State of New Jersey

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Christie Administration Releases Report Recommendations on Various Tax Credit and Incentive Policies

Trenton, NJ – The Christie Administration today released a series of reports and recommendations to realign several economic development incentive programs designed to stimulate business investment and job creation throughout New Jersey. The reports, which identified significant shortcomings in the state's Urban Enterprise Zone program and recommended continued utilization of the Technology Business Tax Certificate Transfer Program, informed budget decisions in Governor Christie's fiscal year 2012 budget proposal with respect to those programs.

Many UEZs have consistently failed to spend all of the taxes collected within their boundaries each year. In the fiscal year 2012 budget proposal, the state is again applying this revenue to the state's general fund in order to fund core priorities and avert deeper budget cuts in other areas of the budget.

After reducing the size of the Technology Business Tax Certificate Transfer Program to $30 million to help close the unprecedented $11 billion deficit in the fiscal year 2011 budget, Governor Christie's fiscal year 2012 budget proposal provides for a restoration of the program to its previous level of $60 million.

The reports, conducted at the request of the Christie Administration by the New Jersey Institute of Technology and outside consultants Delta Development Group and HR&A Advisors, include recommendations calling for the elimination of the New Jersey Urban Enterprise Zone Authority (UEZA) and the New Jersey Urban Enterprise Zone (UEZ) program by the end of fiscal year 2011, with consideration given to a new community economic development program; modification of the Technology Business Tax Certificate Transfer Program to focus on biotechnology firms, while supporting the continuation of the program at $60 million for the next fiscal year; and possible discontinuance of the State's Film/Digital Media Tax Credit.

"To secure New Jersey's future economic growth and prosperity, it's important that we continue to face our economic realities head-on, make difficult choices and ensure that limited taxpayer dollars are spent on programs that are actually effective," Governor Chris Christie said. "We will continuously evaluate the efficacy of tax incentive programs and ensure that New Jersey's taxpayers are receiving a real and quantifiable return on their investment. The New Normal in New Jersey budgeting means funding priorities that work, and dispensing with outmoded or ineffective programs."

The comprehensive analysis of the UEZ program included a quantitative review of the program's economic impacts from 2002-2008; a case study analysis of success and failures from comparable economic development programs across the country and extensive review of documents related to the NJ UEZ program including outreach to UEZ coordinators and UEZ businesses.

The study, which found the 28-year-old incentive program to be "bureaucratically cumbersome" and costly to operate, noted that business expansion and job creation results in the state's urban centers have been inconsistent and unquantifiable. The UEZ program was created in 1983 to foster an economic climate that would revitalize urban areas and stimulate growth by encouraging businesses to develop and create private sector jobs through public and private investment.

Last year, Governor Christie also called upon the New Jersey Economic Development Authority to evaluate the state's Technology Business Tax Certificate Transfer Program, which allows qualified biotechnology and technology businesses to sell unused net operating losses and research and development tax credits to unrelated profitable corporations for at least 80 percent of their value.

The review, completed by the New Jersey Institute of Technology, found the program to be effective in assisting young biotech firms in creating and maintaining high-wage, high-quality jobs in New Jersey. But the review also determined that the program lacked success in supporting sustainable employment in non-biotech firms. Based on these findings and review of technology industry best practices, the report recommends:

- Focusing the program on biotechnology companies in recognition of the "patient" capital this industry requires because of its lengthy discovery and trial periods.

- Incorporating the issuance of warrants to New Jersey in connection with the authorization of credits to generate a new source of funds for economic development and technology support.

Additionally, the effectiveness of the New Jersey Film and Digital Media Tax Credit Program has been further examined. The $15 million program was created in 2005 and amended in 2007 to create additional subsidies for digital media. The program, due to sunset in 2015, was suspended in fiscal year 2011 because of budget constraints. While the initial report contends that the program is cost-effective, it also recognizes that the highest wage jobs in the industry still remain out of state. In addition, the report concludes that New Jersey breaks even on net tax transfers. A further analysis from Treasury calls the program's return on investment questionable.

A copy of the reports can be found at http://www.state.nj.us/treasury/index.shtml