they would have hired if they had not accepted incentives. While getting incentives did not increase the number of jobs actually created, the researchers found that incentives did substantially increase the number of jobs companies announced they would create.

The researchers wrote: "We estimate that the state's offering of incentives leads the average business that receives incentives to announce an employment increase of 26.7 more jobs than they would promise if the incentive programs did not exist." The researchers found that businesses getting incentives announced expansions averaging 91 workers, but expanded by only 51 workers. The study was based on 366 Ohio businesses that expanded between 1993 and 1995 through several Ohio state economic development programs, including the one on which BEIP was modeled.

One way or another, businesses sometimes admit that incentives are not all they are made out to be. Take the case of Hill Refrigeration. In 1995, it closed a facility in Trenton, laid off workers and moved to Virginia, which offered cash incentives and free real estate.[23] Two months later, Hill was trying to recruit some of its former Trenton employees to come to Virginia because the company could not find enough skilled workers near its new location. This highlights the significant value of a skilled workforce as opposed to incentives that might help the short-term bottom line.

And in 2003, Goldman Sachs Managing Director Phillip Murphy told a legislative committee that his firm moved to New Jersey because of the state's "talented and educated workforce," "strong commitment to transportation and the renaissance of Jersey City and Hudson County."[24] He called BEIP a "central element" to his firm's decision to come across the Hudson River, but, clearly, BEIP grants offered to Goldman Sachs were not the only reason or the driving force behind the company's decision to move.

In the case of Tyco, governmental incentives did not seem to be as important as other factors to the company's decision on where to locate. Sometimes the market itself produces the answer to a company's question about where to locate. As noted in a Times of Trenton article, Tyco stands to pay far lower rent in New Jersey than it was paying elsewhere, so that the move represented a "return to cost-consciousness."[25] Further, Tyco was considering a central New Jersey site for its US headquarters to be close to the home of its new chairman and CEO, Edward Breen. He resides in New Hope, Pa., about 15 miles from Tyco's West Windsor location.

According to Fortune magazine, Tyco gave Breen $62 million in cash and stocks as compensation in 2002.[26] Contrast the value of Breen's compensation package (fourth largest among all CEOs in 2002) with the $13.2 million BEIP grant that Tyco can get over 10 years from New Jersey if it hires as many people as it has said it would. A $13.2 million grant over 10 years would seem to be a relatively small matter to a company willing to pay its CEO $62 million in one year.

In fact, the same year that Tyco applied for its BEIP grant and gave Breen his generous package it also paid former CEO Dennis Kozlowski $82 million.

In essence, then, while it can be stated that the companies who received BEIP grants did come to New Jersey or expand in the state and did hire the number of employees they say they hired, it is simply not possible to conclude that all of them did so because of BEIP.

But, while it cannot be said with certainty that every BEIP job exists in New Jersey solely because of BEIP, it can assuredly be said that every dollar doled out from the state treasury to a BEIP grantee is no longer in the treasury. It is no longer available to educate a child, repair a bridge, train a worker or in some other way improve New Jersey's overall quality of life and its long-range appeal to business.

One other argument for BEIP and other business incentives must be discussed. It is the argument that no state, because of the intense interstate competition for jobs, can afford not to offer them-whether they are productive uses of tax dollars or not. But unproductive they may well be. As Arthur J. Rolnick and Mel Burstein of the Minneapolis Federal Reserve wrote, "While states spend billions of dollars competing with one another to retain and attract businesses, they struggle to provide such public goods as schools and libraries, police and fire protection, and the roads, bridges and parks that are critical to the success of any community."[27]

It is a zero-sum struggle. A job "created" in New Jersey by a company that moved from New York or Pennsylvania is not a job created at all. It just shifted locations-maybe to the benefit of a state but certainly not to the benefit of the larger region. That is why some call this competition a "race to the bottom," where money spent on incentives is reducing governmental entities' ability to pay for other important services.

Rolnick and Burstein concede that for states and cities to compete against each other seems rational in view of the current political and economic environment. But, they add, "the overall economy is worse off for their efforts." They argue that states should compete against each other. But that battle should be waged with their general taxation and spending policies-a competition based on who does the best job of efficiently allocating resources, not who can cook up the hottest deals.

There are more reasons to question the current business incentives "arms race." No matter how desirable a particular business might be, it places additional demands on public services -roads, water supply, police and fire departments and public schools, to name a few. Paying for incentive programs undermines the state's ability to respond to these new demands on public services. The amount of money the State of New Jersey has paid to BEIP grantees so far could have been used to hire more than 1,200 school teachers. Rather than making BEIP payouts, the state could increase local municipal aid, essentially flat for the last two fiscal years, to further help towns and cities provide services to businesses and residents. Those are just two examples why it is important to consider whether giving money to businesses is the best way to promote long-term economic prosperity.

Besides fairness for taxpayers, incentives also raise the issue of fairness to businesses. Governments give tax breaks and other financial assistance to some businesses, but not others. Using whatever the criteria might be for specific programs, they in effect give a competitive edge to one firm over another in the same line of business. Many question whether picking winners and losers in this manner is the appropriate job of the public sector.

## Tyco and BEIP: Off Again, on Again

In November 2002, the New Jersey Economic Development Authority approved a BEIP grant for controversial Tyco International, the firm where former CEO Dennis Kozlowski and former CFO Mark Swartz have been accused of looting more than $600 million since the 1990s.1 The same year, Tyco was paying $82 million in compensation to Kozlowski.[2]

The BEIP grant would have amounted to $13.2 million over 10 years if Tyco added 300 employees in New Jersey. But Gov. James E. McGreevey vetoed approval of the grant because the state, at the time,was suing Tyco and three other companies for their alleged role in $150 million in state pension fund losses.[3]

Four months later, in March 2003, after internal changes at Tyco that included replacing the entire board of directors and revamping operating procedures, the state decided to give the firm the same grant. But there were two special conditions. First, the BEIP money would be given only when all litigation between the state and Tyco is resolved. Second, the firm will not get any money from BEIP until after July 1, 2005.[4]

Tyco announced in May 2003 its choice of West Windsor for a new US headquarters. Also that day, it acknowledged a new set of accounting problems that might cost investors more than $1 billion-the fourth statement by Tyco of such irregularities since the fall of 2002.[5]

Two other BEIP grants were awarded to Tyco in previous years. A division of Tyco International, Tyco Submarine Systems, had BEIP grants approved in 1999 and 2000; the firm has yet to hire enough workers to qualify for a payout.[6]

1 State of New Jersey. New Jersey Economic Development Authority Board Meeting. November 12, 2002. and P., Shankar. "Mr. Breen's New Neighborhood." NJBiz. July 21, 2003.
2 Useem, Jerry. "Have They No Shame?" Fortune. April 28, 2003.
3 Hagen, Tony. "Tyco sought $13.2M grant for NJ location." Times of Trenton. January 9, 2003.
4 State of New Jersey. New Jersey Economic Development Authority Board Meeting. March 11, 2003.
5 "Tyco Ltd. calls N.J. its home." Times of Trenton. May 1, 2003.
6 State of New Jersey. New Jersey Economic Development Authority. "Approved BEIP Grants by Approval Month, 4/4/01."

# Conclusion

New Jersey instituted the Business Employment Incentive Program in 1996 amid fanfare about the need to "create jobs" and compete against other states for businesses. Seven years later BEIP was changed substantially, with the most significant alterations including a provision authorizing the state to go into debt by selling bonds to fund the program and one allowing the state to give companies the equivalent of employee income tax withholdings even if the employee paid no tax to New Jersey.

Over this period of time, the State of New Jersey has conducted no significant evaluation of the program, including some specific pieces of work that were required by the law establishing BEIP. No attempts have been made to determine the degree to which BEIP really is an impetus for businesses to move to New Jersey or for New Jersey businesses to expand in the state. In short, the state cannot say for sure how many companies would have come to the state or expanded here without BEIP. Nor has New Jersey done a thorough job of integrating BEIP with other important public policy imperatives, including fiscal prudence, corporate responsibility, land use and economic justice. While the state in some cases does offer bonuses if a business goes to one place instead of another, the bottom line is that New Jersey is willing to subsidize at some level regardless of where a business locates.

The result is a program that gives money to businesses but for the most part is unconnected to larger concerns that affect the well-being and quality of life of New Jersey citizens.

# END NOTES

1 The Council of State Governments. "State Business Incentives: Trends and Options for the Future." 2000.

2 State of New Jersey. Office of the Governor. "Gov. Christie Whitman Announces Business Incentive Program Created 11,000 Jobs." May 28, 1997.

3 State of New Jersey. New Jersey Economic Development Authority. Business Employment Incentive Program Project Summaries.

4 State of New Jersey. New Jersey Permanent Statutes: 52:27D-178. Department of Community Affairs. State Aid to Municipalities for Services and to Offset Property Taxes.

5 State of New Jersey. New Jersey Economic Development Authority. "Formula Evaluation: Scoring used to determine percentage of BEIP grant." 2003.

6 State of New Jersey. New Jersey Economic Development Authority. "Resolution Regarding the Publishing of Revisions to the BEIP Regulations and Formula Evaluation." September 16, 2003.

7 State of New Jersey. New Jersey Economic Development Authority Board Meeting. "Minutes of the Meeting." October 14, 2003.

8 P, Shankar. "He wants your companies." NJBiz. August 4, 2003.

9 "Rolling out the welcome mat: An NJBiz panel assesses the strengths and weaknesses of the state's business climate." NJBiz. August 4, 2003.

10 New Jersey Policy Research Organization, New Jersey Business and Industry Association. "Special Report: Job Creation and the Business Employment Incentive Program." 2001.

11 Pearce, Diana, and Jennifer Brooks. "The Real Cost of Living in 2002. The Self-Sufficiency Standard for New Jersey." Legal Services of New Jersey Poverty Research Institute. June 2002.

12 Zolper, Thomas. "AT&T to get reward for jobs growth despite cuts." The Record. June 1, 1998.

13 Johnson, Tom. "Job cuts won't cost Merrill its incentives." Star-Ledger. October 15, 1998.

14 State of Ohio. Ohio Department of Development. [www.odod.state.oh.us](http://www.odod.state.oh.us) and State of Connecticut. Public Act 03-197. 2003.

15 State of Texas. Texas Comptroller of Public Accounts. "Texas Economic Development Incentives." March 2003 and SB275 Reporting Requirement.

16 Medina, Commissioner Gualberto. "Testimony Regarding BEIP Amendment." Senate Economic Growth, Agriculture and Tourism Committee Meeting. May 14, 1998.

17 Parello, Nancy. "Whitman says incentives add N.J. jobs." Philadelphia Inquirer. May 29, 1997.

18 New Jersey Business and Industry Association. "Governor Signs NJBIA-Backed Bill to Fund Business Employment Incentive Program." Business Voice. Vol. 6, No. 8. September 2003.

19 O'Neill, Paul H. US Senate Finance Committee. January 17, 2001.

20 Tierney, John. "The Big City; An Outsider Comes Inside To Run Things." New York Times. November 8, 2001.

21 "Rolling out the welcome mat: An NJBiz panel assesses the strengths and weaknesses of the state's business climate." NJBiz. August 4, 2003.

22 Gabe, Todd M. and David S. Kraybill. "The Effect of State Economic Development Incentives on Employment Growth of Establishments." Journal of Regional Science.Vol.

42, No. 4. 2002: p. 703-730 and Fulton,William. "Making Work: A new study suggests that state and local tax incentives for existing businesses don't create new jobs." Governing. June 2003.

23 Perkiss, Mark. "Taking big steps toward 'Prosperity New Jersey.'" Times of Trenton. 1996.

24 Murphy, Phillip. New Jersey State Legislature Archived Proceedings. Senate Economic Growth, Agriculture and Tourism Committee Meeting. March 17, 2003.

25 "Tyco Ltd. calls N.J. its home." Times of Trenton. May 1, 2003 and P., Shankar. "Mr. Breen's New Neighborhood." NJBiz. July 21, 2003.

26 Useem, Jerry. "Have They No Shame?" Fortune. April 28, 2003.

27 Burstein, Melvin and Arthur J. Rolnick. "Congress Should End the Economic War Among the States." Federal Reserve Bank of Minneapolis. March 1995.

# References

Ledebur, Larry C. and Woodward, Douglas. "Adding a Stick to the Carrot: Location Incentives with Clawbacks, Recisions, and Recalibrations." Economic Development Quarterly. Vol. 4 No. 3. August 1990: p. 221-237.

Purinton, Anna, Nasreen Jilani, Kristen Arant and Kate Davis. "The Policy Shift to Good Jobs: Cities, States and Counties Attaching Job Quality Standards to Development Subsidies." Good Jobs First. November 2003.

Schweke,William and Lillian G. Woo. "Is the Lee Act Working for North Carolina?" Corporation for Enterprise Development. September 2003. State of Illinois. Public Act 93-0552. August 2003. www.legis.state.il.us

State of Minnesota. Minnesota Statutes: 116J.993-116J.995. 2002. www.revisor.leg.state.mn.us

State of New Jersey. New Jersey Administrative Code. Title 19, Other Agencies: Economic Development Authority. Subchapter 10, Business Employment Incentive Program.

State of New Jersey. New Jersey Economic Development Authority. "Approved BEIP Grants, Alphabetical List, From Inception to Date." August 27, 2003.

State of New Jersey. New Jersey Economic Development Authority. "Approved BEIP Grants by Approval Month, 4/4/01." State of New Jersey. New Jersey Economic Development Authority. "BEIP Disbursements From 6/1/96 to 7/31/03." August 12, 2003.

State of New Jersey. New Jersey Permanent Statutes: 34:1B-124 to 34:1B-139. Business

Employment Incentives.

State of New Jersey. P.L. 2003, c. 166. An Act concerning the Business Employment Incentive Program and amending and supplementing P.L. 1996, c. 26. September 2003.

## Companies that signed BEIP agreements but have not yet received payout

9 Net Avenue Corp.
A.C. Moore Arts&Crafts, Inc.
ABN AMRO Incorporated
advanti.com Corporation
Aero Molding&Machining, Inc.
Albert's Organics Inc.
All American Poly Corporation
Allied Office Supplies Inc.
Altana, Inc.
AM Cosmetics, Inc.
American Furniture Rentals, Inc.
American Home Assurance Co.
American Ref-Fuel Co. LLC
Anadigics Inc.
Ansell Healthcare Products, Inc.
Astor Chocolate Corp.
AT Systems Atlantic Inc.
AT&T Corp.
Atco Rubber Products, Inc.
Atlantic Product Services, Inc.
Automotive Rentals, Inc. (ARI)
Avaya, Inc.
Avis Group Holdings, Inc.
Bank of NY, The*
Bear, Stearns&Co., Inc.
Berlex Laboratories, Inc.
BJ's Wholesale Club, Inc.
Bowne Internet Solutions, Inc.
Broadview Networks, Inc.
CACI Technologies, Inc.
Cadent, Inc.
Capture Resource, Inc.
Celiant Corporation
Cendant Corporation
Kos Pharmaceuticals, Inc.
KPMG Consulting LLC
La Brea Bakery
Leapstone Systems, Inc.
Lehman Brothers, Inc.
Lexicon Pharmaceuticals and Affiliates
Lockheed Martin Corporation and Afiliates
M&A Holdings, LLC
Market Measures Interactive, L.P.
Marsh&McLennan Companies, Inc.
Matsushita Electric Corp of America
McLean Associates, LLC
MCR Direct Mail, Inc.
Memory Pharmaceuticals Corporation
MenuDirect Corporation
Mercedes-Benz USA, LLC
Merrill Lynch&Co., Inc.
Millenium Cell, Inc.
Millenium Clearing Company, LLC
Mizuho Financial Group
Morgan Stanley&Co., Inc.
Mul-T-Lock USA, Inc.
National Financial Services, LLC
NBC, Inc.; CNBC, Inc.; CNBC.com LLC
Netera Holdings, Inc.
New Century Transporation, Inc.
Newstech NJ
Niksun, Inc.
Nova Phase Inc.
NRT, Inc.
Nsg America, Inc.
NVR Building Products Company

Children's Concept, Inc.
Chris Fowler International Inc.
Chubb Corporation, The
CIBC Oppenheimer
Coca-Cola Bottling Company of New York*
Colgate-Palmolive Company
Column Financial, Inc. a subsidiary of DLJ
Comcast Cablevision of New Jersey
Comcast Telecommunications, Inc. et al
Continental Airlines Inc.*
Credit Lyonnais S.A.
Crown Seafood, LTD.
Crystal Window and Door Systems Ltd
Datek Online Brokerage Services Corp.*
DB Investment Managers, Inc.
Deltronic Crystal Industries, Inc.
Dominica Management, Inc.
Dow Jones&Company, Inc.
Drexel University
Dualstar Communications, Inc.
Duro Bag Mfg. Company Inc.
Echosphere Corporation
Enchante Accessories Inc.
Energy Photovoltaics Inc.
EpiGenesis Pharmaceuticals, Inc.
Euromarket Designs, Inc. d/b/a Crate&Barrel
Eyetech Pharmaceuticals, Inc.
Firmenich Incorporated
First Brokers Securities Inc.
Forest Laboratories Inc.*
Foxdale Properties LLC
Galileo International, Inc.
Garban Intercapital North America, Inc.
GeneProt, Inc.
Genta Incorporated
Global Consultants, Inc.
Globespan Virata, Inc.
Goldman Sachs Group, Inc.*
Hold Brothers, Inc.
icarz, inc.
Icon Imaging, Inc.
ImClone Systems Inc.
Omni Baking Company
Orchid BioSciences, Inc.
Ortec International Inc.
P&O Nedlloyd Ltd.
Paine Webber Group Inc.&Affiliates
Pastridor USA, LLC
Patriot Manufacturing, Inc.
Pearson Education, Inc. and Affiliates
Pharmacia (now Pfizer)*
PharmaNet Inc.
Professional Detailing, Inc.
Public Health Research Institute
Quest Diagnostics Incorporated
R.P. Scherer, Inc.
Radianz Corp.
Reliant Pharmaceuticals, LLC
Risk Enterprise Management Ltd.
Ritter Sysco Food Services, LLC
Riviera Produce Corp.
S&F Die Cutting Co., Inc.
Schering-Plough Corporation&Affiliates*
Scient Corporation (now SBI and Co.)
ShopLink.com
SK Global America Inc., SK USA, Inc.
Sky Trek International Airlines
Songbird Hearing, Inc.
Sports Authority, The
Strato, Inc.
Sumitomo Trust&Banking Co
SunAmerica Asset Management Corp.
Telcordia Technologies, Inc.
Therics, Inc.
Tosco Refining Company
Trade Web Group LLC
Transtechnik Corp. USA
Tridon Industries, Inc.
Triestman&Sons, Inc. d/b/a Olek Lejbzon
United HealthCare Services, Inc.
US Clearing, a unit of Fleet Securities, Inc.
Verizon New Jersey Inc.&Verizon Services
Viecore, Inc.

iNautix Technologies, Inc.
Incurrent Solutions, Inc.
IndustryClick Corporation and Afiliates
Ingersoll-Rand Company-Tool and Hoist
INRANGE Technologies Corporation
Instinet Corporation and affiliates
Intelligroup, Inc.
International Flavors&Fragrances, Inc.
ITT Industries
J. Lodge eServices, LLC
John Turano&Sons, Inc.
John Wiley&Sons, Inc.
JP Morgan Chase Bank*
Kamco Building Supply Corp.
Vitamin Shoppe Industries, Inc.
Volkswagen of America, Inc.
Wall Street Access
Wall Street Investment Group, LTD, The
WebMD Corporation
Whitlock Packaging Corporation
XOSoft, Inc.
York Telecom Corp.
Zenfinity, Inc.

*Business has more than one BEIP grant agreement with the EDA. Has received BEIP payouts on some but not all of its grants. Therefore, the business appears on both this list and the list of companies that have received payouts.

Source: Economic Development Authority.
"Approved BEIP Grants, From Inception to Date." August 27, 2003.

# BEIP Grant Payouts

| Companies | BEIP Payout | Workers Hired | Avg. Payout per Worker |
|---|---|---|---|
| Goldman Sachs & Co. | $8,969,097 | 148 | $60,602 |
| Lord Abbett & Co. | 5,750,933 | 451 | 12,752 |
| Hoechst Marion Roussel, Inc. (now Aventis) | 4,949,408 | 2284 | 2,167 |
| Pharmacia (now Pfizer) | 4,888,855 | 348 | 14,048 |
| KPMG Peat Marwick LLP | 3,580,699 | 452 | 7,922 |
| Bristol-Myers Squibb Company | 3,477,698 | 4098 | 849 |
| Knight Securities, LP | 3,361,099 | 118 | 28,484 |
| MSNBC Cable LLC | 2,175,232 | 427 | 5,094 |
| Merck-Medco Managed Care LLC | 1,992,993 | 1643 | 1,213 |
| United States Trust Company of New York | 1,974,199 | 318 | 6,208 |
| Connecticut General Life Insurance/CIGNA | 1,471,261 | 488 | 3,015 |
| Insurance Services Offices, Inc. | 1,462,790 | 1167 | 1,253 |
| Chem Network Processing Services, Inc. | 1,350,725 | 201 | 6,720 |
| Pricewaterhouse Coopers | 1,337,271 | 5346 | 250 |
| Sprint Spectrum LP | 1,042,037 | 2082 | 500 |
| Nextlink New York LLC | 1,001,612 | 208 | 4,815 |
| National Discount Brokers | 731,658 | 568 | 1,288 |
| LNT, Inc. (Linens N' Things) | 697,836 | 465 | 1,501 |
| Schering-Plough | 646,728 | 75 | 8,623 |
| Organon, Inc. | 594,838 | 200 | 2,974 |
| Covance, Inc. | 530,727 | 236 | 2,249 |
| Raytheon Engineers & Constructors | 498,560 | 248 | 2,010 |
| Bank of NY, The | 493,859 | 290 | 1,703 |
| Barnes & Noble, Inc. | 470,559 | 631 | 746 |
| IDT Corporation, Affiliates and Subsidiaries | 367,902 | 269 | 1,368 |
| Bell Atlantic Communications & Construction | 367,107 | 661 | 555 |
| Alliant Foodservice, Inc. | 328,706 | 362 | 908 |
| Forest Laboratories Inc. | 318,117 | 74 | 4,299 |
| Multilink Technology Corp. | 294,088 | 80 | 3,676 |
| Toys "R" Us Inc & Toys "R" Us Delaware | 290,421 | 213 | 1,363 |
| TD Waterhouse Securities, Inc. | 264,252 | 905 | 292 |
| L.I. 2000, Inc. | 250,283 | 529 | 473 |
| Hanjin Shipping Company, Ltd. | 239,394 | 176 | 1,360 |
| Omnipoint Communications Services, Inc.* | 231,828 | 0 | |
| Dialogic Corporation (now Intel) | 226,465 | 302 | 750 |
| Matthew Bender & Co. Inc. | 222,652 | 236 | 943 |

| | | | |
|---|---|---|---|
| Ball Plastic Container Corp. | 217,701 | 135 | 1,613 |
| McKinsey & Co, Inc. US | 202,764 | 122 | 1,662 |
| Blinds to Go, Inc. | 201,648 | 202 | 998 |
| Roosevelt Paper Co. | 199,473 | 226 | 883 |
| Tech Data Corporation | 196,216 | 156 | 1,258 |
| Imperial Bag & Paper Company, Inc. | 192,279 | 76 | 2,530 |
| DS Distribution Inc. & DS Pharmacy, Inc. | 190,312 | 180 | 1,057 |
| Production Services LLC | 178,303 | 355 | 502 |
| LifeCell Corporation | 162,226 | 126 | 1,288 |
| Datek Online Brokerage Services Corp. | 159,986 | 223 | 717 |
| Snowbird Corporation | 134,444 | 141 | 954 |
| Financial Sciences Corp. | 129,822 | 22 | 5,901 |
| Direct Fulfillment, LP | 121,972 | 214 | 570 |
| Zen & Art of Client Server Computing Inc. | 117,520 | 111 | 1,059 |
| JP Morgan Chase Bank | 104,073 | 448 | 232 |
| Isaac Hazan & Co., Inc. | 102,018 | 64 | 1,594 |
| J. Manheimer Inc. | 83,174 | 91 | 914 |
| Coca-Cola Bottling Company of New York | 78,442 | 454 | 173 |
| Great Atlantic & Pacific Tea Co. Inc. (A&P) | 74,047 | 90 | 823 |
| Garrison Printing Co. Inc. | 71,310 | 34 | 2,097 |
| Multiplex, Inc. | 62,160 | 107 | 581 |
| Infocrossing, Inc. | 58,311 | 159 | 367 |
| Meritex LLC | 48,842 | 162 | 301 |
| Whitmire Distribution Corporation | 47,256 | 244 | 194 |
| Royal Wine Corp. | 44,589 | 109 | 409 |
| Standard Data Corporation, d/b/a SDC Data | 44,317 | 33 | 1,343 |
| Nebraska Meat Corp. | 39,045 | 147 | 266 |
| Jackson Hewitt, Inc. and Tax Service | 32,992 | 91 | 363 |
| United Canvas & Sling, Inc. | 31,040 | 50 | 621 |
| Noark Associates, LLC | 28,224 | 175 | 161 |
| Vantage Custom Classics, Inc. | 27,057 | 136 | 199 |
| Starborn Industries, Inc. | 24,750 | 32 | 773 |
| Summit Import Corp. | 23,248 | 69 | 337 |
| Daniel F. Young, Inc. | 22,276 | 58 | 384 |
| Silver Line Building Products Corp. | 21,638 | 450 | 48 |
| Walden Lang Inc. | 17,272 | 42 | 411 |
| Continental Airlines Inc. | 16,639 | 38 | 438 |
| RPS, Inc. | 12,676 | 91 | 139 |

| | | | |
|---|---|---|---|
| Best Trimming, Inc. and 7th Avenue Trim | 12,116 | 58 | 209 |
| BOC Group Inc. | 11,166 | 178 | 63 |
| V & S Amboy Galvanizing, L.L.C. | 10,820 | 36 | 301 |
| Rose Art Industries, Inc. | 7,692 | 159 | 48 |
| Journal of Commerce, The | 5,869 | 63 | 93 |
| Emcore Corp. | 5,731 | 80 | 72 |
| Cape May Foods, Inc. | 5,564 | 28 | 199 |
| DPC Cirrus Inc. | 3,666 | 133 | 28 |
| Bind Rite/Union Graphics LLC | 1,361 | 132 | 10 |
| **TOTALS**:** | **$60,435,938** | **32,829** | **$1,841** |

# The Vote On A-3705 "An Act Concerning the Business Employment Incentive Program"

**State Senate, June 30, 2003**

**YES (35)**
Adler, Allen, Baer, Bark, Bryant, Bucco, Buono, Cafiero,
Cardinale, Charles, Ciesla, Codey, Coniglio, Connors,
Geist, Gill, Girgenti, Gormley, Inverso, James,
Kavanaugh, Kean, Kenny, Lesniak, Littell, Palaia, Rice,
Sacco, Sarlo, Singer, Smith, Suliga, Sweeney, Turner,
Vitale

**NO (2)**
Kyrillos, Lance

**NOT VOTING (3)**
Bennett, Martin, McNamara

**General Assembly, July 1, 2003**

**YES (63)**
Ahearn, Arnone, Asselta, Azzolina, Barnes, Blee,
Bramnick, Burzichelli, Caraballo, Chivukula, Cohen,
Conaway, Conners, Connors, Conover, Corodemus,
Cruz-Perez, Cryan, Dancer, Diegnan, DiGaetano,
Doria, Eagler, Edwards, Egan, Farragher, Fisher, Friscia,
Green, Greenstein, Greenwald, Guear, Gusciora, Hackett,
Holzapfel, Impreveduto, Johnson, S. Kean, Malone,
McKeon, Munoz, O'Toole, Payne, Perez-Cinciarelli,
Pou, Previte, Quigley, Roberts, Rumpf, Russo, Scalera,
Sires, R.J. Smith, Stanley, Steele, Stender, Thompson,
Tucker, Van Drew, Watson Coleman, Weinberg,
Wisniewski, Wolfe

**NO (15)**
Altamuro, Bateman, Biondi, Carroll, Chatzidakis,
DeCroce, Doherty, Gregg, Heck, McHose, Merkt,
Myers, Pennacchio, Rooney, Vandervalk.

**NOT VOTING (2)**
Bodine, Fraguela

**This page URL**:
http://njpp.org/rpt_takingcare.html