LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

SENATE, No. 917

STATE OF NEW JERSEY
214th LEGISLATURE

DATED: JULY 19, 2010

SUMMARY

Synopsis: "Fort Monmouth Economic Revitalization Authority Act."

Type of Impact: Probable revenue loss to the State General Fund.

Agencies Affected: Department of the Treasury.
New Jersey Economic Development Authority.
Some local governments.

Office of Legislative Services Estimate

Fiscal Impact	Fiscal Year 2011 and beyond
State Revenue Loss	Probable Revenue Loss of Indeterminate Scale-See comments below

- The Office of Legislative Services (OLS) deems it likely that the bill would lower State General Fund collections but a lack of data precludes the quantification of that impact. All but one of the bill's fiscal provisions are cost-neutral to the State and local governments in that they raise the amounts necessary to fund redevelopment activities. The bill's only net impact on State finances would accrue on account of the reduction in the State sales tax rate from 7.0 percent to 3.5 percent in any potential infrastructure district. Information related by the New Jersey Economic Development Authority (EDA) suggests that this revenue loss would be at most $9 million per year. Nevertheless, the OLS cannot verify the accuracy of the underlying EDA estimate that new retail and hospitality establishments in the redevelopment area would generate $18 million in new annual sales and use tax revenue since the EDA did not provide backup material in support of its estimate.

- Whether the State would gain or forego sales tax revenue as a consequence of this bill would depend on the proportion of taxable sales in any infrastructure district that would be displaced from other New Jersey merchants relative to new sales to New Jersey. For the bill's sales tax provision to be revenue-neutral, 50 percent of the sales would have to be new to New Jersey. If new sales to New Jersey were to comprise less than 50 percent of retail sales in the district, the bill would depress State sales tax collections; conversely, if new sales to New Jersey were to comprise more than 50 percent, the bill would augment State sales tax

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proceeds. Given that a contractor's analysis of the retail market around Fort Monmouth found no unmet demand for retail, that Fort Monmouth is not positioned to easily attract out-of-state shoppers, and that the redevelopment plan does not seem to call for Fort Monmouth to become a major shopping destination, the OLS surmises that it would be probable for new sales to New Jersey to make up less than 50 percent of retail sales in Fort Monmouth—and hence that the State would forgo sales tax revenue if the bill was enacted.

- The OLS does not estimate the economic and fiscal impacts of the "Fort Monmouth Reuse and Redevelopment Plan," but limits itself to analyzing the effects of the bill's financing tools and fiscal provisions on State and local finances.

BILL DESCRIPTION

Senate Bill No. 917 (2R) of 2010 establishes the "Fort Monmouth Economic Revitalization Authority" to implement the "Fort Monmouth Reuse and Redevelopment Plan." Fort Monmouth is a federal military installation that is scheduled to be closed in 2011 and whose land is to be redeveloped for civilian use.

The authority's 13 members shall serve without compensation but may be reimbursed for expenses incurred in the discharge of their duties. The authority shall have an office in the EDA staffed by EDA employees who are supervised by the EDA and who carry out the policies set forth by the authority.

The authority may create a Fort Monmouth special improvement district in which a special property assessment may be imposed on nonresidential real estate to cover the costs of the authority, including those of any development, construction, and acquisition in the district; and any related cost incurred by local governments.

The authority may also create a Fort Monmouth transportation planning district to undertake transportation projects at Fort Monmouth. The authority shall identify public and private financial resources to fund such projects. In addition, the district may levy development fees to defray the projects' costs.

The authority may also establish an infrastructure district to improve the infrastructure at Fort Monmouth. To finance these activities, the authority may assess a franchise assessment of up to 3.5 percent against certain retail sales in its jurisdiction that are subject to the sales and use tax. Vendors in the infrastructure district may apply to the EDA for certification that would reduce the State sales and use tax from 7.0 percent to 3.5 percent so that the total tax rate would not exceed 7.0 percent (3.5 percent to the State and not more than 3.5 percent to the infrastructure district). The assessment and the reduction would not apply to sales of motor vehicles, alcoholic beverages, cigarettes, and energy.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The OLS has not received an official fiscal estimate from the Executive, but, upon inquiry, the EDA submitted economic and fiscal information on the Fort Monmouth Reuse and Redevelopment Plan.

The EDA reports that 2 million square feet of office space would be built or renovated over the 20 years of implementing the redevelopment plan, which would provide an estimated 4,900 full-time positions and generate $24.7 million in annual State wage taxes.

In addition, 760,000 square feet of retail and hospitality space would be built or renovated, which would create an estimated 1,900 full-time positions and generate over $18.0 million in annual sales tax collections.

Lastly, the redevelopment plan would place 330 acres of land on the property tax rolls of Eatontown, Oceanport, and Tinton Falls. The total includes 2.4 million square feet of housing to be built or renovated.

OFFICE OF LEGISLATIVE SERVICES

The OLS deems it likely that the bill would have a negative net effect on State General Fund collections but a lack of data precludes the quantification of that impact. All but one of the bill's fiscal provisions are cost-neutral to the State and local governments in that they raise the amounts necessary to fund redevelopment activities. The bill's only net fiscal impact on the State would accrue on account of the reduction in the State sales tax rate from 7.0 percent to 3.5 percent in any potential infrastructure district. Information related by the EDA suggests that this revenue loss would be at most $9 million per year. Nevertheless, the OLS cannot verify the accuracy of the underlying EDA estimate that new retail and hospitality establishments in the redevelopment area would generate $18 million in new annual sales and use tax revenue at the full sales tax rate of seven percent since the EDA did not provide backup material in support of its estimate.

In making its assessment, the OLS assumes that the "Fort Monmouth Reuse and Redevelopment Plan" may be implemented with or without this legislation and that the legislation merely sets the modalities and provides financing tools therefor. Consequently, the office does not estimate the economic and fiscal ramifications of the redevelopment plan proper, but limits itself to analyzing the effects of the bill's financing tools and fiscal provisions on State and local finances, as they represent a policy choice concerning the allocation of the redevelopment cost.

Cost-Neutral Provisions: All but one of the bill's fiscal provisions are cost-neutral to the State and local governments in that they raise the amounts necessary to fund redevelopment activities. The OLS, however, lacks pertinent information to estimate the redevelopment expenses that would be financed through special, dedicated assessments authorized by the legislation. The assessments are:

1) a special assessment on nonresidential property in any Fort Monmouth special improvement district to defray the expenses of redevelopment activities, including administrative costs, of the Monmouth Economic Revitalization Authority and the special improvement district;
2) development fees in the jurisdiction of any Fort Monmouth transportation planning district to cover the district's expenditures; and
3) a franchise assessment of no more than 3.5 percent on the taxable sales of retailers located in any infrastructure district to finance the district's infrastructure investments.

Reduced State Sales and Use Tax Rate: The bill's only fiscal net impact on the State would stem from reducing the State sales and use tax rate from 7.0 percent to 3.5 percent in any infrastructure district the Monmouth Economic Revitalization Authority may designate (the bill also authorizes the imposition of an additional sales tax, called a franchise assessment, of up to 3.5 percent on retailers in any infrastructure district to finance the district's expenses—hence, the bill does not necessarily change the tax that consumers would be charged in the district but it does alter the allocation of tax collections).

For purposes of this analysis, the OLS accepts the EDA estimate that $18 million in sales tax revenue would be generated annually by retailers in the redevelopment area at the full tax rate of seven percent, and assumes that all retailers in the redevelopment area would be located in an infrastructure district. Since the bill would reduce the State sales tax rate by 50 percent in the district, its retailers would collect $9 million in State sales tax revenue. The OLS cautions, however, that the $9 million would only represent a revenue gain to the State if all underlying sales were new to New Jersey. In fact, for reasons explained below, the OLS surmises that the bill is likely to cause a *revenue loss* to the State of no more than $9 million.

In general, whether the State would gain or forego resources depends on the proportion of taxable sales in the infrastructure district that would be displaced from other New Jersey merchants relative to new sales to New Jersey. For the bill's sales tax provision to be revenue-neutral, 50 percent of the sales, or sales representing $4.5 million in State sales tax collections, would have to be new to New Jersey (for every new sale, the State receives an additional 3.5 percent of receipts in sales tax revenue, while it looses 3.5 percent of receipts in sales tax revenue for each purchase that is displaced into the infrastructure district from elsewhere in New Jersey where the purchase would have been taxed at 7.0 percent). If new sales to New Jersey were to comprise less than 50 percent of retail sales in the district, the bill would depress State sales tax collections; conversely, if new sales to New Jersey were to comprise more than 50 percent, the bill would augment State sales tax proceeds. Thus, if all the sales were new to New Jersey, the State would gain $9.0 million in sales tax revenue, and if all sales were displaced from elsewhere in New Jersey, the State would forego $9.0 million in sales tax revenue. But because the OLS lacks information on the percentage of retail sales in the district that would be new to New Jersey, it cannot determine either the direction or the scale of the change in State sales tax collections.

Nevertheless, the office suspects that new sales to New Jersey would likely make up less than 50 percent of retail sales in any infrastructure district—and that the bill would therefore cause a State revenue loss. The office bases its impression on the "Regional Economic Profile and Market Analysis" prepared by Economic Research Associates (ERA) for the Fort Monmouth Economic Revitalization Planning Authority. In its analysis, ERA concludes that "there appears to be no remaining demand for retail by 2011 [in the trade area in and around Fort Monmouth]." According to ERA, Monmouth Mall—a regional shopping center with over 1.4 million square feet of rental—is only two miles from Fort Monmouth, Route 35 is already a major retail corridor, and retail building plans in the area will absorb currently unmet demand for retail by 2011. While new retail at Fort Monmouth could benefit from shoppers being willing to travel longer distances to this major retail area, the OLS doubts that many of those sales will be new to New Jersey, as it is too far away from out-of-state shoppers and as Fort Monmouth retail plans do not seem to call for turning Fort Monmouth into a shopping destination to which out-of-staters might be willing to travel. The OLS thus expects most retail sales at Fort Monmouth to cannibalize sales that would have otherwise occurred elsewhere in New Jersey with the attendant consequence of a net sales tax revenue loss to the State.

Section: *Revenue, Finance and Appropriations*

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This fiscal estimate has been prepared pursuant to P.L. 1980, c.67 (C.52:13B-6 et seq.).