Committee Meeting

of

SENATE SELECT COMMITTEE ON
ECONOMIC GROWTH STRATEGIES

"The Select Committee will take testimony from invited guests concerning tax incentive program best practices and oversight of the Grow NJ program and the Economic Redevelopment and Growth Grant program"

LOCATION: Committee Room 4
State House Annex
Trenton, New Jersey

DATE: September 5, 2019
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Bob Smith, Chair
Senator Joseph Pennacchio, Vice Chair
Senator Dawn Marie Addiego
Senator Nilsa Cruz-Perez
Senator Joseph A. Lagana

ALSO PRESENT:

Jenny Kramer, Esq.
Counsel to the Senate Majority

Patrick Brennan
Erin H. Clark
Andrew J. Ward
Office of Legislative Services
Committee Aides

Eugene Lepore
Senate Majority
Committee Aide

Christopher Emigholz
Senate Republican
Committee Aide

Meeting Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

BOB SMITH
Chair

JOSEPH PENNACCHIO
Vice-Chair

NILSA CRUZ-PEREZ
DAWN ADDIEGO
JOSEPH LAGANA
ANTHONY R. BUCCO
DECLAN J. O'SCANLON

PATRICK BRENNAN
ANDREW WARD
ERIN CLARK
Office of Legislative Services
Co-Committee Aides
(609) 847-3840
(609) 292-0561 fax

New Jersey State Legislature

SENATE SELECT COMMITTEE ON ECONOMIC GROWTH STRATEGIES

STATE HOUSE ANNEX
PO BOX 068
TRENTON NJ 08625-0068

COMMITTEE NOTICE

TO: MEMBERS OF THE SENATE SELECT COMMITTEE ON ECONOMIC GROWTH STRATEGIES

FROM: SENATOR BOB SMITH, CHAIRMAN

SUBJECT: **COMMITTEE MEETING - SEPTEMBER 5, 2019**

The public may address comments and questions to Patrick Brennan Andrew Ward Erin Clark, Committee Aide, or make bill status and scheduling inquiries to Kimberly Johnson, Secretary, at 609-847-3840, fax (609)292-0561, or e-mail: OLSAideSEGS@njleg.org. Written and electronic comments, questions and testimony submitted to the committee by the public, as well as recordings and transcripts, if any, of oral testimony, are government records and will be available to the public upon request.

The Senate Select Committee on Economic Growth Strategies will meet on Thursday, September 5, 2019 at 10:00 AM in Committee Room 4, 1st Floor, State House Annex, Trenton, New Jersey.

The select committee will take testimony from invited guests concerning tax incentive program best practices and oversight of the GROW NJ program and the Economic Redevelopment and Growth Grant program.

Issued 8/23/19

For reasonable accommodation of a disability call the telephone number or fax number above, or for persons with hearing loss dial 711 for NJ Relay. The provision of assistive listening devices requires 24 hours' notice. CART or sign language interpretation requires 5 days' notice.

For changes in schedule due to snow or other emergencies, see website http://www.njleg.state.nj.us or call 800-792-8630 (toll-free in NJ) or 609-847-3905.

TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

APPENDIX (continued)

pnf: 1-68

SENATOR BOB SMITH (Chair): Let us call the roll.

MS. CLARK (Committee Aide): Senator O'Scanlon. (no response)

Senator Bucco. (no response)

Senator Lagana.

SENATOR LAGANA: Here.

MS. CLARK: Senator Cruz-Perez.

SENATOR CRUZ-PEREZ: Present.

MS. CLARK: Senator Addiego. (no response)

Senator Pennacchio.

SENATOR JOSEPH PENNACCHIO (Vice Chair): Present.

MS. CLARK: Chair Smith.

SENATOR SMITH: I am also present.

Let me welcome to the dais Jenny Kramer, Counsel to the Senate Majority.

And I hope everybody has had a chance to read the -- I just wanted to do a preliminary commentary. If everybody had a chance to--

(confers with staff)

So if you would, the one comment I wanted to make is, if you have a chance to read the testimony -- outline presentations from our witnesses today -- I'd recommend it to everybody who is here. You really want to read it; it's just stunning information about what's happening around the country, what works well, where there are issues, and even a couple of really good suggestions for, maybe, our new programs in New Jersey.

So our first witness -- and who said the equipment would never be used -- our first witness, by video, is T.J. Bartik. Dr. Bartik is a Senior Economist with W. E. Upjohn Institute.

And Dr. Bartik, welcome to New Jersey electronically; and we would love to hear what you have to say.

We do have copy of your draft testimony; but we'd like to hear your opinion of what's happening here in New Jersey and how we might be able to improve it.

Go ahead.

T I M O T H Y J. B A R T I K, Ph.D.: Well, Mr. Chairman, members of the Select Committee, I certainly thank you for the opportunity to share some research findings on how New Jersey might reform and improve its economic development incentive programs.

So, as you mentioned, my name is Tim Bartik; I'm a Senior Economist at the Upjohn Institute for Employment Research, which is a nonprofit and nonpartisan research organization in Kalamazoo. And based on my over 30 years of research on state economic development policies, I want to talk a little bit about what that research implies for how New Jersey might want to reform its incentives.

I think the first thing that needs to be understood is that although incentives can make a difference, a lot of times they don't. So there are studies that look at in what percentage of cases are the incented jobs -- would those incented jobs not have existed in the state, would not have been created in the state but for the incentives. And looking realistically at what the empirical estimates suggests, that but-for percentage is less 25 percent. So maybe in 25 percent of the time you're incenting jobs that actually tips the decision -- caused the job creation decision to be made; more than 75 percent of the time you would have had the same jobs created anyway. Now, you might say, "Why don't you just provide the incentives when they're necessary?" It's hard to do unless you can employ mind-reading telepaths in your State economic development agency.

Secondly to note is that incentives do cost money. They don't pay for themselves, even when they create jobs. They do generate tax revenue, but in realistic analyses that also take into account the public service costs -- that is, when you bring in jobs, you bring in people; those people expect services -- they require hiring additional school teachers, police, fire; require expanding infrastructure. That's all very expensive. The fiscal benefits end up being pretty low.

Does that mean that incentives are all cost and no benefit? No, because they do have benefits by increasing the employment-to-population ratio in the state by causing New Jersey residents, who otherwise would not be employed, to be employed. So that implies that if you really want to increase the benefit-cost ratio of incentives, one of the keys is, are there ways you can design incentives so that more of the jobs go to New Jersey residents who otherwise would not be employed.

Yes, there are ways you can do that. One, you can target economically distressed areas; areas that are short of jobs. And in that case, a higher percentage of the new jobs you create will tend to go to non-employed persons, since there are more of them available.

The other thing you can do is you can try to tie your incentives to various ways of encouraging firms to hire the non-employed. And you can do that either through more of a stick approach or a carrot approach. A stick approach might be requiring firms to consider persons -- non-employed persons referred by the local workforce development system. These are sometimes called *first-source hiring agreements*. You're not required to hire people, but you're required to at least consider people referred by the local workforce system.

More of a carrot approach is you can combine incentives with customized job training, where local community colleges or other training institutions train some workers for the companies and help screen and train the workers. And then you can get more non-employed workers into the hiring pool for the firm.

Another lesson from research is you want to avoid excessive incentives. So New Jersey's incentives are about twice the national average; however, it's unlikely they tip twice as many decisions. So having incentives that are twice the national average probably lowers the benefit-cost ratio for incentives.

And another insight from research is you want to try to avoid long-term incentives. New Jersey heavily uses incentives where, essentially, the same job is incented year after year. You don't want to do that because firms care less about long-term incentives than they do about the incentives they get upfront. Why do they do that? Because firms are very focused on the short-term; what's happening to profits and cash flow this year and next year, and not what happens 10 years from now. So upfront incentives are more cost-effective.

Now, that obviously raises the issue of what to do if the firm then leaves and the jobs go away. So you want to have some provision for clawing back the incentives if the jobs go away.

Another thing to note -- and since your Committee is more generally considering economic growth strategies -- is that there are other strategies that are more cost-effective than that. So various types of skills development programs; I've already mentioned customized job training programs can be quite effective. Various types of small business development programs can be cost-effective: manufacturing extension, small business development centers, business incubators; there are others. And various types of infrastructure programs and real estate development programs -- research parks, industrial parks, highways, transit, brownfield redevelopment.

The evidence suggests that all these programs, if they're run in a high-quality way -- and that's an important caveat -- can create 5 to 10 times as many jobs as handing out cash. Now, of course it's easier to hand out cash than it is to run a high-quality program. I mean -- so I'm saying that, obviously, building a bridge to nowhere doesn't do anything. But a wise investment in either infrastructure, or small business development, or skills development can pay off much more than simply providing cash.

I think in looking at reforming incentives New Jersey should consider the experience of other states. And I want to highlight three other states that I think are worth looking at.

The first is Virginia; in particular, the incentives they provided to Amazon. They provide incentives to Amazon that on a per-job basis are about one-third of what New Jersey customarily provides. So they got Amazon with one-third the incentives per job than New Jersey customarily does. Now, they provide the incentives upfront. They only incented a job one time, not multiple times, not for multiple years.

Virginia has an interesting approach to doing clawbacks. They essentially -- when the firm creates a job, they credit it with the incentive, but they don't actually pay it out for four years, and they see whether the jobs are maintained. Now, if the jobs are not maintained, they don't pay it out. So the way they work it is -- this four-year delay. They credit the incentive upfront, but they don't actually pay it out for four years.

The other thing to note about Virginia's Amazon package is they coupled the incentives with lots of investments, not only in mass transit infrastructure and in highway infrastructure, but in skills development, particularly a new campus in northern Virginia for Virginia Tech. And the thing to note about that is, first of all, I think that probably was a more effective lure for Amazon than the cash incentives. Secondly, this should mean that a higher percentage of the Amazon jobs will go to Virginia residents than otherwise would be the case. So I think this was a smart strategy on Virginia's part.

Another interesting state to look at is Oregon. Oregon has an interesting approach to clawbacks. When they provide discretionary incentives they don't provide them as grants that are then clawed back; they provide them actually as loans which then can be forgiven if in fact the jobs are maintained.

So that's an interesting approach to clawbacks that I think legally probably makes it a little easier to manage.

They also give priority to business projects that are thought to provide public benefits. Public benefits could include what I referred to before -- first-source hiring agreements, where the company agrees to try to hire from the local workforce system. They also consider, as public benefits being involved with local youth internship programs; having good company crew ladders, where people who are hired -- local residents who are hired can be promoted to higher-level jobs; as well as any firm efforts to try to increase local purchases, which will increase the multiplier effects of the firm's job creation.

And the final state I want to mention as an example is North Carolina, which probably has done the most systematically over the years to consistently link incentives to economic distress. And so they divide their 100 counties into three tiers; they use objective criteria to define what the tiers are; and the more economically distressed counties get higher levels of incentives from the state, and the required local government contribution is less. And so I think that's a sensible strategy to consider.

So to sum up, what I think New Jersey should do is-- The current incentives are twice the national average. I think the State should consider cutting the per-job amount of incentive by about at least one-half. I think more of the incentives should be provided upfront with clawbacks that the State has a legally feasible way of enforcing. And as I said, Virginia and Oregon have interesting models of how to do that.

You should target economically distressed areas based on objective criteria that everyone can verify. And you should try to tie the incentives to local hiring, through first-source hiring agreements and providing customized job training.

So less money on cash and tax incentives; but that will save money that then can be used to invest in skills training programs, small business services, infrastructure, and various types of land development programs.

So on that, I think that if these kinds of reforms are followed, New Jersey can get a higher bang for the buck for its economic development programs. With the same dollars, or even less budgetary dollars -- with less of a budgetary impact, the State can probably create more jobs for New Jersey residents than otherwise would be the case. So I think you can get both greater benefits for New Jersey residents at somewhat lower cost to the State budget.

So let me stop there, and see-- I'd be happy to answer any -- if I can respond to any questions you might have.

SENATOR SMITH: Sure.

So I have a question.

Probably the most -- when I read your testimony -- your proposed testimony, the item that just jumped off the page was that our incentive is twice that of any other state in the country.

DR. BARTIK: Not of any other-- Of the national average.

SENATOR SMITH: Of the national average. And I think you said that in your analysis we're paying about $66,000 per job. And it looked to me that your top recommendation -- and the five recommendations that you just went over -- was to cut that cost at least in half.

Coupled with the other comments--

DR. BARTIK: That was one of the recommendations. They all are important.

SENATOR SMITH: They are all equally important.

DR. BARTIK: Yes.

SENATOR SMITH: Okay.

So the other thing in your testimony, that was another killer in conjunction with that, was that it wasn't the amount per job that ended up being the deciding factor for the relocation of companies into a state. Did I understand that correctly?

DR. BARTIK: It is a factor; however, it's not the only factor. So in a lot of cases you provide these incentives, and they do not actually tip the location decision. And that's the reality of these programs.

SENATOR SMITH: All right; so to do that -- cutting the incentive per-job in half -- that's strictly a policy decision on our part. We as a Legislature, when we redesign these programs, if we said that should be the criterion -- whatever that cost is -- that would be a matter of legislation, I would assume.

DR. BARTIK: Right. You would set out some rules and say, "Here is the incentive per-job we're willing to provide."

SENATOR SMITH: All right.

The other thing that was a knockout in your testimony, for me, was that other economic development programs can have job creation effects per dollar that are 5 to 10 times that of providing tax incentives. What would you say those programs are that have this big bang associated with them?

DR. BARTIK: I'm sorry, I didn't hear the last thing you said.

SENATOR SMITH: All right; you have a comment in your testimony that other economic development programs can have job creation effects per dollar that are 5 to 10 times that of providing tax incentives or other cash incentives. What would you say are the most effective of those non-cash incentive alternatives that the State should be looking at for job creation?

DR. BARTIK: I would say that there's the most rigorous research evidence for customized job training, which are programs typically run by community colleges. I don't know what they're called in New Jersey, but I assume you have some type of community college system.

SENATOR SMITH: We do.

DR. BARTIK: And typically, community colleges will work with the company and say, "You're trying to expand or locate in the state, and you're going to have so many jobs, and here are the kind of workers you need. And we are willing to provide training for those workers and will help you to screen the workers," and whatever. That can be an incredibly effective way of getting a company-- I mean, labor is the key cost of companies. The productivity of labor, the quality of labor, employee turnover -- all these issues are absolutely key to the ability of a company to operate.

So if you can reduce the hiring cost of a company and get them workers who are better trained, more productive, less likely to leave -- which leads to turnover costs for the company -- that's an incredibly attractive proposition for companies. Companies are, you know-- The whole issue of how do you find the right workers who can be productive is absolutely key. So I say the most rigorous evidence is for those programs. And, you know, I think that you need to figure out how you can get the budget resources to support those programs, because I think they are incredibly important.

SENATOR SMITH: I appreciate those comments.

Questions from members?

Senator Pennacchio.

SENATOR PENNACCHIO: Thank you, Chairman.

Dr. Bartik, thank you for your testimony.

I have a question. You had cited Virginia in reference to Amazon setting up their new headquarters on the East Coast. But before Virginia, there was New York. Do you know what the difference in benefits that New York offered -- which got Amazon first -- as opposed to Virginia? Were they similar? And how did they compare to what New Jersey was offering Amazon?

DR. BARTIK: New York offered four times the amount per job of Virginia for about the same size facility. All I know about New Jersey-- It's actually interesting; New Jersey supposedly -- at least the Newark offer -- my understanding was it was about twice New York's offer. And actually in the Virginia case, Maryland also offered about twice what New York offered, so that would be eight times what Virginia offered.

So actually, this is a good example of why tax incentives don't always drive the location decisions. If tax incentives had been driving the location decisions, Amazon would have located its -- would have chosen to locate its new facilities in Maryland and Newark, not New York and Virginia. And in the New York case -- I mean, I think part of the reason the deal blew up is that it was pretty obvious to people that Amazon was willing to take one-fourth the amount per job -- which they did in Virginia -- compared to New York. So New York clearly overpaid.

SENATOR PENNACCHIO: And the reason that Amazon was willing to take one-quarter -- was it location, was it workforce, was it just a combination of all? Or just being close to the epicenter in Washington?

DR. BARTIK: Right. Well, yes. So the Amazon-- You know, it was about $700 million dollars in cash. Now, since it's so many jobs, the actual cost per job was not that great. New York offered an incentive of about $3 billion. Newark, supposedly, was over $7 billion; Maryland was over $7 billion. So here you have a case where Amazon pretty much could have accessed the same labor pool in New York and Newark, and a similar labor pool in Virginia and Maryland; and yet it chose northern Virginia and initially chose New York before they ran into a number of issues. I mean, I guess the latest thing I saw about-- And actually, the Amazon case in New York kind of illustrates that a lot of times things like -- is the land development process going to be smooth and without red tape? I think part of what may have discouraged Amazon -- they were worried about getting hung up in endless political fights over getting permits for building, and zoning, and everything else. At least -- there was some kind of document dumped just the other day, internal Amazon e-mails about this.

SENATOR PENNACCHIO: And Mr. Chairman, I'm anxious to hear testimony from Rutgers, because I know Rutgers talked about the multiplying factor. And Dr. Bartik is basically telling us there is no multiplying factor, because these incentives very rarely pay for themselves. But I assume, from reading your paper, you include police services, educational services, and things like that, which, quite frankly, happen anyway. But there is a little bit of a dichotomy in the thought over there, and I'm anxious to hear what Rutgers has to say.

SENATOR SMITH: We deliberately--

DR. BARTIK: Well, I read the other testimony, by the way. I do actually think all the other -- I actually think all the testimony is fairly complementary and fits together. So I don't necessarily disagree with the others testifying.

There are multiplier effects of jobs; it's just the case that incentives, in a lot of cases, go to companies-- The same jobs would have been created anyway; that's the reality of it. But they do induce some new job creation. So that's why states do it, I mean, you know, because they do induce some new job creation; even if in a lot of cases they don't.

SENATOR SMITH: Any other questions for Dr. Bartik? (no response)

Dr. Bartik, thank you for presenting yourself today, and your very interesting testimony. We appreciate it.

DR. BARTIK: Thank you. If you have any other follow-up, I'd be happy to respond further at a later date.

SENATOR SMITH: Perfect.

Our next witness, also by way of video, is Mr. Joseph Parilla.

(confers with staff)

Our third witness -- and we'll come back to Mr. Parilla once we're set up -- our third witness is Josh Goodman, Senior Officer of the State Fiscal Health area in the Pew Charitable Trusts.

So Mr. Goodman, are you here? You are here. We'd love to hear your-- Again, we had a chance to read your draft testimony, and the thing that jumped off the page to me -- or the *page*s -- was the concept of the flexible cap. But you don't have to deal with that at this moment.

Give us your views on our New Jersey programs, and how we can improve them.

J O S H G O O D M A N: Thank you.

Chairman Smith and members of the Committee, 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. Pew is a public charity that provides research and technical assistance to state policy makers across a range of policy issues.

For the last seven years, we've conducted nonpartisan research and analysis on how states can improve the effectiveness of their tax incentives and other economic development programs. Based on that research, I'm going to talk about three important strategies states around the country are using to get better results.

First, states can ensure that their incentives are well designed to maximize their economic effectiveness; second, states can design incentives with fiscal protections to make sure the programs do not cost more than expected or intended; and third, states can establish regular independent evaluations of incentives and other economic development programs.

I'll start with economic effectiveness. Designing incentives is complicated work; however, lawmakers around the country are benefiting from a growing body of research that shows what works in economic development. This research points to straightforward, intuitive steps to help states achieve their economic development goals.

For instance, one insight of the research is that the timing of incentives matters. Businesses generally heavily discount money that they're promised far in the future. One study showed that if an executive is promised a dollar 10 years from now, they value it at only 32 cents today.

And as a result, if states offer incentives on shorter time horizons, they can potentially spend less on incentives while having the same impact.

Minnesota's Job Creation Fund is a good example of a program that follows this principle. Once the state's economic development agency approves an application, the business is required to ramp up its activities quickly. Companies must make "reasonable progress" on the projects in six months, reach capital investment thresholds within a year, and hit their job creation goals within two years. Then businesses can earn incentives for up to five years in the Minneapolis-St. Paul metro area, and up to seven years elsewhere in the state -- shorter than many similar programs across the country.

Another finding from the research literature 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 are trying to encourage 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.

Next, I'll move on to fiscal protections. Across the country, states have faced two related challenges when it comes to the budget impact of incentives. In some cases, states have experienced sudden one- year spikes in the cost of incentives. In others, the long-term cost of incentives have grown beyond states' expectations, and have begun to crowd out other priorities. Either way lawmakers can be forced to make difficult choices between raising taxes and cutting spending in other areas to make up the difference.

These challenges are not inevitable, however. Our research points to several strategies that allow states to invest in incentives with confidence that they won't cost more than expected or intended. One effective approach is to set annual cost limits, or *caps,* on incentive programs. Caps will allow lawmakers to determine how much money is available for incentives in the same way that they can adjust spending levels in other policy areas, such as education and transportation, as part of the annual budget process.

States around the country have capped many incentive programs, including New York's Excelsior Jobs Program and New Jersey's recently relaunched film tax credit. However, lawmakers also often raise reasonable questions about caps. They wonder whether the state will miss out on economic development opportunities if it reaches the cap before the year is over. They also wonder whether caps will contribute to business uncertainty because companies will be unsure whether incentives will be available.

The good news is that some states have designed flexible caps that help alleviate those concerns. For example, in Nebraska earlier this year, the legislature voted to place an innovative cap on the state's largest incentive. Under the amendment, the program would be capped at a $125 million dollars a year. But if the program reached the cap for the year, the legislature's executive board would have the option of voting to exceed it. This approach offers a way for lawmakers to remain firmly in control of spending on incentives with the flexibility to pursue extraordinary economic opportunities.

Minnesota's Job Creation Fund shows how states can cap incentives without causing business uncertainty. Under the program, when the state enters into an agreement with a company, it places the dollars to pay the incentive in a state account -- guaranteeing that the money will be there when the company fulfills its commitments.

Caps aren't the only strategy to make the cost of incentives more predictable. States have also worked to gather better data on potential costs so budget writers aren't caught off guard. For example, Iowa's Department of Revenue forecasts the cost of each tax credit five years into the future, with the numbers updated three times a year. These projections are incorporated into official state revenue forecasts. A system like Iowa's depends on effective sharing of data across agencies. It also helps if businesses are earning and using incentives on predictable schedules so that it's easier to know when state revenue will be impacted.

Third and finally, states should evaluate the effectiveness of their economic development programs. With incentives, the details matter. Subtle decisions, such as how benefits are structured or how states determine which companies are eligible, can make the difference between programs that achieve their goals and ones that prove to be costly disappointments. Evaluations can help you get the details right; they offer evidence on what's working, and what isn't, and how incentives can be improved.

Around 30 states have approved legislation requiring regular evaluation of tax incentives. In virtually every case these bills have won strong bipartisan support. They've also brought together supporters and skeptics of incentives alike, who agree on the need for better information.

This information helps lawmakers improve policy. For instance, Maine's legislature relied on an evaluation in 2018 to fix a flaw in a program that allowed state businesses to receive incentives merely for promising to create jobs. A tax credit for rehabilitating historic buildings in Maryland received strong marks in an evaluation, so lawmakers decided, in 2016, to continue the program beyond its scheduled expiration date. And in Pennsylvania, lawmakers adopted changes to incentives within months of the first evaluations being published under a 2017 law.

To achieve similar results, states should consider the key details for an evaluation process, including who is best positioned to assess the programs, which incentives to include, and over what time period evaluations should occur. For example, many states have adopted multi-year review schedules, an approach that helps lawmakers focus more closely on a subset of incentives each year. To ensure the studies are rigorous they have tasked economists, auditors, and fiscal experts, inside or outside of government, with studying the programs.

Let me just conclude by saying that with the 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 the ways to ensure that the next generation of New Jersey economic development programs is effective, accountable, and fiscally sound.

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

SENATOR SMITH: We have a few, I'm sure.

One of the things, again, that was remarkable in your testimony was the case in Maryland where they had a tax credit for rehabilitating historic buildings; and it said it received high marks -- strong marks. Was the evaluation based on production of jobs, or was it based on the stimulation of tourism? How did it get its high marks?

MR. GOODMAN: So it was a combination of factors -- both the economic results and fiscal protections. And so one thing they pointed out in that evaluation is that it used to be a fairly open-ended program; but that they had installed a cap on the program to make it more accountable. They also noted that there were economic -- strong economic results for the program; that it was creating jobs and having positive results in that regard. One thing they acknowledged with sort of a historic preservation incentive, is it's not all about the economic results. There are factors such as wanting to preserve historic structures that you might do for architectural reasons or for appreciation of history. So that was also a component.

I should note on that evaluation -- it didn't -- and this is typical of evaluations -- it didn't find that everything was perfect with a program. It raised questions about some of the geographic targeting provisions in the program. There were limitations on, you know, what jurisdictions could receive incentives. And so the legislature, in addition to continuing that program, tweaked some of those geographic targeting provisions. And so that's what we really like to see with evaluations is -- it isn't just sort of this "yes" or "no" verdict on incentives; it's figuring out what's working well and where the programs can be improved.

SENATOR SMITH: So you mentioned that the Pennsylvania incentive program, within months of being enacted, dramatically shifted its priorities. What were the shifts in the Pennsylvania programs?

MR. GOODMAN: So what happened in Pennsylvania is, in 2017 they passed an evaluation law. And what that law did is it required something called the Independent Fiscal Office to evaluate their incentives. And the Independent Fiscal Office is -- it's a legislatively controlled nonpartisan agency that focuses on fiscal issues. So in 2018, the Fiscal Office published a series of evaluations of a number of different programs; and then, in 2019, the legislature acted on those evaluations and made a couple of changes. One of them was to eliminate an incentive that they simply found wasn't working well. It was a job creation incentive; but they found that it wasn't an effective tool for job creation, so lawmakers eliminated that program.

Another program they evaluated was a historic rehabilitation incentive. And one of the things they found on that program is -- the state was using a lottery to decide which projects got the incentive; and the projects found that very frustrating. There was a lot of uncertainty. If you're trying to produce a historic preservation project, and it's up to a lottery whether you get these incentives that might play a role in deciding whether you go forward -- that was kind of a frustrating arrangement.

And so what the evaluation said, and what lawmakers agreed to, was to create a once-a-year competition where they received all the applications; then there's a scoring system, and the state offers incentives to the projects that seem like they will offer the best return. And so that offered sort of a clearer window and clearer deadlines in terms of -- you'll get an answer, whether you're going to receive incentives or not. So it's that kind of thing that Pennsylvania is doing with their evaluations.

SENATOR SMITH: But do you agree with the comments from Dr. Bartik, our first witness, wherein he pointed out that the differential between what the states were offering in terms of incentives -- New Jersey being at $66,000 per job, versus other states -- that that was frequently not the deciding factor; that the differential was not the ultimate carrot to bring a company into a state?

Do you have an opinion on that?

MR. GOODMAN: Yes; so generally, I would say that if Dr. Bartik says something, I'm going to agree with him, because he really is one of the leading scholars in this area.

What our research shows is, certainly that incentives can be one factor; but they're often only part of the factor in business decisions, and they don't tip every single case.

What we've seen states doing is thinking about not only, sort of, what is the right number -- are we making a difference? Can 20 percent of these companies that we offered incentives -- did they come here because of the incentive? Or was it 15 or was it 30? That can be a useful conversation to have. But it's also useful to think about aspects of program design that might allow you to increase that number, whatever it is.

So let me just give you a couple of examples.

Oklahoma has an incentive that was about attracting, sort of, events to the state; so something like a high school sports competition that might bring in dollars for hotels -- things like that. And when they studied this program, what they discovered is the local tourism bureaus that were submitting bids to try to attract these events weren't using this incentive as part of those bids. And so the evaluation said if the people who are trying to attract these big events aren't even including this incentive in their analysis to say, "Hey, you should come to our state," then it's probably not having much of an impact.

And what the evaluation pointed out is that the reason they weren't including that incentive in making their bids was that there was a lot of uncertainty around it. These events didn't know whether they would get the incentive, how much they would get, when they would get it. And so what they recommended was, if you can provide more certainty around those aspects of the program, you're going to tip more of the cases; you're going to have a bigger impact.

And so that's where I think having a regular evaluation process would be really valuable for New Jersey. New Jersey has had a lot of one-time evaluations of the State's incentives, but there's no, sort of, regular, ongoing process. And you could look at the programs and ask questions like that. "How can we -- if it's making a difference in 25 percent of the cases, how could we get that up to 30 percent of the cases?" or whatever it might be.

SENATOR SMITH: You just stimulated another question.

The certainty issue is a little bit scary, I think, for us. We now have no programs in the State. Do you think that kind of puts us in a pretty bad spot, in terms of competing? Even when we re-establish programs; we now have none. Business leaders around the country, when making these location decisions, have to think we're a little bit of a nutcase, in terms of economic incentives. Do you see that as having hurt our future in this business?

MR. GOODMAN: I don't think, from our research, I have a clear answer; there might be other people who, you know, are immersed in the New Jersey economy who would have a better answer to that.

What we do see around the country is, there's sort of a spectrum in terms of how heavily states invest in incentives, versus other economic development strategies. And as Dr. Bartik referenced, incentives aren't the only strategy that's out there. But I would sort of defer to other people who may be following New Jersey on a day-to-day basis.

SENATOR SMITH: Okay; so last question from me.

Do you think there's any value to having a flexible incentive? For example, we have areas in New Jersey which may be less desirable for a new company to move into; but yet, we have reasons to try and see economic development in that area. Would it be, do you think, advantageous to New Jersey to have a flexible incentive so that for those areas that are less desirable we could modify the incentive to make it a more attractive location for a company?

MR. GOODMAN: That's something we see commonly around the country -- that a lot of states sort of prioritize distressed areas as part of their incentive programs; either all of their incentives or just certain programs. And there are a few different rationales for doing so. One is that there's potentially a greater economic return for doing so. And so if you think about one of the points that Dr. Bartik said -- if incentives are employing local workers, then they're more likely to have a positive impact. Well, the places where they're more likely to employ local workers, as opposed to people moving into your state, are places where unemployment is higher. And so that's one clear rationale. There's also, obviously, questions about equity in terms of wanting to make sure that no area of the state is left behind.

From our research there are a couple of things to be thinking about when you're trying to prioritize distressed areas. One is that it's not a given that the people who live there will have the skills to fill the available jobs; and so that's a consideration. If the goal is, really, to encourage job creation for those local residents, how can you do that?

Another thing we see in our research is when states target these programs, they often struggle to target the genuinely distressed areas of the state. And it might seem like that's a very simple, easy thing to do; and if you think about some of New Jersey's major cities, it's pretty obvious to everyone which ones are distressed, or at least some of them that are distressed. But there are questions of, "Well, will all the activity go into the part of the city that's doing well?" Even if it's a distressed city, maybe there are parts that aren't doing well. There are questions about, "Do you focus on neighborhoods, or do you focus on entire municipalities?"

One thing I'll point to in New Jersey, that is an example of some really smart thinking in this area is the Department of Community Affairs has something called the *Municipal Revitalization Index*, which you may be familiar with. And a couple of years ago they reassessed the Municipal Revitalization Index. They looked at the different measures that were involved, and came to some, what I think, pretty clear-cut improvements in that Index, which simply ranks New Jersey municipalities based on how distressed they are.

Among the things they did -- just to give you an example -- one measure in the Index was substandard plumbing; the percentage of houses that have substandard plumbing in a municipality. If you think about New Jersey, how many houses in New Jersey don't currently have indoor plumbing? Not very many of them. And so this was kind of like a meaningless measure that was leading to inaccuracies in what cities were considered distressed. So they took that measure out; they put in some different measures.

And so if you're thinking about targeting to distressed areas, the Municipal Revitalization Index is one tool you could use to make sure you're directing incentives to the most distressed areas.

SENATOR SMITH: So you keep on stimulating more questions; but I think it's the bottom line question.

We did hear testimony from Dr. Bartik comparing other things that we could be doing as well as the tax incentives: the job training, etc., etc. Bottom line: Do you believe that these tax incentive programs increase the likelihood of attracting businesses and job opportunities to the state? I mean, we should be doing this -- right? -- or not?

MR. GOODMAN: So we don't take a position on whether incentives are good or bad. Our perspective is, if you're going to offer incentives they should work as well as they possibly can. And that's where evaluating the programs can really help to improve them over time, thinking about the economic literature.

What I will say is every state engages in economic development. Every state is trying to encourage businesses to create jobs, create high-quality jobs; they're trying to get businesses to expand, invest, and locate in your state. And so it isn't sort of a question of economic development or no economic development. It's just sort of a question of making sure it's working as well as it can -- and so whether that's an incentive or something else. And that's where having independent, nonpartisan evaluations can give you the evidence to make those decisions for yourself.

SENATOR SMITH: You know that in *Dante's Inferno* the hottest place in hell is reserved for those who don't take -- who sit on the fence and don't take positions. (laughter).

Questions from Senators?

Senator Pennacchio.

SENATOR PENNACCHIO: Thank you, Chair.

And Josh, thank you for your testimony; thank you for coming to my office and speaking to me, and Senator Bucco, and Senator O'Scanlon about what the testimony was going to be.

Just a few questions.

Part of your testimony was how businesses discount the dollars that they are promised going into the future as much as only 32 cents on the dollar. But, of course, the issue that I would have is protecting the taxpayers. If you want more money up front, how can we protect those taxpayers to make sure that we are eventually getting what was promised to us? Is there a state that has given more money up front, and what and how are those protections done?

MR. GOODMAN: Yes; that's a great question.

So one strength, at least, in how they're designed, in the statute of New Jersey's current programs, is that they are performance-based. So companies have to follow through on their commitments before they receive incentives. They have to show that they've created the required jobs. Obviously, there's been some questions about whether that's been implemented effectively; but in statute, that's the structure.

And so you can follow that performance-based model while still having incentives work on a shorter time frame. And so there are a couple parts of working on a shorter time frame. One is, how long does the company have before it initially has to hit -- meet its commitments? And so if it's required to create a hundred jobs, how long are you giving it to create a hundred jobs before you say, "Hold up, you're not following through; let's start over"? And so the Minnesota example -- you know, companies had to hit their job creation requirements within a year for them to receive the incentives.

Then the second question is, how many years are you promising them after that of incentives? And so something that's shorter, that's more like 3 years or 5 years, compared to 10 years or 20 years, you can offer greater incentives. You can still follow that performance-based structure, where they don't get anything unless they demonstrate they have created the jobs, or they're maintaining those jobs. But it's on that shorter time horizon.

SENATOR PENNACCHIO: Because what I see happening is the more money that's promised upfront, it goes from a tax credit to, basically, a grant. And I don't know if that's the way that we want to -- we, as public policy, want to go. We're paying companies to create those jobs, as opposed to incentivizing them through the tax system to create those jobs. Do you have an opinion about that?

MR. GOODMAN: Yes. So one model is sort of like a purely upfront model, where the instant the deal is signed you give the money to the company; and then you're relying on clawbacks to say, "You didn't follow through," and you take the money away. I think Dr. Bartik offered some pretty interesting innovative models of clawbacks. The general disadvantage of clawbacks is, sometimes there's an understandable reason why a company doesn't follow through; that if the economy goes into a recession or, you know, the company is facing new competition -- maybe there's a good reason they didn't want to create the jobs. And you're, potentially, sort of hitting them while they're down if you try to claw that money back. And if it's sort of a bankruptcy situation, maybe you can't claw it back at all.

And so I think there's a lot to be said for not offering the money truly up front; but rather making it so that the company does have to perform, but that it's on a shorter time horizon. So once they create the jobs, then they get the incentives, but only once they've made their commitments.

SENATOR PENNACCHIO: I get a little nervous when we start talking about *clawbacks*. It's like, if I don't do a good job, you can sue me. (laughter) No, no, that's not the type of relationship that I want to have.

Briefly, on caps -- I could understand if we cap the actual program; but I've always had a problem with capping the incentives that we give to individual companies. It's sort of diametrically opposed -- where you're telling the company, "Come and create jobs, but not too many, otherwise we're not going to give you any more money over that -- over the amount that was promised." But we're going to start another -- you know, we'll start it with another company; perhaps they can create jobs too.

Within your testimony -- did I lose what your feelings were, what the national feelings are towards having these caps on individual companies or not?

MR. GOODMAN: Yes; so the stronger protections are programmatic caps. And if you only have caps on companies, but you don't know how many companies will qualify, you still have the sort of risk that the program will cost more than expected or intended. When you are trying to operationalize a program cap, that being said, you need some means to say how much money is going out the door. And so, often, states do use company-specific caps as part of a programmatic cap. And so if the program is capped at $200 million, but you don't know how much each company is going to take, then it's hard to -- you can, but it's sort of challenging to enforce that $200 million cap.

One thing you can do is, if you're offering incentives on shorter time horizons and a company said they would create 500 jobs, and had a certain cap on how much incentives they would create for those 500 jobs, you can offer them the opportunity to get a new deal where you say, "Okay, you created 500 jobs over three years; and now you can come back and apply for another contract with the state where you say you're going to create another 500 jobs. We'll offer you incentives again." And so it can work like that where companies aren't, sort of, disincentivized for creating additional jobs; but you still have that level of protection in terms of knowing how much the program is going to cost.

SENATOR PENNACCHIO: So you do it in steps.

MR. GOODMAN: Yes.

SENATOR PENNACCHIO: Okay. And just one issue that I had with what happened recently, over the last number of years, with the Honeywell Cooperation -- they were incentivized, I think, a couple hundred million dollars. I could be wrong with the number, but certainly it was substantial. And Honeywell, I think, last year -- the end of last year decided to move one of their divisions out. And I don't know if I'm saying it right; a division or whatever. The point was that the money that we gave them to incentivize -- they did create those jobs. But in the aggregate they wound up taking jobs away from the state. To me, I found that a little repugnant, especially because it was in my District. (laughter)

What can we do? Are there other states-- Do they follow along the lines of, "We will incentivize your business, but you have to keep -- if you're in the state already, you have to keep a certain number of aggregate jobs. So we're not going to incentivize you to open up this particular division, while you're moving out this other division."

MR. GOODMAN: Yes. So one of the things that -- when states are designing incentives -- it's critical to think about it is, sort of, the definitions of the key terms of the program. And this is where-- You know, when we say the details matter with incentives, this is the kind of detail that matters; something as simple as, "What is a job." There are a lot of factors that go into it, and one of those factors is, are you talking about jobs at a specific location, or are you talking about statewide employment? And so one thing states sometimes see is, you'll have shifting of jobs between the state. And so is that something you want to be rewarding -- if they added jobs at one location, or decreased jobs at another location.

And so it's something states really have addressed -- where some incentive programs are linked to the company's statewide employment, rather than a specific location, to deal with, I think, the very kinds of concerns that you're talking about.

SENATOR PENNACCHIO: Well, I would hope we would address that, Chairman, going into the future. Again, not incentivizing a company to create jobs at the same time that they're taking other divisions and moving them out of state.

SENATOR SMITH: A very good point.

SENATOR PENNACCHIO: Thanks again, Josh.

SENATOR SMITH: Thank you, Senator.

Senator Lagana.

SENATOR LAGANA: Thank you, Chairman.

Just out of curiosity -- when you examine tax incentive programs as it relates to each state within the U.S., obviously, they're tailored specifically to each state; and each state is unique, and will specifically enact legislation that its legislature believes would be beneficial to that state.

Now, in your research, have you ever done a comparison between the offer of tax incentives -- what the programs look like as it relates to their overall tax structure, specifically their corporate tax structure?

MR. GOODMAN: That's something we haven't looked at specifically. Actually, Dr. Bartik has looked at that question; and one interesting thing that he found in his research is there isn't much of a link between the level of tax burden and the size of the incentives. And so you'd sort of expect that states that are sort of high-tax states make up for it by offering more in incentives. But what he found in his research is that it's kind of all over the place; that you have high-tax states that offer a lot of incentives and don't offer a lot of incentives; you have low-tax states that offer a lot of incentives and don't offer a lot of incentives.

SENATOR LAGANA: Okay; interesting.

Thank you.

SENATOR SMITH: Senator Addiego.

SENATOR ADDIEGO: Thank you, Chairman.

Just getting back to some of the things that you had said, and the former speaker had said.

Can you talk a little bit more about the benefit of having a skilled workforce available? I really-- I'm a big supporter of community colleges; we have one of the best in my District, Burlington County. But -- so I really see synergy here, where maybe we should be looking at, you know, a more flexible package wherein we encourage these training programs within the community colleges to provide that skilled workforce. Because some of the things I've been hearing is, though they've been hiring people, they haven't been able to keep them in these jobs or the skills aren't there to perform the jobs. So we're losing those jobs because we just don't have the workforce.

Is that what you see? And do you see-- How could we incorporate that into this whole package?

MR. GOODMAN: It's not something we've studied in depth. Certainly what we see is it really matters whether there's a local workforce available to fill jobs that you're creating with incentives.

Just to give you one example. Georgia has one of the most generous film tax credits in the country. But one thing they were finding is that the workers weren't from Georgia; they were -- you know, if it's a Hollywood production, they're bringing in people from California to fill these jobs; there's specialized training involved. And so Georgia was getting lots and lots of film productions, but there were questions about how much of a difference that was really making for the state.

One way they responded to that was to start having customized university programs, or community college programs, related to training people to fill those jobs. And so I think one of the questions to be thinking about as you're considering how can we connect workforce to the incentives, is what are the industries that we're really targeting with incentives? What does the existing New Jersey workforce look like in those industries? And if it's not there, but we still really feel strongly about this industry, then that's where you want to target those industries for additional workforce training.

SENATOR ADDIEGO: Because I would have to guess that having -- working with the colleges would be a huge benefit to a business or an industry coming into the state. Because, you know, besides the fact that they would be training these individuals, they could also be screening them.

MR. GOODMAN: Yes.

SENATOR ADDIEGO: And so I would think there's a huge money saver for that business to know that they don't have to train them and they don't have to screen these individuals.

MR. GOODMAN: Yes. One place where we've seen some of this is in Portland, Oregon; and it's actually something Joe Parilla, the next speaker, can speak to a bit. But I'll just summarize it a little bit that, in Portland, a lot of their incentives are structured around not just giving away money, but ensuring the company has sort of a relationship with the community, including workforce development. And having talked to some economic developers in Portland about that, one of the advantages is it automatically, sort of, makes the company a good partner with the community; that, you know, sometimes with incentives it's sort of -- it feels like a quid pro quo, and the company is coming in and getting money. And maybe that even sets up a little bit of a relationship where the company is being scrutinized. Whereas if they're hiring local workers, it automatically is building goodwill in the community for the company, and in the company for the community as well.

SENATOR SMITH: Mr. Goodman, thank you very much for your information and testimony today.

We might be back to you with some more questions, but we do appreciate what you did today.

MR. GOODMAN: Thank you very much; I appreciate it.

SENATOR SMITH: You're quite welcome.

Our next witness, by video, is Mr. Joseph Parilla. He is a Fellow at the Brookings Institution Metropolitan Policy Program.

And if we could get Mr. Parilla on, that would be great.

Mr. Parilla, is that you?

JOSEPH PARILLA: Yes.

SENATOR SMITH: Welcome to New Jersey, by video.

MR. PARILLA: Thank you so much, Chairman, and to the other members of the Committee, for the opportunity to testify; and for the flexibility and technology for me to do it from D.C. I really, really appreciate it.

So I'm a Fellow at the Brookings Institution's Metropolitan Policy Program. Brookings works with mayors, governors, and other local and state institutions -- folks who are on the front lines of what I would consider to be the nation's central challenge, which is ensuring that more people and communities share in the benefits of economic growth.

So in that regard, I'm going to make three brief points from my testimony on the role of economic development incentives in broader economic strategies.

The first point: Economic development and funding should be reserved for businesses whose behaviors and investments are consistent with the public good. So currently, incentives transactions reward a somewhat limited set of what can be considered beneficial business behaviors -- typically, creating a job or retaining a job.

But to ensure that incentive policies are promoting the public interest, some communities such as Austin, Indianapolis -- and Josh mentioned the Portland example -- are adopting a broader set of criteria to ensure that incentives are deployed in line with, in this case, the city's economic development objectives; but I think this is pertinent to the state as well.

So in addition to the creation of jobs, particularly with livable wages and benefits, these incentives scorecards reward what we consider to be other opportunity-rich business behaviors. So that could be whether a company exports outside of the local area or is in an export industry; whether it's likely to drive technological innovation; or whether it will commit to partnerships or activities within the communities, such as hosting job fairs, partnering with local schools, reserving internship slots for disadvantaged youth, or supporting the creation of other businesses through local incubators -- things like that.

And so this scorecard approach -- I mentioned this -- it creates a decision-making rubric for policymakers that helps them do two things. One, any city or state has to master the global scale and technological complexity of our modern economy. And so it rewards businesses that are going to contribute to those aims.

But it also addresses the entrenched biases that prevent all workers and communities from meeting their productive potential, and it uses the business -- the private sector -- as a partner in doing that.

The second point I want to make is that economic development incentives should be targeted toward the core drivers of business investment decisions; principally, the development of a skilled workforce. So workforce quality is paramount to core economic development interests such as business attraction, retention, and expansion. For instance, 95 percent of executives rate the availability of skilled labor as either "very important" or "important" to their investment location decision.

And so evolving economic development incentives to focus more on job training and skills is a logical step for state government for four reasons. From a growth perspective, well-designed job training tax credits or skills grants address talent shortages, which are a binding constraint to opening and expansion for many firms. From a shared prosperity perspective, using public subsidies for investments in education and workforce development is more likely to distribute the benefits of incentives to workers who need training in jobs, in addition to businesses.

Third, from a fiscal perspective, Tim Bartik has already shared that customized job training incentives achieve greater returns at lower costs than traditional incentives such as job creation tax credits.

And then fourth, from an efficiency perspective, pushing training resources into the domain of employers ensures that the training is more relevant, as in-firm and on-the-job training tend to outperform classroom-based training because it more closely resembles the activities eventually done in the workplace.

So, of course, most states do either have a job training tax credit or a customized training incentive, or both. But this definitely represents a small share of the overall incentive spend at the national level. Again, Dr. Bartik's research has shown that only about 2 percent of the $50 billion in annual local and state economic development incentives spend goes to job training. Given the importance of talent to business decisions, this seems misaligned.

The third point: Tax incentives will not always be the right tool for states and businesses to advance economic development objectives. This hearing, of course, is about incentives; but given the remit of this Committee, I'd be remiss to not point out that incentives are not always the best way to bolster the twin interests of business and community prosperity. For example -- and this is just staying in the talent development arena -- companies may care less about an incentive and more about flexible, quality partnerships with job training providers. Yet in many states, the job training space is extremely fragmented and unclear to businesses. States have a unique capability to not only offer training relief -- as I mentioned in my second point -- but to support the regional intermediaries that alleviate miscoordination challenges by connecting middle schools, high schools, community colleges, higher education institutions, universities, and other in-demand skills providers with businesses in key growth sectors. States such as Maryland, Massachusetts, Rhode Island, Tennessee, and New York have pursued such grant programs to support these types of regional industry training partnerships.

This is just but one example. We can talk about others, if that's of interest. The broader point is that state economic development, -- and economic development in the United States in general, needs to evolve from what I would call a *transactions game* -- one whose governing metrics are overwhelmingly about deals won and measured, in some cases, by whether incentives were deployed in service of those investments; to a *conditions game*, where government is designing and deploying policies that change the broader economic conditions of a state or a community.

And so this is hard to do, as Dr. Bartik said; it's much harder to run quality programs that are doing this type of conditions work. And it's difficult to do from a state capital, in some instances. And so we're seeing state-level strategies are oftentimes most effective when they're providing resources that enable the public, private, and civic sectors to collaborate locally in ways that allow both businesses and residents to prosper.

So thank you for the opportunity to participate in this hearing, and I'm happy to answer any questions.

SENATOR SMITH: Questions from members? (no response)

Joe, you were succinct and on point. We appreciate your contribution today to today's hearing.

Thank you very much.

MR. PARILLA: Thank you.

SENATOR SMITH: Our next witness is Jackson Brainerd; and Mr. Brainerd brings a national perspective. He's from the National Conference of State Legislatures, so he can tell us about the United States of America. (laughter)

JACKSON BRAINERD: Great; Chairman Smith--

SENATOR SMITH: You're a Policy Specialist, with NCSL, for Fiscal Affairs.

MR. BRAINERD: Yes, that is correct.

SENATOR SMITH: Okay; well, welcome to New Jersey.

And if you would, maybe you can give us the benefit of what's happening around the country, and how we can improve New Jersey.

MR. BRAINERD: Sure.

Well, thanks, Chairman and members of the Committee. I want to thank you for having me here today to speak on best practices in developing economic development programs.

If you're not familiar with NCSL, we're a bipartisan organization that serves the legislatures and legislative staffs of the states, territories, and commonwealths.

I want to clarify that we don't have an official opinion on the best economic development strategies or programs; but our State and Local Taxation, or *SALT,* Task Force, has developed best practices for tax expenditure reporting, which I've made available to you all; and that will constitute the basis of my remarks today.

Our SALT Task Force is also a bipartisan body; and that's comprised of fiscal leaders from across the states, and it adopted these practices unanimously after 18 months of discussion in 2017.

So while all sorts of spending categories -- be it education, infrastructure, environmental programs -- could be considered economic development programs, it's really only tax incentives that have become synonymous with economic development over the last few decades. Every state has an office of economic development, or similar entity, with a prime function of using tax incentives to recruit or retain businesses or help them expand.

Incentives can take a manner of different forms -- breaks or credits on income property, sales tax. It can be the issuance of tax-exempt industrial revenue bonds, or low-cost loans, the sale of underpriced land; or as we've been talking about, customized training or assistance with regulations. Some of these are available to all businesses; others are only available to select companies.

The investments that state and local governments have made in these programs is substantial. It's been estimated that states forego about anywhere from $40 billion to $70 billion in revenue annually. And until recently few states had good evidence that these programs were working as designed, and deals were frequently crafted without guardrails to prevent cost overruns or program abuse.

Good Jobs First, a non-profit devoted to government accountability, has documented a litany of multi-million dollar incentive deals that came at a cost of more than $1 million per job. So without proper oversight of incentive programs, states risk putting themselves in difficult budget situations or attracting negative public scrutiny.

Strengthening incentive provisions by capping costs, tying awards to company performance measures, and implementing clawback provisions or job and wage requirements are some common ways states are guarding against overly costly deals. This has come as part of a noteworthy and sustained push on the part of states to implement processes to improve oversight and evaluation of tax incentives. According to The Pew Charitable Trusts, no state had implemented a process to regularly evaluate tax incentives as of 2012. And as Josh just mentioned, at least 30 have done so since, and much of that can be attributed to Pew's efforts in this area, so I'm glad to see that you invited them today.

So most states, including New Jersey, do periodically document their tax expenditures; but some do this in ways that are more detailed and conducive to informing policy decisions than others. And fewer produce regular evaluations specifically on tax incentives to determine their effectiveness. As a contribution to the conversation surrounding tax incentive reporting, our SALT Task Force approved best practices for tax expenditures, budgets, and reports. While tax expenditures can include things like sales tax exemptions or individual deductions, and are not specific to economic development incentives, the best practices guidance here is still relevant.

So glossing over the best practices for a normal tax structure in this report -- which is not quite as relevant to this conversation -- the first set of best practices the Task Force adopted addressed the construction of tax expenditure reports. The expenditure reports produced by your Division of Taxation adhere to some of these; they are easily accessible and available online. Because they are part of the government's budget proposal, they are done in time for budget and policy decisions. And they also include important information about when credits were enacted, where they can be found in statute, and their estimated revenue impact.

They do not include clearly identified metrics for assessing the effectiveness of the expenditure, nor is there much information available regarding the categories of taxpayers who benefit. And these are things that states have begun to require, especially for business incentives, to help them better target their economic development efforts.

For example, in its evaluation of the state's new jobs tax credit -- a job creation incentive for businesses also doing job training --Iowa's Department of Revenue presented an evaluation that provided detailed data on job creation claims, and used specific criteria to show that the program was correlated with higher employment growth. It also described similar state programs and the result of other evaluation studies.

In Maryland, after a 2016 evaluation of the state job creation tax credit established metrics to measure the effectiveness of the program, and found data to perform the assessment was lacking, the legislature was able to respond the next year and implement more detailed reporting requirements which improved the program's transparency.

Beyond the best practices for the reports themselves, our Task Force also developed best practices for generating better expenditure data and analysis, which I'd like to particularly highlight.

The first one is that tax expenditures should be an integral part of the state's budgeting process, subject to a comparable regular review and approval process as other expenditures. Each tax expenditure should be reviewed regularly with a frequency of review taking into account the trade-off between available resources to undertake the review and the cost of the tax expenditure. Making tax incentive evaluations part of the budgeting process ensures that more scrutiny is applied to these programs by requiring they receive the full attention of the legislature, and they allow costly or ineffective programs to be reformed or eliminated in a timely manner. Evaluation periods that states have adopted vary, from annual reviews to 10-year cycles. Many have adopted schedules to review different groups of incentives each year, rather than trying to review incentives all at once.

The second best practice: There should be clarity about who is responsible for this review. It should be done by a special legislative committee, a created commission, or some other authority. In states that have enacted laws to regularly evaluate their incentives, the most common approach is to appoint a nonpartisan legislative audit or staff office to do the task; but this is not uniform. North Dakota has an interim legislative committee review their incentives; Mississippi has the University Research Center, a division of the Mississippi Institutions of Higher Learning, conduct the review.

The third best practice: Evaluations should be based on measurable goals and draw clear conclusions on the effectiveness of each tax expenditure. Especially when dealing with large incentive packages, the ability to evaluate which provisions specifically influence a business's decision to relocate or expand allows states to determine which are the most important, and to improve this process going forward. The inclusion of measurable goals also encourages both transparency and the development of programs that are designed to benefit the broader community, rather than just incented firms.

Four: Rigorous evaluations should determine costs and benefits of each tax expenditure, and allow policymakers to ask critical questions, including: Is the purpose, and cost, and benefit of each expenditure clear? Are there clear metrics to determine the expenditures' effectiveness? If no readily available data exists to measure a tax expenditure, how should it be evaluated? To what extent the expenditure affect choices made by taxpayers? Did it achieve its purpose? Who was affected by it? And did the benefits of the expenditure outweigh the effects of the tax increases or the spending cuts needed to offset?

No business would keep pouring money into a product that does not sell; but this is essentially what states risk doing if they are unable to answer these questions.

Cost-benefit analyses are important. Sometimes the increased public service costs that come with an incentive -- say, for construction of new facilities -- can outweigh the benefits. Examining specific criteria, such as changes in jobs, payroll, and capital investment, helps measure program effectiveness and allows states to fine-tune their programs. Attempting to gauge the extent to which the incentive actually motivated desirable firm behavior, and determining who incentives affect -- for example, some incentives can benefit some firms at the expense of their competitors -- provides more transparency.

In an absence of data, alternative evaluation strategies might involve identifying similar programs in other states. Enabling data sharing between state agencies can help researchers access more information; and engaging with incentive recipients themselves can generate valuable insights about tax incentive designs.

Our fifth principle -- again, making the regular review of expenditures part of the budgeting process -- is perhaps a little redundant, but builds off the first principle by emphasizing that incentives should receive the attention of both the Executive and Legislature.

So these are the steps our SALT Task Force believes will help yield more effective tax incentive programs. In the states that have conducted more rigorous incentive evaluations, the insights they produced might be instructive. For example, the Oklahoma Tax Incentive Evaluation Commission evaluated the self-explanatory Investment in New Jobs Tax Credit in 2018, and suggested reconfiguring the program to incorporate several changes: Awarding credits only in the year the investment is made, or when new jobs are created; limiting the credit carryforward period and reducing the credit amount to control costs; implementing strict recording requirements and clawback provisions to give the program requirements teeth; and restricting credit eligibility to target job creation in high-wage and high-multiplier industries.

In closing, the discussion around improving tax incentive evaluations, while undoubtedly useful, is often premised on the assumption that incentives are tools that states must use, whether due to competitive necessity or political optics. But there is no evidence that the number of economic development tax incentives offered -- that there's any relation to the broader performance of a state's economy. And there's quite a bit of evidence that tax incentives often fail to achieve their stated goals, and can have a negative impact on state fiscal health. Even programs that do show success cannot guarantee that they didn't subsidize behavior that would have occurred to some extent anyway. Recent research from Dr. Batik with the Upjohn Institute has estimated that for a typical state and local incentive package, in only 2 percent to 25 percent of the incented projects is the incentive decisive in tipping a location expansion or job retention decision towards that state or local area.

As I noted at the start, economic development is a broad issue, and there are many planes on which to compete for business activity. Site selection professionals commonly note the importance of skilled labor, adequate land, market connectivity, and infrastructure as more important determining factors than tax incentives. In other words, evidence suggests that if New Jersey continued its current unusual state of not having any economic development incentive programs and spent that money on other public services instead, it might not be any worse off in the long run. Given the uncertainty surrounding the success of incentives as economic development tools, our best practices document gives states important guidance on how to better ensure they will be productive.

So thank you for your time, and I'm happy to answer any questions.

SENATOR SMITH: You just provided the headline for the story on today's meeting. (laughter)

I don't have a question; any questions from Senators? (no response)

Thank you for blowing up the hearing; we appreciate it very much. (laughter)

Professor Michael Lahr, from the Rutgers Economic Advisory Service, who-- As I understand it, Professor, you were also involved with the intermediate valuation of -- a report for EDA programs.

M I C H A E L L. L A H R, Ph.D.: That's correct.

SENATOR SMITH: Okay. So before you start anything, our last witness said, "Why bother?" So I'd appreciate if you could answer that question first. (laughter)

DR. LAHR: Well, you know, first of all, there is sometimes politics more involved than economics, right? So sometimes not doing something is politically infeasible. So from an economic perspective, I think we all -- everybody who testified here today generally agrees with sometimes economics isn't everything, as much as we'd like to believe that it is.

So, you know, it's one of those things, for example, when we had the Super Bowl in the Meadowlands, I think New Jersey probably lost more money than it made. New York City made a lot. But, you know, it's a political win when the Governor, at the time, got that football team here.

And I think the same thing occurs here. How can a Governor, how can -- and people in the Legislature -- how can they sit on their hands while businesses are saying, "We need incentives to come here"? I mean, it's a tough thing for you guys to manage. And so I think some of us try to understand your situation; but in the end, there are other things that can be done than tax incentives.

And to start things off, basically here's the reason why; and Tim Bartik explained it. Taxes are a very low percentage of overall costs. In New

Jersey, they average somewhere around 2.9, 2.6 percent of overall business costs. So how much can that really make a difference when labor costs are somewhere around 20 to 50 percent of costs? So if you can help minimize those, as he said, that's important. And energy costs can be anywhere up to 5 percent, and so can transportation; and we have congestion problems here in the state. Now, curing those may actually make business go out of the state faster; who knows? That's what happened in Appalachia; when they built highways through, the people left Appalachia. That didn't cause development there; the same thing could happen here, potentially. Things could go out to beyond Middletown, Pennsylvania, where it does now.

But the idea is, we have other cost factors here; and New Jersey is an expensive state. So anything we can do to reduce costs helps development here. And so every means possible should be probably applied. We're expensive, but there's a reason we're expensive, and we have benefits as far as to being here. We're closer to New York; we have a port, one of the largest ports in the United States, in Elizabeth and Newark; we have a lot of other things. We have a very well educated labor force, which we've already remarked upon. But that doesn't mean we can't do better. I would say Rutgers would like to be a part of that, but we have a lot of our students actually are exported out to New York and Philadelphia as well. So it's one of those things where I understand why the State is reticent to give a lot of money.

But our community colleges are important, and that's something else that people have mentioned. Community colleges elsewhere, particularly in the South in manufacturing areas, they're used-- Companies give their old equipment to the community colleges; people train on that equipment, and then come to the firms afterwards to get employed. They're well trained on the particular older equipment of that company. I'm talking with people in Lawrence, Massachusetts, about doing this, along with Lowell -- the University of Massachusetts-Lowell, which has a co-op program like Drexel does. I don't think we-- Do we have a school in the state that does co-op programs? I'm not sure we do. Drexel does it; the University of Mass-Lowell.

And in addition to the community college, you have these engineering schools that have their students go out for a semester, working on co-op, getting credit for working in a firm. It may be doing CAD/CAM-type technical work; things like that. We don't have that here in New Jersey right now; although NJIT is close to that, so I don't want to say we don't have anything at all.

Anyway, I hope that addresses your question. It's mostly -- it's a matter of a cost item, and it's a marginal cost item. And so it's really a secondary consideration. First (indiscernible) look -- what is our market; what is our set of supply chains? More like Amazon. And then they say, "Okay, now, within that market, where in New York -- where should I sit? Should it be on the New Jersey side; if you're in Philadelphia, which side of the river should I be on there?" That's where they start worrying about-- And then they go into municipalities, "Should I be in Hopewell or should I be in Princeton?" These kind of things are a matter of -- at the very minimal fringe of considerations.

And so, while it's important -- and especially in New Jersey, and we'll get to this later, the tax incentives are something that probably do make a difference -- there are other things that are probably more important to them. Because basically, what they're doing is reducing their overall costs of doing business in New Jersey. We're an expensive state.

So did that answer your question right off the bat?

SENATOR SMITH: Helpful.

DR. LAHR: Okay.

So that's one of the things -- we all know that it's a small cost consideration, here on our side. That's something you guys maybe don't know as well, and I thought I'd make clear with this.

This is actually based on Tim Bartik; we all follow Tim. Tim actually does his own research, but he also follows everybody else's, as does Pew. And my point is, we have a really great bunch of testifiers here; I'm happy and pleased to be a part of this. I'm actually surprised I'm being brought here again. People know me, and they still come call me back; it's always amazing to me.

But what we have -- this is something that's in the general testimony -- which is, it's a graph showing three points of potential error. One is, the initial point of qualifying for the costs, and whether a firm deserves it or not. We've already heard people saying, "Well, you know, 22 to 25 percent of people -- firms that apply probably shouldn't -- are the ones that actually deserve them; the rest don't." And I'll get into why that is.

The next thing is, you know, do they replace New Jersey firms or not? The multiplier benefits -- are they worthwhile or not?

And then the third part is -- you know, we've already heard enough about it, I think, but I'll address it politely -- which is, are we employing the people who we want to employ?

And there are different sides to that, so let me go through each one of those, more or less in turn. I have another thing-- One of the problems we have is, as State officials we can't know the costs -- or, as State officials you can't know the cost of firms. And so what we have to rely on is a firm testifying, "This is how many jobs we need; this is going to be our tax burden at this new location, or existing location. And this is what we expect to be injecting, in terms of earnings, and labor, and all these other things." So they're testifying to that, in some form, to NJEDA. And NJEDA -- the best they can do is make a couple of phone calls and say, "Do you swear on a stack of Bibles?" But they-- There's no reason for these people to not lie; I mean, other than they could get sued and you might take the money back -- which is, as you all recognize, hard to do.

So making -- you know, having them be truthful is very difficult. So what we suggested in our recommendation to EDA is, raise that benefit-cost ratio. If you think of the benefit-cost ratio as the inverse of the probability of this person -- as the inverse of -- 1, minus it being the inverse of the probability of a person lying-- If it's 4-to-1, that means you're thinking there's a 75 percent chance they're lying, okay? And a way to hedge is to make that benefit-cost ratio go higher than our current 1.1.

SENATOR SMITH: So you think the 1.1 is much too--

DR. LAHR: Oh, it's excessively low. I mean, all you're saying is, "We might -- we're basically breaking even, if all the calculations are perfectly correct and the firm's not lying," right? That's what we're saying. And that was one of the problems with the Camden alternatives of NJ Grow. And those NJ Grow alternatives have all -- and some in Jersey City as well -- are all of what made the cost per job go from something like

$20,000 per job up to $66,000, on average. So take these three or four projects out--

SENATOR SMITH: So if you were king--

DR. LAHR: Yes.

SENATOR SMITH: --what would be the cost-benefit ratio you would recommend?

DR. LAHR: I would say at least 4-to-1; maybe 5-to-1. Most of the projects we looked at for EDA met the 5-to-1 threshold. I'm just telling you most of them; I mean, 80 percent of them. So it's not like those applications we had before were bad.

SENATOR SMITH: Yes.

DR. LAHR: Most of them were good. It was just some that met the 1.1 and-- But those were a different set.

SENATOR SMITH: So you want to be really targeted; get the biggest bang for your buck. And by the way, what kind of companies gave us the 5-to-1 cost-benefit ratio?

DR. LAHR: Oh, you know, it was a variety. I mean, they were almost all manufacturing. They weren't retail, they weren't the service jobs that we were worried about, for the main part. In ERG there's an allowance for a residential thing; but both the residential and the Camden alternatives we almost should put aside, because those were built for other reasons. I think that, you know, Camden is a distressed area; it needs all the help it can get from investment. Just, you know, getting anybody to invest in Camden is a problem; and the same thing with other areas. So if we put them off into another program and just say we're giving Camden money, we would have been better off politically, as well as economically. I think there were reasons to give money to certain cities to encourage investment. It's a very different thing than a job growth alternative, business expansion alternative, okay?

SENATOR SMITH: Great.

Mike, hold on for one second, because you're stimulating some questions.

DR. LAHR: Yes.

SENATOR SMITH: Senator Cruz-Perez.

SENATOR CRUZ-PEREZ: Since you mentioned the topic right now -- and I was going to wait until the end -- but what would be the likelihood of any of these companies relocating to Camden City without the incentive for creating the jobs?

SENATOR ADDIEGO: None.

DR. LAHR: You know, that's something I can't know, right? Again, what's the probability-- You know, these are the things we will never know, because they were given the money and they came, right? The Sixers came over for a reason. Was it Honda that came over? I mean, we don't know what they would have -- what it would have taken for them to come over without them, because they got them, right? And who knows? I can't say.

And the thing is, they weren't job incentives; it was strictly an investment incentive. And so, therefore, to measure it in terms of a job for-- That was not what it was measured on. They were measured on, were these worthwhile investments, and were these investments going to meet a cost-benefit ratio? And they met the 1.1; it wasn't about jobs. So that's why the jobs amount -- the top dollar for jobs got inflated, because there were very few jobs for a large amount of investment in the new buildings. And the new buildings -- even if Honda should go, it would probably be filled by somebody else, because there weren't many new buildings in Camden at the time.

So, you know, I can't. That's not something we had to do. I was not re-evaluating EDA's numbers -- or the numbers handed to EDA. I was evaluating-- Actually, it was a much more technical thing; were they doing things properly? And we found some problems in the way they were doing their cost-benefit analysis; I don't want to get into-- It was not purposely erroneous; it was just the consulting firm they used, used bad technique. But that's my forte; so I'm more of a numbers geek than some of these other people here who are more policy-oriented.

So that's-- We did that, and we evaluated certain other things that were looked at from a political respect. A lot of it was legislated in. We had multiple point systems which were overlapping. So Camden got in because it was a Transit Hub, plus it had a rail facility, plus it had-- You know, all of these things that were the same things three or four times, and so it got more points that way, which helped enable it to get some of these lower benefit-cost ratios as well. I mean, I'm not saying it's not worthwhile; it's just putting them in the same program as some of the job growth things is kind of not a good political thing to do, I think. And that's what probably got some people into trouble.

SENATOR SMITH: Senator Addiego?

DR. LAHR: Should I keep on going for a little bit?

SENATOR CRUZ-PEREZ: Well, actually, he hasn't finished his testimony.

SENATOR PENNACCHIO: Okay.

Senator Smith had to leave the room, so he had asked me just to take over for a few brief minutes.

I was hoping to have my business cards made up as *Chair*, but I don't think we have enough time. (laughter)

I have a question.

First of all--

DR. LAHR: I'm always willing to come back; I mean, if we run out of time.

SENATOR PENNACCHIO: No, no, no; you stay right there.

Professor--

DR. LAHR: You can call me *Mike*.

SENATOR PENNACCHIO: Okay.

DR. LAHR: I mean, *Professor* always makes me worry. It's like somebody calling me *Doctor*. I'm afraid I'm going to have to give mouth-to-mouth resuscitation.

SENATOR PENNACCHIO: Now, Mike, one of the things that happens, when somebody basically says that taxes don't factor into things -- my ears perk up, okay? Because you had mentioned it's less than 3 percent, as far as the outward expenditures of a business. And yet, you mentioned the labor force is well over 25 percent; it's a big factor. But part of the reason that it's so expensive is the high cost of living; and a major reason, a major burden on that high cost of living is because those people -- who are 25 percent of what those cost of businesses are -- they pay taxes too. They pay high property taxes, they pay an inordinate amount of Federal and gross income taxes in New Jersey. So I just want to -- not challenge you, but clarify that.

But, you know, there's a multiplier effect on taxes also. So even though it doesn't seem like a tax credit is important -- okay? -- and that maybe we should deal with the individual workforce. The problem is, they're the same. Part of that burden is the same that both the businesses and the employees both carry on together.

DR. LAHR: In that regard, it also depends on how you spend the taxes. So one of the things that is a little bit of a misnomer, is we have a heavy property tax burden here in New Jersey. I think 70 percent of our tax return -- within the State, not Federal -- is property tax. And it turns out the things that property taxes are spent on are the things that firms like -- education and safety. What's not to like, right?

SENATOR PENNACCHIO: That's another issue; we're talking about redundancies, and 560 school districts, or 30 -- whatever.

DR. LAHR: Right.

SENATOR PENNACCHIO: That's not this Committee; that's another Committee. (laughter)

Dr. Bartik-- My eye-opener was not the $66,000 -- although that opened up my eyes pretty well -- but the fact that he said that 75 percent of the incentives don't work, okay? And then we talked about cost-benefit analysis. You had mentioned the number 5-to-1 would be a better ratio; but my understanding is that most of the lower ratios -- the 1.1s, -- okay? -- which are negated, most of those happen in distressed areas. I see a difference, okay? I'd like all those things to pay for themselves. But I do see a difference between incentivizing an area that is distressed versus an area that's not distressed; and how you may not get as much out of that area that's distressed, unless you happen to be the one that's getting that job.

DR. LAHR: And I agree; that's why I just said it would have been better, in many ways, for EDA if those would have been a separate program, and not included in NJ Grow. Because then people like Tim Bartik will pile them in together and consider them as one; when, in fact, it was a very different purpose. Like I said, it was creating investment in an area where it was investment-poor; a lot of disadvantaged people. Not that those companies employed many disadvantaged people in the neighborhoods, but at least it was something to hang a hat on to get Camden going again and get businesses thinking that Camden might be a place to do business. That's an important consideration.

But it would have been politically better, and also from measurement of the performance of the program, if it had been pushed off into a separate area. Calling them the *Camden alternatives* -- although there's one or two in Jersey City too, because it's not just the southern part of the state. It was parts that had some questionable, in that regard -- with regard to cost per job -- questionable situations. It would have been better for the program, and EDA, and everybody if they've been pushed off into another area and just politically admitted that, "Hey, this is for distressed areas, and the State needs to--" I think people would push for that. I mean, we've done a lot of other things for places and people in need, so why not something like this, right?

SENATOR PENNACCHIO: As you know, Professor, we're charged with taking testimony and seeing how we can improve the existing programs. So what I'm gathering from you is that we have parallel programs trying to do same thing in different areas, okay? But the oversight, quite frankly, has to be different. The standards that we apply have to be different. But what's most important to me is the transparency in the way it's applied.

DR. LAHR: Yes.

SENATOR PENNACCHIO: And if we're going to create a job and we're going to lose money doing it, but we know we're going to have to revitalize an area, then I think we have to be honest with the citizens and the taxpayers of the state.

DR. LAHR: Yes; and I think it would -- you wouldn't have had some of the witch hunt going on that was going on. And people -- some of the people who came here, came to visit me as well. And I said, "Look, I don't think there was any error meant by the politicians involved." I could have been wrong, of course; I just didn't think so. I think it was just, you know, people taking advantage of a situation -- which sounds like what happened -- and it was all legal; at least, just because the legislation was put together a little bit too quickly without much forethought. And that's what apparently happened. They cobbled together an existing program and just altered it slightly to make it possible for these Camden alternatives and some of the others.

It was an unfortunate thing for you guys to have to work with; and the Governor in particular, right? (laughter)

SENATOR PENNACCHIO: Thank you, Professor.

Welcome back, Chair.

SENATOR SMITH: Thank you.

DR. LAHR: Can I continue--

SENATOR ADDIEGO: Yes.

DR. LAHR: --or are you guys thinking my -- are you just going to ask questions?

SENATOR ADDIEGO: He hasn't finished his testimony yet.

DR. LAHR: Okay.

SENATOR SMITH: Sorry about that.

DR. LAHR: So, you know, the thing is -- one of the things that we have here is that the incentives are kind of good, even if they-- Because they do offset some of our higher costs. That's one of the things that's good. So I don't want to say that I don't think incentives are good at all; there's something worthwhile, especially if a firm is worth going for after. That's the thing that seemed to be less clear in the current legislation. There wasn't a targeted set of industries. And it seems to me we should probably follow some of the State's strategy for industrial policy in this regard. And there are certain things that I mention in the testimony that are clearly-- You know, the biosciences, some high tech-oriented firms. There was something they mentioned about the food industry, which I know we're famous for syrups and other food processing -- before that it goes off to foreign lands, we basically process that here; it's one of our bigger things. But I'm not so sure that, maybe, should be involved. That's a little bit less worthwhile for our high-level work force, in general; unless it's much more numerically controlled than I think it is.

But, you know, the other thing is supply chains do make a difference. And this is the multiplier effect -- one of the things that happened in South Carolina with a Boeing plant is that a lot of people like me and Bartik were against the plant going there. They thought they were selling the farm, literally, down there, like they did in Alabama with the Mercedes plant.

But what happened in both cases -- the suppliers for both Boeing and for Mercedes ended up surrounding those plants within 10 years. And they came there too. And they didn't have incentives. So that kind of an organization-- It was a major thing like that, and that's why the idea of not capping on the number of jobs or the amount of incentive is not a good idea for situations like that. But those would be exceptions anyway.

But the idea is, if the supply chain follows without incentives, what a bonus that would be. And that's not something we've had much in New Jersey. Mostly we get organizations like Honda headquarters and the 76ers, which there's not much in the way of suppliers following it. And so you really need some major manufacturing facility of some kind; and, again, we would hope it would be high tech in nature.

But I would suggest following the industrial policy, and watching what kind of manufacturing it is, and maybe putting some criteria on that, that follows whatever the State's industrial policy is. That's something that we have not -- was not explicit in the last legislation. I just wanted to make that clear.

And I'm not so keen on residential projects, which were part of ERG. That's something -- unless you're building affordable housing; again, a different type of issue (laughter) -- it's an equity issue, not an economy-building issue in a way of lifting everyone -- it's a different type of thing. So I would just caution on those types of operations, which really will steal from other organizations within the state. So that was something I just wanted to make clear.

One of the things that also went on with some of the Camden alternatives -- there were some pilots -- or not even pilots, just taking tax abatements -- property tax abatements. And in distressed areas, this seems like insanity to me. You're basically -- they were able to count, somehow, the property taxes as a benefit and then not as a cost. In addition, there was some bad math in that that was allowed by the legislation. And so, in addition, then, some say it counted as a benefit, even though it wasn't collected. And then they didn't have to pay, which is the only source of income that the cities will get from the new plant or new facility that's locating there

And the fact that they somehow -- the business was allowed to negotiate with the community on that was unfortunate; and the State should probably get behind that and be at the table at those negotiations. If anything, if the property taxes have to be given up, then somehow the State should step in and somehow give those same revenues back to the community somehow. I mean, I'm not sure how; this is a mechanism -- I'm not sure. But that was something that seemed to be most erroneous and made those cost-benefit ratios not being 1.1, in fact. Because they were allowed to be included as a benefit -- these property taxes -- when, in fact, they weren't even a benefit, because they weren't being collected. Do you see what I'm saying? It was a strange piece of math in that legislation.

Minimize duplication in our point system; I've already talked about that.

And this is something other people have mentioned. Maybe development of assets should be another thing that's considered. An innovation center, a shared resource center for machinery or something else. There's some of these things going on in the state already; I think some of these other people mentioned them -- incubators; all that kind of thing. These are good things that really-- I don't want to mention the other programs, because they're all correct. Those are much more efficient systems; there's no reason to go into them.

We have almost all our criteria on jobs. There was no concern about the pay on those jobs. Obviously, you know, it can make a difference in a needy district or not. But, generally speaking, we're a high-wage state, so it's better if we grow high-wage jobs. That's a good thing, right?

And then we've had very few prohibitions on relocation, which bothered me. There is a lot of work -- I think Bartik and others have gone through all the possible methods of how to handle those kind of situations; I have a couple listed here. Make sure that if it's an in-state that they offer the companies -- they took the employees to move. We don't need labor market churning; it just costs the State money to help people find jobs and put people on unemployment. It's an expensive thing; job turnover is tough.

There are sometimes I-- One application which I was asked to evaluate before it went to EDA -- it was strictly job growth by the natural job growth of the firm. And fortunately, my Dean at the time, Jim Hughes, suggested we not be part of that, because we're working with EDA, so we not evaluate. But when I looked at them, I'm going, "This is just their -- the firm's natural job growth. And they're claiming as new jobs to get a new facility." I'm not going to say who it was. But it was an employer in the state; and it seemed to me that it was an illegitimate application. I mean, that's something that somehow you have to evaluate. How do you determine if something is their natural job growth or not? That's another tough thing.

And so we mentioned somehow putting in the legislation -- I know we can't really put in that the jobs must be people in this municipality. But there should be something saying that the firm will agree to do it in good faith. I know that we can't, because-- Atlantic City -- I know when we put the casinos there, one of the things was to lift AC; it still hasn't happened because the State couldn't say that people -- the jobs have to go to people in Atlantic City. But they were able to say the jobs on the casino floor went to New Jerseyans. So we can do that, always. So that means if you put something in Camden, you can make sure those jobs go to people who live in Camden or live in New Jersey; not in Philadelphia. There are some things you can put in that kind of legislation for that; so make sure we do that.

And finally, tying incentives to performance. We've talked about backloading; frontloading is better, as Tim Bartik said. Firms love that. And so if you-- One thing I've not heard of in testimony before today was the Oregon situation, where they gave loans; and basically were co-signers of the loan, but then had it so they weren't co-signers if the firm reneged somehow on their original agreement. I kind of like that situation, right? Because that means the firm has to pay the loan; and otherwise, the state pays it. And I like that kind of situation, because then you don't have to clawback, which is a nice situation. They're legally bound to fulfill the loan agreement.

And finally, imposing some additional charges for non-performance. I list a couple of alternatives here; but these are -- it's up to the imagination of legislators and advisors. I'm just quoting what others had put down, but I do like that loan alternative.

So that's really -- that's, at this point, all I had to say.

Any further questions?

SENATOR SMITH: I wasn't quite sure; on your page it said "investment-starved areas."

DR. LAHR: Right.

SENATOR SMITH: You say "minimize pilots on property taxes." And--

DR. LAHR: The idea is, it would be better for them to get the set of property taxes. It depends on the value. As long as the value of the pilots is equal to the value of the property taxes, I have no issue. But the thing is, if you pull away the value-- The whole reason to put these things in there is to help the area. If you pull out the one thing they can get out of it -- if they don't get the jobs, the other thing they get is the property taxes -- the local municipality. If you take away those property taxes, what do they get?

SENATOR SMITH: Well, my understanding of the way in which payment in lieu of tax agreements work is that -- and this is after a property's been declared an area in need of redevelopment; they name the redeveloper, there's a redevelopment agreement, there's a financial agreement -- it's one of the reasons that towns generally like these -- is that

95 percent of the taxes go to the municipality, 5 percent to the county. The entity that's cut out is the school board.

So a municipality will look at it and say, "I'm getting 95 percent of *X*, which is way more than I would have gotten any way." And if it's a development that doesn't generate children, there's some philosophical, logical basis for it. On the other hand, if it's housing, maybe it shouldn't be used wherever there's housing and there's going to be children.

But I haven't seen municipalities too beaten up with pilots. They seem to be doing pretty well.

DR. LAHR: There have been some in North Jersey that have been beaten up pretty hard; for example, where the county gets the benefit, and not the municipalities. It all depends on what the investment or what the payment is for, right? So that's really the bottom line. So if it ends up going to something for roads, then I'm not sure the municipality is benefiting directly. If it goes to something that's for, like, building schools or something like that -- yes, it is.

And so it just depends upon what the expenditure item is that the payment is going for. And that's why it's just something that would be out of your hands if you, as legislators, enable that. It is something to be careful about. I guess I shouldn't say, "Don't do it;" but I just say, "Be careful with it," rather than minimize it. I probably spoke the wrong word.

SENATOR SMITH: Fair enough.

Questions from Senators?

Senator Pennacchio.

DR. LAHR: Pilots can be a good thing; I agree.

SENATOR SMITH: What's that?

DR. LAHR: Pilots can be a good thing. I just--

SENATOR SMITH: They're doing an awful lot of redevelopment in this state.

DR. LAHR: Yes.

SENATOR SMITH: Senator Pennacchio.

SENATOR PENNACCHIO: Thank you, Chair.

Just two points.

As I hear you talking about how things sort of are hidden: How they count the non-payment of taxes as part of -- on the positive side of the ledger; natural job growth as part of some of the incentives that would have happened anyway. I think that, quite frankly, the best disinfectant for the EDA is transparency.

So we live in a wonderful age; everything on the computer --all the contracts, all the numbers, all the oversight is put on the computer. That way you don't have to struggle to find it. Anybody in the public domain--

DR. LAHR: Yes, but how do you determine what's natural job growth for-- You know, a firm might be growing at, say, 2 percent a year; and it's new jobs. I mean, so how do you account for that?

SENATOR PENNACCHIO: Mike, that's not the point. The point is that people start asking questions, okay? And hopefully they'll start asking questions before billions of dollars are spent, okay?

There are people who know. You may not know, but somebody else may know that those jobs were going to happen anyway. And they may post it, or they may question it. But again, putting it on a website, in the age that we live, I think goes a long way towards restoring a lot of the confidence that the EDA should have, and maybe has lost.

One of the things that -- I don't know if you had touched upon it; I know Senator Addiego had -- talking about, maybe, a better coordination between the community colleges. One of the people who testified today-- And it makes sense that we're really better off training people for those jobs, as part of the job incentives, than we are to give the money directly to the company. That's one expense that they don't have to do; and once we train those people, those people have that skill set for life.

So I would like to see, perhaps, Chairman, going forward, that maybe we can include a member from a community college as a public member of the EDA; or certainly as a liaison. That way we would know what the trends are, going forward, and what they should be looking at as far a-- And they already do some of this; but I think the EDA has their finger on the pulse before the colleges do. That way they can coordinate themselves going into the future with those jobs.

DR. LAHR: Right. And don't eliminate the vo-tech schools out of this. The high schools can do it too.

SENATOR PENNACCHIO: Exactly.

DR. LAHR: I mean, there's no reason to not teach electronics and things like that there, at least at the beginning level.

SENATOR PENNACCHIO: And they don't all have to be technical. You have trucking companies that pay enormous amounts of money for people -- for truckers who drive. They need them. So if people know that they don't have to struggle through school if they don't want to, yet they can make a good living and good benefits right off the bat--

DR. LAHR: Right.

SENATOR PENNACCHIO: And maybe this is one of the options that we can be offering these younger people as they come out of high school.

DR. LAHR: Yes, plumbers make as much as I do, so--

SENATOR PENNACCHIO: More. (laughter)

SENATOR SMITH: Plumbers make more than you do.

DR. LAHR: Well, that's probably true. (laughter) You looked up how much I was paid; great, okay.

SENATOR PENNACCHIO: And just one little point -- as my ears perked up with pilots. You're probably right -- that manufacturers can't go back to the municipality. But one of the reasons that 95 percent -- they get to keep that money is because the state taxpayers have to kick in for the State educational costs, which is not factored into the formula.

So we would hope that going into the future that those pilots -- am I correct? -- we would hope that going into the future any pilots that a municipality wants to offer any business or developer coming in -- that at least that money is factored into the educational formula. That way, the rest of the taxpayers don't have to--

DR. LAHR: I just think the State should be at the table with those pilots, making those-- Not just letting the firm -- the big firm beat up on the local municipality sometimes. They'll take advantage; they'll exploit that. I'm just -- I just get concerned about that kind of thing.

SENATOR PENNACCHIO: Thank you.

SENATOR SMITH: All right, sir. Pilots could be the subject of three more hearings. But--

DR. LAHR: And then call in somebody else, like Mark Pfeiffer. (laughter)

SENATOR SMITH: Okay.

Professor, we appreciate all your contributions today. I think you gave us a lot of good ideas.

The Professor is our last witness of the day.

Anything anybody wants to add? (no response)

If not, we have our next hearing on September 23; so see you all then.

Enjoy September.

(MEETING CONCLUDED)