

Emerge Program Listening Session

April 8, 2021



About the NJ Economic Recovery Act

Governor Phil Murphy signed the New Jersey Economic Recovery Act of 2020 (ERA) into law on January 7, 2021

The ERA creates a package of tax incentive, financing, and grant programs that will build a stronger, fairer New Jersey economy.

ERA is both a broad-based recovery bill and reform bill that will better position New Jersey to recover from economic crisis caused by the COVID-19 pandemic, while remaining true to the NJEDA's commitments to transparency and accountability

Visit the NJEDA's website at www.njeda.com/economicrecoveryact to learn more about each of the programs within the ERA, or to provide general ERA feedback.

Opportunities for Engagement

The NJEDA is committed to transparency, equity, and faithful stewardship of taxpayer dollars, and welcomes constructive input from all New Jerseyans as we work through the process of implementing the programs under ERA.

The NJEDA will be providing multiple opportunities for public input. Today's session is one way that NJEDA is collecting informal program-specific feedback.

GENERAL ERA PROGRAM FEEDBACK

Provide general suggestions on one or more ERA programs prior to NJEDA releasing program-specific information.

You can use this website to provide thoughts on the ERA legislation and how NJEDA should implement the ERA programs.

INFORMAL PROGRAM-SPECIFIC FEEDBACK

Provide specific feedback on draft program regulations, before they are approved by NJEDA's Board.

NJEDA will post additional draft ERA program regulations on this website for public input as they are developed.

FORMAL REGULATORY FEEDBACK

Provide formal public feedback on the proposed regulations approved by our Board.

All ERA programs will have a formal APA 60-day public comment period once proposed rules are published.

Executive Order No. 63

Pursuant to Governor Murphy's Executive Order No. 63, the NJEDA is providing opportunities for groups and stakeholders to engage with the NJEDA in crafting rules around the Emerge Program

We welcome constructive input on how to ensure new programs created through the Economic Recovery Act are structured and administered in a manner that drives opportunities for all residents and communities

NJEDA will begin the session with a presentation to summarize the draft rules – opportunity for public feedback will be available following the NJEDA's presentation. It is expected that 75-90 mins will be reserved strictly for public input

Recording of Public Feedback Sessions

Members of the public can submit written feedback on the Emerge Program via www.njeda.com/emerge-feedback through April 16th.

All three Emerge public feedback sessions will be recorded and posted on www.njeda.com/emerge-feedback so that members of the public unable to participate in a virtual session have the opportunity to review.

Public Feedback Policy

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- ▶ To ensure everyone that chooses to has an opportunity to speak, **each speaker will have a maximum of three (3) minutes to speak and should limit input to matters pertaining to the Economic Recovery Act of 2020, the Emerge program, or the draft rules.**
- ▶ **Each member of the public will have one opportunity to provide remarks.** If time remains at the end of the session, we will reopen the opportunity for additional remarks.
- ▶ **Speakers should not expect to engage in a dialogue. The NJEDA staff may respond to basic questions or clarify a speaker’s input.** However, the NJEDA staff are not obligated to answer impromptu questions or address remarks from members of the public.
- ▶ **Speakers and members of the public should at all times maintain proper decorum and shall provide their remarks in a civil manner.**

Please Note

NJEDA staff will summarize the draft rules, industry definitions, and provide context. To access the actual draft rules and industry definitions document, please visit www.njeda.com/emerge-feedback.

For this presentation, please note the following:

Text highlighted in light green indicates areas where the NJEDA has used the rules to add clarity to the legislation

Non-highlighted text is written into law which NJEDA does not have discretion to change

What is the Emerge Program?

Established under the **Economic Recovery Act of 2020**

Successor to the Grow New Jersey Program

Provides tax credits to incentivize projects to locate in NJ

Awards are sized based on a **per-job** calculation

Focuses on **job creation** and the **retention of significant numbers of jobs**

Focuses on **communities with the greatest levels of distress**

Targets the State's **priority sectors**

Increases flexibility for small businesses

Program **expires on March 1st, 2027**

Key Features of the Emerge Program

- ▶ **Program capped** with NJ Aspire at **\$1.1B per year over 6 years**
 - Option to roll-over unused program cap to a seventh year
- ▶ Amount of tax credits also **capped per job**
 - Between \$3,000 - \$8,000 based on project location and the net benefit to the State
- ▶ Maximum **7-year eligibility period** (number of years a company can get tax credits)
- ▶ **Commitment period** (number of years a company commits to stay in NJ) of **1.5x of the eligibility period** (rounded up)
- ▶ **Community engagement for all large projects**
 - Projects over \$10M must engage local municipality with **Community Benefits Agreement**
 - Municipalities must hold a public hearing about the project and establish a local project review committee

Program Attributes We Will Discuss Today

Eligibility

- Material Factor
- Definition of small business and mega project
- Net benefit to the State test
- Minimum new and retained job requirements
- Capital investment requirements

Targeted Industries, Incentive Areas & Bonuses

Fiscal and Resident Protections

- Inducement
- Community Benefits Agreement

Material Factor (1/3)

- ▶ **Tax credits must be a material factor** in the business's decision to locate the project (new jobs or retained jobs) in the State
- ▶ Rules provide **clear guidelines** on what companies can and cannot do before application
 - **Can:** spend money to investigate an option (due diligence) and validate costs within reason (costs should be comparable if looking at two different when considered)
 - **Cannot:** undertake a real estate purchase prior to NJEDA board approval
 - **Cannot:** have a letter of intent to buy / lease in NJ, unless it has a penalty- free contingency based on award of tax credits

Material Factor (2/3)

- ▶ NJEDA must conduct an **economic analysis across alternative sites** to confirm the award is a material factor (**Cost Benefit Analysis**)
- ▶ Rules provide **clear definitions of what project specifics will be assessed:**
 - Project location
 - Size of facilities (dedicated and common access)
 - Cost per square foot
 - One-time upfront costs, such as: acquisition, construction, fit out, furniture, fixtures, and equipment)
 - Ongoing annual costs, such as: rental costs, real estate carrying costs, real estate taxes, utilities, expenses, building maintenance

Material Factor (3/3)

- ▶ NJEDA focused on **ensuring an “apples to apples” comparison** by
 - Standardizing across owned and leased facilities
 - Using a standard discount rate set by the Authority
 - Standardizing comparisons across standards and quality of facilities

- ▶ NJEDA **may seek additional information from applicants to confirm material factor**, such as:
 - Competitive proposals from other states
 - The prevailing economic conditions
 - Any other factors that the Chief Executive Officer of the Authority deems relevant (e.g., proximity to customers, proximity to infrastructure, proximity to supply chain or research)

Definition of a Mega Project

- ▶ A project can be considered a mega project if it:
 - Has **500+ new full-time jobs**
 - Has **at least \$50M of capital investment**
 - Is in a **targeted industry**
 - Is **an industry leading investment in a new technology or high-growth sub-industry** or **catalyzes a new sub-industry or industry cluster** within the State

Definition of a Small Business

► Definition of Small Business:

- In a **targeted industry**
- **Less than 100 total Full Time Equivalent (FTE)** employees at application

► Emerge offers **Small Businesses increased flexibility**:

- No minimum new capital investment required, but must demonstrate intent to remain in the State
 - May include, but not limited to, a proposed lease, membership agreement, or similar commitment for space
- Minimum new full-time jobs equal to 25% of its workforce at application
- Can start getting tax credits before all jobs are created by following a growth plan
- Can more easily move locations, provided that the tax credits will be re-calculated for the new location and the tax credit amount shall not be greater than original approved amount

Net Benefit Test for Emerge (1/2)

For projects that are...

...the Net Positive Benefit to the State must be at least:

Located in **Government Restricted Municipalities**

200%

A qualified **Mega Project**

Located in **Distressed Municipalities** or **Transit Hub Municipalities**

300%

All other eligible locations

400%

Both tax credits and benefit to the State are evaluated on a present value basis using the same discount rate

Net Benefit Test for Emerge (2/2)

Proposed policy for testing net benefit to the State:

- ▶ Utilize the **IMPLAN model**
- ▶ For **Construction benefits**: use **direct, indirect, and induced** tax revenues at the State Level
- ▶ For **Ongoing benefits**: Use **direct and indirect tax** revenues at the State level
- ▶ Use **regional multipliers**: one for South Jersey and one for North Jersey
- ▶ **Local tax benefits** only included when they **benefit the State** and are **sufficiently evidenced by applicant**
- ▶ Use a **2% inflation rate** and an **8% discount rate**

Minimum Job Requirements

▶ Minimum new jobs

- Business engaged primarily in a targeted industry: 25 new full-time jobs
- Any other business: 35 new full-time jobs

▶ Minimum retained jobs

- In a Qualified Incentive Tract or Government-Restricted Municipality: 500 retained full-time jobs
- All other locations: 1,000 or more retained full-time jobs

▶ Must stay **above a state-wide baseline of jobs**

▶ Minimum job requirements

- Must offer health benefits under an authorized health benefits plan
- Must pay no less than \$15 per hour or 120% of the minimum wage

Minimum Capital Investment

Type of project	Industrial, warehousing, logistics, or research & development space	Office space
Rehabilitation, improvement, fit-out, or retrofit of an existing portion of the premises for continued similar use by the business	\$20 per square foot	\$40 per square foot
New construction	\$60 per square foot	\$120 per square foot

- ▶ **Mixed-use building and buildings near each other can aggregate capital investment** to meet the requirement
- ▶ For projects with **non-proximate sites**, each site must meet the minimum capital investment requirements
- ▶ **Recovery Infrastructure Fund** created to provide capital investment alternative that would benefit local communities

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Targeted Industries, Incentive Areas & Bonuses

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Targeted Industries

► Three ways to be classified in a targeted industry:

- Applicant's project is part of a targeted industry
- Applicant's core business is defined to be in a targeted industry
- Applicant's parent company's business is defined to be in a targeted industry

► Targeted industries include:

- | | | |
|--|--|--|
| – Advanced Transportation and Logistics | – Clean Energy | – Film and Digital Media |
| – Advanced Manufacturing | – Life Sciences | – Non-retail Food and Beverage businesses including Food Innovation |
| – Aviation | – Hemp Processing | – Other Innovative Industries that disrupt current technologies or business models |
| – Autonomous Vehicle and Zero-Emission Vehicle Research or Development | – Information and High Technology | |
| | – Finance and Insurance, Professional Services | |

► See draft rules for full definitions of targeted industries

Incentive Areas & Project Caps

Location / Project type	Base Award <i>Per New Job, Per Year</i>	Max Award <i>Per Job, Per Year</i>
Government-Restricted Municipality <i>Atlantic City, Paterson, Trenton</i>		
	\$4,000	\$8,000
Mega-Project <i>500+ jobs, \$50M+ in investment, economic importance</i>		
Enhanced Areas <i>Camden, East Orange, Elizabeth, Hoboken, Jersey City, Newark City, New Brunswick, Passaic, Paulsboro, Salem</i>	\$3,500	\$6,000
Distressed Municipalities <i>(see NJEDA website for a complete list)</i>	\$3,000	\$5,000
Employment/Investment Corridors and Qualified Opportunity Zones not included above	\$2,500	\$4,000
Other Eligible Areas	\$500	\$3,000

- **Retained full-time jobs only eligible for 50% of award**
compared to equivalent new full-time jobs

Bonus Credits (1/2)



Number of Jobs

Amount Per Year

Large number of new full-time jobs
between 251 and 400

\$ 500

Large number of new full-time jobs
between 401 and 600

\$ 750

Large number of new full-time jobs
between 601 and 800

\$ 1,000

Large number of new full-time jobs
between 801 and 1,000

\$1,250

Large number of new full-time jobs
above 1,000

\$1,500



Location Based

Amount Per Year

Located in Municipality with MRI index score
greater than 50

\$1,000

Marine terminal project in a South Jersey Port
District

\$1,500

Qualified business facility in a qualified OZ

\$1,000

Median salary in excess of the existing median
salary for the county

\$250 -\$1,500

Eligible Business with a qualified business facility
located in a qualified incentive tract

\$500

Bonus Credits (2/2)



Facility Bonus

Amount Per Year

Excess of minimum Capital Investment in industrial or R&D premises	\$ 1,000 - \$5,000
Facility LEED rating exceeds Silver	\$250
Facility LEED rating exceeds Gold	\$ 500
Generates 50% Solar Energy on site for use	\$500
Enters into a Labor Harmony Agreement	\$2,000



Policy Objective

Amount Per Year

Annually funds an industry-specific training program	\$ 500
Provides employees access to child care	\$ 1,000
Eligible Business engaged primarily in a targeted Industry	\$ 500
Partnership with a Prisoner Re-entry Program	\$500
1/3 or more of the members of the business's governing body self-identify as members of an underrepresented community	\$2,000
Qualifies as a Small Business	\$500

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Inducement

- ▶ NJEDA is **required to size awards** to the amount necessary **to induce the project to be sited in New Jersey** as determined by the Board
- ▶ Induced award calculations **will never increase an award over the maximum allowed**
- ▶ NJEDA to **utilize a standardized methodology** to determine what award level would induce a company to site their project in the state:
 - Will provide a **quantitative scaling factor** for the award size (i.e., percentage of calculated award up to 100%), using factors such as:
 - Size of the net benefit relative to the calculated award size
 - Gap between NJ vs alternative state sites
 - Type of location (high priority locations vs low priority areas)
 - Opportunities for the state to capture leadership in targeted industry
 - Consideration of other public policy objectives

Community Benefits Agreement

- ▶ Required for projects with **total costs of \$10M or more**
- ▶ Business shall enter into a community benefits agreement **with the Authority and the Chief Executive of the municipality** (for each incentivized municipality location)
- ▶ **Municipality may request the Chief Executive of the applicable county** to lead the community benefits agreement work
- ▶ Municipality/County to set up **at least one community engagement session**
- ▶ Municipality/County will **negotiate the agreement with the business**
- ▶ The agreement **may include requirements for training, employment, and youth development and free services to underserved communities in and around the community in which the qualified business facility is located**
- ▶ Municipality/County to appoint a **Community Action Committee with at least three members to monitor the agreement's implementation**
- ▶ **Community Action Committee will report out on the progress to NJEDA once a year**

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