



REFORM THE BEIP JOB INCENTIVE PROGRAM TO SPUR GREATER ECONOMIC GROWTH

DESCRIPTION

Eliminating recently imposed restrictions on Business Employment Incentive Program (BEIP) participation can spur urban economic growth. In urban areas that desperately need job creation, the program should be restored to its original and more successful form. Specifically, caps on new employee salaries (approximately \$160,000) and excess job creation requirements (limited to 120 percent of the original job creation goal) should be rescinded for urban businesses. And, the 10-year term limit on participation should be extended, at the discretion of the NJ Economic Development Authority (EDA), with lowered grant amounts and increased job retention mandates.

BACKGROUND

The BEIP program works as follows: Employers that create new jobs receive a portion of new employees' income tax payments (ranging from 10 to 80 percent) in the form of an annual grant for a period of 10 years. The employer promises to maintain minimum new employment levels for at least 15 years. Incentive grants are based on actual jobs created, not promised, and paid only after new employees have worked the full year. The employers must demonstrate that the BEIP grant is a materially important factor in their decision to relocate or expand in New Jersey.

Legislation enacted in 2003 capped the total amount of a BEIP grant any one applicant can receive over the life of the grant at \$50,000 per new employee (or an annual salary of approximately \$160,000 per employee). In 2005, EDA adopted regulations limiting the amount of additional jobs qualifying for grant payment to 20 percent above the originally contracted new jobs target.

Regardless of the measure used—employment, economic activity or tax generation—BEIP is without question a New Jersey economic development success story. For the past decade, BEIP has served as the primary incentive to encourage new employers to locate in New Jersey.

The statistics speak for themselves. According to program administrators at the EDA, BEIP'S 369 employer participants have created a total of 70,116 jobs and generated \$11.9 billion in public-private investment since the program's inception in 1996.

Economists at Rutgers University's Bloustein School reviewed BEIP impacts in a 2005 report that looked at projects through February 2005. They found that BEIP grants:

- **Have an Annual Economic Impact of \$8.4 Billion.** Each year, the operations of the BEIP projects add approximately \$8.4 billion to New Jersey's gross State product. This equates to an annual increase of approximately \$88 for each tax dollar spent to fund the program.
- **Generate \$349 Million in Additional Tax Revenues Annually.** The 183 BEIP projects generate approximately \$349 million in additional State tax revenue each year. In other words, for each tax dollar spent on the BEIP program, the State receives approximately \$3.70 in revenues.
- **Lead to More Than 100,000 New Jobs.** The 183 BEIP projects have created approximately 51,665 permanent jobs. The economic activity generated by the BEIP projects leads indirectly to the creation of another 58,089 jobs, for a total of 109,754 jobs.
- **Are Cost-Effective Across Many Sectors.** The annual grant expenditures made on the BEIP program are approximately \$95.1 million, or about \$1,841 per job created by the BEIP projects. The financial activities sector had the highest expenditure per job created (\$3,119), followed by the professional and business services sector (\$1,661) and the manufacturing sector (\$1,422).
- **Impact Major Business Sectors:** The 88 BEIP projects approved in fiscal year 2005 are estimated to create approximately 12,318 jobs. Like the 183 approved and executed projects, the majority of the 88 projects are in the manufacturing (40.9 percent), professional and business services (20.5 percent), and financial activities (15.9 percent) sectors.
- **Help Small and Mid-Sized Businesses.** The majority of BEIP awards examined (55.7 percent) have been extended to small to mid-sized projects creating fewer than 200 jobs each, while 49.3 percent of the jobs directly generated by the BEIP projects have come from those that created 500 jobs or more.
- **Attract Out-of-State Companies.** Over 50 percent of the BEIP awards analyzed (100 out of 183) have been made to companies relocating their facilities from other states, with 42 percent (77 awards) going to companies expanding their existing operations in New Jersey and very few (6 awards) going to new businesses. The majority of the relocations (69 percent) have come from New York.
- **Go to Companies in Almost Every County.** BEIP grants have been made to companies in almost every county in the State. The largest shares of the awards

have gone to companies in Hudson (25.1 percent), Middlesex (12 percent) and Morris (9.8 percent) counties. The largest percentages of the total jobs created by BEIP projects have been in Hudson (34.7 percent), Somerset (11.6 percent) and Middlesex (7.6 percent) counties.

NJBIA POSITION

NJBIA supports legislation designed to expand BEIP benefits and eligibility. Specifically, caps on new employee salary (approximately \$160,000) and excess job creation (limited to 120 percent of the original job creation goal) should be rescinded for urban businesses. Additionally, the 10-year term limit on participation should be extended, at the discretion of the EDA, with lowered grant amounts and increased job retention mandates.

ARGUMENTS IN SUPPORT OF ELIMINATING BEIP PROGRAM RESTRICTIONS IN URBAN AREAS

The BEIP is the most successful job creation and economic stimulus program in New Jersey's history. Since its inception in 1996, 369 businesses have directly created a total of 70,116 jobs, indirectly created another 75,000 jobs and generated \$11.9 billion in public-private investment.

BEIP is attractive because it positively impacts on one of the most onerous costs of doing business facing New Jersey employers—our high personnel costs. BEIP grants are directly linked to payrolls—the higher the payroll, the higher the BEIP grant.

Unlike many stimulus programs, BEIP is a model of fiscal responsibility. Incentive grants are based on actual jobs created (not promised) and paid only after new employees have worked for the full year. Grant amounts are calculated as a percentage of personal income taxes generated by the new employees; hence, unlike other State programs, State government makes money from BEIP. In fact, every \$1 spent on BEIP generates \$3.70 in State tax revenues.

Legislative and regulatory changes made to BEIP these past five years were designed to limit the growth of the program. Specifically, these changes effectively capped the new employee salary and limited the number of jobs an applicant can create under the program.

The initial group of BEIP recipients from the late 1990s is reaching its 10-year limit on participation in the program. There is no discretionary ability to continue the BEIP grant past the 10-year limit.

BEIP is a proven urban job generator. The largest shares of participants have come from Hudson County, and 22 projects have been generated in Newark, Elizabeth, Trenton, Camden, Perth Amboy, Vineland, Millville and Bridgeton alone.

LEGISLATION

Legislation enacted in 2003 capped the total amount of a BEIP grant any one applicant can receive over the life of the grant at \$50,000 per new employee (or an annual salary of approximately \$160,000 per employee). In 2005 the EDA adopted regulations limiting the amount of additional jobs qualifying for grant payment to 20 percent above the originally contracted new jobs target.

COST

In 2007 BEIP grants totaled \$152 million, out of \$562 million in new State tax revenues generated by the program. Removing program limitations in urban areas, while permitting contract extension beyond ten years, will create no new costs.

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