Stakeholder Note

Aspire has shown itself to be a powerful tool for accomplishing the State's economic development goals. From an incentive that was anticipated to largely provide funding for mixed income and commercial projects, Aspire has evolved over the last six years to provide over $4.5 billion in catalytic funding to over 40 projects in every corner of the state—from hospitals and film studios to 100 percent affordable and mixed income residential projects.

But Aspire is a finite resource. We will run out of it, and we are running out of it faster than anticipated. This is not just because of demand. Even with additional recent infusions of credit authorization, Aspire's ultimate program design, and how it has come to function in the marketplace, have accelerated the pace of its depletion.

In March, the Governor proposed a State budget for Fiscal Year 2027 that squarely met the need to close New Jersey's structural deficit while advancing key priorities around affordability, protecting children and families, and increasing accountability and transparency in state government. Just a few weeks ago, the Legislature worked in partnership with the Governor to get a budget passed that successfully met the Governor's topline spending and policy goals.

Although Aspire and most other tax credits do not directly appear in the budget, they certainly have an impact. In FY27, the State projects $1 billion in direct revenue loss from tax incentives, including from programs dating all the way back to the Whitman Administration. While the intent of tax incentives is to spark economic growth and drive more revenue to the State overall, the direct effects on any given year's revenues are real. Following Governor Sherrill's leadership, it is incumbent on the EDA to ensure that the same fiscal responsibility evident in the State's budget is woven through our tax credit programs as well.

In order to preserve and get the most out of what remains of this limited and vital resource, we both need to make Aspire work better and be more deliberate in when and how we use it. As such, the EDA will temporarily pause accepting new applications to both 'traditional' and Transformative Aspire.

- Non-transformative projects that have a completed application will proceed through the review process and be considered for approval, as appropriate.

- Transformative projects that have applied with a request for more than the $190 million remaining allocation will have their application returned and their application fee refunded.

- Applicants may reapply when the program reopens in the fall under a new framework.

During the pause, EDA will also conduct detailed reviews of all in-house applications. Incomplete applications or applications containing unsupportable project components will be rejected or declined. Again, this will allow EDA to get back resources for the projects that can truly use them.

When the application reopens in the fall, the EDA will implement enhanced scoring criteria meant to allow the Authority to prioritize projects that meet the Sherrill Administration's policy goals, use the credits as efficiently as possible, and are prepared to get shovels in the ground quickly.

In comparing Aspire with other state real estate incentive programs, and based on direct market feedback from our recent listening sessions, it is clear that Aspire is a very generous incentive—both on a per-project and overall authorization basis. Part of this generosity has its root in the fact that Aspire has several embedded, well-informed policy goals. Indeed, its structure reflects an important lesson learned: real catalytic development needs real resources behind it. Even more importantly, though, the most significant reason for this generosity comes from the need to "pay for" the underlying inefficiency of the monetization of the tax credits themselves.

The more complicated the project is, and often the larger the project is, the more layers there are to the financing structure, with each layer resulting in additional costs. On average, this results in close to 50 cents for every dollar of State tax expenditure actually usable by the project after accounting for interest on Aspire bridge loans, discounts on the face value of the tax credit when they are sold, and an array of other financing and legal costs necessary to structure these highly complex transactions. This is a major problem for both the project and the government: each project is harder to do, and the State spends much more money per project. This has also led to several fiscally impactful amendments to the law increasing project caps and total program authorization. Overall, this ultimately degrades the attractiveness of all New Jersey tax credits to both current and prospective investors as it feeds into a persistent narrative that supply will, someday soon, outpace demand.

We recognize this pause will not be without consequences, both immediately and into the future. Pauses, including much longer ones, are not uncommon: ERG closed in June of 2019, Aspire began accepting applications in January of 2022, and did not really pick up speed until significantly later. Still, any pause affects market confidence not just in Aspire but in whatever the EDA does next. At a time when growing the state's economy and getting projects built is more important than ever, this matters. After carefully weighing the tradeoffs, we think this remains the best route to get us to a better future for all participants. As such, we are trying to move quickly and with clarity.

Finally, although we fully intend to use and improve Aspire, we will also seek to develop new tools and will begin to advance ideas more widely this fall. Aspire has become a multi-purpose tool and there are many instances in which another tool might be better. Our peer agencies, and EDA itself, already deploy some of these tools today. Thematically, we hope to invest in projects in a simpler way for both sides—all while preserving and even growing the State's resources to deploy towards its economic development goals. We understand, again, that this pause will concern many of you. Still, we encourage you to engage in our future market sounding opportunities and join us in challenging how we approach catalytic investment by helping us frame fiscally sound, strategically targeted, and efficient tools for growing New Jersey's economy.

Thank you.