

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

DATED: APRIL 23, 2018

SUMMARY

- Synopsis:** Reinstates and extends duration of certain UEZs; requires DCA to study UEZ program and report recommendations to Legislature.
- Type of Impact:** Decreased State revenue, increased State cost.
- Agencies Affected:** Urban enterprise zone municipalities, Department of Community Affairs, Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
State Revenue	(\$13.5 million)	(\$29.9 million)	(\$35.3 million)
State Cost	Indeterminate		

- The designations of the first five urban enterprise zone (UEZ) municipalities expired on January 1, 2017. Under the bill, those five UEZ municipalities will return to the UEZ program until December 31, 2023, qualified businesses will collect a reduced sales tax at the 3.3125 percent level and all reduced rate revenues collected will be deposited into the General Fund. The State will forego half the sales tax revenue it would otherwise collect, an annual estimated revenue decrease of about \$13.5 million.
- Two zone designations which are scheduled to during fiscal year 2020 will also be renewed: Millville and Vineland by October 1, 2019. Over the remaining months of FY 2020 in which the UEZ designation would have expired, the OLS estimates that the amount of reduced State revenue attributable to the renewal of these two UEZs in FY 2020 is estimated at \$16.4 million over the 9 months of the fiscal year in which these UEZs would have been expired and \$21.8 million over the full fiscal year in FY 2021.
- The impact of extending the expiration of the Millville and Vineland zones results and the continued impact of restoring the first five zones to the program would result in an estimated

FY 2020 State revenue decrease of \$29.9 million and a FY 2021 State revenue decrease of \$35.3 million.

- The extension of all expired and soon to expire UEZs for the period specified by the bill will result in indeterminate annual State revenue decreases through FY 2024. The number of additional years of enterprise zone status differs from zone to zone over this five year period.
- The State will also face an indeterminate cost over the first 12 months of the bill to contract for or conduct internally, a study and report on the UEZ program with Legislative recommendations on how the program should be structured in the future and whether it should be continued.

BILL DESCRIPTION

This bill will reinstate, until December 31, 2023, each urban enterprise zone (UEZ) that has expired. The bill will also extend, until December 31, 2023, the duration of each UEZ that is scheduled to expire prior to December 31, 2023. The bill provides that all reduced-rate revenues collected within a UEZ, during reinstatement or extension, will be deposited in the General Fund.

The bill will require the Department of Community Affairs (DCA) to study the UEZ program and to submit to the Legislature a report and recommendations as to whether the program should continue as is, be amended, or expire. The bill authorizes DCA to enter into an agreement with a third party to conduct the study and prepare the report. The bill requires the Commissioner of Community Affairs, after consulting with the State Treasurer, and prior to the first day of the twelfth month next following enactment of this bill, to submit to the Legislature the report on the Urban Enterprise Zone program and the department's recommendations as to whether the program should be reconstituted, continued as it currently exists, or continued with specific recommended changes.

The bill specifies that the study, report, and recommendations must include an assessment of the following: (1) the adequacy of past funding for UEZs in furthering the goals of the "New Jersey Urban Enterprise Zones Act"; (2) whether changes are needed to address future funding for UEZs in furthering these goals; (3) whether the criteria established for eligibility to assist fiscally distressed municipalities is appropriate; and (4) what parameters should be established to keep UEZ municipalities competitive while providing a sufficient return on State investment.

The bill directs the New Jersey Urban Enterprise Zone Authority to fund the cost of conducting the study and preparing the report from the account maintained in the name of the authority in the enterprise zone assistance fund.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services (OLS) estimates that the bill will result in reductions in State revenue of about \$13.5 million in FY 2019, about \$29.9 million in FY 2020 and about \$35.3 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 other factors. These estimates will differ from actual revenue changes 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 restoring expired UEZ designations in Bridgeton, Camden, Newark, Plainfield, and Trenton. UEZ status in those municipalities ceased on January 1, 2017. This bill reduces the qualified business sales tax rate in those municipalities' zones to 3.3125 percent and requires the reduced rate sales tax collected in those UEZs to be deposited into the State General Fund. For these five municipalities, the OLS estimates an annual reduction of \$13.5 million in sales tax revenue 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 extending the October 1, 2019 (during FY 2020) expiration date of the Millville and Vineland UEZs. Over the remaining months of FY 2020 in which the UEZ designation would have been expired, the OLS estimates that qualified businesses in these zones would have collected about \$16.4 million less in sales tax revenue at the reduced rate. This amount, combined with the \$13.5 million impact from the first five UEZs equals \$29.9 million in total reduced State revenue in FY 2020. Annualizing the impact of extending the expiration of the Millville and Vineland zones in addition to the annual impact from the first five UEZs results in an estimated FY 2021 State revenue decrease of \$35.3 million.

The impact of the bill on State revenue extends beyond the three fiscal years addressed above to December 31, 2023. The aggregate impact of the bill is an indeterminate additional State revenue decrease. Ten additional zones currently have varied expirations dates through December 31, 2023, but under the bill any zone that would have expired before December 31, 2023, is extended until December 31, 2023. Each zone will thus have a different extension length.

The State will also face an indeterminate increase in costs over the first 12 months of the bill to conduct a study and issue a report on the UEZ program. The report is to include Legislative recommendations on how the program should be structured in the future and whether it should be continued. The cost is indeterminate because it is not clear whether the Department of Community Affairs will conduct the study internally, or contract with an outside entity to conduct the study. It is also not clear how comprehensive the report will be, which in turn will dictate the amount of staff time and cost to complete. The cost of the report is to be paid for from balances in the State account of the UEZ assistance fund.

Section: Authorities, Utilities, Transportation and Communications

*Analyst: Patrick Brennan
Senior Fiscal Analyst*

*Approved: Frank W. Haines III
Legislative Budget and Finance Officer*

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