FISCAL NOTE TO

[First Reprint]
SENATE, No. 106

STATE OF NEW JERSEY

DATED: DECEMBER 27, 1996

Senate Bill No. 106 (1R) of 1996 establishes a pinelands enterprise zones pilot program to facilitate the attraction and retention of businesses and jobs within the pinelands region through the use of awards, credits and incentives authorized pursuant to the existing urban enterprise zone program, including but not limited to, the partial exemption of the tax imposed under the "Sales and Use Tax Act," P.L. 1966, c. 30 (C.54:32B-1 et seq.).

The bill requires the New Jersey Urban Enterprise Zone Authority to designate sites for the location of pinelands enterprise zones; however, as amended by the Senate Natural Resources and Economic Development Committee, the bill limits eligibility for designation as a zone to Hammonton and Egg Harbor City.

The bill further directs the authority to report, within 24 months following the designation of the zones, to the Governor and the Legislature on the success of the pilot program, and to provide its recommendation regarding the permanent adoption of a pinelands enterprise zone program.

The bill appropriates $100,000 to the authority to effectuate its provisions.

The Department of Commerce and Economic Development estimates that implementation of the bill will cost approximately $119,900, $96,073, and $119,245, respectively, in the first three years following enactment. The department's estimate includes the cost of salaries and benefits for one economic development representative and one clerk typist, as well as the cost of data processing services and equipment. The first year estimate also includes $14,000 for an automobile for use in the field, while the estimate for year three includes $25,000 for a consultant to perform program evaluation.

In addition, the Department of Labor estimates that the cost of administering the unemployment insurance rebate provision (available to zone businesses under current law) will be approximately $14,000 per year for the part-time services of one auditor. The department further projects the cost of the rebate benefit itself to be approximately $26,671 per zone based upon the experience of the existing urban enterprise zones.

The Office of Legislative Services (OLS) generally concurs with the departments' estimates regarding the bill's administrative costs, noting that, in contrast to the existing urban enterprise zones which

are administered locally, the proposed pinelands zones will be administered by the State for the duration of the pilot program. The OLS does not concur, however, with the Department of Commerce and Economic Development regarding the proposed expenditure of $14,000 for an automobile prior to the authority's recommendation for permanent adoption of the pinelands program. Nevertheless, the OLS notes that, pursuant to current law, the proposed expenditures fall within the total allowable cap (equal to ten percent of program revenues) established for administration of the enterprise zone program. Pursuant to the cap, any administrative expenditures which are in excess of the bill's $100,000 appropriation will be borne by the enterprise zone assistance fund and not by the General Fund.

The OLS also notes that under current law, qualified businesses within the pinelands enterprise zones will be permitted to collect sales tax at a reduced rate of three percent rather than the current rate of six percent. The law further provides that during the first five years following the designation of a zone, the amount collected in sales tax revenue is distributed entirely to the municipality in which the zone is located. Hence, for the duration of the proposed pilot program, approximately 24 months, the State would forgo the entire six percent sales tax that would otherwise have been collected. This tax-related provision is considered a reduction in State revenues since, without zone participation, businesses in the pinelands zones would collect additional taxes for the State and not be eligible for credits against taxes due the State.

While the estimated loss in revenue to the State from the reduction in the retail sales tax is difficult to determine, both the OLS and the Division of Taxation in the Department of Treasury have previously estimated that the average annual loss to the State is approximately $3.0 million to $5.0 million per zone. However, considering that zones generally require two years to become fully operative, the loss of sales tax revenue to the General Fund from the pilot program will likely be less than the stated average, but, as with existing enterprise zones, will be in addition to the loss in revenue created by the other program awards and credits, such as the unemployment compensation rebate and the use tax exemption.

This fiscal note has been prepared pursuant to P.L.1980, c.67.