LEGISLATIVE FISCAL ESTIMATE

ASSEMBLY COMMITTEE SUBSTITUTE FOR

ASSEMBLY, No. 4432

STATE OF NEW JERSEY
217th LEGISLATURE

DATED: JULY 13, 2017

SUMMARY

Synopsis:	Provides increased tax credit amounts under Grow New Jersey Assistance Program for certain businesses that have collaborative research relationships with colleges or universities.
Type of Impact:	Possible decrease in State revenue
Agencies Affected:	New Jersey Economic Development Authority.

Office of Legislative Services Estimate

Fiscal Impact	**Year 1**	**Year 2**	**Year 3**
State Cost	Indeterminate Decrease – See comments below.		

- The Office of Legislative Services (OLS) finds that the bill will result in an indeterminate decrease in State revenue as a result of increased tax credits for businesses that receive Grow New Jersey Assistance (GROW) Program tax credit awards. The number of businesses eligible for the increased tax credit amounts that will actually receive GROW awards under the program is not subject to accurate qualification.

- This decrease in revenue is likely to be offset to some degree by an indeterminate increase in revenue realized through an increase in business activity incentivized by the GROW Program award. The EDA administers a net benefits test that is intended to ensure that over a 20 to 30 year period of time, the business activity will generate an amount of tax revenue at least 110 percent greater than the amount granted in the form of tax credits over 10 years.

BILL DESCRIPTION

The Assembly Committee Substitute for Assembly Bill No. 4432 of 2016, amends the "Grow New Jersey Assistance Act," P.L.2011, c.149 (C.34:1B-242 et seq.), to encourage businesses to enter into collaborative research relationships with New Jersey colleges and universities.

Under the bill, a business may qualify for the highest base tax credit amount under the GROW Program, $5,000 per job, per year, if the business locates a qualified business facility at or within three miles of a New Jersey doctoral university, and the facility is used by the business in a targeted industry to conduct a collaborative research relationship with that university. The bill uses the Carnegie Classification of Institutions of Higher Education's Basic Methodology to define New Jersey doctoral universities, which are: Montclair State University, New Jersey Institute of Technology, Princeton University, Rowan University, Rutgers, the State University New Brunswick and Newark campuses, Seton Hall University, and Stevens Institute of Technology.

Additionally, the bill would establish a new bonus category that would potentially increase the amount of a Grow Program tax credit by $1,000 per job, per year, if the business: is in a targeted industry, locates a qualified business facility on, or within three miles of, the campus of a college or university other than a doctoral university, and the facility is used by the business to conduct a collaborative research relationship with the college or university. This bonus category would apply to collaborative research relationships entered into with the following colleges and universities: Atlantic Cape Community College, Bergen Community College, Bloomfield College, Brookdale Community College, Caldwell University, Camden County College, Centenary University, College of Saint Elizabeth, County College of Morris, Cumberland County College, Drew University, Essex County College, Fairleigh Dickinson University-College at Florham, Fairleigh Dickinson University-Metropolitan Campus, Felician University, Georgian Court University, Hudson County Community College, Kean University, Mercer County Community College, Middlesex County College, Monmouth University, New Jersey City University, Ocean County College, Passaic County Community College, Pillar College, Ramapo College of New Jersey, Raritan Valley Community College, Rider University, Rowan College at Burlington County, Rowan College at Gloucester County, Rutgers, the State University Camden campus, Saint Peter's University, Salem Community College, Stockton University, Sussex County Community College, The College of New Jersey, Thomas Edison State University, Union County College, Warren County Community College, and William Paterson University of New Jersey.

The bill would require the Economic Development Authority (EDA), through regulation and in consultation with the Secretary of Higher Education, to establish standards for collaborative research relationships between businesses in targeted industries and colleges and universities necessary to qualify a business for an enhanced base or bonus tax credit amount under the bill.

The "Grow New Jersey Assistance Act" currently defines the term "targeted industry" as an industry identified as such by the EDA, and specifically names the following industries: transportation, manufacturing, defense, energy, logistics, life sciences, technology, health, and finance.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services (OLS) finds that the bill will result in an indeterminate decrease in State revenue as a result of increased tax credits for businesses that receive GROW

Program tax credit awards. The bill does not change the fundamental eligibility for the receipt of a tax credit under the GROW Program, so it is unlikely to impact whether a business does or does not receive an award from the EDA. The increase in the size of awards near certain colleges and universities for certain research relationships with those colleges and universities has the potential to attract new businesses to the State in these areas that would not have otherwise located in the State, due to these incentives. To the extent that new businesses are recruited to the State as a result of these incentives, the changes to the program could result in additional companies applying for and receiving GROW awards. Similarly, the size of the incentives could encourage certain existing businesses to execute expansion plans in the State or move their business within the three-mile radius of a college or university campus in order to obtain the increased tax credit levels under the amendments to the GROW Program.

The magnitude of the decrease in State revenue resulting from increased tax credit awards cannot be determined because it is not clear how many businesses eligible for the increased tax credit amounts will actually receive GROW Program awards. There are potentially a large number of businesses in the State that are both located within the required proximity and have a relationship to eligible colleges and universities. What is not clear is how many of those businesses have relocation plans or the ability to expand their business in a way that would make them eligible for an award under the GROW program. Further, until the EDA establishes standards for collaborative research relationship, it is not possible to project which subset of business relationships with colleges and universities will qualify.

The revenue impact of the bill would be attributable to the following: 1) the full tax credit amount from applications that would not have occurred if not for the increased award amount; and 2) of the applications that would have occurred absent the bill, the marginal increase in tax credit amount attributable to the increased per employee tax credits over the amounts in existing law.

This decrease in revenue is likely to be offset to some degree by an indeterminate increase in tax revenues realized through an increase in business activity incentivized by the GROW Program award. It cannot be known at this time how much additional revenue will be generated by the new business activity. It is possible that there are some businesses that will apply for a GROW Program award under the existing GROW Program, and any increase in tax credit amounts to these businesses would need to be decreased from the revenue increase from the business activity, because existing law would have been sufficient to incentivize that increase in business activity. For businesses that do have their business location or expansion decisions impacted by the provisions of this bill, the amount of tax revenue they generate, less the cost of the tax credits represents a direct revenue benefit.

These direct revenue benefits are mitigated to some degree by an indirect negative revenue impact that occurs because to the extent the businesses receiving GROW Program benefits are competing with existing State businesses that are not receiving tax credits, any cannibalization of existing State business activity is generating activity that would have already happened at a lower effective tax rate. Also, some portion of the employees and land involved in this newly incentivized business activity presumably would have been involved in some level of lesser activity that would have generated some level of tax revenue. This indirect increment is not considered by the EDA when calculating the net benefit to the State.

The net benefits test administered by the EDA is intended to ensure that over a 20 to 30 year period of time, the business activity will generate an amount of tax revenue at least 110 percent greater than the amount granted in the form of tax credits over 10 years. While this test does not include the indirect impacts noted above that represent revenues realized “if not for” the GROW Program awards, due to differences between the time in which tax credits are awarded and the time over which benefits are calculated creates the possibility that 1) a business could fully acquire its tax credits and then leave the State prior to the completion of the net benefit calculation period; and 2) on a per year basis, the net benefit could be sharply negative in the first 10 years, with the final 10 or 20 years being relied upon to generate large positive revenues to make up for those negative net revenues in the first 10 years.

Section: *Authorities, Utilities, Transportation and Communications*

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

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