LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

SENATE, No. 250

STATE OF NEW JERSEY
218th LEGISLATURE

DATED: MARCH 28, 2018

SUMMARY

Synopsis: Provides tax credit eligibility for qualified businesses at certain airports under Grow New Jersey Assistance Program.

Type of Impact: Indeterminate fiscal net impact on State General Fund and Property Tax Relief Fund; potential revenue increase to affected local governments.

Agencies Affected: Department of the Treasury;
New Jersey Economic Development Authority; and
Certain local governments.

Office of Legislative Services Estimate

Fiscal Impact	Multi-Year Lifespan of Tax Credit Awards
Direct State Revenue Loss	Indeterminate
Indirect State Revenue Gain	Indeterminate
State Opportunity Cost	Indeterminate
Indirect Local Revenue Gain	Indeterminate

- The Office of Legislative Services (OLS) cannot determine whether the bill will have a positive or negative net fiscal impact on the State. The inability to determine the direction and magnitude of the fiscal net impact is rooted in imperfect information on the number and attributes of projects that, under the bill, might newly qualify for Grow New Jersey Assistance Program (Grow NJ) tax credits.

- The State fiscal net impact is calculated by adding the indeterminate direct revenue loss from awarding additional incentive amounts and their opportunity costs (the fiscal benefits the State forgoes as spending is redirected from one economic activity to another) and subtracting from that sum the indirect revenue gain that will accrue from additional economic activity that the additional incentive amounts will catalyze.

- The bill's direct revenue loss to the State from additional Grow NJ tax credits awarded as a result of the bill cannot be quantified. Any revenue loss related to the additional tax credit amounts, however, will be limited by several factors, such as geographical restrictions, application deadlines, and eligibility requirements.

- The bill might accrue an indeterminate revenue gain to affected local governments if the bill results in the New Jersey Economic Development Authority (EDA) extending financial assistance to business projects that would not be undertaken absent the assistance and if the business projects involve value-increasing improvements to taxable real estate.

BILL DESCRIPTION

This bill allows a business located within the boundaries of a general aviation airport operated by an interstate authority, and located in a county of the sixth class, to receive a base tax credit of $5,000 for each job created or retained under the Grow New Jersey Assistance Program (Grow NJ) if the business is otherwise qualified to receive tax credits under Grow NJ. The bill provides that certain point of sale retail business facilities located within that airport qualify under Grow NJ.

The bill also allows a business, located within the boundaries of a general aviation airport operated by a municipal port authority as of January 1, 2016, that is located in a priority area in a county of the sixth class, to receive a base tax credit of $4,000 for each job created or retained under Grow NJ if the business is otherwise qualified to receive tax credits under Grow NJ. The bill provides that certain point of sale retail business facilities located within that airport qualify under Grow NJ.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS finds the bill may produce an indeterminate revenue gain to affected local governments if the bill results in the EDA extending financial assistance to business projects that would not be undertaken absent the assistance and if the business projects involve value-increasing improvements to taxable real estate.

On the other hand, it is unclear whether the bill will have a positive or negative fiscal net impact on the State. The inability to determine the direction and the magnitude of the fiscal net impact is rooted in imperfect information on the number and attributes of projects that, under the bill, might newly qualify for Grow NJ tax credits.

Conceptually, the State fiscal net impact is calculated by adding the direct revenue loss from awarding additional incentive amounts and their opportunity costs (the fiscal benefits the State forgoes as spending is redirected from one economic activity to another) and subtracting from that sum the indirect revenue gain that will accrue from additional economic activity that the additional incentive amounts will catalyze.

Direct State Revenue Loss: The OLS cannot quantify the direct revenue loss the bill will impose on the State because of imperfect information on the number and attributes of projects that, under the bill, might newly qualify for Grow NJ tax credits.

The bill allows certain businesses located within the boundaries of a "small aviation district" to receive Grow NJ tax credits if those businesses satisfy all other eligibility criteria under the program. The bill defines "small aviation district" as the area within the boundaries of a general aviation airport that is operated by an interstate authority and that is located in a county of the sixth class, which is defined as a county with not more than 125,000 inhabitants that borders the Atlantic Ocean. Only the area located within the boundaries of Cape May County Airport, which is owned and operated by the Delaware River and Bay Authority, currently meets this definition.

The bill also allows certain businesses, located within the boundaries of a general aviation airport operated by a municipal port authority as of January 1, 2016, that is located in a priority area in a county of the sixth class, to receive a base tax credit of $4,000 for each job created or retained under Grow NJ if the business is otherwise qualified to receive tax credits under Grow NJ. The Woodbine Airport is the only general aviation airport that currently meets this definition.

Given that the bill's expansion of the Grow NJ program is targeted, the OLS expects only a limited number of projects to newly qualify for Grow NJ tax credits. Existing program parameters will further limit the State revenue loss, for example, the Grow NJ program requires eligible projects to meet two financial conditions: a) the financial assistance provided must be a material factor in a project's realization; and b) the project must yield fiscal benefits to the State over a period of up to 20 years that equal or exceed 110 percent of the tax credit amount.

Any revenue loss will be: a) temporally limited, for the EDA will only consider applications received prior to July 1, 2019; and b) spread out over several years, for Grow NJ incentive awards are only to be used in up to 10 annual installments following project completion.

Indirect State and Local Revenue Gain: The OLS cannot quantify the legislation's indirect revenue gain to the State and local governments because of imperfect information on the number and attributes of creditable projects within qualifying small aviation districts. But, for reasons explained below, the OLS anticipates the bill's indirect State and local government revenue gain to fall below its direct State revenue loss.

Analytical Framework: Like any government expenditure, economic development incentive awards inject new spending into the economy. Once businesses and individuals receive payments they would not receive absent the incentive awards, at least a portion of these payments will newly circulate in New Jersey's economy and produce so-called "multiplier effects." As the additional financial resources flow through the economy they generate, as a byproduct, additional State and local revenue collections—the indirect revenue gain discussed in this section. Examples are enhanced local property tax collections accruing when an incentive recipient invests the incentive amount in facility improvements, which then appreciate the property's value; or additional State sales and use tax collections from construction workers employed in the facility improvement spending their resultant income on taxable goods and services.

Indirect State fiscal effects offset the State's direct cost of awarding incentives in part or potentially even in whole. Fiscal "multiplier effects" tend to be maximized whenever an incentive award serves as the indispensable impetus for additional spending by the incentive recipient that would not otherwise occur. In this case, the incentive recipient magnifies the positive economic and fiscal impacts of the State's outlay. Depending on project and incentive attributes, the induced project may even yield indirect fiscal State benefits exceeding the cost of the subsidy. The larger the proportion of the public assistance relative to the financial outlay by the subsidized business, however, the lower the probability that the subsidized activity will generate positive net returns to the State.

In contrast, the State's return on investment is negative whenever the State subsidizes a project that a taxpayer would have undertaken with or without public assistance. Because the financial inducement has not caused the project's realization, none of its economic and fiscal feedback effects are attributable to the incentive, and therefore must be excluded from the tabulation of the incentive's indirect fiscal benefits.

Nevertheless, even if the State provides financial assistance to a project that would be realized anyway, some, albeit comparatively small, indirect fiscal benefits may still accrue to the State. These would occur whenever the subsidy beneficiary spends the incentive award in New Jersey on goods and services that the beneficiary would otherwise not have procured. In that event, the incentive award still represents an injection of additional cash into New Jersey's economy whose ripple effects include the accumulation of indirect fiscal State benefits.

Lastly, given the high degree of integration of New Jersey's economy with the national and global economies, an addition of spending in New Jersey will eventually leak into other jurisdictions and cease to circulate within the State. Consequently, any tabulation of a subsidy payment's New Jersey feedback effects must disregard feedback effects that other jurisdictions will absorb.

Bill's State Indirect Fiscal Effects: It is unclear whether the bill's indirect fiscal State benefits will exceed its direct State revenue loss.

The bill may generate additional indirect fiscal benefits to the State in excess of the direct State revenue loss from awarding additional Grow NJ tax credits. This is so because under the program the financial assistance must be a material factor in a project's realization and the project must pass the EDA's net benefit test. The multiplier-based net benefit test calculation is intended to ensure that the EDA will award incentives only to capital projects that are estimated to generate indirect State revenue equal to at least 110 percent of an inducement's direct State revenue loss. Therefore, to the extent that the bill allows for Grow NJ tax credits to projects that otherwise would be ineligible to receive the incentive award needed for project realization, the bill will yield fiscal net benefits to the State.

Irrespective of the magnitude of the bill's indirect fiscal benefits, the analysis of its full impact on State finances is incomplete without considering the bill's opportunity costs.

State Opportunity Costs: Given the State's finite resources and its balanced budget requirement, the decision to award Grow NJ tax credits to eligible projects within small aviation districts will invariably divert resources from policy alternatives to which they would have been applied absent the inducements. These policy alternatives also produce direct State costs and indirect State revenue collections. The concept of opportunity costs captures the value of these fiscal benefits the State forgoes as it redirects cash flows. Once opportunity costs are factored into the analysis, it is therefore possible for a bill to produce a *net* fiscal loss to the State even if its indirect fiscal benefits exceed its direct cost.

For example, if, instead of this legislation, the State invested in road construction the bill would produce a *net* fiscal effect equal to the difference between the total fiscal impact of the Grow NJ tax credit awards to eligible projects within small aviation districts—or the direct State cost of awarding Grow NJ tax credits to those projects, minus the incentives' indirect State fiscal effects—and that of the forgone road construction investment.

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