SPECIAL REPORT
Job Creation and the Business Employment Incentive Program

SUBJECT

An NJPRO review of New Jersey's Business Employment Incentive Program (BEIP) reveals strong employer interest and participation. Program changes are necessary, however, to accelerate actual job creation.

NEW JERSEY POLICY RESEARCH ORGANIZATION

REVIEW FINDS NEW JERSEY BUSINESS EMPLOYMENT INCENTIVE PROGRAM POPULAR WITH EMPLOYERS

Published in affiliation with the New Jersey Business & Industry Association.
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BACKGROUND

Enacted in 1995, the BEIP is New Jersey's largest private sector job creation program. Structured as a tax grant, the BEIP provides participating businesses direct grants equal to a portion of state income taxes withheld from new employees. Grants are made annually, for up to ten years, and can represent up to 80 percent of an employee's annual state income tax withholding. New, expanding or relocating businesses qualify for the program and must create at least 25 full-time, permanent new jobs if located in an urban aid city and 75 full-time, permanent new jobs if located elsewhere in the state. Any business is eligible to apply, except point-of-final-purchase retail sales facilities. Qualified businesses must demonstrate that the BEIP grant will be a "material factor" in moving the job expansion or relocation forward.

The New Jersey Economic Development Authority (NJEDA) administers the program. NJEDA determines tax grant amounts based on several factors: number of and expected duration of new or relocated positions; size of investment and overall business impact on New Jersey's economy, and other sources of state government financial assistance.

BEIP grants are distributed according to the amount of income taxes each employee pays at the end of the year. However, no distributions are made until a business reaches the minimum employment threshold of 25 urban/75 non-urban jobs.

COMPANY PROFILE

As of January 2001, 202 companies representing 220 projects are in line for BEIP grants totaling $368 million. This allocation represents over 75 percent of anticipated income taxes paid by approximately 52,000 new employees. Of this amount, only $10.7 million actually has been distributed to 45 companies.

Participants are evenly split between out-of-state companies relocating operations to New Jersey and companies expanding existing New Jersey facilities. The strong participation of non-New Jersey companies suggests that the BEIP compares favorably to competitive incentive offerings from other states. The fact that 30 percent of all New

Jersey expansions are being done by companies headquartered outside New Jersey indicates that BEIP incentives are effective. Equally impressive are the states losing jobs to New Jersey via BEIP — Arizona, Texas, North Carolina, Florida, Missouri, Tennessee, Oklahoma and Virginia, to name just a few. These are considered low-cost states that are more competitive than New Jersey. Relocating employers from these states include a health service research company, a telecommunications equipment manufacturer, an engine manufacturer, a chemical producer and a baked goods company.

BEIP participants represent most types of economic activity, excluding retail sales. The service (35 percent) and manufacturing (31 percent) sectors account for the majority of business activity, with distributors and research facilities comprising the remainder of BEIP participants. Computer/internet, financial and insurance services are among the most popular service activities. Manufacturers run the gamut from industry sectors with a strong New Jersey presence (pharmaceuticals, chemicals, packaging and food processing) to those industries with less history in the state (cable wire, semiconductors, rail products). This strong manufacturer participation contrasts with the continued, steady decline in New Jersey manufacturing jobs, which have fallen by 346,000 jobs or 43 percent since 1980.

The BEIP works as an entitlement program, meaning that any business that continually meets the eligibility standards will receive a grant allocation. An entitlement program gives both large and small businesses an equal opportunity to participate. BEIP participants reflect this diversity. Approximately ten percent of grantees will have 50 employees or less, even after BEIP employment expansion. One-third of all participants will create and fill 100 or fewer new jobs. One-half of the participants will create and fill 150 or fewer new jobs.

Grant allocations emphasize the strong participation of small business. Forty-four percent of all recipients receive annual grants of $50,000 or less per year. (See chart one.)

Chart 1

Grant Approvals by Company

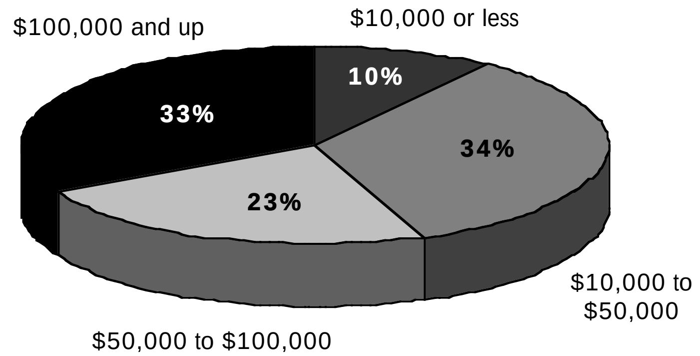
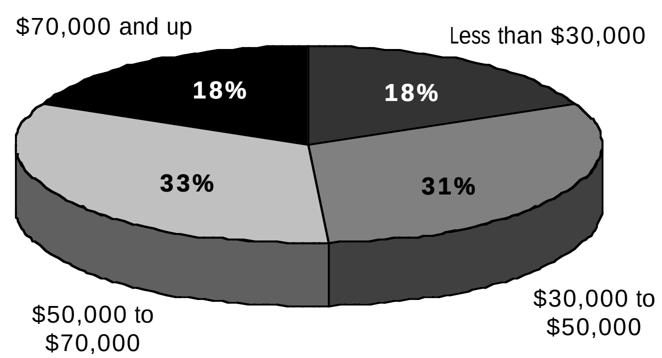


Chart 2

Projected New Hire Salaries by Company



EMPLOYEE PROFILE

BEIP recipients project creation of 52,000 new jobs in New Jersey, with an average annual salary of nearly $51,000. As chart two indicates, the bulk (64 percent) of these employees will earn between $30,000 and $70,000 per year. BEIP-related employment levels and wages compare favorably to overall state employment and wage experience. For example, for the period 1996-1998 (the latest years of available Department of Labor data), New Jersey's private sector employers created an annual average of 75,000 jobs. Viewed this way BEIP will stimulate 70 percent of a full year's worth of job growth. The latest average annual statewide private sector wage stands at just under $40,000. The BEIP projected average annual wage is a full 25 percent higher at $51,000.

The BEIP is designed to promote urban job growth. While business location is not a fool-proof indicator of employee residence, there is a greater likelihood that urban residents will work in urban job settings. Over one-third of BEIP projects are located in one of the state's 57 urban aid cities. These projects anticipate adding nearly 16,000 jobs. With these results, the BEIP has the potential to become New Jersey's most successful urban jobs creation program. (See table one.)

ECONOMIC IMPACTS

Along with data on the prospective number of new employees and their salaries, BEIP applications provide information on facility building costs. The 220 approved BEIP applicants will generate nearly $8 billion in capital improvement costs for new or expanded facilities and $2.6 billion in new payrolls for a total of $10.6 billion in short-term, direct economic activity. In short, the BEIP program will return $28 in New Jersey economic investment for each $1 of BEIP tax grants. This number does not include any indirect economic activity ascribable to the projects. By reducing unemployment and using idle resources, these projects provide even greater financial benefits to urban areas.

The analysis did not look at property tax data. Many urban BEIP projects use property tax abatements in which businesses negotiate a long-term property tax payment with cities in an amount substantially less than otherwise required. Still, at the level of projected property improvements, new annual statewide property taxes of at least $200 million are expected.

RECOMMENDATIONS

The BEIP subsidy structure of a long-term tax financed grant clearly appeals to growing businesses of any type, size or location. With the BEIP, New Jersey has found a winning formula to attract and retain new and expanding businesses, particularly in the manufacturing sector.

Whether or not BEIP will fulfill its job creation promise remains an unanswered question. Five years into the program's existence, few grant dollars have been expended. The problem lies in the way the program is designed. The BEIP requires employees to work at least one year before an annual grant is disbursed. Also, no money is provided until a company reaches the minimum number of new employee hires (25 urban/75 non-urban).

Most BEIP companies are constructing new or expanded facilities. Others have substantial site fit-up costs. These companies need access to capital now. Financial institutions have not stepped up to the plate and allowed BEIP recipients to borrow now against future grant payments. New Jersey's largest utility holding company, Public Service Enterprise Group, did provide interim financing through its Millennium Fund. That economic development fund purchased grants from three BEIP recipients for $11.6 million. However, the Millennium Fund has since discontinued this effort even though the financing program was popular; served a useful purpose; and according to those familiar with the program, could have purchased many, many more

Table 1

BEIP Grant Recipients by County

North Jersey (109)	Central Jersey (60)	South Jersey (30)
Hudson 43	Middlesex 28	Gloucester 11
Bergen 29	Somerset 13	Burlington 9
Essex 13	Mercer 12	Cumberland 5
Morris 11	Monmouth 6	Camden 2
Union 8	Hunterdon 1	Ocean 2
Passaic 5		Atlantic 1

Largest Estimated Grants Eligible BEIP Receipients
$10 million or more

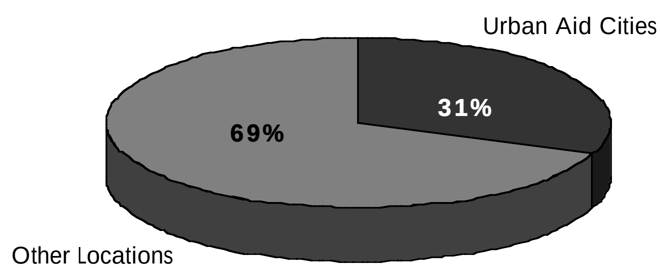
- Chase Manhattan Bank
- Hoechst Marion Roussel
- Insurance Service Offices
- Lord Abbett
- Merrill Lynch
- Pharmacia
- RCN Corporation and affiliates
- Telcordia Technologies
- Waterhouse Securities

loans.

The BEIP is structured to be income tax revenue neutral. Because BEIP grant payments derive from new employee income taxes, state government should experience no revenue loss because of the BEIP. However, there may be BEIP employers in targeted areas, where because of location or type of job created, state policy should do more to encourage job creation efforts. For these employers, New Jersey policymakers should consider adding an interim grant/loan financing package to jump start the job creation. For example, BEIP recipients could have the option of receiving up to 20 percent of their BEIP grant in a lump sum advance (a potential universal cost of $69 million). Another option would provide BEIP recipients access to government-issued revenue debt utilizing future employee tax payments as collateral. Selection criteria could include the likelihood that the financing will spur project completion and employment, successful management experience, project location and number of middle income jobs created, for example.

Finally, by benefiting selected employers with tax grant subsidies, BEIP should not disadvantage other nonparticipating businesses that compete in similar markets without BEIP subsidy. Policymakers need to recognize and minimize these unintended but negative consequences. One approach might be to limit BEIP participation where businesses already receive local property tax abatements. Tax abatements dramatically reduce a firm's property taxes, a significant cost of doing business. Often, however, tax abatements only shift avoided property taxes onto other local businesses. Coupling BEIP grants with tax abatements may provide too great of a competitive disadvantage to nonparticipating businesses.

Estimated BEIP Jobs by Location



NEW JERSEY POLICY RESEARCH ORGANIZATION

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