THE PEW CHARITABLE TRUSTS

2005 Market Street, Suite 2800
Philadelphia, PA 19103-7077
215.575.9050 Phone

901 E Street NW
Washington, DC 20004
202.552.2000 Phone

www.pewtrusts.org

Testimony of Josh Goodman
Senior Officer, State Fiscal Health
The Pew Charitable Trusts

Senate Economic Growth Committee
Assembly Commerce and Economic Development Committee

February 11, 2019

Chairwoman Cruz-Perez, Chairman Johnson and members of the committees,

Thank you very much for the invitation to testify today. My name is Josh Goodman, and I'm a senior officer with the Pew Charitable Trusts, a public charity that provides research and technical assistance to state policymakers across a range of policy issues. For the last seven years, we have conducted research on how states can improve the effectiveness of their economic development tax incentives. Based on that research, I'm going to talk about three ideas for strengthening New Jersey's approach to incentives.

First, New Jersey should establish regular, independent evaluations of tax incentive programs. As the recent studies from Rutgers and the Comptroller illustrate, evaluations can draw valuable conclusions about the design, administration, and effectiveness of incentives. While New Jersey has conducted one-time studies of incentives, our research shows that states benefit from establishing recurring evaluations of all major tax incentives.

Thirty states have approved legislation requiring regular evaluation of tax incentives. In virtually every case, these bills have won strong bipartisan support. They have also brought together supporters and skeptics of incentives alike who agree on the need for better information.

This information helps lawmakers improve policy. Policymakers in Florida, Indiana, Maryland, Oklahoma, Washington, and other states have made changes to incentives that were consistent with evaluations' findings or recommendations. Changes both large and small—from ending ineffective programs to subtly modifying the design or administration of incentives—can greatly improve the results.

Second, New Jersey can ensure that its incentives have strong fiscal protections. Many states have seen the costs of tax incentives increase quickly and unexpectedly. When that happens, lawmakers are often forced to make difficult choices between raising taxes and cutting spending in other areas to make up the difference.

These problems are not inevitable, however. Our research shows that states can design incentives so that they do not cost more than the state can afford over the long-term and so that their costs are more predictable from year-to-year. One effective approach is to set annual cost limits, or caps, on incentive programs. Caps keep lawmakers in control of the cost of incentives. You can adjust caps from year to year depending on your priorities and the state's budget situation, in the same way that you can adjust spending levels in other policy areas such as education or transportation.

Some states have designed caps to provide flexibility to economic development officials to respond to opportunities. For instance, Iowa's economic development authority can exceed its cap by up to 20 percent in any year, but those dollars then count against the following year's cap.

Third and finally, New Jersey can ensure that its incentives are well-designed to maximize their effectiveness. Designing incentives is complicated work. But as more states are evaluating incentives and more academic economists are studying these programs, policymakers have the benefit of a growing body of research on what works in economic development. This research offers several lessons that may be relevant as you consider the future of New Jersey incentives.

For instance, one insight of the research is that the timing of incentives matters. Businesses generally place a high discount rate on money that they're promised far in the future. One study showed that if you offer corporate executives a dollar ten years from now, they value it at only 32 cents today. As a result, if states offer incentives on shorter time horizons, they can potentially spend less on incentives while having the same impact. Shortening the timeframe of incentive deals can also help make the costs of the programs more predictable because state officials are not left guessing when or if businesses will earn or use credits.

Another finding from this research is that states should target their incentives to businesses that will grow the state's economy, such as those that sell their goods nationally and internationally. If policymakers' goal is statewide economic growth, they should avoid providing incentives to businesses that primarily serve a local market such as hotels and restaurants. These businesses compete for customers with other local businesses, so helping one business expand will generally result in job losses elsewhere in the local economy.

Let me just conclude by saying that, with the pending expiration of major New Jersey tax incentives, you have an opportunity to make sure these programs are serving the needs of your businesses, budget, and workers. Our research points to ways to ensure that the next generation of New Jersey economic development programs are effective, accountable, and fiscally sound.

Thank you for the opportunity to discuss our research and I'm happy to answer any questions.