

**SALES AND USE TAX REVIEW COMMISSION
RECOMMENDATION PURSUANT TO P.L. 1999, C. 416**

BILL NUMBER:

S-1751

DATE OF INTRODUCTION:

July 2, 2002

SPONSOR:

Senator Charles, Jr.
Senator Lesniak

DATE OF RECOMMENDATION:

September 24, 2002

IDENTICAL BILL:

A-2661

COMMITTEE:

Senate Budget and Appropriations

DESCRIPTION:

The Bill extends certain Urban Enterprise Zone (UEZ) designation periods and allows certain municipal UEZ borrowing from the Enterprise Zone Assistance Fund. The Bill also authorizes affected municipalities to borrow against other municipal accounts without interest during the 2003 fiscal year.

ANALYSIS:

This Bill would create administrative and accounting complexity for the Division of Revenue. The provision extending the five year time periods that define the Zone's and General Fund's portion of reduced rate revenue makes such periods indefinite. Also, the treatment for each zone account may become different as well as have different ending dates. The extension granted by the Bill is defined as "such period of time as is necessary for the higher percentage rate of separate [E]nterprise [Z]one [A]ssistance [F]und deposits to fully compensate for the amount transferred."

The Commission believes that the underlying proposal is substantially fiscal in nature. Although the measures initiated by this Bill affect the UEZ program and its administration, the Commission takes no position on the budgetary purpose of this Bill. Further, the Commission abstains from comment on whether the utilization of Enterprise Zone Assistance Fund monies as a budgetary funding mechanism is appropriate.

The thrust of this Bill enables the State to borrow funds from the Urban Enterprise Zone Assistance Fund created by the New Jersey Urban Enterprise Zone Act of 1983 codified as N.J.S.A. 52:27H-60 et seq. The purpose of the Act was to help revitalize the State's economically distressed urban areas. To this end, the Act provides a framework encouraging private capital investment and job creation in the selected urban areas. Currently, 27 zones exist in New Jersey.

There is no information demonstrating that specific Zone designations over the past 20 years of the program have reversed the economic decline of the affected municipalities or actually attracted new businesses or customers to municipalities that would not be there otherwise; and, just as importantly, that "new" businesses in zones are not "cannibalized" from adjacent areas of the state. An independent study could establish whether the 3% sales tax rate actually benefits a zone business community rather than a few select businesses that happen to sell higher priced goods.

Currently, the UEZ program provides for a percentage of collected reduced rate revenues, within an enterprise zone, to be deposited in the Enterprise Zone Assistance Fund created pursuant to section 29 of P.L. 1983, c.202 (C.52:27H-88). The schedule provides for four five-year periods of decreasing allocation of revenues to be deposited in the Urban Enterprise Zone Assistance Fund. After first depositing ten percent (10%) of gross revenue from the Zones, the schedule provides for the remaining ninety percent (90%) to be allocated and deposited into the Enterprise Zone Assistance Fund and the General Fund as follows: all revenues collected to be deposited in Enterprise Zone Assistance Fund during the first five year period; sixty-six and two-thirds percent ($66 \frac{2}{3}\%$) and thirty-three and one-third percent ($33 \frac{1}{3}\%$) respectively during the second five year period; thirty-three and one-third percent ($33 \frac{1}{3}\%$) and sixty-six and two-thirds percent ($66 \frac{2}{3}\%$) respectively during the third five year period; and all of the revenues collected to be deposited in the General Fund for the final five year period.

The proposed Bill applies to municipalities that have municipal accounts in the Enterprise Zone Assistance Fund that will be reduced by section 69 of P.L. 2002 (now pending before the Legislature as Senate Bill No.2003 or Assembly Bill No.2500 of 2002). The percentage of revenue that is allocated to the Enterprise Zone Assistance Fund under which these Zones are operating on July 1, 2002, shall be extended until such time as the account is compensated for the loss resulting from the transfer pursuant to P.L. 2002 c.69.

The Commission has a long-standing recommendation that a review of the UEZ program and its effectiveness is necessary to determine the best course of action in relation to future modifications or expansions of the UEZ program in New Jersey. To date, there has been no comprehensive review of the UEZ program by an independent body. As a result, no substantive data concerning the actual success of the UEZ program has been provided to the Legislature. Further, the state share of money to the General Fund derived from the reduced rate revenues will remain uncertain in the near future as a result of this legislation.

RECOMMENDATION:

The Commission unanimously abstains from a recommendation on this proposal. The provisions of this Bill do not expand or contract the sales tax base. Rather, the Bill relates to previous legislation appropriating Enterprise Zone Assistance Fund revenue for State purposes.

Again the Commission recommends an evaluation of the entire UEZ Program as the best course of action before any additional zones are legislated or other amendments made respecting the existing zones. The Commission urges the State to undertake an independent and comprehensive review of the efficacy of the entire Enterprise Zone program in the State of New Jersey.

COMMISSION MEMBERS FOR PROPOSAL: 0

COMMISSION MEMBERS AGAINST PROPOSAL: 0

COMMISSION MEMBERS ABSTAINING: 7