New Jersey's Economic Opportunity Act and Smart Growth: A Progress Report

By Tim Evans
Director of Research
New Jersey Future
December 2014

Acknowledgements

Special thanks are due to Kevin DeSmedt, New Jersey Future intern, who performed all data cleanup and GIS analysis on the list of economic development incentive recipient projects that New Jersey Future received from the Economic Development Authority.

Thanks are also due to staff at the Economic Development Authority for reviewing the draft of this report.

New Jersey's Economic Opportunity Act and Smart Growth: A Progress Report

During the year since passage of the New Jersey Economic Opportunity Act (EOA), its merits have been much debated. The act, which updated and consolidated five state economic incentive programs for job growth and development, has been criticized by some for being too generous and too expensive, but praised by others for its ability to attract and retain jobs and to stimulate real estate development. Lost in this discussion has been consideration of the act's impact on the geographic pattern of development – specifically, whether it is encouraging projects to locate in "smart-growth areas" where development is desired and infrastructure is present, and away from undeveloped areas targeted for open-space and farmland preservation. The act includes provisions to promote smart growth by prioritizing projects in areas designated for growth by the New Jersey State Development and Redevelopment Plan and other regional plans, and by providing additional incentives for locations near public transportation and in distressed cities. This report examines the locations of projects receiving economic development awards before and after passage of the EOA (up through June of 2014), to evaluate the effectiveness of the new smart-growth provisions. However, because the post-EOA study period comprises only nine months, findings should be considered preliminary, since patterns appearing in the initial round of awards may not persist as the sample size increases.

Background: The Economic Opportunity Act and Its Locational Incentives
The New Jersey Economic Opportunity Act was signed into law in September of 2013, consolidating five state economic development tax credit programs into two – the Grow New Jersey Assistance Program (Grow NJ) and the Economic Redevelopment and Growth Program (ERG). Eliminated in the consolidation were the Business Employment Incentive Program (BEIP), the Business Retention and Relocation Assistance Grant (BRRAG), and the Urban Transit Hub Tax Credit (UTHTC), with their functions essentially subsumed into one or the other of the two surviving programs. The Grow NJ and ERG programs both pre-date the EOA, and were revised by it, so throughout this analysis we will refer to the pre-EOA versions of the programs as the "legacy" versions.

In the run-up to the EOA's passage, New Jersey Future advocated for the economic incentive programs to include bonuses or priority treatment for applicants located in, or seeking to locate in, "smart-growth" locations. Specifically, the organization sought preferential treatment for applicant projects located in any of several "designated growth areas," as established by adopted state and regional land-use plans:

- "metropolitan" or "suburban" localities per the State Development and Redevelopment Plan (Planning Areas 1 and 2, in State Plan terminology)
- designated centers in other Planning Areas

- areas designated for growth by one of the state's three regional land-use plans:
  - Pinelands Commission Comprehensive Management Plan
  - Highlands Council Regional Master Plan
  - Meadowlands Commission Master Plan

Additionally, New Jersey Future wanted the economic incentive programs to retain the preferential treatment for transit-oriented development (TOD) locations – defined as being within half a mile of a transit station (rail, ferry, or major bus terminal) – that was a defining feature of the Urban Transit Hub Tax Credit program. And it was recommended that municipalities with weak real estate markets, typically described as economically "distressed," receive larger incentives than other areas.

The post-EOA versions of Grow NJ and ERG do indeed contain provisions for awarding larger tax-credit dollar amounts to projects in growth areas designated by the state's various regional land-use plans. The Economic Development Authority (EDA) has also carried over from earlier programs a list of 64 "distressed" municipalities[1] that are eligible for larger awards. Finally, the EOA created an additional category, "Garden State Growth Zones" (GSGZs), consisting of four urban municipalities – Camden, Trenton, Paterson, and Passaic – whose markets are weak enough that they were deemed worthy of special attention and thus less stringent application requirements and greater incentives.

This report examines the locations of projects receiving awards under the Grow NJ, ERG, and UTHTC programs before passage of the EOA, and under the Grow NJ and ERG programs after passage, to evaluate how well the EDA has been adhering to the goal of promoting the smart-growth criteria incorporated into the EOA, and to see if performance on these measures has improved since the EOA's passage.

Note: It is important to understand the distinctions between the pre-EOA and post-EOA economic development incentives for the purposes of this analysis. The BEIP program was instituted in 1996 and issued 487 awards for a total amount of roughly $1.5 billion, equating to an average award of roughly $3.1 million. The BRRAG program was instituted in 2004 and issued 83 awards totaling roughly $124 million, equating to an average award of roughly $1.5 million. While significant in totality, these programs' individual subsidies were relatively shallow compared to the average award amount of close to $25 million for the legacy Grow NJ program. Also, perhaps because the awards were many but small, the EDA does not maintain a centralized list of the awardees' physical locations or street addresses, making it impossible for us to geocode the projects' locations for comparison to our various smart-growth locational criteria; gleaning project addresses for the BEIP and BRRAG programs would have required combing through hundreds of pages of meeting minutes, a time commitment beyond the

[1] Note that the pre-EOA version of the ERG program also contained a provision for bonus credit for locating in a distressed municipality. The only change was the addition of Atlantic City to the list of eligible municipalities. New Jersey Future's analysis therefore treats any project in Atlantic City as being in a distressed municipality if awarded after the passage of the EOA and not in a distressed municipality if awarded before.

scope of this project. For these reasons, the post-EOA Grow NJ program was compared only to its direct legacy predecessor when analyzing the geographic distributions of award recipients; BEIP and BRRAG awardees were not included in the analysis.

The ERG program under the EOA combined the legacy ERG program and the UTHTC into a single program. This report compares the post-EOA ERG program to the legacy ERG program both with and without the UTHTC, in order to assess the degree to which the UTHTC's specific focus on transit accessibility has been absorbed into the ERG program.

Methodology

New Jersey Future received from the EDA a spreadsheet of street addresses for all projects receiving awards under the ERG, Grow NJ, and UTHTC programs since their respective inceptions. We performed a geospatial analysis[2] of post-EOA recipients through June of 2014 and all legacy recipients of both Grow NJ and ERG tax credits, to determine their locations relative to the smart-growth criteria advocated for by New Jersey Future. By identifying the percentages of projects and of dollar amounts that have been issued in smart-growth areas, we then assessed how well the new EOA programming has succeeded in accomplishing smart-growth objectives. The results are generally encouraging.

The dataset contained a total of 122 projects, 51 of which received awards after the passage of EOA and the other 71 of which received awards under the legacy programs. These projects were awarded a total of just over $3.9 billion, of which about $2.75 billion was given out before the passage of the EOA and $1.18 billion since the act's passage.

Findings: Implications for Smart Growth, Transit Accessibility, and Distressed Cities

As Table 1 illustrates, just about all of these programs' award recipients were located in the designated growth areas (State Plan Planning Areas 1 and 2, centers in other Planning Areas, and areas designated for growth by one of the three regional land-use plans) that New Jersey Future advocated to have included in the EOA's criteria. In fact, this was the case before the act's passage as well as after. The ERG and Grow NJ programs were already steering new economic development to smart-growth locations, and the programs retain that focus in their post-EOA incarnations.

[2] Note that geospatial analysis of UTHTC recipients was not necessary, because the UTHTC program was restricted by law to nine specific municipalities and to projects within a half-mile radius of transit (with a few exceptions), making it possible to determine these projects' locations relative to all of the above criteria without having to map them.

Table 1. Awards Issued in Designated Growth Areas						
	all projects	$$ amount	projects in designated growth areas	%	$$ amount in designated growth areas	%
all programs	122	$ 3,931,942,998	121	99.18%	$ 3,928,442,998	99.91%
EOA ERG	9	$ 340,737,211	9	100.00%	$ 340,737,211	100.00%
EOA Grow NJ	42	$ 840,207,187	41	97.62%	$ 836,707,187	99.58%
Legacy ERG	23	$ 856,546,462	23	100.00%	$ 856,546,462	100.00%
Legacy Grow NJ	20	$ 541,731,293	20	100.00%	$ 541,731,293	100.00%
UTHTC	28	$ 1,352,720,845	28	100.00%	$ 1,352,720,845	100.00%
all legacy (pre-EOA)	*71*	*$2,750,998,600*	*71*	*100.00%*	*$2,750,998,600*	*100.00%*
all EOA	*51*	*$1,180,944,398*	*50*	*98.04%*	*$1,177,444,398*	*99.70%*

The only exception was one project receiving an award under the post-EOA Grow NJ program, located in the far northern corner of Vineland in an area designated by the State Plan as Planning Area 4 ("rural").

The programs' focus on transit*-accessible locations is a different story.* On the plus side, the Grow NJ program posted an increase in the percent of its projects in TOD areas from 15.0 percent under the legacy program to 38.1 percent post-EOA, and a more dramatic increase from 16.0 percent to 66.4 percent when evaluated by the dollar amounts of the awards. (See Table 2.) The ERG program, in contrast, held relatively steady in terms of the percent of projects in TOD areas receiving awards – 52.2 percent pre-EOA vs. 55.6 percent post-EOA – but dropped off considerably in terms of dollar amounts. Prior to the EOA's passage, 58.6 percent of the dollars awarded by ERG went to projects in TOD areas, whereas the post-EOA figure is only 21.1 percent. And ERG's post-EOA percentage is even more disappointing when we consider that ERG absorbed the UTHTC program, which had issued 100 percent of its awards (by definition) in TOD areas.

Table 2. Awards Issued in Transit-Oriented Development (TOD) Locations						
	all projects	$$ amount	projects in TOD areas	%	$$ amount in TOD areas	%
all programs	122	$ 3,931,942,998	64	52.5%	$ 2,571,505,536	65.4%
EOA/ERG	9	$ 340,737,211	5	55.6%	$ 71,812,169	21.1%
EOA/GROWNJ	42	$ 840,207,187	16	38.1%	$ 557,877,507	66.4%
Legacy/ERG	23	$ 856,546,462	12	52.2%	$ 502,315,015	58.6%
Legacy/GROWNJ	20	$ 541,731,293	3	15.0%	$ 86,780,000	16.0%
UTHTC	28	$ 1,352,720,845	28	100.0%	$ 1,352,720,845	100.0%
all legacy (pre-EOA)	*71*	*$2,750,998,600*	*43*	*60.6%*	*$ 1,941,815,860*	*70.6%*
all EOA	*51*	*$1,180,944,398*	*21*	*41.2%*	*$ 629,689,676*	*53.3%*

The net result is that Grow NJ's enhanced focus on transit was more than offset by the ERG program's reduced focus. Looking at the programs combined, awards issued in TOD areas accounted for 60.6 percent of all projects and 70.6 percent of the total dollar amount in the pre-EOA era, but these dropped to only 41.2 percent of projects and 53.3 percent of dollars since the EOA became law. The dissolution of the UTHTC program – and its explicit transit focus – into the ERG program appears to have weakened the state's overall effort to steer new economic development to transit-accessible areas. Additional research may be needed to clarify whether this reduced focus on transit is a result of the EOA's revised eligibility criteria having led to more awards for industrial projects, which are land-intensive and not a good use of scarce space in downtown TOD locations, as opposed to office projects, which make more sense to site near transit.

The EOA's changes to the state's economic incentive programs do not appear to have had much effect on the degree to which the programs have directed incentives into fiscally and socioeconomically distressed cities, towns, and older suburbs. (See Table 3.) Before the act's passage, the ERG, Grow NJ, and UTHTC programs together had directed 60.6 percent of all awards, accounting for 65.4 percent of the total dollar amount, into the municipalities the EDA identifies as "distressed."[3] Post-EOA, these percentages remained remarkably stable, with 64.7 percent of all awards and 61.6 percent of the dollar amounts going to projects in distressed municipalities. So both before and after the EOA's passage, a little less than two-thirds of the number of awards and of the corresponding dollar amounts were issued in distressed municipalities.

Table 3. Awards Issued in Distressed Municipalities

	all projects	$$ amount	projects in distressed municipalities	%	$$ amount in distressed municipalities	%
all programs	122	$ 3,931,942,998	76	62.3%	$ 2,527,343,554	64.3%
EOA/ERG	9	$ 340,737,211	7	77.8%	$ 101,691,919	29.8%
EOA/GROWNJ	42	$ 840,207,187	26	61.9%	$ 625,786,257	74.5%
Legacy/ERG	23	$ 856,546,462	12	52.2%	$ 376,234,533	43.9%
Legacy/GROWNJ	20	$ 541,731,293	3	15.0%	$ 70,910,000	13.1%
UTHTC	28	$ 1,352,720,845	28	100.0%	$ 1,352,720,845	100.0%
all legacy (pre-EOA)	*71*	*$2,750,998,600*	*43*	*60.6%*	*$ 1,799,865,378*	*65.4%*
all EOA	*51*	*$1,180,944,398*	*33*	*64.7%*	*$ 727,478,176*	*61.6%*

This differs from the situation with awards in TOD areas, in that distressed municipalities do not seem to have suffered from the folding of the UTHTC into the ERG program. The UTHTC was expressly written to foster private investment in nine specific transit-accessible municipalities enumerated in the law (see the UTHTC home page for the list), all of which appear on the larger list of distressed municipalities. Thus by definition, 100 percent of the UTHTC's awards and dollar amounts were issued in distressed municipalities, just as they were by definition issued in TOD locations. But with the UTHTC having been subsumed into ERG, the post-EOA ERG and Grow NJ programs have

[3] Both percentages would have been slightly higher in the pre-EOA era if Atlantic City had been on the earlier version of the distressed list. Three awards were made in Atlantic City under the legacy ERG program, but for the purposes of this report these awards were not made in a distressed municipality.

both sufficiently heightened their attention to distressed municipalities that they have roughly compensated for the loss of the UTHTC's exclusive focus.

In fact, the EOA introduced an additional effort to steer economic growth into four of the most distressed of the distressed places – Camden, Trenton, Paterson, and Passaic – by designating them as "Garden State Growth Zones" and reducing the project size eligibility requirement and increasing the size of the awards for projects in these municipalities (see the [ERG home page] for details). Three of the four of these (all except Passaic) had been among the nine municipalities singled out for eligibility for the UTHTC, but only three of the 28 awards given out over the life of the UTHTC had been issued in these three municipalities – one in each of them. And neither of the other two programs (legacy ERG and legacy Grow NJ) had issued any awards at all in any of the four GSGZ municipalities. (See Table 4.)

Table 4. Awards Issued in Garden State Growth Zone Municipalities

	all projects	$$ amount	projects in Garden State Growth Zones	%	$$ amount in Garden State Growth Zones	%
all programs	122	$ 3,931,942,998	8	6.6%	$ 279,703,738	7.1%
EOA/ERG	9	$ 340,737,211	3	33.3%	$ 27,445,495	8.1%
EOA/GROWNJ	42	$ 840,207,187	2	4.8%	$ 94,790,507	11.3%
Legacy/ERG	23	$ 856,546,462	0	0.0%	$ -	0.0%
Legacy/GROWNJ	20	$ 541,731,293	0	0.0%	$ -	0.0%
UTHTC	28	$ 1,352,720,845	3	10.7%	$ 157,467,736	11.6%
all legacy (pre-EOA)	*71*	*$2,750,998,600*	*3*	*4.2%*	*$ 157,467,736*	*5.7%*
all EOA	*51*	*$1,180,944,398*	*5*	*9.8%*	*$ 122,236,002*	*10.4%*

The post-EOA programs have been slightly more successful at luring projects to the four GSGZ municipalities. In less than a year since the EOA went into effect, five awards have been issued in GSGZs (representing 9.8 percent of the total of 51 post-EOA projects, vs. 4.2 percent pre-EOA), accounting for 10.4 percent of the total dollar value of post-EOA awards (vs. 5.7 percent pre-EOA for these same municipalities). The biggest beneficiary has been Camden, which received four of the five post-EOA awards that were given in the GSGZ municipalities, after having received only its single UTHTC award before the EOA; the other post-EOA award was in Paterson, which also only had its one UTHTC award to show for the pre-EOA period. Passaic, however, has yet to receive its first economic incentive award at all, and Trenton has not yet received one in the post-EOA period, after having received only its one UTHTC award before the act created the GSGZs.

Awards Issued by Designated Growth Area Subcategory

Table 1 indicates that all but one of the awards in EDA's database have been given to projects located in "designated growth areas" (State Plan Planning Areas 1 and 2, centers in other Planning Areas, and areas designated for growth by one of the three regional land-use plans). But New Jersey Future does not consider all of these areas to be equally “smart growth.” In particular, we would prefer to see awards being issued in Planning Area 1 rather than Planning Area 2; in Pinelands towns and villages rather than in the more spread-out and suburban “Regional Growth Areas;” and, for awards within the Highlands, not just in the Highlands Planning Area (as opposed to the Preservation Area) but specifically in those parts of the Planning Area that were previously designated for growth by the State Plan.[4]

Table 5 gives a breakout of the locations of economic incentive awards – both number of projects and dollar amounts – relative to the different types of designated growth areas. A large majority of awards and their accompanying dollar amounts – 85.9 percent of projects and 78.6 percent of dollars – were already being given out to projects in Planning Area 1 before the passage of the EOA. Planning Area 1’s dominance has only become more pronounced since the act was passed, now with 84.3 percent of projects and 94.0 percent of award amounts being issued there. There was a corresponding drop off in Planning Area 2, with its percent of projects falling from 8.5 percent to 7.8 percent and its share of total dollars falling from 5.8 percent to just 2.7 percent.

One award was given out in the Pinelands – specifically, in the area under the jurisdiction of the Pinelands Comprehensive Management Plan – in the pre-EOA era, and it was located in one of the Regional Growth Areas (in Hamilton Township, Atlantic County) rather than in one of the types of Pinelands “centers.” However, since the EOA’s passage, no awards have been issued in the Pinelands at all.

Over the life of the ERG and Grow NJ programs, six awards have been issued in the Highlands. Five were given out before the EOA passed, and one has been given out since. All six were located in the Planning Area as defined by the Highlands master plan. But because the Highlands master plan does not supersede the State Plan, it is also possible to determine the State Plan planning areas in which these projects were located. The good news is that all six of them were located in areas designated as Planning Area 1 in the State Plan.

Conclusion

Since the passage of the Economic Opportunity Act, New Jersey’s two remaining economic development incentive programs – the Grow New Jersey Assistance Program (Grow NJ) and the Economic Redevelopment and Growth Program (ERG) – appear to be functioning reasonably well at steering economic growth into “smart-growth” locations where infrastructure is already in place to accommodate it, and away from open space and farmland. They also continue to direct almost two-thirds of their awards (both in terms of number of projects and dollar amounts) to the state’s most fiscally and socioeconomically distressed cities, towns, and inner-ring suburbs. The focus on steering economic development into transit-accessible locations appears to have been somewhat

[4] Unlike in the Pinelands and Meadowlands, the Highlands Council Regional Master Plan does not supersede the State Plan. The Highlands master plan makes a distinction between the Planning Area (where growth should be steered) and the Preservation Area (which should be protected from development), but State Plan-defined Planning Areas also still apply.

diluted by the loss of the Urban Transit Hub Tax Credit and its exclusive focus on such locations, although part of the explanation for this may be an increase in the number of awards being given to industrial projects, which are not optimal uses for land near transit stations.

New Jersey Future is encouraged to see awards being given out almost exclusively in areas designated for growth by the State Development and Redevelopment Plan or one of the state's three regional land-use master plans, highlighting these plans' usefulness in guiding future development in ways that make the most efficient use of existing infrastructure. Prioritizing awards in "smart-growth" locations is also consistent with the recent market and demographic shift toward redevelopment. If the future of development in New Jersey is redevelopment, the state's economic development incentives appear to be properly aligned to facilitate it.

Table 5. Awards Issued by Designated Growth Area Subcategory

	all programs		pre-EOA				post-EOA			
	projects	**$$ amount**	**projects**	% of total	**$$ amount**	% of total	**projects**	% of total	**$$ amount**	% of total
Planning Area 1	103	$3,273,214,076	61	85.9%	$2,163,129,968	78.6%	43	84.3%	$1,110,084,108	94.0%
Planning Area 2	10	$192,612,794	6	8.5%	$160,885,004	5.8%	4	7.8%	$31,727,790	2.7%
designated centers in other Planning Areas	1	$20,100,000	0	0.0%	$0	0.0%	1	2.0%	$20,100,000	1.7%
Pinelands growth	1	$11,432,283	1	1.4%	$11,432,283	0.4%	0	0.0%	$0	0.0%
*Highlands growth**	*6*	*$155,368,734*	*5*	*7.0%*	*$153,163,734*	*5.6%*	*1*	*2.0%*	*$2,205,000*	*0.2%*
Meadowlands	5	$431,083,845	3	4.2%	$415,551,345	15.1%	2	3.9%	$15,532,500	1.3%
not in designated growth area	2	$3,500,000	0	0.0%	$0	0.0%	1	2.0%	$3,500,000	0.3%
all awards	**122**	**$3,931,942,998**	**71**	**100%**	**$2,750,998,600**	**100%**	**51**	**100%**	**$1,180,944,398**	**100%**

*Totals for projects in the Highlands are not included in the totals for "all awards" because they are already counted according to their locations relative to the State Plan Planning Areas. All awards in the Highlands were given to projects located in Planning Area 1 under the State Plan.