

LEGISLATIVE FISCAL ESTIMATE
SENATE COMMITTEE SUBSTITUTE FOR
SENATE, No. 846
STATE OF NEW JERSEY
218th LEGISLATURE

DATED: MARCH 1, 2018

SUMMARY

- Synopsis:** Extends duration of first five designated UEZs until September 30, 2019; requires UEZ authority to assess and issue report on UEZ program.
- Type of Impact:** Increased revenue in certain municipalities, decreased State revenue.
- Agencies Affected:** Urban enterprise zone municipalities, Department of Community Affairs, Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State Revenue	(\$3.3 million)	(\$13.0 million)	(\$3.3 million)
State Cost	\$2.0 million once UEZ Authority approves spending.		
Local Revenue	\$2.0 million once UEZ Authority approves spending.		

- The first five urban enterprise zone (UEZ) municipalities established, had their UEZ designations expire on January 1, 2017. Under the bill, upon enactment, those five UEZ municipalities will return to the UEZ program until September 30, 2019, and they will collect a reduced sales tax at the 3.313 percent level and will receive 10 percent of that reduced revenue into their accounts within the Enterprise Zone Assistance Fund (EZAF).
- The extension of UEZs until September 30, 2019 is expected to result in \$3.3 million in FY 2018, \$13.0 million in FY 2019, and \$3.3 million in FY 2020 State revenue loss attributable to the five UEZ municipalities collecting a reduced sales tax, and result in a reduction of \$2.0 million in FY 2018 through FY 2020 increase in State costs attributable to the requirement that 10 percent of the reduced sales tax collections be deposited into the EZAF. The municipalities will ultimately receive the EZAF deposits, so it also represents a \$2.0 million increase in local revenue. These deposits into the EZAF are sales tax revenues that would have otherwise been deposited into the General Fund if the five UEZ municipalities remained expired from the UEZ program.

- Current budget language directs all reduced sales tax revenues collected in UEZs to the General Fund. If that language persists in future budgets, the amount of increased State cost and local revenue in this estimate will not be realized.

BILL DESCRIPTION

This substitute extends the duration of the first five designated UEZs and requires the New Jersey Urban Enterprise Zone Authority (authority) to review and issue a report on the UEZ program. The substitute extends the UEZ designation for certain UEZs located in the cities of Bridgeton, Camden, Newark, Plainfield, and Trenton, commencing on the date the bill is enacted into law and ending on September 30, 2019. The UEZs located in these cities were the first five zones to receive a UEZ designation from the authority in 1983, and UEZ designation for these five zones expired on December 31, 2016.

During the extension, the UEZs in those cities will participate in the UEZ program to the economic benefit of the communities in which the zones are located. Qualified businesses that participate in the program will continue to be eligible for certain UEZ incentives and benefits currently available through the program, including the corporation business tax employees tax credit and the investment tax credit, the sales and use tax exemption for qualified business purchases, and the sales and use tax exemption for energy and utility services, and, if certified, will continue to be permitted to collect the sales and use tax on retail sales made from a place of business located in the zone at one-half the Statewide sales and use tax rate.

After a 10 percent dedication of the reduced-rate sales and use tax revenue to the authority, the remaining 90 percent is to be deposited into the General Fund. The substitute also directs the authority to review and analyze the UEZ program and issue a report on the findings and recommendations to the Governor and the Legislature. The authority is required to complete and transmit the report to the Governor and the Legislature no later than the date that the Governor delivers the budget message for fiscal year 2020 to the Legislature. The report will examine the UEZ program in its entirety, but must specifically address the following: (1) the appropriateness of the criteria evaluated when designating an enterprise zone or UEZ-impacted business district; (2) any additional criteria that should be considered when making or reviewing an enterprise zone designation; (3) whether the designation of a new, or the de-designation of an existing, enterprise zone or UEZ impacted business district furthers the goals of the New Jersey Urban Enterprise Zones Act, and if so, the municipalities, zones, or districts that should be designated or de-designated; (4) impediments to obtaining an enterprise zone or UEZ-impacted business district designation, or to de-designating an existing enterprise zone or district; (5) the economic, employment, and demographic effects attributable to the expiration of the first five enterprise zones; (6) business participation rates; and (7) whether an alternative, location-based program to assist fiscally distressed municipalities is appropriate, and if so, the parameters of such a program that would provide a sufficient return on State investment.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services finds that the bill is expected to result in a FY 2018 \$3.3 million, FY 2019 \$13 million, and a FY 2020 \$3.3 million reduction in State revenue, and a FY 2018 through FY 2020 \$2.0 million increase in State costs and UEZ municipal revenues, as a result of reduced sales tax revenues that are to be deposited into the UEZAF. These calculations do not adjust for any potential growth or decline in overall sales tax revenue collection in UEZ municipalities due to inflation, State economic climate, changing consumer behavior as tax rates change, or otherwise. To the extent that those factors alter future sales tax revenues, these amounts may need to be increased by that indeterminate amount.

Under current law, the UEZ designation in Bridgeton, Camden, Newark, Plainfield, and Trenton expired on December 31, 2016. At that point, the sales tax in the former UEZs increased to the Statewide sales tax rate. This bill reduces the sales tax rate in those municipalities to 3.313 percent until September 30, 2019 and requires 10 percent of the sales tax collected in those UEZs to be deposited into the respective EZAF municipal accounts. For these five municipalities, \$13.0 million represents the full year amount of sales tax revenue that will not be collected as a result of this bill, and \$2.0 million represents the amount over the full 18 month period of an extension, if this bill were to take effect on April 1, 2018, that would be deposited into the UEZAF. The timing of the expenditure of monies from the UEZAF will be depend upon approval by the authority of municipal spending plans, and the drawdown of funds for local costs consistent with those spending plans.

Current budget language directs all reduced sales tax revenues collected in UEZs to the General Fund. If that language persists in future budgets, the amount of increased State cost and local revenue in this estimate will not be realized.

Section: Authorities, Utilities, Transportation and Communications

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