NEW JERSEY POLICY PERSPECTIVE

ECONOMIC DEVELOPMENT ACCOUNTABILITY PROJECT

Telcom Giant Dials "M" For Money
and New Jersey Picks Up the Charges
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THANKS FOR COMING

The telecommunications firm Verizon-nationwide provider of phone and Internet service-has had a large presence in New Jersey dating back to predecessor firms New Jersey Bell and Bell Atlantic. And that presence will grow considerably with the company's plans to open an operations center on a sprawling corporate campus in Basking Ridge.

It should not seem surprising that a major firm would want to be in New Jersey; the state has long proven an agreeable site for many major corporations. The state is just across the Hudson River from New York, arguably the world's financial center. New Jersey has invested over the years in a high-capacity transportation infrastructure and has taken notable steps to preserve its air, water and open space. The suburban communities that dot the landscape boast some of the best public and private schools in the nation. New Jersey's workforce is among the nation's best educated and a surge in immigration has produced throngs of people eager to work their way up.

But as compelling as New Jersey's attributes might be, Verizon announced its latest commitment to the state only after New Jersey agreed to provide the firm with upwards of $80 million in various tax breaks over a 10-year period. According to published reports, if New Jersey's offer was not to Verizon's liking, the firm was prepared to shift significant parts of its operations to Virginia. Indeed, Acting Gov. Richard Codey was quoted as saying, "It was a fight between me and the governor of Virginia. They worked just as hard as we did."

To a company that had net income of $7.8 billion last year and beat Wall Street's expectations in the first quarter of 2005, with a $1.76 billion profit, New Jersey offered the following:

1. Nearly $64 million from the state's Business Employment Incentive Program (BEIP), which gives companies a portion of the state income tax they withhold from employees and that otherwise would go into the state treasury. BEIP money is awarded to firms that move to, or stay in, New Jersey and increase the size of their workforce.
2. Tax credits amounting to nearly $3 million under the state Business Retention and Relocation Assistance Grant (BRRAG) program. BRRAG is for companies already in

the state that decide to consolidate New Jersey facilities and retain jobs in the process.

3. An exemption, also under BRRAG, from paying sales tax on equipment, furniture, building materials and anything else Verizon buys in connection with its move to the facility Verizon purchased from Pfizer in Basking Ridge. State officials have not said how much the exemption is likely to be, but based on published reports about how much the firm plans to spend on renovations, a figure between $11 million and $15 million seems accurate.

Verizon bought the new site-the former AT&T headquarters-to house top-level management and other staff in its Domestic Telecom and International units and Verizon Wireless. The 135-acre complex contains seven interconnected buildings totaling over a million square feet of space.

New Jersey officials hailed Verizon's decision, and boasted of the state's role in persuading the firm to make that decision. Verizon was praised as a good corporate partner; New Jersey was touted as "the right place for business to do business" by Acting Governor Codey; and other officials proclaimed the event sent a message that New Jersey is once again a national leader in telecommunications.

But aspects of this deal raise questions about how good a deal it really is for the taxpayers of New Jersey-and whether the state should be so heavily invested in handing out money to businesses, especially at a time of state financial crisis when funding for many programs is being cut.

Like other states, New Jersey in recent years has stepped up its efforts to attract businesses from other places and retain those already in the state when they threaten to leave. The state offers a growing variety of programs involving grants, tax credits and tax exemptions that revolve around a single concept: job creation. While subsidies and tax breaks for businesses get little public debate and far less scrutiny than other large state expenditures, they are defended by the state, and businesses, for the number of jobs they add to the workforce, and the stated beneficial spin-offs to the economy from the addition of those jobs.

IS VERIZON REALLY ADDING JOBS?

The press release from the Governor's office applauding Verizon's decision said that the company's action's involve retaining 2,000 jobs already in New Jersey and bringing in 1,750 new ones from other states. What it does not mention is how much smaller Verizon's New Jersey workforce is today than it was only a few years ago.

In 2001, the first year of Verizon's existence after it was created from the merger of Bell Atlantic and GTE, Verizon employed 19,051 persons in New Jersey. By 2003, that figure had fallen to 14,923 even though Verizon had received state payouts from earlier grants to bring jobs to New Jersey.

In fact, Verizon announced in March of this year-the same month it accepted the state's offer of millions of dollars-the layoff of 240 more workers at its Morristown customer call and financial services center. These workers are among 850 losing their jobs in connection with Verizon moving the center's operations to North Carolina and one other location in the south. That move was announced a week after the New Jersey Board of Public Utilities granted Verizon a smaller rate increase than it sought. In a March 2004 news release about the move, Verizon Wireless said, "While we could have located our new facility almost anywhere, the people we worked with in North Carolina made the decision easy. Unlike other states, including New Jersey, North Carolina provided us with $10 million in tax breaks and made us feel welcome in every possible way."

The bottom line is that the new jobs Verizon will add in New Jersey-and for which the state will give it millions of dollars-still do not bring the firm's employment total to what it used to be. In essence, the state is paying a company for having downsized. The company, meanwhile, gets money from two states for shifting workers around the map.

DOES VERIZON NEED HELP?

Verizon is no struggling start-up business that can claim it needs a little help from government to make it over the top. Bell Atlantic and GTE were big players before they merged and today Verizon has more customers and higher revenues in both wireless and traditional telephone service than any other company. Consider that:

- Verizon's Chief Executive Officer, Ivan G. Seidenberg, received $11.9 million last year in salary, bonus and stock options. His was the second highest salary in the nation for a telecom CEO. According to the firm's website, Mr. Seidenberg is a resident of New York.
- Verizon has offered to pay at least $8.5 billion to purchase another telecommunications firm, MCI.
- Verizon recently sold its corporate headquarters in New York City for $505 million, considerably more than the $125 million it paid for the Basking Ridge property.

This information makes it difficult to accept the fact that Verizon "needed" a sum of money approaching $80 million from New Jersey taxpayers. Business tax breaks, it seems clear, are less need-based and more like entitlements. A big company that is considering moving to New Jersey from elsewhere, or one that is in New Jersey but says it is considering going to another state, can get millions of dollars just for asking.

COULD THE MONEY BE BETTER SPENT?

New Jersey's fiscal plight and the failure of the economy to return to previous high levels are well documented. The Governor and legislators are working to fill a budget shortfall for the fourth time in four years that this year approaches $4 billion. The Governor has proposed the elimination or reduction of many important state programs-the highest profile among them being property tax rebates. The state's low-income health program is not taking new enrollees. State college tuitions are rising beyond the reach of some students.

The $80 million offered to Verizon over 10 years has many worthy alternatives.

It could provide rental assistance to about 800 very low-income working households.

Or it could help 3,000 low-income people who are elderly and have disabilities pay for work needed on homes that are in need of repair or that need to be refitted to be made accessible.

Or it could fund child care for 2,000 children or open up 2,000 slots in the FamilyCare program to provide health coverage for low-income working parents.

Or it could fund about 1,100 housing vouchers to help low-wage workers save on high commuting costs by living near where they work.

Or it could provide Tuition Assistance Grants to about 1,600 additional college students.

But the money will not be used for any of those purposes. It will be gambled by a state that has decided to use tax dollars to back one particular player in one of the global economy's most volatile sectors.

Not only that, but the state is playing with mostly borrowed money. Under changes made to BEIP in 2003, money awarded to companies no longer is an appropriation in the state budget. Instead, New Jersey sells bonds to investors and uses the proceeds to pay grants to private businesses. That means that future tax receipts must pay back the bonds-with interest. It also means that business tax breaks like BEIP are immune to shrinkage and scrutiny in difficult economic times, unlike so many other areas of state spending. They are not affected by budget cuts because the money no longer comes from the regular appropriations process.

CONCLUSION

To hear state officials describe what happened with Verizon, it sounds like New Jersey and Virginia just played a game and the Garden State won by a score of 1 to 0. "We" got the company and the jobs. "They" didn't.

But the cost was high; if Verizon hires and retains the number of people it says it will, the state will pay over $20,000 for each job. It is unclear what Virginia put on the table; the state's offer has not been made public. New Jersey's decision was made without public debate on the state's priorities and in the face of an increasing body of research across the nation saying that business tax breaks do not produce the benefits their supporters claim, and that states often give more than they need to.

There is no reason to expect that companies will stop playing states off against each other for tax break payments or that they will decline what is offered to them. So reform will have to come from the states themselves. The details of New Jersey's deal with Verizon and the economic climate in which it took place suggest four significant changes in state policy that would help open the process to more public scrutiny and debate. NJPP recommends:

- New Jersey should not be allowed to borrow money again to pay for tax breaks to businesses. These expenditures should come from general appropriations as part of the regular budget process, subject to the same competition for funding as other state programs.
- Any business tax break agreement that costs the state more than $5 million should

require a public hearing by the Legislature and passage of a resolution in favor of the specific project. Over the nine years the Business Employment Tax break Program has existed, 35 companies have been offered grants greater than $5 million out of more than 300 grants that were offered. Such a process would alert the Legislature to businesses' needs and the competing demands on state resources.
- The state should prepare a report each year that shows the total amount of tax revenue lost because of exemptions from the sales tax given to businesses as part of tax break packages. The report should include the name of the business, the project for which the sales tax exemptions were granted and the amount of revenue lost.
- Each year the state budget should include a line item for each company for every known grant payout greater than $25,000 that would take place during the fiscal year under the various state business tax break programs; smaller grants could be combined in one line item. If the grant payout misses the annual appropriation process, the Legislature should pass a supplemental appropriation to provide that funding. These grants are state expenditures just like the grants made to the Special Olympics or the Commission for the Blind and Visually Impaired, which appear annually in the state budget as line items and as such are subject to being raised, lowered or eliminated.

Public officials frequently say that awarding tax breaks sends a signal that the state is hospitable to businesses. Unfortunately it also sends a disturbing signal that the residents of New Jersey are second-class citizens. They must face higher property taxes and college tuitions, decreased access to health care and housing opportunities and any number of other difficulties because there is too little money in the state treasury. But businesses are assured that they will get their money no matter what, because the state is willing to incur debt to make sure they get it.

Requiring a legislative vote on the biggest tax break agreements would greatly raise the visibility of such arrangements. It is in the public interest for that to happen. Every year at the beginning of the legislative budget process, individuals from various advocacy groups come before the Legislature to prove their worthiness for a budget appropriation to help them serve their clients. Corporate executives should have to make the same case for receiving tax dollars in the open, rather than by submitting applications, talking with governmental staffers and getting together with politicians over dinner or in private meetings. Individuals and organizations with alternate ideas for how to spend the money would have a chance to come forward. And elected officials would have to go on record as to their spending priorities.

More disclosure of who gets what, and how much it costs the state each year, would provide greater opportunity for the public, watchdog groups and the press to keep track and assess the impact of business tax breaks. From this knowledge, informed debate can emerge. If business tax breaks are as crucial to building the state's economy as supporters say, shining a brighter light on the process should pose no threat.

Economic Development Accountability Project

NJPP's Economic Development Accountability Project aims at broadening debate over state priorities and bringing more scrutiny and discussion to business tax breaks, a relatively little known but increasingly expensive state government activity. The project will present details and examples of how the business tax break system works and its potential impact on taxpayers.

New Jersey Policy Perspective is a nonprofit, nonpartisan organization established in 1997 to conduct research and analysis on state issues. NJPP began its work on business tax breaks with release in December 2003 of *Taking Care of Business: Does it Cost Too Much?* That report is available online at: http://www.njpp.org/rpt_takingcare.html.

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