An Assessment of the
New Jersey Business Employment Incentive Program

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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 Untied 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

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[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

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[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.

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[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 ratabales.

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			
	Output ($ 000)	**Employment (jobs)**	**Income ($ 000)**	**Gross State Product ($ 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

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Appendix A: BEIP Meetings

Date	Individuals	Organization
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 Hasset 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

Date	***Individuals***	***Organization***
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

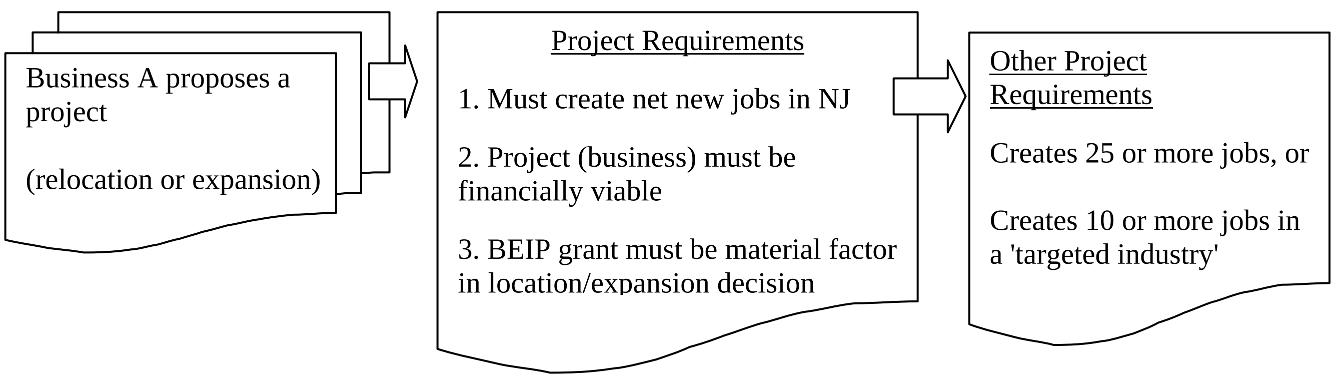
Appendix B: Description of BEIP Award Process

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 (NJDEA) 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.



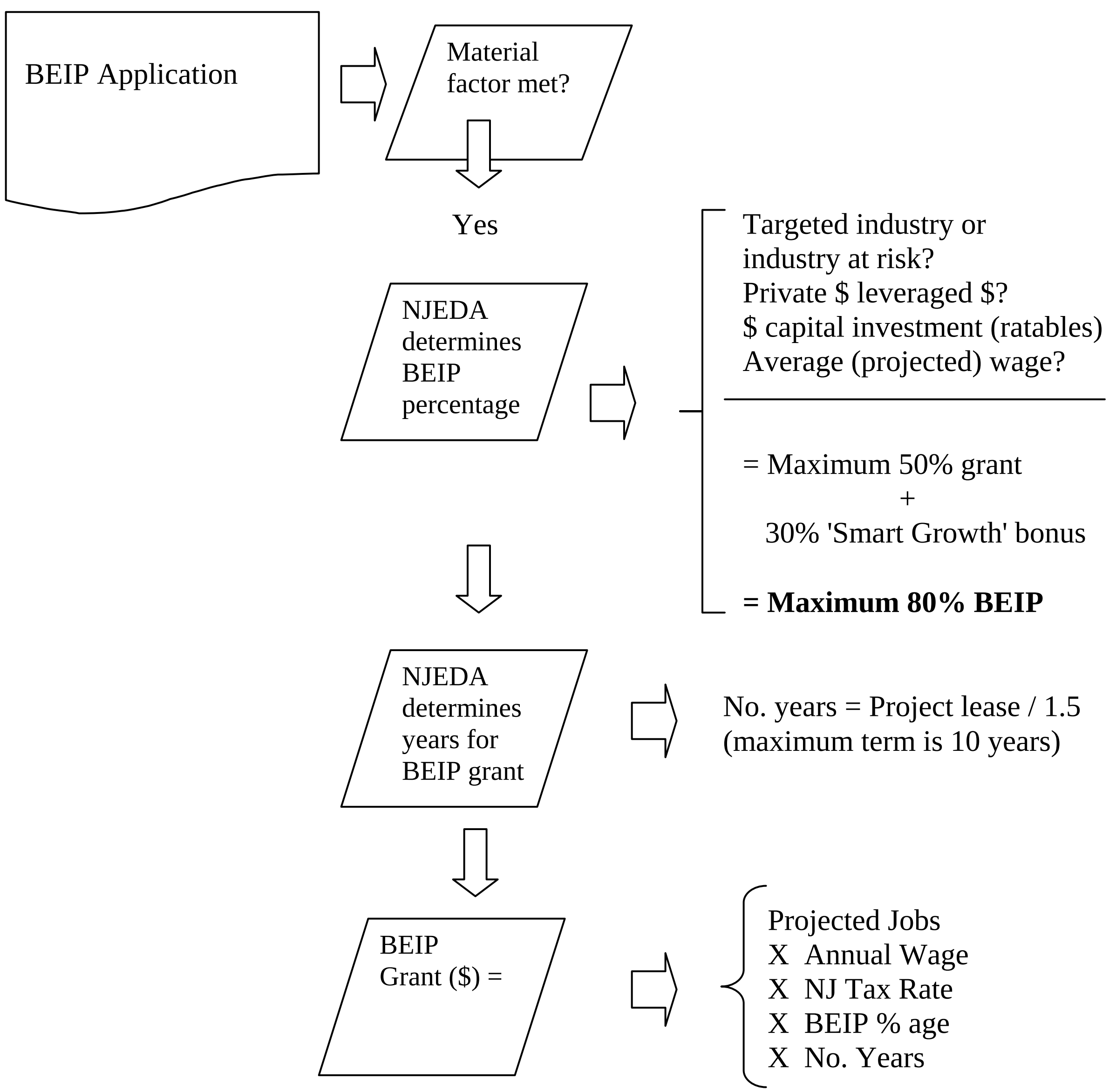
2. NJEDA due diligence

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.

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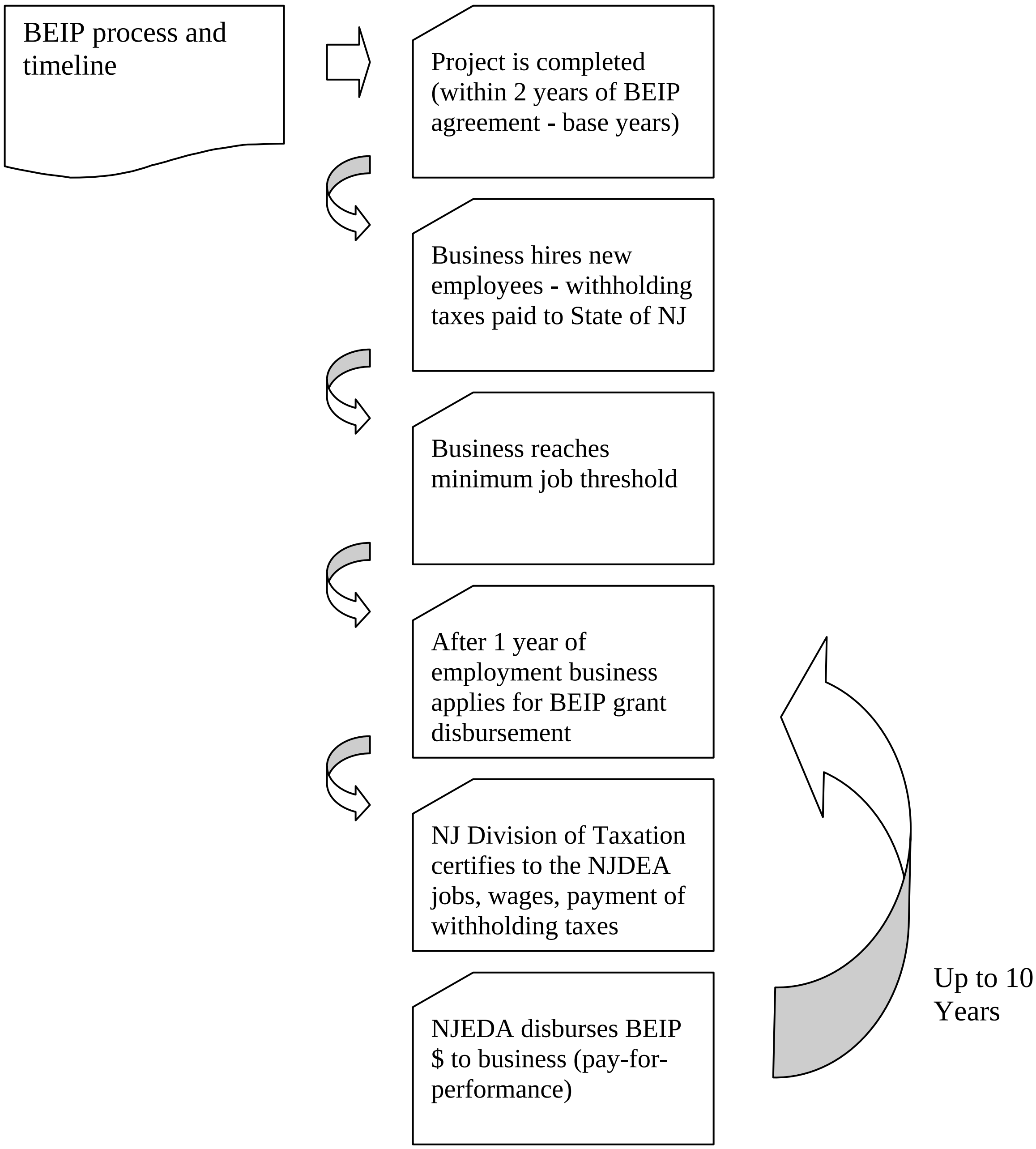
BEIP process and timeline
Project is completed (within 2 years of BEIP agreement - base years)
Business hires new employees - withholding taxes paid to State of NJ
Business reaches minimum job threshold
After 1 year of employment business applies for BEIP grant disbursement
NJ Division of Taxation certifies 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.

Business must maintain jobs for 1.5 X No. BEIP years

No - NJEDA recaptures all or part of the BEIP payment (Performance Based Adjustment)

Yes - BEIP agreement is terminated