

Reining in Corporate Tax Subsidies: A Better Economic Development Playbook for New Jersey

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When the Economic Opportunity Act was signed into law in 2013, New Jersey signaled to corporations that it was open for business. The idea was, by offering overly generous corporate tax subsidies, more companies would choose to expand in or relocate to the Garden State. This, in turn, would create more jobs for New Jersey residents, providing a much-needed boost to the economy.

Instead, by removing oversight safeguards and caps on awards, the economic development legislation enabled an unprecedented spike in corporate tax breaks with questionable benefits, putting a significant drag on future tax revenue for years to come. Today, New Jersey is a national outlier in both the size of its corporate subsidy awards and how little the state receives as a return on its investment.

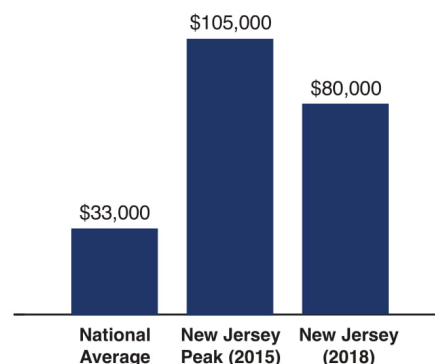
For years, New Jersey lawmakers fixated on big-ticket corporate tax incentives as a key driver of economic development without credible evidence that more is better — and little attention to the collateral consequences or opportunity cost.

But times have changed. High profile debacles like FoxConn in Wisconsin and Amazon's infamous HQ2 search have undermined the public's perception of this costly strategy, both across the nation and here in the Garden State. Now is the opportune time for reform.

The next iteration of New Jersey's economic development strategy must include two main objectives. First, pivot away from overly generous tax breaks — with little oversight — to large corporations, and instead tailor the program toward new companies within promising sectors in locations that have a greater need for job opportunities. Second, and more importantly, redirect the bulk of economic development dollars back into the public assets that have already been proven to make New Jersey an attractive place to grow a business: customized job training, safe roads and bridges, affordable homes, child care, and high-quality public schools all the way from pre-Kindergarten through college.

New Jersey's Subsidized Jobs Far Exceed National Average

*Per job spending on corporate subsidies
spiked under the EOA of 2013.*



Source: Testimony by
Tim Bartik, Upjohn Institute;
NJPP Analysis of EDA data.

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To rein in New Jersey’s corporate subsidies, lawmakers should implement the following reforms:

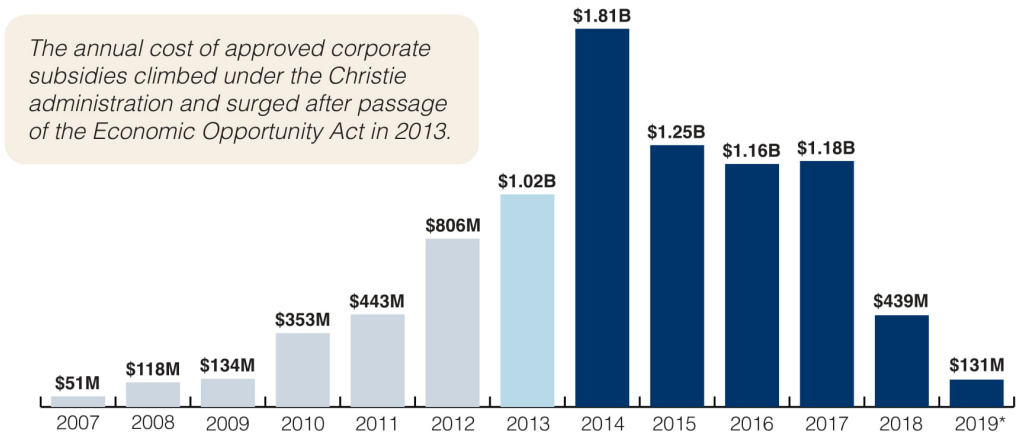
1. Goals driven by national best practices
2. Hard caps on annual and per-job awards
3. Shorter award timeframes
4. Local hiring agreements
5. Strict reporting and evaluation criteria
6. Stronger net benefits test
7. Restrict sale of tax credits
8. Mandatory labor protections
9. Community benefit agreements
10. Prohibit awards to documented “bad actors”

By reining in New Jersey’s corporate subsidies and implementing best practices from across the nation, lawmakers can revamp the state’s approach to economic development and grow an economy that truly generates prosperity for workers, their families, and their communities.

New Jersey’s Corporate Subsidies: Big Cost, Little Return on Investment

On the heels of the Great Recession and under a new administration, New Jersey lawmakers put all their eggs in one basket — corporate tax subsidies — to help jumpstart the state economy. In 2010, Governor Chris Christie’s first year in office, New Jersey approved \$353 million in corporate tax subsidies, a whopping 163 percent increase from the year prior. The price tag of corporate tax breaks surpassed \$1 billion for the first time in state history in 2013. At the end of that year, the Economic Opportunity Act of 2013 (EOA) removed all meaningful caps and safeguards from the state’s corporate subsidy programs opening the door for enormous tax breaks for the next several years. Meanwhile, as the state committed billions in potential tax revenue to already profitable corporations, the state simultaneously cut funding for public schools, NJ Transit, property tax relief, colleges and universities, and affordable housing — all proven drivers of widespread economic growth.

Total Annual Cost of Approved Corporate Subsidies



Source: NJPP analysis of New Jersey EDA data. 2019 data through August 2019.*

Awards and subsidies of this size are woefully out of sync with economic development strategies in other states. Whereas the average per job cost of corporate tax incentives hovers around \$33,000 nationwide, New Jersey’s unrestricted spending spree on subsidies led to a record breaking \$105,192 per job price tag in 2015. Today, the cost still exceeds \$80,000 per job. In Camden, where special provisions in the EOA allowed for bonus awards, the average spending on tax subsidies totals a whopping \$215,000 per job. In some cases, New Jersey agreed to tax breaks worth more than half a million dollars per job.

New Jersey’s Most Expensive Subsidized Jobs

The ten most expensive corporate subsidies, measured per job, since 2013

Corporation	City	Total Award	New Jobs	Retained Jobs	Cost Per Job
Holtec	Camden	\$260,000,000	235	160	\$658,228
ResinTech	Camden	\$138,817,600	173	92	\$523,840
EMR Eastern	Camden	\$148,589,900	285	62	\$428,213
Lockheed Martin	Camden	\$107,000,000	0	250	\$428,000
Philadelphia 76ers	Camden	\$82,040,507	250	0	\$328,162
Conner Strong & Buckelew	Camden	\$86,239,720	111	157	\$321,790
The Michaels Organization	Camden	\$79,378,750	87	188	\$288,650
American Water Works	Camden	\$164,187,735	100	596	\$235,902
NFI	Camden	\$79,377,980	0	341	\$232,780
Subaru of America	Camden	\$117,832,868	100	500	\$196,388

Source: NJPP analysis of New Jersey EDA data (through June 2019)

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This overreliance on corporate tax subsidies flies in the face of economic development best practices and ignores New Jersey’s precarious fiscal reality. In testimony delivered to a senate committee on economic growth strategies, national experts agreed that corporate subsidies like New Jersey’s have questionable benefits for the public good.

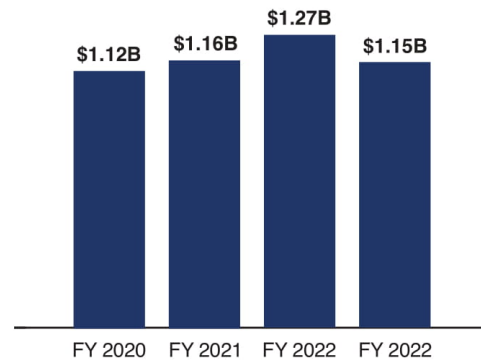
According to Timothy Bartik, Senior Economist at the W.E. Upjohn Institute for Employment Research, at least 75 percent of incentives have no effect on job creation.¹ Worse, corporate subsidies rarely, if ever, pay for themselves because nearly all revenue gained from job creation is offset by necessary public costs used to mitigate its impact. Jackson Brainerd, a policy specialist from the National Conference of State Legislatures, reiterated this position, stating “there is no evidence that the number of tax incentives offered bears any relation to the broader performance of the state’s economy, and there’s quite a bit of evidence that tax incentives often fail to achieve their stated goals and have a negative impact on state fiscal health.”²

Of the \$11 billion in tax subsidies approved since New Jersey began offering them, an outstanding majority have yet to be redeemed. The state's biggest subsidy programs — Grow New Jersey Assistance (Grow NJ), Economic Redevelopment & Growth (ERG), and Urban Transit Hub Tax Credit (HUB) — awarded approximately \$8 billion in subsidies; less than 9 percent of those tax credits have been distributed to corporations that met their qualifying goals, according to the state Comptroller.³

That means the drag on New Jersey's finances has yet to be fully realized. Starting in fiscal year 2020, already-approved tax breaks are estimated to cost New Jersey over \$1 billion in foregone tax revenue.⁴ That figure is likely to grow in future years as more subsidies granted under the EOA are redeemed.

Already-Approved Subsidies Surpass \$1 Billion Per Year

Annual cost of already-approved tax breaks will grow as more subsidies are redeemed.



Source: NJPP analysis of EDA data.

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A New Approach to Economic Development: 10 Key Reforms

To improve the quality of New Jersey's corporate incentive programs, it is vital for lawmakers to pursue a more fiscally responsible approach to economic development that reins in the volume and scope of subsidies. This is especially important considering the state's ongoing struggles meeting its past and current budgetary obligations.

New Jersey should also consider implementing a regional corporate subsidy ceasefire agreement with neighboring states that share a labor market. Modeled after the Kansas City pact, this innovative interstate agreement sets a powerful precedent for the tri-state area, where corporations often threaten to cross state lines in exchange for millions in tax credits.⁵ When tax credits are given to companies that ultimately move within the same metro region, no new jobs are actually created, as they've merely shifted to a different address. A ceasefire agreement would end this costly race to the bottom and demonetize the blackmail tactics made by corporations in exchange for tax subsidies. A resolution introduced by Senator Joe Cryan could be the vehicle for a more regional approach to economic development.⁶

1. Goals Driven by National Best Practices

Before addressing the design, implementation, and oversight of its tax subsidy programs, policymakers should first take a step back and take a long view of the state's role in large-scale economic growth. Are the goals of the state's economic development strategy to encourage job creation and investment in New Jersey? How important is it to play the defensive strategy of keeping jobs from leaving the state? Should the main focus be on boosting economic activity in distressed areas, increasing the state's supply of affordable housing, or investing in young, fast-growing companies? Should tax subsidies be earmarked for sectors that show the greatest potential for growth in the Garden State?

Once the goals are clarified, policymakers would better serve the public good by abiding by the so-called “rule of 98 and 2.”⁷ Businesses typically spend less than 2 percent on state and local taxes. The other 98 percent consists of things like labor costs, raw materials, administration fees, and logistics. New Jersey should treat their economic development dollars in the same manner: de-emphasize large awards for just a fraction of corporations and, instead, invest heavily in the basics that benefit businesses across the state like development of an educated workforce with quality K-12 and higher education, reliable infrastructure, affordable homes, and specialized job training programs.

2. Hard Caps on Annual and Per Job Subsidy Awards

New Jersey has offered corporate tax subsidies as an economic strategy since the 1990s, and though each iteration was slightly different, they always included annual limitations on cost — until the Economic Opportunity Act of 2013. Under the EOA, the job creation program had a spending cap, though it was repeatedly lifted by the legislature. Bypassing such an important cost control mechanism opened up a Pandora’s Box of already wealthy corporations taking advantage of generous tax breaks with lax oversight. If the Grow NJ program included a hard \$200 million spending cap per year, New Jersey would have awarded \$4 billion less in tax breaks over a 7-year period — a whopping 74 percent savings.

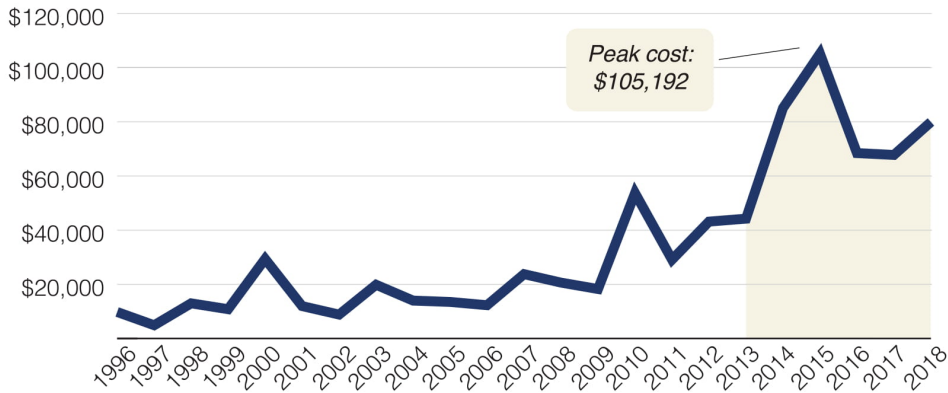
Research by the Pew Charitable Trusts highlights that well-designed tax subsidy programs utilize annual cost limits to address long-term affordability upfront and keep annual costs more predictable.⁸ Governor Murphy’s proposed subsidy programs feature annual spending caps, though the larger programs allow for some flexibility that could prove costly.⁹ The Murphy administration’s jobs-based program, NJ Forward, has an annual soft cap of \$200 million with the option to lift the cap by \$100 million. The real estate subsidy program, NJ Aspire, has a spending cap of \$100 million allocated through biannual applications, with some large-scale projects excluded from the cap. Three other proposed programs have annual caps of \$60 million or less.

To both increase the legislature’s role in oversight and restore the public’s trust in how government invests tax dollars, spending caps should be on the smaller side without exception. Allowing flexibility as proposed in NJ Forward is excessively subjective and vulnerable to the political pressures of a proposed megadeal. Similarly, a proposal introduced by Senator Singleton would give the legislature the authority to enact spending caps on a year-to-year basis for tax credits that foster job creation or retention based on EDA projections.¹⁰

If these programs were instead funded by appropriations, like most government programs, it would give the governor and lawmakers more control of their costs. It would also create another opportunity for lawmakers to understand the size and scope of the state’s corporate tax subsidy programs and hopefully encourage a healthy debate about the right level of funding and how to improve their effectiveness. Although an appropriations process is far more common for cash incentives than it is for tax incentives, it can work for tax incentives, too, according to the Pew Charitable Trusts. For example, in Florida’s budget each year, lawmakers set how much money will be available for several of the state’s programs, including cash and tax incentives. This isn’t a new strategy for New Jersey; the former Business Employment Incentive Program (BEIP) similarly included annual subsidy appropriations in the state’s annual budget.

Per Job Cost of New Jersey’s Corporate Subsidies

Since 2013, the cost of creating jobs has risen to unprecedented levels



Source: NJPP analysis of New Jersey EDA data (through June 2019)

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The removal of spending caps in the EOA also led to skyrocketing per-job costs. New Jersey’s average award per job since the end of 2013 is \$81,300. In Camden, the subsidized jobs average \$200,570 each. Taxpayers subsidized 250 new jobs linked to the Philadelphia 76ers new practice facility for an astonishing \$328,000 per job, while 395 new and retained jobs at Holtec cost \$658,228 each. Considering these egregious costs, New Jersey’s outsized subsidy levels should be cut in half, at least, as measured by dollars-per-job. The Murphy administration’s proposal includes a sensible dollars-per-job cap ranging from \$2,400 to \$6,400 per year, which is more in line with at least 16 other subsidy programs across the country that impose caps of less than \$10,000 per job.¹¹ This best practice helps to avoid giving mega-tax breaks to just a few companies without adequate evidence that the economic benefit will eventually pay for them.

3. Shorter Award Timeframes

New Jersey currently allows projects to qualify for corporate tax subsidies that are paid out over the course of 10 to 20 years, which is much longer than necessary and out of sync with best practices. Research shows that corporations tend to put far less value on money that they are promised a decade from now.¹² Offering shorter timeframes means a state can spend less on subsidies and more easily predict when business will earn or use the awarded credits while receiving the same benefits. The NJ Forward program, the Murphy administration’s job creation proposal, includes this best practice by imposing a timeframe of three years with a built-in two-year extension, if necessary.¹³ The proposal also requires businesses to document performance indicators while committing to maintain their operations in the state for twice as long as their award timeframe. Further, the Murphy administration’s proposed historical preservation and environmental cleanup programs have one-year timeframes.

4. Local Hiring Agreements

Under the EOA, the EDA awarded large-scale tax subsidies to “distressed municipalities” to encourage investment, business development, and employment in those areas. New Jersey’s designated Growth Zones include Atlantic City, Camden, Passaic, Paterson, and Trenton. However, the overwhelming majority of these awards — over 85 percent — went to Camden without specifically tailored requirements to ensure local hiring.

Thirty-six projects were approved since 2013 without any meaningful guarantee to Camden residents that local hiring would be a priority. Instead, the subsidized jobs were typically filled by workers who commute across city limits, while the vast majority of construction jobs associated with 25 subsidized projects came from outside the city.¹⁴ This further debunks the trickle-down philosophy underpinning the state's economic development strategy. Simply targeting subsidies in a "distressed municipality" does not guarantee jobs, let alone good paying ones, for local residents.

Tax subsidies for distressed local labor markets must be tied to first source hiring agreements and customized job training to encourage prioritized hiring of unemployed local residents. Research demonstrates that this targeted strategy has social benefits that endure even if the initial job is short-lived.¹⁵ In other words, efficiently run job training programs may give New Jersey a better return on investment than reducing the tax burden of corporations. The Murphy administration's proposal offers bonuses in its job creation program to encourage local hiring.¹⁶ The bonus structure should instead be a *requirement*.

5. Strict Reporting and Evaluation Criteria

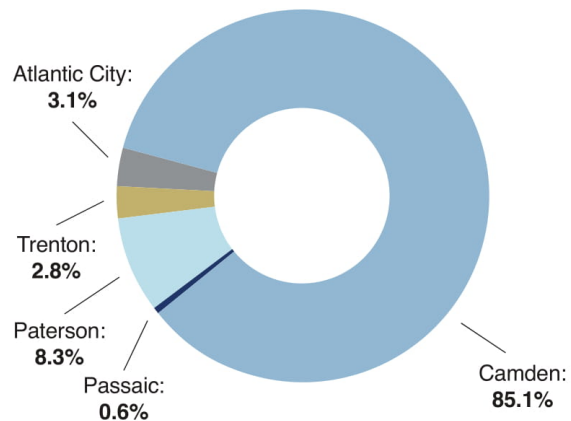
Based on the selected findings of the state Comptroller's audit and the EDA Task Force, major flaws persist in the state's monitoring of tax subsidy recipients and evaluation of the EDA's overall effectiveness. In 2007, the state mandated a report — the Unified Economic Development Budget (UEDB) — to provide important and detailed information about larger tax subsidies and the types of jobs they created. That report has never been produced. While there have been annual reports on tax breaks produced since 2010, the UEDB would provide a more comprehensive look at the state's subsidy programs. The EDA has taken steps to produce a similar annual report, but it is not enough given the mounting evidence of mismanagement, or worse, corruption.

Policymakers must first assess why New Jersey has a track record of failing to monitor and enforce its performance standards before crafting effective and enforceable reform measures. The assessment criteria in the Murphy administration's proposal includes annual reporting by award recipients on the number of new and retained jobs, along with their salaries.¹⁷ Self-reporting like this should be paired with real-time data from the Departments of Labor and Treasury to ensure accuracy and oversight.

Lawmakers must also fully commit to establishing a regular, independent evaluation process in order to effectively analyze the design, administration, and effectiveness of the state's subsidy programs. The recent studies from the Bloustein School at Rutgers University and the Comptroller are not enough. Pew's research shows that states benefit significantly from

Grow NJ Subsidy Awards in Growth Zone Cities, Post 2013

Camden received more Grow NJ awards than all other Growth Zone cities combined.



Source: NJPP analysis of EDA data.

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recurring evaluations. This is evidenced by thirty states utilizing this sort of evaluation process, with many states using the findings to reform their tax subsidy programs.

The Murphy administration's proposal includes a biennial, independently produced report with a detailed analysis of the tax subsidies' effect on a business' relocation decision, the return on investment for the award, the impact on the state's economy, and other metrics based on national best practices.¹⁸ However, rather than relying on a sub-contracted college or university for such a report, a biennial performance audit produced by the Comptroller would be much more effective as it is less likely to invoke any concerns over conflicts of interest.

Finally, lawmakers must get a better handle on the budgetary impact of already-approved subsidies. Without this data, policymakers are left in the dark when the costs of tax subsidies begin to rise, leaving them unprepared for increases or ill-equipped to change the design of the programs. Right now, at the request of the Office of Legislative Services (OLS), the EDA voluntarily provides 5-year fiscal impact estimates of already approved awards on the state's budget.¹⁹ Should OLS cease to ask for this information, there is no guarantee that the EDA will continue to supply such data. This is especially concerning for New Jersey given the enormous long-term obligations the state has made since the EOA was enacted. Policymakers would benefit from an annual forecast of the cost of each program in addition to data on maximum liabilities. Not only should this forecast be required by law to ensure transparency, but it should more closely match the lifespan of the approved tax subsidies to better estimate future revenue loss over the long term. A multi-year forecast requirement is not included in the Murphy administration's proposal.

6. Stronger Net Benefits Test

Lawmakers need to build upon the EDA's changes to the "net benefits test," which is the statutory formula used to estimate the economic benefits of tax subsidies. As a basic taxpayer protection, a strong net benefits test restores a sense of fiscal responsibility and realism that has been sorely lacking since the passage of EOA. The EDA's "net positive benefit" test has since been improved to cover the time period a business commits to maintaining the awarded project. However, there are loopholes that allow projects within a specific place, particularly Camden, to water down this provision.

The claw back formula in the net benefits test has also been improved administratively, but it does not apply to every project administered by the EDA. It is imperative that carve-outs for this provision be *eliminated*.

The legislation guiding the EDA can be significantly improved to deliver better outcomes for workers and communities with the following recommendations: codify stringent tax subsidy standards for retained jobs, close all job retention loopholes in EOA, and place a cap on the percentage of tax subsidy dollars awarded to job retention (e.g., 10 percent of gross tax credits).

7. Restrict Sale of Tax Credits

Tax credits are not always awarded to corporations that necessarily need them. When a recipient firm is awarded a tax credit that exceeds their annual tax liability, they may sell their award to other businesses for cash on a secondary market. In fact, most recipients of tax subsidies in New Jersey do just that, casting doubt on whether these programs target the correct businesses. Since 2011, over three-quarters of corporations that received tax credit awards sold their tax credits, and at a significant discount.²⁰ This practice then leaves the state

Treasury to contend with unexpected corporate tax revenue shortfalls as it does not learn of tax credit sales until the new owner files to cash them in.

The sale of tax breaks would still be allowed under the Murphy administration's proposal, but with a nod toward better transparency by making these transactions publicly available on the EDA website²¹ In some cases, a 10 percent sales tax would be applied, closing revenue gaps caused by companies cashing in discounted tax subsidies they bought on the secondary market. These are important first steps, but more should be done to restrict a practice that benefits corporations more than New Jersey taxpayers. For starters, the 10 percent sales tax should be applied to the sale of all tax credit awards, and documented "bad actors" should be barred from purchasing tax breaks on the secondary market (see below).

8. Mandatory Labor Protections

Under the EOA, applicants of Grow NJ were offered a bonus of up to \$1,500 per job if the average salary was either more than the existing county average or more than the average salary in one of the Growth Zone cities (Atlantic City, Camden, Trenton, Passaic, and Paterson). Offering bonuses as a way to further an important policy objective, such as creating jobs that pay a living wage, is an insufficient approach. In fact, the EOA had originally mandated that building services workers (such as custodial and security staff) on any project or development that received tax credits could be paid no less than the prevailing wage for that industry or sector. It was the only part of the Economic Opportunity Act of 2013 conditionally vetoed by then-Governor Christie.

A bill introduced by Senator Singleton would reinstate this provision, while the Murphy administration's proposal goes further, including not just building workers but also construction workers.²² Still, policymakers should be more proactive to ensure that all new subsidized jobs have salaries that are above existing market averages for the geographic area, industry, or occupation.

Policymakers should mandate other labor protections that play a key role in fostering a strong and healthy state economy in New Jersey. For example, companies that receive tax subsidies should be required to implement fair work schedules and production quotas, enter collective bargaining agreements with labor unions, provide affordable healthcare, and guarantee workplace safety standards. These priorities are critical because when workers have rights, poverty rates go down, the use of government benefits programs decrease, wages go up, workers' safety improves, and economic stability and prosperity prevails.

9. Community Benefit Agreements

The Murphy administration's reform proposal features bonus structures to encourage community benefit agreements to generate local employment, good paying jobs, innovative technology, incubator development, and more.²³ However, offering bonuses does not go far enough in advancing critical policy priorities.

Lawmakers should eliminate bonus options as a tactic and instead require community benefit agreements for all projects to encourage strong environmental standards, job training, targeted labor protections, affordable housing set-asides, and market-based wage standards. This model allows community groups to have a voice in shaping a redevelopment or job creation project by pressing for community benefits that are tailored to their particular needs. The fulfillment of

commitments made to the community by the award recipient would need to be submitted to the EDA in order to certify their compliance with the community benefits agreement.

10. Prohibit Awards to Documented “Bad Actors”

Currently, the EDA has rules in place which prohibit corporations from receiving tax subsidies if they violated certain state and federal laws. However, the process of vetting applicants properly has proven to be faulty based on recent reports of awards going to corporations that should have been disqualified from the very beginning. Again, staff at the EDA need better training to ensure tax dollars are not benefitting bad actors. Additionally, the scope of what constitutes disqualification should be expanded. Senators Cruz-Perez and Singleton have introduced a bill that would prohibit tax subsidies being awarded to businesses that are at least two years overdue paying off a previously awarded loan.²⁴ Other types of bad corporate practices that should lead to disqualification include federal tax dodgers that park their profits with a smaller foreign affiliate to avoid federal and state taxes, and businesses that have been found guilty of wage and hour violations.

End Notes

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- ¹⁵ Bartik in Greg Schrock, *Remains of the Progressive City? First Source Hiring in Portland and Chicago*, Urban Affairs Review, 2015. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.832.6973&rep=rep1&type=pdf>
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