

# LEGISLATIVE FISCAL ESTIMATE

[Third Reprint]

## ASSEMBLY, No. 660

### STATE OF NEW JERSEY 216th LEGISLATURE

DATED: MAY 4, 2015

#### SUMMARY

**Synopsis:** Concerns reviews of State's economic development incentives.

**Type of Impact:** Indeterminate, potential State cost.

**Agencies Affected:** Legislature, Office of Legislative Services – State Auditor.

#### Office of Legislative Services Estimate

<b>Fiscal Impact</b>	<b><u>Year 1</u></b>	<b><u>Year 2</u></b>	<b><u>Year 3</u></b>
<b>State Cost</b>	Indeterminate – See comments below		

- The Office of Legislative Services expects the State Auditor may incur certain additional costs to comply with the audit and reporting requirements of the bill, dependent on how the bill is implemented and administered following enactment.
- If the State Auditor fully complies with the bill and conducts an audit and review of each economic incentive program every two years, the State Auditor would have to contract with an independent private entity for assistance in auditing the authority's programs and compiling the specified information for each recipient. The cost to contract would be separate and in addition to the current costs to operate the office.
- However, if the State Auditor complies with the spirit of the bill by conducting an audit and review of each economic incentive program in stages, over a number of years, the State Auditor may be able to audit the authority's programs and compile the specified information using existing resources, without the need for additional expenditures.

#### BILL DESCRIPTION

Assembly Bill No. 660 (3R) of 2014 provides for the periodic review of certain economic development incentive programs administered by the New Jersey Economic Development Authority. The purpose of the bill is to expand upon current reporting requirements of authority

programs to allow the Legislature to independently evaluate the effectiveness of New Jersey's economic development incentives.

The bill requires the State Auditor to conduct an audit of each authority program that provides a private business with a grant, loan, or tax credit every two years, and to publish a report on the audit. The bill requires the audit and report to describe each authority program that provides or provided a grant, loan, or tax credits to a private business after December 31, 2006, and to include certain detailed information regarding each grant, loan, or tax credit in excess of \$1,000 that the authority awarded after December 31, 2006 to a private business.

The bill authorizes the State Auditor to contract with an independent private entity to prepare an audit and report, or part thereof. If the State Auditor contracts with an independent private entity, the bill requires the State Auditor to award the contract to an entity that has at least 10 years' experience in the preparation of financial and performance audits of governmental units, and requires the contract to mandate that the audit be conducted in accordance with generally accepted government auditing standards used by the Government Accountability Office.

In addition, the bill establishes the "Legislative Task Force on Business Development Incentives" to study the effectiveness of the authority's business development and retention incentives. The bill provides for the task force to be comprised of 14 members of the Legislature.

The bill directs the task force to hold at least one public hearing on the State Auditor's report, and to issue its own report that makes recommendations for revising or discontinuing any existing authority program to improve the State's return on the economic development incentives provided through the authority to private businesses.

## **FISCAL ANALYSIS**

### ***EXECUTIVE BRANCH***

None received.

### ***OFFICE OF LEGISLATIVE SERVICES***

The Office of Legislative Services expects the State Auditor may incur certain additional costs to comply with the audit and reporting requirements of the bill, dependent on how the bill is implemented and administered following enactment.

If the State Auditor fully complies with the bill and conducts an audit and review of each economic incentive program every two years, the State Auditor would have to contract with an independent private entity for assistance in auditing the authority's programs and compiling the specified information for each recipient. The cost to contract would be separate and in addition to the current costs to operate the office.

However, current law provides the State Auditor with the discretion to pick and choose which audits are conducted each year. If existing resources and personnel are insufficient to conduct all required audits and reviews, the law permits the State Auditor to prioritize certain audits and forgo certain others upon notice to the Governor and the presiding officer of each House of the Legislature.

If the State Auditor complies with the spirit of the bill by conducting an audit and review of each economic incentive program in stages, over a number of years, the State Auditor may be able to audit the authority's programs and compile the specified information using existing resources. Staff currently employed by the Office of the State Auditor would be utilized (at the

expense of conducting certain other audits and reviews of other State programs and agencies), and no additional expenditures would be required.

*Section: Revenue, Finance, and Appropriations*

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).