

APPENDIX

**Joint Hearing of the Senate Economic Growth Committee and the
Assembly Commerce and Economic Development Committee**

Opening Statement

Philip James Degnan, State Comptroller

February 11, 2019

Good morning. I begin by thanking Chairwoman Cruz-Perez and Chairman Johnson for the opportunity to provide testimony concerning issues worthy of public debate. I also thank Senate President Sweeney and Assembly Speaker Coughlin for their stewardship of public money spent by government in the State of New Jersey. Lastly, I wish to thank the joint committee's staffers, specifically Ms. Jerez and Mr. Lepore, for their assistance with administrative matters over the past few days.

On March 9, 2018, the Office of the New Jersey State Comptroller formally initiated a performance audit of the New Jersey Economic Development Authority with a particular focus on EDA's administration of five economic incentive programs overseen by EDA: Grow New Jersey Assistance Program (Grow NJ); Economic Redevelopment and Growth Program (ERG); Business Employment Incentive Program (BEIP), Business Retention and Relocation Assistance Grant Program (BRRAG); and Urban Transit Hub Tax Credit Program (HUB) for the time period from January 2005 through December 2017. This matter was referred to us through an Executive Order signed by Governor Murphy on January 19, 2018 and was subjected to every aspect of our usual audit process, including the evaluation of the referral, pre-planning, engagement of the auditee, field work, quality control checks, preparation of a discussion draft of the report which was provided to the auditee, and an evaluation of the auditee's response. Ultimately, OSC issued its final report on January 9, 2019.

At the outset, and as we did in the report, I acknowledge the cooperation shown to us by the executives and professionals at EDA. OSC consistently advises auditees that a performance audit is not an adversarial process. Indeed, our goal, which is consistent with our mission as an office, is to evaluate agencies and programs and to make recommendations for improvements designed to safeguard taxpayer funds. This is a mission that anyone with an interest in good government and a

sensitivity to the use of public money should appreciate. We always understand, however, that it is rarely a comfortable experience for the auditee. Notwithstanding that tension, I will say that EDA as an agency and the individuals with whom we interacted through the course of the audit acted professionally, in good faith, and made every effort to comply with our requests for information and to assist us in fulfilling our mission. That is not to say that EDA agreed with all of our findings. Indeed, they responded in a way that I would expect, testing our data and conclusions when appropriate. But, they were also receptive to many of the recommendations set forth in our audit and, as I understand, have already taken steps to make changes to the manner in which they administer the programs.

The conclusions reached by OSC through this audit process are amply spelled out in the body of the report. It is important to note, however, that our findings and recommendations are directed at the auditee, in this case the Economic Development Authority. Our audit process was designed to, and did, examine information that was either in EDA's possession or that was accessible to it through other government agencies. We did not engage with any of the program awardees; indeed, the 48 awardees that were subjected to analysis for purposes of our audit were selected through a valid sampling process and were not made aware by OSC that they were the subject of this further examination. Thus, we did not make formal document requests to companies that were the program awardees of EDA program benefits. As a result, we did not reach any conclusions that are specific to the awardees. For example, when we conclude that EDA did not have sufficient information to verify the creation of a job, we are not alleging that the job was not, in fact, created. What we are saying is that EDA's data regarding that job was either insufficient or unclear to the point that it - EDA - could not conclusively confirm that the job had been created. As a result, based upon the government auditing standards applicable to our office, it was our conclusion that an award payment based on that job would have been "improper." Indeed, for OSC to have reached a conclusion regarding the actual existence of that job, we would have had to engage the individual awardee and, in accordance with notions of general fairness and due process, allow the company an opportunity to respond. Those efforts would have been beyond the scope of this audit, and would have made it impossible to meet a timeframe that would have been useful to the Governor's and the

Legislature's consideration of these programs prior to the July 2019 sunset date.

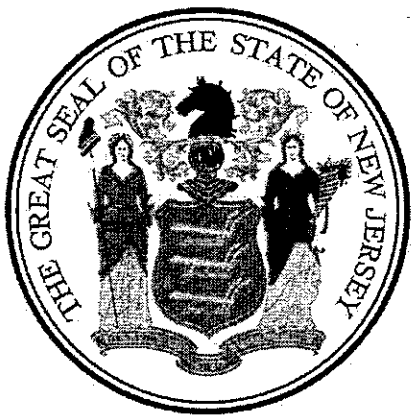
Similarly, OSC did not make any public policy judgments regarding the merits of the programs themselves. This was a performance audit of the administration of the five listed programs. It would have been outside the scope of our audit, authority, and expertise to comment on whether or not these incentive programs reflected sound economic development policy or represented a fair use of taxpayer funds. Those considerations are appropriate for the elected members of these committees and other public officials as you and they set economic development policy for the State of New Jersey.

What OSC did conclude is that changes can and should be made to EDA's practices and procedures as related to these programs. To that end, OSC made 21 separate and distinct recommendations - all directed to EDA - which we believe would result in strengthening and improving the agency's administrative efforts. Those recommendations are amply detailed in our public report.

Within the next two months, we expect to receive a formal Corrective Action Plan from EDA that will set forth its approach to addressing each of the recommendations. Additionally, OSC will conduct a follow-up audit within the next three years to assess the state of the EDA programs' administration at that point.

I would be happy to answer any specific questions that you may have.

**State of New Jersey
Office of the State Comptroller**



***NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY
A PERFORMANCE AUDIT OF
SELECTED STATE TAX INCENTIVE PROGRAMS***

**PHILIP JAMES DEGNAN
State Comptroller**

January 9, 2019

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BACKGROUND

The New Jersey Economic Development Authority (EDA) is an independent State agency that provides financial assistance to qualified companies (hereinafter referred to as awardee or recipient) for the purposes of maintaining and expanding employment opportunities in the state and increasing tax ratables in underserved communities. EDA administers tax incentive programs that have job creation or retention requirements, provide financing for certain business activities, and revitalize communities through redevelopment initiatives.

EDA is governed by a Board of Directors (Board) that is responsible for approving incentive award projects. The Board is comprised of 13 voting members, 5 ex-officio members and 8 public members appointed by the Governor for three-year terms. The ex-officio members include the Commissioners of the Departments of Labor and Workforce Development (Labor), Banking and Insurance, and Environmental Protection, along with the State Treasurer, and an executive branch officer or employee appointed by the Governor. The Governor also appoints three alternate members.

In September 2013, the New Jersey Economic Opportunity Act of 2013 (the Act) was signed into law. The Act merged the state's then-existing economic development incentive programs with the goals of enhancing business attraction, retention and job creation efforts, and strengthening New Jersey's competitive edge in the global economy. Specifically, the Act phased out the Business Retention and Relocation Assistance Grant Program (BRRAG), the Business Employment Incentive Program (BEIP), and the Urban Transit Hub Tax Credit Program (HUB) effective December 31, 2013, and expanded the Grow New Jersey Assistance Program (GrowNJ) and the Economic Redevelopment and Growth Grant Program (ERG). The Act designated GrowNJ as the primary job creation incentive program and ERG as the main developer incentive program.

The Act required EDA to submit a detailed review of the incentive programs to the Governor before July 2018. In July 2018, Rutgers University, Edward J. Bloustein School of Planning and Public Policy, issued a report (the Rutgers Report). Pursuant to the Act,

both GrowNJ and ERG expire on July 1, 2019. To that end, EDA is prohibited from considering applications for these programs after June 30, 2019.

In 2017, the New Jersey Office of Legislative Services, Office of the State Auditor (OSA) issued an audit report that identified areas for improvement regarding the BEIP, BRRAG, and GrowNJ incentive programs. In response to the OSA audit, EDA submitted a corrective action plan (CAP) to address OSA's recommendations. The corrective actions included additional reporting requirements. Additionally, in May 2017, EDA created a new department to focus on internal programmatic audits and compliance. This department also oversees the external auditor hired by EDA to verify jobs and capital investments of selected GrowNJ projects.

EDA's Approved Projects

As of February 2018, EDA reported 1,000 approved projects (also referred to as incentive awards) under its various incentive programs. Applicants projected that those projects would create an estimated 161,804 new jobs,¹ retain 80,027 jobs, and include anticipated capital investment of approximately \$34 billion. EDA approved nearly \$11 billion in tax credit incentives for those projects.

A summary of these projects and incentive awards are set forth below.

Summary of Awarded Projects by Incentive Program

Incentive Program	Number of Projects Approved	Approved Tax Credit Incentive	Approved New Jobs	Approved Retained Jobs	Total Eligible Capital Investment
BEIP	454	\$1,535,813,245	80,988	0	\$12,197,503,685
BRRAG	85	125,053,800	0	31,654	2,084,809,839
ERG	82	1,917,582,895	34,635	0	9,706,334,108
GrowNJ	353	6,127,572,760	42,488	48,373	6,674,294,846
HUB	26	1,237,172,356	3,693	0	3,031,318,143
Grand Total	1,000	\$10,943,195,056	161,804	80,027	\$33,694,260,621

¹ The ERG statute does not require job creation or retention. Therefore, EDA does not require recipient reporting of the actual jobs created or retained.

Summary of Sampled Projects

Incentive Program	Number of Certified Projects	Approved Tax Credit Incentive	Approved New Jobs	Approved Retained Jobs	Total Eligible Capital Investment
BEIP	13	\$75,239,725	3,740	0	\$801,427,897
BRRAG	8	5,655,400	0	3,640	331,758,500
ERG	7	100,956,795	1,704	0	447,429,073
GrowNJ	12	333,277,927	2,148	3,017	338,399,915
HUB	8	296,968,882	1,121	0	630,478,452
Grand Total	48	\$812,098,729	8,713	6,657	\$2,549,493,837

The tax incentive program activities in New Jersey have been the focus of a number of reports in the last several years. Two of the more recent reports include the Rutgers Report and a May 2017 report published by the PEW Charitable Trusts, an independent nonprofit organization.

In July 2018, as part of its submission of the Rutgers Report to the Governor and Legislature, EDA agreed that there should be a “deeper analysis of the types and quality of jobs created or retained, and whether some or all of the related economic activity would have happened with lower or no incentives.” EDA also called for a “comprehensive best practices review, assessing incentive programs available in other states.”

Highlights of the Rutgers and Pew Reports are included in Appendix B.

Incentive Program Descriptions

The primary purpose of each program is to attract and grow businesses to the benefit of New Jersey through job creation, retaining at-risk jobs, and securing capital investments. Some programs have other more specific goals, such as revitalizing economically distressed areas. A brief summary of the economic incentive programs currently administered by EDA follows:

Grow New Jersey Assistance Program (GrowNJ)

GrowNJ is the primary job creation and retention program in New Jersey. Businesses that are creating or retaining jobs may be eligible for annual tax credits ranging from \$500 to \$5,000 per job, with annual bonus credits ranging from \$250 to

The recipients of incentive awards are required to meet specific conditions detailed in their incentive award agreements in order to receive tax credits. This is referred to as the “certification process.” Between 2005 and 2017, EDA certified 401 projects, meaning that EDA had determined that the awardees had satisfied the award requirements for the incented jobs and/or capital investments and had received at least one tax credit. These 401 projects were initially awarded \$3.4 billion in tax credit incentives and were projected to create 50,633 new jobs, retain 33,727 jobs, and generate an anticipated capital investment of approximately \$9.3 billion as summarized below.

**Summary of Projects Certified Between 2005 and 2017
Receiving at Least One Annual Tax Credit**

Incentive Program	Number of Projects Approved	Approved Tax Credit Incentive	Approved New Jobs	Approved Retained Jobs	Total Eligible Capital Investment
BEIP	238	\$841,000,196	35,132	0	\$3,476,611,279
BRRAG	65	112,562,500	0	23,718	1,301,162,839
ERG	26	286,733,458	4,625	0	1,241,376,466
GrowNJ	52	1,205,847,177	8,148	10,009	807,685,108
HUB	20	977,060,776	2,728	0	2,424,905,078
Grand Total	401	\$3,423,204,107	50,633	33,727	\$9,251,740,770

Our audit sample included a judgmental selection of 42 projects out of the 401 certified projects and 6 additional projects that were provided by EDA as examples for each of the programs. These 48 projects were initially awarded \$812 million in tax credit incentives and were projected to create 8,713 new jobs, retain 6,657 jobs, and generate an anticipated capital investment of approximately \$2.5 billion as summarized below.

\$3,000 per job. Eligibility for tax credits requires the GrowNJ business to meet or exceed the minimum employment and capital investment requirements, and be located in a qualified incentive area (e.g., urban transit hub, distressed municipality, or Garden State Growth Zone (Camden/Trenton/Paterson/Passaic)).

Economic Redevelopment and Growth Program (ERG)

ERG is an incentive program for developers and businesses to address revenue gaps in development projects. An ERG award, however, is not meant to be a substitute for conventional debt and equity financing.

Business Employment Incentive Program (BEIP)

BEIP approved projects provide awardees with annual incentives based on the creation of new jobs. Incentives can be in the form of cash payments or tax incentives and can equal up to 80 percent of the total annual amount of newly hired employees' state income taxes withheld for up to 10 years, for a maximum of \$50,000 per employee over the course of the award.

Business Retention and Relocation Assistance Grant Program (BRRAG)

BRRAG was created to preserve jobs or to reinvest and expand business operations. Tax credits of up to \$2,250 per job were made available to businesses that retained jobs through relocation within New Jersey, or to businesses that maintained jobs at a current location in New Jersey and also made a qualified capital investment.

Urban Transit Hub Tax Credit Program (HUB)

HUB was designed to spur private capital investment, business development, and employment by providing tax credits for businesses planning a large expansion or relocation to a designated transit hub located within one of nine New Jersey urban municipalities. A transit hub is located within one-half to one mile of a public transportation system or light rail station.

Although the Act phased out any new BEIP, BRRAG, and HUB applications, EDA is currently administering 307 projects that were approved before the statutory expiration

date of the programs. Current award recipients will have annual reporting requirements through project conclusion which will continue through 2030. EDA estimates the remaining incentive obligation for these projects is approximately \$1.7 billion.

A summary of the remaining projects is presented in the chart below.

Program	Number of Projects Awarded	Projected End Date	Total Remaining Incentive Obligation
BEIP Cash	49	2026	\$19,146,000
BEIP Credit	228	2026	863,529,000
BRRAG	4	2022	26,469,000
HUB	26	2030	791,684,000
Total	307		\$1,700,828,000

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Pursuant to Executive Order #3 (Murphy, 2018), OSC conducted a performance audit of the incentive programs administered by EDA. The objectives of our audit were focused on assessing the effectiveness of EDA's administration of the incentive programs as well as evaluating the economic benefits realized from the programs and actual awarded projects. To meet these objectives, we examined incentive program projects that had been certified with at least one annual tax credit issued between January 1, 2005 and December 31, 2017.

The objectives of the audit included:

- a. Comparison of the actual economic benefits realized, including but not limited to the number of new jobs actually created from the incentive award, against the projected economic benefits that were asserted or considered in evaluating applications approved for such awards;
- b. Analysis of the types of jobs that have been created, including salaries, wages, and benefit levels, as well as the locations within the state where those jobs have been created;
- c. Review of the decision-making process regarding the acceptance of applications, focusing on how the EDA has exercised its discretion under the related statutes; and
- d. Examination of the application process for such awards, including documentation and disclosure of expenses incurred by the applicants, including expenses for lobbyists, consultants, and legal representation, as well as information about the administrative costs incurred by the EDA in processing these applications.

To accomplish our objectives, we reviewed relevant laws and regulations, policies and procedures, applications and other supporting documentation, including relevant financial records related to projects awarded under the incentive programs. In addition, we reviewed selected internal controls and conducted interviews of key employees

regarding their responsibilities in the administration of the incentive programs and oversight of the awardees.

Our audit testing included verification of the awardees job data with Labor and the awardees' quarterly Employer Wage Reporting through the WR30 reports (hereinafter referred to as labor reports). OSC obtained an electronic download of the WR30 data from Labor for each of the sampled projects for the reporting periods covered in our testing.

Because we used a non-statistical sampling approach to provide conclusions about the assessment of EDA's administration of the incentive programs, validity of transactions, the adequacy of internal controls, and compliance with appropriate laws and regulations, the results of our testing cannot be projected over the entire population.

This audit was performed pursuant to the State Comptroller's authority as set forth in *N.J.S.A. 52:15C-1, et seq.* We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. What follows is our summary of the evidence obtained during the course of the audit.

SUMMARY OF AUDIT RESULTS

Our audit identified deficiencies with EDA's management and administration of the incentive programs. Key internal controls were lacking or nonexistent for the monitoring and oversight of recipient performance. EDA was, thus, prevented from determining whether the incented jobs were actually created or retained or from ensuring that the awardees had satisfied the incentive program requirements for these jobs. In addition, the agency lacks adequate policies, procedures, and controls to provide accurate and reliable program results.

Specifically, our audit found numerous significant deficiencies in EDA's management and oversight of the incentive programs. These deficiencies include:

- a. Inadequate monitoring, insufficient oversight, and non-existent policies and procedures that have created control deficiencies that weaken the transparency and accountability of the incentive programs and their success.
- b. The lack of an adequate process to assess accomplishments and effectiveness of the incentive programs or to determine whether the state realized the economic benefits asserted by the applicants.
- c. The lack of policies and procedures to monitor awardees' performance (*i.e.*, number of jobs created, etc.) and insufficient documentation requirements for awardees to report specific accomplishments of their performance results. These failures resulted in inaccurate representations of awardee performance to the stakeholders and taxpayers.
- d. A failure to properly analyze recipient performance data to determine whether the incented jobs were actually created or retained pursuant to the award terms. These actions resulted in 2,993 reported jobs that were not substantiated as having been created or retained.
- e. A failure to assess and collect appropriate fees from all applicants and recipients.
- f. Inadequate accounting processes and lack of appropriate controls to ensure that the fees were recorded pursuant to Generally Accepted Accounting Principles (GAAP).

Implementation of OSC's audit recommendations will increase EDA's overall accountability within the framework of the economic incentive programs. Moreover, our recommendations will result in stronger controls designed to ensure consistent and accurate reporting of program results and assessment of the economic benefit delivered to the state. Through development of stronger policies and procedures, EDA will be better positioned to improve its monitoring and oversight, provide greater efficiencies in operational practices, and determine economic program success.

OSC makes 21 recommendations to enhance EDA's monitoring and administration of the incentive programs.

AUDIT FINDINGS AND RECOMMENDATIONS

Management and Administration of Incentive Programs

EDA lacks appropriate policies, procedures, and controls for certain administrative actions required to ensure that final approved projects meet the statutory requirements and objectives of the incentive programs. In addition, EDA failed to comply with statutes, regulations, its own policies and procedures, and award agreement terms which resulted in overstated and overpaid incentive awards.

This performance audit included a comprehensive examination of EDA's management and administration of the five incentive programs identified earlier. In so doing, we first examined whether EDA had in place the necessary policies and internal controls to effectively administer these programs. Then, utilizing our sampled projects, we reviewed EDA's actual performance with regard to approving incentive awards for those programs and monitoring each recipient's compliance with the requirements of the specific program and their award agreements.

It is axiomatic that EDA management is responsible for establishing effective internal controls for its incentive programs. Such internal controls must provide "reasonable assurance" that transactions are executed and recorded in accordance with EDA management's authorization. EDA management is also responsible for establishing and implementing effective processes for monitoring and overseeing program recipients' compliance with the requirements of the incentive programs.

To effectively administer its incentive programs, EDA was required to: (1) establish sufficient policies; (2) implement controls that enhance compliance with applicable statutes, regulations, and internal policies and procedures; (3) appropriately assess the eligibility of applicants; (4) appropriately manage and oversee its agreements with awardees; and (5) enforce the terms of award agreements including suspension and recapture provisions as appropriate. Accordingly, we examined these key areas of EDA's administrative responsibilities and have set forth below our findings and recommendations.

I. Policies, Procedures, and Internal Controls for Incentive Programs

We found that EDA has adequate policies and procedures for some aspects of its incentive program administration but found them lacking in others, most notably in the area of EDA's monitoring and oversight of recipient performance.

As part of its administrative responsibilities, EDA is required to monitor a recipient's compliance with the terms of the program for which they received an incentive award. This necessarily includes the extent to which a recipient has satisfied the terms of its award agreement concerning the creation and/or retention of incented jobs and any capital investment goals as applicable. Our audit found several deficiencies in this key area. We note that in some cases these deficiencies led to overstated incentive awards for recipients. OSC has thus found that EDA lacks appropriate policies, procedures, and controls necessary for the effective monitoring and oversight of the incentive awards. This conclusion is based upon our findings that EDA did not:

- a. Have in place a policy setting forth the process for establishing an applicant's baseline employment numbers at the time of application (*i.e.*, pre-award stage) for all programs. Establishing an applicant's baseline employment numbers is essential to ensure that incentives are awarded only for newly created or retained jobs;
- b. Have in place an adequate policy that established job-reporting requirements for award recipients to ensure that jobs were actually created or retained in accordance with incentive agreements. EDA also failed to obtain sufficient supporting documentation from recipients to ensure that jobs were created or retained in accordance with incentive agreements;
- c. Establish and define specific monitoring processes to assess recipient performance that, at a minimum, address the procedures to verify and compare the recipient-reported job data with independent information from Labor and the Department of Treasury, Division of Taxation (Taxation)²;

² OSC recognizes that EDA did obtain some verification of job data for BEIP projects, but as discussed later in this report there are still deficiencies in the process that prevent EDA from fully meeting its responsibilities to monitor the recipient-reported job data.

- d. Require sufficient supporting documentation to demonstrate that a project satisfied the net increase in employment and/or maintained the required statewide employment levels;
- e. Define the processes to evaluate pre-award and performance data for recipients with incentive awards from multiple programs to ensure that jobs are not duplicated and that incentives are appropriately earned for each program;
- f. Establish policies and procedures that define the eligibility processes for all of their various incentive programs or the method to determine a project's economic benefit to the state. Both of these efforts are essential to ensure that all incentive awards are executed pursuant to the statutory and regulatory provisions of the applicable incentive programs; and
- g. Consider actual "performance data" in analyzing a recipient's eligibility and a project's economic benefit to the state.

During the course of our audit, EDA management recognized that there are areas in need of improvement and has advised OSC that it has taken steps to implement processes that should enhance their operations. Notwithstanding these efforts, however, there is still room for improvement that will further strengthen EDA's management and administration of the incentive programs to provide greater transparency and accountability of the programs and to ensure that incentives are awarded in those instances when the applicant can demonstrate an economic benefit to the state.

II. EDA's Determination of Eligibility

An integral part of EDA's administration of the various incentive programs concerns its determination of a prospective applicant's "eligibility" for a particular program. Eligibility for incentive programs requires a prospective recipient to meet the applicable statutory and regulatory requirements that may include some or all of the following: new job creation, retention of at-risk jobs, capital investment commitments, and employment at a specific location. Additionally, for some programs, jobs must meet certain requirements, including but not limited to: minimum salary requirements, full-time employment defined as 35 hours per week, offering of benefits, hiring of non-related staff, and demonstrate that the project results in a net increase in employment, and/or

maintaining a minimum statewide employment level compared to the pre-award employment level.

The process of determining eligibility requires EDA to analyze a prospective recipient's submitted application information. All of the incentive programs require a prospective recipient to provide the following key information, as applicable, including but not limited to: (1) project cost; (2) site location information; (3) the number of jobs to be created or retained; and (4) the projected capital investment.

Our audit of sampled projects noted several deficiencies in EDA's review of applications and assessments of eligibility.

A. EDA Failed to Comply with the HUB Statute and Regulations

Our review included a sample of eight projects that received incentive awards under the HUB program. For the five commercial projects, we found that EDA failed to comply with the applicable statute and regulations in determining the incentive awards and resulted in the improper award of approximately \$179 million in incentives.

Pursuant to the applicable statute and regulations, HUB projects require EDA to analyze two critical pieces of information: the amount of the proposed capital investment and the result of the net benefit analysis or NBA. First, pursuant to *N.J.S.A. 34:1B-209 et seq.*, a business with capital investments totaling not less than \$50 million in a qualified business facility shall be allowed a credit of 100 percent of its capital investment. (emphasis added). EDA's regulations further provide that a project's NBA must total at least 110 percent of the proposed capital investment for the project to be eligible for an incentive award equal to 100 percent of the proposed capital investment. *N.J.A.C. 19:31-9-3*. Our audit found, however, that EDA deviated from the language of the statute and the regulations. Specifically, in some cases, when the NBA was in fact below the amount of the proposed capital investment – thereby making the applicant arguably ineligible for a HUB award at all – EDA would simply reduce the award to an amount below the NBA rather than tie the award to the capital investment as required by the language of the statute.

EDA did not disagree with our assessment of its actions regarding the reduction of awards to satisfy the required NBAs, arguing that the state was still deriving an economic benefit greater than the amount of the incentive award. Moreover, EDA maintains that pursuant to advice from the Attorney General's Office, an applicant can receive an incentive award for less than 100 percent of its proposed capital investment.

OSC reviewed documentation submitted by EDA concerning the advice provided by the Attorney General's Office. While that documentation may support EDA's award of incentives for less than 100 percent of eligible capital investments, it certainly did not authorize EDA to award such incentives where the capital investments fell below the statutorily required minimum of \$50 million. For three of the projects we sampled, EDA awarded incentives to applicants based on capital investments below the \$50 million statutory minimum resulting in a clear violation of the HUB statute.

EDA continues to dispute the issue and believes it has complied with the statute and regulations in approving these HUB projects. However, OSC has reviewed all responses and data provided by EDA, including memoranda and emails from the Attorney General's Office, and does not believe that any changes to our finding is warranted. Therefore, OSC suggests that EDA consult with the Attorney General's Office to resolve this particular issue.

B. Economic Benefit Analysis

Pursuant to the incentive programs' statutes, regulations, and applicable EDA policies, recipient eligibility also may require the determination of a project's "economic benefit to the state." To determine the economic benefit to the state, EDA utilizes an automated spreadsheet that calculates a project's NBA. If the data elements are not accurate in the NBA, however, the resulting net economic benefit calculation will yield an inaccurate result. We found several deficiencies related to EDA's economic benefit analysis of our sampled projects which are set forth below. We note that these deficiencies, for the most part, were traced back to failures in EDA's assessment of a project's NBA. Specifically, EDA:

- a. Relied only on recipient-reported data (*e.g.*, a recipient's report of certain project data) in conducting the NBA for a project and did not independently verify such data.
- b. Utilized incorrect data elements when conducting the NBA contrary to its policy and procedures. These actions resulted in overstated incentive awards totaling \$4 million for two of the HUB projects we sampled.
- c. Utilized applicant-reported average salary data instead of the lower NBA computed average salary, contrary to EDA's current practice to consider both amounts when determining the incentive award. This resulted in an overstated incentive award of \$4.8 million for one HUB project in our sample.
- d. Failed to reassess its NBA against a recipient's actual performance to determine whether the state realized the estimated economic benefits. We note that in order for EDA to ensure the state is actually realizing the economic benefit projected in the NBA, it is essential to reassess a project's NBA and adjust the award based upon the recipient's actual performance. The NBA is heavily weighted for the number of estimated future jobs and average salaries. Our audit found that if EDA had reassessed two of the sampled HUB projects for the actual number of jobs and salaries reported by the recipient, the incentive awards for those projects would have been reduced by approximately \$11.2 million. In both instances, the recipients' actual job and salary information were lower than the estimates used in the initial NBAs.
- e. Completed the NBA for commercial ERG projects based only upon the recipients' reported job data. We note that similar to the HUB projects discussed above, EDA did not independently verify the submitted job data.
- f. Did not provide the complete NBA for one HUB project in our sample. That project was approved based on the creation of an estimated 212 new jobs for a total incentive award valued at \$41.7 million. EDA was not able to recalculate the NBA based on partial information that was available in the project file. As a result, OSC was unable to verify the data inputs or determine whether the NBA was properly calculated. The HUB statute and regulations require that new jobs exceed the statewide employment level in the period before the award was approved. Our audit found, however, that the recipient's statewide employment actually declined.

during the award performance period between 2010 and 2017. This particular recipient has received incentive awards totaling \$29.2 million through 2018.

- g. Does not have formal policies or procedures to assess the economic benefit for BRRAG projects. EDA again based its analysis of economic benefit solely on recipient-reported data.
- h. Did not complete a formal NBA or other economic benefit analysis for BEIP projects.

C. Material Factor Certification

For all incentive programs except ERG, the process for approving an incentive award includes the submission of a “material factor certification” from a company official stating that an incentive award was a material factor in the company’s decision to expand and/or relocate operations in New Jersey. We found the certification used by EDA to be inadequate. Specifically, the certification did not require the disclosure of other information relevant to analyzing the material factor issue, such as the company’s existing business footprint in the state, the proposed alternate location’s suitability, specifics concerning the company’s existing labor force, relocation and business interruption costs, supplier networks and availability, and transportation networks. Indeed, prior to 2012, the material factor certification was accepted without any supporting documentation or other evidence relevant to a company’s decision-making process with regard to expanding and/or relocating its workforce. EDA’s acceptance of only a certification from a company official does not amount to sufficient evidence that the receipt of an incentive award was a material factor in the company’s decision to expand and/or relocate. To that end, EDA should consider incorporating additional relevant information into its analysis to protect against unnecessary, excessive, or inequitable incentive awards.

D. Cost Benefit Analysis

In 2012, EDA also required an applicant for incentive programs to submit a cost benefit analysis (CBA) to support its material factor assertion. EDA did not, however, have in place any formal policies or procedures to govern the applicant’s submission of the CBA or EDA’s evaluation of the CBA. The process in place required the applicant to

complete the CBA by inputting simplistic conclusory information into an automated spreadsheet template. Specifically, the template required the applicant to input its comparison of costs for the locations under consideration and a summary of the cost differential.

We also found deficiencies in EDA's current assessment of CBAs. Specifically, EDA did not implement a process to ensure that an applicant had identified all relevant costs related to the proposed site locations (*e.g.*, building costs, employee relocation costs, company moving costs, costs for employee recruitment and training) and had disclosed other non-financial factors (*e.g.*, existing state presence, transportation and supplier networks). Most notably, EDA did not require an applicant to submit supporting documentation for its proposed costs and simply accepted the applicant-reported data.

We note that for most of the sampled projects, the applicants' CBAs reported that the costs for the New Jersey location exceeded the costs for the competing location. Incentive program statutes and regulations, however, do not require that the CBA cost differential and the NBA be considered in determining incentive awards. For example, GrowNJ incentive awards are not structured to provide the lowest possible incentive to attract the business, rather they are based on a set amount per job irrespective of the project's NBA or CBA cost differential. In our sample of GrowNJ projects, we noted the CBA cost differentials compared to the incentive awards ranged from a low of 3 percent to as high as 100 percent or more showing a wide disparity in how much the incentive award had offset the additional costs as reported in the CBAs. This issue raises doubt as to whether the CBA and material factor certification are meaningful in determining whether an incentive award is a significant factor in an applicant's decision to remain in New Jersey.

III. Additional Issues Affecting Eligibility

During the course of our audit, we found additional weaknesses in EDA's processes that affect an applicant's continued eligibility for incentive programs.

A. Failure to Recalculate BEIP Incentive Awards

EDA calculates BEIP incentive awards utilizing a mathematical formula requiring data inputs for certain project factors. Applicable regulations and EDA's own policy require EDA to recalculate an incentive award when the actual number of jobs created are less than the projected number of jobs the initial award was based upon.

In our sample of projects, we found that EDA did not follow applicable regulations or its policy in determining and adjusting, when appropriate, the incentive awards for some of the sampled projects. Specifically, we found that EDA did not use correct data inputs to complete the initial formula for 3 of the 13 projects and did not recalculate the awards for 6 of the 13 projects to account for the fact that there were fewer actual jobs realized. These collective failures resulted in projects being over certified for incentive awards in an amount totaling \$2.5 million.

B. Factoring in a Recipient's Awards Under Multiple Programs

Our sample of projects included four companies that had received multiple awards under different incentive programs. Our review of these projects found that EDA did not have specific policies, procedures, or processes in place to conduct a meaningful review of the pertinent job data either during the application review or during the award performance period. The implementation of appropriate policies and procedures are necessary to ensure that jobs and incentive awards are not duplicated. Our audit found 644 duplicate employees which we discuss in more detail later in this Report.

IV. Management and Oversight of Incentive Awards

Recipients are monitored through EDA's post-closing process based on the policies and procedures detailed in EDA's Post-Closing Manual (PCM). According to the PCM, EDA must, among other things, determine the extent to which recipients satisfy the terms of their award agreements to create or retain the jobs and meet capital investment goals. EDA is also responsible for ensuring that the incentive awards satisfy the overall program goals of economic growth.

A. Monitoring of Recipient Performance

We found that EDA did not adequately analyze all project data during the application review or during award performance, and did not verify and/or confirm the estimates or actual performance data. Instead, EDA relied only on recipient-reported data and recipient certifications. We further found that EDA did not incorporate into its processes a method to assess or track certain essential information such as the projected factors considered to determine a project's economic benefit or even the factors used to calculate incentive awards. As stated earlier, EDA also did not consistently undertake a comparison of projected information with actual performance. As a result, incentive awards have been improperly awarded, overstated, and overpaid.

Incentive program regulations set forth certain requirements for incented jobs. For example, incented jobs must be full-time jobs with the employee working a minimum of 35 hours per week. The employee must also satisfy a certain number of work hours at a project location and site location. EDA accepted certain annual reporting information from recipients that was insufficient for EDA to adequately assess their compliance with all job requirements set forth in award agreements. Indeed, we found EDA generally deemed terms fulfilled based solely on the recipient company official's certification.

In addition, our audit found that EDA did not:

- a. Ensure that recipient-reported employee data was accurate or have a process to ensure that incented jobs were actually created or retained.
- b. Collect sufficiently detailed information from recipients about the jobs created or retained. Pursuant to the award agreement terms, awardees were required to create or retain jobs but were not required to submit detailed information such as payroll records, showing that jobs were actually created or retained. Such information is critical to ensuring that recipients satisfy all incentive award requirements and program goals. This information is also critical to determining a recipient's future performance period incentives.
- c. Verify recipients' net increase in employment and/or statewide employment levels as required by award agreements.

- d. Verify with Taxation the recipient-reported employee state income tax withholding data for the GrowNJ program.
- e. Ensure that recipients actually satisfied all of the award requirements for incented jobs.
- f. Verify recipients' assertions that all award agreement requirements had been satisfied and instead accepted recipient certifications as evidence of compliance.
- g. Adjust eligibility or incentive awards based on actual performance.

B. Net Increase in Employment and Required Employment Levels

Our audit also found that EDA did not develop policies and procedures to monitor recipients' compliance with the net increase in employment and minimum employment levels requirements of the award agreements. The BEIP and HUB programs both require that the incented jobs result in a net increase to a recipient's workforce. The BRRAG and HUB programs require recipients to maintain minimum employment levels during the post-performance or during the award performance period. We found that EDA did not consistently require or obtain sufficiently detailed documentation concerning these matters nor did it have a formal process to verify such information. Instead, EDA relied solely on the recipient company official's certification to document purported compliance.

C. Employment Data and Unique Identifier

Pursuant to the incentive program regulations, EDA is authorized to obtain "personnel" information enabling it to administer the incentive programs. The applicable regulations do not specifically define personnel information nor do they restrict or address EDA's authority to obtain confidential employment-related data. As a result, we found that EDA may be somewhat limited in its ability to effectively monitor some aspects of recipient performance.

The fact remains that EDA has not consistently collected sufficient information from recipients regarding the employees who fill incented jobs. This deficiency prevents EDA from adequately verifying and confirming the recipient-reported data and from concluding that incented jobs were actually created or retained. The most important aspect of verifying job data is the ability to identify the employee and compare recipient-

reported data with information from Labor and Taxation. Because of differences in awardee reporting processes and the lack of using consistent data formats for collecting information such as employee names (*e.g.*, middle names/middle initial), the need for a unique employee identifier is critical. A social security number (SSN) or some other unique identifier³ would enable EDA to accurately verify recipient-reported job data with that of Labor and Taxation. EDA, however, has not consistently required recipients to provide SSNs or some other unique identifier for job reporting purposes. Without this critical information, EDA cannot accurately assess whether recipients have actually complied with the job-related terms of their incentive agreements.

D. Certification of Incentive Award Taxation Data

EDA has established a process for Taxation to verify certain recipient-reported employee data under the BEIP program prior to the issuance of an incentive award. Pursuant to this process, EDA provides its annual BEIP reports to Taxation. Taxation staff advised OSC that they conduct a limited review of the data included in these reports and generally only review data for 10 percent of the employees included in the reports. We first note that this limited review may not be sufficient to verify the information that is critical in the determination of the incentive award.

Moreover, with regard to any adjustments to incentive awards based on employee information, we found that Taxation only advises EDA of the final adjusted incentive award amount. Taxation does not provide a reason or any details regarding the adjustment because of certain statutory limitations in their sharing of tax-related data.⁴ Without such information, EDA is unable to adequately monitor recipient job data during

³ OSC recognizes that as a result of federal Privacy Laws, EDA may be limited in its ability to request or use SSNs, which is why we do not recommend the use of SSNs in its monitoring process but instead suggest that EDA consider its options in verifying and validating the job-reported data as well as consider those state agencies who may assist in that process.

⁴ Pursuant to *N.J.S.A. 54:50-8*, Taxation cannot “divulge, disclose, use for their own personal advantage, or examine for any reason other than a reason necessitated by the performance of official duties any [tax related] information obtained from the said records or files or from any examination or inspection of the premises or property of any person.”

future award-performance periods. Notwithstanding the language of the statute, OSC notes that EDA provides Taxation with all of the recipient-reported data in its possession including the employer's tax identification number, employee name, SSN when available, wages, and state income tax withholdings. Given that EDA is already in possession of this highly sensitive, confidential information there would seem to be no basis for Taxation's decision to withhold the details relating to its award determinations. Throughout this audit process, Taxation has not identified any information in its possession beyond that which EDA provided.

Certain GrowNJ awards are capped at 90 percent of the employer's withholding of employee state income taxes. Unlike the BEIP program, EDA did not verify the recipient-reported data with Taxation and relies instead on the unverified data to process incentive awards. EDA failed to implement appropriate controls to properly verify the recipient-reported tax data that is used in determining the recipient's incentive award. This failure prevents detection of incorrect or inaccurate recipient-reported state income tax withholding amounts and could result in overstated incentive awards.

E. Recipient Non-Compliance with Award Agreement Terms

EDA's incentive award agreements, together with applicable regulations and EDA policies, allow for certain sanctions to be imposed when a recipient fails to comply with the terms of an agreement. These sanctions include suspending or terminating an award and/or recapturing an improperly issued incentive award.

Our audit of the sampled projects found several instances where EDA failed to take any action when recipients failed to meet the terms of their award agreements. Specifically, one BRRAG recipient had not submitted the annual reports for two reporting periods, one was more than a year late and the other was a few months late. EDA was unaware of the recipient's failures until alerted by OSC.

We also found that two BRRAG recipients and one GrowNJ recipient had failed to meet certain employment levels as required by their award agreement letters and/or project agreement terms. This particular GrowNJ example also included inconsistent employment requirements in the award letter and the project agreement, resulting in lack

of clarity as to the recipient's actual employment requirements. EDA has yet to take any action to recapture any portion of the tax incentives issued to the BRRAG recipients or to formally resolve the inconsistencies in the employment requirements for the GrowNJ project.

F. Issued BEIP Incentive Award

Our review of the sampled BEIP projects found that EDA improperly issued an incentive award to a recipient after EDA had failed to detect that the recipient had reported incorrect job data. In this instance, the recipient overstated its job data by reporting data for a one-year period instead of reporting a partial year of data. As a result, EDA issued an overstated incentive award for this recipient in the amount of approximately \$137,000.

G. Systems Update – Programming Issue

During the course of our audit we also found that one BEIP project in our sample had annual incentive awards certified by Taxation in excess of its capped incentive award amount by approximately \$1.3 million from 2010 through 2013. To date, only approximately \$65,000 of the \$1.3 million award has actually been issued and EDA advised us that it is addressing the overstated incentive by reducing future tax credits.

In light of the above overstated award, we inquired further of EDA staff to determine whether this error is systemic in nature. In doing so, we learned that a programming error in 2012 caused unintentional changes to data transferred between certain EDA databases. EDA did not have sufficient controls in place at the time to validate the data and thus was unaware of the programming issue and overstated incentives for BEIP awards. As a result of this finding, EDA conducted a further examination of its data and determined that, as of October 2018, it had miscalculated 17 BEIP awards. These miscalculations resulted in overpayments of incentives totaling \$1.4 million, \$2.3 million in over certified incentives yet to be issued, and incentives pending Taxation certification valued at \$3.6 million. EDA advised OSC that the programming issue has now been corrected and that the Attorney General's Office has been consulted with regard to the recovery of the overpayments.

In summary, the need for an effective monitoring process is essential to ensure continuing eligibility, prevent improper incentive awards, ensure economic benefits to the state are realized throughout the terms of the incentive agreement, and to properly report on awardee and overall incentive program achievements. The deficiencies in the reporting process and EDA's failure to implement a more robust monitoring program raise questions regarding the accuracy of reported awardee performance. Later in this Report, we present findings related to the inaccurate recipient-reported data.

Recommendations

1. Create a policy to establish an applicant's baseline employment numbers at the time of application (*i.e.*, pre-award stage) to ensure that incentives are awarded only for newly created or retained jobs.
2. Create a policy to establish adequate job-reporting requirements and obtain sufficient supporting documentation from recipients to ensure that jobs were actually created or retained in accordance with incentive agreements.
3. Establish and define specific monitoring processes to assess recipient performance that, at a minimum, address the procedures to verify and compare the recipient-reported job data with independent information from the Department of Labor and Workforce Development and Department of Treasury, Division of Taxation.
4. Require recipients to submit sufficient supporting documentation to demonstrate that projects satisfied the net increase in employment and/or maintained the required statewide employment levels.
5. Establish and define the processes to evaluate pre-award and performance data for recipients that receive incentive awards from multiple programs to ensure that jobs are not duplicated and that incentives are appropriately earned for each program.
6. Establish policies and procedures that define the eligibility processes for all incentive programs and a method to determine a project's economic benefit to the state to ensure that all incentive awards are executed pursuant to the statutory and regulatory provisions of the applicable incentive program.

7. Analyze "actual" performance data to determine a recipient's continued eligibility for incentives, a project's economic benefit to the state, and whether there are grounds to terminate or suspend awards as applicable.

Program Results and Reporting

EDA failed to develop or implement an evaluation process to assess the effectiveness or success of the incentive programs. In addition, EDA's reporting of incentive award performance is based on unverified projections of jobs and is not adjusted for actual performance results.

During this audit, OSC staff examined whether EDA has met its obligations regarding the reporting of program results. Upon reviewing EDA's practices and procedures in this regard, OSC found that EDA lacks a comprehensive process or system to determine whether recipient businesses in fact created or retained jobs or had satisfied the program conditions for those jobs. Further, EDA did not perform a comprehensive evaluation of the economic benefits realized from the nearly \$11 billion of approved incentive awards.

As a result, OSC concludes that tax incentives may have been improperly awarded, miscalculated, overstated, and overpaid resulting in potential lost tax revenue. In addition, EDA did not evaluate the success of the incentive programs or determine if they generated economic benefits to the state. Finally, the number of created and retained jobs published by EDA are inaccurate and overstated because they are based on unverified data.

I. Program Effectiveness

As of February 2018, EDA had approved 1,000 projects that are estimated to provide close to \$11 billion in tax incentives to businesses. Despite the significant value of the tax incentives, EDA failed to: (1) assess whether the awardees actually created or retained the required jobs; (2) implement a process to analyze which incentive programs work; or (3) determine whether the incentive awards provided the economic benefits considered during the approval process for the projects. Of course, the overall success of the incentive programs is inextricably tied to the achievements and success of each

awardee. Notwithstanding that, EDA did not have a process in place to collect detailed job data sufficient to assess whether the promised jobs were actually created or retained.

II. Program Results

OSC found additional issues related to the manner in which EDA has reported the results of its different programs. As with EDA's inability to assess the true effectiveness of the awards, these reporting issues tie back, in large part, to the degree to which EDA was able (or unable) to determine the true number and nature of the jobs either retained or created as required by each award. This is particularly significant given that the reporting that did take place may have included inaccurate or misleading data. Even when this was called to EDA's attention by OSA in 2017, OSC found that EDA's steps to remediate this problem did not adequately address the issues.

III. EDA's Annual Report To The Governor and Legislature

By statute, EDA is required to report annually to the Governor and Legislature on its activities for the preceding year. Pursuant to *N.J.S.A. 34:1B-4(j)*, the annual report shall "set forth a complete operating and financial statement covering [EDA's] operations during the year." Unlike other states, EDA's annual reporting requirements do not require an assessment of the effectiveness of its programs or an analysis of the economic benefits realized.

EDA also publishes annual reports and summary project data on its website. The annual reports consist of a compilation of the current year's approved awards and job data. OSC found, however, that the reported job data was based upon unverified estimates that were not evaluated or revised based upon the recipient's actual performance. Any public-facing statements regarding program results must be based on accurate and reliable information. EDA's reporting of unverified data could easily mislead and/or misinform the public and other stakeholders.

Moreover, a detailed review revealed that EDA's annual reports did not fairly reflect the current status of incentive award accomplishments or address the effectiveness

of the incentive programs in achieving the overall program goals and objectives. OSC believes that the annual report should provide actionable information regarding the incentive programs to allow legislators and stakeholders to make informed decisions about the economic programs themselves and whether or not they remain viable.

It should be noted that two of the incentive programs that were discontinued by the 2013 Act, specifically the BRAGG and BEIP programs, did each require that EDA submit to the Governor and Legislature an annual report concerning the impact of job retention in the state.⁵ EDA discontinued submitting these reports, however, when the Act became effective even though more than 300 active projects will continue for the next several years. While the statutes governing HUB and the current surviving incentive programs, GrownNJ and ERG, do not contain any such reporting requirements, OSC concludes that EDA should report on the impact of these award programs on a yearly basis until all of the active projects are completed.

Indeed, EDA has a responsibility to New Jersey's taxpayers and stakeholders to properly administer the incentive programs and to assess the success of each program with a particular emphasis on the extent to which New Jersey's economic position has improved. Without such validation, there is no evidence that the incentive awards are doing more than just providing a subsidy for businesses and not detracting from other activities that promote economic growth, such as education, job training, and transportation.

EDA's failure to implement an effective monitoring system must be addressed. Timely and accurate information will assist legislators and stakeholders in making appropriate statutory revisions or evaluating recommendations as to whether incentive programs should be continued or repealed or are best-suited for the state.

⁵ See *N.J.S.A.* 34:1B-121 (BRAGG) and *N.J.S.A.* 34:1B-134 (BEIP).

IV. 2017 Incentive Award Monitoring Update

This is not the first time EDA will have been put on notice of program results and reporting issues. Indeed, the OSA audit found similar issues. In 2017, however, when required to develop a CAP for the OSA audit, EDA did not sufficiently address the underlying issues discussed above. Specifically, EDA now requires awardees to submit copies of their labor reports with the annual reports. As OSC discovered when attempting to verify this data, however, this only allows EDA to compare the total number of employees between the annual report and the labor reports. Since EDA did not require SSNs or some other unique identifier from all recipients, it does not have the ability to thoroughly analyze this information to determine whether the recipient-reported jobs were actually created or retained. In addition, our audit noted inconsistent reporting of employee names in the annual reports and labor reports (*i.e.*, nick names, middle initial/names, and last name changes) making it difficult, if not impossible in some instances, for EDA to verify employee data without a unique employee identifier.

Program regulations permit EDA to have audits performed as it deems necessary. Prior to the 2017 CAP, however, EDA had not engaged any audits of the recipients or incentive programs. In 2017, EDA issued a three-year (plus two annual options), \$500,000 contract to an independent certified public accounting firm to assist EDA with determining whether the cost and job certification reports submitted by the awardees complied with program requirements. The firm conducted four engagements of GrowNJ projects the first year of the contract and was scheduled to complete five engagements in the second year. During our audit, we were provided six completed reports that, unlike the OSC and OSA audit results, did not identify any significant issues. OSC determined that the results were based on limited procedures, which were agreed upon by EDA and the independent audit firm, and did not include a comprehensive reconciliation and comparison of the recipient-reported job data with labor reports as this audit or OSA's audit. EDA should consider the effectiveness of the independent auditor's reconciliation in the development of any future monitoring and oversight activities.

Future monitoring and oversight should provide a more thorough and comprehensive analysis and independent verification to ensure that awardees actually

created new jobs and/or retained jobs pursuant to the terms of the award agreements and incentive program provisions. The limited evidence and reliance on a company official's unverified certification is insufficient given the size, scope, and complexity of the incentive awards. EDA should rely on detailed evidence rather than mere certifications.

In summary, OSC has found that EDA's monitoring and oversight process is still less than effective since it does not consider detailed data sufficient to confirm whether the promised jobs were actually created or retained. As such, the process cannot accurately inform whether recipients received overstated incentive awards or if overpayments were made. A more robust monitoring and oversight program would provide transparency, accountability, and greater assurance of a recipient's progress, program success, and assurance that the state received economic benefits from the economic development programs.

Recommendations

8. Develop and implement an evaluation and assessment process for the incentive programs to report on the success and accomplishments of the programs and determine the economic benefits actually realized.
9. Revise current processes for the annual reporting of incentive program activities to be based on actual performance and that address ongoing accomplishments and success of the awardee's performance.
10. Assess the efficiency and cost effectiveness of the current monitoring activities performed by the independent audit firm as compared to other available options, including enhancing EDA's current internal operations.

Evaluation of Recipient Performance

EDA's current monitoring and oversight process lacks sufficiently detailed data to confirm whether jobs were actually created or retained and has led to overstated and overpaid incentive awards. In 24 of the 37 sampled projects, about 65 percent, we found close to 3,000 recipient-reported jobs that were not substantiated as having been created or retained.

In completing our assessment of the five individual incentive programs that were the subject of this audit, OSC staff examined data and reporting issues relating to each of the programs. Unlike the prior section, in which we focused on EDA's annual reporting to stakeholders and to the public, this section addresses the underpinnings of that larger problem on an individualized level.

I. Recipient Annual Reporting Concerns and Issues

37 projects within our 48-project sample required the creation or retention of jobs pursuant to the program requirements specific to each of the 4 incentive programs.⁶ Award recipients in these programs are required to submit annual reports to document and/or verify that the required jobs were indeed created or retained. As we began to discuss in the prior section, our audit found numerous deficiencies with the annual reporting process that prevented EDA from accurately conveying recipient performance. Here, we discuss in greater detail some of the specific types of information that EDA could have, but did not, capture in the recipients' individual yearly reports. Generally, OSC has found that these recipient reports (1) were not consistent in the format or data elements provided or required, (2) did not consistently include a level of detail necessary to test the accuracy or reliability of the recipient-reported job data, and (3) did not provide the details necessary to ensure that the recipient had satisfied all of the required job factors.

⁶ Residential HUB and ERG projects do not include tax incentives for new or retained jobs. Therefore, these projects were excluded from testing.

These deficiencies hamper EDA's efforts to perform a thorough analysis and assessment that jobs were actually created or retained pursuant to the program requirements. Indeed, the current process did not provide enough detail to track the new or retained position by job title or through specific identifiers that would be necessary to identify each individual employee filling each position throughout the year. Instead, award recipients provide a list of employees, sometimes provide a job title, do not consistently include hire or termination dates, and do not consistently track when positions are vacant and when they are backfilled. The missing data is of critical importance given that some programs require that a new or retained position be "in addition to" the awardee's pre-award statewide employment level. Under the current reporting process, EDA cannot make that determination.

Clearly a more sophisticated reporting process or position-tracking system would permit EDA to perform a more thorough analysis of the awardees' compliance with the requirements of the incentive programs with respect to minimum statewide employment levels.

II. Failure to Obtain Sufficiently Detailed Job Data

EDA has the authority to obtain all necessary personnel information to administer its incentive programs and may have audits performed as EDA deems necessary. Despite that, OSC auditors found that EDA did not consider or obtain sufficiently detailed job data nor did it require awardees to submit other verifiable evidence to substantiate reported job data (*e.g.*, time records, payroll registers, or payroll tax records).

III. Awardees Overstated the Incented Job Data as Actual Jobs Were Not Realized

EDA did not monitor, in a meaningful way, the accuracy and reliability of the recipient-reported job data. As such, it is impossible to properly assess whether each reported job properly satisfied the incentive-program job requirements. OSC engaged in a deeper analysis of the reported jobs within the sample set that was the subject of this audit. In particular, OSC attempted to verify that each employee included in the recipients' annual reports was also included in the labor reports for the same reporting

period. With respect to GrowNJ projects in particular, OSC attempted to verify that the awardees had reported wages to Labor for each reported employee in a new or retained position for all four quarters in the reporting period as required by that program. For both the GrowNJ and HUB projects, our auditors attempted to verify that awardees had maintained the required statewide employment levels. Finally, for the BRRAG projects, we also focused on verifying that the awardees maintained the required post-performance employment levels.

In general, the significant deficiencies in the annual reporting data elements combined with EDA's failure to obtain detailed job data prevented OSC from making an absolute finding as to whether the required jobs were in fact created and/or retained thereby making it impossible to determine whether or not all program requirements and award agreement terms had been satisfied. Notwithstanding that, our review did allow us to make specific findings in some areas. For example, our audit found a total of 2,993 exceptions with the recipient-reported jobs in 24 of the 37 sampled projects, about 65 percent. These exceptions include: 726 employees claimed in the annual reports that were not included in the labor reports, 261 GrowNJ employees that were not considered full-time because wages were not reported for all 4 quarters in the reporting period, and 644 employees reported in 2 incentive awards for the same reporting period. OSC was unable to complete testing for 1,362 jobs in 2 of the projects primarily due to a lack of reporting details, explained in more detail later in this Report. In total, incentives were certified or overpaid totaling about \$3.9 million. These details have been shared with EDA for its review and monitoring of annual reports in subsequent periods to prevent improper incentive awards in the future.

The details of the exceptions found during our audit include:

A. Employees Not Included in Labor Reports

Our audit of the recipient-reported employees as compared with the labor reports noted that a total of 726 employees were not reported to Labor in 20 of the 33 sampled GrowNJ, BRRAG, and BEIP projects. The total overpaid incentive awards amount related to this exception is approximately \$585,000.

B. Employees Do Not Have Wages for the Full Year

261 employees included in the recipient-reported data for GrowNJ did not have wages that were reported to Labor for all four quarters of the annual reporting period. Without sufficiently detailed documentation regarding each employee's annual work history, we were not able to verify that these employees met the full-time work requirement contained in the incentive program regulations. The incentive payment for this specific set of employees totals approximately \$1.2 million.

To illustrate this weakness, program regulations specify that employees are considered "full-time" provided they work 35 hours each week. However, EDA did not specify that a minimum work requirement be included in the recipients' annual reports. Our review revealed that awardees would often include employees who had not worked a full month. EDA advised OSC, however, that an employee hired on the last day of the month would qualify for inclusion in the annual report. It appears, from our review, that numerous recipients reported employees with hire dates at the end of the annual reporting period. For example, one company hired six individuals in the last two weeks of its reporting period presumably to meet the number of employees required by its award agreement.

C. Employees Reported in Multiple Programs

Two awardees in our sample were recipients of both BEIP and BRRAG awards. These recipients improperly reported the same 644 employees in both incentive awards for the same reporting periods. Assuming the retained BRRAG positions were filled before any new positions in the BEIP program were created, we determined the improper BEIP incentive award totals about \$102,000.

D. Statewide Employment Level

In addition to creating or retaining jobs, the GrowNJ and HUB regulations require awardees to maintain their statewide employment level as determined during the approval process. OSC found gaps in the data collected during the application process,

however, which would have made it difficult, if not impossible, for EDA to monitor those employment levels.

For example, with respect to the sampled HUB Projects, EDA did not obtain hire dates for all employees who existed at the time the applications were approved. Without such data, EDA could not determine whether or not awardees had met their requirements with respect to retained employees or maintained the necessary statewide employment level during the award performance period.

E. Incomplete or Missing Annual Reports

EDA did not provide or only provided partial annual reports for two of the sampled BRRAG projects. Without the complete reports, we were not able to verify whether 1,362 jobs were retained. The details of the missing information include:

- a. The annual report for a BRRAG recipient with an incentive award valued at \$810,000 for 540 retained jobs was not provided.
- b. Incomplete annual report data for another BRRAG recipient with an incentive award valued at \$1.2 million for 822 retained jobs. The recipient did not include employee names in the annual report. Without employee names, OSC was not able to determine whether the recipient-reported jobs were, in fact, retained and whether the awardee satisfied the award agreement terms for those jobs. This particular awardee also had received a BEIP incentive award. OSC found that the annual reports for the BEIP project included employee names. EDA did not explain or justify why it was appropriate to exclude the employee names for the BRRAG award nor did it explain how it determined the accuracy of the number of jobs asserted by the awardee.

F. Post-Performance Reporting Deficiencies

All six BRRAG recipients that were included in our testing identified employees in their annual reports that had not been reported in the labor reports. Two of the awardees failed to meet the required employment levels for some part of their five-year post-performance period. Because EDA had not verified or compared the recipient-reported

job data with the labor reports, it was unaware of the non-compliance and, therefore, did not take action to recapture any of the incentive awards issued to these recipients.

G. Other Issues

- a. During our testing of the GrowNJ, BRRAG, and HUB projects, we found numerous employees included in the annual reports that had not been included in labor reports. Since the awardees otherwise met the program required employment levels there was no impact to their incentive awards. However, these discrepancies raise doubt as to the accuracy of the recipient-reported data and further highlight the need for EDA to develop and implement a robust monitoring and oversight process including independent verification of awardee job data and thorough assessment of awardee performance.
- b. Our audit found that 4 of the 6 BRRAG awardees did not include all 12 months of job data.
- c. During the course of our audit, one of our sampled projects included a recipient who had filed for bankruptcy and was terminated or withdrew from the incentive program. EDA advised OSC that it does not take action, either to seek recovery or to legally file as a creditor, in bankruptcy proceedings in these cases. OSC reminds EDA that, given the various outcomes in bankruptcy proceedings, including reorganizations, EDA may want to consult with the Attorney General's Office regarding its options for filing as a creditor. Moreover, EDA should consider defining when and if such recipients might qualify for consideration for future incentive programs.
- d. OSC notes that under the Act, the GrowNJ incentive program will sunset on July 1, 2019. In light of this fact, we offer the following for EDA's consideration. In 10 of the 12 sampled GrowNJ awards we reviewed, the recipients had reported only a partial year of job data during their initial year in the program. Unlike the BEIP awards we reviewed, EDA awarded incentives for these recipients based on a full year instead of pro-rating the incentive to reflect the period for the actual employment. Although the applicable statute and regulations do not prohibit the

manner in which EDA calculated these awards, pro-rating the award would be more equitable.

Recommendations

11. Develop and implement reporting requirements and a uniform process utilizing templates that: (1) require consistent format and data elements; (2) require the level of detail necessary to test the accuracy or reliability of recipient-reported job data; and (3) provide the details necessary to ensure that a recipient has satisfied all of the required job factors.
12. Develop and implement monitoring and oversight activities that require a thorough analysis and assessment to determine whether: (1) jobs were actually created or retained pursuant to program requirements; (2) awardees have complied with the requirements of award programs with respect to minimum statewide and/or post-performance employment levels; and (3) awardees have complied with the requirements of award agreements with respect to employees' actual work hour and location requirements.
13. Enhance monitoring and oversight activities by independently verifying and confirming recipient-reported data with other state resources from the Department of Labor and Workforce Development and the Department of Treasury, Division of Taxation.
14. Enhance monitoring and oversight activities with independent verification and confirmation of recipient-reported data through receipt, collection, and review of recipient supporting documentation, including but not limited to time records, payroll registers, payroll tax returns, and other relevant information.
15. Formulate a monitoring process and activities to identify awardees with multiple incentive awards and ensure that their employees and/or jobs comply with program requirements.
16. Assess the feasibility of implementing a more sophisticated position tracking system to facilitate the monitoring and oversight activities.

17. Consult with the Attorney General's Office regarding the appropriate action to take in those instances where an awardee has filed for bankruptcy.

Incentive Award Jobs Data

EDA does not utilize a single reporting mechanism to collect uniform data regarding the incented jobs from all awardees. As a result, there is limited ability to summarize and report specific job factors and benefits for all jobs.

As discussed in greater detail above, a proper and complete analysis of the five incentive programs can only be performed with the collection of detailed, adequate data regarding the awardees' performance. When that performance is tied to the creation or retention of jobs and taxpayer funds are being used to support these programs, oversight entities have an obligation to determine whether or not performance metrics are, in fact, being met. OSC auditors found that the process that EDA used to capture recipients' annual reports is insufficient to allow for a proper assessment of those metrics. In fact, EDA currently utilizes different processes for recipients to submit their annual reports and does not have a comprehensive database for all awards or for all programs. Absent a centralized job-tracking system, one that includes uniform data elements for all programs, it is difficult to summarize the key employment factors for the incented jobs.

I. Incentives Data Management System

Since 2012, EDA has utilized a proprietary database, the Incentives Data Management System (iDMS), to collect certain recipient reports and supporting documents that are required pursuant to the award program conditions. GrowNJ, HUB, and BEIP are currently utilizing iDMS. Within iDMS, awardees can submit their annual reports of incented jobs and supporting documentation, such as certifications from corporate officials. The system has a structured file format designed to collect information about each incented job, including: first and last name of the employee in the title, salary, job title, and the employee's hire date. Because, however, each program requires different levels of reporting, not all of these data elements are required to be submitted. The system does perform various data validations, such as quality control checks for typographical errors and date discrepancies, before accepting the file for

submission. But there is no process in place to verify the accuracy of the submitted data elements.

II. Information on the Types of Jobs Created/Retained

These discrepancies are particularly troubling when considering the manner in which job titles are submitted and recorded. Although job titles are collected through iDMS, there is no uniformity as these job titles are all company specific. As of April 2018, OSC identified over 50,000 different job titles listed within iDMS. Without requiring some uniformity, it is again virtually impossible to determine what types of jobs have been created or retained. This is critical given that, in many cases, awards are tied, not only to the fact that a job was created or retained, but that it was created or retained in a particular category or sector.

One other way to try to determine the true nature of each job title is by analyzing the related salary levels. In this way, one might be able to determine the "level" of the job created or retained (*e.g.*, an entry-level position versus a high-level management position). But this too is an imperfect solution. Using nine salary range tiers, the incented jobs are summarized below.

**Summary of the Incented Jobs for each Salary Range
iDMS as of April 2018**

Salary Greater Than	Salary Less Than or Equal To	Number Of Reported Jobs Within the Salary Range	Percent of Total Reported Jobs
\$0	\$25,000	13,242	12.0%
\$25,000	\$50,000	19,621	17.8%
\$50,000	\$75,000	17,457	15.9%
\$75,000	\$100,000	15,743	14.3%
\$100,000	\$125,000	12,726	11.6%
\$125,000	\$150,000	10,980	10.0%
\$150,000	\$175,000	7,374	6.7%
\$175,000	\$200,000	4,536	4.1%
\$200,000		8,442	7.7%
	TOTAL	110,121	100%

While this salary data is instructive on some level, it is far from conclusive when trying to determine what the true nature of each reported job is and, therefore, whether it meets the specific requirements of each award.

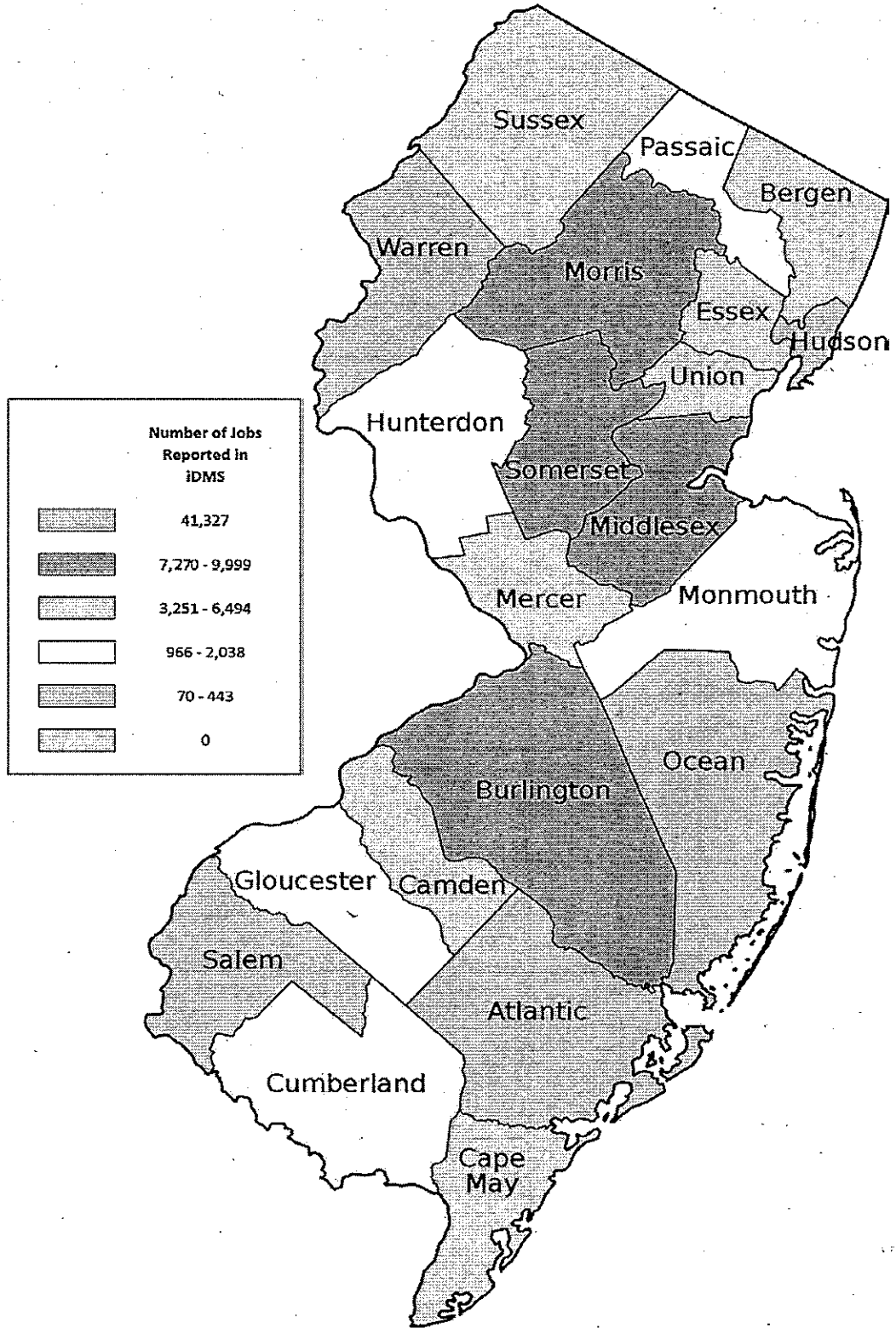
III. Information on the Locations of Jobs Created/Retained

iDMS is useful in illustrating what areas of the state benefit most from the incentive programs. Using the information from the annual reports accepted by iDMS as of April 2018, OSC summarized the total approved, recipient-reported jobs, and average salaries for each county.

Summary of Incented Jobs by County - iDMS as of April 2018

County	Projects	Total Approved Jobs	Jobs Reported	Average Annual Salary of Reported Jobs (in \$)
Hudson	111	34,463	41,327	123,421
Morris	36	7,554	9,999	127,148
Middlesex	49	5,232	8,509	81,142
Burlington	18	5,124	8,008	60,278
Somerset	26	7,351	7,270	113,065
Bergen	36	4,436	6,494	86,489
Essex	21	3,874	6,076	49,776
Union	16	2,373	4,751	107,681
Camden	24	3,223	4,263	78,302
Mercer	20	2,989	3,251	112,916
Cumberland	9	758	2,038	26,771
Monmouth	9	2,644	1,677	90,677
Passaic	8	1,332	1,558	87,316
Hunterdon	4	428	1,161	90,317
Gloucester	6	741	966	30,984
Salem	1	320	443	42,046
Ocean	2	538	442	56,684
Atlantic	2	392	435	33,076
Warren	1	166	70	114,849
Cape May	0	0	0	
Sussex	0	0	0	
Statewide	399	83,938	108,738	\$101,043

Incented Jobs by County -iDMS as of April 2018



Recommendations

18. Assess and define the incentive program metrics with specific job data and other project elements to provide thorough analysis of awardee performance and job data.
19. Develop a uniform system or process to collect annual reports and other project data, with sufficiently detailed data considering the limitations noted in this and prior audits.

Administrative Costs and Fees

EDA does not adequately track administrative costs related to the management of its incentive programs to determine the reasonableness of related fees imposed on applicants or awardees. Additionally, EDA has not established a proper segregation of duties as it relates to the collection and recording of fees and cannot ensure that all revenue related to the fees has been recognized when earned and measurable.

I. EDA Administrative Costs

According to the FY 2017 audited financial statements, EDA's operating expenses totaled \$56 million. Operating expenses include \$30 million in salaries and benefits for the EDA staff responsible for administering all of its loan, business, tax incentive, and other programs. Non-Payroll administrative expenditures include, among other things, legal, marketing and outreach, information systems hardware and maintenance, contracted services for actuarial assessments, and the independent financial audit. These non-payroll expenses total \$26 million, representing 46 percent of EDA's total operating expenses.

Pursuant to *N.J.S.A. 34:1B-5(k)*, EDA may collect fees from program applicants and awardees as determined to be reasonable. Fees may include charges for EDA's administrative, organizational, insurance, operating, legal, and other expenses. In FY 2017, for example, EDA collected \$26 million in fees, \$19 million of which were related to the incentive programs included in our audit. EDA does not have, however, a process to track, report, and adequately analyze information regarding the administrative costs that are directly related to the management of the incentive programs. As a result, EDA was not able to provide evidence that the fees it charges are reasonable. Similarly, without a calculation of the administrative costs related to these incentive programs, OSC is unable to determine if the fees charged are reasonable in relation to the costs of each incentive program.

As noted previously, pursuant to Executive Order #3, OSC was asked to examine the documentation and disclosure of expenses incurred by the applicants, including lobbyists, consultants, and legal representation. EDA, however, did not require applicants to submit such information. Since this information was not available, OSC did not have substantial evidence to report or provide conclusions.⁷

II. Assessment and Collection of Fees

Fees are triggered by various actions related to the administration of the incentive programs such as application review, Board approval, closing fees, annual servicing, award modifications, and termination. Each such action has an individual fee structure that may result in a flat fee or a fee tied to a percentage of the total value of the award. OSC found that the fees collected for the 48 sampled projects totaled \$5.3 million collected between 2012 and 2017.

Once a triggering event occurs, EDA's "incentive officers" are responsible for assessing and collecting the funds. The incentive officer informs the applicant or recipient of the fee but does not always notify EDA's Accounting Department. Since the incentive officers perform these functions independent of the Accounting Department and its process, there is a lack of proper segregation of duties and appropriate management oversight that could prevent errors in the process.

Our audit found examples of fees that were either not assessed or collected for all triggering events and, in other instances, fees that were collected for incorrect amounts. Of the 48 sampled projects, our audit found mistakes regarding fee amounts for 9 projects with a total amount in error of \$22,750. Fees for 4 of these projects were under-collected in the amount of \$8,500. Fees for the remaining 5 projects were not collected at all. This

⁷ Because EDA does not track this data and in an effort to obtain this information, OSC developed and distributed to awardees a survey designed to collect the information outlined in the executive order. Despite our best efforts, we received a minimal response and, given the time constraints associated with this project, were unable to pursue the matter further.

error resulted in a loss amount of \$14,250. OSC also noted that of the \$22,750, \$15,250 in modification fees for 5 projects were either not collected or under collected.

Although the Accounting Department records the fees once they are received by EDA, it does not create an initial invoice in the accounting system. Absent an invoicing process, EDA cannot ensure that all fees have been assessed, recorded, or collected. This deficiency may have caused EDA to violate Generally Accepted Accounting Principles that require revenues be recorded in the period in which they are earned and become measurable.

Recommendations

20. EDA should track administrative costs associated with each incentive program to ensure that fees are set at a reasonable rate that covers the costs incurred.
21. EDA should establish a proper segregation of duties and/or oversight system as related to the assessment and collection of fees. Appropriate EDA staff should notify EDA's Accounting Department upon the occurrence of the triggering event which forms the basis for the fee. At that point, the Accounting Department should be responsible for the invoicing and collecting of fees.

REPORTING REQUIREMENTS

We have provided a draft copy of this report to EDA officials for their review and comment. EDA's comments were considered in preparing our final Report and are attached as Appendix A. EDA agreed with many of our recommendations and, according to its response, has already taken steps to implement some of those recommendations.

EDA also disagreed with some of our findings and recommendations. EDA, however, failed to provide any compelling evidence warranting a change to the audit conclusions. In many instances, EDA disagreed with certain findings and recommendations based on the fact that it believes it followed statutory and regulatory requirements. Many of our findings and recommendations, however, concern EDA's failure to implement effective internal controls in addition to ensuring that statutory and regulatory requirements have been met. We believe that effective internal controls are critical to ensuring transparency, integrity, and accountability in the administration of the incentive programs.

Of particular concern, EDA highlights in its response that the results of OSC's testing cannot be extrapolated over the entire population of incentive awards. While this may be true from an auditing perspective, our Report found numerous deficiencies in EDA's administration of the incentive programs that we believe are representative of systemic failures that warrant attention for EDA's administration of its incentive programs. As the entity charged with administering and overseeing incentive programs for the state, EDA has an obligation to ensure that it implements the processes, policies and procedures to appropriately award, monitor and oversee the incentive programs.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement and in accordance with *N.J.A.C. 17:44-2.8(a)*, following the distribution of the final audit Report, EDA shall report to the Office of the State Comptroller within 90 days stating the corrective action taken or underway to implement the recommendations contained in the report and, if not implemented, the reason therefore. This Office will review the implementation of the corrective action plan.

On behalf of OSC, I thank the management and staff of EDA, the New Jersey Department of Labor and Workforce Development, and the Division of Taxation for the courtesies and cooperation extended to our auditors during this engagement.



January 3, 2019

Philip James Degnan, State Comptroller
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625

RE: NJEDA Response to Discussion Draft

Dear State Comptroller Degnan:

The New Jersey Economic Development Authority (NJEDA) welcomes the opportunity to respond to the Discussion Draft provided on December 21, 2018 by the Office of the State Comptroller (OSC) as a result of Executive Order #3, requiring "a complete performance audit of the Grow New Jersey Assistance Program and the Economic Redevelopment and Growth Grant Program, and predecessor programs, from 2010 onward."

The NJEDA has been administering incentive programs on behalf of the State of New Jersey for over two decades. While these complex and nuanced programs each have a different set of statutory requirements and public policy goals, a consistent thread has been the NJEDA's commitment to the highest level of transparency and due diligence in recommending projects to its Board and ensuring every project approved is done so in strict compliance with statutes and regulations.

The OSC report focused on five programs: the Business Employment Incentive Program (BEIP), the Business Retention and Relocation Assistance Grant Program (BRRAG), the Urban Transit Hub Tax Credit Program (HUB), the Economic Redevelopment and Growth Program (ERG), and the Grow New Jersey Assistance Program (GrowNJ). Three of these programs, BEIP, BRRAG and HUB, are legacy or "predecessor" programs that are no longer accepting applications, with one program (BRRAG), having started at the Commerce Commission, with the NJEDA assuming administrative responsibility when the Commerce Commission merged with the NJEDA in 2008.

As we communicated from the beginning of this process, the NJEDA welcomes the OSC's audit as an opportunity to assess areas for further improvement, and we appreciate and agree with a number of the recommendations outlined in the report. It should be noted that the NJEDA does not agree with the conclusory nature of the OSC audit deeming certain activities to be "deficient," despite the NJEDA adhering to statutory requirements. The OSC indicated that some of these conclusions are based on their view of best practices. The NJEDA welcomes the opportunity to evaluate the feasibility and legality of implementing these best practices should the OSC provide them.

As statutes, regulations, management and administration of incentive programs have evolved, it should also be noted that, appropriately, 70 percent of the findings and recommendations detailed in the OSC

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report are related to the legacy or "predecessor" programs. Furthermore, of the reported jobs that OSC contends lacks substantiation at approval, 88 percent relate to the predecessor programs, with over 1,300 of the 2,933 jobs in question having been approved at the Commerce Commission. It also must be noted that, as it relates to economic impact and program results, there is an important distinction between the NJEDA Board's approval of an application and the actual realization of an award of tax credits. Of the approximately \$8 billion NJEDA has approved for projects under the HUB, ERG, and GrowNJ programs, less than nine percent has actually been paid out to date.

The NJEDA appreciates the recommendations provided by OSC given this is a pivotal time as the ERG and GrowNJ programs sunset in July 2019. To that extent, and under new leadership beginning in late February 2018, the NJEDA has already begun to take significant actions to ensure the utmost transparency and due diligence is exhibited for all legacy and future programs.

A critical step has been the creation of a new division – Portfolio Management and Compliance – which reports directly to me as Chief Executive Officer and focuses on the post-approval monitoring of projects and compliance. I charged Division leadership to review the existing incentive management and compliance process, which has resulted in a clear action plan to significantly enhance compliance and data integrity moving forward.

A second critical step is that the NJEDA and the New Jersey Department of Labor and Workforce Development (NJLWD) have met to set up a data sharing arrangement to better monitor job performance. This data sharing agreement will serve to assist NJEDA in better verifying the information submitted by applicants. This, in addition to NJEDA's current procedure of CPA, CEO and CFO certifications and random external audits, will strengthen documentation.

Third, the NJEDA continues to update the annual requirements for businesses seeking tax credit certifications, having already incorporated many of the recommendations laid out by OSC.

Lastly, the NJEDA is close to completion of a new organization-wide data and documentation system that will be the central database for all programs at the NJEDA, which will allow ready access to information.

Executive Summary of NJEDA Response

As the agency charged with administering the State's incentive programs, the NJEDA's fiduciary responsibility and strong resolve to protect the public interest remain our paramount obligation. As demonstrated through improvements executed during the two decades NJEDA has been administering incentive programs, the NJEDA welcomes the opportunity to strengthen related policies and processes.

The NJEDA's response will address the findings detailed by OSC and the subsequent recommendations. Prior to getting into the details of these findings, it is important to make clear that the NJEDA administers the five programs detailed in the OSC report based on legislation. The legislation, not the NJEDA, sets the requirements of each program, with each having its own nuances that distinguishes it from one another. The NJEDA then publishes rules to ensure the program requirements of the legislation are being met. Due to the complexity and nuances related to the incentive programs, an outside observer may misunderstand what is required from each program and how respective statutes dictate the specific evaluation of the various information required. Further, and as stated by the OSC, a non-statistical sampling approach was used, and therefore, cross-portfolio extrapolations cannot be

made. As OSC notes, the results of their testing cannot be projected over the entire population of incentives.

OSC's findings roughly fall into three categories. First, because they find that that NJEDA in the past has not verified job information with NJLWD, OSC concludes that NJEDA's job data is unreliable. As noted throughout the NJEDA's response, NJEDA has been working with NJLWD to use its job data to verify NJEDA's incentive data. As found by OSC, however, it is difficult to use this data to verify incentive data because the rules of the incentive programs that define employment do not necessarily match the data provided in the NJLWD reports. Because of this mismatch, NJEDA will continue its current practice of closely reviewing reports for internal inconsistencies, maintaining close communications with applicants to understand their businesses, and randomly auditing submissions using an outside CPA firm to ensure accuracy.

Second, OSC found that certain files were incomplete and therefore concluded that NJEDA processes are flawed. As noted throughout NJEDA's response, NJEDA recognized the limitations of its legacy data information systems and will be introducing a new system in early 2019, customized to meet the needs of incentive programs. This initiative began in 2014. NJEDA will continue its practice of a thorough review of each application. Currently each application is subjected to at least two staff meetings attended by a Deputy Attorney General, where eligibility and difficult issues are discussed and resolved before it is presented to the full NJEDA Board. The new data system will allow better memorialization of this review.

Third, OSC recommends certain activities that are not presently supported by legislation and concludes that the failure to undertake these activities demonstrates a weakness in NJEDA's processes. For example, as explained herein, under federal law it is not possible for the NJEDA to require the submission of Social Security Numbers. Similarly, a reassessment of the net benefit test throughout the life of an award is not required by any current incentive legislation, although NJEDA supports this being included in future legislation. Throughout the evolution of its administration of incentive programs, the NJEDA has sought guidance from the Attorney General's office on legal matters and has adhered to this guidance and will continue to do so.

Key points outlined in the response include:

- Under new leadership, the NJEDA has created a Division of Portfolio Management and Compliance to focus on developing and overseeing internal process improvement initiatives. This is in addition to the internal audit department that was created in 2017 to align and enhance risk, compliance and reporting functions that had been operating in other business units.
- The NJEDA is finalizing a partnership with NJLWD related to data sharing, which will ensure enhanced monitoring of job performance of incentive recipients.
- The NJEDA will launch its new organization wide data and documentation system in early 2019, which will serve as the central database for all programs and will strengthen practices related to verification, monitoring and reporting.
- The NJEDA does not agree with the conclusory nature of the OSC audit deeming certain activities to be "deficient," despite adhering to statutory requirements.

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- Statutes, regulations, management and administration of incentive programs have evolved since BEIP was first created in 1996. Therefore, it is important to note that 70 percent of the findings and recommendations detailed by OSC are related to predecessor programs, and that 88 percent of the reported jobs in question by OSC are tied to the predecessor programs, with 1,300 of 2,933 having been approved by the Commerce Commission and not the NJEDA.
- In consultation with the Attorney General's office, the NJEDA disagrees with OSC's legal interpretation of the statute and the subsequent finding in the report related to HUB projects and an ability to apply for less than the capital investment to satisfy the 110 percent net benefit.
- The NJEDA strongly disagrees with OSC's suggestion that the net benefit be rerun to determine deficiency for both the HUB and ERG programs because this is not required by statute; as dictated by statute, these programs have no specific job creation/retention requirements, other than meeting eligibility threshold baselines. As a result, the NJEDA verifies the capital investment and threshold job numbers at certification in strict accordance with statutes.
- The NJEDA disagrees with the statements put forth by OSC related to material factor. The NJEDA already reviews various factors referenced by OSC and verifies that all components of the material factor test are satisfied.
- Projects referenced by OSC as being "over-certified" does not mean that the applicant has received the approved incentive award. Where appropriate/relevant, EDA will remedy any miscalculations through the pro-ration of future year credits, and if applicable, seek repayment of any overpayments that cannot be remedied in this manner because the tax credit agreement has expired.
- As it relates to oversight, in consultation with the Attorney General's office, the NJEDA is not legally able to require that Social Security Numbers are submitted by applicants. Furthermore, the statute dictates how job information is verified.
- The NJEDA disagrees with the contention that a GrowNJ applicant failed to meet certain employment levels as all documentation has been provided to OSC, in consultation with the Attorney General's office explaining how the award and subsequent tax credits were valid.
- Overpayments amounted to .18 percent of the total BEIP payments. The NJEDA is committed to take legally available options to collect any overpayments.
- As it relates to program results and reporting, there is an important distinction between the NJEDA Board's approval of an application and the actual realization of an award of tax credits. The NJEDA would appropriately not be able to report on the actual economic impact of a project until it certifies completion. Of the approximately \$8 billion NJEDA has approved for projects under the HUB, ERG, and GrowNJ programs, a combined total of \$696.7 million has actually been paid out to date – less than nine percent of what has been approved.
- NJEDA determined that its annual report was not a sufficient vehicle to provide up to date incentive activity results. As such, by May 2015, the NJEDA began posting to its website project lists for all five incentive programs, including pertinent information on all approved projects in

an accessible and easily understandable format. When projects certify completion and tax credits are issued, the relevant information is also posted on the NJEDA website via the regularly updated Completed and Certified Incentive Projects report.

- The incentive programs were designed by the Legislature to be performance-based. The NJEDA assesses whether the awardees have actually created or retained jobs and determines the actual capital investment through the required certification process – at project completion and then annually. Per statute, the NJEDA also submitted a written report in July 2018 after formally engaging the Edward J. Bloustein School of Planning and Public Policy at Rutgers University to undertake an economic analysis of the Grow NJ and ERG programs.
- The NJEDA believes that OSC does not fully understand the engagement of the NJEDA's CPA firm relating to the GrowNJ program, or the process related to recipient annual reporting requirements and verification.
- The NJEDA believes that OSC has misinterpreted information comparing incented job data against NJLWD data.
- The NJEDA strongly disagrees with the suggestion that the variation in job titles submitted by unique individual businesses is troubling. To try and create uniform job titles that would apply across vast industries would be inefficient for businesses as well as misrepresent the diverse positions that the State's businesses employ.
- The NJEDA thanks the OSC for its methodology used to identify salary ranges. This information will be helpful in the implementation of the State's economic development plan moving forward.
- The NJEDA has a very detailed procedure in place to analyze fees, which will be further strengthened through the NJEDA's new data management system.

Discussion and Response to Findings

I. Policies, Procedures, and Internal Controls

The NJEDA continuously looks for ways to improve processes and controls and welcomes the recommendations of OSC (and previously welcomed the recommendations of the Office of the State Auditor). The NJEDA's policies have continued to evolve in the monitoring of projects as the incentive portfolio has matured. Additionally, as addressed above, the NJEDA has created and charged the new Division of Portfolio Management and Compliance with continuing to strengthen policies and procedures, while validating all data and information.

As part of this continual evolution, to assist in understanding the baseline jobs of a company, the NJEDA began collecting Employee Information Worksheets for all new GrowNJ businesses in mid-2017 to establish baseline employment, which then is reviewed as the business certifies their employment numbers at completion of the project. This was a result of the recommendations of the Office of the State Auditor. Requiring this baseline information supplements NJEDA's current policy of requiring hiring dates for each employee.

These Employee Information Worksheets, however, are submitted at application and because applications for the BEIP, BRRAG, and HUB Programs are closed, they cannot be submitted for those programs. However, this type of information may be obtained from prior applicants through audits, as applicable.

II. EDA's Determination of Eligibility

A. HUB Statute and Regulations

The NJEDA acknowledges that awards for the HUB Program were reduced as a result of the applicant businesses not satisfying the required 110 percent net benefit to the State. The statute simply states that a project must have a positive benefit to the State; however, the NJEDA, as fiduciaries to the taxpayers of the State, felt it was imperative for an additional minimum 10 percent benefit to the State because the projects at application and approval are good faith estimates and many factors may change.

The NJEDA strongly disagrees with OSC's interpretation of the legislation and the subsequent finding in the report. Here, in consultation with the Attorney General's office, EDA's interpretation is that a business is not required to apply for 100 percent of their capital investment. As a result, a business can apply for less than their capital investment to satisfy the 110 percent net benefit requirement. In practice, instead of the NJEDA declining an application and then having the business re-apply, the NJEDA works with the applicant to effectively revise their application to reduce their requested award to an amount that satisfies the Net Benefit requirement.

The NJEDA provided various documentation from the Attorney General's Office supporting this conclusion.

B. Economic Benefit Analysis

Understanding the importance of a project's long-term benefit to the State, the NJEDA contracts with Jones Lang LaSalle to create a comprehensive set of factors, which includes both direct and indirect benefits to the State as a result of the project brought forth by a business. This Net Benefit Model is continually updated as economic factors, census data, and wages are adjusted, in addition to the NJEDA's continued evolution and experience in administering the economic development incentive programs for the State.

The NJEDA asserts that the deficiencies cited in the OSC report are items that have been addressed as programs have evolved or are not part of the legislation governing the programs. For example, the NJEDA relies on information from an application that is certified by the applicant CEO, however, if costs exceed a certain square footage amount, the lesser of the two figures is entered into the model. From the start, the NJEDA has evolved the net benefit test to be conservative, to account for the variances that may occur from when a project is presented to the NJEDA and when it is ultimately completed.

The NJEDA understands OSC's position on the reassessment of the Net Benefit Analysis after project completion, however, reassessment is not required in any incentive legislation. However, for its most active program, GrowNJ, the NJEDA introduced reassessing the Net Benefit Analysis under certain circumstances through regulation, and the NJEDA anticipates that reassessment may be a part of any new incentive legislation. However, NJEDA disagrees with OSC's use of deficiency for both the HUB and ERG programs; as dictated by legislation, these programs had no specific job creation/retention.

requirements, other than meeting eligibility threshold baselines. As a result, the NJEDA verified the capital investment and threshold job numbers at certification in accordance with statutes but did not rerun the Net Benefit Analysis as the statute does not require it, [and despite the policy merits, applicants cannot be compelled to provide additional information unless included in the relevant statute. This is an important consideration as new legislation governing incentives is considered in 2019].

As a point of clarification, the NJEDA did provide the completed Net Benefit Analysis for the project in section f. - Economic Benefit Analysis, but it was in the form of a .pdf, unlike other projects where the NJEDA provided Excel files. The project satisfied all requirements of the approval process as dictated on the documentation provided to OSC at Board approval. The NJEDA acknowledges the inability to provide the Excel file and has already taken action steps to address this, specifically the development of a new organization wide data and document collection system that will remedy this issue once implemented in early 2019.

As a point of clarification, the net benefit test is the same for all programs. Therefore, with respect to subsection g, the policies and procedures for the net benefit test for the newer version of BRRAG, which requires a net benefit test, are the same as in NJEDA's other programs.

C. Material Factor Certification

The NJEDA agrees that many factors are considered as part of a company's location decision to either remain or move within the State. Thus, requiring the CEO - the highest-ranking member of an organization - to certify under penalty of law that the incentive is a material factor is a safeguard put in place, as the CEO knows and can attest to the strategic direction of the company. The NJEDA contends, however, that it does look at many of the other factors called out by OSC in their report. For example, the NJEDA requires: a business to identify their statewide workforce at application (existing business footprint); and, the disclosure of an alternative site. NJEDA staff performs a comparison to ensure, in most cases, that New Jersey is more expensive, in addition to looking at the various costs associated with moving as detailed in the Cost Benefit Analysis (CBA).

Collectively, NJEDA reviews the application to verify that all the components of the Material Factor test are satisfied.

D. Cost Benefit Analysis

The CBA procedures, which were referenced by the Office of the State Auditor's 2016 report and provided by the NJEDA Internal Audit Department in 2018, have been substantially modified since the applications reviewed by OSC. The procedures in place require staff to substantiate all costs provided by the applicant for both the New Jersey location as well as the alternate location.

Additionally, the NJEDA welcomes the suggestion that the CBA should be a factor in adjusting the size of the incentive award. Currently, only the GrowNJ legislation allows for the NJEDA to re-size an award if it is over \$4 million annually at approval. This is an important consideration as new legislation governing incentives is considered in 2019

III. Additional Issues Affecting Eligibility

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As discussed above, the NJEDA has formed a new Division of Portfolio Management and Compliance to better track and monitor the various incentive programs, which includes the legacy programs identified by OSC within this section of the report. The NJEDA would like to clarify that BEIP "projects being over-certified" does not mean that the BEIP applicants actually received the miscalculated incentive amount, as BEIP payments were discontinued in Fiscal Year 2015 and have only recommenced this year. In all incentive programs, the NJEDA is committed to take any legal action necessary to collect overpayments, however, in this case that is not applicable as the businesses have not received any overpayments to date.

IV. Management and Oversight of Incentive Awards

The NJEDA appreciates the various suggestions set forth within this section of the report to strengthen monitoring. To date, the NJEDA has worked with NJLWD to obtain digital job data, in addition to asking businesses to voluntarily provide Social Security Numbers; however, in consultation with the Attorney General's office, the NJEDA's position is that it is not legally able to require such information. Without it, matching specific jobs based on a unique identifier is a difficult exercise. Furthermore, when the legislation directs how the information is to be verified, as the BEIP legislation directs NJEDA to work with the NJ Division of Taxation, the NJEDA has worked cooperatively with its government partners.

The NJEDA disagrees with the contention that a GrowNJ applicant failed to meet certain employment levels as all documentation has been provided to OSC, in consultation with the Attorney General's office explaining how the award and subsequent tax credits were valid.

With respect to subsection g., the NJEDA acknowledges a software programing issue related to the BEIP program that was identified. Immediately, the NJEDA evaluated the entire program to determine the severity of the issue and concluded that the overpayments amounted to .18 percent of the total BEIP payments. As discussed above, the NJEDA is committed to take legally available options to collect overpayments.

Program Results and Reporting

Due to the complexity and nuances related to the State's incentive programs, the NJEDA acknowledges that an outside party may misunderstand and subsequently misrepresent program results and reporting. As the agency charged with administering State incentive programs for more than two decades, the NJEDA would like to take this opportunity to clarify certain observations of the OSC.

Frequently, incentive program results have typically been oversimplified and it has been incorrectly reported that the NJEDA has paid out \$11 billion in actual tax credits under the five legislatively-created incentive programs that the OSC reviewed. This is not the case and it is imperative that the NJEDA clarify that there is an important distinction between the NJEDA Board's approval of an application and the actual realization of an award of tax credits. Because of this distinction and the long lead time associated with projects approved under the incentive programs, the NJEDA would appropriately not be able to report on the actual economic impact of a project until it certifies completion.

While the Board's approval represents the opportunity for a project to realize tax credits and generate new economic activity, companies and developers must evidence that they have satisfied specific legislative requirements before they receive any credits. Since all of the programs were designed by the Legislature to be performance-based, this means that approved projects must first generate new tax

revenue, complete capital investments, and/or hire or retain employees to receive the approved benefits.

As a point of clarification, of the approximately \$8 billion NJEDA has approved for projects under the HUB, ERG, and GrowNJ programs, a combined total of \$696.7 million has actually been paid out to date – less than nine percent of what has been approved. This information is made publicly available via the NJEDA's website and updated monthly – www.njeda.com.

As part of the NJEDA's commitment to the highest level of transparency and an overarching desire to provide accurate and timely information to the public and Legislature, it was determined that the annual report was not a sufficient vehicle to provide up to date incentive activity results. As such, by May 2015, the NJEDA began posting to its website project lists for all five incentive programs, including pertinent information on all approved projects in an accessible and easily understandable format. These reports, updated monthly, include a status update for each approved project, the amounts paid out to date for relevant projects, and the related job creation and/or private investment data estimated at the time of application. When projects certify completion and tax credits are issued, the relevant information is posted on the NJEDA website via the Completed and Certified Incentive Projects report, also updated monthly. It must be stated that all projects undergo a comprehensive review to ensure compliance with all legal requirements and are fully vetted by the Board of the NJEDA at a public meeting held each month. The minutes of these Board meetings, as well as the detailed Board memos for each project, are subsequently posted to the NJEDA's website.

I. Program Effectiveness

As noted above, these incentive programs were appropriately designed by the Legislature to be performance-based. As such, the NJEDA strongly disagrees with the OSC's assessment related to NJEDA's ability to report on program effectiveness. Specifically:

- The NJEDA assesses outcomes regarding whether the awardees have actually created or retained jobs and determines the actual capital investment through the required certification process – at project completion and then annually. These results are posted on the NJEDA's website and updated monthly. OSC suggests adding another layer of verification by using NJLWD data and the NJEDA agrees that additional information will strengthen confidence in the accuracy of reported results. Current submissions, however, such as certificates of occupancy, certifications of green building standards and the CPA certificate evidence that capital improvements have been completed and that jobs have been created or retained.
- Less than nine percent of approved projects have certified completion and received payments or tax credits to date; the actual job impact of these projects is detailed in the Completed and Certified Incentive Projects report available at www.njeda.com and updated monthly.
- The NJEDA administers these legislatively-created programs in compliance with statutes. This included a requirement through the Economic Opportunity Act of 2013 that the NJEDA submit a written report by July 1, 2018 to the Governor and Legislature providing a comprehensive review and analysis of the GrowNJ and ERG programs. In response to this directive, the NJEDA formally engaged the Edward J. Bloustein School of Planning and Public Policy at Rutgers University in March 2016 to undertake an analysis of the GrowNJ and ERG programs. The analysis concluded that there has been a significant volume of project approvals under GrowNJ,

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which are associated with significant volumes of retained and created jobs, but which will also generate a substantial offset to the Corporate Business Tax and Insurance Premium Tax in the years ahead, and that, given the long lead time associated with GrowNJ and ERG projects, it is too soon to fully evaluate the impact of these programs on the State's economy.

II. Program Results

The NJEDA is required to share data on incentive program performance and does so through its incentive activity reports online, updated monthly, and as part of its comprehensive annual report. This data is derived from the information verified through the post-closing process and is therefore the information publicly reported. NJEDA has always undertaken to review and strengthen its processes on an ongoing basis and as mentioned above, is currently working to partner with NJLWD for additional verification, in addition to the implementation of the NJEDA's new data management and document storage system.

III. EDA's Annual Report

As it relates to the reporting of unverified information, the NJEDA again must point out that it relies and reports on the information which has been validated through the NJEDA's post-closing process.

As to the contention that the annual report does not reflect the current status of incentive projects, the NJEDA is pleased to report that it provides monthly updates of incentive project status via the incentive activity reports available at www.njeda.com. The NJEDA believed that the annual report was not the best vehicle to report this information as new incentive projects are approved and others reach varying milestones more frequently than once a year. Because of the monthly reporting associated with incentive activity, the annual report seeks to provide a consolidated, but comprehensive, overview of the annual activities of the NJEDA, including a complete listing of all projects that have closed on assistance in the given year, per its enabling statute requiring that "the authority shall make an annual report of its activities for the preceding calendar year to the Governor and the Legislature."

As it relates to the BEIP and BRRAG annual reports, the NJEDA acknowledges that it did stop this practice given that no new activity has been generated under these programs since they ceased as a result of the Economic Opportunity Act of 2013. While any related activity (i.e. actual job creation and payments) is updated via the BEIP and BRRAG incentive activity reports available on the NJEDA's website, the NJEDA will begin sending hard copies of this information to the Governor and Legislature annually based on OSC's observation.

IV. 2017 Incentive Award Monitoring Update

OSC states that without Social Security Numbers, it is impossible to cross check individual employees against NJLWD reports. The NJEDA specifically addressed the collection of the Social Security Numbers with OSC and that, in consultation with the Attorney General's office guidance, NJEDA's position is that Federal Privacy Laws prevent the NJEDA from requiring the Social Security Numbers. The NJEDA offered to obtain additional or more formal guidance on this matter but was instructed to hold off on such a request. The NJEDA now asks for the information voluntarily from all businesses; however, as communicated to OSC, the requirement of such information is illegal.

As addressed throughout this report, the NJEDA is working with NJLWD to better cross reference the data provided during the certification process by the business and that which is reported to NJLWD. The NJEDA believes this partnership will address many of the concerns of OSC.

The NJEDA contends that OSC does not understand fully the engagement of the NJEDA's CPA firm relating to the GrowNJ program. The scope of the NJEDA's relationship with this independent auditor is to evaluate the submission of the overall certification from the applicable business. The NJEDA worked with their CPA firm to develop testing procedures to ensure the information provided to the NJEDA was accurate. These procedures required the independent auditor to look at both the job documentation of the business as well as the capital investment submitted to the NJEDA, adding an additional layer of confidence by double-checking the work already performed by our customers' CFO and CPA firm, respectively.

Evaluation of Recipient Performance

I. Recipient Annual Reporting Concerns and Issues

As stated above, due to the complexity and nuances related to the State's incentive programs, an outside observer may misunderstand what is required from each program and how respective statutes dictate the specific evaluation of the various information required. The information detailed in the annual report has evolved over time and the earlier programs do not require many of the elements listed in the current report. As stated throughout this response, the requirements have been strengthened over time, an evolution that is evident with the GrowNJ program.

II. Failure to Obtain Sufficiently Detailed Job Data

As OSC is aware based on their previous reference, the NJEDA has hired a CPA firm to look at the exact information that is detailed in this finding. As stated in NJEDA's response above, these are exactly the elements looked at by the CPA firm in the detailed procedures NJEDA worked with them to create. The NJEDA accepts the certified job reports from the CFO of the business and the NJEDA's CPA firm looks at the same information detailed by OSC to confirm it is accurate.

III. Awardees Overstated the Incented Job data -- Actual Jobs Not Realized

The NJEDA will continue to strengthen the review of the certified job information provided by the individual businesses by cross-referencing the information with the NJLWD, which has been addressed throughout this response. OSC's experience with cross checking incentive information against NJLWD data highlights the limitations of this method of verification. OSC misinterprets its inability to absolutely verify jobs as a failure of NJEDA, while the reason is that there are nuances in the incentive programs that make it difficult to undertake a simple cross-check against NJWD information.

First, there may be justifiable reasons why an employee would not be on an employee report, yet count as an employee of the business. Second, OSC is confusing the nuances of the GrowNJ program relating to overall certification and annual certifications. Per statute and program regulations, the overall certification is a snapshot in time of how many employees were employed by the entity. Whereas, the annual award of a tax credit is an *average* of the employment throughout the year; there is no requirement that the same employee work for four quarters. For these reasons, even as it institutes NJLWD cross checks, NJEDA will continue to carefully review annual reports, maintain communication

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with awardees to understand their businesses, and use CPA reports and random audits to ensure accuracy.

As it relates to any overpayments, the NJEDA is committed to take legally available options to collect. However, the NJEDA again wants to distinguish between overpayments and over-certifications. Over-certifications have not necessarily led to any overpayments, and the NJEDA is committed to take legally available options to reduce the over-certifications.

Lastly, the NJEDA will consult with the Attorney General's office to identify any legal actions appropriate for businesses' declaring bankruptcy. There are very few instances of companies going bankrupt in these programs.

Incentive Award Job Data

The NJEDA contends that the information in iDMS is verified by staff during the review process, however, this process will be further enhanced by collecting data from NJLWD. The NJEDA strongly disagrees with the suggestion that the variation in job titles submitted by unique individual businesses is troubling. The State of New Jersey prides itself on the diversity of its workforce and wide range of businesses. To try and impose uniform job titles on private companies that would apply across vast industries would be inefficient for businesses as well as misrepresent the diverse positions that the State's businesses create. For example, a manufacturing firm and a bio-pharmaceutical company will have drastically different job titles and responsibilities. In this example, a manufacturing technician and a lab technician are vastly different jobs and should not be considered just a "technician."

The NJEDA does applaud the methodology used to identify salary ranges. This information will be helpful in the implementation of the State's economic development plan moving forward.

EDA Administrative Costs

The NJEDA provided OSC with the policy and fee matrix system in determining fees for the various incentive programs. While the NJEDA acknowledges that these were not individually broken down, the NJEDA has a very detailed procedure in place to analyze fees. OSC was also provided with the detailed breakdown of how fee payments will be recorded and tracked in the NJEDA's new data management system, which the NJEDA expects will alleviate the findings of OSC.

With respect to the financial statement disclosure issues OSC raised related to fees and GAAP presentation, NJEDA's year-end financial statements record this information and the independent auditors of the NJEDA test proper cut-off of fee revenue. These independent auditors also perform a subsequent events test to ensure that any fees that come in between January and April are properly recorded in the respective year. Any appropriate adjustments are then made.

In summary, the NJEDA appreciates the time OSC spent attempting to understand these complex and nuanced programs. We welcome the opportunity to strengthen management and administration of these programs wherever possible, and we remain steadfast in our commitment to exercise the utmost level of due diligence and fiduciary oversight.

Again, the NJEDA thanks the OSC for the opportunity to respond to the Discussion Draft. Should you have any questions, please contact Bruce Ciallella, Senior Vice President – Portfolio Management and Compliance, by phone at (609) 858-6091 or via email at bciallella@njeda.com.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Sullivan', with a long horizontal stroke extending to the right.

Tim Sullivan
Chief Executive Officer
New Jersey Economic Development Authority

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APPENDIX B

Pursuant to the Act, EDA submitted a report to the Governor's office in July 2018, prepared by Rutgers University, Edward J. Bloustein School of Planning and Public Policy (the Rutgers' report). According to the Act, the purpose of this report was to provide a "comprehensive review and analysis" of the GrowNJ and ERG tax incentive programs, along with other economic incentive programs under EDA's jurisdiction. Some of the key observations of the Rutgers' report relative to GrowNJ and ERG include:

- There has been a significant volume of project approvals under GrowNJ, which are associated with significant volumes of retained and created jobs, but which will also generate a substantial offset to the Corporate Business Tax and Insurance Premium Tax in the years ahead.
- Commercial ERG projects leverage a considerable amount of private investment.
- Given the long lead time associated with GrowNJ and ERG projects, it is too soon to fully evaluate the impact of these programs on the State's economy.
- Projects approved under GrowNJ are generally concentrated in the northern, more populous counties of the State. A significant percentage of project funding in the eight southern counties has been concentrated in Camden.
- Redundancies in the GrowNJ base and bonus award structure are potentially providing more generous incentives than intended by the statute.
- Because certain bonuses have been underutilized, it is not clear that the program has advanced certain policy goals intended by the legislation such as clean energy investment and the creation of incubators.
- There is an opportunity to improve EDA's analysis of proposed incentive projects.

The Rutgers report also examined EDA's use of a benefit-cost analysis, required by the Act, to determine whether applicants qualify for GrowNJ awards. The analysis compares the benefits of the award, which is measured in terms of the state and local tax revenues associated with both the project's initial capital expenditures and with the firm's operations, with the costs, which is measured by the dollar value of the tax incentives granted to the applicant. Under the Act, the current analytical framework for GrowNJ requires that the ratio of benefits to costs for proposed awards be at least 110 percent for most awards, 100 percent in the case of Garden State Growth Zone awards.

The Rutgers report identified the following in regards to the benefit-cost analysis:

- A benefit-cost ratio higher than 1.1 would reflect the element of uncertainty regarding the role of the award in the retention or attraction of any given firm and could potentially reduce the number of approved awards or require a reduction in the size of many awards relative to the projects' projected benefits.
- A number of revisions to the benefit-cost methodology have already been adopted by EDA in order to make the calculated benefit-cost ratios more accurate, and in most cases, more conservative. A series of further technical revisions are recommended for the benefit-cost model that have a variety of potential effects on calculated benefits.
- Further research is suggested to provide an empirical comparison between benefit cost models, across regions and job types, in order to identify how raising the benefit-cost threshold would affect past and future awards.

The PEW Charitable Trusts, an independent nonprofit organization, released a report in May 2017 that focused on a national assessment of how states are improving tax incentives for jobs and growth. The report assessed each state on the extent to which it has taken each of three steps that were identified as best practices for effectively evaluating tax incentives. The three steps were to make a plan, measure the impact, and inform policy choices. New Jersey was ranked as trailing other states because it has not adopted a plan for regular evaluation of tax incentives.

Below are some examples of what the report identified from those states determined to be “leading.”

- In spring 2014, Indiana lawmakers approved legislation requiring evaluation of tax incentives on a five-year cycle. By the end of the year, the nonpartisan staff of the Legislative Services Agency (LSA) had completed a rigorous evaluation that showed two small incentives were providing a poor return on investment. Lawmakers eliminated those incentives in 2015. Since then, the LSA has continued to produce high-quality studies that are helping to inform policymaker debates over tax incentives—making Indiana a national leader in this area.
- Under a 2012 law, the nonpartisan professional staff of Maryland’s Department of Legislative Services produces detailed studies of tax credits each year. These evaluations are helping lawmakers improve the effectiveness of the state’s incentives.
- Mississippi has become a leader in tax incentive evaluation as a result of bipartisan 2014 legislation that requires the University Research Center, an office within Mississippi’s higher education system, to evaluate the state’s economic development incentives every four years.
- In 2015, Oklahoma passed legislation that requires evaluation of economic development incentives on a four-year rotating cycle. The law created the Incentive Evaluation Commission to oversee the process. The commission determines which incentives will be evaluated each year and identifies their goals and what criteria to use to measure their success. The commission contracts with academic institutions or private consultants to analyze each incentive.
- Washington has one of the nation’s longest-standing and most successful tax incentive evaluation processes. These evaluations have helped lawmakers improve incentive policy. For example, a 2012 evaluation showed that two tax incentives designed to encourage research and development spending were producing few jobs relative to their cost. Based on that finding, a citizen commission that oversees

Washington's evaluations recommended that policymakers allow the programs to expire. Lawmakers followed that advice, saving the state tens of millions of dollars.

The PEW report did give credit to New Jersey for contracting with Rutgers to complete a "comprehensive review and analysis" of incentives administered by EDA, citing that many states have received rigorous evaluations by contracting with private consultants or academic institutions.

APPENDIX C

EXECUTIVE ORDER NO. 3

WHEREAS, creating good-paying jobs for New Jerseyans is a central focus of my administration; and

WHEREAS, New Jersey enjoys many natural advantages that other states cannot match, including our location, labor force, transportation networks, public education system, and research and development, that provide powerful incentives for any company looking to operate a successful business; and

WHEREAS, tax incentives are only one factor in businesses' decisions on where to locate; and

WHEREAS, studies have consistently demonstrated that New Jersey's current economic incentive programs have proven less effective than those in other states; and

WHEREAS, one study showed that New Jersey spends \$162,000 in economic incentives for each job, while Massachusetts spends only \$22,000 per job; and

WHEREAS, while the amount of economic incentives provided by the State of New Jersey has increased dramatically over the last decade, these incentives have gone primarily to large companies while the number of small businesses in the State has declined from 2010 to 2015; and

WHEREAS, despite the dramatic increase in tax incentives, New Jersey's economic recovery from the recession caused by the financial crisis has lagged behind competitor states; and

WHEREAS, it is important to ensure that our economic development programs benefit both large and small companies, and that their benefits are fairly distributed among all regions of our State; and

WHEREAS, under the Economic Opportunity Act of 2013, the Economic Development Authority ("EDA") has the power to issue large tax incentive packages and create end-year obligations; and

WHEREAS, the EDA's discretion in approving tax incentive packages is limited by strict statutory guidelines; and

WHEREAS, from a financial perspective, EDA's award of a dollar in tax incentives has the same effect as spending a dollar of taxpayer money, and therefore the EDA must be accountable to the taxpayers of this State; and

WHEREAS, the Office of the State Auditor found that the EDA needed to improve its efforts to verify several aspects of applications submitted by businesses, including: (1) the difference in cost between staying in New Jersey and moving out of the state, and (2) the existence of at-risk jobs; and

WHEREAS, the Office of the State Auditor also found that the EDA needed to strengthen procedures designed to ensure compliance with the terms of the EDA grants; and

WHEREAS, a comprehensive performance audit of the EDA's two primary tax incentive programs, the Grow New Jersey Assistance Program and the Economic Redevelopment and Growth Grant Program, will both inform the public about the EDA's operations and assist lawmakers in their deliberations as to whether these programs should be reauthorized when they expire on July 1, 2019;

NOW, THEREFORE, I, PHILIP D. MURPHY, Governor of the State of New Jersey, by virtue of the authority vested in me by the Constitution and by the Statutes of this State, do hereby ORDER and DIRECT:

1. The Office of the State Comptroller ("State Comptroller") shall conduct a complete performance audit of the Grow New Jersey Assistance Program and the Economic Redevelopment and Growth Grant Program, and predecessor programs, from 2010 onward. The audit shall include, but not be limited to:

a. A comparison of the actual economic benefits realized, including but not limited to the number of new jobs actually created from the incentive award, against the projected economic benefits that were asserted or considered in evaluating applications approved for such awards;

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b. Information on the types of jobs that have been created, including salaries, wages, and benefit levels, as well as the locations within the state where these jobs have been created;

c. A review of the decision-making process regarding the acceptance of applications, focusing on how the EDA has exercised its discretion under the statutes; and

d. An examination of the application process for such awards, including documentation and disclosure of expenses incurred by the applicants, including lobbyists, consultants, and legal representation, as well as information about the administrative costs incurred by the EDA in processing these applications.

2. The EDA shall, to the extent consistent with law, cooperate fully with the State Comptroller and provide such information and assistance on as timely a basis as is necessary to accomplish the purposes of this Order.

3. The audit shall be commenced within 60 days of this Order, with a target completion date of December 31, 2018.

4. This Order shall take effect immediately.

[seal]

GIVEN, under my hand and seal this
19th day of January,
Two Thousand and Eighteen,
and of the Independence of
the United States, the Two
Hundred and Forty-Second.

/s/ Philip D. Murphy

Governor

Attest:

/s/ Matthew J. Platkin

Chief Counsel to the Governor



Opening Statement
Joint Legislative Hearing on Tax Incentive Programs
February 11, 2019

Chairwoman Cruz-Perez, Chairman Johnson, Members of the Economic Growth and Commerce and Economic Development committees, thank you for the opportunity to appear before this joint hearing. I am joined here today by our Senior Vice President of Portfolio Management and Compliance, Bruce Ciallella, and our Senior Vice President for Finance and Development, Lori Matheus.

As an organization, the New Jersey Economic Development Authority (EDA) is proud to play a role in building a stronger, fairer economy for New Jersey. Administering the State's incentive programs is one important part of that charge, and we take seriously our responsibility to protect the public interest and to foster inclusive economic growth that benefits all New Jersey residents and communities.

Consistent with this commitment, we welcomed the audit completed by the Office of the State Comptroller as an opportunity to assess areas for improvement and further strengthen our policies to ensure the highest level of transparency and accountability related to incentives. Governor Murphy is right that state taxpayers are entitled to a full understanding of what they got -- and will get -- for their investment via tax incentives. We welcome today's discussion, as well as the other efforts underway related to New Jersey's tax incentive programs.

I joined the EDA as CEO in February 2018, and can therefore speak primarily to who we are as an organization today, and how we have evolved over the past year to best support the Governor's vision for a stronger and fairer economy. The EDA is staffed by a group of hardworking, diligent and dedicated professionals, and supported by an engaged and deeply committed Board of Directors, led by our Chairman Larry Downes. I cannot emphasize more strongly my personal commitment, and that of our entire organization, to the highest levels of stewardship with regard to the taxpayer investments we are charged to oversee.

With support from the Legislature and under Governor Murphy's leadership, the EDA has transitioned from a transaction-oriented "bank" to a comprehensive economic development agency. With new programs such as a \$15 million small business loan program focused on minority, women and veteran owned businesses, the Innovation Challenge, which is making direct investments in nine communities to support local innovation economies, and NJ Ignite, which is helping more young, growing companies thrive in New Jersey, the EDA is advancing new tools and new approaches to strengthen the State's economic competitiveness. We have also launched new efforts to focus on international business development and an enhanced focus on the fastest-growing portions of our economy through the newly-created Office of Economic Transformation.

We are committed to making New Jersey a national model for inclusive and sustainable economic development by focusing on key strategies to help build strong and dynamic communities, create good jobs for New Jersey residents, and provide pathways to a stronger and fairer economy.

As we continue our evolution as an organization, we want to take this opportunity to thank Comptroller Degnan and his team for identifying thoughtful recommendations, and for acknowledging the proactive steps we have already taken to strengthen processes as well as our commitment to make additional changes to establish best in class incentive administration practices.

Among the actions the EDA has taken to date:

- We have created a new Division of Portfolio Management and Compliance, led by Bruce, to focus on developing and overseeing internal process improvement initiatives;
- We are finalizing a partnership with the New Jersey Department of Labor and Workforce Development related to data sharing, which will ensure enhanced monitoring of job performance of incentive recipients;
- And, we will soon launch our new organization-wide data and documentation system, which will strengthen practices related to verification, monitoring and reporting.
- The EDA also will be expanding the scope of our independent auditor, who is charged with evaluating the submission of overall

certifications from businesses that have certified completion of their respective projects, which was a key recommendation of the 2017 OLS audit of EDA's programs.

We are also exploring all options available to us to pursue recapture or repayment of any funds that were expended improperly, and we look forward to updating both this committee and all of our stakeholders on those efforts in the weeks and months ahead.

The EDA administers these complex and nuanced incentive programs in strict adherence to statutory requirements and in consultation with the Attorney General's Office on legal matters. While the recently released audit provided helpful insights and findings in regard to a number of important topics that we are in the process of evaluating, there were several findings with which we disagree or where we believe additional context is needed to fully understand the issue, and these areas are detailed in the written response included in the Comptroller's report.

As we are all aware, this is a pivotal time, as the current incentive programs will sunset in July 2019. Therefore, the OSC recommendations that can be best addressed within the statutory requirements of any new incentives are of real value as we work together to design programs that provide the greatest return on investment and allow for the highest level of fiduciary oversight. As the Governor has said, we believe a broader, more comprehensive approach to economic development is required, one which not only makes direct investments in companies via incentives, but also focuses on parallel investments in infrastructure, workforce development, higher education, renewable energy and in revitalizing our cities and downtowns.

New Jersey has clear competitive advantages: an unparalleled location, world-class institutions of higher education, extraordinary public schools, a mix of vibrant urban, suburban and rural communities, and, current challenges notwithstanding, a dense network of transportation infrastructure. Despite these advantages, New Jersey has experienced economic stagnation and growing inequality over the last 10 years. From 2007-2017, New Jersey ranked 42nd in the nation in employment growth and 49th in real median wage growth; as a result, half of working New Jersey residents take home less pay today than they did

before the Great Recession. At a time when most innovation ecosystems across the country have experienced significant expansion in the amount of venture capital invested in them, venture capital investment in our economy has fallen by more than 50 percent over the last decade, resulting in far too few of the home-grown success stories we need to drive sustainable and significant new job creation.

To address these challenges, Governor Murphy unveiled a new, comprehensive economic development strategy on October 1st that aims both to recapture New Jersey's leadership position in the Innovation Economy as well as tackle longstanding inequalities in our economy that are, frankly, unacceptable. Incentives should be a tool in service of this broader strategy.

The Governor's economic development plan includes five achievable, measurable goals:

1. Driving faster job growth than all Northeast states.
2. Achieving faster median wage growth than all Northeast states.
3. Creating the most diverse innovation ecosystem in the nation and doubling venture capital investment in the state.
4. Closing the racial and gender wage and employment gaps.
5. Encouraging thriving and inclusive New Jersey urban centers and downtowns, with a focus on reducing poverty.

We believe we can make progress toward these goals through the four strategic priorities outlined in the plan:

1. Investing in people, to help all New Jersey residents develop the skills they need to find work that supports and sustains families in the 21st century economy.
2. Investing in communities to build the world-class cities, towns, and infrastructure statewide that are increasingly the magnets for the talent on which the Innovation Economy thrives.
3. Reclaiming New Jersey's historic place as the State of Innovation, to create more and better jobs across the State so that more entrepreneurs and visionaries bring their companies to life here.

4. Making government work better to improve New Jersey's competitiveness and business climate, particularly for small businesses.

The plan includes a comprehensive suite of initiatives, many of which are underway in partnership with the Legislature and within numerous state agencies across the administration, including "Computer Science for All," expanded apprenticeship programs, a Future of Work Task Force, permitting modernization efforts, a comprehensive Opportunity Zone strategy, and a STEM loan forgiveness pilot program. The plan also calls for the creation of five new investment programs to catalyze job creation and private sector investment in our cities and towns.

As proposed, NJ Forward is a jobs-based incentives program to succeed Grow NJ, focused on supporting new job creation in high-growth, high wage industries, as well as fostering growth in Opportunity Zone-eligible tracts. Bonus criteria would emphasize local employment, above average salaries, and transit-oriented development. Awards under NJ Forward would be capped at \$200 million annually.

The proposed successor to the ERG Program, NJ Aspire, would be a gap-based financing tool awarded twice annually and capped at \$100 million per year to support real estate development projects that will help revitalize communities and catalyze innovation economy, with a particular focus on mixed use and transit-oriented development. Bonus criteria would include food dessert alleviation, inclusion of electric vehicle charging stations, and development of incubators and collaborative workspaces.

A new \$20 million annual Brownfields Redevelopment tax credit, implemented in partnership with DEP, would catalyze remediation projects and help drive job creation and economic development at sites long left behind because of contamination, often in communities where investment is needed most. And a new \$20 million annual Historic Preservation Tax Credit evaluated by EDA, DEP, and DCA would breathe new life into old buildings

Finally, the NJ Innovation Evergreen Fund would be a \$500 million effort that would raise funds over five years by auctioning state tax credits and then leveraging those funds with private venture capital funds to co-invest exclusively

in New Jersey startups. The Fund would also encourage ecosystem building and support a diverse set of founders that reflect the State's rich cultural makeup. As companies are acquired or IPOs occur, proceeds would flow back to the fund, meaning the investment via tax credits would be time-limited but would create a permanent source of capital for the Innovation Economy. In the event of significant returns, some funding would flow back to the General Fund.

These proposals would, collectively, help bring the cost of our incentives in line with peer states, and would include strong prevailing wage requirements as well as regular evaluations by independent parties, ensuring accountability and transparency. The EDA looks forward to working with the Governor and the Legislature to design and implement incentives in a strategic and fiscally responsible manner to advance the shared goals of sustainable, equitable economic development all across our state.

Thank you for the opportunity to testify today, and I am happy to answer any questions.

Testimony before a Joint Meeting of the Senate Economic Growth Committee and the
Assembly Commerce and Economic Development Committee, New Jersey State Legislature

State House Annex

Committee Room 4

February 11, 2019

Stephen P. Mullin

President and Principal, Econsult Solutions, Inc.

Good morning Senator Johnson, Senator Cruz-Perez, members Senate Economic Growth Committee and the Assembly Commerce and Economic Development Committee. My name is Stephen P. Mullin and I am the President of Econsult Solutions, a Philadelphia economic and public policy consulting firm. I am an urban and public finance economist by training. I have been involved in urban public policy issues for nearly four decades, including cabinet-level positions in St. Louis (Budget Director and Business Development) in the 1980s and Philadelphia (Finance Director and Commerce Director) in the 1990s. I've been at Econsult Solutions (and its predecessor Econsult Corporation) since 2000 and I've been actively engaged in numerous urban economic policy analyses. Finally, I have taught graduate-level Public Finance, Urban Economics, and Policy Analysis courses for 40 years at many universities here and in St. Louis.

Many examinations of tax incentive programs concentrate on a very narrow set of benefits. Furthermore, they tend to focus only on the immediate timeframe. Our study examines an important benefit that is overlooked in this debate: health levels of the population and improved health quality pays dividends far into the future.

Our firm was engaged by the Rowan University/Rutgers-Camden Board of Governors (RURCBOG) to evaluate the relationship between local initiatives, outside investments, and improvements in the key factors, or "social determinants" of health-levels of Camden residents between 2012 and 2018.

Our study (hereafter 'The ESI Report'), which was released on January 15, 2019, identified a number of improvements in social determinants of health in Camden. The ESI Report also quantified public- and private-sector investments in Camden between 2012 and 2018 that were applied to four categories of social determinants of health: 1) public safety; 2) K-12 / higher education, and healthcare; 3) neighborhood quality of life; and 4) economic development. Multiple investments were examined, including two Economic Opportunity Act of 2013's tax incentive programs: Grow NJ, and the Economic Redevelopment and Growth Program (ERG).

My testimony today will review the background of improvements in Camden during the six-year period; as well as major achievements in local initiatives and outside support, and the changes in those social determinants of health between 2012 and 2018. I also encourage everyone to read the comprehensive ESI Report for more detail. We conclude that the EOA programs have been a major positive contributing factor to Camden's positive health quality gains.

Background

Between 1930 and 2000, Camden's population declined by 33 percent and the number of jobs in the city declined by 87 percent. In 2006, more than half of Camden residents lived below the Federal poverty line and of all residents 25 or older had less than a high school diploma, more than double the statewide average. The City's small, low-income tax base contributed to the challenges in addressing the high crime rates, low public education performance, and declining infrastructure in Camden.

Acknowledging the issues facing Camden, in 2001 the Annie E. Casey Foundation commissioned the McKinsey & Company report: *A Path Forward for Camden (hereafter 'The Casey Report')* to serve as a catalyst in Camden. The Casey Report identified three key areas of focus to move Camden forward:

1. A regional, comprehensive approach focused on the root causes of challenges in Camden;
2. Four objectives for reversing decline:
 - a. Eliminate the structural deficit
 - b. Facilitate the inflow of capital
 - c. Use public funds to rebuild physical infrastructure and human capital
 - d. Strengthen local government; and
3. Secure local, regional, and state commitment to this plan while strengthening local civic engagement and leadership.

Almost 11 years after the publication of The Casey Report, The ESI report identified three changes recommended by The Casey Report that contributed to further improvements and investments in the city between 2012 and 2018. These achievements are the result of local public- and private-sector leaders' commitment to a whole-city strategy. The three foundational changes were:

1. The achievement of a BBB+ credit rating in 2014, up from a BA2 credit rating in 2011;
2. The disbanding of the City of Camden Police Department and formation of the Camden County Police Department Metro Division;
3. Improvements in the K-12 education system, including increased graduation rates and decreased dropout rates.

Despite local improvements, there continues to be a need for state-level incentives and other outside investments to both grow and supplement the City's tax-base as it stabilizes. The ESI Report maintains that the improvements in the city's fiscal health, public safety, and public education system have improved Camden's stability, creating a more secure climate for outside investments. Analysis in The ESI Report found that local leaders pursued these positive changes with the objective of securing more outside investments in the city, and in order to develop a symbiotic relationship between local and state-level officials which enables further progress in Camden.

The influx of outside investments includes EOA tax credits, private-sector investments, and increased foundational funding. These investments further contribute to improvements in social determinants of health. For example, the EOA tax credits have helped improve Camden's stability, and subsequently the social determinants of health in Camden, but further state-level support is needed to close the gap with statewide averages needed.

Between 2012 and 2018, Camden has seen significant improvements in public safety, access to healthcare, K-12 and post-secondary educational achievements, neighborhood quality of life, and economic development. However, it still lags behind statewide averages on most key indicators. Camden has made tremendous progress in the last six years, but these changes are not yet stabilized.

Since 2012, more than \$2.5 billion in capital investments have been made in Camden. The ESI Report details all major investments in Camden over the past six years. In my testimony below, I discuss examples of local initiatives and outside investments, to provide context for my discussion on the improvements in social determinants of health in Camden. I then identify and discuss why outside investments are still critical to the future health, growth, and stability of the City and its residents.

Public Safety

Camden is now the safest it has been in 50 years. Formally regarded as the "Most Violent City in America" 15 years ago, the city's crime rate has fallen sharply over the past six years. The recent drop in crime was driven by the decision to dissolve the City of Camden's police department in 2013. When the Camden County Police Department assumed jurisdictional responsibility for the city, its objectives were: 1) investment in people, 2) community-focused policing, and 3) technology.

As a result of these locally-driven changes, the Camden County Police Department was awarded a more than \$2 million grant from the Department of Justice's Office of Community Oriented Policing Services (COPS). The Camden County Police Department's shift in the public safety paradigm, focus on community policing, and adoption of cutting-edge technologies have had significant results. Between 2013 and 2018, crimes in the city dropped by 43 percent.

K-12 and Higher Education, and Health Care

The second pillar of Camden's whole-city strategy is K-12 education, higher education, and health care. Under former State Superintendent of School's Paymon Rouhanifard's leadership, Camden was the only city that took advantage of the opportunity to open renaissance schools under the Urban Hope Act in 2012.

"Renaissance schools," which are non-profit charter schools that functions like a traditional public school, were enabled under Governor Chris Christie's singular commitment to Camden, grounded in educational advancement and the commitment to equal access.

There are approximately 15,000 children enrolled in Camden public schools, in a mix of school types, approximately 40 percent of students attending traditional public schools, and 30 percent attending each charter and renaissance schools.

There have been measurable, positive impacts on the educational outcomes for Camden students since the implementation of the Urban Hope Act. The analysis in the ESI Report found that the graduation rate for Camden students rose from 49 to 69 percent between 2012 and 2018. The dropout rate in Camden was more than halved during that same time period, falling from 21 percent in 2012 to 10 percent in 2018.

At the same time, K-8 math proficiency more than doubled and K-8 English Language Arts proficiency also more than doubled. The total number of school days lost to suspensions was halved in the last three years. PSAT and SAT participation have increased by 22 percent and 46 percent, respectively. K-12 education is moving in the right direction in Camden.

In addition to rapidly improving K-12 education, Camden is home to a strong Eds and Meds Sector. Major Eds and Meds institutions have anchored the city's economy for decades. They account for nearly 40 percent of all jobs in Camden. While other sectors have declined across

the city – with total jobs in Camden declining by 10 percent between 2004 and 2017 – employment in Camden’s Eds and Meds sector grew by 67 percent during the same time period. By 2014, the economic impact of Eds and Meds on Camden was more than \$2 billion per year.

Camden County is expected to add another 11,000 Eds and Meds jobs over the next decade. Anchor institutions include CAMCare Health Corporation, Camden County College, Cooper Medical School of Rowan University, Cooper University Hospital, Lourdes Health System, Rowan University, Rutgers – Camden, Rowan University/Rutgers-Camden Board of Governors, and Virtua Camden. These institutions have played a major role in ensuring that local residents have access to the educational programs and skills development needed to access these jobs.

Neighborhood Quality of Life

The whole-city strategy undertaken by public and private sector leaders in Camden is grounded in ensuring that every neighborhood benefits in terms of job growth and economic mobility. Local efforts have been critical in securing outside investments in order to build parks, maintain road infrastructure, raze abandoned and blighted structures, construct new affordable and market rate housing, and improve storm management systems to prevent flooding.

Over the past six years, more than \$54 million has been invested in Camden parks by the county and state governments, as well as regional and national. More than \$2.2 billion has been invested in regional transportation systems that serve Camden, connecting local residents to employment opportunities throughout the region. These investments support improvements in the social determinants of health for local residents.

Economic Development

Improvements in public safety, education and healthcare, and neighborhood quality of life have all contributed to helping local leaders leverage outside investments, one of the major

objectives of the whole-city strategy. The city's improved climate has attracted large, medium, and small companies relocate to Camden, creating employment opportunities for local residents.

EOA State tax incentives facilitated investments by Camden that were needed to grow its tax-base and reboot the city's local renaissance. Since the enactment of the Economic Opportunity Act of 2013 (EOA), incentives for residential, retail, and corporate development have attracted billions of dollars of economic value to the city.

More than 5,000 new jobs are coming to Camden. New Jersey Economic Development Authority- certified EOA companies had originally committed to bring 627 jobs to Camden, but have delivered more than 1,900 jobs to-date. Among major companies that have received tax credits, 10.6 percent of employees are Camden residents. There have been \$1.4 billion in tax incentive-based capital investments in Camden, resulting in a \$2.6 billion total economic impact.

Improvements in Social Determinants of Health

The cumulative impact of investment in critical social determinants categories has had a meaningful, measurable positive impact on the health of the Camden community. Social determinants of health – public safety, K-12 and higher education, access to health care, neighborhood quality of life, and economic development – are interrelated. Our study found that the interrelated, whole-city strategy undertaken by local public- and private-sector leaders since the release of the 2001 Casey Report marks a significant change from earlier, piecemeal efforts.

Systematic, integrated changes in Camden have spurred outside investments. The symbiotic relationship between local initiatives and outside investments has begun to build a positive,

sustainable cycle of change in Camden. In the last six years, Camden has seen improvements across all social determinants of health.

As numerous research studies have demonstrated, improvements in these areas have measurable impacts on the physical and social wellbeing of both individuals and communities. By investing in these areas, public and private sector stakeholders are improving Camden's public health in the long run.

Major improvements highlighted in The ESI Report include:

- The crime-rate in Camden has declined 68 percent in Camden over the last 44 years, including a 43 percent reduction in total crimes between 2013 and 2018. Research has demonstrated that living in a high-crime area is linked to higher body mass index (BMI) (Meyer et al., 2014). Being exposed to crime at a young age is linked to behavioral problems, including anxiety, depression, and aggression (Fowler et al. 2009). Investments in public safety are investments in the prevention of individual and community health issues.
- As noted, graduation rates and PARCC test scores have significantly improved over the past six years while dropout rates declined. The quality of children's educational opportunities has life-long impacts on their health. Comprehensive education programs reduce children's risk of developing risky health behaviors and have been shown to prevent or delay chronic disease onset in adulthood (Edleman et a. 2014). Other positive benefits include lower risk for obesity, high blood pressure, high cholesterol, and elevated blood sugar (Campbell et al. 2014).
- Enrollment in postsecondary education among Camden residents increased by 6 percent between 2010 and 2016. Higher educational attainment is associated with lower rates of heart disease, high blood pressure, diabetes, anxiety, and depression (Cutler and Lleras-Muney 2006).

- The percentage of residents without insurance fell from 23 percent in 2010 to 17 percent in 2016 through local health access programs and the implementation of the Affordable Care Act. A lack of insurance and lack of access to clinical services both have significant impacts on individual wellbeing. Individuals without adequate health insurance are less likely to seek preventative care and treatment for existing chronic conditions. Children who lack access to preventative health care face lifelong consequences, including immunizations, dental care, and well-child visits. (Ayanian 2000).
- Housing quality, access to green space, and local environmental conditions are linked to health outcomes, including rates of chronic disease and mental health quality (Adamkiewicz et al. 2012). By focusing on improvements in these areas of neighborhood quality of life, Camden is improving the social determinants of health for individuals and neighborhoods.
- In 2018, Camden's unemployment rate fell to 7.9 percent – the lowest rate in 28 years. The number of jobs in Camden is growing and, of critical importance, the percentage of jobs in Camden held by Camden residents is also growing. From 2010-2015 the number of jobs in Camden grew by 6 percent, while the number of jobs in Camden held by Camden residents increased by 13 percent. Access to employment is a critical social determinant of health. Individuals who live below the poverty line or in impoverished neighborhoods are at higher risk for chronic diseases and mental illness. They also have higher mortality rates and lower life expectancies than individuals who live above the poverty line or in higher-income areas (Mode 2016).

Conclusion

Camden has made significant strides in recent years, after more than 50 years of economic decline. The integrated, whole-city strategy driven by local leaders and supported by outside investments, much of which have been the result of the state incentives, has driven

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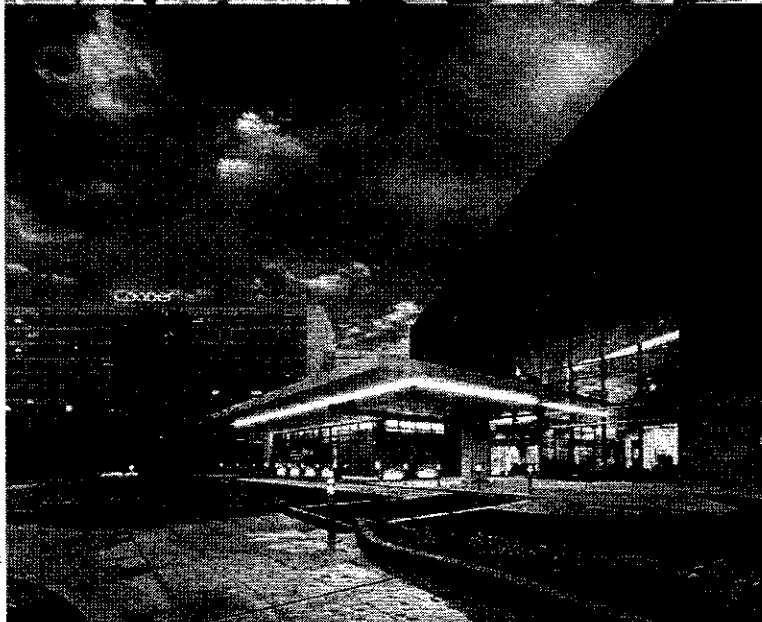
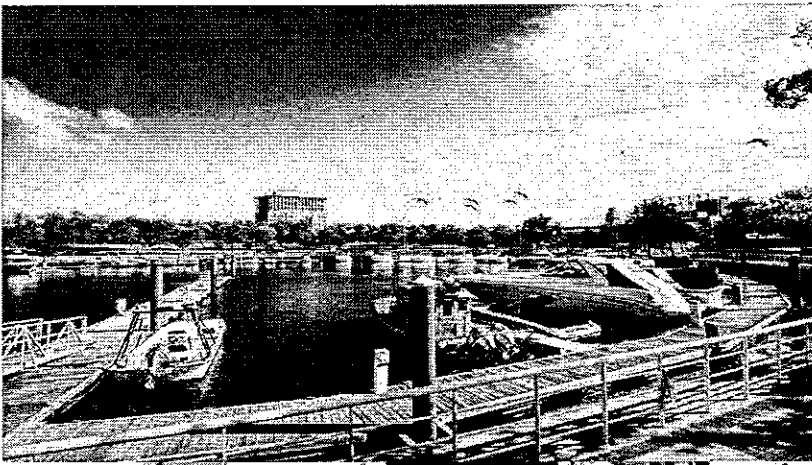
improvements across all social determinants of health for Camden (and other New Jersey city) residents.

Through critical infrastructure, capital and business investments, and the Grow NJ tax credit program, the State of New Jersey has played a critical role in increasing the probability that Camden's economic future is self-sustaining. The impact of the investments can be seen in every corner of the city, from new high rises along the waterfront to expanded and improved parks in the neighborhoods to new and rehabilitated housing stock. We focused on a very important policy objective: improving the health levels of the city's residents.

Camden has made tremendous progress in a short period of time, but these changes are not yet stable, and continued investments by the private and public sectors, including the State of New Jersey, are necessary to ensure that Camden's emerging platform for growth is not compromised and sustainable for years to come. The improved health of the city's residents and the future of the city itself require it.

The Positive Impacts of Investments in Camden, NJ on Social Determinants of Health

January 2019



The Positive Impacts of Investments in Camden, NJ on Social Determinants of Health

Submitted to

Report Submitted to:
Rowan University/Rutgers-
Camden Board of Governors
200 Federal Street, Suite 300
Camden, NJ 08013

ESI ECONSULT
SOLUTIONS INC.

January 15, 2019

FOREWORD

Camden is the City where I raised my family, my three children went to school, and I worked my way through Rutgers Law School employed as a night watchman at Woodrow Wilson High School. It is the City I represented as a State Legislator, in the U.S. Congress and the State House as Governor. I have an almost religious feeling for the City and its people. You can, therefore, understand my appreciation for the wonderful information contained in the study about Camden's resurrection. The road back from its tough times to its current revitalization is the ultimate morality play.

Confident people of good faith collaborating in applying their intellect and common sense have demonstrated impressive results in their efforts to restore the City to greatness. Proceeding from the fundamental observation that the most basic right of all is the right to be safe and secure, City officials worked with County officials to successfully reorganize public safety. From there, they systematically addressed concern after concern: education, transportation, employment, infrastructure, housing and healthcare in a manner that was intelligent and efficient. Social sensitivity, collaboration and the greater good of the community were constant procedural guideposts.

There is a real-world awareness that everything is connected; the public sector, the private sector and non-profit and academic communities. Hence, a cooperative spirit is imperative to success.

The leadership, I believe, that is responsible for the progress shown in this study, is truly inspired. It requires continued active support from rank and file average citizens who must stay engaged and informed about policies and plans. It's called participatory Democracy. We have already advanced it substantively up the mountain. The attainable goal is to reach the peak. Together it can be done.

Authored by James J. Florio
Founding Law Partner at Florio Perrucci Steinhardt & Cappelli, LLC
49th Governor of the State of New Jersey

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1. Introduction

1.1 Background

After fifty years of social and economic decline, Camden is experiencing a renaissance. The foundation of this turnaround is the partnerships and commitment between state and local governmental entities, business leaders and community stakeholders to develop and implement a holistic strategy focused on improving the city's fundamental systems. Public safety, education, and neighborhood infrastructure are driving outside investments and interest in Camden. Private investments are building on foundational improvements driven by the public sector.

Camden is seeing marked improvements in the economic, health, educational, and social wellbeing of its residents for the first time in half a century. These improvements follow years of challenges in the city.

In less than a decade, Camden lost 40 percent of its employment base. The outward migration of companies, suburban flight, land use policies, and disinvestment in infrastructure led to a disastrous socio-economic climate in the city.

At the start of the 21st Century, Camden was facing significant challenges in public safety and health, K-12 education, employment, physical infrastructure, and economic development.¹

Among New Jersey cities, Camden was hit hardest by the post-war exodus. Between 1930 and 2000, Camden lost 33 percent of its population and 87 percent of its jobs.² By 2006,



"I've come here to Camden to do something that might have been unthinkable just a few years ago and that is to hold you up as a symbol of promise to the nation,"

*President Barack Obama,
May 2015*

more than half of Camden residents lived in poverty. The city's median household income of \$18,000 made Camden the poorest city in America. Half of all residents 25 or older had less than a high school diploma, more than double the rate statewide.³

Camden's small, low-income tax base made it difficult for the city to invest in its people, institutions, and infrastructure. This created a negative reinforcing cycle of decline. As a result,

Camden struggled to address high crime rates, poorly performing public schools, and declines in its housing stock and transportation infrastructure. Coupled with a state tax code that advantaged suburban communities, Camden faced major challenges across all social determinants of health: public safety,

¹McKinsey & Company (2001)

² Ibid.

³ Ibid.

education, health care, neighborhood quality of life, and economic development.⁴

In 2001, in response to this crisis of conditions, the Annie E. Casey Foundation commissioned McKinsey & Company to provide a framework for stakeholders to pursue the policy changes, public and private sector investments, and practices needed to positively transform Camden. Their report, *A Path Forward for Camden* found that Camden was “trapped by socioeconomic and fiscal cycles, set off by post-war exodus and exacerbated by government actions and political climate.”⁵ In this context, the Casey Foundation laid out a challenging but pragmatic path forward for the city.

The report identified three key areas of focus for moving Camden forward:

1. A regional, comprehensive approach that accounted for the root causes of the challenges facing Camden;
2. Four firm objectives for turning around the cycle of decline:
 - a. Eliminate the structural deficit
 - b. Facilitate the inflow of capital
 - c. Use public funds to rebuild physical infrastructure and human capital
 - d. Strengthen local government; and
3. Secure commitments to this plan from local, regional, and state stakeholders and decision makers while fostering strong civic engagement and leadership

While many attempts were made to rebuild the city, it took state and elected officials, business leaders, health care and education institutions and community stakeholders a full decade to

put in place a comprehensive legislative, regulatory and financial plan for the City of Camden.

Since 2011, Camden has been on a steady climb out of its crisis. While much progress has been made in improving the fundamental elements of the city that bring stability, the growth trajectory of Camden is fragile and is very much dependent on the continuation of state investment, private capital and other non-monetary efforts to achieve its true potential.

Four Transformative Camden Facts

⇒ Safest neighborhoods in 50 years

⇒ Lowest average annual unemployment rate in 28 years

⇒ \$2.5 B in capital investments since 2012 with an estimated total economic impact of \$4.2 B

⇒ K-12 graduation rate: increased to 69%; dropout rate: decreased to 10% since 2014

1.2 Camden Rising

The ongoing transformation of Camden did not begin by accident. It was carefully curated by policy makers, business leaders, and community advocates. Their collaboration has been a whole city strategy focused on producing maximum benefits for all of Camden. The whole city strategy was intended to stimulate the long-atrophied pillars of stability and social determinants of health, including government fiscal health, public safety, K-12 education, and investments in housing, parks, transportation infrastructure, and business vibrancy. Vast

⁴ Ibid.

⁵ McKinsey & Company (2001)

improvements have been achieved across these areas.⁶

This work was a three-part process. First, in 2011, Camden received a BA2 credit rating, relegating it to junk bond status. Through careful and proper fiscal management, the city was able to achieve BBB+ credit rating (investment grade) by 2014. This was its best credit rating in 15 years.⁷

Second was Camden's foremost achievement – the fight to make every neighborhood safe. In 2013, the City of Camden Police Department was disbanded and the Camden County Police Department Metro division formed. Although complex and politically challenging, this new structure has led to the lowest crime rates in more 50 years. By tripling the number of police officers on the streets, technology investments, and a focus on community policing, safer and stable neighborhood environments have been achieved across the city.

Third, Camden's focus on K-12 education has yielded similar results for the city. Camden has balanced investments between traditional public, private charter and hybrid renaissance schools. For the first time since 2012, graduation rates have increased and dropout rates have fallen.⁸ Record levels of capital investments have led to the upgrading and building of modern school facilities. The structural and systemic changes in public safety and education have had real and tangible effect on the city's outward image and internal perceptions.⁹

The dramatic improvements in government fiscal health, public safety, and schools have helped create a climate for investments in

parks, housing infrastructure, and stimulated private sector investments in the city's future.

Since 2012, more than \$2.5 billion in capital investments have been made in Camden, unemployment rates have fallen, both affordable and market rate housing has been developed, and both small and large businesses have relocated to Camden. At the same time, health care access has improved among residents, higher education institutions are seeing large increases in student enrollment, and poverty rates among city residents are trending downward.

Improved together, fiscal health, public safety, and K-12 education became the building blocks of Camden's economic resurgence. This resurgence is occurring on a scale unseen in a century. Through the whole city strategy, Camden's comeback was designed to be, and is functioning as, a self-sustaining process.

These investments, policy initiatives, and programs have driven improvements in the quality of life of every Camden resident. This report represents the first comprehensive look at how public and private sector investments under the whole city strategy have been leveraged for additional policy changes, funding, and programs. Together, they have improved the social determinants of health in Camden.

1.3 Overview of Report

In this report, we present the background of improvements in Camden, examine the symbiotic relationship between local initiatives and outside investments, detail the investments in Camden over the past six years, and measure

⁶ Camden School District (2018)

⁷ New Jersey News (2016)

⁸ Camden School District (2018)

⁹ Ibid.

how social determinants of health improved over that time period.

The report is organized in three sections:

Section 1: Introduction – Section 1 introduces the purpose and background of the report. It provides a baseline to understand and contextualize Camden’s ongoing transformation.

Section 2: Investments in Camden – This section presents a comprehensive accounting of public, private, and nonprofit sector improvements in Camden since 2012. This includes policy initiatives, foundation investments, tax incentives, and private sector programs. This section details the importance of and the investments in five categories: public safety, K-12 education, Eds and Meds, housing and neighborhood environment, transportation and economic development. This section also quantifies these investments.

Section 3: Improvements in Social Determinants of Health – In this section, improvements in social determinants of health over the past six years are detailed. Our analysis draws on numerous sources including Census data, secondary and higher education records, and crime statistics to evaluate how social

determinants of health have improved in neighborhoods across the city, demonstrating the success of Camden’s whole city strategy.

Section 4: Summary and Conclusion – Section 4 ties together the investments in Camden and the improvements in social determinants of health. This discussion is contextualized in an analysis of how local-led initiatives have been leveraged for additional, external investments in the city.

1.4 About Econsult Solutions

This report was authored by Econsult Solutions, Inc., a Philadelphia-based economic consulting firm. It provides businesses and public policy makers with economic consulting services in urban economics, real estate economics, transportation, public infrastructure, development, public policy and finance, community and neighborhood development, and planning, as well as litigation expert witness support services.

2. Investments in Camden

2.1 Background

Improvements in the social and economic conditions of Camden residents have been driven by the commitment of community partners, philanthropic foundations, private institutions, and government agencies. Through their collaborative efforts, these stakeholders have contributed to the ongoing revitalization of Camden. Over the past six years, Camden has seen major program initiatives and investments across all areas of social determinants of health – public safety, education, neighborhood and physical environment, health and health care, and economic development.

Dedicated nonprofits and community-led initiatives have transformed Camden's landscape, preserved and improved its housing inventory, educated students, and helped provide social and medical services to Camden's vulnerable population. Economic development initiatives rooted in the ongoing commitment of the "Eds and Meds" Corridor to Camden has helped the city's economy survive decades of divestment and positions the city for continued improvement.

The ongoing efforts to revitalize Camden have enabled the city to position itself as a welcoming environment for new businesses and residents. Potential investors have been further incentivized to consider Camden due to the Grow NJ program, a program designed to benefit key economically disadvantaged cities in the state, implemented by the New Jersey Department of Economic Development Authority.

The Economic Opportunity Act (EOA) offers two important tax incentive programs: Grow NJ and the Economic Redevelopment and Growth Program (ERG). These incentives, which allow businesses to qualify for tax credits if they locate or build in Camden and bring a substantial number of jobs to the city, have resulted in a marked increase in developments in the city.

The State of New Jersey plays an important role in ensuring that the City of Camden is financially supported, even as the stabilization and self-sustaining process takes roots. The investments from the State help the City meet its fundamental obligations to residents and businesses in Camden. They help ensure that the platform for growth is not compromised.

2.2 Public Safety

2.2.1 Public Safety Programs

Camden has made significant strides in improving public safety measures over the last decade. Not long ago, Camden was named “America’s Most Dangerous City”, the city was facing the highest violent crime rates in the state, paired with low clearance rates. In response to this violence, the City of Camden’s police department was dissolved in 2013, and the Camden County Police Department assumed law enforcement jurisdiction over the city focused on 1) investment in people, 2) community-focused policing, and 3) technology.

The Camden County Police Department has implemented several changes to law enforcement practices in Camden since 2013. The Department has shifted towards a “community policing” approach, which focuses on building trust and lines of communication between the community and the police department. As part of these efforts, the Police Department has implemented a comprehensive community outreach action plan. This plan includes family and youth programming.¹⁰

¹⁰ Camden County Police (2018)

¹¹ Camden County Police (2018).

The department hosts *Movies with Metro* Saturdays, which are free for the public to attend. The series features family-friendly movies, popcorn machines, snacks and drinks. Summer months also bring Pop-Up Block Parties held in neighborhoods throughout the city.¹¹

The department is also involved in educational efforts. More than 30 officers visit schools throughout the city as part of Bookmates - a highly successful program that brings officers and children

together through books. Officers visit schools to spend time with kindergarteners for one-on-one reading time.

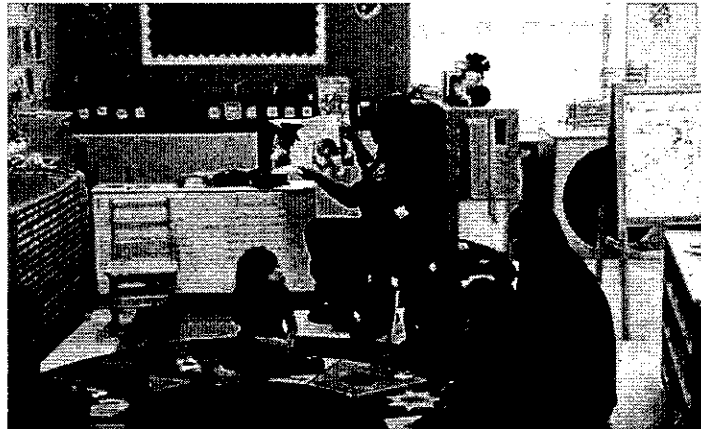
The department is continuing their ongoing programs aimed at reaching

at-risk youth through Gang Resistance and Education Training (GREAT) and Project Guardian, which gathers several times a year in churches and community centers to steer young people away from crime and violence.

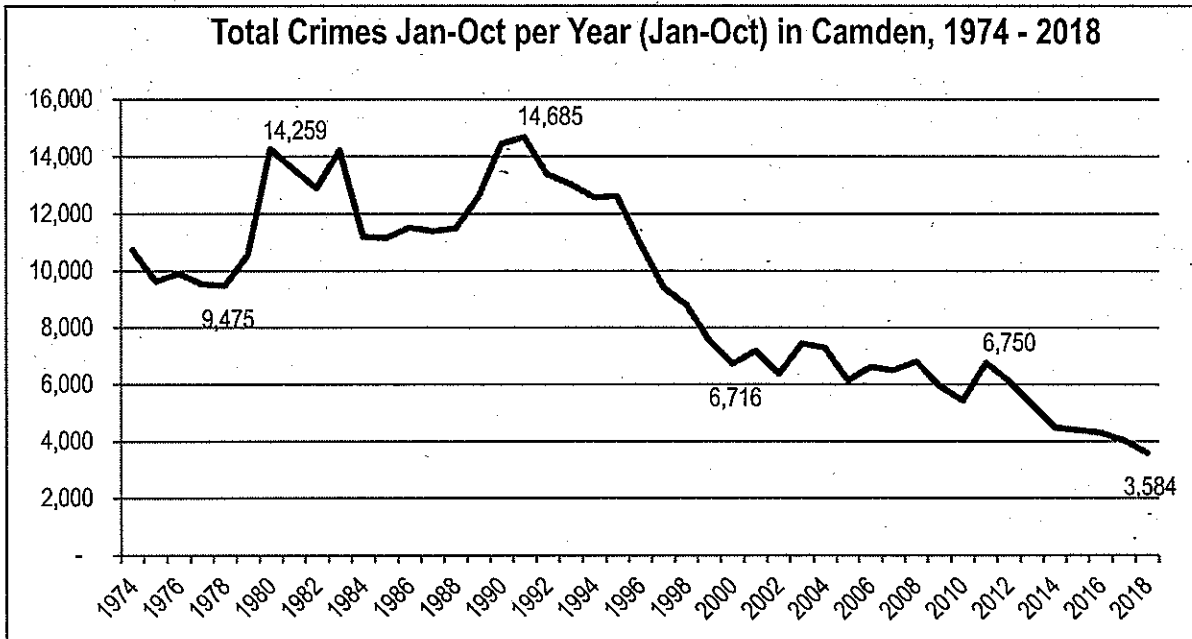
The city has made progress in shifting the public safety paradigm – with measurable results. According to the latest data available, the net result of community policing, technology and most importantly increased police resources being deployed on the streets of Camden have led to a 68% drop in all crimes in forty four years¹².

¹² Ibid.

**Camden is the safest it
has been in 50 years**



10/6/24



2.2.2. Investments in Public Safety

Camden County has invested in technology to support the focus on community policing. Today there are close to 400 police officers in Camden and the police department has access to some of the most sophisticated technology to fight crime. Millions of dollars have been invested in upgrading the technology infrastructure; this funding was leveraged through federal, state, and local appropriations allowing the department to implement the Eye in the Sky Camera policing program.¹³

In 2015, the Department of Justice's Office of Community Oriented Policing Services (COPS) awarded over \$2 million to the Camden County Police Department, used to hire 15 additional police officers for the City. This awarded was granted with the aim of supporting Camden's community policing approach.

Today, the Camden County Police Department is held up as a national example. It is evidence

that community-based policing really does work, and the changing safety landscape of Camden is objectively proving it. In fact, the strategies used by the department are referenced in the President's Task Force report of 21st Century Policing.



¹³ Camden County Police (2018)

10.7x

2.3 K-12 and Higher Education and Health Care

2.3.1. K-12 Education Reform Programs

Years of economic decline negatively impacted the quality of Camden Schools. In 2006, only half of Camden residents over the age of 25 had completed high school. In 2014, less than five percent of third through eighth graders in Camden public schools were proficient in reading or math at their grade level.

Policy makers made a singular commitment to Camden starting first with education and promising every child an equal access to succeed in life. This commitment led to the enactment of the Urban Hope Act in 2012.



public school. These schools, known as “renaissance schools” are required by law to adhere to Camden school district’s enrollment patterns. This means they must welcome in every student from their neighborhood catchment, including special education students and English learners, and cannot base acceptance on a lottery system.

Camden was the only city that took advantage of the opportunity of renaissance schools and has allowed three private operators – KIPP Cooper Norcross Academy, Mastery Schools of Camden and Uncommon Schools Camden to open

Camden City School District	Charter Schools	Renaissance Schools
K-12	5 Operators K-12	3 Operators K-12
6,360 students	4,675 students	4,490 students

schools in the city. Through these partnerships, the district has begun the process of providing new high-quality

Over the six years since the Urban Hope Act was enacted, Camden has seen major improvements in the K-12 education system.¹⁴ The law led to the creation of a new type of school: a non-profit charter school that functions like a traditional

neighborhood public school options to over 3,850 students. Today, Camden is educating approximately 15,000 of its school aged children in a mix of traditional public, charter and renaissance schools, with traditional public and renaissance schools providing a strong

¹⁴ Camden School District (2018)

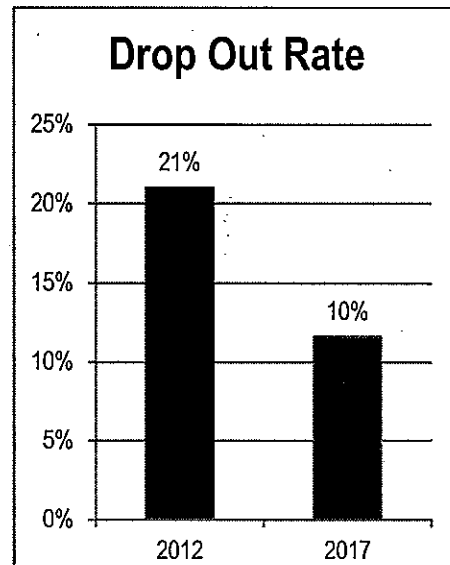
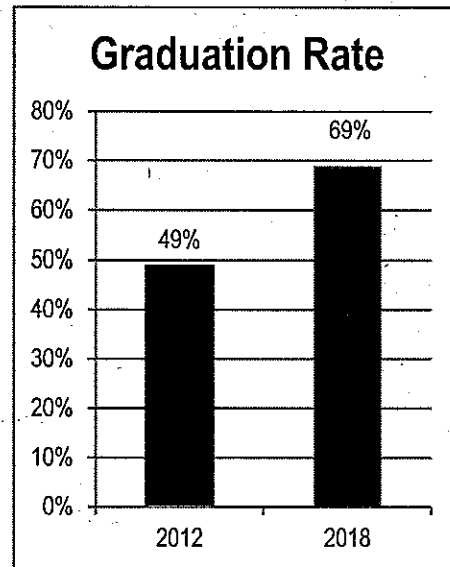
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educational experience for two-thirds of the city's students. There have been measurable, positive impacts on the educational outcomes for Camden students (see Data Snapshot).¹⁵

A Data Snapshot of the Camden School

District:

- ⇒ K-8 math proficiency tripled between the 2014/15 school year and the 2017/18 school year, from 4.3 percent to 13 percent.
- ⇒ English Language Arts (ELA) proficiency increased from 6.5 percent in 2014/15 to 18 percent in 2017/18.
- ⇒ Renaissance school students achieved an ELA proficiency of 26 percent and math proficiency of 19 percent in 2017/18.
- ⇒ The total number of school days lost to suspensions were halved in the last three years.
- ⇒ In 2018, more than 200 hundred Camden School District students are earning college credits at Camden County College.
- ⇒ PSAT and SAT participation have increased by 22 percent and 46 percent, respectively.
- ⇒ More than 300 high school students in the Camden School District are taking college-level courses through their school.
- ⇒ FAFSA completion among Camden School District seniors has increased by 65 percent.



Source: Camden School District (2017)

¹⁵ Camden School District (2018)

109x

Partnerships with private employers and higher educational institutions have been a major contributing factor to Camden's K-12 education success. Highlighted below is a sample of collaborative efforts organizations and stakeholders are making to provide the best opportunities for Camden's children:

L3

L3 Communications Systems is Department of Defense contracted technology company that not only brings economic stimulus to Camden as a private sector entity but also gives back providing important volunteer services to the community. L3 provides tutoring and mentorship programs to school children in Camden.¹⁶

Rutgers University Educational Outreach Program

Rutgers University-Camden runs K-12 Education Outreach programs, through which Rutgers students, faculty and staff work with K-12 students and their families to improve educational outcomes; become comfortable with the college application process; and engage in co-learning experiences.¹⁷

Boys & Girls Club of Camden

Boys & Girls Club of Camden offers tutoring, sports education, creative arts, and mentoring for children and teens in Camden. The Boys & Girls Club also offers a summer camp for children in Camden County. This nonprofit has

also worked alongside various public agencies, nonprofits and businesses to develop recreational sites and activities for children in Camden, including a second clubhouse built in 2007.¹⁸

Parents for Great Camden Schools

Parents for Great Camden Schools is a parent-led and staffed nonprofit that does advocacy work with charter, district, and Renaissance family schools. Over 1,000 advocates make up Parents for Great Camden Schools, a significant expansion from its original staff of only 19 parents and grandparents of students in Camden. Since 2015, this nonprofit has met with 8,000 families in an effort to improve educational opportunities in Camden, and has helped more than 4,000 students attend higher performing schools.¹⁹

⇒There are three brand new K-8 renaissance schools in the Lanning Square, Whitman Park, and Cramer Hill neighborhoods serving student this year

⇒Five neighborhood schools rehabilitated by renaissance schools are serving students in updated and in modern facilities

⇒Significant building renovations are underway in three additional neighborhood schools that had fallen into disrepair

⇒A \$136 million State investment to rebuild Camden High into a 21st century, 4-academy, state of the art high school campus that will serve 1,200 students by 2021

¹⁶ Cooper's Ferry (2018)

¹⁷ Cooper's Ferry (2018)

¹⁸ Ibid.

¹⁹ Cooper's Ferry (2018)

Medical Apprenticeship Training Program

To support the City's growing healthcare industry, Cooper Health, the Camden School District, and HopeWorks created the Medical Apprenticeship Training program, which provides free medical coding training to Camden residents. Participants of the program earn tuition-free credits toward a medical assistance certification while finishing their high school courses and gain real-world experience while rotating between various health care service providers in Camden.²⁰

Subaru of America: Remarkable Graduates Scholarship Program

In May of 2018, Subaru of America moved to Knight's Crossing in Camden. From the moment Subaru announced its relocation to Camden, President and COO Tom Doll committed to supporting education in Camden. Subaru is enhancing learning opportunities for students across Camden through its Remarkable Graduates annual scholarship program, donations of STEM resources to Camden schools, and volunteer contributions on company service days.²¹

High School STEM Partnerships

As Camden prepares for the new, 4-academy Camden High School Campus to open in fall 2021, the District is establishing new partnerships with industry to provide 21st century job-readiness programs, like a robotics program developed in partnership with Siemens, and a Cisco computer technology

program developed in partnership with the Dream Center. At Woodrow Wilson High School, students will benefit from a new STEM program developed in partnership with American Water, which is fully renovating the school's science labs and developing elective STEM offerings in design technology, environmental sciences, and engineering.²²

**Capital Invested in
Camden Schools
\$336 million**

2.3.2. Investments in K-12 Education

Reform Camden has seen one of the largest infusions of public and private investment in its K-12 education system in modern history. The commitment of policy makers and institutional investors alike has led to a transformation in the School District's physical infrastructure, which had been poorly maintained for decades. In total, \$336 million has been invested in renovating or building new schools throughout Camden.

2.3.3 Higher Education: Eds & Meds

Even as Camden's manufacturing was declining in the 1950s and 1960s, the educational and medical institutions in Camden acted as an economic backstop for the city. Educational institutions and medical centers are critically important for creating and sustaining strong economies in Camden and the region. In the northeast corridor, Eds and Meds account for the four largest private employers in Philadelphia, the five largest employers in Boston, the two largest private employers in

²⁰ Ibid.

²¹ Ibid.

²² Cooper's Ferry (2018)

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Washington, DC, and four of the five largest private employers in Baltimore.

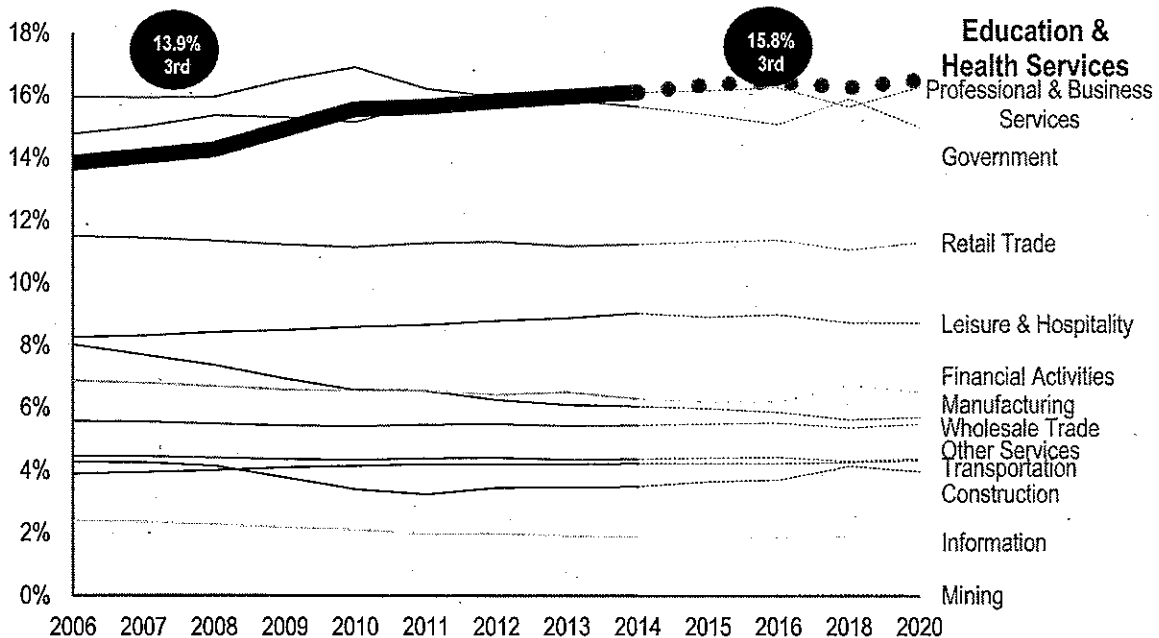
The Eds and Meds sectors have been the core of Camden’s economy for decades: Eds and Meds institutions account for nearly 40 percent of all jobs in Camden. While other sectors have declined across the city – with total jobs in Camden declining by 10 percent between 2004 and 2017 – employment in Camden’s Eds and Meds sector grew by 67 percent during the same time period. By 2014, the economic impact of Eds and Meds on Camden was more than \$2 billion per year.²³

Camden County is expected to add another 11,000 Eds and Meds jobs over the next decade – outpacing neighboring Burlington and Gloucester Counties. Continued economic growth in Camden is dependent on the vibrancy and strength of ²⁴ the Eds and Meds sector.

Recognizing the continued importance of the “Eds and Meds” sector to Camden, an accounting of investments made in the higher education and medical sector are detailed below.

2.3.4 Higher Education Institutions

Camden has a robust higher education presence. The institutions in the Camden provide students in the City and the surrounding region with diverse educational opportunities, from the practical to the prestigious. Along with improvements in the K-12 education system, higher education leaders have doubled their efforts to provide a world class education on an affordable budget, aggressively sought to build a research platform rivaling others in the region and have fully committed to ensuring that higher education is part of Camden’s renaissance. To that end, flagship institutions like Rutgers University -



Camden, Cooper Medical School at Rowan

²³ The Camden Higher Education and Health Care Task Force (2014).

²⁴ The Camden Higher Education and Health Care Task Force (2014).

112x

University, Rowan University/Rutgers – Camden Board of Governors and Camden County College provide the platform to educate and prepare the generation of industry leaders.²⁵

Rutgers University – Camden

Occupying more than 40 acres near the Camden waterfront, Rutgers – Camden is a state designated research institution. Rutgers-Camden offers more than 40 majors, 50 minors, and 29 graduate programs, and special programs. Under the leadership of Chancellor Phoebe Haddon, the campus has grown at an exponential rate: in the fall of 2018 the campus exceeded 7,300 students for the first time in its history. Sustaining this trend, Camden-Rutgers enrollment is projected to increase to more



than 8,000 students by fall 2020.²⁶

Rowan University: Cooper Medical School & Undergraduate Campus

The Cooper Medical School at Rowan University (CMSRU) was launched in 2012 and has the distinction of being the only new medical school built in New Jersey over the last 35 years. Notably, 100 percent of the school's charter class were offered residency in programs across the country. Under the leadership of Dr. Annette Reboli, Dean of CMSRU, applications

²⁵ Cooper's Ferry (2018)

²⁶ Rutgers University (2018)

for admissions have already surpassed last year's total of 6690 applications for 104 seats.

The school's focus on patient-centric medicine has made CMSRU a premier higher education medical institution in New Jersey and the region. In addition, Rowan University has a newly renovated building in which undergraduate programs are offered, making it easier for Camden residents to access a bachelor's degree.²⁷

Rowan University/Rutgers – Camden Board of Governors

The Rowan University / Rutgers – Camden Board of Governors was created by the New Jersey Medical and Health Sciences Education Restructuring Act. The Board's mission reflects the collaborative goals of Camden's Eds and Meds institutions and is expected to leverage the educational and research assets to support growth in the region's health care capacity.



Under leadership of CEO Dana Redd, the Board works to facilitate the development of curricula and programs at Rowan University and Rutgers University – Camden in the area of health sciences and build partnerships between these two institutions and other educational entities.

²⁷ Rowan University (2018)

The Board also works toward broader goals of economic development in Camden.

Camden County College

The Camden Campus is in the heart of the Camden City University District. The college offers associate degrees as well as certification, GED, and ESL programs. Under the leadership of President Donald Borden, the college has established a partnership with Rutgers - Camden to ensure that Camden County College students have the opportunity to continue their education and achieve bachelor degrees. With a newly introduced shuttle system, students are able to travel to the main campus in Blackwood free of charge to access greater educational options and opportunities.²⁸

2.3.5 Health Care Institutions

Anchor health care institutions in Camden have long been a stabilizing force even during the City's most challenging economic times. They have been the employment backbone in Camden for decades and are now regional leaders in advanced health care practices. Health care institutions in Camden employ thousands of people and are projected to create more jobs as the industry expands its



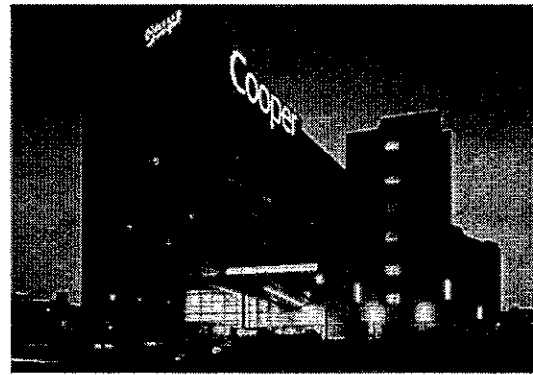
²⁸ Camden County College (2018)

presence within and influence on Camden's economy.

Cooper University Health Care

Operating since 1887, Cooper University Health Care is the leading academic health system in South Jersey, handling over 1.4 million patients annually. Cooper includes South Jersey's only Level I trauma center (Cooper University Hospital), a leading cancer center (MD Anderson Cancer Center at Cooper), the only Level II pediatric trauma center in the Delaware Valley (Children's Regional Hospital), one of the largest physicians group in the region, four urgent care centers, and more than 100 outpatient offices throughout South Jersey and Pennsylvania. Cooper University Health Care has more than 7,500 full- and part-time employees, including more than 560 Camden residents.²⁹

In January 2016, Cooper University Hospital began providing the citizens of Camden both Basic Life Support (BLS) and Advanced Life Support (ALS) services, fully integrating the EMS services in Camden with the only Level 1 Trauma Center in Southern New Jersey. The hospital has handled over 30,000 calls for service in 2018, 90% of which meet benchmark response times.



²⁹ Cooper University (2018)

114x

As a major milestone in 2018, MD Anderson Cancer Center at Cooper marked its five-year anniversary of serving the City of Camden and the region by constructing a new, state-of-the-art cancer center on the Cooper Health Sciences Campus in Camden. MD Anderson at Cooper has experienced significant growth in the past five years with more than 110,000 treatment encounters annually. Since opening, MD Anderson at Cooper has undergone several expansion projects to provide more comprehensive cancer care services for patients.

Virtua Health System

Virtua Health & Wellness Center - Camden is a comprehensive outpatient medical facility serving Camden and surrounding communities. In operation since 1880, Virtua Camden offers primary medical, specialty and dental care for adults and children of all ages.

Virtua's Emergency Department in Camden operates 24/7 serving patients of all ages, handling nearly 39,000 visits in 2017. The family health center sees more than 16,000 primary care visits each year. Virtua's dental clinic first opened more than 60 years ago and continues to provide more than 5,000 routine and emergency dental care services annually staffed by general dentists, post-graduate dental residents, dental specialists and dental assistants.



Virtua employs more than 200 Camden residents. In addition, Virtua's Camden campus serves the needs of the community by housing many nonprofits and other organizations including a charter school, pediatric medical day care center, and senior day care center all located on the Virtua campus. Virtua's CASTLE program – Children Achieving Success Through Therapeutic Life Experiences -- supports children and their families by giving kids facing emotional or behavioral challenges the tools they need to build self-esteem, develop coping mechanisms, and master life skills. The CASTLE program offers three levels of care: a full-day partial hospital program, a half-day after school program, and outpatient individual and family therapy.³⁰

Lourdes Health System

Lourdes Health System is recognized nationally for excellence in clinical care and service to the community. The system has two general acute care hospitals, located in Camden and Willingboro, New Jersey, and a growing network of ambulatory care facilities and physician practices located throughout southern New Jersey. A major teaching affiliate of the Rowan University School of Osteopathic Medicine, Lourdes provides a full range of medical, surgical, obstetrical, behavioral health,

³⁰ Virtua Health System (2018)

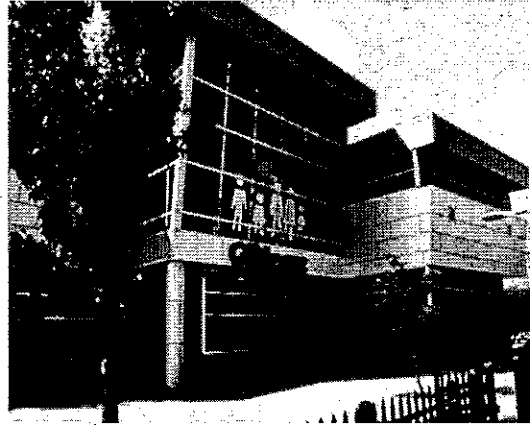
rehabilitation and long-term acute care services. The Lourdes Cardiovascular Institute is recognized nationally for excellence in heart care. Lourdes Health System has an Accountable Care Organization (ACO), Nursing School; comprehensive Wellness Services; and LIFE program for All-Inclusive Care of the Elderly. Lourdes is well-known for its outreach services, providing care to those most in need. Lourdes is a member of Trinity Health, a health system serving residents in 21 states.³¹

CAMcare Health Corporation

Serving Camden residents since 1978, CAMcare Health Corporation is the largest Federally Qualified Health Center (FQHC) in the city, providing primary care services to everyone with a focus on the uninsured and underinsured population in Camden and surrounding counties. CAMcare provides adult, OB/GYN, pediatrics, dental, and podiatry services during 130,000 visits per year.

Camden residents represent the largest share of CAMcare patients, totaling 19,845 Camden men, women and children in 2017. CAMcare provides comprehensive primary health services across the life cycles and disciplines at seven sites. The health care has five primary care sites in Camden, all of which have 24/7/365 on-call coverage for patients in need of care after normal operating hours. CAMcare's OB/GYN pediatric, and internist physicians admit and perform inpatient hospital rounds, and labor and deliveries for CAMcare families. In addition, CAMcare employees provide health education at schools, churches, and other community venues periodically.

CAMcare provides health fairs to promote community awareness throughout the year.³²



The Coriell Institute for Medical Research

The Coriell Institute for Medical Research – originally known as South Jersey Medical Research Foundation and then as the Institute for Medical Research– was founded by famed virologist Dr. Lewis L. Coriell in 1953. Dr. Coriell was a scientific pioneer, making invaluable contributions to biomedical research through advances in aseptic cell culture techniques and cryopreservation of cell lines.

Today, Coriell's mission is to accelerate scientific discovery by generating world-class biomaterials and conducting groundbreaking research in biobanking, personalized medicine and stem cell biology. Of interest is the fact that in response to the growing opioid crisis, three partners in Camden, New Jersey – the Coriell Institute for Medical Research, Cooper University Health Care, and Cooper Medical School of Rowan University (CMSRU) – have formed the Camden Opioid Research Initiative (CORI).³³

³¹ Lourdes Health System (2018)

³² CAMcare Health Corporation (2018)

³³ Coriell Institute

Camden Coalition of Health Care Providers

The Camden Coalition of Healthcare Providers (the Coalition) is a Camden-based nonprofit founded in 2002 by Dr. Jeffrey Brenner, who has been recognized as a MacArthur Genius Fellow. The Coalition works to deliver better healthcare to vulnerable citizens through a short-term intervention that connects people to the medical and social services they need. Enrollment in the organization's short-term intervention has reduced both emergency room and in-patient use of the hospitals. One pilot program, which provides housing to patients in need, resulted in a 67% decline in inpatient and emergency room utilization.

The Coalition has an annual operating budget of \$14 million and employs approximately 100 people, 15 of whom are residents of Camden. The organization continues to be headquartered in Camden and has recently made another 5-year commitment to lease office space in the City.³⁴

2.3.4 Capital Investments in Eds and Meds

Camden is undergoing a transformation of its downtown primarily driven by the substantial infusion of capital in the Eds and Meds corridor. Over the last five years, a total of \$466 million has been invested with another \$175 million planned in the Eds and Meds sector to ensure that Camden establishes a research, workforce and health care access footprint rivaling that of other cities in the regions.

³⁴ Camden Coalition of Health Care Providers (2018)

³⁵ Camden Coalition of Health Care Providers (2018)

Nursing and Science Building: \$62.5 million

The 107,000-square-foot Rutgers University Nursing and Science Building located in downtown Camden was opened in September of 2017. The \$62.5-million world-class teaching and research facility will educate 1,000 students in undergraduate and graduate programs.³⁵



Joint Health Sciences Center: \$72 million

The 95,000 square foot Joint Health Sciences Center (JHSC) is an innovative facility that will provide unique education, research, and training opportunities to a new generation of health care providers beginning in May 2019. The Center is designed to co-locate students from different academic disciplines to share laboratories, equipment and classrooms, exposing students to a broader educational experience and encouraging the connection of talents, goods and services.³⁶

Cooper Health Systems: \$170 million

Since 2013, Cooper University Health Care has repeatedly expanded in Camden to meet the growing need for health care in the City and the region. Completed projects include the 103,000 square-foot MD Anderson Cancer Center at

³⁶ Rowan University / Rutgers-Camden Board of Governors (2018)

Cooper, a 5,500 square-foot addition to the Cooper Emergency Department (featuring state-of-the-art exam rooms designed to reduce wait times), 60 new patient rooms, two new floors in the Roberts Pavilion, and eight new operating rooms.



Virtua Camden Family Health Center: \$22 million

The 34,500-square-foot Family Health Center, expected to open by 2019, will allow Virtua to consolidate and upgrade medical services now scattered throughout a former hospital at Mount Ephraim and Atlantic Avenues. The new primary-care practice will provide urgent-care services into the evening hours and help divert traffic from Virtua's emergency room at the site, which sees about 36,000 visits a year.³⁷

Lourdes Health System: \$46 million

Over the last five years, Lourdes Health System has invested in Camden and the tertiary-level programs and its acute care hospital. In 2017, Our Lady of Lourdes Medical Center established a new hybrid operating suite, including a post-

anesthetic care unit, to enhanced its capabilities in heart and neurosurgical procedures

The new hybrid facility combines the advanced imaging capabilities of an interventional laboratory with the environment of a state-of-the-science operating room to provide the most cutting-edge treatments for acute stroke. As one of the busiest robotic cardiac surgery facilities in the country, Lourdes has upgraded the hospital's daVinci surgical suite to provide more opportunity to offer sternal-sparing procedures that facilitate more rapid recovery. Lourdes has also purchased a 7.7 acre site adjacent to the Medical Center and is investing in upgrades to its medical equipment, IT, and facilities.³⁸

Cooper Medical School at Rowan University: \$140 million

The new 200,000 square foot medical facility is a state of the art building that can accommodate 400 students and includes a 250-seat auditorium, a 140-seat multi-purpose room, 25 active learning rooms, a learning commons and satellite medical library, a Clinical Simulation Center (with space to learn and practice interviewing and clinical skills), research and teaching labs for students and faculty, administrative offices, and state-of-the-art laboratory and research space.³⁹

Rowan University Camden Academic Building: \$22.6 million

The new Academic Building includes 12 new classrooms (in addition to five in the Annex), a first-floor multi-purpose room with capacity for 144 and unique amenities throughout such as

³⁷Virtua (2018)

³⁸ Lourdes Health System (2018)

³⁹Rowan University (2018)

118 ✓

student lounges in former bank vaults on the lower level.⁴⁰

*Rutgers-Camden Investments:*⁴¹ \$62.75 million

⇒ Rutgers Dormitory: \$55 million - Opened in 2012, the living space accommodates up to 350 graduate students. This was the first new student housing for Rutgers-Camden since 1989.

⇒ Rutgers-Camden Writers House: \$4.25 million. A renovated 19th century historic row house on Cooper Street serves as home for the English Department as well as the Master's program in creative writing.

⇒ Rutgers-Camden Alumni House: \$3.5 million- For the first time in Rutgers' history, the university's alumni have spaces designed solely for their needs when they visit the campus in Camden.

*Planned Investments in Eds and Meds*⁴²: \$203 million

⇒ Rutgers Business School: \$70 million – This 100,000-square-foot building will house the programs and operations of the School of Business and will provide conference space for campus-wide use. The project is currently in the design phase with construction drawings to be completed by spring 2019.

⇒ Rutgers University Garage: \$33 million- Rutgers-Camden has entered into an agreement to lease approximately 750 parking space in a deck that will be constructed by the City of Camden Parking Authority.

⇒ Rowan/Cooper Garage: \$30 million - Rowan University and Cooper Health Systems have entered into an agreement to advance the construction of an 800-space garage, which will be constructed behind the medical school. This garage will accommodate the growth projected at the medical school and hospital.

⇒ Rutgers/Camden City Athletic Fields: \$15 million – The City of Camden and Rutgers University have entered into an agreement to build baseball, track, field hockey and lacrosse fields on the site of the current Campbell's baseball stadium. The design will commence in the fall of 2018 and construction will start in the spring/summer of 2019.

⇒ Rutgers Student Housing: \$55 million – Student housing is at nearly 100% occupancy at the Rutgers – Camden campus. With projected enrollment increases, the university expects that housing demand will increase by 300 to 400 students over the next three years. The university is exploring public-private partnership options to advance this project.

⇒ Collaborative Life Sciences Center: \$40 million - The third phase of a comprehensive Health Sciences Campus development located in downtown Camden, New Jersey. The project is planned to be anywhere from 50,000 to 60,000 square-feet. The Life Sciences Center will accommodate life sciences studies and translational research critical to teaching in an urban environment. The project is currently in preliminary design.

⁴⁰ Rowan University (2018)

⁴¹ Rutgers-Camden (2018)

⁴² Cooper's Ferry (2018)

2.4. Neighborhood Quality of Life

2.4.1. Investments in Camden Neighborhoods

The citywide strategy undertaken by public and private sector leaders in Camden is grounded in ensuring that every neighborhood benefits, sees job growth, and experiences economic mobility.

Neighborhood investments have been targeted to build parks, road infrastructure, raze abandoned and blighted structures, build new affordable and market rate housing, and improve storm management systems to prevent flooding.⁴³

Improvements to Camden Parks: \$55 million

Recognizing the critical role that vibrant parks play in strengthening neighborhoods, several partners (including but not limited to the NJ Conservation Foundation, the Trust for Public Land, Camden County, the Camden County Municipal Utilities Authority, and the NJ DEP) are working closely with the City and Cooper's Ferry Partnership to utilize the following strategies to transform the City's park system: 1) investing in the revitalization of the City's neighborhood parks, community centers, and school-based recreational facilities 2) identifying "park deserts" – neighborhoods lacking access to parks and community centers, 3) leveraging the City's unique geography through the creation of destination waterfront parks and trails, 4) programming these spaces to intentionally develop vibrancy within them, 5) connecting residents to available assets, including parks, community centers, school-

based recreational facilities, and private recreational facilities such as the North Camden Community Center and the Salvation Army Kroc Corps Community Center, and 6) developing an implementable maintenance and operations plan.

While the City of Camden offers a relatively extensive neighborhood park system to its residents (according to the Trust for Public Land's Park Serve database, 94% of Camden residents are within a 10-minute walk of a park), many city parks are in deteriorated condition as a result of a sustained structural deficit that has severely limited the City's past investment in public infrastructure. A robust investment strategy was put in place to begin improving the park system in Camden. To date, \$55 million in park improvements have been advanced.

Placemaking Camden's Open Spaces: \$3 million

Over the last few years, Camden has won grants to ensure that residents enjoy the city's improved open spaces. Cooper's Ferry Partnership has received over \$3 million in grants from private foundations such as the William Penn Foundation, Horizon, Kresge, Wells Fargo, ArtPlace to activate the parks with resident centered programming.



⁴³ Cooper's Ferry (2018)

PARK NAME	FUNDING SOURCE
Von Niede Park: \$4.6M	Camden County, State of New Jersey, National Recreation and Park Assn. & American Water Charitable Found.
Cooper's Poynt Waterfront Park: \$3.8	Camden County and State of New Jersey
Dominick Andujar Park: \$105,000	NRTC.
Alberta Woods Park: \$775,000	Camden County.
Cramer Hill Waterfront Park at Harrison Avenue Landfill: \$34M	State of New Jersey.
RCA Pier Park: \$6.3M	Liberty Property Trust, Green Acres, HDSRF & William Penn Foundation.
4th & Washington Park: \$1.4M	Camden County & former Eagles Quarterback Ron Jaworski Foundation
Whitman Park \$2M	Camden County
Reverend Evers Park \$1.5M	Camden County

In 2018, Cooper's Ferry engaged over 10,000 residents in 12 parks and open spaces in 7 neighborhoods. These park activities and programs increased 8-fold from 2014 to 2018.

2.4.2. Investing in Camden's Transportation Systems

With the ongoing and rapid growth of jobs in the city, it is critical that Camden's aging and outdated transportation system be modernized to handle increased traffic volumes. This modernization can build on a strong

foundation. Camden is fortunate to have one of the most impressive multi-modal infrastructure systems in the State of New Jersey. The City is connected to the entire region thanks to the PATCO high speed line, the RiverLINE, the Walter Rand Transportation Center, the Benjamin Franklin and Walt Whitman bridges, and an array of local, state and interstate roads and highways. These transportation assets connect the residents of Camden to the regional economy and will be important factors in helping the city establish a strong and sustainable economic footprint.

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A modern infrastructure plan is necessary to ensure that Camden can accommodate the anticipated growth in anticipated traffic volumes. It is also an effort to prevent the transportation system from being an impediment to the city's sustained growth potential. A well-planned infrastructure system is efficient and safe for all users – vehicular, pedestrian, transit, and bicyclists. The goals of the phased infrastructure plan are to improve the multi-modal transportation access and circulation to support both existing and future growth. Equally important, it is focused on centralizing the city's access to state and interstate highways as well as reconnecting the downtown to the surrounding city neighborhoods. Outlined below are some investments already being advanced, and others which need to be made over the next decade.⁴⁴

Glassboro-Camden Line: \$2 billion

Southern New Jersey is significantly underserved by fixed rail transit network relative to southeastern Pennsylvania and Northern New Jersey. The Glassboro-Camden Line is a key opportunity to address this deficiency and benefit the rapidly growing communities in Southern New Jersey. In addition to overall increased travel demand from Gloucester County commuters, the two termini of the proposed line, Camden and Glassboro, have experienced significant growth over the last 10 years and will continue to redevelop and grow.

The City of Camden is undergoing transformative redevelopment and growth with developments such as the Knights Crossing Campus headed up by Campbell Soup and

Brandywine Realty Trust, and the Camden Waterfront Project led by Liberty Property Trust. A draft Environmental Impact Statement (EIS) will be available for public review in the spring of 2019, with final approvals expected in the fall of 2019. With the help of Senate President Stephen Sweeney, an appropriation of \$25 million is being sought to advance preliminary engineering followed by design and construction. GCL will improve quality of life by providing transportation options, increased mobility, and environmental benefits.⁴⁵

Walter Rand Transportation Center & Pedestrian Bridge: \$150 million

Several public transit services currently operate at the Walter Rand Transportation Center (WRTC). These include PATCO, the RiverLINE light rail, 26 NJ TRANSIT bus routes, Greyhound, and shuttle services. There are approximately 10,000 boardings and alightings on an average weekday, 6,500 on Saturdays, and 4,200 on Sundays. An estimated 55% of bus boardings are transfers from other transit services at the WRTC. While the WRTC serves an extremely useful purpose, it is badly in need of modernization. In addition, the pedestrian crossing environment around the WRTC is poor and a need for a pedestrian bridge has been established.

In 2017, the State of New Jersey allocated through the Transportation Trust Fund (TTF) a total of \$9.5 million has been allocated for the preliminary engineering of a new WRTC and the design and construction of a new pedestrian bridge. Procurement of these services for these projects is expected in 2019. The objective is to improve this vital multi-modal transportation

⁴⁴ Cooper's Ferry (2018)

⁴⁵ Cooper's Ferry (2018)

center using leveraged funds from sale of air rights above the WRTC.⁴⁶

TIGER Grant Projects: \$20.9 million

In the summer of 2016, the U.S. Department of Transportation and the Economic Recovery Board awarded Camden \$20.9 million for Camden Connections for the Future, which will incorporate two project components that will significantly improve North Camden residents' connections to growing nodes of economic opportunity, and provide Camden's expanding workforce with safer, more efficient, and more sustainable multi-modal travel options.

The North Camden Infrastructure Improvements as it is called will overhaul the vehicular, pedestrian and bicycle connections between the North Camden neighborhood and several of the key centers of economic opportunity, including downtown Camden and the Camden waterfront, the Ben Franklin Bridge to Philadelphia, and Admiral Wilson Boulevard to the South Jersey suburbs.

Historically, the Ben Franklin Bridge to the south and waterways to the west, north and east have separated North Camden residents from the rest of Camden, decreasing access to jobs, schools and key services. The improvements will play a key role in attracting new development to the formerly industrial North Camden waterfront and alleviating increasing congestion in the downtown. Specifically, the funds are being used to reconstruct the following 1.8 miles of roadway, integrating complete street and green street components wherever possible:

- Point Street from Elm Street to Vine Street
- N. Front Street from Pearl Street to State Street
- N. 2nd Street from Pearl Street to State Street
- N. 3rd Street from Pearl Street to State Street
- Main Street from Elm Street to N. Front Street
- Elm Street from Delaware Avenue to N. 4th Street
- Vine Street from Delaware Avenue to N. 4th Street
- N. 7th Street from Linden Street to Elm Street⁴⁷

The TIGER grant funds will be matched with over \$4 million of grant funds from the Camden Economic Recovery Board (ERB) and the US Economic Development Administration. The projects are set to begin construction in 2019.⁴⁸

Gateway and Local Road Improvements: \$22 million

In addition to the TIGER grant, other targeted investments are being made to modernize access, improve safety and mobility from local neighborhoods and arterial networks to various gateway roads and highways. \$22 million in investments from the state's Transportation Trust Fund (TTF) are currently funding improvements to Camden's local roads. The objective of these projects is to ensure that local infrastructure improvements support redevelopment efforts and provide all quadrants of the city equal access economic opportunities.⁴⁹

⁴⁶ Cooper's Ferry (2018)

⁴⁷ Cooper's Ferry (2018)

⁴⁸ Cooper's Ferry (2018)

⁴⁹ Camden County (2018)

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2.4.3 Additional Neighborhood Investments

Green Infrastructure Investment for Camden: \$71 million

Camden is one of only two cities in Camden County that has a combined sewer/storm system. The system is considered overburdened and antiquated, factors which result in the flooding of neighborhoods. To improve this system, the Camden County Municipal Utilities Authority (CCMUA) is working with the city of Camden to invest \$20 million in sewer overflow netting systems, \$30 million to separate combined the sewer system and to build a pumping station, and \$6 million for a sewer line replacement project. Additionally, the CCMUA is making \$15 million in improvements to its treatment plant.⁵⁰



Demolition of Abandoned & Blighted Structures: \$3 million

In order to address the negative effects of blight in Camden, the City in conjunction with Camden County undertook an ambitious effort of razing 1,500 abandoned or blighted structures. With an interest free loan from the State of New Jersey, a total of 600 structures have been

razed in two years. The City will work to move these properties to Sheriff's sales in order to raise more funds for the demolition program.⁵¹

Building Camden's Housing Inventory: \$190 million

Building Camden's affordable and market-rate housing stock has been a priority of local policymakers and Camden residents since 2013. With growing economy and opportunity to provide more cost-efficient alternatives to Philadelphia, the market rate housing market in Camden is about to go through a significant expansion. A recent survey on housing trends among Camden residents and employees concluded that 60 percent of the respondents were interested in staying in Camden.⁵²

A 2017 report from HUD on Camden's Housing Market Area forecasted a demand for 2,725 new market-rate rental units, and that 710 market-rate units are currently being constructed. The report additionally forecasted demand for 2,675 new single-family homes, and that just 300 homes were under construction.⁵³

Two developments of interest are the Eleven Cooper and the Pierre Apartments. Eleven Cooper, a \$48 million residential development, will bring 156 market-rate rental apartments to the Camden waterfront. This development represents the first new market rate development on the waterfront in at least two decades. The development, led by The Michaels Organization, is under construction and will open in the spring of 2019.

The second is the Pierre, which will have 32 one- and two-bedroom apartments, including seven affordable housing units reserved for

⁵⁰ Camden County (2018)

⁵¹ City of Camden (2018)

⁵² City of Camden (2018)

⁵³ Cooper's Ferry (2018)

low-income residents. This \$8.2 million development is currently being developed by M&M Development on Cooper Street and will be complete by spring of 2019.

While Camden has historically had an ample supply of affordable apartments and homes, there is a targeted effort underway to rehabilitate and improve the current stock. The Michaels Organization recently completed a new \$16 million project, Branch Village, in the Centerville section of Camden. Branch Village represents the first phase of a comprehensive redevelopment planned for the former site of Clement T. Branch Village, and replaces 34 units of outdated public housing with 50 modern, energy efficient, high-quality affordable rental apartments.⁵⁴ The company is also advancing new construction and rehab of 389 units at an estimated cost of \$64 million. Other efforts include projects by non-profits like Cooper's Ferry Partnership, the Cooper Foundation, Saint Joseph's Carpenters Society and The Camden Lutheran Housing Inc. to repair, rehabilitate and provide affordable homes for rent and ownership. Since 2012, these entities have rehabilitated or built 814 homes at a combined investment of \$31.4 million.⁵⁵

Finally, a federal initiative called the Promise Neighborhood will bring \$30 million in funding to Camden from 2010 to 2020 to improve housing, public safety, and educational measures for the city's youth.⁵⁶

Non-Profit Investments Focused on Neighborhoods: \$102 million

There has been robust investment by non-profits focused on health and health care issues

over recent years. In 2016, Volunteers of America, Delaware Valley invested \$30.4 million of resources in Camden. Recently, Campbell's Healthy Communities announced they would provide \$10 million in funding over 10 years to various local nonprofits to improve health measures and the general welfare of Camden residents.⁵⁷

In 2013, Cathedral Kitchen built a new facility from over \$2 million in fundraised capital, which helped the organization expand their services. The Kroc Center, one of the largest recreational and health centers in Camden, was funded by a \$59 million capital endowment from the estate of Joan Kroc (the wife of McDonald's founder Ray Kroc) as well as \$9 million in fundraised capital.⁵⁸

Finally, in 2016, the Camden Health and Athletic Association was created by a \$1 million funding investment for the benefit of Camden residents. More than 100 children have participated in their programs, which include a basketball league, a soccer club, and sports camps.⁵⁹

⁵⁴ Cooper's Ferry (2018)

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Cooper's Ferry (2018)

⁵⁸ Ibid.

⁵⁹ Ibid.

2.5 Economic Development

2.5.1. Economic Development Programs

Camden's city-wide strategy, focused on improving the fundamentals of public safety, K-12 education, housing, and infrastructure has leveraged additional, outside investments. The improving climate in the city has attracted large, medium and small companies to relocate to Camden.

In turn these companies have begun the process of creating economic mobility opportunities for current residents, through access to employment opportunities that pay family-sustaining wages.

They have become meaningful participants and contributors to the city's efforts to revitalize every neighborhood through capital and programming investments.

State provided tax credits facilitated investments by companies that was necessary to reboot Camden's renaissance over the last five years. Since the enactment of the Economic Opportunity Act of 2013 (EOA), incentives for residential, retail and corporate development have attracted billions of dollars of economic value to the city.⁶⁰

New Jobs Coming to Camden

5,000

⁶⁰ NJDEA (2018)

Examples of Companies Investing Capital in Camden:¹

- 76ers Sports Complex: \$82 million
- Volunteers of America: \$2.3 million
- Holtec International: \$320 million
- American Water: \$165 million
- Camden Yards and Steel: \$5 million
- Contemporary Graphics: \$19 million
- Cooper University Health Care: \$18 million
- Conner Strong & Buckelew, NFI, and The Michaels Organization: \$244 million
- Amerinox Processing: \$3 million
- Subaru of America: \$118 million
- IPAK: \$3.5 million
- WebiMax: \$500,000
- Plastics Consulting & Manufacturing: \$2.4 million
- EMR Eastern LLC and affiliates: \$133 million
- United States Cold Storage: \$2.3 million
- Corporate Synergies Group: \$915,000
- Resintech: \$139 million
- Benjamin Foods: \$73 million
- Aero Farms: \$34 million
- Lockheed Martin: \$146 million

Programs like Grow New Jersey Assistance Program (Grow NJ) and State Economic Redevelopment and Growth Grant Program (ERG) have laid the foundation for Camden to rebuild from a position of strength. "Grow NJ is a powerful job creation and retention incentive program that strengthens New Jersey's competitive edge in the increasingly global

marketplace. ERG is an incentive for developers and businesses to address revenue gaps in development projects, defined as having insufficient revenues to support the project debt service under a standard financing scenario."⁶¹

Camden's experience shows that viewed holistically, these programs are making an outsized contribution to the city and its residents and have measurable and intrinsic value today and in the future.

2.5.2 Investments in Economic Development

Grow NJ and ERG's impacts in Camden have been significant. Between 2013 and 2017, \$1.6 billion in Grow NJ awards have been given to businesses that are likely to relocate to Camden.⁶² The same companies have made or

will make at least \$1.3 billion in capital investments in Camden. In addition, these companies have created an economic environment that has provided new non-EOA businesses intrinsic certainty to open or expand their operations in Camden.

ERG awards to companies wanting to advance developments in Camden amounted to approximately \$80 million. To date, at least \$100 million capital investments associated with these projects are advancing.⁶³

Companies are doing more than investing their capital in Camden. Corporate and institutional social responsibility has become more evident and quantifiable in Camden.

Specifically, charitable giving and community impact initiatives are beginning to take shape, with the

expectation that purposed giving and assistance will deliver tangible benefits to neighborhoods.

EDA certified EOA companies have already created or retained more permanent jobs per year than they had originally committed:

⇒ Minimum Jobs Required: 627

⇒ Jobs Delivered: 1,939

Tax Incentive-Based Capital Investments

\$1.4 Billion

Total Economic Impact

\$2.6 billion

⁶¹ Ibid.

⁶² Ibid.

⁶³ NJDEA (2018)

Workforce Training

Prioritizing the creation of opportunity for residents' economic security and growth through workforce development is an essential component of Camden's revitalization efforts. The Camden City metropolitan area has consistently been among the top regions nationally for job growth. Camden City has seen its unemployment drop to 7.9 percent – a twenty-eight year low.⁶⁴

The challenge for Camden now is to capitalize on the growth by educating and training residents to become employable in sectors that are expanding.

Efforts are underway by employers, governmental and educational institutions, and nonprofits organizations to collaborate to provide strategic local workforce development. The objective is to match available labor base to employment opportunities. Equally important, there is an effort to train people specifically for jobs that are and will become available at the companies moving to Camden under the GROW NJ Program.

Across the board progress is being made to accommodate future growth with residents of the city top of mind to fill the positions. The creation of the Camden Works initiative under the Mayor's office is an effort to unify the identification, training and placement of Camden residents in jobs.

Camden County One-Stop Career Center

The Camden County One-Stop Career Center provides a central location for residents to access local, state, and nonprofit programming

for employment, training, and education programs. Through their collaboration, the Center facilitates seamless connections between programs and connects employers seeking workers with residents seeking employment opportunities.⁶⁵

In Demand

The InDemand workforce development program was implemented at the end of 2017 by the Center for Family Services, Cooper Hospital System's nonprofit community partner. The training program provides life skills focused on job readiness and is tailored to specific trades and training identified by Camden City employers as priorities.

The program is specifically designed to work with both participants and potential employers to develop the required skills for long-term success in the workforce.⁶⁶

Subaru University

Subaru of America has launched Subaru University, through its inaugural partnership with Respond Inc. of Camden, NJ. Subaru University is partnership program designed to combine the resources and talents of Subaru of America, its 600+ retailers nationwide, and select Secondary and Post-Secondary schools accredited by NATEF/AYES. It is intended to provide knowledge of Subaru vehicles and the company's systems, to prepare students for possible employment opportunities at Subaru retailers.⁶⁷

⁶⁴ Bureau of Labor Statistics (2018)

⁶⁵ Camden County (2018)

⁶⁶ The Center for Family Services (2018)

⁶⁷ Subaru of America (2018)

Holtec Training and Employment Program

Holtec has collaborated with One-Stop and Camden County College to connect Camden residents with professional welding training, to meet employment needs at Holtec.

To-date, 15 Camden residents have completed the program. They are now receiving additional on-the-job training in their new roles as manufacturing support assistants at Holtec.

Medical Assistant Certificate Training

The Certificate Training in Medical Assistantships is a partnership between HopeWorks, the Joint Board, and One-Stop. The program trains Camden residents to be Certified Medical Assistants (CMA). The third training class began in 2018.⁶⁸

Home Health Aides Program through Bancroft Neurohealth

In order to address attrition rates among its home health aides, Bancroft has partnered with One-Stop to place Camden residents in a 40-hour home health aide training program.⁶⁹

Camden Promise Neighborhood Team: \$30 million

The Camden Promise Neighborhood Team is a collaborative effort of residents, neighborhood

organizations, and local employers to break the cycle of inter-generational poverty in Camden.⁷⁰ The Team is funded by U.S. Department of Education funding and focuses on implementing comprehensive pathways for career and college access.⁷¹

Local Sourcing

Utilizing the services and products offered by Camden businesses is a key component of economic development. Major employers in

Camden are undertaking efforts to better utilize Camden businesses, including but not limited to Liberty Property Trust, Camden Partners, Holtec, Subaru, The Michaels Organization and Joseph Jingoli & Son.

Liberty Property Trust Development
\$13.2 million to local Camden businesses throughout construction

Among major companies that have received tax credits:
10.6 percent of employees are Camden residents

The pathway to engage local businesses and connect them with contract opportunities can be challenging. To promote greater connectivity, the Camden Business Association was recently formed to bridge the gap between small, local businesses and large local and regional businesses.

⁶⁸ Rowan University / Rutgers-Camden Board of Governors (2018)

⁶⁹ Camden County (2018)

⁷⁰ Cooper's Ferry (2018)

⁷¹ Cooper's Ferry (2018)

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3. Improvements in Social Determinants of Health

3.1 Background

The cumulative impact of investment in critical social determinants categories have had a meaningful, measurable positive impact on the health of the Camden community. Unlike past attempts which led to ephemeral results at best, the systemic changes that have been implemented with targeted investments are sure to lead to long lasting changes that will begin to significantly change the generational cycles of health challenges residents of Camden have faced.

Camden has seen improvements across all social determinants of health – public safety, education, health care, neighborhood quality of life and economic development. As prior research has demonstrated, improvements in these areas have measurable impacts on the physical and social wellbeing of both individuals and communities. By investing in these areas, public and private sector stakeholders are improving Camden’s public health.

3.2 Public Safety

Large-scale reforms and investments in public safety have produced significant results in Camden. Crime rates are at a thirty-year low

and continue to fall. Reduction in crime and violence is a major driver of improvements in social determinants of health.

Crime rates impact health both direct and indirectly. In addition to experiencing direct violence, witnessing violence or property crimes and hearing about crime and violence from other residents have both been shown to impact an individual’s well-being.⁷²

The number of crimes in Camden has fallen:

68 percent

Over the last 44 years

Research has also shown that living in a high-crime area has broad negative impacts on individual health. Residents in high-crime neighborhoods are less likely to engage in physical activity and have, on average, higher body mass index (BMI) scores and rates of obesity than individuals who live in low-crime communities.⁷³

Exposure to crime in childhood can have lifelong effects. Children exposed to violence at a young age are more likely to experience

⁷² Hartinger-Saunders RM, Rine CM, Nochajski T, Wiczorek W. Neighborhood crime and perception of safety as predictors of victimization and offending among youth: A call for macro-level prevention and intervention models. *Child Youth Serv Rev.* 2012;34(9):1966-73.

⁷³ Meyer OL, Castro-Schilo L, Aguilar-Gaxiola S. Determinants of mental health and self-rated health: A

model of socioeconomic status, neighborhood safety, and physical activity. *Am J Public Health.* 2014 Sep;104(9):1734-41.

behavioral problems, include anxiety, depression, and aggression.⁷⁴

By investing in public safety – and driving down crime rates across Camden – the city is helping to prevent and reduce both individual and community health issues.

3.3 K-12 and Higher Education

State and City investments in Camden schools have had positive impacts on the educational achievements of students. Test scores are rising, graduation rates are increasing as dropout rates decrease, and a growing number of students are enrolling in higher education.

Education is second significant social determinant of individual and community health. The quality of children’s educational opportunities has life-long impacts on their health. Comprehensive education programs reduce children’s risk of developing risky health behaviors and have been shown to prevent or delay chronic disease onset in adulthood.⁷⁵ Other positive benefits include lower risk for obesity, high blood pressure, high cholesterol, and elevated blood sugar.⁷⁶

Partnership for Assessment of Readiness for College and Careers (PARCC) test scores in Camden are rising. In 2017/2018, PARCC scores improved in both district and renaissance schools for the third year in a row.

⁷⁴ Fowler PJ, Tompsett CJ, Braciszewski JM, Jacques-Tiura AJ, Baltés BB. Community violence: A meta-analysis on the effect of exposure and mental health outcomes of children and adolescents. *Dev Psychopathol.* 2009;21(01):227-59.

Guerra NG, Huesmann LR, Spindler A. Community violence exposure, social cognition, and aggression among urban elementary school children. *Child Dev.* 2003;74(5):1561-76.

⁷⁵ Hahn RA, Rammohan V, Truman BI, Milstein B, Johnson RL, Muntañer C, et al. Effects of full-day kindergarten on the long-term health prospects of children in low-income

PARCC Score Improvements, 2014/15-2017/18

PARCC Scores	Percent of Students Proficient		
	2014-2015	2017-2018	% Change
English Language Arts	6.5%	18%	63.9%
Math	4.3%	13%	66.9%

Source: *NJTV News (2018)*

Enrollment in higher education also has long-term impacts on health. Higher educational attainment is associated with lower rates of heart disease, high blood pressure, diabetes, anxiety, and depression.⁷⁷

Higher Education Enrollment, 2010-2016

Students Enrolled	2010	2016	% Change
College, undergraduate	3,532	3,731	6%
Graduate, professional school	429	465	8%

Source: *American Community Survey (2018)*

By investing in college access programs, institutions in Camden have helped drive up higher education enrollment rates among Camden residents. The number of Camden

and racial/ethnic-minority populations: a community guide systematic review. *Am J Prev Med.* 2014;46(3):312-23.

⁷⁶ Campbell F, Conti G, Heckman JJ, Moon SH, Pinto R, Pungello E, et al. Early childhood investments substantially boost adult health. *Science.* 2014;343(6178):1478-85.

⁷⁷ Cutler DM, Lleras-Muney A. Education and health: evaluating theories and evidence. No. W12352. Cambridge (MA): National Bureau of Economic Research; 2006

residents enrolled in an undergraduate degree program increased by 6 percent from 2010 to 2016.⁷⁸

3.4. Health Care

A lack of insurance and lack of access to clinical services both have significant impacts on individual wellbeing. When individuals have inadequate health insurance or face barriers in accessing direct health services, they are less likely to seek preventative care and treatment for existing chronic conditions, including cardiovascular disease, diabetes, and cancer.⁷⁹

When children lack access to health care, they can face lifelong consequences from preventative care services including immunizations, dental care, and well-child visits.⁸⁰

Through local health access programs and the implementation of the Affordable Care Act, the percentage of residents without insurance fell significantly between 2010 and 2016, from 23 percent to 17 percent.⁸¹ In addition, the percent of the population without insurance fell by at least 8 percent in every Camden neighborhood during that time period. In the northeast section of the city, the percentage of uninsured residents fell by more than 30 percent.⁸²

⁷⁸ American Community Survey (2016).

⁷⁹ Ayanian JZ, Weissman JS, Schneider EC, Ginsburg JA, Zaslavsky AM. Unmet health needs of uninsured adults in the United States. *JAMA*. 2000;284(16):2061-69.

⁸⁰ Ibid.

⁸¹ American Community Survey (2018)

⁸² American Community Survey (2018)

⁸³ Adamkiewicz G, Zota AR, Fabian MP, Chahine T, Julien R, Spengler JD, Levy JJ. Moving environmental justice indoors: understanding structural influences on residential exposure patterns in low-income communities. *Am J Public Health*. 2011;101 Suppl 1:S238-245. doi: 10.2105/AJPH.2011.300119

3.5. Neighborhood Quality of Life

Neighborhood quality of life factors – including quality of housing, access to green space, and environmental conditions – are also social determinants of health. Poor housing quality contributes negatively to health outcomes, including rates of chronic disease and injury, as well as mental health quality.⁸³ In addition to an individual's own housing quality, living in a community with widespread residential deterioration has been linked to poor mental health.⁸⁴

Access to green space, particularly in urban areas improves the physical and mental wellbeing of residents. This impact is strongest among already vulnerable populations, including children, pregnant women, and senior citizens.⁸⁵

Finally, environmental conditions, including air and water quality, can drive health and economic inequalities.⁸⁶ By focusing on improvements in these areas of neighborhood quality of life, Camden is improving the social determinants of health for individuals and neighborhoods.

In addition, access to transit connects Camden residents to educational, employment, health

⁸⁴ Kruger DJ, Reischl TM, Gee GC. Neighborhood social conditions mediate the association between physical deterioration and mental health. *Am J Community Psychol*. 2007;40(3-4):261-71.

⁸⁵ World Health Organization (2016)

⁸⁶ Kaufman JD, Adar SD, Barr RG, Budoff M, Burke GL, Curl CL, Kronmal R. Association between air pollution and coronary artery calcification within six metropolitan areas in the USA (the Multi-Ethnic Study of Atherosclerosis and Air Pollution): a longitudinal cohort study. *Lancet*. 2016;388(10045):696-704.

care, and recreational activities in New Jersey and Southeastern Pennsylvania. As noted, major investments are planned to renovate the Walter Rand Transportation Center in Camden. This will streamline and improve the city's existing public transit infrastructure.

Overall, Camden has a good transit score of 47, with the Cooper Grant Waterfront and Bergen Square neighborhoods having the highest transit score at 70 and 57, respectively. Camden has direct access to Center City Philadelphia via the PATCO Speedline, which allows Camden residents to travel into most centers of employment in Philadelphia within 30 minutes.⁸⁷

3.6 Economic Development

Economic development is the last major category of social determinants of health. Individuals who live below the poverty line or in impoverished neighborhoods are at higher risk for chronic diseases and mental illness. They also have higher mortality rates and lower life expectancies than individuals who live above the poverty line or in higher-income areas.⁸⁸

By taking a city-wide approach to economic development, Camden institutions are improving both the individual and overall health of Camden residents through economic development programs.

In 2018, Camden's unemployment rate fell to 7.9 percent – the lowest rate in 28 years.⁸⁹ The number of jobs in Camden is growing and, of critical importance, the percentage of jobs in

Camden held by Camden residents is also growing. From 2010-2015 the number of jobs in Camden grew by 6 percent, while the number of jobs in Camden held by Camden residents increased by 13 percent.⁹⁰

Select Employment Data, Camden City, 2010-2015

	2010	2015	% Change
Total Jobs	28,025	29,783	6%
Jobs in Camden Held by Camden Residents	3,642	4,103	13%

Source: US Census Bureau, On The Map

In addition, the number of jobs accessible to the widest range Camden residents are growing at the fastest pace. Between 2010 and 2015, the number of jobs requiring less than a high school diploma grew by 28 percent, compared to the total job growth rate of 6 percent. This is critically important given that nearly half of Camden's workforce has less than a college degree.⁹¹

Camden's unemployment rate has fallen to

7.9 percent

The lowest in 28 years

⁸⁷ Walk Score (2018)

⁸⁸ Mode NA, Evans MK, Zonderman AB. Race, neighborhood economic status, income inequality and mortality. PLoS ONE. 2016;12;11(5):1-14. doi:10.1371/journal.pone.0154535

⁸⁹ Bureau of Labor Statistics (2018)

⁹⁰ US Census Bureau (2018), OnTheMap (2018)

⁹¹ Ibid.

Jobs in Camden by Educational Attainment, 2010-2015

	2010	2015	% Change
Less than high school	2,246	2,868	28%
High school or equivalent, no college	5,006	5,679	13%
Some college or Associate's degree	7,401	8,071	9%
Bachelor's degree or advanced degree	8,561	8,533	0%
Total	23,214	25,151	8%

Source: US Census Bureau, On the Map.

Through employment access programs and on-the-job training, public institutions and private employers are ensuring that more Camden residents have access to jobs with family-sustaining wages.

3.7 Conclusion

Research on social determinants of health demonstrates that Camden's whole city strategy approach has been effective and its continuance is critically important to the long-term health of its residents and the city itself. But to ensure the city's progress continues, there is more to do.

Camden faced more than 50 years of economic decline, a decline that had a dramatic impact on the quality of life, health and wellbeing of its residents. By the early 2000s, it was facing crises of fiscal health, public safety, and K-12

education. Through collaboration and commitment, Camden's state and local government entities, business leaders, and community stakeholders have driven improvements across social determinants of health city wide.

Crime is at a historic low, with murders down by 60 percent over five years, and violent crime down by 40 percent. New, state of the art of schools are open across the city, and test scores are rising. And most importantly, economic development is helping create jobs for Camden residents in every neighborhood.

Through critical infrastructure, capital investments, and the Grow NJ tax credit program, the State of New Jersey has played a critical role in ensuring that Camden's economic future is self-sustaining. The impact of the investments can be seen in every corner of the city, from new high rises along the waterfront to expanded and improved parks in the neighborhoods to new and rehabilitated housing stock; the physical changes in the city may be the most dramatic.

Camden has made tremendous progress in a short period of time, but these changes are not yet secure, and continued investments by the private and public sectors, including the State of New Jersey, are necessary to ensure that Camden's emerging platform for growth is not compromised. The social determinants of health -- and the city's future -- require it.

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SOLUTIONS INC.

Let us help you find a solution.

Assistance Grant Program(BRRAG). Procedures need to be implemented to verify the existence of at-risk jobs prior to grant approval. Monitoring of business compliance with grant terms also needed to be improved. All of these issues were confirmed in the Comptroller's report involving these same programs issued earlier this year.

Our report, as well as the Comptroller's, indicated EDA's position as program administrator was to strictly comply with statutory mandates. For us, this mind set – this approach created a disconnect in acting as a responsible, invested partner in this program. A program administrator/manager must be responsible for so much more than simple compliance. Where applications and situations can vary so greatly and be extremely complex, it is absolutely necessary to have a program partner who is willing to question the result of the process if it doesn't make sense. Based upon the EDA response to our report and to the report of the Comptroller, I feel EDA stopped short of acting as a program partner and approached the program as an information processor, doing only what they felt the statute required. Going forward, this cannot be an acceptable means of program management. These programs require an entity that is vested in making and ensuring that all incentive grants are meaningful and appropriate for all involved and not just up to statutory standards.

With that, we will be happy to address any questions you might have for us.

New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor
Summary of Testimony

Presented to the Joint Meeting of the Senate Economic Growth Committee and the
Assembly Commerce and Economic Development Committee
Oversight and Effectiveness of the EDA Over State Tax Incentive Programs
February 11, 2019
Stephen M. Eells, State Auditor

Senator Cruz-Perez, Assemblyman Johnson, members of the Committees, I wish to thank you for inviting us to answer questions regarding the Office of the State Auditor's report on the New Jersey Economic Development Authority – Selected Incentive Programs for the period July 1, 2011 to September 30, 2016. The Office of the State Auditor functions as the Legislature's fiscal watchdog; an independent auditor charged with improving the accountability for public funds and improving the overall operations of state government. Our audit staff consists of some of the most experienced governmental auditors in the state. The office has issued an average of 26 reports each calendar year providing potential cost savings and revenue enhancements averaging \$116 million annually over the last ten years. I have with me the manager of the audit, Mr. Timothy Bush.

Our audit of the state's tax incentive programs was born out of our desire to gain a knowledge in this area in relation to the issuance of Governmental Accounting Standards Board (GASB) Statement No.77, "Tax Abatement Disclosure's". As the auditors of the state's Comprehensive Annual Financial Report, we felt it was imperative to better understand these programs as they would be part of a required disclosure in the notes to the financial statements going forward in accordance with the standard issued by the GASB. Our audit was considered a performance audit with a focus on compliance with statutory requirements. Thus, our scope of work differed from that of the Governor's directive to the Comptroller per executive order.

In terms of summarizing our report conclusions, we found that EDA had adequate controls over awarding and administering the business incentive program grants in compliance with statutory requirements with the exception of certain procedures used in the GROW New Jersey Assistance Program grants. The critical cost benefit analysis, detailing the difference in cost between staying in New Jersey and the company moving out-of-state, needs to be adequately reviewed and the documentation of reported costs verified for propriety. Simply put, the analyses on file were not complete and definitive. In the area of monitoring, we again found an adequate effort to comply with statutory requirements with the exception of the procedures utilized to verify the status of grant-eligible retained jobs under the Business Retention and Relocation



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

**New Jersey Economic Development Authority
Selected Incentive Programs**

July 1, 2011 to September 30, 2016

**Stephen M. Eells
State Auditor**

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New Jersey State Legislature

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The Honorable Stephen M. Sweeney
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Ms. Peri A. Horowitz
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Office of Legislative Services

Enclosed is our report on the audit of the New Jersey Economic Development Authority, Selected Incentive Programs for the period of July 1, 2011 to September 30, 2016. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
January 19, 2017

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Scope

We have completed an audit of the New Jersey Economic Development Authority (NJEDA), Selected Incentive Programs for the period July 1, 2011 to September 30, 2016. Our audit included a review of the Business Employment Incentive Program (BEIP), the Business Retention and Relocation Assistance Grant Program (BRRAG), and the Grow New Jersey Assistance Program (GROW). The audit included financial activities accounted for in the state's General Fund.

Created by law in 1996, the intent of the BEIP is to provide grants to businesses that create jobs in New Jersey. Enacted in 2004, the primary purpose of the BRRAG is to provide tax credits to businesses to encourage economic development, preserve existing jobs, and stimulate capital investment in New Jersey. The BEIP and BRRAG grants were awarded to businesses for up to 10 years and six years, respectively, and are still active. In accordance with the New Jersey Economic Opportunity Act of 2013, the NJEDA is no longer accepting new applications for assistance under the BEIP and BRRAG programs. The NJEDA executed 454 BEIP grants valued at \$1.5 billion and 85 BRRAG tax credit grants valued at \$125.1 million. The GROW is the current job creation and retention incentive program that awards tax credits to businesses that create or retain jobs in the state and make a qualified capital investment. Pursuant to the New Jersey Economic Opportunity Act of 2013, the NJEDA has awarded 207 GROW grants valued at \$3.9 billion of which \$10.8 million in tax credits have been certified. Tax credits awarded under the BRRAG and GROW can only be applied against the New Jersey Corporation Business Tax, Insurance Premiums Tax, and Gross Income Tax for partnerships.

Objectives

The objectives of our audit were to determine whether adequate controls were in place at the NJEDA to award and administer business incentive program grants in compliance with statutory requirements and whether the NJEDA was monitoring grant recipients for compliance with statutory requirements.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, and policies of the NJEDA. Provisions we considered significant were documented and compliance with those

requirements was verified by interview, observation, and testing. We also reviewed financial trends and interviewed NJEDA personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples were designed to provide conclusions on our audit objectives, as well as internal controls and compliance. Transactions were judgmentally selected for testing. We selected seven GROW grants for testing based on the project location and the grant award amount.

Conclusions

We found that adequate controls were in place to award and administer business incentive program grants in compliance with statutory requirements with the exception of certain procedures used in the award determination for Grow New Jersey Assistance Program grants. We also found that adequate controls were in place to monitor grant recipients for compliance with statutory requirements with the exception of procedures utilized to verify the status of grant eligible retained jobs under the Business Retention and Relocation Assistance Grant Program.

We also made observations concerning enabling legislation for City of Camden projects and the tax credit amounts awarded under the Business Retention and Relocation Assistance Grant Program and the Grow New Jersey Assistance Program.

GROW New Jersey Assistance Program

Documentation of Reported Costs

A business's cost benefit analysis detailing the difference in cost between staying in New Jersey and moving out-of-state needs to be adequately reviewed and verified.

Under most circumstances, to be eligible for tax credits under the Grow New Jersey Assistance Program (GROW), a business must demonstrate to the New Jersey Economic Development Authority (NJEDA), at the time of the application, that existing full-time jobs are at risk of leaving the state or of being eliminated, and that the award of tax credits under the program will be a material factor in the business's decision to retain the jobs or create new jobs in New Jersey. To accomplish this, the NJEDA requires an applicant to submit a cost benefit analysis which details both the costs to continue operations in New Jersey and the lower costs to relocate to proposed out-of-state sites. A review is then completed by the NJEDA staff to substantiate the identified costs before the application is submitted to the NJEDA board for approval.

Pursuant to the New Jersey Economic Opportunity Act of 2013 and as of September 30, 2016, a total of 207 projects have been awarded \$3.9 billion under the GROW. We judgmentally selected seven projects to determine if the cost benefit analysis review completed by the NJEDA was adequate. Three of the seven sampled projects were located in the City of Camden and an alternate out-of-state location did not have to be identified, as per statute, for these projects to qualify as discussed later. For the remaining four projects, the reported annual costs to operate in New Jersey totaled \$138 million while the reported annual costs to operate at out-of-state locations totaled \$101.2 million. Costs totaling \$5.6 million that were reported to be the same for both the New Jersey and out-of-state locations were removed for test purposes. We found that adequate documentation was not obtained by the NJEDA to support 11.5 percent of the annual costs tested which included rent, property taxes, and utilities. Similarly, eight percent of the upfront costs tested, including building renovations and equipment purchases, associated with locating the projects in New Jersey or out-of-state were not supported or verified by the NJEDA. In addition, for three of the four projects tested with costs totaling \$8.5 million, 86 percent of the reported annual costs, the majority of which represented out-of-state wages to operate at out-of-state locations, were not supported.

The cost benefit analysis is a critical factor in determining whether or not to award tax credits under the GROW. All reported costs associated with locating a proposed project in New Jersey or out-of-state must be verified to ensure a business is seriously considering relocating out-of-state to a lower cost alternative.

Recommendation

We recommend that the NJEDA maintain a more complete file of NJEDA's review of the cost benefit analysis submitted by an applicant for a proposed project. The award of tax credits should not be forwarded to the NJEDA board for approval until the proper supporting

documentation has been obtained for all reported in-state and out-of-state project costs and the out-of-state option has been proven to be more economical.

Business Retention and Relocation Assistance Grant Program

Verification

Procedures need to be implemented to verify the existence of at-risk jobs prior to grant approval.

The Business Retention and Relocation Assistance Grant Program (BRRAG) provides a base tax credit amount of \$1,500 per job retained for up to six years. If certain criteria are met, the amount per job retained can reach \$3,000 per year. In most circumstances, a business will qualify for consideration if it relocates a minimum of 50 full-time jobs from one or more locations in New Jersey to a new business location in New Jersey. A business may remain at a current location if it makes a capital investment equal to the value of the tax credits granted. A business must also demonstrate that the award of tax credits under the program will be a material factor in the business's decision to retain the jobs in New Jersey and commit to remain in New Jersey for the grant term plus an additional five years.

An approved award of tax credits will be adjusted downward if a business does not maintain 100 percent of the incented retained jobs during the grant term and 80 percent of the incented retained jobs during the additional five-year commitment duration. In order to verify these requirements, the New Jersey Economic Development Authority (NJEDA) requires the business annually certify the number of grant-eligible retained jobs that are currently filled along with the name, address, and hire date of the employees filling the positions as of the submission date. However, the NJEDA does not perform additional procedures to verify this information or require a similar certification to be submitted prior to NJEDA board approval. The award of tax credits at the time of the board's approval is primarily based on the number of at-risk jobs specified by the business in the grant application.

Using the approval date and grant award amount as criteria, we judgmentally selected seven of the 85 businesses that were awarded a BRRAG grant for testing and found that four did provide a list of employees filling grant-eligible retained jobs as of the board approval date although they were not required to. For the year in which the grant was approved, we matched the employees reported to be filling the grant-eligible retained jobs to the Employer Report of Wages Paid maintained by the New Jersey Department of Labor and Workforce Development (NJDOLWD) and found that three of the four businesses had numerous employees with no earnings. According to NJDOLWD records, the average quarterly employment of the three businesses was between 26 and 38 employees less than reported by the businesses and incentivized by the NJEDA.

Monitoring

Procedures that monitor businesses for compliance with grant terms need to be strengthened.

As previously mentioned, a business must maintain 100 percent of the incented retained jobs during the grant term or their award will be adjusted downward. Using NJDOLWD records for the years in which the tax credits were issued, we also found that the average quarterly employment for four of the seven businesses reviewed was between 4.25 and 15 employees less than reported by the businesses and incentivized by the NJEDA. The businesses' awards, however, were not adjusted.

Our review of another business that received a BRRAG grant in 2009 for retaining 500 full-time positions disclosed that 52 of the 500 employees reported to be filling the positions as of December 31, 2009 only had earnings in the fourth quarter of 2009. We could not determine if the 52 employees were replacements, seasonal hires, or regular new hires employed at the end of the year just to fulfill the grant conditions since the employee list received for 2009 only contained the names and titles of 500 individuals. More detailed records that identify each approved grant eligible position by title and the names and employment dates for all employees filling such positions should be required for verification purposes. The NJEDA should also define the time period that each grant eligible position needs to be filled during the year to qualify.

Although the NJEDA is no longer accepting applications for assistance under the BRRAG program, executed grants are still ongoing and the Grow New Jersey Assistance Program is now providing similar tax credits for job retention and creation in New Jersey. As such, the NJEDA needs to strengthen procedures to verify recipient compliance throughout the entire grant period and ensure the efficient use of taxpayer dollars.

Recommendation

We recommend the NJEDA implement procedures to verify the existence of reported at-risk jobs prior to board approval. We further recommend the NJEDA implement procedures to verify that the incented retained jobs have been maintained throughout the commitment duration as required. Records maintained by the New Jersey Department of Labor and Workforce Development could be used for verification purposes. In addition, we recommend the NJEDA obtain more detailed information for each incented full-time job that was reported to be at risk of leaving the state. The information, which should be required prior to board approval and throughout the grant duration, should include a list of grant eligible positions by title and the names and employment dates for all employees filling such positions during the year. The NJEDA should also define the time period a qualified full-time position needs to be filled to qualify for the full annual incentive.

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Observations

GROW Tax Credits for the City of Camden Projects

Increasing grant caps disproportionate to jobs created

The Grow New Jersey Assistance Program (GROW) provides tax credits to businesses of up to \$15,000 annually for each eligible new or retained full-time job depending on location and designation. However, businesses with projects located in Camden can receive significantly higher tax credits since the city qualifies under the Municipality Rehabilitation and Economic Recovery Act (MRERA).

The GROW legislation provides for eligible businesses with projects in Camden to receive between \$20 million and \$350 million in tax credits over a grant term of ten years. The amount of tax credits is dependent on the level of capital investment and the number of full-time jobs that are new to Camden. Five specific funding tiers are identified. A business that creates between 35 and 69 full-time jobs new to Camden and makes a capital investment of at least \$5 million is capped at \$20 million in tax credits over the grant term while a business that creates 250 or more full-time jobs new to Camden and makes a capital investment of at least \$30 million is capped at \$350 million in tax credits over the grant term. However, the required increase in jobs and capital investment from tier one, which has the \$20 million cap, to tier five, which has the \$350 million cap, does not appear to warrant the corresponding increase in tax credits. Our review of one business that was awarded a ten-year grant of tax credits totaling \$107 million to relocate 250 full-time employees from a municipality located less than 20 miles from Camden demonstrates this point. In accordance with the GROW legislation, the total tax credits awarded to the business over the 10-year term would have been limited to a maximum of \$50 million if they created between 150 and 249 full-time jobs new to Camden. However, by planning to bring 250 full-time jobs new to Camden, the business' award of tax credits was increased by \$57 million to \$107 million and fell below the maximum allowable award of \$350 million. In addition, the award of tax credits would have been limited to a maximum of \$37.5 million over the grant term if the business met certain requirements and relocated the 250 employees to any other municipality in New Jersey.

The GROW legislation provides significantly larger tax credit amounts for qualified projects located in Camden including the potential for a business to receive an additional \$300 million in tax credits over the grant term for increasing the number of new jobs they are creating in Camden, by one, from 249 to 250 as explained above. The rationale behind a tax credit funding methodology that allows for such an increase should be questioned and revisited as it may not be in the best interest of the state.

Calculating Net Benefit

Using Corporate Business Tax revenue in determining net benefit for proposed intrastate relocations to Camden may be questionable.

For most businesses, to be eligible for tax credits under the Grow New Jersey Assistance Program (GROW), a proposed project must yield a net positive benefit to the state of at least 110 percent of the requested tax credit amount. However, for projects located in the City of Camden (Camden) and pursuant to the Municipality Rehabilitation and Economic Recovery Act (MRERA), a project's net benefit to the state only has to equal 100 percent of the requested tax credit allocation. In addition, a business only has to demonstrate, at the time of the application, that the award of tax credits under the program is a material factor in the decision to make a capital investment and relocate to Camden, the only municipality currently qualifying under MRERA. There is no requirement to claim that the jobs are in danger of leaving the state or being eliminated.

The economic impact model utilized by the NJEDA to measure a project's net benefit uses multipliers from the Regional Input-Output Modeling System database, published by the United States Department of Commerce, and econometric analysis developed by a contracted vendor. This model estimates both direct and indirect impacts on both a one-time and ongoing basis. The state's Corporation Business Tax (CBT) is part of the ongoing annual taxes used in the net benefit calculation for all projects excluding non-profit entities.

Of the \$3.9 billion that has been awarded under the GROW through October 7, 2016, \$1.2 billion is for 20 projects located in Camden. As previously mentioned, we judgmentally selected seven GROW projects for review including three projects located in Camden. The EDA estimated the net benefit for one of the sampled Camden projects to be \$249,000 over a 35-year period. This company, which relocated part of their operations from a New Jersey municipality located less than 20 miles away, received an award of \$107 million for retaining 250 employees and proposing to make a capital investment of \$146.4 million. The estimated ongoing CBT revenue used in the net benefit calculation totaled \$2.7 million annually. If the CBT revenue, which the state was already receiving anyway, was removed from the net benefit calculation, the net benefit over 35 years would have been negative \$32.6 million according to the NJEDA's net benefit model. The NJEDA claimed that the company had jobs at risk because a federal contract would not have been obtained without the GROW tax credits which allowed for a lower bid. The NJEDA also claimed that the project will generate additional taxable income in New Jersey above what is currently produced. Although we agree acceptable under these circumstances, including CBT revenue in the model used by the NJEDA to measure the net benefit of other proposed Camden projects might not yield the intended benefits if a New Jersey based applicant is simply relocating to Camden with no additional CBT revenue resulting.

Mismatching time periods

Commitment duration can be satisfied before net benefits are realized.

For most projects, the net benefit to the state is based on the benefits generated during the first 20 years following the project's completion. However, for projects located in the City of Camden (Camden) and pursuant to the Municipality Rehabilitation and Economic Recovery Act (MRERA), the net benefit to the state can be calculated during a period of up to 35 years following the completion of the project, as determined by the NJEDA.

The commitment duration for all businesses receiving an award under the GROW is 1.5 times the eligibility period which is limited to a term of not more than 10 years, therefore the maximum commitment duration for any business receiving an award under the GROW is 15 years. Conversely, as described above, the net benefit for a proposed project is calculated between a 20 and 35-year period depending on location. This scenario, especially for projects in Camden, leaves the state vulnerable and potentially incapable of recognizing any net benefit if a business decides to relocate out-of-state soon after the commitment duration is met.



Tax Credit Amounts

As previously mentioned, the Business Retention and Relocation Assistance Grant Program (BRRAG) provides up to a \$3,000 tax credit per job retained. The BRRAG legislation, however, does not base the tax credit amount on the wage level of the retained job. As a result, the tax benefit to a business is the same for both a high paying retained job and a retained job that pays the minimum wage. Conversely, the benefit to the state can be heavily impacted by the overall wage level of the incented retained jobs. Our review of two companies who were both awarded a grant of tax credits under the BRRAG illustrates this point.

- Company A was awarded a grant of tax credits totaling \$750,000 in 2009 for retaining 500 full-time jobs. Using data obtained from the New Jersey Department of Labor and Workforce Development, we determined that 367 of the 500 reported employees worked in all four quarters of 2009 earning an average salary of \$24,352. The tax credit awarded on the 367 positions totaled \$550,500. The estimated gross income tax received, however, on the 367 positions totaled only \$151,000 collectively resulting in an unfavorable difference to the State of \$399,500. The single tax rate was used to determine the gross income tax estimate.
- Company B was awarded a grant of tax credits totaling \$436,500 in 2012 for retaining 291 employees. A total of 278 of the 291 employees worked in all four quarters of 2012 earning an average salary of \$133,054. The tax credit awarded on the 278 positions totaled \$417,000. However, the total estimated gross income tax received on the 278 positions was \$1.76 million providing a positive direct benefit to the state of \$1,343,000.

As previously mentioned, the NJEDA is no longer accepting applications for assistance under the BRRAG program. Job preservation and creation is now encouraged through the Grow New Jersey Assistance Program (GROW). For the most part, the GROW provides a base tax credit amount of between \$500 and \$5,000 per year for each qualifying new or retained full-time job depending on location. If certain criteria are met, the amount per job can reach \$15,000 per year. Similar to the BRRAG, the tax credit amount is not based on the wage level of the retained job although a bonus can be awarded if the average of all eligible new and retained full-time jobs exceeds a statutory defined level.

Although an approved project's total net benefit is measured by many factors other than gross income tax, the state can substantially increase its benefit by offering a tiered level of tax incentives under the GROW that are commensurate with the wage level of the new or retained full-time job and the corresponding income taxes generated. For example, a position being paid the minimum wage should not be incentivized at the same level as a higher paying job.

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January 13, 2017

David J. Kaschak
Assistant State Auditor
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
PO Box 067
Trenton, NJ 08625-0067

Dear Mr. Kaschak,

Please find attached the New Jersey Economic Development Authority's management response to the December 21, 2016 audit report of Selected Incentive Programs.

Sincerely,

Melissa Orsen
Chief Executive Officer

Attachment

C: Laurence M. Downes, Acting Chairman
David R. Huber, Audit Committee Chair

New Jersey Economic Development Authority
Management Response

The New Jersey Economic Development Authority (NJEDA) welcomes the opportunity to respond to the December 21, 2016 audit report prepared by the Office of the State Auditor concerning Selected Incentive Programs of the NJEDA.

The NJEDA has been administering incentive programs on behalf of the State of New Jersey for over two decades. While these programs each have a different set of statutory requirements and public policy goals, a consistent thread has been the NJEDA's commitment to the highest level of due diligence in recommending projects to its Board, ensuring every project approved is done so in strict compliance with statutes and regulations.

The NJEDA's response is focused on the recommendations contained within the audit report that are related: 1) to the retention of documentation of reported costs under the Grow New Jersey Assistance Program (Grow NJ); and 2) verification and monitoring related to the Business Retention and Relocation Assistance Grant Program (BRRAG). The NJEDA will not address the additional observations included in the audit as it is the purview of the Legislature to consider any statutory changes.

As noted by the Office of the State Auditor, a nonstatistical sampling approach was used, and therefore, cross-portfolio extrapolations cannot be made. Our response instead focuses on some of the important distinctions that must be understood in evaluating program administration. With that said, the NJEDA has and continues to be open to recommendations to further strengthen our administration of incentive programs.

Grow New Jersey Assistance Program

Documentation of Reported Costs

- **Office of the State Auditor Recommendation:** "We recommend that the NJEDA maintain a more complete file of NJEDA's review of the cost benefit analysis submitted by an applicant for a proposed project."
- **NJEDA Action:** The Office of the State Auditor utilized a sample of four Grow NJ projects in its review, representing less than two percent of the program portfolio. For these four projects, we thank the auditors for confirming that 88.5 percent or \$211.7 million of \$239.2 million of the annual costs tested were adequately documented; and, that 92 percent or \$123.6 million of the \$134.4 million of the upfront costs tested were supported or verified. Consistent with our commitment to the highest level of due diligence and fiduciary oversight, the NJEDA will act to retain more complete files, ensuring all relevant costs related to Grow NJ projects have documentation of support. For example, if an Internet search is used to determine the cost of rent in a particular location, a printout of the search will now be placed in the appropriate file.

The NJEDA acknowledges that Grow NJ is complex and nuanced. As such, we would like to take the opportunity to provide an overview of what administration of the program entails, specifically addressing practices related to our review of the cost benefit analysis (CBA) submitted by applicants.

Grow NJ is the State's main job creation and retention incentive. Grow NJ is performance-based, meaning that to receive the approved benefit, projects must complete capital investments and hire and/or retain employees. No financial assistance is provided to a company up front and until NJEDA receives independent CPA certification of actual capital investment and jobs are created or retained. Grow NJ is a formula-driven program, with financial parameters firmly established by statute. The NJEDA reviews applications to ensure eligibility in accordance with the statute and program rules. Eligibility includes: a location in a qualified incentive area; meeting or exceeding the employment and capital investment requirements; and, demonstrating that the award of the tax credit is material to the company's decision to remain or locate in the State.¹ As part of the way materiality is demonstrated by the applicant, applications must:

1. Include a certification from the applicant's Chief Executive Officer (CEO) that: a) existing full-time jobs are at risk of leaving the State or being eliminated; b) the job creation or retention would not occur but for the Grow NJ award; and, c) all representations contained within the application are accurate² ;
2. Demonstrate that the capital investment and the resultant creation or retention of eligible positions will yield a net positive benefit of at least 110% of the requested tax credit amount (100% in Camden); and,
3. Demonstrate that the award of the tax credit is a material factor in the company's decision.

While the statute relies on the CEO certification as the overarching determinant to ensure material factor³, another element of the material factor determination is based on a review of the CBA submitted by applicants.⁴ For the New Jersey location and the alternative location or locations, the document includes location information, one-time upfront costs (i.e. land or building acquisition, machinery and equipment acquisition, employee and company relocation/moving costs), and ongoing annual costs (i.e. rent, real estate taxes, payroll, property insurance, electricity, building maintenance, and other project- or location-specific information). In every case, a new real estate decision is being made by the applicant based on these and other factors, as well as the award of tax credits.

Due to the NJEDA's significant transactional experience over the last two decades, and more recently through its evaluation of over 200 Grow NJ applications, we can unequivocally state that the central cost drivers of a business's location decision are payroll and real estate expenses, both of which are higher in New Jersey than in most locations outside of the state. New Jersey's high costs have been widely recognized in various studies. The U.S. Commerce Department's Bureau of Economic Analysis released price-adjusted estimates of personal income for states and metropolitan areas for 2008 to 2012 and ranked New Jersey as one of the top five most expensive states to live in⁵. A recent study conducted by

¹ For those companies considering a location in either Camden or Atlantic City, business's must certify that the tax credits are a material factor in its decision to locate the project to the specific municipality as opposed to the State.

² Per N.J.S.A. 34:1B-244, if the CEO certification is found to be willfully false, the NJEDA may revoke any award of tax credits in their entirety, in addition to any other criminal or civil penalties that the business and the officer may be subject to.

³ All of the files, including those reviewed by the auditors, contained the CEO certification.

⁴ Note that while the CBA is only a statutory requirement for projects involving intra-State job transfers, the NJEDA views the CBA as a useful document to review and compare costs and therefore requires all applicants to submit this document.

⁵ https://www.bea.gov/newsreleases/regional/rpp/rpp_newsrelease.htm

24/7 Wall St. ranks New Jersey's cost of living as the third highest in the nation and 14 percent higher than the typical state⁶.

Within this context, the NJEDA undertakes the highest level of due diligence to understand and compare locations proposed by applicants. This is achieved through direct discussions with the applicant to understand their representations, utilizing third party information, when available, and other fact checking practices. Staff spends significant time becoming familiar with a project, reviewing facts, and verifying costs at the time of recommendation/approval. When New Jersey is competing against a location where certain cost attributes are equal or similar, staff discounts those costs entirely as they are not a determining factor in the business's location decision. This common-sense approach to reviewing an applicant's CBA relies on rational decision-making, rooted in NJEDA's expertise and the widely-reported costs of doing business in New Jersey, particularly payroll and real estate expenses, compared to other states. It is important to note that the CBA itself does not dictate the size of the Grow NJ award (award calculation is statute driven) or detract from the performance-based mechanisms built into the program that must be met to receive the annual tax credit.

NJEDA is committed to successfully administering the State's incentive programs to attract and retain businesses and jobs and ensure New Jersey remains competitive in an increasingly global marketplace. As such, it is worth pointing out a key consideration that underlies many economic development programs - direct outreach to competing states for verification purposes could put New Jersey in a weaker position as it is likely to prompt more competitive offers from those alternative states, perversely resulting in a loss of businesses and jobs from New Jersey. The NJEDA will continue to undertake and document its due diligence related to out-of-state costs while ensuring New Jersey's competitive position in business attraction and retention is not impaired.

Business Retention and Relocation Assistance Grant Program

Verification

- Office of the State Auditor Recommendation: "We recommend the NJEDA implement procedures to verify the existence of reported at-risk jobs prior to board approval."
- NJEDA Action: This is not applicable as the Business Retention and Relocation Assistance Grant Program (BRRAG) program has expired and applications are no longer being accepted. In accordance with the Economic Opportunity Act of 2013, P.L. 2013, c. 161 and effective September 18, 2013, the EDA ceased accepting applications for assistance under BRRAG. All pending applications submitted for approval under this program were acted on by December 31, 2013.

Monitoring

- Office of the State Auditor Recommendation: "We further recommend the NJEDA implement procedures to verify that the incented retained jobs have been maintained throughout the commitment duration as required."
- Office of the State Auditor Recommendation: "In addition, we recommend the NJEDA obtain more detailed information for each incented full-time job that was reported to be at risk of leaving the state. "

⁶ <http://247wallst.com/special-report/2016/10/17/states-where-poverty-is-worst-than-you-think/4/>

- **NJEDA Action:** While BRRAG is no longer an active program, the EDA continues to monitor a portfolio of 37 BRRAG projects to ensure compliance; note, only five are currently eligible to receive tax credit benefits. However, the EDA continues to administer Grow NJ, which has a current portfolio in excess of 200 projects, and is similar in concept to BRRAG as it provides incentives for retained jobs. We have taken steps to strengthen compliance monitoring for Grow NJ as it relates to retained jobs, informed in part by the recommendations put forth by the Office of the State Auditor; specifically, the NJEDA now requires that all applicants under Grow NJ with existing New Jersey-based operations submit their most recent Employer Report of Wages Paid (WR-30) maintained by the New Jersey Department of Labor and Workforce Development, as well as a newly created "Grow NJ Employee Information Worksheet," a required document for all Grow NJ applicants. These documents are required at the time of application and annually as part of the certification process.

As noted above, while the recommendations from the Office of the State Auditor are directly related to NJEDA's administration of BRRAG, we would like to take the opportunity to provide an overview of compliance monitoring related to Grow NJ.

Due to New Jersey's evolving sophistication as it relates to the administration of tax incentives, the statute governing Grow NJ includes safeguards at both the application and certification stage, designed to ensure that the incentive is material to an applicant's location decision, and that the provision of approved tax credits commences only after a project has certified that they have satisfied specific legislative requirements.

At the application stage, this includes the legally binding certification from the applicant's CEO that the application has been reviewed and the information submitted and representations contained therein accurately portray the facts of the location decision. At the certification stage, Grow NJ tax credits are certified for use annually and proportionally based on actual job performance (retention and/or creation) during that year; companies must submit a certification of costs (capital investment) at project completion as certified by an independent CPA, as well as a certification of jobs from the Chief Financial Officer. Additional performance-based requirements include maintaining the project employment for 1.5 times the period in which the business receives the tax credit, and maintaining a minimum of 80 percent of the Statewide full-time workforce from the last tax period prior to the grant approval (as evidenced through annual reporting requirements).

The NJEDA is confident in the existing safeguards, as well as its due diligence over the term of an approved project; however, we remain committed to the highest level of fiduciary oversight. As such, we have taken additional steps to further strengthen verification and monitoring related to Grow NJ applicants, and as applicable, to existing BRRAG portfolio companies submitting their annual compliance reports.

As recommended by the Office of the State Auditor, the EDA now requires that all applicants under Grow NJ that currently have New Jersey-based operations submit the most recent WR-30 maintained by the New Jersey Department of Labor and Workforce Development. While the WR-30 will provide a check for EDA as it verifies statewide employment figures, the form lists all employees at all New Jersey locations, including part-time and temporary positions, and offers no distinction between these categories.

As the Grow NJ incentive is only available to support full-time positions and the award itself is based on jobs at the qualified business facility, the NJEDA has taken an additional step by creating a "Grow NJ Employee Information Worksheet," which is now a required document to be submitted by all Grow NJ applicants. The worksheet requires applicants to provide the following information: employee name; title; date of hire; current location; current salary; employing entity; employment status (W-2, 1099, PEO, etc.); hours worked per week; hours spent at the qualified business facility per week; and a "yes" or "no" related to health benefits offered. The WR-30 and "Grow NJ Employee Information Worksheet" are required at application, and annually as part of the certification process.

- Office of the State Auditor Recommendation: The NJEDA should also define the time period a qualified full-time position needs to be filled to qualify for the full annual incentive.
- NJEDA Action: As BRRAG and Grow NJ have completely different statutory requirements for verifying the existence of reported incented full-time jobs, it is overbroad in this instance to conclude that recommendations relative to BRRAG to verify recipient compliance apply to Grow NJ. Per N.J.A.C. 19:31-18.3, under Grow NJ, full-time employment is determined as the average of the monthly full-time employment for the tax period.

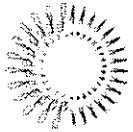
As it relates to monitoring compliance of the BRRAG portfolio, under the earliest version of the BRRAG program, companies were required to submit documentation annually which provided a snapshot of the year's employment; however, to bolster the monitoring and verification process, the NJEDA currently requires companies to submit documentation annually that provides a month by month accounting of incented positions and employees (the "job log"). This job log includes hire date, salary, and titles, and includes the annualized salary based on the employee's current projected yearly salary in each month.

The NJEDA reviews the information in the job log to verify that the positions listed and the requisite employees that fill those positions qualify as full-time, and are therefore eligible for the full annual incentive. This approach allows the EDA to protect against incenting jobs that do not qualify as full-time and ensures that companies remain in compliance during their grant term. To further strengthen the monitoring and verification process, the EDA will utilize the newly required WR-30 reports as a double check against the annual BRRAG reports submitted by companies.

As the agency charged with administering the State's business incentive programs, the NJEDA takes its fiduciary responsibility very seriously and our obligation to protect the public interest continues to be our primary focus. As evidenced by reforms and improvements that have been implemented over the years in our incentive programs, the NJEDA consistently reviews best practices and utilizes its transactional experience to improve and strengthen policies and processes where the statute allows.

With these recommendations from the Office of the State Auditor, we are pleased to continue this practice by ensuring all files for Grow NJ projects retain documentation of support for all relevant costs, and by requiring new documentation to enhance verification and monitoring of the BRRAG and Grow NJ portfolios. We are also pleased to share that we have established an internal auditor function for our incentive programs that will serve to provide an ongoing review of our application processes and procedures. Additionally, at the certification stage, we have secured an independent group of Certified Public Accountants that will be tasked with performing "spot" audits on the information submitted to

the EDA from companies as they seek to initially certify job and capital investment numbers and as they submit annual reports over the life of incentive agreement.



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**Testimony of Josh Goodman
Senior Officer, State Fiscal Health
The Pew Charitable Trusts**

**Senate Economic Growth Committee
Assembly Commerce and Economic Development Committee**

February 11, 2019

Chairwoman Cruz-Perez, Chairman Johnson and members of the committees,

Thank you very much for the invitation to testify today. My name is Josh Goodman, and I'm a senior officer with the Pew Charitable Trusts, a public charity that provides research and technical assistance to state policymakers across a range of policy issues. For the last seven years, we have conducted research on how states can improve the effectiveness of their economic development tax incentives. Based on that research, I'm going to talk about three ideas for strengthening New Jersey's approach to incentives.

First, New Jersey should establish regular, independent evaluations of tax incentive programs. As the recent studies from Rutgers and the Comptroller illustrate, evaluations can draw valuable conclusions about the design, administration, and effectiveness of incentives. While New Jersey has conducted one-time studies of incentives, our research shows that states benefit from establishing recurring evaluations of all major tax incentives.

Thirty states have approved legislation requiring regular evaluation of tax incentives. In virtually every case, these bills have won strong bipartisan support. They have also brought together supporters and skeptics of incentives alike who agree on the need for better information.

This information helps lawmakers improve policy. Policymakers in Florida, Indiana, Maryland, Oklahoma, Washington, and other states have made changes to incentives that were consistent with evaluations' findings or recommendations. Changes both large and small—from ending ineffective programs to subtly modifying the design or administration of incentives—can greatly improve the results.

Second, New Jersey can ensure that its incentives have strong fiscal protections. Many states have seen the costs of tax incentives increase quickly and unexpectedly. When that happens, lawmakers are often forced to make difficult choices between raising taxes and cutting spending in other areas to make up the difference.

These problems are not inevitable, however. Our research shows that states can design incentives so that they do not cost more than the state can afford over the long-term and so that their costs are more predictable from year-to-year. One effective approach is to set annual cost limits, or caps, on

incentive programs. Caps keep lawmakers in control of the cost of incentives. You can adjust caps from year to year depending on your priorities and the state's budget situation, in the same way that you can adjust spending levels in other policy areas such as education or transportation.

Some states have designed caps to provide flexibility to economic development officials to respond to opportunities. For instance, Iowa's economic development authority can exceed its cap by up to 20 percent in any year, but those dollars then count against the following year's cap.

Third and finally, New Jersey can ensure that its incentives are well-designed to maximize their effectiveness. Designing incentives is complicated work. But as more states are evaluating incentives and more academic economists are studying these programs, policymakers have the benefit of a growing body of research on what works in economic development. This research offers several lessons that may be relevant as you consider the future of New Jersey incentives.

For instance, one insight of the research is that the timing of incentives matters. Businesses generally place a high discount rate on money that they're promised far in the future. One study showed that if you offer corporate executives a dollar ten years from now, they value it at only 32 cents today. As a result, if states offer incentives on shorter time horizons, they can potentially spend less on incentives while having the same impact. Shortening the timeframe of incentive deals can also help make the costs of the programs more predictable because state officials are not left guessing when or if businesses will earn or use credits.

Another finding from this research is that states should target their incentives to businesses that will grow the state's economy, such as those that sell their goods nationally and internationally. If policymakers' goal is statewide economic growth, they should avoid providing incentives to businesses that primarily serve a local market such as hotels and restaurants. These businesses compete for customers with other local businesses, so helping one business expand will generally result in job losses elsewhere in the local economy.

Let me just conclude by saying that, with the pending expiration of major New Jersey tax incentives, you have an opportunity to make sure these programs are serving the needs of your businesses, budget, and workers. Our research points to ways to ensure that the next generation of New Jersey economic development programs are effective, accountable, and fiscally sound.

Thank you for the opportunity to discuss our research and I'm happy to answer any questions.



**PREPARED TESTIMONY BY SHEILA REYNERTSON, SENIOR POLICY ANALYST
NEW JERSEY POLICY PERSPECTIVE
BEFORE THE SENATE ECONOMIC GROWTH COMMITTEE AND
THE ASSEMBLY COMMERCE AND ECONOMIC DEVELOPMENT COMMITTEE,
FEBRUARY 11, 2019**

My name is Sheila Reynertson and I am a senior policy analyst at New Jersey Policy Perspective (NJPP), a nonpartisan research organization focused on state budget, tax and economic issues. Since NJPP's inception in 1997, we have consistently raised concerns about the overreliance on business tax subsidies and have repeatedly called for stricter oversight of this economic development strategy.

As the latest iteration of corporate tax subsidy programs winds down and in light of the comptroller's audit of the Economic Development Authority (EDA), NJPP's position remains the same.

Based on our long-term analysis of both corporate tax subsidies and the precarious status of the state budget, the ends simply don't justify the means. New Jersey was already in the midst of a financial crisis when the volume of awarded tax breaks was allowed to skyrocket. Once spending caps were lifted in 2013 under the Economic Opportunity Act, the EDA approved close to \$6 billion in corporate tax breaks. Last year, McKinsey & Co. report stated that New Jersey's tax subsidy programs pay more than five times as much as peer states for every dollar it attracts and every job created or retained.

That's the kind of short-sighted game New Jersey simply can't afford to play; especially not at the level it has, providing overly generous and exorbitant subsidies that are significantly out of step with what we see across the country and by comparable states.

Further, putting that kind of stock in tax subsidies to spur economic growth blatantly ignores the state's precarious financial reality. In official documents submitted by the EDA during budget committee hearings in recent years, the authority projects that this over reliance on tax subsidies may result in a loss of over \$1 billion a year in revenue starting in 2020 - at precisely the same time that the state's biggest obligations are set to cripple the state budget.

None of this was hard to predict as anyone involved in these issues understood that New Jersey would be facing these tough situations relatively soon. And yet, the choice was made to gamble away future taxpayer dollars without getting a sufficient return on the investment. This has only made it more difficult to fund vital public services and invest in our state's most important assets.

Some changes made in 2013 were positive - like more stringent standards for subsidies given to corporations shifting jobs around the state. But on the whole, the Economic Opportunity Act greatly expanded the size and scope of these offerings while eliminating several key financial protections for taxpayers and the State of New Jersey. Since then, the EDA took some measures

as a partial course correction. Now, it's the responsibility of the executive office and the legislature to implement real reform and get these tax breaks under control again.

Here are the most important ways to bring back accountability and oversight to business tax subsidy programs on behalf of New Jersey's taxpayers.

First, restore spending caps on the total amount New Jersey can give in subsidies per year to ensure accountability and increase the legislature's oversight role. Strict spending caps both ensure that New Jersey has a handle on its ability to track and assess awarded projects and that the overall program is again in line with comparable states. The caps put forth by the governor's proposal is a great starting point, though we would argue they could and should be even lower.

New Jersey must get serious about reporting requirements. This should be done in a number of ways including a legislative fix to allow the Treasury to finally release the Unified Economic Development Budget which would provide annual data on large awarded subsidies - like the number and quality of jobs created. Design and implement a robust, independent evaluation process to determine on an ongoing basis if these tax breaks are having the desired effect. Require the EDA to post a more regular and longer-term analysis, say 15-year-forecasts, of the budget impact of already-approved subsidies. Lawmakers should also eliminate tax subsidies to retain existing jobs or at the very least limit such subsidies for a large number of jobs that are supposedly at risk of moving to another state as proposed by the governor.

Finally, New Jersey must restrict corporations' ability to sell their tax credits. The very idea of a secondary market for tax credits should give the legislature pause. New Jersey's tax subsidy program is so overly generous that it enables the sellers to receive far more money in subsidies than they actually owe in taxes. New Jersey may regard these tax breaks as an effective way to entice large employers to relocate, but for those corporations - it's just icing on the cake. Allowing them to not only sell their tax credits but to exempt that transaction from taxation is especially egregious. That's like taking the time to research and find the perfect wedding present for a friend only to discover they sold it at a yard sale the following year. It's time to end this practice.

There is no shortcut or silver bullet to improving our economy. It takes a long, sustained approach of targeted investments to produce balanced growth that spreads opportunity to all corners of the state. Tax subsidies can be a tool in this strategy, but for far too long New Jersey made them *the* strategy while critical assets suffered from disinvestment.

The state must reverse course now by adopting strong and sufficient reforms for its subsidy programs, adopting a long view on job creation and investing in the kinds of opportunities that have been proven over and over again to grow and sustain economies: high-quality K-12 education, higher education that is accessible to all, public-private partnerships centered on research institutions, as well as clean, safe communities and affordable, efficient transportation systems. These are the things that will continue to make New Jersey a magnet for research and enterprise and an attractive place to locate a business.

Thank you for your time and consideration. I'm happy to answer any questions you may have.

1/1/12



AMERICANS FOR PROSPERITY®

NEW JERSEY

Monday, February 11, 2019, 10:00 AM
Senate Economic Growth Committee
Assembly Commerce & Economic Development Committee
Committee Room 4

Testimony re: New Jersey Economic Development Authority and Tax Incentive Programs

Dear Chairwoman Cruz-Perez, Chairman Johnson, and Members of the Committees:

Thank you for the opportunity to speak today. My name is Erica Jedynak and I am the New Jersey State Director of Americans for Prosperity. As one of the largest grassroots organizations in the nation, Americans for Prosperity (AFP) is dedicated to educating citizens on how free market policies lead to more New Jersey residents living their version of the American dream.

AFP is committed to standing up for the people of New Jersey and against corporate handouts. As such, one of our priorities is decreasing and eliminating cronyism. New Jersey is one of the worst states in the nation when it comes to the practice of picking winners and losers—giving special handouts to a favored few and leaving everyone else to pay the price. Too often, the winners are special interests who lobby for tax breaks while the losers are hardworking people and small businesses who are forced to pick up the tab.

We have no shortage of examples to show the history of waste and failure that these targeted incentives have produced in our state, revealing a pattern that should raise the alarm for lawmakers and their constituents alike. In 2014, the **Philadelphia 76ers** received \$82 million over 10 years in tax incentives for a new practice facility in Camden. It was reported that this investment would bring 250 full-time jobs to the city, with many of those being existing jobs with the team. Even if we generously accept the 250-job figure, that still works out to more than \$300,000 of taxpayer funding per job.

We also cannot forget the \$260 million in tax incentives over 10 years for **Holtec International**, a nuclear energy company, to build a manufacturing and design facility on the Camden waterfront. The agreement with the state required the creation of 235 new positions and the relocation of 160 existing jobs; by the time the facility was up and running officials could not provide any specific information about how many jobs the facility had created. Again, even assuming the creation of those jobs, the state of New Jersey agreed to pay more than \$650,000 per promised job. This is utterly outrageous.

New Jersey's Economic Development Authority (EDA) administers the tax incentive programs responsible for the handouts I've just mentioned and many more. The EDA's myriad tax breaks (that only benefit certain companies and industries) represent corporate welfare at its worst and drain the state budget while skewing the tax code. As past projects have shown, such giveaways ultimately turn out to be a poor use of taxpayer dollars.

Looking at the impact of the EDA as a whole can help shed further light on the extent to which taxpayer dollars are being wasted on broken policies designed to benefit special interests rather than the state as a whole. **Since 2010, New Jersey has issued \$8.4 billion in corporate tax breaks** according to [New Jersey Policy Perspective](#). This means that New Jersey taxpayers have spent, on average, \$61,000 per subsidized job since in the last nine years. Imagine what \$8.4 billion could look like instead if it was, instead, tax relief across the board for the 9 million residents in New Jersey. Unfortunately, despite these immense costs and large number of recipients, New Jersey has produced little return on the taxpayer's investments.

As a recent audit of the EDA shows, New Jersey does not seem to be heeding the warnings of such reckless tax incentive programs. **The audit found that, among other things, \$11 billion in tax incentives have been approved for 1,000 projects, however the EDA failed to assess whether recipient businesses actually created the nearly 162,000 jobs or \$34 billion in capital investments they promised.** What's worse, the EDA also did not implement any assessment process for the outcomes of the awards.

Additionally, **the audit determined that the EDA's outcome reporting was severely limited and that the existing reporting may actually include inaccurate or misleading data.** Specifically, this resulted in nearly 3,000 reported jobs that were never substantiated as having been created or retained. It also found that the EDA's economic impact and cost-benefit analyses were seriously deficient, overstating certain benefit and economic impacts, and that the EDA failed to assess and collect appropriate fees from applicants and recipients.

Given these exceedingly poor results, any business would clearly stop investment in this program. Unfortunately, the state of New Jersey continues to engage in this misguided policy. Rather than wasting more money on ineffective targeted tax incentives, **this legislature should focus on creating a stronger job creation environment for all businesses, not simply the well-connected who can afford to lobby government.**

While the audit confirms that tax incentive programs such as the EDA do more harm than good for New Jersey taxpayers and small businesses, we nonetheless thank Governor Phil Murphy for ordering this important assessment. This issue unites people across the political spectrum, and we look forward to continuing to work with the administration on policy solutions and rallying citizen-activists across the state to transform New Jersey for the better.

New Jersey is not an outlier in this issue; in fact, [research](#) has shown that economic development incentives have little to no positive economic impact. It also seems to rarely have a real impact on business decisions, [with research suggesting](#) that **companies only make relocation decisions**

based on taxpayer incentives between 2-25% of the time. This means that when policymakers rely on these targeted handouts to create jobs, they are focusing on the wrong things.

Take, for example, Mercedes' 2015 decision to relocate their headquarters to Atlanta, Georgia. **The company cited high state taxes as the reason for relocation, despite the fact that the state of New Jersey was at the time offering a \$50 million incentive package for them to stay.** Even that level of egregious corporate welfare, which would have put taxpayers on the hook for even more waste, couldn't outweigh the harmfully high taxes our state is levying against businesses and individuals—in part to pay for these wasteful, unnecessary, and ineffective corporate welfare programs.

The Governor has put forth several recommendations that would increase transparency and accountability for economic development programs, including annual caps. While caps would certainly be a step in the right direction compared to the current system, AFP-New Jersey would urge policymakers to go further.

Rather than continue to pour taxpayers dollars into these wasteful and unnecessary programs, **we should eliminate all state-level targeted incentive programs and instead put that funding toward lowering tax rates, particularly our corporate income tax and property taxes, which are holding New Jersey back when it comes to attracting business investment.** Our state is currently ranked last in the nation by the nonpartisan Tax Foundation's State Business Tax Climate Index Ranking. This overly burdensome tax environment is what keeps our state from being competitive in our region—and until we address our tax rates, businesses will continue to choose other locations or fail to deliver on job creation promises.

It is time for New Jersey take a stand against failed corporate welfare policies like targeted tax incentives and instead focus on policies that create real opportunity. Prosperity comes when government gets out of the way and lets individuals of New Jersey create new and innovative products which make all of our lives better. It is time for a new approach and a new future for New Jersey.

Sincerely,



Erica L. Jedynek
New Jersey Director
Americans for Prosperity

Through broad-based grassroots outreach, Americans for Prosperity (AFP) is driving long-term solutions to the country's biggest problems. AFP activists engage friends and neighbors on key issues and encourage them to take an active role in building a culture of mutual benefit, where people succeed by helping one another. AFP recruits and unites New Jerseyans behind a common goal of advancing policies that will help people improve their lives. For more information, visit www.AmericansForProsperity.org.



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**Testimony on
Economic Development Incentives
Joint Meeting of Senate Economic Growth
Committee and Assembly Commerce and Economic
Development Committee**

Feb. 11, 2019

Contact: Peter Kasabach, Executive Director, 609-393-0008 ext.
104

Chairwoman Cruz-Perez, Chairman Johnson, and members of the committees,

New Jersey Future is a nonpartisan, nonprofit organization that believes our state can be a great place for everyone with a strong, prosperous economy; safe, healthy communities; and abundant open spaces. All of this can happen if we make smart decisions about what we build and where we build.

New Jersey Future understands the state's interest in having a robust incentives program to maintain a healthy and thriving economy, and to attract new businesses to New Jersey. But, it's not enough to just bring new businesses in -- we must ensure these new employers are going to locate in places that support smart growth and do not encourage sprawl. State incentives should not be used to support sprawl, but rather to encourage growth in areas that are in the state's best long-term interest. The current incentive programs generally do a good job of directing subsidies toward smart growth areas.

New Jersey Future has seen the incentive program outlines generated by the Murphy Administration. The following comments reflect those outlines, but also make larger policy points.

Any incentive program should be targeted to areas where we want to see growth, such as Planning Areas 1 and 2 defined by the State Plan. While the economic landscape should be a consideration, it is critical that geography also be taken into account. The proposed NJ Aspire and NJ Forward programs should limit subsidies in areas that should not see further development while at the same time provide effective incentives in smart growth areas. For example, the NJ Forward program could have its cap lifted in high priority smart growth areas, like Opportunity Zones, downtowns or near transit.

An Historic Preservation Tax Credit is an important tool for the revitalization of our cities and downtowns. This program can be paired with the federal historic tax credit program and can be modeled on those used in other states. It will be important to ensure that smaller commercial, mixed-use and multi-family developments that contribute to a community's character and economic development prospects are eligible.,.

It is critical to support market-rate residential development in our emerging urban markets. Urban downtowns work, when there is a robust mix of uses present and an abundance of people living there. The proposed NJ Aspire program, that replaces the Economic Redevelopment and Growth program, should prioritize funding for market-rate, multi-family residential projects that are necessary to move emerging market cities and downtowns forward. Insufficient funding for these uses will prevent momentum from being created, and will stop progress in places that are already starting to move.

Lastly, cleaning up Brownfields is an important economic development and environmental justice issue. Any Brownfields program should ensure that mixed-use and residential projects receive funding, not just commercial projects. Reclaiming Brownfields can have a strong economic development impact in smart growth locations if those sites have some market demand and can be re-used in a timely fashion.

Thank you for the opportunity to testify. Please feel free to contact me with any questions.

New Jersey's Economic Opportunity Act and Smart Growth: A Progress Report



By Tim Evans
Director of Research
New Jersey Future
December 2014

Acknowledgements

Special thanks are due to Kevin DeSmedt, New Jersey Future intern, who performed all data cleanup and GIS analysis on the list of economic development incentive recipient projects that New Jersey Future received from the Economic Development Authority.

Thanks are also due to staff at the Economic Development Authority for reviewing the draft of this report.

New Jersey's Economic Opportunity Act and Smart Growth: A Progress Report

During the year since passage of the New Jersey Economic Opportunity Act (EOA), its merits have been much debated. The act, which updated and consolidated five state economic incentive programs for job growth and development, has been criticized by some for being too generous and too expensive, but praised by others for its ability to attract and retain jobs and to stimulate real estate development. Lost in this discussion has been consideration of the act's impact on the geographic pattern of development – specifically, whether it is encouraging projects to locate in “smart-growth areas” where development is desired and infrastructure is present, and away from undeveloped areas targeted for open-space and farmland preservation. The act includes provisions to promote smart growth by prioritizing projects in areas designated for growth by the New Jersey State Development and Redevelopment Plan and other regional plans, and by providing additional incentives for locations near public transportation and in distressed cities. This report examines the locations of projects receiving economic development awards before and after passage of the EOA (up through June of 2014), to evaluate the effectiveness of the new smart-growth provisions. However, because the post-EOA study period comprises only nine months, findings should be considered preliminary, since patterns appearing in the initial round of awards may not persist as the sample size increases.

Background: The Economic Opportunity Act and Its Locational Incentives

The New Jersey Economic Opportunity Act was signed into law in September of 2013, consolidating five state economic development tax credit programs into two – the Grow New Jersey Assistance Program (Grow NJ) and the Economic Redevelopment and Growth Program (ERG). Eliminated in the consolidation were the Business Employment Incentive Program (BEIP), the Business Retention and Relocation Assistance Grant (BRRAG), and the Urban Transit Hub Tax Credit (UTHTC), with their functions essentially subsumed into one or the other of the two surviving programs. The Grow NJ and ERG programs both pre-date the EOA, and were revised by it, so throughout this analysis we will refer to the pre-EOA versions of the programs as the “legacy” versions.

In the run-up to the EOA's passage, New Jersey Future advocated for the economic incentive programs to include bonuses or priority treatment for applicants located in, or seeking to locate in, “smart-growth” locations. Specifically, the organization sought preferential treatment for applicant projects located in any of several “designated growth areas,” as established by adopted state and regional land-use plans:

- “metropolitan” or “suburban” localities per the State Development and Redevelopment Plan (Planning Areas 1 and 2, in State Plan terminology)
- designated centers in other Planning Areas

- areas designated for growth by one of the state’s three regional land-use plans:
 - Pinelands Commission Comprehensive Management Plan
 - Highlands Council Regional Master Plan
 - Meadowlands Commission Master Plan

Additionally, New Jersey Future wanted the economic incentive programs to retain the preferential treatment for transit-oriented development (TOD) locations – defined as being within half a mile of a transit station (rail, ferry, or major bus terminal) – that was a defining feature of the Urban Transit Hub Tax Credit program. And it was recommended that municipalities with weak real estate markets, typically described as economically “distressed,” receive larger incentives than other areas.

The post-EOA versions of Grow NJ and ERG do indeed contain provisions for awarding larger tax-credit dollar amounts to projects in growth areas designated by the state’s various regional land-use plans. The Economic Development Authority (EDA) has also carried over from earlier programs a list of 64 “distressed” municipalities¹ that are eligible for larger awards. Finally, the EOA created an additional category, “Garden State Growth Zones” (GSGZs), consisting of four urban municipalities – Camden, Trenton, Paterson, and Passaic – whose markets are weak enough that they were deemed worthy of special attention and thus less stringent application requirements and greater incentives.

This report examines the locations of projects receiving awards under the Grow NJ, ERG, and UTHTC programs before passage of the EOA, and under the Grow NJ and ERG programs after passage, to evaluate how well the EDA has been adhering to the goal of promoting the smart-growth criteria incorporated into the EOA, and to see if performance on these measures has improved since the EOA’s passage.

Note: It is important to understand the distinctions between the pre-EOA and post-EOA economic development incentives for the purposes of this analysis. The BEIP program was instituted in 1996 and issued 487 awards for a total amount of roughly \$1.5 billion, equating to an average award of roughly \$3.1 million. The BRRAG program was instituted in 2004 and issued 83 awards totaling roughly \$124 million, equating to an average award of roughly \$1.5 million. While significant in totality, these programs’ individual subsidies were relatively shallow compared to the average award amount of close to \$25 million for the legacy Grow NJ program. Also, perhaps because the awards were many but small, the EDA does not maintain a centralized list of the awardees’ physical locations or street addresses, making it impossible for us to geocode the projects’ locations for comparison to our various smart-growth locational criteria; gleaning project addresses for the BEIP and BRRAG programs would have required combing through hundreds of pages of meeting minutes, a time commitment beyond the

¹ Note that the pre-EOA version of the ERG program also contained a provision for bonus credit for locating in a distressed municipality. The only change was the addition of Atlantic City to the list of eligible municipalities. New Jersey Future’s analysis therefore treats any project in Atlantic City as being in a distressed municipality if awarded after the passage of the EOA and not in a distressed municipality if awarded before.

scope of this project. For these reasons, the post-EOA Grow NJ program was compared only to its direct legacy predecessor when analyzing the geographic distributions of award recipients; BEIP and BRRAG awardees were not included in the analysis.

The ERG program under the EOA combined the legacy ERG program and the UTHTC into a single program. This report compares the post-EOA ERG program to the legacy ERG program both with and without the UTHTC, in order to assess the degree to which the UTHTC's specific focus on transit accessibility has been absorbed into the ERG program.

Methodology

New Jersey Future received from the EDA a spreadsheet of street addresses for all projects receiving awards under the ERG, Grow NJ, and UTHTC programs since their respective inceptions. We performed a geospatial analysis² of post-EOA recipients through June of 2014 and all legacy recipients of both Grow NJ and ERG tax credits, to determine their locations relative to the smart-growth criteria advocated for by New Jersey Future. By identifying the percentages of projects and of dollar amounts that have been issued in smart-growth areas, we then assessed how well the new EOA programming has succeeded in accomplishing smart-growth objectives. The results are generally encouraging.

The dataset contained a total of 122 projects, 51 of which received awards after the passage of EOA and the other 71 of which received awards under the legacy programs. These projects were awarded a total of just over \$3.9 billion, of which about \$2.75 billion was given out before the passage of the EOA and \$1.18 billion since the act's passage.

Findings: Implications for Smart Growth, Transit Accessibility, and Distressed Cities
As Table 1 illustrates, just about all of these programs' award recipients were located in the designated growth areas (State Plan Planning Areas 1 and 2, centers in other Planning Areas, and areas designated for growth by one of the three regional land-use plans) that New Jersey Future advocated to have included in the EOA's criteria. In fact, this was the case before the act's passage as well as after. The ERG and Grow NJ programs were already steering new economic development to smart-growth locations, and the programs retain that focus in their post-EOA incarnations.

² Note that geospatial analysis of UTHTC recipients was not necessary, because the UTHTC program was restricted by law to nine specific municipalities and to projects within a half-mile radius of transit (with a few exceptions), making it possible to determine these projects' locations relative to all of the above criteria without having to map them.

Table 1. Awards Issued in Designated Growth Areas

	all projects	\$\$ amount	projects in designated growth areas	%	\$\$ amount in designated growth areas	%
all programs	122	\$ 3,931,942,998	121	99.18%	\$ 3,928,442,998	99.91%
EOA ERG	9	\$ 340,737,211	9	100.00%	\$ 340,737,211	100.00%
EOA Grow NJ	42	\$ 840,207,187	41	97.62%	\$ 836,707,187	99.58%
Legacy ERG	23	\$ 856,546,462	23	100.00%	\$ 856,546,462	100.00%
Legacy Grow NJ	20	\$ 541,731,293	20	100.00%	\$ 541,731,293	100.00%
UTHTC	28	\$ 1,352,720,845	28	100.00%	\$ 1,352,720,845	100.00%
<i>all legacy (pre-EOA)</i>	<i>71</i>	<i>\$2,750,998,600</i>	<i>71</i>	<i>100.00%</i>	<i>\$2,750,998,600</i>	<i>100.00%</i>
<i>all EOA</i>	<i>51</i>	<i>\$1,180,944,398</i>	<i>50</i>	<i>98.04%</i>	<i>\$1,177,444,398</i>	<i>99.70%</i>

The only exception was one project receiving an award under the post-EOA Grow NJ program, located in the far northern corner of Vineland in an area designated by the State Plan as Planning Area 4 (“rural”).

The programs’ focus on transit-accessible locations is a different story. On the plus side, the Grow NJ program posted an increase in the percent of its projects in TOD areas from 15.0 percent under the legacy program to 38.1 percent post-EOA, and a more dramatic increase from 16.0 percent to 66.4 percent when evaluated by the dollar amounts of the awards. (See Table 2.) The ERG program, in contrast, held relatively steady in terms of the percent of projects in TOD areas receiving awards – 52.2 percent pre-EOA vs. 55.6 percent post-EOA – but dropped off considerably in terms of dollar amounts. Prior to the EOA’s passage, 58.6 percent of the dollars awarded by ERG went to projects in TOD areas, whereas the post-EOA figure is only 21.1 percent. And ERG’s post-EOA percentage is even more disappointing when we consider that ERG absorbed the UTHTC program, which had issued 100 percent of its awards (by definition) in TOD areas.

Table 2. Awards Issued in Transit-Oriented Development (TOD) Locations

	all projects	\$\$ amount	projects in TOD areas	%	\$\$ amount in TOD areas	%
all programs	122	\$ 3,931,942,998	64	52.5%	\$ 2,571,505,536	65.4%
EOA/ERG	9	\$ 340,737,211	5	55.6%	\$ 71,812,169	21.1%
EOA/GROWNJ	42	\$ 840,207,187	16	38.1%	\$ 557,877,507	66.4%
Legacy/ERG	23	\$ 856,546,462	12	52.2%	\$ 502,315,015	58.6%
Legacy/GROWNJ	20	\$ 541,731,293	3	15.0%	\$ 86,780,000	16.0%
UTHTC	28	\$ 1,352,720,845	28	100.0%	\$ 1,352,720,845	100.0%
<i>all legacy (pre-EOA)</i>	<i>71</i>	<i>\$2,750,998,600</i>	<i>43</i>	<i>60.6%</i>	<i>\$ 1,941,815,860</i>	<i>70.6%</i>
<i>all EOA</i>	<i>51</i>	<i>\$1,180,944,398</i>	<i>21</i>	<i>41.2%</i>	<i>\$ 629,689,676</i>	<i>53.3%</i>

The net result is that Grow NJ’s enhanced focus on transit was more than offset by the ERG program’s reduced focus. Looking at the programs combined, awards issued in TOD areas accounted for 60.6 percent of all projects and 70.6 percent of the total dollar

amount in the pre-EOA era, but these dropped to only 41.2 percent of projects and 53.3 percent of dollars since the EOA became law. The dissolution of the UTHTC program – and its explicit transit focus – into the ERG program appears to have weakened the state's overall effort to steer new economic development to transit-accessible areas. Additional research may be needed to clarify whether this reduced focus on transit is a result of the EOA's revised eligibility criteria having led to more awards for industrial projects, which are land-intensive and not a good use of scarce space in downtown TOD locations, as opposed to office projects, which make more sense to site near transit.

The EOA's changes to the state's economic incentive programs do not appear to have had much effect on the degree to which the programs have directed incentives into fiscally and socioeconomically distressed cities, towns, and older suburbs. (See Table 3.) Before the act's passage, the ERG, Grow NJ, and UTHTC programs together had directed 60.6 percent of all awards, accounting for 65.4 percent of the total dollar amount, into the municipalities the EDA identifies as "distressed."³ Post-EOA, these percentages remained remarkably stable, with 64.7 percent of all awards and 61.6 percent of the dollar amounts going to projects in distressed municipalities. So both before and after the EOA's passage, a little less than two-thirds of the number of awards and of the corresponding dollar amounts were issued in distressed municipalities.

Table 3. Awards Issued in Distressed Municipalities

	all projects	\$\$ amount	projects in distressed municipalities	%	\$\$ amount in distressed municipalities	%
all programs	122	\$ 3,931,942,998	76	62.3%	\$ 2,527,343,554	64.3%
EOA/ERG	9	\$ 340,737,211	7	77.8%	\$ 101,691,919	29.8%
EOA/GROWNJ	42	\$ 840,207,187	26	61.9%	\$ 625,786,257	74.5%
Legacy/ERG	23	\$ 856,546,462	12	52.2%	\$ 376,234,533	43.9%
Legacy/GROWNJ	20	\$ 541,731,293	3	15.0%	\$ 70,910,000	13.1%
UTHTC	28	\$ 1,352,720,845	28	100.0%	\$ 1,352,720,845	100.0%
<i>all legacy (pre-EOA)</i>	<i>71</i>	<i>\$2,750,998,600</i>	<i>43</i>	<i>60.6%</i>	<i>\$ 1,799,865,378</i>	<i>65.4%</i>
<i>all EOA</i>	<i>51</i>	<i>\$1,180,944,398</i>	<i>33</i>	<i>64.7%</i>	<i>\$ 727,478,176</i>	<i>61.6%</i>

This differs from the situation with awards in TOD areas, in that distressed municipalities do not seem to have suffered from the folding of the UTHTC into the ERG program. The UTHTC was expressly written to foster private investment in nine specific transit-accessible municipalities enumerated in the law (see the [UTHTC home page](#) for the list), all of which appear on the larger list of distressed municipalities. Thus by definition, 100 percent of the UTHTC's awards and dollar amounts were issued in distressed municipalities, just as they were by definition issued in TOD locations. But with the UTHTC having been subsumed into ERG, the post-EOA ERG and Grow NJ programs have

³ Both percentages would have been slightly higher in the pre-EOA era if Atlantic City had been on the earlier version of the distressed list. Three awards were made in Atlantic City under the legacy ERG program, but for the purposes of this report these awards were not made in a distressed municipality.

both sufficiently heightened their attention to distressed municipalities that they have roughly compensated for the loss of the UTHTC's exclusive focus.

In fact, the EOA introduced an additional effort to steer economic growth into four of the most distressed of the distressed places – Camden, Trenton, Paterson, and Passaic – by designating them as “Garden State Growth Zones” and reducing the project size eligibility requirement and increasing the size of the awards for projects in these municipalities (see the [ERG home page](#) for details). Three of the four of these (all except Passaic) had been among the nine municipalities singled out for eligibility for the UTHTC, but only three of the 28 awards given out over the life of the UTHTC had been issued in these three municipalities – one in each of them. And neither of the other two programs (legacy ERG and legacy Grow NJ) had issued any awards at all in any of the four GSGZ municipalities. (See Table 4.)

Table 4. Awards Issued in Garden State Growth Zone Municipalities

	all projects	\$\$ amount	projects in Garden State Growth Zones	%	\$\$ amount in Garden State Growth Zones	%
all programs	122	\$ 3,931,942,998	8	6.6%	\$ 279,703,738	7.1%
EOA/ERG	9	\$ 340,737,211	3	33.3%	\$ 27,445,495	8.1%
EOA/GROWNJ	42	\$ 840,207,187	2	4.8%	\$ 94,790,507	11.3%
Legacy/ERG	23	\$ 856,546,462	0	0.0%	\$ -	0.0%
Legacy/GROWNJ	20	\$ 541,731,293	0	0.0%	\$ -	0.0%
UTHTC	28	\$ 1,352,720,845	3	10.7%	\$ 157,467,736	11.6%
all legacy (pre-EOA)	71	\$ 2,750,998,600	3	4.2%	\$ 157,467,736	5.7%
all EOA	51	\$ 1,180,944,398	5	9.8%	\$ 122,236,002	10.4%

The post-EOA programs have been slightly more successful at luring projects to the four GSGZ municipalities. In less than a year since the EOA went into effect, five awards have been issued in GSGZs (representing 9.8 percent of the total of 51 post-EOA projects, vs. 4.2 percent pre-EOA), accounting for 10.4 percent of the total dollar value of post-EOA awards (vs. 5.7 percent pre-EOA for these same municipalities). The biggest beneficiary has been Camden, which received four of the five post-EOA awards that were given in the GSGZ municipalities, after having received only its single UTHTC award before the EOA; the other post-EOA award was in Paterson, which also only had its one UTHTC award to show for the pre-EOA period. Passaic, however, has yet to receive its first economic incentive award at all, and Trenton has not yet received one in the post-EOA period, after having received only its one UTHTC award before the act created the GSGZs.

Awards Issued by Designated Growth Area Subcategory

Table 1 indicates that all but one of the awards in EDA's database have been given to projects located in “designated growth areas” (State Plan Planning Areas 1 and 2, centers in other Planning Areas, and areas designated for growth by one of the three regional land-use plans). But New Jersey Future does not consider all of these areas to

be equally “smart growth.” In particular, we would prefer to see awards being issued in Planning Area 1 rather than Planning Area 2; in Pinelands towns and villages rather than in the more spread-out and suburban “Regional Growth Areas;” and, for awards within the Highlands, not just in the Highlands Planning Area (as opposed to the Preservation Area) but specifically in those parts of the Planning Area that were previously designated for growth by the State Plan.⁴

Table 5 gives a breakout of the locations of economic incentive awards – both number of projects and dollar amounts – relative to the different types of designated growth areas. A large majority of awards and their accompanying dollar amounts – 85.9 percent of projects and 78.6 percent of dollars – were already being given out to projects in Planning Area 1 before the passage of the EOA. Planning Area 1’s dominance has only become more pronounced since the act was passed, now with 84.3 percent of projects and 94.0 percent of award amounts being issued there. There was a corresponding drop off in Planning Area 2, with its percent of projects falling from 8.5 percent to 7.8 percent and its share of total dollars falling from 5.8 percent to just 2.7 percent.

One award was given out in the Pinelands – specifically, in the area under the jurisdiction of the Pinelands Comprehensive Management Plan – in the pre-EOA era, and it was located in one of the Regional Growth Areas (in Hamilton Township, Atlantic County) rather than in one of the types of Pinelands “centers.” However, since the EOA’s passage, no awards have been issued in the Pinelands at all.

Over the life of the ERG and Grow NJ programs, six awards have been issued in the Highlands. Five were given out before the EOA passed, and one has been given out since. All six were located in the Planning Area as defined by the Highlands master plan. But because the Highlands master plan does not supersede the State Plan, it is also possible to determine the State Plan planning areas in which these projects were located. The good news is that all six of them were located in areas designated as Planning Area 1 in the State Plan.

Conclusion

Since the passage of the Economic Opportunity Act, New Jersey’s two remaining economic development incentive programs – the Grow New Jersey Assistance Program (Grow NJ) and the Economic Redevelopment and Growth Program (ERG) – appear to be functioning reasonably well at steering economic growth into “smart-growth” locations where infrastructure is already in place to accommodate it, and away from open space and farmland. They also continue to direct almost two-thirds of their awards (both in terms of number of projects and dollar amounts) to the state’s most fiscally and socioeconomically distressed cities, towns, and inner-ring suburbs. The focus on steering economic development into transit-accessible locations appears to have been somewhat

⁴ Unlike in the Pinelands and Meadowlands, the Highlands Council Regional Master Plan does not supersede the State Plan. The Highlands master plan makes a distinction between the Planning Area (where growth should be steered) and the Preservation Area (which should be protected from development), but State Plan-defined Planning Areas also still apply.

diluted by the loss of the Urban Transit Hub Tax Credit and its exclusive focus on such locations, although part of the explanation for this may be an increase in the number of awards being given to industrial projects, which are not optimal uses for land near transit stations.

New Jersey Future is encouraged to see awards being given out almost exclusively in areas designated for growth by the State Development and Redevelopment Plan or one of the state's three regional land-use master plans, highlighting these plans' usefulness in guiding future development in ways that make the most efficient use of existing infrastructure. Prioritizing awards in "smart-growth" locations is also consistent with the recent market and demographic shift toward redevelopment. If the future of development in New Jersey is redevelopment, the state's economic development incentives appear to be properly aligned to facilitate it.

Table 5. Awards Issued by Designated Growth Area Subcategory

	all programs			pre-EOA			post-EOA		
	projects	\$\$ amount	% of total	projects	\$\$ amount	% of total	projects	\$\$ amount	% of total
Planning Area 1	103	\$3,273,214,076	85.9%	61	\$2,163,129,968	78.6%	43	\$1,110,084,108	84.3%
Planning Area 2	10	\$192,612,794	8.5%	6	\$160,885,004	5.8%	4	\$31,727,790	7.8%
designated centers in other Planning Areas	1	\$20,100,000	0.0%	0	\$0	0.0%	1	\$20,100,000	2.0%
Pinelands growth	1	\$11,432,283	1.4%	1	\$11,432,283	0.4%	0	\$0	0.0%
Highlands growth*	6	\$155,368,734	7.0%	5	\$153,163,734	5.6%	1	\$2,205,000	2.0%
Meadowlands	5	\$431,083,845	4.2%	3	\$415,551,345	15.1%	2	\$15,532,500	3.9%
not in designated growth area	2	\$3,500,000	0.0%	0	\$0	0.0%	1	\$3,500,000	2.0%
all awards	122	\$3,931,942,998	100%	71	\$2,750,998,600	100%	51	\$1,180,944,398	100%

*Totals for projects in the Highlands are not included in the totals for "all awards" because they are already counted according to their locations relative to the State Plan Planning Areas. All awards in the Highlands were given to projects located in Planning Area 1 under the State Plan.

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**An Assessment of the
New Jersey Business Employment Incentive Program**

By

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Submitted to: New Jersey Treasurer John E. McCormac

July 27, 2004

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INTRODUCTION

State incentives to assist and promote business development have a long history. In November 1791, the New Jersey Assembly, in response to a request by Alexander Hamilton, then Secretary of the Treasury of the United States, and on behalf of a group of investors that he formed, passed, “An Act to Incorporate the Contributors to the Society for Useful Manufactures, and for the further encouragement of the said Society.”¹ This legislation, among other inducements, provided “that all lands, tenements, hereditaments, goods . . . to the said society belonging, shall be, and they are hereby declared to be free, and exempt, from all taxes charges and impositions whatsoever, under the authority of this State, whether for State or for county uses . . .”² The charter of incorporation for the Society of Useful Manufactures also provided that “all artificers and manufacturers within the said district, shall be exempt from all military duty, except in case of actual invasion . . .”³ Thus began New Jersey’s efforts to provide incentives to business development. The potential economic benefits of the Society, as championed by its advocates, have a familiar ring across the centuries. Supporters for the formation of the Society claimed “by a moderate calculation, twenty thousand persons will be employed”⁴ in what was, perhaps, the first economic impact advocacy statement of our new country! The Act led to the establishment of the City of Paterson (the Act was signed into law by Governor William Paterson on November 22, 1791) and, as should be expected in New Jersey, significant and heated controversy immediately ensued over the Society of Useful

¹ William Paterson, *The Charter of the Society for Establishing Useful Manufactures*, Laws of New Jersey, revised and published under the authority of the Legislature, 1800, copied and printed by T. Warren, Paterson, NJ, 1852.

² *Ibid.* Section IV.

³ *Ibid.* Section XXXVI.

⁴ *New Jersey Journal*, September 26, 1791, as quoted in Joseph S. Davis, *Essays in the Earlier History of American Corporations*, Vol. 1, New York: Russell & Russell, 1917; re-issued, 1965, p. 430.

Manufactures that it created and subsidized. Criticisms came from other states, with a member of the Pennsylvania House of Representatives observing that the various “powers, rights and privileges, given to this company would be, in their operation, very injurious to this state as well as other states.”⁵ An anonymous comment appeared in the Philadelphia press noting that the special privileges granted to the Society “may with truth be termed so many invidious attacks on the great body of our artificers; . . . so many baits held out to entice away our workmen and destroy our establishments by taking away the foundations on which they rest”.⁶ Another critic, castigated Alexander Hamilton and bitterly objected to the legislation saying that, “The secretary of the treasury, and his friends in New-York . . . by procuring one of the most unjust and arbitrary laws to be enacted by the commonwealth of New-Jersey, that ever disgraced the government of a free people. . . The preference of partial to general interests is, however, the greatest of all public evils.”⁷ And not to be outdone, a Connecticut critic complained that, “They are establishing monopolies in the manufacturing line by granting to some exclusive privileges, premiums, and exemptions from the common burthen, at the expense of the rest.”⁸

Now, 213 years later, controversy continues to abound, even if expressed in less enchanting language, concerning the use of state incentives to promote local economic development. A vast literature exists that attempts to defend, critique, and analyze

⁵ *Ibid*, p. 428.

⁶ From the *General Advertiser*, January 7, 1792 as quoted in Davis *op cit.*, p. 430.

⁷ Davis, *op cit.*, p. 439.

⁸ Davis, *op cit.*, p. 433.

business subsidy programs.⁹ These incentives have proliferated in number, complexity, and diversity, and almost all states use them in an effort to promote employment and economic activity.

In New Jersey, the Business Employment Incentive Program (BEIP) has become a major element in the portfolio of state programs supporting economic development. This incentive provides for the partial return of state income taxes on newly created jobs in eligible projects of businesses that are relocating to, or expanding in, New Jersey. State Treasurer John E. McCormac requested an evaluation of BEIP in response to a well-argued critique of the program by New Jersey Policy Perspective.¹⁰ This criticism occurred in the context of an ongoing and widespread national debate about the general effectiveness of business incentive programs. We appreciate the opportunity that Treasurer McCormac has provided for a review of BEIP and applaud his openness and willingness to have an arms-length assessment of the program.

Our assessment is necessarily a preliminary one, limited by the time and resources available to conduct the review. It is not meant to be the definitive report evaluating the effectiveness of BEIP. However, we provide specific recommendations including the need to conduct a recurring and thorough economic evaluation of this program.

⁹ For several excellent review articles of this large and expanding literature see, Terry F. Buss, "The Effect of State Tax Incentives on Economic Growth and Firm Location Decisions: An Overview of the Literature," Economic Development Quarterly, Vol. 15, No. 1, Feb. 2001, pp. 90-105; Timothy J. Bartik, "Evaluating the Impacts of Local Economic Development Policies on Local Economic Outcomes: What Has Been Done and What is Doable?" Upjohn Institute Staff Working Paper, No. 03-89, The W.E. Upjohn Institute for Employment Research, Nov. 2001, pp. 1-40, and Robert G. Lynch, Rethinking Growth Strategies: How State and local Taxes Affect Economic Development, Washington: Economic Policy Institute, 2004.

¹⁰ See, Sarah Stecker, "Taking Care of Business, Does it Cost Too Much?" New Jersey Policy Perspective, Trenton, NJ, 2003, pp. 1-31.

CONTEXT AND APPROACH

Despite decades of research and a voluminous literature, it is unclear if the answer to the basic question that dominates the issue of state and local business incentives will ever be known for certain; namely, do such incentives matter? That is, do state and local business development incentives significantly affect business decisions to expand or relocate? The large body of existing research - - done by survey, by statistical analysis, and by sophisticated econometric technique - - comes to a mixed conclusion. Moreover, the opportunity costs of the accompanying public expenditures are significant, and many critics note that alternative uses of these funds to support the foundations of economic growth - - education, training, public infrastructure - - would provide more effective enhancements to the overall economic development of a state or locality.

As economists, trained to be wary of public interventions in markets, we are sympathetic to these conclusions and the evidence from which they are derived. In a different American governmental structure with the absence of state governments, or with comprehensive and enforceable federal prohibitions in our current federated system against their use, business incentive programs at the state or local level would be unnecessary, both economically and politically.

However, the compelling economic logic of the many critiques of business incentives is overwhelmed by the realities of a federated system of government of fifty states whose boundaries define powerful responsibilities and interests. Thus, the

Delaware and Hudson Rivers, in the case of New Jersey, have been, since Alexander Hamilton's time, and remain today, more than just geological features. They represent divisions of physical areas into separate governmental jurisdictions with accompanying self-defined, as well as federally mandated, duties to govern specific populations. They constitute fiscal entities with broad powers to tax and spend to fulfill those duties. Within their boundaries are a vast array of economic and social interests and activities that must function as entities governed by a sovereign state in a federated system.

Economic success and failure have powerful consequences in each state as a result of the fundamental constitutional existence of the states even though economic boundaries are not defined by political boundaries. Thus, the state is necessarily the unit of public responsibility, and economic activity inevitably and inherently assumes the dimensions of state boundaries. The resulting competition among the states for success is measured within the boundaries of the unit of government, despite the recurring and familiar litany by economists, backed by sound theory and some evidence, about the inefficiencies of local incentive policies, the larger net gains that would result from cooperation and strategic public investments, and the need for broad regional and national economic policies.

Therefore, barring the elimination of state governments, or a federal prohibition on competition via incentives among the states, we conclude that our focus must be on several admittedly, more narrow, but still important, issues. First, do state business

incentive programs work in their own terms – that is, do they generate a net increase in employment and income within the state? Second, are the dollars spent on such programs well spent?

An additional premise in our approach to this evaluation is that costs matter. Anything that affects the costs of doing business is potentially a determining factor in business decisions. While this is not a profound statement - - it is rooted in the elementary theory of the behavior of the firm - - there are several current conditions that reinforce this basic principle and make it highly visible and amplified with respect to an evaluation of BEIP. In today's world economy, characterized by increasing penetration of global competitors into U.S. markets (and our entry into more foreign markets), cost reduction has become a critical business strategy. The global spread of information and computer technology into both the manufacturing and service sectors, increasing levels of education, and inexpensive international fiber optic connections have led to enormous increases in productivity. These productivity gains have resulted in a large expansion in worldwide production capacity. The resulting intensification of competition and the loss of pricing power by firms have accentuated the need to reduce costs to increase profits. The outcome has been corporate downsizing and outsourcing on a large scale with ever more scrutiny given to managing costs at all stages of business processes. These fundamental conditions generate large potential benefits from ruthless cost control by businesses, including the basic benefit of business survival.

In addition, a reinforcing outcome has also arisen from the stunning string of corporate America financial scandals that have emerged from the excesses of the booming 1990s. The list of recent scandals has been a long and embarrassing one, with highly visible manifestations of greed, deception, and fraud repeatedly paraded before the American public, its courts, and the world business community. One result of these financial scandals is the Sarbanes-Oxley Act of 2002 that has firmly placed an accounting microscope, backed by harsh federal penalties for violations, on business financial matters and governance. Profits are less likely to be generated by accounting maneuvers and questionable interpretations of financial regulations. The result is that profits must be earned in an old fashioned way - - honestly. Thus, cost reductions assume additional importance as a way to improve profits.

New Jersey's business community, as it exists now, and as it might become from future in-migration and out-migration of firms, is subject to all these prevailing economic and governmental conditions that have placed greater emphasis on cost control. Also, recent changes in the New Jersey Corporate Business Tax, changes which in many ways led the nation in attempting to restore equity to the business tax structure, have increased state business tax revenues with a resulting complementary need for New Jersey's businesses to be rigorous in the management of costs in order to offset increased tax liabilities. Differences in costs across states are a significant determinant of regional economic performance. A recent estimate indicated that New Jersey's overall business costs (wages, energy, taxes, etc.) were 116% of the U.S. average.¹¹

¹¹ See, Economy.Com, "Precis-U.S. States," Vol. 11, No. 9, May, 2004.

Evidence at the state and federal levels indicates widespread disparities in tax payments by corporations of similar incomes. Such evidence results in further public skepticism about the equity of corporations' share in the overall tax structure vis a vis that of individuals.¹² However, by the same token, increases in state corporate taxes generate the inevitable expressions of concern by the business community, typically recorded by numerous surveys of the "business climate" about the perception of a hostile business environment. These surveys are often accompanied by threats to leave the state. Thus, incentive programs, such as BEIP, assume an important role in this broader context of the perception of a state's business climate by its business community. Accordingly, the presence of economic development incentives may be a worthwhile and necessary addition to a corporate business tax structure that actually achieves horizontal and vertical equity.

We have used the following approach to our analysis of BEIP. First, we have tried to understand fully how the program works - - the eligibility standards, the award process, the certification process, the financing, and the ongoing monitoring. Second, we have examined carefully the critiques of the program as presented in the New Jersey Policy Perspective (NJPP) Report, and also have reviewed the general objections to state and local business incentives in the broader context of the national debate on such subsidies in the abundant literature that exists. Third, we have met with representatives of the various stakeholder interests in the program, as well as individuals directly responsible for implementing and managing BEIP. We are grateful to all of those

¹² See, e.g., "Comparison of the Reported Tax Liabilities of Foreign-and U.S.-Controlled Corporations, 1996-2000", United States General Accounting Office, GA0-04-358, Washington D.C., February, 2004.

individuals who met with us and provided us with their expertise and views about the program. A list of these meetings and individuals is given in Appendix A. A step by step description and flow chart of the BEIP application, review, and award process is provided in Appendix B.

KEY ISSUES AND RECOMMENDATIONS

We begin the analysis in the context of our conclusion from the previous section that New Jersey must have business development incentives and that they should be effective and efficient. As a result of our review of BEIP we have focused on five key areas. These are operational protocols, integration with state strategic objectives, accountability and public visibility, financing, and evaluation. This section reviews these issues and provides an assessment of each. The specific issues we discuss overlap significantly with those identified by the New Jersey Policy Perspectives Report, although we do not comment on every recommendation in that Report. We also raise some additional issues not covered in the NJPP Report.

Operational Protocols

We have identified several areas within the BEIP protocols that we believe warrant attention. First, a major concern is to ensure that any BEIP award generates net new jobs for the state. The existing protocols of the BEIP application are site specific; that is, jobs associated with a specific project are eligible for a BEIP award upon a successful evaluation of the application by the New Jersey Economic Development

Authority on all criteria. Thus, there is a well-taken criticism that a business receiving a BEIP award may, over time, reduce employment elsewhere in the State, thereby, in effect lowering the net increase in jobs achieved by the project. At the extreme, a business awarded a BEIP grant may have, in time, a net decrease in employment in New Jersey on a company-wide basis. Obviously, business decisions to change employment levels are determined by many complex factors. Moreover, decisions to increase or decrease employment are, even with good will and good faith, very difficult to predict with accuracy and are subject to many variables, both internal and external to the business.

As we have noted, it may never be possible to accurately know whether, or how important, a specific incentive is to a given business investment decision. However, in the context of our narrower criterion, it is reasonable and appropriate to expect that public support for a private project should lead to a net increase in jobs in New Jersey. Thus, we recommend a change in the general protocol so that a BEIP award is made not only on a project basis, but is also conditional on sustaining a net employment increase for company operations within New Jersey for a specified period of time. The award could, for example, be adjusted downward over time if the proposed net employment change at the site is decreased by job reductions by the firm elsewhere in New Jersey. We are pleased to note that the New Jersey Economic Development Authority (NJEDA) has applied such a protocol to a recent award and is discussing how to adopt such an approach on a general basis. We fully support such a change. Thorny administrative complexities would accompany this change -- the need to monitor company-wide employment in New Jersey over time and the need to account for changes in corporate

structures -- but we are convinced that the New Jersey Economic Development Authority and the New Jersey Division of Taxation have the expertise and ability to do so accurately and equitably.

Another protocol that deserves examination is that the BEIP award is not capped with respect to the number of jobs created. While the dollar amount of the award per job created is fixed by the percentage rebate awarded and also limited to a \$50,000 average cap per job over the term of the award, the total dollar award increases if the aggregate number of jobs created exceeds the estimated number of new jobs on the BEIP application. Again, many factors determine the change in total employment overtime for a given investment project or relocation decision by a business. If the total number of new jobs created, in time, exceeds the estimated number on the BEIP application, this is solid evidence that the decision by the firm to develop, and then proceed with, the project was well-conceived and well-executed. Improving industry conditions, the strength of the national and regional economies, and continuous good management are additional factors that can contribute to a successful project. In order to conserve state resources and to reward a well-designed and well-executed business plan, the BEIP award should be capped at the proposed total of new jobs created by the project. We recommend some flexibility in establishing the cap due to the complexity of accurately predicting employment changes considerably into the future. Our recommendation for such a cap does not preclude the business from seeking another BEIP award for further expansion, should the project succeed well beyond original plans.

One long-standing New Jersey economic development incentive is municipal property tax abatement for commercial or industrial properties in areas in need of redevelopment.¹³ In the next section we will examine the issue of providing business incentives to complement state goals affecting the spatial distribution of economic development, but we note here that the NJPP Report recommended that no project receive both a BEIP award *and* a property tax abatement. However, we believe that in order for New Jersey to encourage smart growth and re-development, businesses should be eligible to receive a BEIP award and a property tax abatement.¹⁴ The issue of whether property tax abatements should be available to economic development projects in all municipalities of the state, including areas designated for environmental protection is a separate matter and worthy of examination given the broadly delineated anti-sprawl objectives of state policy.

In our meetings with various stakeholder groups, representatives from the business brokerage community indicated that BEIP would be a useful tool for business retention. However, we believe that the performance based foundation of BEIP is a major strength of the program and that this would not be well-suited to use for retention

¹³ New Jersey law allows all municipalities to offer a five year property tax abatement (PL 1991, Chapter 441) or a 30 year abatement (PL 1991, Chapter 431, formerly known as Fox-Lance Property Tax Abatement). The five year abatement requires no property tax payment in the first year, and then phases in payments of 20% per year so that by year six, the property is paying full taxes. The 30 year abatement program requires an annual payment in-lieu of property tax (PILOT) equal to 2% of the project costs, or 15% of gross project rent.

¹⁴ It is worthwhile to note that BEIP is focused on jobs and is a state program, while property tax abatements are under the aegis of municipalities and focused on capital investments and rataables.

efforts. The BEIP program is designed to generate new economic activity, it should not be asked to address other objectives for which it is not suited or appropriate.¹⁵

In the discussion of our general approach to business incentives we noted that costs are important to business decisions and that several aspects of the current economic environment accentuated that importance. A BEIP award, which reduces costs and increases profits is, therefore, potentially of significance in influencing business decisions. However, it is also important that the public have a sense that a business, when it seeks public resources via a BEIP application, is managing all aspects of its costs including the highly visible area of executive compensation. One recommendation of the NJPP Report is to require disclosure of the CEO's compensation as part of the BEIP application and *evaluation* (italics added). It should be noted that many BEIP applicants are large firms that hire for management positions in highly competitive national and international labor markets. Executive salaries in such firms are determined by market forces. The high salaries that frequently result are also accompanied by high expectations of performance. Changes in management often occur when those performance standards are not met. Nevertheless, we believe that in a national economy, which as of May 2004, is still 1.3 million jobs below its previous peak employment level, there should be sensitivity to the issue of costs, profits, and executive compensation. While executive compensation should not be a formally considered factor in the evaluation of the BEIP proposal, we believe that openness of information with respect to executive compensation is highly desirable, even though for many BEIP projects, the

¹⁵ The existing evaluation protocol provides for an increase in the percentage of income tax payments rebated for new jobs as a function of the number of existing jobs at risk of leaving the state. The rebate, however, does *not* apply to the withholding taxes paid on those existing jobs.

CEO and company headquarters may not be located in New Jersey, or even in the United States. All publicly traded companies are required to submit Form 10-K annually with the Securities and Exchange Commission. The form requires information on executive compensation. Accordingly, we recommend that a copy of the most recent Form 10-K accompany the BEIP application.

New Jersey has two different protocols with respect to the reciprocal taxation of income with its neighboring states of Pennsylvania and New York. These differences are an artifact of the long-standing fiscal relationships among the three states and have become embedded by circumstance, political realities, and prevailing practice. The differences in tax treatment have important implications for New Jersey tax revenues. New Jersey residents who work in New York are taxed by, and are liable for, the income tax obligations of New York State. New York residents who work in New Jersey are taxed by, and are liable for, the income tax obligations, of New Jersey. However, a different arrangement exists between New Jersey and Pennsylvania. New Jersey residents working in Pennsylvania are taxed by, and are liable for, the income tax obligations of New Jersey. Pennsylvania residents working in New Jersey are taxed by, and liable for, the income tax obligations, of Pennsylvania. This asymmetry of income tax treatment across the three states has periodically been the subject of discussions, negotiations, and proposals, but has remained unchanged for many years. This differential treatment has significant implications for BEIP, a program which is based upon rebates to the employer of part of the additional New Jersey State income tax generated by new employees working in New Jersey. For BEIP projects that employ

Pennsylvania residents, New Jersey receives no income tax payments. Thus, BEIP, which is founded on the attractive principle of self-financing (i.e., all payments are made from additional, new, income tax receipts), cannot provide such revenues for New Jersey from any Pennsylvania resident who is part of the employment increase for which an award is made.¹⁶

There is great appeal to have an economic development program completely financed from the additional tax revenues it generates and, thus, one that does not draw upon the general revenues of the state. The asymmetry in the reciprocal taxation across the three states, not BEIP, is the cause of the non-payment of income taxes to New Jersey by Pennsylvania residents working in the State.¹⁷ We are well aware that business and regional interests will object to any change that would affect the award level due to this income tax asymmetry. However, we believe that the self-financing principle is compelling and should be kept intact, with no exceptions. Therefore, we recommend that the BEIP award be adjusted to include only those employees who are paying income taxes in New Jersey, a recommendation also made by the NJPP Report.

State Strategic Objectives

Among the constructive changes made to BEIP in 2003 was the development of a formula for the evaluation of applications that assigns differential weights to various components of a project depending on the project's alignment with other broad state

¹⁶ Consider also a BEIP award for a new employee who resides in NJ but subsequently moves to Pennsylvania. In this case, withholding taxes in NJ are originally collected but then cease on the change in residence and hence are no longer available to support the award for this job.

¹⁷ As a result, the New Jersey Treasury subsidizes that part of any BEIP award attributable to Pennsylvania residents working in New Jersey.

policy objectives. Thus, a project located in a designated economically distressed area, a project in a smart growth area, a project for a targeted industry, a project in an area of a mass transit program, a project with particular housing production or renovation characteristics, a project near to, or working with, public universities would all receive differential bonus scores as part of the evaluation.¹⁸ This process attempts to ensure that the development incentives of BEIP are integrated into other goals of public policy. We believe this formula approach, which applies across-the-board to all projects in a clearly defined, uniformly administered manner, is appropriate. We do not believe that BEIP should be confined to distressed municipalities and smart growth designated areas as recommended by NJPP.

Over the last several years, and with increasing public support and approval, the state has moved aggressively to control sprawl and reduce the many external costs imposed by economic and residential development on the ever-receding geographic periphery regions of the state. We believe the formula approach to evaluate BEIP applications described above is a flexible and appropriate way to reflect this broad state goal. By favoring redevelopment, rather than new facilities in greenfields, the program is consistent with these major state policy goals. However, a prohibition on BEIP awards outside of designated growth areas would not encourage the re-development of existing facilities in areas of the state that are not so designated, but which are currently available for new economic development. For example, the 1.3 million square foot former AT&T Basking Ridge complex in Somerset County is one of the largest office facilities in the state and is currently vastly underutilized. While state business incentives should not

¹⁸ Higher scores increase the percentage of the withholding tax rebated to the business.

support a new AT&T-like facility in an open space area (e.g., in that very same area of Somerset-Morris County), incentives should be made available for the redevelopment of existing, stranded assets such as the AT&T complex with its very large potential for new employment.

It is also important to acknowledge that New Jersey's broad policy goals change over time. Accordingly, we further recommend that the criteria and weight assignments of the formula that embody such goals be periodically revisited for their applicability and impact as part of an on-going evaluation and monitoring of BEIP.

Public Access and Accountability

A common theme in the criticism of state business incentive programs is that only fragmentary, episodic, and inconsistent information is made available to the public. This criticism is specific in the NJPP Report on BEIP, but it is also general to state economic development incentive programs.¹⁹ A general principle which always serves the public process well is that public confidence and good will is maximized when decision making and full information is open, readily available, and accessible. We endorse fully this principle and believe that New Jersey will benefit from its application to BEIP.

The New Jersey Economic Development Authority currently compiles an impeccably maintained and highly informative spreadsheet on all approved BEIP awards.

¹⁹ For example, a recent report by the Office of the State Comptroller in New York reviewing that state's Empire Zones Program recommended, among other things, that a consistently compiled, comprehensive annual report be produced for each of the 72 zones and that this annual report be made widely available. See, Assessing the Empire Zones Program: Reforms Needed to Improve Program Evaluation and Effectiveness, Report 3-2005, Office of the State Comptroller, Albany, NY, April, 2004, p. 32.

This spread sheet provides the name of the company awarded the grant, the amount of the grant, the date of the award, the period of the award, the percentage of the income tax withholding awarded, the estimated number of new jobs created, the project costs, the project location, and other relevant information. The information is updated periodically as new grants are awarded. We are pleased to understand that the NJEDA is taking steps to provide this spreadsheet and related information on its website in an accessible and easily understood format. We endorse this step of openness and recommend that the NJEDA continue to expand the information available on BEIP awards on its website.

In addition, the NJEDA website should also routinely provide information on its public meetings. This information should include the date, location, time, agenda (including information on any BEIP award application listed for approval consideration), and brief background materials describing the agenda items in order to facilitate public accessibility to the NJEDA and its important work.

The NJPP Report calls for information concerning economic development incentives beyond the BEIP issue. Specifically, it recommends an annual state tax expenditure budget for business incentive programs. It also calls for a "Uniform Development Budget" consisting of cost and benefit information on all forms of state economic development subsidies.

We take no position on the recommendation for a tax expenditure budget but do note that all of the relevant information is already contained in the annual state budget

document. We also note that to be useful in terms of informing the public on the use of state revenues, a tax expenditure budget should not be confined to business incentives but should list all tax expenditures made by the state (e.g., municipal aid, school aid, property tax rebates, and so on in what will surely be a very, very long list, that ultimately becomes the document known as the annual state budget). We do have a recommendation on program evaluation and monitoring, and that is discussed in the final part of this section.

Financing

Two key aspects of the attractiveness of BEIP are its self-financing feature and the performance based nature of the program. Awards are made only after new jobs are created and after the New Jersey Division of Taxation certifies that state income tax withholding payments have been paid by the firm for these new employees.²⁰ The state then returns, with a one year lag, a partial amount of the new tax revenues generated from the additional jobs. These revenues are explicitly budgeted to fund the BEIP awards and are transferred to the firm on an annual basis, once the initial certification is made by the Division of Taxation and subject to subsequent monitoring of the continued level of new employment. These features - - that the jobs are created and the tax payments are certified, and then, and only then, are payments made - - have made the program an attractive and often emulated model for other states seeking to institute similar economic development incentives.

²⁰ We are impressed by the diligence and care exercised by the NJ Division of Taxation to ensure that these tax payments have been made for the jobs proposed by project. The certification of revenues is done at arms length from the application procedure done by the NJ EDA and serves the state well. Both units of government interact as questions and issues arise in order to verify that the project has delivered in terms of additional jobs before any award is made.

From the perspective of a business applying for a BEIP award, the monetary incentive must, of course, be sustained and reliable. A business, making a decision upfront to locate or expand in New Jersey with an associated significant investment in the project, requires the assurance that the incentive offered will, in fact, be paid over the life of the agreement. If the additional employment is maintained over the term of the project, the income tax revenues will be available to allocate (partially) back to the business.

In the last several years, deep constraints on the New Jersey budget have led to changes in the pay-as-you-go basis of the BEIP awards. The financing of the program changed from an annual appropriation derived from the additional tax collections generated to one of borrowing, with the additional taxes used to securitize the debt. This enabled the program to continue in difficult fiscal times and, importantly, to meet the original contractual agreements between the state and the awardees. It is vital to fulfill, in good faith, the commitments to the businesses involved in order for the program to retain legitimacy and effectiveness.

However, borrowing has the effect of raising the total costs of the awards relative to the pay-as-you-go method of financing, and it creates long term obligations to fund recurring annual expenditures. If additional BEIP awards are made over time (and there is a significant list of pending applicants), the borrowing requirements will escalate with additional increases in total costs. Such cost increases negatively affect the efficiency of

the BEIP program (i.e. the net benefits generated), and such borrowing is inappropriate to use to meet an annual operating cost of state government.

We are encouraged to know that the NJ Department of the Treasury has made the prompt repayment of the principal and interest of the BEIP debt a high priority and is moving aggressively to reduce and eliminate this debt in as short a time as possible. We encourage this rapid payoff of the existing BEIP debt and recommend that borrowing not be used to finance future BEIP awards. If the program is valuable and effective in generating new jobs and investment, then the tax revenues from these jobs will be available to use for their intended purpose to fund the BEIP award. The state should not use the additional tax revenues generated for other purposes beyond what remains of these new tax revenues after the partial BEIP payment.²¹

Evaluation and Monitoring

The size, visibility, and importance of a public expenditure program such as BEIP deserves evaluation and scrutiny on a recurring basis. This is especially so given the intense glare cast on business incentives by the wide-spread national debate that has grown around these policies. An evaluation serves several useful purposes. First, it meets the requirements of the law that created BEIP. Second, it provides public accountability for the public resources spent for the program with the goal of ensuring that the program returns to the state a net economic benefit.

²¹ We note that the state has used these "residuals" (i.e., the additional income tax revenues generated by the new employment from the BEIP project over and above the amount rebated to the awardee) to borrow against in order to fund capital projects designed to promote economic development. We fully endorse this borrowing since it creates capital investments that yield a stream of future economic benefits.

Accordingly, we recommend that a comprehensive economic evaluation of the program be made and submitted to the New Jersey State Treasurer. This evaluation should be conducted by a recognized economic research organization outside of the New Jersey State Government. We have provided in the next section an example of the methodology and economic impact of a typical BEIP award.

Finally, an oversight group should be established to provide for on-going review and monitoring of the criteria of the program, the effectiveness of the implementation process, the competitiveness of the incentive offered relative to other states, and the consistency of the program's objectives with other state policy goals. The purpose of this continuous monitoring and review is to make all appropriate changes necessary in a timely manner to maintain the effectiveness and efficiency of the program.

ECONOMIC IMPACT ANALYSIS

Much of the debate concerning BEIP and similar economic incentives is characterized by the lack of analysis of the economic benefits and costs of these programs. Critics typically point to the tax expenditures of the programs and argue that the programs do not affect business decisions, while advocates claim the incentives are pivotal in relocation and expansion choices among sites and note that there are broad economic benefits to the state from projects that receive public support. Accordingly, a key goal of the systematic evaluation that we recommend is to estimate the net benefits to the state of BEIP awards using an economic impact analysis and, thus, add a degree of

objective and dispassionate empirical content to the debate. We provide below an example of the methodology and results of an evaluation of the economic impact of BEIP in the context of analyzing a typical award.

The public costs of the BEIP program can be measured with reasonable precision by the specific amount of withholding taxes rebated to the firm over the term of the award (plus, if applicable, the additional costs incurred if the award is financed by borrowing). These costs can be identified for each BEIP award. However, what has not been done to date, is to estimate the total economic impact on New Jersey of a project supported by the BEIP award. A typical BEIP project will create jobs, require an initial capital outlay and outfitting expenditures by the firm, and increase economic activity in that firm. All of these activities will, in turn, have complex and interrelated effects on other sectors of the New Jersey economy. These effects will be distributed over the other sectors depending on the type of business (industry classification) receiving the BEIP award and its specific interconnections with the rest of the New Jersey economy. Thus, each BEIP project will have its own *unique* effect on the state.

Economists have long studied the linkages among industries and estimated the effects of changes in economic activity of a single event (e.g., a plant closing, or a business relocation) using the tool of input-output analysis. This technique estimates the relationships among sectors in terms of production and consumption for any change in economic activity in any one sector or group of sectors. The empirical linkages are derived from sustained observations of the actual economic interrelationships in the

economy and then expressed in a model that enables the estimation of the effects of changes in economic activity on output, employment, income, gross state product, and tax revenues.

The Edward J. Bloustein School of Planning and Public Policy at Rutgers University has the scholarly capability in its Center of Urban Policy Research to perform such analyses using one of the most advanced and sophisticated input-output tools available, namely, the R/ECON regional economic model. This model contains over 500 sectors and captures the myriad associated linkages among these sectors and the resulting economic multipliers that enable the estimation of the total economic effects of a specific project or economic event.

Using this model, we can estimate the economic impact of a typical BEIP project. Specifically, we assume that this prototype project generates 100 new office jobs of the typical type associated with BEIP awards and requires a one-time capital and associated equipment investment of \$10M. These are generic, but realistic, values for a BEIP project, with the caveat that some projects lease or buy existing space and thus would not have the (new) capital outlay component above. Table 1 provides an estimate of the effects of 100 new jobs on output (value of shipments), employment, income (personal earnings), gross state product, and tax revenues. These effects are divided into *direct effects* of the 100 new jobs and *indirect effects* (the induced effects of the new jobs on other industries). Section I of Table 1 gives the size and the distribution of these effects. The economic impact of the 100 new jobs is significant - - 85 additional permanent jobs

are created in other industries due to the economic linkages between the industries of the 100 newly created jobs and their supporting industries for an employment multiplier of 1.85. Gross State Product (GSP) in New Jersey (the total value of all newly produced goods and services) increases by \$15.7M (in 2004 dollars) each year for as long as the 100 new jobs exist. The increase in the state's GSP is the appropriate measure of the overall impact to the state's economy.²² To this should be added the additional taxes paid by households (\$2.7M) listed in Section IV of Table 1. These are the property, sales, income, and other taxes paid by households as a result of the overall increase in economic activity, directly and indirectly created by the 100 new jobs.²³ Thus, the overall annual impact of the 100 new jobs on the NJ economy is \$18.4M including \$669.4K in local taxes and \$589.1K in state taxes.

In addition to these recurring benefits there is a one time impact resulting from capital construction and outfitting expenditures of \$10M assumed for the typical BEIP project. These effects are also estimated by the input-output model and follow intuitively from the general multiplier impact expected from (any) new expenditure. Table 2 lists those effects and indicates that a \$10M capital and related equipment expenditure results in a one-time GSP increase of \$7M and an additional one-time increase in household

²² The GSP increase is less than the impact on output (\$32.7M) since the output measures value of shipments, not value-added, and thus double counts economic activity. The GSP measure is more than the income (i.e., earnings) impact (\$13.3M) because the income measure does not include various taxes paid by businesses (Section III in Table 1 lists the increases in taxes by level of government).

²³ Taxes paid by businesses - - property, sales, state and federal corporate tax, and other taxes - - are included in the GSP measure. Taxes paid by households are not included in this measure and must be estimated and added to the business tax account to get overall tax revenue by level of government.

taxes paid of \$1.1M for a total increase of \$8.1M. Of this, \$2.1M is in taxes, including \$278.5K in local tax revenues and \$246.2K in state taxes.²⁴

Thus, this analysis reveals a large positive impact on the state from the creation of 100 new jobs and the associated expenditure of \$10M for capital and related items. These benefits can be expressed in annual terms (the one-time benefits accruing from the one time capital expenditures can be allocated to the particular year or years in which they accrue) and compared to the annual costs of the BEIP award.

The costs of a BEIP award, expressed on a per job basis, can be estimated from the awards made to date. From 1996 to 2003, 181 BEIP awards have been approved and executed. These projects were estimated to generate 43,203 jobs at a lifetime total cost of \$442.2M to the state.²⁵ Assuming a typical 10 year award, the average cost per job is \$10,235 over the term of the award, or \$1,023 per job per year.²⁶ Given our example of a BEIP project that generates 100 jobs, the annual costs of the award would be \$102,300. This cost is dwarfed by the estimated annual benefits of \$18.4M generated by the project. If we examine the impact of the project in terms of tax expenditures (rebates) and tax revenues generated, then the annual cost of \$102K of the BEIP award results in \$1.26M

²⁴ The total impact is less than the original \$10M expenditure increase due to leakages of some of the economic effects to out-of-state businesses.

²⁵ The estimated costs of \$442.2M are based on the original job estimates of 43,203. In actuality, due to the open-ended nature of the award, i.e., awards are paid per certified job created, the actual costs to the state will rise if the total job certification of these 181 projects ultimately exceeds the 43,203. Recall that we recommend that the BEIP award should be capped by the original job total estimate to avoid this open-ended cost increase possibility. In any event, even if total jobs and the associated total costs increase, the estimate of cost per job that we use in the analysis should not be affected.

²⁶ Note that the actual costs of these awards per job is significantly below the \$50,000 cap per job over the term of the award. Another estimate of costs per job, based on 87 BEIP awards that have received disbursements is \$9,088 per job over an assumed 10 year term of the award, similar to the \$10,235 estimate from the larger population of awards.

in additional state and local taxes (\$669.4K in state taxes and \$589.1K in local taxes) for a tax revenue to tax cost ratio of 12.3. If we analyze only the state tax effects, the ratio is 6.5, i.e., for each dollar of state tax expenditures (rebates), \$6.5 dollars are generated in state tax revenues. Both of these ratios are underestimates because they do not measure any of the state and local tax revenues gained as a result of any one-time capital investments.

Such a comparison indicates that there are large net benefits to the state as a result of the BEIP award. But this brings us back to the original conundrum posed at the very start of our assessment of BEIP, namely, how critical is the award to the project? If the project would not be undertaken were it not for the BEIP award, then the benefit/cost comparisons indicated above would be the valid measure of the impact of BEIP. If the project would have been undertaken anyway, with the BEIP award not making any material difference, then the very same benefits to the state would have occurred and there was no need for a public subsidy. The truth, as we noted at the start of our report, is probably not knowable, and is most likely to lie in between these extremes, depending on the circumstances of each specific project. However, the magnitude of the net benefits is sufficiently large as to suggest that even if the BEIP award is not the single determining factor that drives the project, the BEIP incentive nevertheless, is highly valuable to the state.

Another way to examine this issue is to consider 100 BEIP awards to projects identical to our example project. These 100 awards would, based on a \$1,023 cost per

year per job, result in a total annual cost to the state of \$10.2M. If BEIP were the determining factor in only one of the 100 awards, there would still be a net benefit to the state of \$8.2M per year (i.e., 99 projects would have occurred anyway, and the one project that was attributable to the BEIP award, generates \$18.4M in benefits per year).²⁷

There is one final caveat in returning to the fundamental issue of whether or not the BEIP award is *the* determining factor in a business' investment decision. The data on awards to date suggest that despite a \$50,000 allowable ceiling, there will be a relatively modest \$10,000 (approximately) per job BEIP award to the business, or \$1,000 a year per job, or \$100,000 per year for a 100 new job project. Given the magnitude of the total costs of large projects, which would be measured in millions, is it likely that \$100K per year will be *the* key factor in influencing the location of such decisions? The relative size of the total award compared to the total costs of the project suggests that it would not. However, at the margin, when choosing among alternative sites, this \$100K per year award for 10 years may indeed exert a positive, if not determining, effect. This will be particularly true if the other costs of the project (e.g., land, capital, wages, energy, supplies, etc.) are roughly comparable across competing sites (states). In such situations, the BEIP award assumes a much larger importance in determining relative cost advantages.²⁸

²⁷ This is an underestimate because it does not include the one-time benefits generated from any initial capital and equipment expenditures.

²⁸ Relocation professionals vigorously state that the availability of BEIP is important in influencing decisions at the margin across otherwise comparable cost sites, or as a means to reduce or eliminate cost differentials.

Table 1: Economic and Tax Impacts on New Jersey of 100 New Office Jobs

	Economic Component			
	Output (\$ 000)	Employment (jobs)	Income (\$ 000)	Gross State Product (\$ 000)
I. DISTRIBUTION OF EFFECTS/MULTIPLIER*				
1. Direct Effects	21,688.2	100	9,394.4	10,111.1
2. Indirect and Induced Effects	11,085.0	85	3,900.5	5,632.8
3. Total Effects	32,773.1	185	13,295.0	15,743.9
4. Multipliers (3/1)	1.511	1.851	1.415	1.557
II. TOTAL EFFECTS (Direct and Indirect/Induced)				
Private				
1. Agriculture	25.5	0	2.7	4.8
2. Agri. Serv., Forestry, & Fish	8.9	0	4.4	7.3
3. Mining	1.1	0	0.4	0.7
4. Construction	273.8	1	36.5	91.8
5. Manufacturing	882.0	3	179.9	194.6
6. Transport. & Public Utilities	1,410.9	6	380.1	566.0
7. Wholesale	498.9	3	202.9	214.3
8. Retail Trade	1,638.3	28	611.3	949.4
9. Finance, Ins., & Real Estate	13,396.7	48	6,138.9	6,445.0
10. Services	14,571.8	95	5,717.9	7,238.1
Private Subtotal	32,707.9	185	13,275.0	15,712.1
Public				
11. Government	65.2	0	19.9	31.8
Total Effects (Private and Public)	32,773.1	185	13,295.0	15,743.9
III. COMPOSITION OF GROSS STATE PRODUCT				
1. Wages--Net of Taxes				12,459.6
2. Taxes				2,260.8
a. Local				323.6
b. State				286.4
c. Federal				1,650.8
General				225.4
Social Security				1,425.4
3. Profits, dividends, rents, and other				1,023.5
4. Total Gross State Product (1+2+3)				15,743.9
IV. TAX ACCOUNTS				
		Business	Household	Total
1. Income--Net of Taxes		12,459.6	0	-----
2. Taxes		2,260.8	2,697.70	4,958.4
a. Local		323.6	345.80	669.4
b. State		286.4	302.70	589.1
c. Federal		1,650.8	2,049.10	3,699.9
General		225.4	2,049.10	2,274.5
Social Security		1,425.4	0.00	1,425.4

Note: Detail may not sum to totals due to rounding.

*Terms:

Direct Effects--the proportion of direct spending on goods and services produced in the specified region.

Indirect Effects--the value of goods and services needed to support the provision of those direct economic effects.

Induced Effects--the value of goods and services needed by households that provide the direct and indirect labor.

**Table 2: Economic and Tax Impacts on New Jersey of
\$10 Million in Office Construction**

	Economic Component			Gross State Product (\$ 000)
	Output (\$ 000)	Employment (jobs)	Income (\$ 000)	
I. DISTRIBUTION OF EFFECTS/MULTIPLIER*				
1. Direct Effects	8,081.8	70	4,187.5	5,139.2
2. Indirect and Induced Effects	3,891.1	30	1,294.3	1,904.2
3. Total Effects	11,972.8	100	5,481.8	7,043.4
4. Multipliers (3/1)	1.481	1.436	1.309	1.371
II. TOTAL EFFECTS (Direct and Indirect/Induced)				
Private				
1. Agriculture	11.3	0	1.2	2.2
2. Agri. Serv., Forestry, & Fish	19.7	0	9.9	16.5
3. Mining	53.3	0	18.8	35.3
4. Construction	4,392.4	49	2,829.3	3,665.1
5. Manufacturing	2,719.7	13	739.9	875.5
6. Transport. & Public Utilities	636.4	3	166.2	258.1
7. Wholesale	838.5	5	341.0	360.1
8. Retail Trade	702.3	11	263.4	411.0
9. Finance, Ins., & Real Estate	733.6	4	250.3	494.8
10. Services	1,838.1	15	853.4	911.5
Private Subtotal	11,945.3	100	5,473.4	7,030.1
Public				
11. Government	27.6	0	8.4	13.4
Total Effects (Private and Public)	11,972.8	100	5,481.8	7,043.4
III. COMPOSITION OF GROSS STATE PRODUCT				
1. Wages--Net of Taxes				5,057.0
2. Taxes				1,012.6
a. Local				135.9
b. State				121.4
c. Federal				755.3
General				167.5
Social Security				587.7
3. Profits, dividends, rents, and other				973.9
4. Total Gross State Product (1+2+3)				7,043.4
IV. TAX ACCOUNTS				
		Business	Household	Total
1. Income--Net of Taxes		5,057.0	0	-----
2. Taxes		1,012.6	1,112.3	2,124.9
a. Local		135.9	142.6	278.5
b. State		121.4	124.8	246.2
c. Federal		755.3	844.9	1,600.2
General		167.5	844.9	1,012.4
Social Security		587.7	0	587.7

Note: Detail may not sum to totals due to rounding.

*Terms:

Direct Effects--the proportion of direct spending on goods and services produced in the specified region.

Indirect Effects--the value of goods and services needed to support the provision of those direct economic effects.

Induced Effects--the value of goods and services needed by households that provide the direct and indirect labor.

CONCLUSION

Competition among the states is inherent in a federated system of government and dates from the founding of the American Republic. Given this fundamental condition it is reasonable to require that public tax dollars be spent effectively when used to attract economic development. The industrial City of Patterson arose in the 19th century, in part, from the initial impetus given to it by the creation of the Society of Useful Manufactures. Would the City of Patterson have done as well without the advantages created by Alexander Hamilton's special effort, embodied in legislation, to promote its economic development?

While this may be an interesting academic question, the issues it raises translate directly to the current debate on the efficacy of state business development incentives. We conclude that New Jersey needs such incentives. We conclude that New Jersey cannot unilaterally remove itself from having and using these incentives in the ever more intense economic competition among states and nations - - it would be both political and economic suicide for either political party to propose an abolition of incentives. We conclude that the self-financing, performance-based features of BEIP are highly appropriate and that these aspects are among the very best characteristics of state economic development incentive programs. Our initial economic impact analysis of a typical BEIP award indicates that the program generates significant net economic benefits as well as significant net tax revenue benefits. We have made a number of specific recommendations that we believe can improve the efficiency of BEIP. Among

them are recommendations to base the BEIP award on a state-wide vs. individual project gain in employment, to eliminate borrowing to finance BEIP, to exempt non-taxpaying, non-NJ resident employment from awards, to cap the BEIP award, with some flexibility, on the original estimation of jobs created, and to provide increased accessibility to, and information about, BEIP to the public. We also strongly recommend that a systematic, project by project, economic impact study be conducted for all past and prospective awards, recognizing that the impact will vary by the specific characteristics of each award.

Acknowledgements

The authors are University Professor, Edward J. Bloustein School of Planning and Public Policy, Rutgers University, and Chair, New Jersey Council of Economic Advisors; Dean, Edward J. Bloustein School of Planning and Public Policy; and Secretary, New Jersey Council of Economic Advisors. We wish to thank New Jersey State Treasurer John E. McCormac for providing us with the opportunity to do this analysis, Dr. Michael Lahr of the Center for Urban Policy Research at the Bloustein School for assistance with the economic impact analysis, Dr. Julia Sass Rubin for comments on an earlier draft, Thomas Frusciano and David Kuzma of the Rutgers Universities Libraries for bibliographic assistance in tracing the early American antecedents of the current 21st century debate on interstate economic competition, Debbie Vogel for assistance in the preparation of the final report, and all the individuals listed in Appendix A for their help in improving our understanding of the complex issues surrounding BEIP.

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Appendix A: BEIP Meetings

<u>Date</u>	<u>Individuals</u>	<u>Organization</u>
18-May-04	Michael G. McGuiness Joseph R. Romano Allen J. Magrini Mitch Hersh Richard Johnson	NAIOP Advance Realty Group Hartz Mountain Industries Mack-Cali Realty Corporation Matrix Development Group New Brunswick, NJ
27-Apr-04	Michael G. McGuiness	NJ Chapter National Association of Industrial and Office Properties, New Brunswick, NJ
31-Mar-04	Maureen Hassett Rose Smith Lawrence Cier Margaret Piliere	NJ Economic Development Authority Trenton, NJ
30-Mar-04	Jon Shure Bettina Damiani Greg LeRoy David Brunori	NJ Policy Perspective Panel Discussion Goods Jobs New York Goods Jobs First State Tax Notes Trenton, NJ
26-Mar-04	Michael Roach	NJ Division of Taxation Trenton, NJ
25-Mar-04	Ted Zangari	Sills, Cummis, Epstein & Gross Newark, NJ
18-Mar-04	Jon Shure Mary Fossberg	NJ Policy Policy Perspective New Brunswick, NJ
12-Mar-04	John E. McCormac Dan Levine Rose Smith Joe Latoof Margie Piliere Curtis Seifert C. Jane Osowski Harry Fox Maureen Hassett Stan Kosierowski	New Jersey Treasury New Jersey EDA New Jersey Division of Taxation New Jersey Department of Labor Trenton, NJ

Appendix A: BEIP Meetings, continued

<u>Date</u>	<u>Individuals</u>	<u>Organization</u>
12-Mar-04	Art Maurice Chris Biddle	New Jersey Business and Industry Assoc. Trenton, NJ
10-Mar-04	Gil Medina	Cushman Wakefield New Brunswick, NJ
1-Mar-04	George Taber Shanker P.	NJ BIZ New Brunswick, NJ

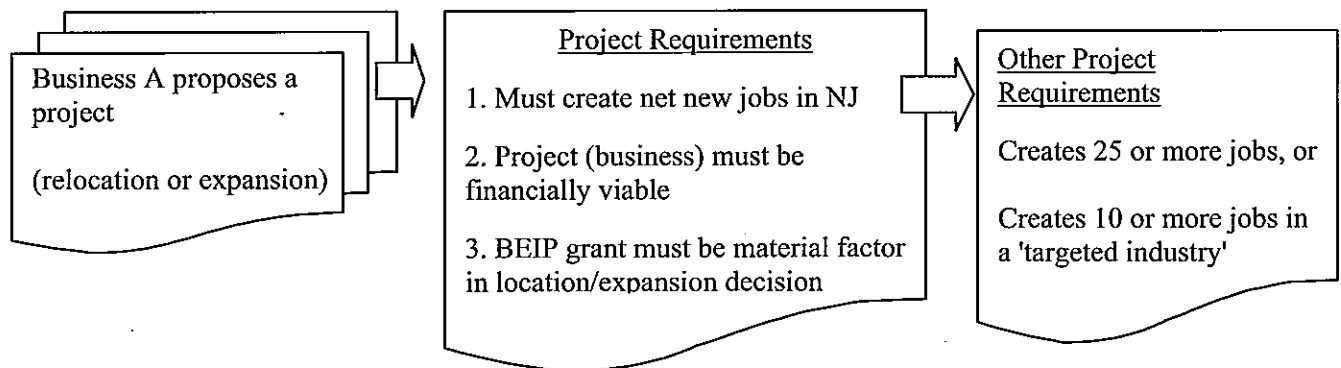
Appendix B: Description of BEIP Award Process

The following blueprint illustrates the application, approval, award, and administration of a BEIP grant. The flow charts describe the BEIP process and highlight its requirements and key decision points.

1. The Project:

Assume a business (corporation, proprietorship, partnership) proposes a new project. To qualify for a BEIP grant the project may be an out-of-state business relocation, an expansion of an existing NJ facility, or a new business. Among other requirements, the project must create net new jobs at the site in the base years of the agreement, where base years are defined as two calendar years following the effective date of a BEIP agreement.

The New Jersey Economic Development Authority (NJEDA) oversees the application and requires the proposed project to create 25 or more jobs, or 10 or more jobs in a targeted industry. Targeted industries include advanced computing, advanced materials, biotechnology, electronic devices, environmental technologies, or medical device companies.



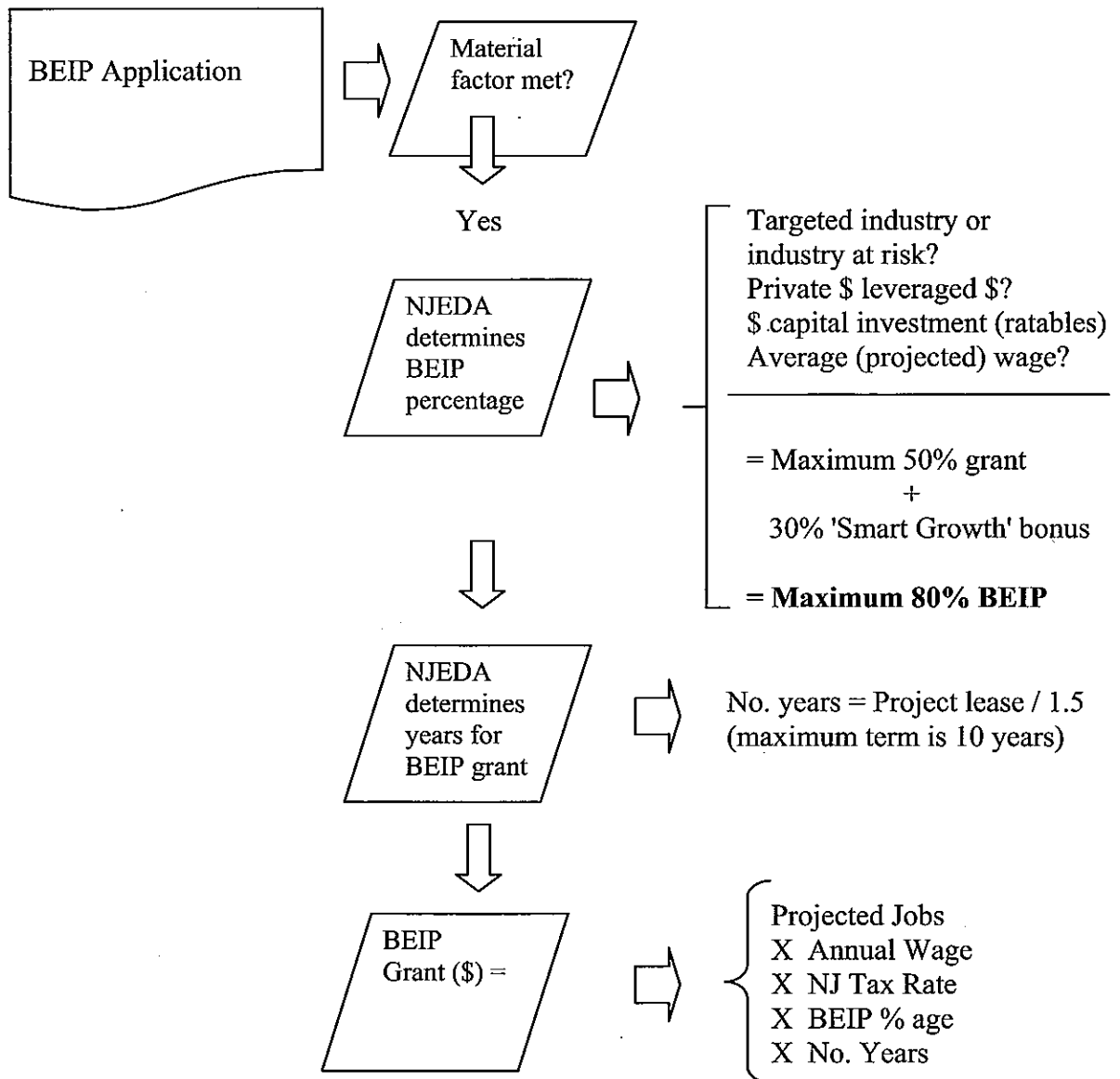
2. NJEDA due diligence

A business submits a BEIP application to NJEDA. NJEDA conducts the 'material factor' evaluation that specifies the role a BEIP grant will play in the business's decision to proceed with the project. The applicant must identify what other states (and sites) are in competition with the New Jersey site. Documentation of contact with realtors/developers in other states as well as ability to expand at alternative sites is often submitted.

Once the material factor requirement is satisfied, NJEDA calculates the eligible BEIP percentage. Current enabling legislation restricts the BEIP grant to not less than 10% of state personal income tax withholding to a maximum of 80% of withholding.

Administratively, NJEDA established a two step scoring system based on several economic and public policy criterion. A BEIP grant percentage of up to 50% may be earned if the project is 1. a targeted industry, 2. an industry at risk, 3. degree of private financial leverage, 4. amount of total capital investment, and 5. average wage of new employees.

An additional 30% BEIP grant may be earned if the project meets a number of Smart Growth criterion, including location in a distressed community, location at a brownfield site, proximity to mass transit, proximity to a research university among other location factors.



The term of the BEIP grant is based on the length of the project lease. The BEIP term is 1.5 times the term of the lease, up to 10 years.

The preliminary BEIP grant is then based on 1. the number of projected new jobs, 2. estimated wages* of new employees, 3. the applicable NJ personal income tax rate, 4. the calculated BEIP percentage, and 5. the term of the BEIP grant.

*Legislation and NJEDA administrative rules impact projects employing both low wage and high wage employees. Chapter 26, P.L. 1996 instructed the NJEDA to give greater consideration to positions that average at least 1.5 times the minimum hourly wage. Recent amendments limits BEIP grants awarded after July 2003 to new employees with employer provided health benefits.

Chapter 166, P.L. 2003 capped BEIP grants to high wage businesses. No applicant may collect more than an average of \$50,000 per employee, over the term of the grant. This restriction would limit an 80%, 10 year BEIP grant to new employees averaging a taxable income of (approximately) \$170,000 per annum (at current NJ personal income tax rates).

3. BEIP Timeline

The grant timeline begins with an 'executed' BEIP agreement. The business is allowed two calendar years to complete site improvements and capital investments (a.k.a. base years). The hiring of eligible employees, wages, and withholding taxes follow. Once the business reaches the minimum level of new jobs (25 jobs, or 10 jobs in a targeted industry) it may apply for a BEIP disbursement for paid-in-full withholding taxes for the preceding year.

The procedure continues for the term of the BEIP grant.

BEIP process and timeline



Project is completed (within 2 years of BEIP agreement - base years)



Business hires new employees - withholding taxes paid to State of NJ



Business reaches minimum job threshold



After 1 year of employment business applies for BEIP grant disbursement



NJ Division of Taxation certifies to the NJDEA jobs, wages, payment of withholding taxes

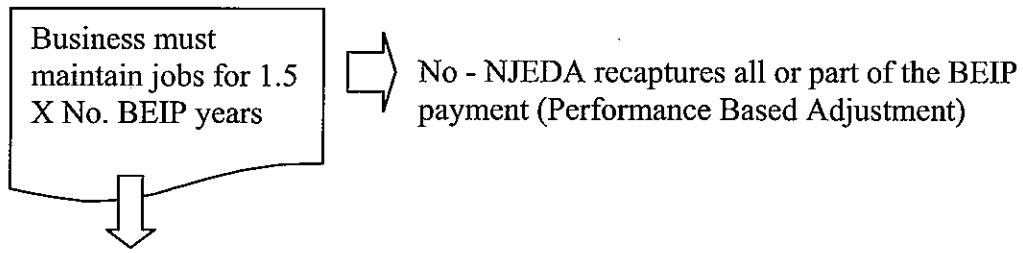
NJEDA disburses BEIP \$ to business (pay-for-performance)



Up to 10 Years

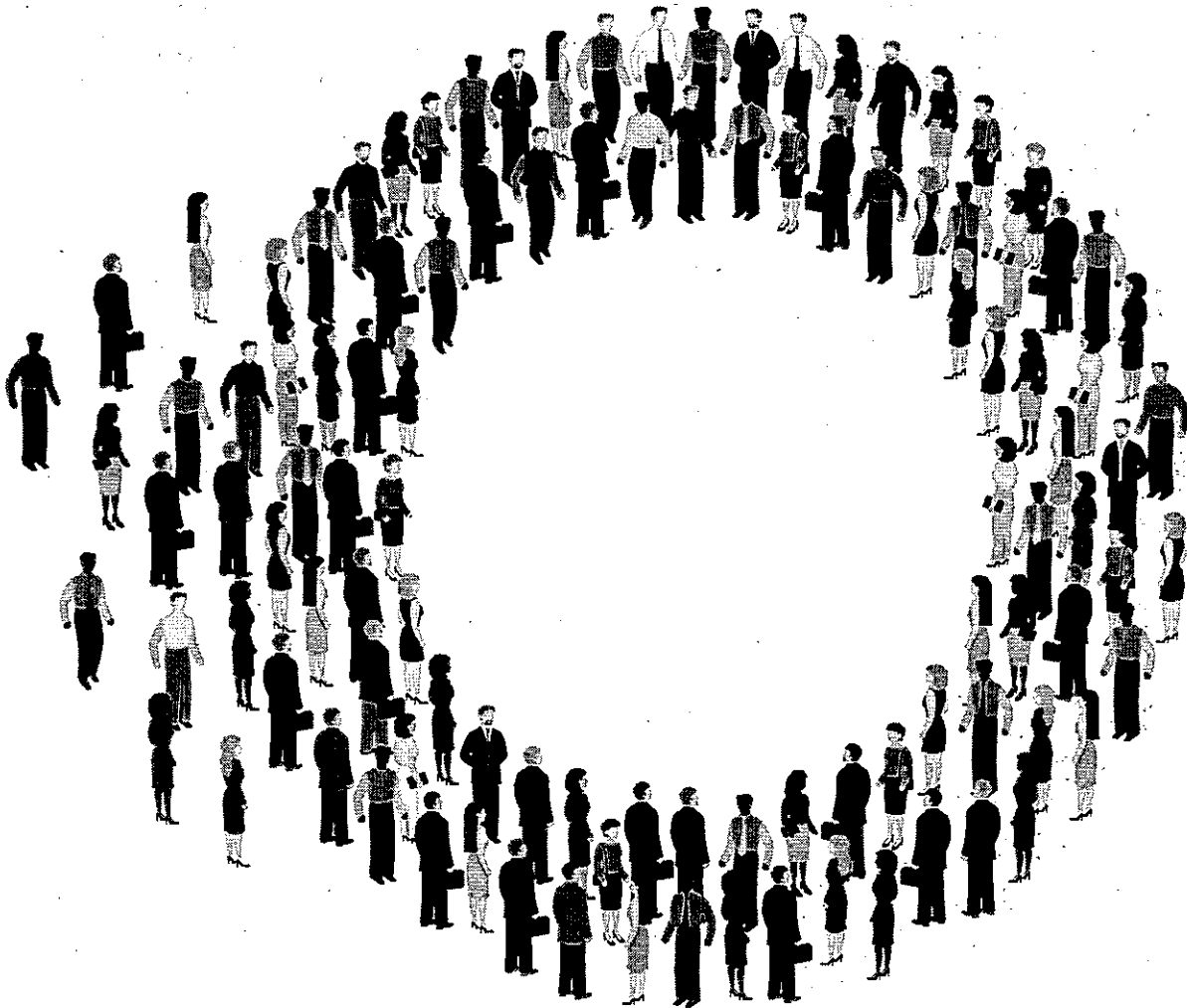
4. Terminating a BEIP Agreement

The original BEIP agreement includes a requirement that the business maintain the project in New Jersey for at least 1.5 times the number of years of the term of the grant. For a 10 year BEIP the 'maintenance' requirement would be 15 years. NJEDA is granted the authority to recapture all or part of the BEIP grant if the business does not remain at the project site for the required term. Economic developers often refer to this process as a "clawback." Essentially, however, it is an appropriate adjustment based on performance with respect to employment creation and with respect to meeting other key benchmarks of the project.



Yes - BEIP agreement is terminated

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Credits & Incentives talk with Deloitte

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study in job attraction and retention

By Charles Ruby and Gina Giordano

June 2017

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CREDITS & INCENTIVES TALK WITH DELOITTE

Grow New Jersey: A Modern Day Case Study in Job Attraction and Retention

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While the federal government's focus on keeping jobs in the United States is a topic that continues to receive significant media coverage, state and local governments have been committed to job retention and growth for a long time. One of the earliest examples in U.S. history of an effort aimed at incentivizing business development took place in New Jersey. In November 1791, Governor William Paterson signed an act into law that created a tax-free environment for manufacturers, while allowing their employees an exemption from military duty (except in the case of actual invasion).¹ This resulted in increased manufacturing activity that was one of the factors that led to the establishment of the City of Paterson.²

Today, just as it was over 200 years ago, New Jersey is one of many states competing for the next generation of companies and qualified talent to propel both the national and the local economy forward. In fact, Paterson, the same city which was spurred by the creation of a tax free zone in the 1791 act, is one of five New Jersey cities that receives the most preferential treatment under one of New Jersey's newest economic development initiatives, the Grow New Jersey Assistance program ("Grow NJ"). Grow NJ demonstrates some of the ways a state may look to create and retain jobs in a competitive landscape.

Grow NJ program—incentive transferability is a significant feature

The Grow NJ program offers discretionary tax credits to businesses across various industries that meet broad eligibility criteria. A key component of the program is the transferability of credits, details of which were outlined in the March/April edition of this column.³ Businesses are allowed to sell unused credits to other taxpayers, thus allowing start-up companies, for which cash flow is a premium and is often a source of job growth, and other companies with low or no tax liability the ability to more effectively capitalize on the Grow NJ program. Providing businesses the flexibility to sell unused credits for cash is not a new concept either for New Jersey or for other states, but the increased marketability of the credit is a feature that adds to its overall effectiveness.⁴

Although the program provides discretionary credits and requires a lengthy application and pre-approval process, the benefit calculation is formulaic (discussed further below), giving it the feel of a statutory credit. Companies can typically arrive at an accurate estimate of the value of the Grow NJ incentive associated with economic development well in advance of the application process, providing a valuable cost comparison for businesses weighing various out-of-state candidate sites.

For New Jersey's part, the return on investment can be calculated in advance, in order to determine if the credit package being awarded will yield at least a 110% net positive economic benefit to the state over a period of 20 years.⁵ There is also a system of checks and balances in place to ensure a company meets its employment and capital investment commitments. The rules allow for full or partial recapture in those instances where performance-based criteria have not been met.⁶

Background and the basics

Grow NJ, in its current form, was created from the New Jersey Economic Opportunity Act of 2013 ("EOA") (later amended in 2014), which went into effect September 18, 2013.⁷ The EOA merged five legacy

incentive programs into two: the Grow New Jersey Assistance program and the Economic Redevelopment and Growth Grant program ("ERG"). The goal was to enhance business attraction, retention and job creation efforts and to strengthen New Jersey's competitive edge in the global economy.⁸ The EOA phased out the Business Retention and Relocation Assistance Grant Program ("BRRAG"), Business Employment Incentive Program ("BEIP"), and the Urban Transit Hub Tax Credit Program ("HUB") and incorporated many of their elements into Grow NJ and ERG.⁹ Grow NJ emerged as New Jersey's premier business incentive program and is viewed as lucrative for companies large and small across many industries.

Sites dubbed Garden State Growth Zones ("GSGZs") are the areas with the highest award potential and are defined as the four cities with the lowest median family income based on 2009 census data.¹⁰ The initial four cities were Camden, Paterson, Passaic and Trenton, with Camden singled out in the EOA as the most in need. The 2014 amendment to the EOA added Atlantic City.¹¹ In these five cities, businesses are eligible for a base tax credit of \$5,000 per new or retained job, per year, for a duration of up to 10 years.¹² A similar base tax credit is available in urban transit hub municipalities, such as Elizabeth and Newark, but only for new jobs.¹³

Generally, outside of GSGZs, retained jobs are eligible for a base credit of 50% of the new job value or less depending upon the capital investment made.¹⁴ Other eligible areas include "distressed municipalities" (\$4,000 per new job), "priority areas" (\$3,000 per new job) and other locations for which the credit specifics are based on the relative affluence of the community.¹⁵

Base credits can be supplemented by bonus credits, which are frequently site and/or industry specific. In GSGZs, for instance, bonus credits can increase the credit value to a maximum of \$15,000 per new or retained job.¹⁶ In priority areas, distressed areas and urban transit hubs, bonuses can increase the tax credit to a maximum of \$10,500, \$11,000, and \$12,000 respectively, per new job.¹⁷ Bonuses can be awarded for projects in specific, targeted industries including transportation, manufacturing, defense, energy, logistics, life sciences, technology, health, and finance, but excluding a primarily warehouse or distribution business.¹⁸ Bonuses can also be awarded to companies that make an excess capital investment in an industrial site, create or retain a large number of jobs or pay salaries in excess of city or county medians.¹⁹ Bonuses can also be site specific and are awarded for locating in deep poverty pockets and/or areas of transit-oriented development.²⁰

The program requires the filing of an application and pre-approval by the New Jersey Economic Development Authority ("NJEDA") before a project begins. Businesses applying must meet certain guidelines, and applications undergo significant review by NJEDA. A cost benefit analysis (location vs.

location) must be submitted as part of the application and must demonstrate that New Jersey is the more expensive option versus an out-of-state alternative.²¹ Additionally, a CEO Certification is required, stating that Grow NJ is a material factor in a company's decision-making process.²²

Once approved, companies must execute a binding legal agreement with the NJEDA. The project must meet certain performance-based and other criteria, such as: (1) completing third party agreed upon procedures with respect to its capital investment; (2) annual self-certification that employment goals have been met; (3) maintenance of 80% of statewide employment beyond the project site; and (4) remaining in New Jersey for a duration of 1.5 times the award period (i.e., 15 years for a 10-year award).²³ Moreover, employees in construction jobs at the project site must be paid county prevailing wages, companies must be mindful of affirmative action in the hiring process, and buildings must be constructed or renovated in accordance with green building standards.²⁴

As of February 2017, more than 200 active Grow NJ projects have been approved since the enactment of the EOA, for a total award amount of more than \$4 billion.²⁵ This assistance has fostered the creation of more than 27,700 estimated new jobs and the retention of more than 27,100 existing jobs at risk of leaving New Jersey.²⁶

The incentives associated with the Grow NJ program can be substantial enough to impact a company's bottom line and the decision-making process relative to where and how to do business. What follows is a discussion of the experience of one company, for which a nearly \$30 million Grow NJ benefit has the potential to alter the course of its business decision to expand in a state other than New Jersey.

Case study

XYZ, Inc. ("the Company") is a manufacturer that sells its products through retail, direct selling, branded, direct-to-consumer (internet and catalog), professional lines, television shopping, and direct response TV and radio.²⁷ In early 2016, the Company was considering an expansion. As part of that project, consideration was being given to relocating the Company's existing operations from New Jersey to New York, where it would implement plans to expand.

The Company has had strong ties to New Jersey with several existing facilities in the state. However, New York's ongoing efforts at marketing a tax-free environment for manufacturers, such as StartUp New York, led the company to consider a site in Rochester, New York, for its new manufacturing and assembly facility, a move which would have affected approximately 100 New Jersey jobs. Additionally, the Company had

plans to implement an aggressive growth strategy and create an estimated 110 new jobs if the project moved forward in New York.

In doing a location versus location analysis, the Company found that a site in Paterson, New Jersey, would be more expensive on a per-square-foot basis than the Rochester, New York, option. The analysis included a comparison of one-time up-front costs such as the construction budget and initial equipment purchases, along with a 10-year comparison of ongoing costs such as lease rental rates and real estate taxes. Annual payroll costs were also part of the analysis, with the New York option yielding lower salaries overall.

With this expansion project under consideration, the Company worked with its consultants and the New Jersey Business Action Center ("NJBAC")²⁸ which had become aware of the Company's project. The NJBAC's core mission is to help create and retain jobs while encouraging private capital investment in New Jersey, working with businesses of all sizes. The NJBAC highlighted lucrative eligible incentive areas of the NJ Grow program, with potential benefits approaching \$30 million. The Company took an active interest in NJBAC's proposal, the large value of the credit and with it the improved financial feasibility of locating in Paterson.

The Company's application was officially approved at a public board meeting held by the New Jersey Economic Development Authority. The Grow NJ award consisted of a base tax credit per job of \$5,000 with additional bonus amounts for being a business in a targeted industry (i.e., manufacturing), for locating in a deep poverty pocket and in proximity to transit oriented development, and for making a capital investment in an industrial site above the required minimum. The project's net positive economic benefit to New Jersey was estimated at \$19.5 million over 30 years. In computing this amount, New Jersey considered factors such as increased employee state income tax withholdings from job growth and retention and the additional sales and use tax revenue resulting from Company purchases.²⁹

The credit marketplace—expanding the marketability and value of transferable credits

As noted above, one of the Grow NJ program's attractive features is the flexibility for a company to sell its unused credit to other New Jersey taxpayers. In this context, New Jersey has been part of a larger national trend. In New Jersey, transfers may not be made in an amount less than 75 cents on the dollar,³⁰ though the experience to date has demonstrated that credits are typically sold for a higher value. Before a credit can be transferred, a business must apply to the NJ Division of Taxation for a tax credit transfer certificate, covering

one or more years, in lieu of the business being allowed any amount of the credit against the tax liability of the business.³¹ A buyer's list can be found on the NJEDA website.³²

Online exchange databases, where companies can buy and sell tax credits, have been growing in popularity. These exchanges provide a platform for transacting and processing tradable state tax credits and provide companies access to real time incentive program information, including market pricing. These types of platforms and services specialize in educating buyers and sellers supporting a sustainable marketplace—not just for the New Jersey credits but for other credits throughout the U.S.

Conclusion

The Grow NJ program has been an effective tool at both attraction and retention of business. And, with the advent of credit markets and transferability, the NJ Grow program has become part of a larger and ever evolving landscape, allowing businesses the flexibility to leverage credits in nontraditional ways to improve effectiveness. Expanding or relocating companies should evaluate the opportunity for a Grow NJ award as part of any comprehensive site selection review.³³ Other states should also take note of the successful outcomes produced by the Grow NJ program.

¹ Joseph J. Seneca, James W. Hughes and George R. Nagle, *An Assessment of the New Jersey Business Employment Incentive Program*, at p. 1 (July 27, 2004); <http://www.state.nj.us/treasury/pdf/beip.pdf>.

² *Id.* at p. 1.

³ Kevin Potter, Marcus Panasewicz and Crystal Nicholas, *Transferable state tax credits and incentives—an important element of tax planning*, 27 JMT 40 (March/April 2017).

⁴ For example, New Jersey allows for the sale of net operating losses by certain eligible taxpayers. New Jersey Emerging Technology and Biotechnology Financial Assistance Act, N.J. Stat. Ann. § 34:1B-7.37 *et seq.*

⁵ N.J. Stat. Ann. § 34:1B-244(a)(3). (Adjusted to 100% and a longer duration in some areas).

⁶ Recapture provisions are detailed in the company specific incentive agreement.

⁷ N.J. Stat. Ann. § 34:1B-242 *et seq.*; N.J. Admin. Code § 19:31-18.1 *et seq.*

⁸ http://www.njeda.com/web/pdf/NJEconomicActof2013_summary.pdf.

⁹ <http://www.nj.gov/treasury/taxation/newlegislation2013.shtml>.

¹⁰ N.J. Stat. Ann. § 34:1B-243.

¹¹ N.J. Stat. Ann. § 34:1B-243.

¹² N.J. Stat. Ann. § 34:1B-246(b)(1) and (e).

¹³ N.J. Stat. Ann. § 34:1B-246(b)(1) and (e).

¹⁴ N.J. Stat. Ann. § 34:1B-246(e).

¹⁵ N.J. Stat. Ann. § 34:1B-246(b).

¹⁶ N.J. Stat. Ann. § 34:1B-246(d)(1).

¹⁷ N.J. Stat. Ann. § 34:1B-246(d)(2)-(d)(4).

¹⁸ N.J. Stat. Ann. § 34:1B-243.

¹⁹ N.J. Stat. Ann. § 34:1B-246(c).

²⁰ N.J. Stat. Ann. § 34:1B-246(c).

²¹ N.J. Stat. Ann. § 34:1B-244(d).

²² N.J. Stat. Ann. § 34:1B-244(d).

²³ N.J. Stat. Ann. §§ 34:1B-245, 34:1B-247(d), and 34:1B-243.

²⁴ N.J. Admin. Code § 19:31-18.17; N.J. Stat. Ann. § 34:1B-244(a)(2).

²⁵ http://www.njeda.com/pdfs/reports/Approved_GrowNJ_EOA.aspx.

²⁶ http://www.njeda.com/pdfs/reports/Approved_GrowNJ_EOA.aspx.

²⁷ While the company in question wishes to be identified under a pseudonym, the factual representations in this case study are based on the company's actual experience and have been confirmed by the company as accurate.

²⁸ The NJBAC is a division of the New Jersey Department of State and reports directly to the lieutenant governor.

²⁹ As of the date this article was authored, the Company was in its final evaluation phase.

³⁰ <http://www.njeda.com/pdfs/NJEDA-Business-Tax-Credit-Program-Buyers-List.aspx>.

³¹ N.J. Stat. Ann. § 34:1B-248.

³² http://www.njeda.com/public_information/incentive_activity/grow_nj.

³³ N.J. Stat. Ann. § 34:1B-247. By statute, NJEDA will stop accepting applications for the program in July 2019.

**Prepared Statement of Laurence M. Downes
New Jersey Joint Legislative Committee
Monday, February 11, 2019**

I appreciate the invitation to appear at the joint meeting and the opportunity to provide this statement to the Senate Economic Growth Committee and the Assembly Commerce and Economic Development Committee (collectively, the Legislative Committees). I have served on the Board of the New Jersey Economic Development Authority (EDA) since 2010. Between 2010 and February 2018, I served as Chair of the Incentives Committee. Last February, Governor Murphy recommended me as Chairman of the Board, at which point I relinquished the Chair of the Incentive Committee. I hope this statement will help the Legislative Committees in their review of the operations, oversight, and effectiveness of the EDA and its incentive programs. As Chairman, I believe I can offer valuable insights into the Board's processes surrounding the incentive programs as we work together to ensure that the EDA is doing all it can to serve the people of New Jersey.

As you know, the EDA is an independent State authority. Our mission is to finance small and mid-sized businesses, administer tax incentives to retain and grow jobs in New Jersey, and revitalize communities through development initiatives. I understand the focus of today's hearing is Grow NJ and ERG, which, under the Economic Opportunity Act of 2013 (the "Legislation"), are the two primary incentive programs; although other legacy programs are still phasing out. These two programs, Grow NJ and ERG, are scheduled to sunset in July of this year. From my perspective, these programs are building the foundation for meaningful, long-term economic benefit to New Jersey in the form of new job growth and increased capital spending.

A robust public discussion on these programs will allow the Legislature and the administration, along with the EDA, to build on the successes of the existing programs and find opportunities for improvement to make our incentive programs more effective by incorporating what we have learned to date.

As the Legislative Committees are aware, Grow NJ's primary focus is on creating and retaining jobs by providing tax credits for businesses that either create new jobs or maintain jobs in New Jersey that might otherwise move out of the state. The ERG program emphasizes developer incentives, with the objective of addressing revenue gaps in development projects.

As with any economic development program, it is important to regularly assess whether our programs are working. One way of assessing their effectiveness is built into the current Legislation. Last year, as required by the Legislation, the EDA engaged Rutgers University's Bloustein School of Planning and Public Policy to perform a review and analysis of the Grow NJ and ERG programs. Importantly, the resulting July 2018 Bloustein Report provided a number of helpful suggestions for EDA to consider and implement going forward. The Bloustein Report

ultimately concluded, however, that it is much too early to estimate the overall economic impact of these awards because the programs, by design, have a multi-year horizon, during which grantees must meet certain requirements.

This makes sense. By statute, all of the programs were designed to be performance-based, meaning that although a project is approved, it must then achieve certain goals in a set number of years, including the hiring or retention of employees, before it actually receives the approved benefit. Only if a grantee meets its specific requirements will the full amount of the approved award be disbursed.

This is a critically important point. The currently outstanding awards among active incentive projects amount to approximately \$11 billion. As of today, only a small percentage has actually been realized in the form of issued tax incentives. As the Bloustein Report observed, we cannot fairly judge the success of the program as a whole at this early stage. However, I firmly believe the economic logic behind these programs is sound: Each tax incentive should be viewed as an investment in the State's future that is expected to lead to higher employment and an overall enhanced level of economic activity. In other words, these investments, through tax credits, will only be realized by the grantees after they demonstrate those benefits through performance.

As a board member and now Chairman, I am proud of the work the EDA has done to promote the New Jersey economy, although I'll be the first to say that there are always opportunities to improve. We are continually working to find ways to do better. You should know that, during my tenure as Chair of the Incentives Committee, there was never a meeting where we did not have engaged, substantive discussions about the incentives, whether they were creating value and complied with the Legislation, and what we were learning from the market.

As part of the Incentive Committee's review, a Deputy Attorney General actually participated in the committee meetings and was available to answer questions and ensure compliance with the Legislation. In addition, EDA professional staff, Board members, the Chief Executive Officer, as well as members of the senior management team often participated in the committee meetings. From time to time, particular projects were discussed at multiple committee meetings to ensure all outstanding questions were addressed before making a recommendation for full Board approval. The standards for review were rigorous, consistent, and driven by the Legislation.

Transparency has also been critical to a successful incentive process. Every incentive forwarded out of the committee was reviewed by the Attorney General's Office and then publicly voted on by EDA Board members. EDA staff-prepared briefings of the proposed incentive awards were sent to Board members for review approximately one week prior to the Board meeting. The EDA Board meeting minutes and agendas, incentive activity reports for all

legacy and active programs, previous reviews, and EDA annual reports are all publicly available on the EDA's website.

The review and approval process for incentives was substantive, it had legal oversight, and it was publicly transparent. I must again emphasize that the Incentive Committee participants were always focused on the intent of the Legislation.

I firmly believe that the EDA can offer a beneficial perspective on how to improve the next incentive program as the current Legislation sunsets in July. Since the implementation of the Legislation, we have gained substantive market knowledge about the incentives that will assist in the development of the new incentive programs. The EDA also welcomes constructive ideas and suggestions from all corners, whether from the Legislature, the administration, academics, economists, or other experts.

That includes the recent performance audit from the Office of the State Comptroller. Many of the audit's suggestions are valuable and reflect useful ideas for longer-term improvements. I am happy to report that the EDA had already been pursuing many of these initiatives for a number of years, particularly when it comes to technology and using data. As with any organization, objective audits and assessments are essential to growth and development, and I thank the Comptroller and his team for their efforts and for sharing their findings and recommendations with us.

I think it is important, however, for the Legislature to take into account a few points of context about the audit and some of its limits as you consider how to best move forward with the next generation of incentive programs for New Jersey.

First, the audit itself states that it relies on a non-statistical sampling approach, and therefore, as the report acknowledges, the findings "cannot be projected over the entire population" of EDA incentive grants. For any business person this is obviously an important point – it's easy to overcorrect an apparent problem if your sample makes the problem look much larger than it is. It also calls into question whether or not the sample can be used to support the report's broader conclusions.

I emphasize this today in part because the sample reviewed in the audit not only lacked statistical significance, but was also weighted heavily toward the legacy programs previously administered by the Commerce Committee that have already sunsetted: the Business Employment Incentive Program (BEIP), Business Retention and Relocation Assistance Grant Program (BRRAG), and Urban Transit Hub Tax Credit Program (HUB). For example, of the audit's 48 projects sampled, 29 were projects from BEIP, BRRAG, or HUB while only 19 of the sampled projects were from Grow NJ or ERG. As noted, the Bloustein Report found that it was too early to judge Grow NJ's overall program results based only on the projects that have already created jobs and received tax credits. In addition, the legacy programs are no longer accepting applications. Although our experience with the legacy programs can offer valuable learning

opportunities, it is particularly important that we focus on the programs that are still active in deciding what form the future EDA programs should take.

Second, there are also a number of suggestions in the audit that either reflect differences of interpretation of the current statutes, or rest on suggestions for ways the current statutes should be changed. As I said, we welcome a robust discussion around how the new programs should operate. And I can state with the greatest confidence that the EDA staff, the Incentive Committee, and the Board followed the current Legislation to the best of our ability, based on our understanding of what those statutes and regulations direct and require. In fact, as I referenced previously in my statement, in every meeting where the Incentive Committee made a substantive funding recommendation and every full Board meeting at which a recommendation for incentive award approval was being made, the EDA's assigned Deputy Attorney General was present to ensure that EDA always acted pursuant to and in compliance with current law. We greatly appreciated the Deputy Attorney General's guidance.

Third, the Legislature should also know that many of the issues outlined in the audit have been or are in the process of being addressed. Under the current leadership of Tim Sullivan, the EDA is entering a new phase of incentives after spending the last several years in the approval process. As many of those projects grow, the EDA is developing additional resources to monitor compliance with the award requirements. In particular, the EDA is strengthening its post-approval monitoring of projects by creating a division tasked with monitoring project compliance with award agreements, partnering with the New Jersey Department of Labor and Workforce to verify information submitted by applicants, and implementing a new organization-wide data and documentation system that will be the central database for all EDA programs. Furthermore, many of the recommendations laid out by OSC have been incorporated into the updated annual requirements for businesses seeking tax credit certification.

Before I conclude I want to thank the Governor, the Legislature, and the Office of the State Comptroller for striving to make New Jersey's economy work for the people of this State.

I also want to thank the dedicated professionals within the EDA. I promise you, nobody is more dedicated to ensuring that the EDA's programs are fair and efficient than the women and men who have committed their time and careers to the EDA. The expertise and quality of our team, which is comprised of hard-working staff with skills in finance, economics, and redevelopment in the various sectors where New Jersey is already strong or has opportunities for growth, is unmatched. In my experience, the quality of the team that shows up to work every day at the EDA is outstanding and it's a privilege to work with them on behalf of New Jersey.

I would be remiss if I did not recognize the extraordinary leaders who helped guide the successes of EDA over the years, including former EDA Board Chairman **Al Koepp**, EDA Board Vice Chairman **Joe McNamara** and former EDA CEO **Caren Franzini**. They were all

true public servants and deeply involved in developing the processes that guide our review of incentive proposals to this very day.

I firmly believe that the Economic Opportunity Act created a framework that can facilitate economic growth in our state. What we are doing is working. We have learned a lot from our experience so far, but there is always room for improvement. The challenge ahead is to incorporate those learnings into new incentive programs that will allow us to achieve New Jersey's economic development goals. On behalf of the EDA, we are committed to working closely with you on this critical initiative. Thank you for considering this submission as part of today's hearing.



Laurence M. Downes

February 8, 2019



State of New Jersey

OFFICE OF THE STATE TREASURER

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PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lt. Governor

ELIZABETH MAHER MUOIO
State Treasurer

February 11, 2019

Dear Members of the Senate Economic Growth and Assembly Commerce and Economic Development committees:

As your committees weigh testimony on the oversight and effectiveness of New Jersey's various tax incentive programs, I'd like to underscore a number of critical fiscal concerns that these programs will pose for the state budget in the coming years.

Two factors, in particular, are of great concern to Treasury – the lack of discretion within the various programs often leads to the over-awarding of tax credits, while the lack of a cap, particularly an annual cap on the cumulative amount of credits awarded, significantly impedes our ability to budget with greater precision.

As I mentioned during my budget testimony last spring, the utilization of various state tax credits continues to impact the performance of our Corporation Business Tax (CBT).

What we don't know with exact certainty is how approved tax credits are being utilized by taxpayers. This is due in no small part to the fact that approximately three-quarters of credits awarded are transferred through tax transfer certificates, meaning they are sold to other companies. The fact that such a large percentage of the tax credits received are being sold for cash rather than being used to lower a company's tax burden calls into question whether the tax incentive programs are achieving the goals for which they were intended.

What we do know, however, is that tax credits are holding down the performance of the CBT, as well as the performance of the Insurance Premiums Tax, and that the utilization of tax credits will likely only continue to escalate over the next half decade. Based on projections from the Economic Development Authority, the state could stand to lose roughly \$1 billion in revenue annually over each of the next four fiscal years due to the potential utilization of tax credits. This makes our ability to budget for investments in critical areas such as NJ TRANSIT, education, and infrastructure, all the more difficult.

As you weigh measures to improve the oversight and effectiveness of tax incentive programs, I hope you will keep these factors in mind in order to foster more sound fiscal practices that will ultimately benefit the taxpayers of this state.

Sincerely,

Elizabeth Maher Muoio
State Treasurer

c: Senate President Stephen M. Sweeney
Assembly Speaker Craig J. Coughlin



State of New Jersey

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PHILIP D. MURPHY
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PHILIP JAMES DEGNAN
State Comptroller

March 11, 2019

Senator Nilsa Cruz-Perez
Assemblyman Gordon M. Thompson
State House Annex
P.O. Box 068
Trenton, New Jersey 08625-0068

Re: Supplement to Testimony Provided by State Comptroller Philip James Degnan on February 11, 2019, before the Senate Economic Growth and Assembly Commerce and Economic Development Joint Committee

Dear Chairwoman Cruz-Perez and Chairman Johnson:

On February 11, 2019, I appeared before the Senate Economic Growth and Assembly Commerce and Economic Development Joint Committee to discuss the findings and recommendations set forth in the Office of the State Comptroller's (OSC) public report dated January 19, 2019, and titled, *New Jersey Economic Development Authority: A Performance Audit of Selected State Tax Incentive Programs*. During the course of my testimony, several members of the committee requested additional information concerning matters related to the report. I respectfully submit the below response as a supplement to my testimony.

Chairwoman Cruz-Perez requested that OSC provide a breakdown of the tax incentive program(s) for which each of the 48 projects in our audit sample had been certified for awards. First, for the convenience of the Committee, I have attached as an exhibit certain public information concerning the 401 EDA projects from which OSC selected its audit sample. Our audit sample included: (a) 13 Business Employment Incentive Program (BEIP) projects; (b) 8 Business Retention and Relocation Assistance Grant Program (BRRAG) projects; (c) 7 Economic Redevelopment and Growth Program (ERG) projects; (d) 12 Grow New Jersey Assistance Program (GrowNJ) projects; and (e) 8 Urban Transit Hub Tax Credit Program (HUB) projects. Additional information concerning each of the 48 sample projects is set forth on page 4 of our report in a table titled, "Summary of Sampled Projects."

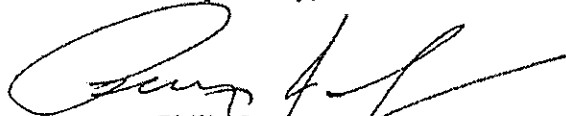
Next, in discussing aspects of the “net benefit analysis” required by some of the tax incentive programs, Senator Oroho asked whether any of the projects in our audit sample failed to satisfy the net benefit analysis. As I described, OSC selected 48 sample projects, each of which had been approved for an incentive award by the Economic Development Authority (EDA) and also had received at least one incentive payment. OSC found no evidence that any of the projects in its sample failed to satisfy the net benefit analysis where applicable. As discussed on pages 14-16 of our audit report, however, OSC did note certain deficiencies in EDA’s performance or evaluation of the net benefit analysis with regard to several projects, including (for example) the use of incorrect data elements.

Assemblyman Freiman asked whether OSC had assessed any of the project awards in its sample according to the size of the awardee company. In conducting our audit, OSC obtained available information from EDA concerning each awardee. While some of that information may have included certain attributes of the companies such as business size, OSC’s audit examined EDA’s overall “administration” of the various tax incentive programs. Such an examination focused on identifying “process weaknesses” irrespective of the size of any particular company awardee.

Finally, Assemblyman Bucco asked OSC to confirm the total value of tax incentives that had been paid to date. In its January 3, 2019, response to OSC’s draft audit report, EDA stated that \$696.7 million in payments had been disbursed to awardees under its various tax incentive programs. Assemblyman Bucco also asked how many companies in our audit sample failed to supply EDA with appropriate information to demonstrate that promised jobs had actually been created. As indicated in my testimony, OSC’s audit engagement and scope focused solely on EDA’s administration of the various tax incentive programs. In so doing, OSC auditors examined documentation and electronic data maintained by EDA. As explained in more detail on pages 36-37 of our audit report, we found several instances where EDA’s files did not include complete information to demonstrate that jobs had actually been created.

I hope this information has been helpful. Should you or any members of the Joint Committee have additional questions, please do not hesitate to contact me.

Respectfully,



Philip James Degnan
State Comptroller

Attachment

Program	Project	Award Amount
BEIP	Sanofi US Services, Inc.	\$8,369,000
BEIP	ExxonMobil Research and Engineering Company	\$5,139,428
BEIP	HomeBridge Financial Services	\$587,633
BEIP	ImClone Systems LLC	\$2,755,200
BEIP	ImClone Systems LLC	\$32,363,676
BEIP	Deloitte LLP and Subsidiaries	\$4,494,000
BEIP	Deloitte LLP & Its Subsidiaries	\$17,451,000
BEIP	Abbott Point of Care Inc. and Abbott Diabetes Care	\$1,218,244
BEIP	Eisai, Inc. and Eisai Corporation of North America	\$1,203,750
BEIP	Home Decor Products, Inc.	\$150,624
BEIP	Linde LLC, Linde North America, Inc., Linde	\$1,139,175
BEIP	Plymouth Rock Management Company of New Jersey	\$215,199
BEIP	Pearson Education, Inc. and Affiliates	\$580,230
BEIP	DB Services New Jersey, Inc.	\$39,520,000
BEIP	Bed Bath & Beyond Inc. and Subsidiaries	\$8,541,650
BEIP	ConocoPhillips Company	\$417,600
BEIP	Cadent, Inc.	\$142,500
BEIP	NPS Pharmaceuticals, Inc.	\$4,371,200
BEIP	AAA Mid-Atlantic, Inc.	\$785,925
BEIP	VaxInnate Corporation	\$384,265
BEIP	DIRECT GROUP, LLC and MCR DIRECT MAIL, LLC	\$1,904,175
BEIP	Thomas Colace Company, LLC, The and	\$1,285,200
BEIP	Cadbury Adams USA LLC	\$510,825
BEIP	Alpine Trading Company, Inc.	\$97,440
BEIP	Gain Capital Group, LLC	\$164,200
BEIP	Daiichi Sankyo, Inc.	\$1,330,304
BEIP	Medidata Solutions, Inc.	\$642,010
BEIP	Amdocs, Inc.	\$933,900
BEIP	Corporate Synergies Group, LLC	\$3,984,640
BEIP	Model Electronics Inc.	\$467,859
BEIP	Dava Pharmaceuticals, Inc.	\$931,560
BEIP	Dendreon Corporation	\$579,990
BEIP	Chugai Pharma USA	\$582,225
BEIP	Endo Pharmaceuticals Valera, Inc.	\$86,295
BEIP	Sony Music Entertainment Inc.	\$2,867,480
BEIP	Government Employees Insurance Company	\$706,050
BEIP	Medico Graphic Services, Inc.	\$75,361
BEIP	MRS Associates, Inc. ("MRS" or the "Company")	\$443,300
BEIP	Xerox State Healthcare, LLC	\$1,089,760
BEIP	Comag Marketing Group, LLC	\$1,796,580
BEIP	Tullett-Prebon Americas Corporation	\$7,958,864
BEIP	SG Americas Operational Services Inc. / SG America	\$10,088,400
BEIP	Howmedica Osteonics Corp.	\$3,540,810

BEIP	Victory Worldwide Transportation, Inc.	\$257,140
BEIP	Pharmasset, Inc.	\$1,736,864
BEIP	Franklin Credit Management Corporation	\$639,256
BEIP	AuthentiDate Holding Corp.	\$1,271,524
BEIP	Zimmer Trabecular Metal Technology, Inc.	\$408,675
BEIP	Verizon Communications Inc., et al	\$87,750,000
BEIP	Phyton Biotech, Inc	\$1,204,868
BEIP	Ogilvy CommonHealth Worldwide	\$1,302,495
BEIP	Freedom Eldercare, Inc.	\$78,400
BEIP	PAETEC Communications, Inc.	\$474,200
BEIP	Perceptive Services, Inc.	\$685,125
BEIP	New Jersey Headwear Corp.	\$48,000
BEIP	Harte-Hanks Teleservices	\$164,531
BEIP	Infragistics, Inc.	\$69,150
BEIP	BRIDOR USA	\$190,650
BEIP	Accenture Federal Services, LLC	\$1,477,920
BEIP	Tracy Evans, Ltd.	\$308,436
BEIP	Independence Press Inc.	\$263,319
BEIP	DuBell Lumber Company	\$504,320
BEIP	Bank of Tokyo-Mitsubishi UFJ, Ltd	\$4,353,888
BEIP	Bayer HealthCare Pharmaceuticals, Inc.	\$8,941,563
BEIP	Bamboo Abbott Inc. d/b/a Prestige Window Fashions	\$257,813
BEIP	Star Soap/Star Candle/Prayer Candle Co., LLC	\$499,500
BEIP	iBiquity Digital Corporation	\$360,649
BEIP	Medlink Imaging, LLC.	\$160,848
BEIP	Metrologic Instruments, Inc.	\$75,600
BEIP	TI Parsippany Inc. and TI Shared Services Inc.	\$3,288,372
BEIP	Telargo Inc.	\$335,146
BEIP	Black Bear Distribution, LLC	\$175,500
BEIP	Butterfly Press, LLC.	\$196,059
BEIP	Advanced Drainage Systems, Inc.	\$198,000
BEIP	Corelab Partners, Inc. f/k/a RadPharm, Inc.	\$566,060
BEIP	Citco Fund Services (USA), Inc.	\$12,200,000
BEIP	Viewpointe Archive Services, L.L.C.	\$1,349,460
BEIP	MetLife Group Inc. and MetLife Bank, NA	\$4,270,365
BEIP	New York Produce, Inc.	\$656,906
BEIP	Quaker Photo Service Co Inc	\$122,641
BEIP	AJM Packaging Corporation	\$1,052,000
BEIP	Northern Trust Company, The	\$1,003,275
BEIP	Rose Brand Wipers, Inc.	\$900,589
BEIP	E*Trade Financial Corporation and Subsidiaries	\$2,710,500
BEIP	Vanguard Direct, Inc.	\$284,280
BEIP	Oracle Financial Services Software, Inc.	\$3,284,531
BEIP	Ferring Pharmaceuticals, Inc.	\$3,927,466
BEIP	City Theatrical, Inc.	\$47,000
BEIP	Falcon International Distributors, LLC	\$456,000

BEIP	Christmas Tree Shops, Inc.	\$235,577
BEIP	Bed Bath and Beyond Inc.	\$166,614
BEIP	Atlantic City Linen Supply, Inc and ACLS	\$266,573
BEIP	Chem Fleur, Inc.	\$705,870
BEIP	Super Stud Building Products, Inc.	\$1,039,421
BEIP	Citigroup Global Markets, Inc. and Citibank, N.A.	\$37,104,000
BEIP	CSG Systems, Inc	\$940,842
BEIP	Damascus Bakery, Inc.	\$414,000
BEIP	Product Safety Labs, Inc.	\$154,375
BEIP	KPMG LLP	\$3,747,250
BEIP	Jersey Precast Corp	\$157,375
BEIP	Marketing Technology Solutions, Inc.	\$1,113,120
BEIP	Designer Greetings, Inc.	\$524,700
BEIP	Mindich Enterprises, Inc.	\$216,306
BEIP	Conopco, Inc. and Unilever United States, Inc.	\$11,305,125
BEIP	McLean Packaging Corporation and MJF Realty Group,	\$689,830
BEIP	Homeland Vinyl Products, Inc.	\$326,250
BEIP	Paribas North America, Inc. and BNP Paribas RCC,	\$22,704,910
BEIP	Advanced Health Media, LLC	\$100,844
BEIP	Scivantage, Inc.	\$1,879,819
BEIP	AvePoint, Inc.	\$547,820
BEIP	QUALCOMM Flarion Technologies, Inc., Qualcomm Inc	\$1,932,300
BEIP	Bayer HealthCare Pharmaceuticals, Inc.	\$12,518,188
BEIP	Broadridge Financial Solutions, Inc. and	\$2,845,500
BEIP	BAE SYSTEMS Information and Electronic Systems	\$5,041,400
BEIP	CommVault Systems, Inc. and CommVault Tinton	\$3,755,745
BEIP	Dietz and Watson, Inc	\$821,384
BEIP	Novo Nordisk, Inc.	\$5,405,932
BEIP	Lodi CML Cooperative LLC	\$149,561
BEIP	Opera Solutions, LLC.	\$11,750,000
BEIP	Franklin Electric Company	\$424,508
BEIP	New York Sample Card Co.	\$201,534
BEIP	IPC Systems, Inc. & IPC Networks Services, Inc.	\$6,464,118
BEIP	L'Oreal USA Products, Inc. & L'Oreal USA S/D, Inc.	\$1,477,920
BEIP	BlackRock Institutional Trust Company NA	\$811,650
BEIP	Acquiescent Holdings, Inc./Telagen, Inc./Zeus	\$550,699
BEIP	ExiService Holdings, Inc. and its subsidiaries	\$4,150,000
BEIP	Citco Fund Services (USA), Inc.	\$10,150,000
BEIP	Emisphere Technologies, Inc.	\$624,750
BEIP	IBM Corporation	\$3,498,000
BEIP	Mimeo.com, Inc.	\$840,937
BEIP	Interstate Waste Services, Inc., Interstate Waste	\$695,975
BEIP	AXA Equitable Life Insurance Company	\$21,907,000
BEIP	Novel Laboratories, Inc	\$601,785
BEIP	Vahl, Inc.	\$702,625

BEIP	Scharff Weisberg, Inc	\$1,400,027
BEIP	L.V. Adhesive, Inc.	\$369,889
BEIP	NB Ventures, Inc.	\$195,628
BEIP	Standard Chartered Bank	\$4,212,086
BEIP	Eva Tees Inc.	\$153,900
BEIP	Tullett Prebon (Americas) Holding Inc.	\$16,500,000
BEIP	Regeneron Pharmaceuticals, Inc.	\$471,219
BEIP	Harbour Mechanical Corporation	\$1,259,280
BEIP	inVentiv Health, Inc. and Subsidiaries	\$3,478,650
BEIP	Jaguar Land Rover North America, LLC	\$1,732,981
BEIP	Arch Insurance Group Inc.	\$9,596,755
BEIP	Sun Pharmaceutical Industries, Inc.	\$2,382,217
BEIP	MLB Network, LLC, The	\$8,048,929
BEIP	Princeton Power Systems, Inc.	\$435,000
BEIP	Bausch & Lomb Incorporated	\$3,500,000
BEIP	Eight O'Clock Coffee Company	\$680,240
BEIP	Dey Pharma, L.P., Mylan Inc. and Affiliates	\$1,088,479
BEIP	Innopharma Inc.	\$119,831
BEIP	Integra LifeSciences Corporation	\$5,161,579
BEIP	Depository Trust & Clearing Corp. & affiliates	\$74,624,000
BEIP	IPC Systems, Inc. & IPC Networks Services, Inc.	\$1,275,450
BEIP	Mayab Happy Tacos, Inc.	\$189,000
BEIP	SME Consolidated LTD	\$823,162
BEIP	Maquet Cardiovascular LLC	\$3,901,625
BEIP	TD Bank, National Association	\$2,587,812
BEIP	Otsuka America Pharmaceutical, Inc. & Otsuka	\$1,449,375
BEIP	Telamon Corporation	\$102,079
BEIP	SCS Commodities Corp. and SCS OTC Corp.	\$2,723,710
BEIP	Proximo Spirits, Inc.	\$2,300,000
BEIP	ACE American Insurance Company and affiliates	\$9,706,284
BEIP	Princeton Information Ltd.	\$656,166
BEIP	Unimac Graphics, LLC	\$1,694,756
BEIP	Williams-Sonoma Direct, Inc.	\$587,722
BEIP	Watson Pharmaceuticals, Inc. and Affiliates	\$3,038,000
BEIP	Catapult Holdings, Inc.	\$1,160,000
BEIP	Roka Bioscience, Inc	\$583,000
BEIP	Oxford Instruments Inc	\$642,900
BEIP	Atlantic Coast Media Group, LLC	\$3,696,397
BEIP	Solidia Technologies	\$158,535
BEIP	A&P Coat, Apron and Linen Supply Inc.	\$480,000
BEIP	Broadway Kleer Guard Corporation	\$37,500
BEIP	Pinnacle Foods Group LLC	\$919,800
BEIP	Torus US Services	\$3,092,000
BEIP	JFC International Inc.	\$425,845
BEIP	Dr. Reddy's Laboratories	\$1,364,220
BEIP	Precise Corporate Printing, Inc.	\$104,471
BEIP	Mars Retail Group	\$459,900

BEIP	Futurewei Technologies, Inc.	\$1,300,050
BEIP	Hilliard Farber & Company, Inc	\$5,429,760
BEIP	Standard Chartered Bank	\$2,555,000
BEIP	Pfizer Inc.	\$9,182,250
BEIP	Amneal Pharmaceuticals LLC and Kashiv Pharma, LLC	\$4,638,000
BEIP	Alice & Olivia, LLC	\$156,975
BEIP	Focus Camera LLC	\$240,000
BEIP	TriZetto Group, Inc., The	\$793,307
BEIP	National Financial Services, LLC	\$5,534,400
BEIP	Jefferies LLC	\$2,040,720
BEIP	PBF Holding Company, LLC	\$1,423,125
BEIP	Direct Success Inc.	\$1,834,500
BEIP	SupplyOne New York, Inc.	\$477,593
BEIP	Bayer HealthCare LLC and Affiliates	\$25,000,000
BEIP	Bracco Diagnostics Inc.	\$1,652,138
BEIP	Regeneron Pharmaceuticals, Inc.	\$345,900
BEIP	Boulderby, LLC	\$113,750
BEIP	Ferraro Foods Inc.	\$345,750
BEIP	Citibank, N.A. Inc. Citicorp North America, Inc.	\$12,368,000
BEIP	Teachers Insurance and Annuity Association of	\$9,328,000
BEIP	ThromboGenics, Inc. and Affiliates	\$1,556,445
BEIP	Merisel Americas, Inc.	\$836,154
BEIP	Fluitem Wind LLC	\$927,600
BEIP	Prestige Industries, LLC and Prestige Industries	\$844,800
BEIP	Locus Energy, LLC	\$365,200
BEIP	Celsion Corporation	\$1,122,275
BEIP	Ipsen Biopharmaceuticals, Inc.	\$4,471,740
BEIP	Vitech Systems Group, Inc.	\$1,352,750
BEIP	Watson Pharmaceuticals, Inc.	\$569,910
BEIP	Dun & Bradstreet Corporation, The	\$1,009,125
BEIP	Biotrial, Inc.	\$689,850
BEIP	Glenmore Industries, LLC	\$693,577
BEIP	Amneal Pharmaceuticals LLC	\$600,000
BEIP	All Things Media, LLC	\$747,656
BEIP	Waste Management of New Jersey Incorporated	\$399,000
BEIP	Global Equipment Company Inc.	\$653,730
BEIP	Accupac, Inc.	\$1,401,563
BEIP	CommVault Systems, Inc. and CommVault Tinton	\$7,206,000
BEIP	Vitamin Shoppe Industries, Inc.	\$1,402,200
BEIP	Lonza America, Inc., Lonza Inc., Arch Chemicals,	\$691,800
BEIP	Cellco Partnership (d/b/a Verizon Wireless)	\$5,478,000
BEIP	Great Dames Limited Liability Company	\$330,022
BEIP	EisnerAmper LLP	\$1,826,000
BEIP	International Vitamin Corporation	\$319,200
BEIP	Zoetis Inc. and Subsidiaries	\$19,250,000
BEIP	ProSight Specialty Management Company, Inc.	\$1,450,440

BEIP	Everite Machine Products Co.	\$1,154,320
BEIP	Northern Building Products, Inc.	\$118,000
BEIP	Caduceus, Inc.	\$658,800
BEIP	Ferring Production Inc., Ferring Pharmaceuticals,	\$3,129,875
BEIP	PVH Corp.	\$720,313
BEIP	HighRoad Press, LLC	\$345,750
BEIP	GENEWIZ, Inc.	\$299,322
BEIP	AASKI Technology Inc.	\$648,563
BEIP	CVS Pharmacy, Inc. and CVS Caremark	\$5,961,313
BEIP	CLS Bank International	\$2,550,000
BEIP	Grant Thornton LLP	\$820,743
BRRAG	Novartis #1	\$810,000
BRRAG	Deloitte & Touche	\$1,233,000
BRRAG	Abbott Point of Care	\$246,400
BRRAG	Eisai, Inc.	\$325,500
BRRAG	Ernst & Young	\$1,503,000
BRRAG	Novartis #2	\$750,000
BRRAG	Aeropostale, Inc.	\$328,500
BRRAG	HomeBridge Financial Services	\$459,000
BRRAG	Celgene	\$345,800
BRRAG	Bed Bath & Beyond	\$750,000
BRRAG	American Van Equipment	\$89,700
BRRAG	IDL TechniEdge	\$93,500
BRRAG	Evonik Degussa Corporation	\$1,017,000
BRRAG	Church & Dwight	\$13,554,000
BRRAG	Consolidated Services Group	\$225,000
BRRAG	Durand Glass Manufacturing Company	\$9,562,500
BRRAG	Home Dynamix, LLC	\$1,134,000
BRRAG	Verizon	\$1,155,000
BRRAG	Cadbury Adams	\$349,700
BRRAG	Citigroup NA	\$1,260,000
BRRAG	Mellon LLC	\$1,099,500
BRRAG	McMaster-Carr	\$855,000
BRRAG	Rhodia	\$408,200
BRRAG	Louis Berger Group	\$370,800
BRRAG	Wyndham Phase I	\$1,557,000
BRRAG	Conopco/Unilever	\$627,200
BRRAG	Bayer	\$448,000
BRRAG	Maidenform	\$302,400
BRRAG	Novo Nordisk	\$420,000
BRRAG	MRS Associates	\$360,000
BRRAG	InVentiv Health	\$519,000
BRRAG	KS Engineers	\$101,200
BRRAG	Dr. Leonard's Healthcare Corp	\$88,800
BRRAG	Diversified Foam Products	\$78,000
BRRAG	Direct Cabinet Sales	\$62,400
BRRAG	Williams Sonoma Direct	\$129,600

BRRAG	Watson Pharmaceuticals	\$289,800
BRRAG	Burlington Coat Factory	\$72,000
BRRAG	United Parcel Service #1	\$1,111,500
BRRAG	Pinnacle Foods Group	\$186,200
BRRAG	Mednet Healthcare Technologies Inc.	\$79,200
BRRAG	Marine Container Services Inc	\$59,400
BRRAG	Jefferies & Company, Inc.	\$317,200
BRRAG	Bayer HealthCare LLC and Affiliates	\$14,094,000
BRRAG	Bracco Diagnostics, Inc (BDI)	\$398,250
BRRAG	Ferraro Foods Inc. and Affiliates	\$1,129,500
BRRAG	Mission Solutions, LLC	\$3,746,250
BRRAG	Realogy Corporation	\$10,721,250
BRRAG	SYNNEX Corporation	\$202,500
BRRAG	Rosetta Marketing Group, LLC	\$371,250
BRRAG	UBS Financial Services and related entities	\$27,000,000
BRRAG	QualCare Alliance Networks, Inc.	\$245,250
BRRAG	The Dun and Bradstreet Corporation	\$2,700,000
BRRAG	IPAK, Inc.	\$191,250
BRRAG	DACO Limited Partnership	\$198,000
BRRAG	CommVault Systems	\$1,350,000
BRRAG	Ginsey Industries, Inc.	\$162,000
BRRAG	Lonza Group Ltd. & subsidiaries	\$333,000
BRRAG	EisnerAmper LLP & Affiliates	\$1,147,500
BRRAG	Fairfield Gourmet Food Corp.	\$1,350,000
BRRAG	Prudent Publishing Co., Inc.	\$346,500
BRRAG	Clement Pappas and Company, Inc.	\$1,287,000
BRRAG	Accupac Packaging, Inc.	\$112,500
BRRAG	Precision Custom Coatings	\$506,250
BRRAG	McGraw-Hill Global Education Holdings, LLC and Affiliates	\$236,250
ERG	Catellus Teterboro Urban Renewal LLC	\$18,771,345
ERG	DVL, Inc.	\$9,590,284
ERG	PRC Campus Centers, LLC	\$15,767,702
ERG	TDAF I Pru Hotel Urban Renewal Company LLC	\$6,583,637
ERG	Glassboro Mixed-Use Urban Renewal, LLC	\$22,045,806
ERG	DGMB Casino, LLC	\$5,055,556
ERG	Washington Street University Housing Urban Renewal Associates, LLC	\$23,142,465
ERG	810 Broad LLC	\$4,700,238
ERG	Saker ShopRites	\$5,000,000
ERG	Jersey Gardens Lodging Associates LLP	\$7,961,200
ERG	Newport Office Center VI LLC	\$14,600,000
ERG	Port Imperial South LLC	\$8,893,049
ERG	Harrison Hotel 1, LLC, or affiliate	\$7,250,987
ERG	MSST Fidelco Properties, LLC	\$5,640,161
ERG	RBH-TRB Newark Holdings, LLC	\$20,548,344
ERG	Harrah's Atlantic City Holding Inc.	\$24,128,000

ERG	TDAF I Springfield Avenue Holding Urban Renewal Company LLC	\$8,358,889
ERG	Broadway Associates 2010 LLC	\$13,491,661
ERG	GLTC Partners 2014, LLC	\$6,384,259
ERG	GLTC Partners 2014, LLC	\$4,740,220
ERG	Building 101 Urban Renewal, LCC	\$16,185,802
ERG	ACTH Partners, LP	\$6,917,954
ERG	Broadway Housing Partners LLC	\$6,119,890
ERG	7 Long Street Doddtown LLC	\$3,354,849
ERG	Carver Hall Urban Renewal, LP	\$13,524,105
ERG	Prospect Park Apartments Urban Renewal, LLC	\$7,977,055
GROW	Destination Maternity Corporation	\$40,000,000
GROW	Philadelphia 76ers, L.P.	\$82,040,507
GROW	Honeywell International, Inc.	\$40,000,000
GROW	Lockheed Martin Corporation	\$40,000,000
GROW	D'Artagnan, Inc. (1)	\$5,475,000
GROW	Patella Construction Corp.	\$10,325,000
GROW	Grocery Delivery E-Services USA Inc. d/b/a HelloFresh	\$37,102,420
GROW	Gaming Laboratories International, LLC	\$9,990,000
GROW	Sandoz Inc. (1)	\$9,180,000
GROW	Ascena Retail Group and Dress Barn Inc.	\$32,400,000
GROW	Royal Wine Corporation, Kenover Marketing Corporation, and affiliates	\$22,890,000
GROW	Principis Capital LLC	\$3,875,000
GROW	Liscio's Italian Bakery, Inc.	\$13,515,000
GROW	RBC Capital Markets, LLC	\$78,750,000
GROW	Jimmy's Cookies	\$7,537,500
GROW	Cooper Health System	\$39,990,000
GROW	Insight Catastrophe Group, LLC	\$2,480,000
GROW	WebiMax LLC (2)	\$6,035,000
GROW	Wenner Bread Products, Inc.	\$30,360,000
GROW	JPMorgan Chase Bank, N.A.	\$224,835,000
GROW	151 Foods LLC	\$20,700,000
GROW	Burlington Coat Factory Warehouse Corporation	\$40,000,000
GROW	Imperial Bag & Paper Co., LLC	\$29,120,000
GROW	NRG Energy Inc.	\$37,520,000
GROW	Forbes Media LLC & Forbes Media Holdings LLC	\$27,125,000
GROW	VF Sportswear, Inc. and Subsidiaries	\$13,125,000
GROW	United Water Management and Services Inc. & United Water Inc. (1)	\$5,512,500
GROW	Univision Communications Inc. and Subsidiaries	\$3,500,000
GROW	Eltman Law PC	\$5,600,000
GROW	Rent the Runway, Inc.	\$14,557,500
GROW	Interpool, Inc. d/b/a TRAC Intermodal (1)	\$9,800,000
GROW	Jacmel Jewlery, Inc.	\$3,000,000
GROW	First Data Corporation	\$5,920,000
GROW	Sandy Alexander, Inc.	\$12,740,000

GROW	Plastics Consulting and Manufacturing Company, Inc.	\$3,920,000
GROW	Northern Leasing Systems, Inc.	\$7,130,000
GROW	Charles Komar & Sons, Inc.	\$37,200,000
GROW	Barrette Outdoor Living, Inc.	\$29,810,000
GROW	Solvay USA, Inc. (1)	\$9,652,500
GROW	First Data Corporation	\$8,250,000
GROW	Brown Brothers Harriman & Co.	\$19,412,120
GROW	Northeast Precast LLC	\$8,126,630
GROW	Contemporary Graphics and Bindery, Inc. and Affiliates	\$33,900,000
GROW	Audio and Video Labs, Inc.	\$1,475,500
GROW	IPAK, Inc.	\$17,100,000
GROW	Showman Fabricators, Inc.	\$8,775,000
GROW	FX DirectDealer, LLC	\$9,075,000
GROW	World Business Lenders, LLC	\$16,875,000
GROW	Amerinox Processing, Inc.	\$7,950,000
GROW	RVM Enterprises, Inc.	\$8,120,000
GROW	Master Metal Polishing Corp	\$9,262,500
GROW	WallachBeth Capital, LLC	\$4,812,500
HUB	Transit Village	\$76,600,000
HUB	Newark Farmers Market, LLC	\$15,750,000
HUB	Wakefern Food Corp. (1)	\$29,250,000
HUB	Wakefern Food Corp. (2)	\$58,000,000
HUB	Campbell Soup Company	\$34,191,809
HUB	Borate Development LLC of a New Entity to be formed (133 Somerset & Albany Sts)	\$23,810,360
HUB	Pennrose Properties LLC (Carl Miller Homes)	\$17,716,713
HUB	Daily News, L.P.	\$41,650,000
HUB	Panasonic Corporation of North America	\$102,408,062
HUB	Prudential Financial Inc., and/or Affiliates	\$210,828,357
HUB	Grand LHN I Urban Renewal LLC	\$42,015,207
HUB	Goya Foods, Inc.	\$81,901,205
HUB	70 Columbus Co., LLC	\$28,317,582
HUB	CSC TKR, LLC	\$37,451,378
HUB	Ahold eCommerce Sales Company LLC	\$34,561,347
HUB	TDAF I Springfield Avenue Holding Urban Renewal Company LLC	\$23,831,845
HUB	PHMII Associates, L.L.C.	\$19,776,911
HUB	Harborside Unit A LLC	\$33,000,000
HUB	Journal Square Associates	\$33,000,000
HUB	College Avenue Redevelopment Associates	\$33,000,000

ADDITIONAL APPENDIX MATERIALS
SUBMITTED TO THE
SENATE ECONOMIC GROWTH COMMITTEE
and
ASSEMBLY COMMERCE AND ECONOMIC DEVELOPMENT COMMITTEE
for the
February 7, 2019 Meeting

Submitted by James J. Florio, Former Governor, State of New Jersey:

Governor James J. Florio, “Governor Florio: Camden’s renaissance will impact the entire state. Let’s keep building on its success,” *NJ.com*, January 28, 2019. © 2019 New Jersey On-Line LLC.