

ASSEMBLY BILL NO. 2576
(Second Reprint)

To the General Assembly:

Pursuant to Article V, Section I, Paragraph 14 of the New Jersey Constitution, I am returning Assembly Bill No. 2576 (Second Reprint) with my recommendations for reconsideration.

This bill would extend all Urban Enterprise Zones for an additional 10 years from the date they are set to expire. The Urban Enterprise Zone Act ("Act") was enacted in 1983 with the laudable purpose of addressing "areas of economic distress characterized by high unemployment, low investment of new capital, blighted conditions, obsolete or abandoned industrial or commercial structures, and deteriorating tax bases," particularly in the State's urban centers. The Act affords certain benefits to businesses in qualified areas that are designated as urban enterprise zones ("UEZs"), including a business-to-business tax exemption, tax credits, unemployment insurance subsidies, and reduced sales tax.

When first enacted, the Act contemplated a limited number of UEZs, for a limited period of time. Five UEZs were designated initially in 1986, all of which were supposed to sunset after 20 years. Today, however, as a result of multiple amendments to the Act, there are 32 UEZs in the State. In addition, a 2001 amendment to the Act authorized a 16-year extension "on a one-time basis" for all UEZs, effectively providing for a cumulative 31-year designation for each UEZ. The UEZ designations for the first five zones - Bridgeton, Camden, Newark, Plainfield, and Trenton - are currently scheduled to expire at the end of this year.

This bill's proposed extension to UEZs stands in stark contrast to the Legislature's initial limit of a 20-year designation and its desire in 2001 to provide only a "one-time"

extension. I intend to take that Legislature and Governor at their word.

My Administration has addressed fiscal distress in the State's urban areas in a number of ways, including by encouraging smart growth strategies that support development and an influx of business into these areas. In addition to other forms of State aid, my Administration has consistently been willing to use the State's resources to aid in the turnaround of distressed municipalities through tools such as the Economic Opportunity Act, the NJ Grow Assistance Program, the Neighborhood Revitalization Tax Credit Program, and the Economic Redevelopment and Growth Program.

However, State resources to help financially distressed municipalities should be temporary in nature, and designed to provide these municipalities with tools to ultimately succeed on their own. The UEZ program was initially intended to function in this way, but has morphed into a permanent subsidy from all state taxpayers. I am concerned that this bill simply continues a failed 30-year experiment with UEZs at significant costs for the State.

According to its fiscal estimate, this bill would cost the State \$2.33 billion in lost revenue over the next ten years, which is likely understated because it does not account for all of the State-funded benefits to UEZs. I cannot support such an adverse fiscal impact to the State particularly given the UEZ program's lack of demonstrable success. A 2011 report to the New Jersey Economic Development Authority called for the UEZ program's elimination, concluding that the program is "bureaucratically cumbersome and costly to operate, and has yielded inconsistent and uncertain quantifiable results in terms of business expansion and job creation in the State's urban

areas." Further, the report stated that "[w]hile a significant amount of State funds have been invested in the NJ UEZ program to-date, the return on investment has proven inadequate." Accordingly, the UEZ program should not be extended, but should be allowed to expire in accordance with current law.

I am cognizant of the fact that some municipalities covered by the UEZ program continue to grapple with efforts to revitalize their communities. Although the current UEZ program has not been successful, it is possible that another program could succeed where the current UEZ program has failed. Accordingly, I recommend that the bill be amended to direct the Commissioner of Community Affairs, in consultation with other departments, to undertake a review and analysis of the State's UEZ program, which shall include, without limitation, an assessment of whether an alternative, location-based program to assist fiscally distressed municipalities is appropriate, and, if so, recommendations for the parameters of such a program within six months of the concurrence with my recommended revisions.

Accordingly, I herewith return Assembly Bill No. 2576 (Second Reprint) and recommend that it be amended as follows:

<u>Page 2, Title, Line 2:</u>	Delete ", amending P.L.2001, c.347 and" and insert "."
<u>Page 2, Title, Lines 3-4:</u>	Delete in their entirety
<u>Page 2, Line 8:</u>	Insert "1. The Commissioner of Community Affairs, in consultation with other departments and agencies, as the Commissioner deems appropriate, shall undertake a review and analysis of the Urban Enterprise Zone ("UEZ") program created pursuant to the New Jersey Urban Enterprise Zone Act ("Act"), P.L.1983, c.303 (C.52:27H-60, et seq.), and shall report findings and recommendations to the Governor and the Legislature no later than six

months from the effective date of P.L. c. (C.) (pending before the Legislature as this bill). The report shall assess, without limitation, whether, as the UEZs created by the Act expire, an alternative, location-based program to assist fiscally distressed municipalities is appropriate, and, if so, recommend the parameters of such a program that would provide a sufficient return on State investment."

- Page 2, Section 1, Lines 9-43: Delete in their entirety
- Page 3, Section 1, Lines 1-45: Delete in their entirety
- Page 3, Section 2, Lines 47-50: Delete in their entirety
- Page 4, Section 2, Lines 1-49: Delete in their entirety
- Page 5, Section 2, Lines 1-34: Delete in their entirety
- Page 5, Section 3, Lines 36-47: Delete in their entirety
- Page 6, Section 3, Lines 1-47: Delete in their entirety
- Page 7, Section 3, Lines 1-7: Delete in their entirety
- Page 7, Section 4, Lines 9-49: Delete in their entirety
- Page 8, Section 4, Lines 1-47: Delete in their entirety
- Page 9, Section 4, Lines 1-48: Delete in their entirety
- Page 10, Section 4, Lines 1-45: Delete in their entirety
- Page 10, Section 5, Line 47: Delete "5." and insert "2."

Respectfully,

/s/ Chris Christie

Governor

[seal]

Attest:

/s/ Thomas P. Scrivo

Chief Counsel to the Governor