

# ASSEMBLY APPROPRIATIONS COMMITTEE

## STATEMENT TO

### ASSEMBLY, No. 3549

# STATE OF NEW JERSEY

DATED: MARCH 22, 2018

The Assembly Appropriations Committee reports favorably Assembly Bill No. 3549.

This bill would extend the duration of each urban enterprise zone (UEZ) for 10 years starting 90 days after the effective date of the bill. This extension will reactivate the five UEZs that expired. Under the bill, qualifying retail businesses in UEZs may continue to charge and collect the State's sales and use tax at one-half of the normal rate. The bill would restore a funding stream to UEZs.

The bill provides that, after dedicating 10 percent of UEZ sales and use tax revenues for administration of the UEZ program, the remaining revenues would be divided equally for UEZ purposes and General Fund purposes. The bill would specify that "UEZ purposes" are limited to economic development and job creation purposes.

#### FISCAL IMPACT:

The Office of Legislative Services (OLS) estimates that the bill will result in reductions in State revenue of about \$19.6 million in FY 2019, about \$43.3 million in FY 2020, and about \$51.2 million in FY 2021. The bill will also result in increased municipal revenue for the benefit of the enterprise zones of \$6.1 million in FY 2019, \$13.4 million in FY 2020, and \$15.9 million in FY 2021. These calculations do not adjust for any potential growth or decline in qualified business sales tax revenue collection in UEZ municipalities due to inflation, State economic climate, changing consumer behavior as tax rates change, or otherwise. These estimates will differ by indeterminate amounts to the extent that those factors alter future sales tax revenues.

The first significant fiscal impact of this bill is due to the expiration of the UEZ designation in Bridgeton, Camden, Newark, Plainfield, and Trenton. Under current law, those UEZs ceased on January 1, 2017. This bill reduces the qualified business sales tax rate in those municipalities to 3.3125 percent and requires the applicable percentage of the sales tax collected in those UEZs to be deposited into the respective Enterprise Zone Assistance Fund (EZAF) municipal accounts. For these five municipalities, the OLS estimates \$6.1 million as the full year amount of UEZ sales tax collections to be deposited into the EZAF for the benefit of the zones, or 45 percent of sales tax collections at the reduced rate (the equivalent of 50 percent of those collections after subtracting the 10 percent retained by the State

to administer the UEZ program). The OLS estimates that \$19.6 million is the total decrease in State revenue, attributable to the \$6.1 million that is instead being deposited into the EZAF for municipal use, and the \$13.5 million in sales tax revenue that is not collected at all due to the reduction of the sales tax rate from 6.625 percent to 3.3125 percent.

The second significant fiscal impact of this bill is due to the subsequent expiration of the UEZ designation in other municipalities. Over the three fiscal years covered by this fiscal estimate, that includes the expiration of the UEZs in Millville and Vineland by October 1, 2019 during fiscal year 2020. Over the remaining months of FY 2020 in which the UEZ designation would have expired, the OLS estimates that qualified businesses in these zones would have collected about \$16.3 million in sales tax revenue at the reduced rate. After deducting the amount retained by the State for revenue and to administer the UEZ program, local revenue to benefit the zone would be \$7.35 million. This amount, plus the local revenues retained by the first five UEZs, equals \$13.4 million in increased local revenue in FY 2020. The amount of reduced State revenue attributable to the renewal of these two UEZs in FY 2020 is \$23.7 million, consisting of the half of the sales tax not collected as well as the amount to be newly deposited into the EZAF over the 9 months of the fiscal year in which these UEZs would have been expired. This combined with the \$19.6 million impact from the first five UEZs accounts equals \$43.3 million in total reduced State revenue in FY 2020. Annualizing the impact of extending the expiration of the Millville and Vineland zones results in an estimated FY 2021 local revenue gain of \$15.9 million and a State revenue decrease of \$51.2 million.