LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY, No. 4

STATE OF NEW JERSEY
219th LEGISLATURE

DATED: DECEMBER 24, 2020

SUMMARY

Synopsis: "New Jersey Economic Recovery Act of 2020"; provides for administration of programs and policies related to jobs, property development, food deserts, community partnerships, small and early stage businesses, State procurement, wind energy, and film production, and makes an appropriation.

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

Agencies Affected: Department of Agriculture.
Department of Community Affairs.
Department of Labor and Workforce Development.
Department of the Treasury.
New Jersey Economic Development Authority.
Certain Local Governments.

Office of Legislative Services Estimate

Fiscal Impact	Multi-Year Lifespan of Incentive Awards
State Expenditure Increase	$55,500,000
Direct State Revenue Loss	Up to $14,400,000,000
Indirect State Revenue Gain	Indeterminate
State Opportunity Cost	Indeterminate
Indirect Local Revenue Gain	Indeterminate
Local Opportunity Cost	Indeterminate

- The Office of Legislative Services (OLS) is unable to ascertain whether the bill will have a positive or negative fiscal net impact on the State because of imperfect information on the number and attributes of projects that will receive incentives as a result of the bill's enactment.

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

- The bill may produce a direct State revenue loss of as much as $14.4 billion, over a multi-year period, from newly established incentive programs and enhancements to existing ones.

- State expenditures will increase by $55.5 million reflecting appropriations to support certain programs and administrative operations.

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

BILL DESCRIPTION

This bill authorizes up to $11.5 billion in new economic development incentives over a seven-year period, allocated among seven separate programs. The table below summarizes key fiscal aspects of each program.

Program	**Historic Property Reinvestment**	**Brownfield Redevelopment Incentive Program**	**New Jersey Innovation Evergreen**	**Food Desert Relief**	**New Jersey Community-Anchored Development**	**New Jersey Aspire and Emerge Programs**
Limits	$50 million annually	$50 million annually	$60 million annually; $300 million total	$40 million annually	$200 million annually	$1.1 billion annually (split)
Refundablilty	Non-refundable	Non-refundable	Non-refundable	Non-refundable	N/A	Non-refundable
Carry Forward	9 years	None	7 years	10 years	None	Varies
Transfer Certificate	Yes	Yes	Yes	No	Yes	Yes
Net Benefit Test	No	No	N/A	No	Yes	Yes
Recapture of Credits	Yes	Yes	N/A	Yes	Yes	Yes
Reporting Requirements	Yes	Yes	Yes	Yes	Yes	Yes

The bill authorizes the Director of the Division of Taxation to purchase unused tax credits from these programs as well as certain Grow New Jersey Assistance Program and State Economic Redevelopment and Growth Grant program incentives.

The bill establishes the Main Street Recovery Finance program providing grants, loans, and loan guarantees to small businesses. The bill appropriates $50 million for this program.

The bill establishes the New Jersey Ignite program, a public-private partnership providing start-up rent grants to collaborative workspaces to support the early months of an early-stage innovation economy business's rent at the collaborative workspace. The bill appropriates $250,000 for this program.

The bill provides tax credits for hiring employees for the manufacture of personal protective equipment capped at $10 million annually for three years.

The bill increase the film tax credit caps by $2.6 billion over 13 fiscal years.

The bill extends Economic Redevelopment and Growth Grant Program deadlines and allows an additional $220 million of tax credits to be awarded under that program.

The bill adjusts the New Jersey Emerging Technology and Biotechnology Financial Assistance Program, including to increase the annual amount of tax benefits that the EDA may approve for transfer between corporations. The bill also revises the New Jersey Angel Investor Tax Credit Act, including to increase the annual tax credit cap from $25 million to $35 million and to add provisions for venture funds.

The bill establishes a working group for the purpose of making recommendations for the establishment of entrepreneur zones throughout the State.

The bill creates an Office of Economic Development Inspector General, requires employment of a Chief Compliance Officer to manage the Division of Portfolio Management and Compliance, and appropriates $250,000 for these purposes.

The bill appropriates $5 million to the EDA to fund zoning and planning grants in government-restricted municipalities and economic development plans for distressed assets in other municipalities.

The bill makes various changes to existing incentive programs, including, but not limited to, eligibility requirements, deadline extensions, and the disbursement of credit awards.

The Assembly Appropriations Committee statement to this bill from December 18, 2020 includes a more detailed discussion of the provisions of the proposed legislation.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS is unable to ascertain whether the bill will have a positive or negative fiscal net impact on the State because of imperfect information on the number and attributes of projects that will receive incentives as a result of the bill's enactment.

The bill may produce a direct State revenue loss of as much as $14.4 billion, over a multi-year period, from newly established incentive programs and enhancements to existing ones. In addition, State expenditures will increase by $55.5 million reflecting appropriations to support certain programs and administrative operations.

The bill is likely to produce a revenue gain for certain local governments if the bill results in the EDA extending financial assistance to projects that would not be undertaken absent the assistance and if the projects involve value-increasing improvements to taxable real estate.

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 precise direct revenue loss the bill will impose on the State, but notes that incentive awards across all programs either newly established or modified by the bill will be largely capped at approximately $14.4 billion and temporally limited. The revenue reduction from any financial assistance may extend past the years allotted for each program, however, as carry forward provisions and tax credit transfer certificates may be redeemable outside that timeframe. The OLS further notes that the bill allow the EDA to recapture or rescind incentive awards under certain circumstances. Those provisions may offset, at least in part, future revenue losses.

Indirect State and Local Revenue Gain: Imperfect information on the number and attributes of projects that, under the bill, might newly qualify for incentive awards precludes the OLS from quantifying the bill's indirect revenue gain to the State and local governments. For reasons laid out below, the OLS cannot project whether the bill's indirect fiscal State benefits will exceed 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 that would otherwise not be received 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 business facility improvements, which then appreciate the property's value; or additional State sales and use tax collections from construction workers employed in a business facility improvement spending their resultant income on taxable goods and services.

Indirect State fiscal effects offset the State's direct revenue loss from 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 subsidy amount. The larger the proportion of the public assistance relative to the financial outlay by the subsidized party, 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 will undertake with or without the 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. For example, a Pennsylvania resident who works as a carpenter on a subsidized redevelopment project in New Jersey will pay Pennsylvania, and not New Jersey, income tax on the compensation earned in accordance with the State of New Jersey and the Commonwealth of Pennsylvania Reciprocal Personal Income Tax Agreement.

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

The OLS expects this bill to lead to the EDA issuing additional incentive awards under both new and existing incentive programs. It is uncertain, however, whether the additional incentive awards will generate indirect fiscal benefits to the State that will exceed the direct State revenue loss resulting from those incentive awards. For two reasons, however, the OLS expects that the indirect fiscal benefits may be less than the direct State revenue loss. First, not all of the EDA's financial assistance programs addressed in this bill are subject to some form of a net benefit test calculation. The traditional 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. However, some programs alter that net benefit test requirement or exclude it entirely. In addition, not all of the programs require that the financial assistance be instrumental to project execution. As a result, the bill allows for projects to receive financial assistance that will happen irrespective of the receipt of the State assistance. Whenever that happens, none of a project's indirect fiscal benefits can be causally attributed to the assistance.

But the OLS points out that it is possible that incentive-receiving projects that will not have been induced by the incentive programs may generate some indirect fiscal State benefits. This would occur whenever recipients of such incentives spend their incentive awards in New Jersey on goods and services that they would not have procured absent the incentive award.

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.

<u>State Opportunity Costs:</u> Given the State's finite resources and its balanced budget requirement, the decision to pursue new incentive programs as well as enhance existing incentive programs 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 foregoes 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 bill, 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 additional incentive awards—or the direct State revenue loss from awarding the additional incentives minus the additional incentives' indirect State fiscal effects—and that of the foregone road construction investment.

Section: *Revenue, Finance and Appropriations*

Analyst: *Jordan M. DiGiovanni*
Revenue Analyst

Approved: *Thomas Koenig*
Assistant Legislative Budget and Finance Officer

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.).