What the hell is happening with New Jersey’s corporate tax incentive programs?

History of NJ Tax Incentives
• New Jersey has had some form of corporate tax incentive program since 1974.
• It’s supposed to work like this:
  – A company does something it wouldn’t otherwise do up front
  – Once they do that, they don’t have to pay as much taxes
  – It’s supposed to always work in the state’s favor
• It lowers tax liability, it’s (mostly) not transferring cash outright

Good Deal for States?
• Here’s how it’s supposed to work:
  – A company does something it wouldn’t normally do, like build a building or create some jobs
  – The corporate, sales, and other taxes gained from that project are calculated.
  – The company gets to pay a correspondingly lower amount in taxes on the back end.
  – This is the “net benefits test,” and it’s fairly straightforward in NJ.
• There is a growing body of research, however, showing public bodies providing incentives almost never end up ahead.
2013: Incentives on Steroids

- 2013 Economic Opportunity Act
  - Vastly expands borrowing authority to award incentives
  - Eliminates any caps on incentives
  - Lowered the amount the State is supposed to get back
  - Created five “Growth zones” where the State is supposed to get even less back—Paterson, Newark, Atlantic City, Trenton and Camden.
  - Created even more benefits for Camden (and 2014 Amendments to the law added Atlantic City)

New Jersey has become a national outlier.

Amount of Subsidies OK'ed Annually Has Exploded

2013’s legislative overhaul removed all meaningful spending caps on these tax breaks, leading the annual amount approved—which was already quite high—to explode.

New Jersey Policy Perspective | NJPP.org

<table>
<thead>
<tr>
<th>Year</th>
<th>$51M</th>
<th>$118M</th>
<th>$134M</th>
<th>$353M</th>
<th>$443M</th>
<th>$806M</th>
<th>$1.0B</th>
<th>$1.8B</th>
<th>$1.4B</th>
<th>$1.3B</th>
<th>$1.2B</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>$51M</td>
<td>$118M</td>
<td>$134M</td>
<td>$353M</td>
<td>$443M</td>
<td>$806M</td>
<td>$1.0B</td>
<td>$1.8B</td>
<td>$1.4B</td>
<td>$1.3B</td>
<td>$1.2B</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: NJPP analysis of New Jersey Economic Development Authority data

Exhibit 7 NJ pays more than 5 times as much as peer states for every dollar of investment it attracts and for every job created or retained.

Incentive Deals, 2010-2016

<table>
<thead>
<tr>
<th>State</th>
<th>Incentive per job (average 2010-2015)</th>
<th>Incentive paid as of 2015 as a % of GDP</th>
<th>Incentive paid to retain jobs</th>
<th>Average 5-year</th>
<th>Incentive paid to job credits</th>
<th>Average 5-year</th>
<th>Incentive paid to job retention</th>
<th>Average 5-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Jersey</td>
<td>178</td>
<td>0.25</td>
<td>0.6</td>
<td>103</td>
<td>48</td>
<td></td>
<td>183</td>
<td></td>
</tr>
<tr>
<td>Connecticut</td>
<td>1</td>
<td>0.01</td>
<td>0.6</td>
<td>103</td>
<td>48</td>
<td></td>
<td>183</td>
<td></td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>1</td>
<td>0.02</td>
<td>0.6</td>
<td>103</td>
<td>48</td>
<td></td>
<td>183</td>
<td></td>
</tr>
<tr>
<td>New York</td>
<td>3</td>
<td>0.05</td>
<td>0.6</td>
<td>103</td>
<td>48</td>
<td></td>
<td>183</td>
<td></td>
</tr>
<tr>
<td>Massachusetts</td>
<td>2</td>
<td>0.01</td>
<td>0.6</td>
<td>103</td>
<td>48</td>
<td></td>
<td>183</td>
<td></td>
</tr>
<tr>
<td>Virginia</td>
<td>1</td>
<td>0.21</td>
<td>0.6</td>
<td>103</td>
<td>48</td>
<td></td>
<td>183</td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>9</td>
<td>0.4</td>
<td>0.6</td>
<td>103</td>
<td>48</td>
<td></td>
<td>183</td>
<td></td>
</tr>
</tbody>
</table>

*Incentive is the total cost of incentive. The incentive is a dollar amount paid to a business for each job created or job retained. Average 5-year is the average over the 5 years when incentives were paid.

**Note:** The information is based on data from the New Jersey Economic Development Authority.
The current situation

- Taxpayers are on the hook for $11 billion in incentives
- In New Jersey, we pay 5 times the national average for each job created, and we get 1/5th as much in investment from companies as a result.
- Companies can sell their awards for as little as 75 cents on the dollar.
- NJ estimates benefits over 35 years, but only requires companies to uphold their end of the bargain for 15 years.

Subsidized Jobs in Camden Creating Few New Jobs for the Region or New Jersey

Are Communities Being Left Behind?

Source: US Census American Community Survey 5-Year data set, BLS Unemployment Statistics, US Census LEHD dataset. Compiled by Brandon McKay, 5/7/19
Enter Governor Murphy

- One of the first things Governor Murphy does is demand an audit.
- That comes out in January 2019.
- It finds that about 20% of the jobs promised could not be substantiated.
- Legislature’s response: Closed hearings consisting mostly of beneficiaries discussing how great the programs are.

Murphy in Action

- Murphy proposes sweeping reforms in August, gives the Legislature legislative language in October.
- Legislative response: More closed hearings. Claim they can’t possibly craft a better program by the time the current ones expire on June 30.
So Murphy Launches a Task Force

- One company gives back $1.5 million
- Whistle blower at Jackson Hewitt
- Whistle blower at World Business Lenders

Who Wrote the Bill?

Change 1: Expanded definition of "capital investment"
THE REAL BOSSES OF NEW JERSEY

How Companies and Allies of One Powerful Democrat Got $1.1 Billion in Tax Breaks

Mayor George Norcross is nearly two thirds of $1.1 billion in tax incentives in his hometown of Camden, New Jersey, went to his own company, business partners, political allies and clients of his brother.

by Nancy Solomon, WNYC, and Jeff Pilma, May 1, 4 a.m. EDT

This article was produced in partnership with WNYC, which is a member of the ProPublica Local Reporting Network. It was co-published with The Star-Ledger.

ProPublica is a nonprofit newsroom based in New York. Sign up for ProPublica's Big story newsletter to receive stories like this each week, before or even as they are published.

So Let’s Look at Incentives with George Norcross ties

Conner Strong & Buckelew
NFI
The Michaels Organization

- Applications for Grow NJ tax incentives filed October 24, 2016.
- The three companies wanted incentives to locate in a new office tower in Camden, N.J.
- Each company claimed it was considering moving to Philadelphia.
- Each company was represented by the same consultant:
- Kevin Sheehan of Parker McCay P.A.
Were They Ever Leaving New Jersey?

Conner Strong & Buckelew
NFI
The Michaels Organization

<table>
<thead>
<tr>
<th>Conner Strong &amp; Buckelew</th>
<th>NFI</th>
<th>The Michaels Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 Market Street</td>
<td>1500 Spring Garden Street</td>
<td>1900 Spring Garden Street</td>
</tr>
<tr>
<td>Date</td>
<td>Proposal 1</td>
<td>Proposal 2</td>
</tr>
<tr>
<td>Total Sq. Ft.</td>
<td>13,285</td>
<td>13,285</td>
</tr>
<tr>
<td>Floors</td>
<td>3-7, 12-12</td>
<td>3-7, 13</td>
</tr>
<tr>
<td>Base Rent</td>
<td>$25.95/SF</td>
<td>$25.95/SF</td>
</tr>
</tbody>
</table>


The Curious Case of Cooper Health Systems

The Cooper Health System

11/2/2014 Application Submitted

12/2/2014 Email to EDA

12/2/2014 Real Estate Proposal

12/9/2014 EDA Internal Memorandum

12/9/2014 EDA Board Approval

Curiouser and Curiouser

The Cooper Health System
So Now What

- The Legislature passed legislation simply extending the programs (!) for seven months.
- Governor Murphy has promised to veto it.
- Both the Senate and the Assembly have created task forces that are supposedly looking into the incentives.
  - Senate Task Force members voted 5-0-2 to extend
  - Assembly Task Force members were 9-0-1

Next Steps

- The Senate Committee was supposed to meet today.
- It was cancelled.
- Sweeney said it was because he didn’t expect the budget legislative session to still be going.
- This may have more to do with it

Now what

- So neither the Senate nor the Assembly Task Force in charge of investigating the incentives will meet before the Governor has to take action.
- Murphy’s Task Force will continue.
- The next round of programs will be put in place sometime between now and January