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Breaking Down Silos Between Economic Development and Public Transportation: An Evaluation of Four States' Modest Efforts In Making Job Subsidies Location-Efficient

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Summary

Since publishing *Another Way Sprawl Happens* in 2000 and *Missing the Bus* in 2003, Good Jobs First has repeatedly documented the pro-sprawl bias of economic development subsidies and advocated for better geographic targeting of workplaces to achieve *location efficiency*. That is, taxpayer investments in economic development and public transportation should be geographically aligned to address the problems of urban sprawl, forced auto dependency and jobs-housing spatial mismatch.

Good Jobs First has issued six studies mapping more than 5,000 economic development subsidy deals in 13 metro areas.[1] Five of the reports explored transit location efficiency as a goal of economic development subsidy targeting, and two are of special note here. Our 2003 study, *Missing the Bus: How States Fail to Connect Economic Development with Public Transit* summarized the results of a 50-state survey in which we failed to identify even a single state economic development program that directly connected jobs with transit. By 2006, when we published *The Geography of Incentives: Economic Development and Land Use in*

Michigan, we had identified two states that partially aligned smart growth goals with economic development subsidies: California and Maryland. That same year, Illinois passed the state's landmark Business Location Efficiency Incentive Act. In 2008, New Jersey enacted a major tax credit program available only to businesses moving within a half mile of major rail transit centers. (Since that time, we have not learned of any other new state location efficiency policies.)

Unfortunately, a review of the status of these small steps finds that they have not been adequate to popularize the concept. This report is an update on the use of location efficiency policies in Illinois, New Jersey, Maryland, and California. It describes how some programs have faltered, lost their way, or were inadequately designed to effect lasting changes in policy. In part, their collective failure in breaking down the policy silos of transit and economic development is a result of weak design. None of the four policies reviewed in this document reform existing job subsidies to restrict funds to location-efficient development projects. Some are structured to give preference to location-efficient applicants. Others provide bonuses to reward location-efficient decisions. In the case of New Jersey, an entire new location-efficient tax credit was enacted atop the state's already generous arsenal of economic development programs. Two of the four programs do not even specifically cite transit access as a goal.

The result of these weak structures is in most cases a policy tool ineffectively designed to actually change land use and transportation patterns or economic development location decisions. Over the past few years, these programs have either been little used or deregulated to the extent that they can no longer be said to serve the goal of location efficiency. In all four cases, no evaluation of results on transit access, commuter choice or behavior, or land use pattern has ever been conducted. But given our findings here about how poorly the programs have been designed and/or executed, we doubt a performance audit would find useful impact.

Illinois: Business Location Efficiency Incentive Act

In 2006, at the urging of business-civic group Metropolis 2020 (now Metropolitan Strategies) and the Center for Neighborhood Technology and informed by Good Jobs First's study *A Better Deal for Illinois* that documented sprawl financed by state economic development subsidies, Illinois enacted the Business Location Efficiency Incentive Act. The law amended the existing Economic Development for a Growing Economy (EDGE) tax credit program to encourage recipients to locate jobs near mass transit and affordable housing. While not restricting EDGE credits to businesses in these locations, the act was important because it introduced the concept of location efficiency to one of the state's most commonly used subsidy programs. Unfortunately, the innovation was not embraced or strongly promoted by the state Department of Commerce and Economic Opportunity (DCEO) and hardly used. With little notice, it was allowed to sunset in December 2011, but there has been legislation introduced to renew the Act.

The EDGE program provides state corporate income tax credits to participating companies based on the value of personal income tax revenue generated by new or retained jobs. In order to qualify for the program, a business must demonstrate that it is considering relocating or expanding outside of Illinois and meet low-level capital investment and hiring targets (between $1 million and $5 million in investments and 5 and 25 new jobs).[2] Tax credit values vary and companies that meet certain location conditions are eligible for bonus credits or extended periods during which they may utilize carried over tax credits.

Under the EDGE program, a location efficient project "maximizes the use of existing investments in infrastructure, avoids or minimizes additional government expenditures for new infrastructure, and has nearby housing affordable to the permanent workforce of the project or has accessible and affordable mass transit or its equivalent or some combination of both."[3] Accessible and affordable mass transit is defined as a transit stop with regular and frequent service no more than one mile away from the job site. Affordable workforce housing is defined using median employee salary at the job site as a metric.[4] In order to qualify for the location efficiency bonus, applicants must submit a report describing these characteristics as they pertain to the proposed facility site.

Despite having been enacted six years ago, the location efficiency bonus has been utilized remarkably few times. This reflects DCEO's disinterest in promoting its use. A DCEO report issued in December 2010 listed just 13 total location-efficient recipients. (No further reports have been issued since; for comparison, a total of 62 EDGE applications were approved during 2010 alone.)

In fact, even though 7 of these 13 location efficiency awards were issued in the Chicago metropolitan area, the Chicago Metropolitan Agency for Planning (CMAP) was unaware that a single use had occurred.[5] Among these awards are major EDGE job retention deals provided to multinational corporations such as Navistar International and the Chrysler Group. The location efficiency bonus was also awarded to the Boeing Company, a controversial EDGE tax credit recipient, for its facility in Mascoutah.[6]

Despite its disinterest in the EDGE location efficiency amendment, DCEO claimed in a report to the state legislature that it is supportive of the program: "DCEO has found this Act to provide an effective tool to encourage businesses to undertake projects at sites already served by infrastructure. We strongly recommend extending the Business Location Efficiency Incentive Act."[7] Despite DCEO's alleged support for the program, the Act was "inadvertently" repealed when it was allowed to expire at the end of 2011. A bill reinstating the Act until 2016 has passed the state legislature and is awaiting the Governor's signature.[8] However, to make EDGE an effective incentive for location efficiency, DCEO will need to actively promote the bonus in the future.

New Jersey: Urban Transit Hub Tax Credit Program

On its face, New Jersey's 2008 Urban Transit Hub Tax Credit (Hub) looked like a solid step toward merging the economic development and transportation policy "silos." While the subsidy was never actually intended to function as a new-job creation incentive, its singular focus on providing incentives to businesses making large investments accessible by transit is noteworthy. Unfortunately, a lack of safeguards in the original legislation, excessive awarding practices, and significant legislative weakening of Hub eligibility rules have perverted the program so badly that it can no longer be considered smarter economic development policy. Instead, the Hub tax credit program has become a very costly corporate tax giveaway with little connection to transit accessibility. It has also become embroiled in two controversial deals involving very large awards to companies that are merely moving short distances within the state.

Hub tax credits were enacted with bipartisan support and backed by then-Governor Jon Corzine; their officially stated intent was to bring capital investment into depressed urban areas around transit terminal stations. Hub-eligible areas were limited to Camden, East Orange, Elizabeth, Hoboken, Jersey City, Newark, New Brunswick, Paterson and Trenton. In order to be eligible for credits, businesses or developers were required to build within a half-mile of a transit hub and employ 250 people. The subsidy is exceptionally generous: under the commercial section of the program, corporate income credits may be issued worth up to 100 percent of qualified capital investments.[9] Ten percent of the total credit may be applied against various tax liabilities annually over a 10-year period. (The credits are also transferable; that is, recipient companies may sell them to other companies.)

The Hub program has been repeatedly amended since 2008. The year following its enactment, Gov. Corzine signed the "New Jersey Economic Stimulus Act of 2009," a multi-prong bill that significantly lowered eligibility standards for Hub tax credit applicants. First, geographic eligibility was expanded to locations served by freight rail. The addition of non-passenger rail as an eligible program use was the first step in decoupling the Hub program from transit. The Economic

Stimulus Act also lowered the capital investment threshold for commercial projects from $75 million to $50 million for businesses and developers and from $50 million to $17.5 million for occupants.[10]

The program's emphasis on urban areas and the associated benefits to residents of those areas has also been diluted by legislative amendments championed by Gov. Chris Christie after he took office in January 2010. The Hub program initially included a housing requirement that 20 percent of residential units subsidized by the tax credit be set aside for low- and moderate-income residents. That provision was completely eliminated by an amendment that simultaneously increased the allowable size of subsidy for residential developments subsidized by the program.[11]

The New Jersey assembly has allotted a total of $1.75 billion for the Hub program.[12] However, the recently enacted "Grow New Jersey" program also threatens Hub's original intent to serve as an urban program by redirecting those funds to suburban areas. The Grow New Jersey Act, signed by Gov. Christie in early 2012, redirects up to $200 million in job tax credits from Hub's $1.75 billion pool. There is no requirement that these jobs be accessible by transit. Further, bonus Grow New Jersey credit funds are provided to awardee businesses locating to a "project site that is or has been negatively impacted by the approval of a qualified business facility" under the Hub program.[13] In other words, Grow New Jersey was enacted in part to help clean up messes made by Hub-subsidized intrastate relocations, three of which have already occurred (see below).

No awards were made though the Hub program before Gov. Christie took office. Since early 2010, $979.6 million of Hub tax credits have been awarded to 17 projects. Jobs relocated or created by Hub-subsidized companies amount to just 2,760 and many Hub awards remain controversial. At an astounding $250.8 million, the largest Hub award thus far has gone to Prudential Financial, Inc. for moving just a few blocks within Newark.[14] The Christie administration's prodigious use of the credits in attempts to lure business across the Hudson River prompted New York Mayor Bloomberg to accuse New Jersey of reigniting the jobs border war.[15]

In addition to the Prudential deal, two other awards for intrastate relocations have proved to be divisive. Goya Foods and Panasonic North America received Hub credits to leave Secaucus for other New Jersey locations. Along with Panasonic's abandoned landlord, the City of Secaucus filed suit against the state to block the $102 million subsidy awarded to relocate the company to Newark. Goya is slated to receive $82 million in Hub credits to move approximately two miles from Secaucus to Jersey City.[16] That the subsidy is now fueling intrastate job competitions has watchdogs questioning the benefit of the policy. Deb Howlett, then-director of New Jersey Policy Perspective, stated that the program failed to draw new business to the state, arguing that it's bad policy to "develop one [location] at the expense of another."

Rather than larding on new tax credits that can incite job wars within a state, a more effective way to incent major employers to locate or expand near transit would be to reform existing economic development programs by restricting their eligibility to locations accessible by transit. Additionally, New Jersey can improve its economic development outcomes by tracking the effects of programs such as these on transit usage by commuters. The state currently fails to collect such information. New Jersey should also require that subsidized employers, especially those benefiting from programs such as Hub, participate in transportation demand management (TDM) programs that include transit pass benefits.

Maryland: Priority Funding Areas

In 1997, the State of Maryland enacted laws aimed at revitalizing older communities and making more efficient use of limited state funds for infrastructure, economic development and growth-related needs. The 1997 Smart Growth Areas Act restricts state spending for infrastructure and services to existing communities and other areas targeted for growth known as Priority Funding Areas (PFAs). The law does not prohibit development outside PFAs; that decision remains the prerogative of local governments. Rather, under the Smart Growth law, certain state funds for economic development are prohibited for projects outside the PFAs. State officials have cited instances in which projects that might have gone to suburban fringes were instead located in established urban areas, most presumably served by transit.

Indeed, annual evaluations of the geographic distribution of expenditures by the Maryland Department of Business and Economic Development (DBED) show that no projects located outside of PFAs have received any state economic development dollars through four of Maryland's programs.[17] In 2011, total DBED funding through the four programs amounted to $16.8 million in economic development subsidies focused in PFAs. This can certainly be counted as a successful implementation of the restriction on some state economic development funds.

Unfortunately, not all economic development dollars awarded by the state are restricted to inside PFAs. The Job Creation Tax Credit, for example, can be issued to projects outside PFAs if they create as few as 30 positions.[18] This program alone is anticipated to cost the state $22.5 million in 2013, a significantly higher amount than the combined value of DBED's grant programs that are limited by the Smart Growth Act. Other funds that are poorly restricted by the Smart Growth Areas Act or are not touched by the Act at all include local property tax-based subsidies and tax benefits provided by Enterprise Zones located outside of PFAs.

Taking more funds into account makes it even clearer that the Act has fallen short in directing state spending to urban areas. A 2009 study of the state's PFAs found that only 5 percent of the state's budget is subject to PFA review. Eighty-five percent of that 5 percent was transportation spending. And of those transportation funds subject to PFA review, only 60 percent were spent on projects actually inside Priority Funding Areas.[19] It is evident that there is a substantial amount of public investment leakage out of PFAs into non-location efficient areas.

Finally, there is very little evaluation of what the state considers to be a success for its smart growth goals. The original Act does not reference specific goals other than redirecting certain forms of spending. For this reason (and this only just recently), spending inside versus outside of PFAs is the only regularly evaluated metric of the outcomes of the Smart Growth Areas Act.[20] The state has not evaluated how the Act has impacted land use patterns, commuter behavior, or the spatial mismatch between jobs, transit, and housing.[21]

California: Infrastructure State Revolving Fund

The Infrastructure State Revolving Fund (ISRF) is a source of low-cost, long-term infrastructure financing available to local governments from the California Infrastructure and Economic Development Bank (I-Bank). Each of the bank's lending programs has its own set of eligibility requirements and financing terms, but all I-Bank projects must meet a set of fundamental criteria, including requirements that they promote equity, strengthen the economy, protect the environment, and promote health and safety.

Applications for ISRF loans are evaluated based on a scoring system that includes land use and other efficiency-targeting standards.[22] The system was created in 1999-2000at the insistence of then-State Treasurer (and I-Bank board member) Phil Angelides. This evaluation method rates applications using a 200-point scoring system which gives preference to applications that:

- Serve environmental and housing goals by being located in or adjacent to already developed areas, protecting the environment in any of several ways, and being located in a jurisdiction with an approved General Plan Housing Element (up to 40 points);

- Are "located in or adjacent to and directly affecting, areas with high unemployment rates, low median family income, declining or slow growth in labor force employment, and high poverty rates" (up to 55 points);

- Improve the quality of life by contributing to benefits such as public safety, healthcare, education, day care, greater use of public transit, or downtown revitalization (up to 30 points);

- Are most cost-effective in job creation or retention (ranging from 30 points for less than $35,000 per job to 0 points for more than $65,000 per job); and

- Have "established relationship with local employment and training entities… to link local job seekers with employment opportunities" (up to 10 points).

Loans available through the ISRF range between $250,000 and $10 million for infrastructure projects. During Fiscal Year 2011, the I-Bank approved two ISRF loans valued at a total of $3.5 million. Fiscal Year 2010 showed three loans worth $17 million. In recent years, total ISRF loans have not exceeded $30 million annually and there are generally fewer than ten projects per year.[23] Because of its small scale, the ISRF program has had a negligible impact on land use and location efficiency in the state. In fact, the state has not tracked the fund's effect on smart growth patterns in California.[24] The I-Bank has, however, recently begun reporting on the estimated number of jobs that each project anticipates creating.

It is possible that the biggest contribution that the ISRF will make towards more location efficient land use and economic development policy is not in California. Calls for a federal infrastructure bank have been sounding for the past five years, starting with the "Dodd Bill" in 2007. In 2011 a new National Infrastructure Bank, specifically modeled after the California I-Bank, was proposed by the Obama Administration in response to requests for loans from the federal government by local jurisdictions in need of major infrastructure financing. Stanton Hazelroth, Director of the California I-Bank, testified at a hearing on infrastructure banks at the U.S. House Ways and Means Committee on the successes of the I-Bank, citing its viability as an economic development tool. Although the national infrastructure bank has not yet materialized, the use of the California I-Bank as a model has the potential to bring location efficiency ideas into the national spotlight.

Policy Options

In order to be effective in the future, policies designed to promote transit location efficiency need the following provisions;

1. *Location efficiency policies must restrict existing economic development funds to transit-accessible areas.* As evidenced by Illinois, bonus subsidies that reward location-efficient business decisions are not enough to change economic development patterns. The case of New Jersey demonstrates that larding on extra subsidy programs is no more effective.

2. *Location efficiency policies must be transit-specific.* Aligning economic development subsidy location decisions with generalized transportation investment is not enough to change land use patterns and the sprawl caused by job flight to suburban areas.

3. *Location efficiency policies should state specific goals and require regular policy evaluation.* It is not adequate to simply change funding patterns as in California and Maryland – specific measures of transit access, development investment equity, commuter behavior, and urban sprawl need to be regularly evaluated to determine the efficacy of such policies.

4. *Location efficiency policies should be coupled with transportation demand management requirements.* To increase the likelihood that transit-accessible jobs will change commuter behavior, companies receiving such subsidies should also be required, as a reasonable and relevant quid pro quo, to enroll in a transportation demand management program including the provision of transit pass benefits.

5. *Location efficiency policies need to apply to both local and state economic development expenditures of all stripes.* As evidenced by Maryland's Priority Funding Areas, even a substantial shift of state funds can be ineffective if it is not comprehensive enough to cover state and local funds as well as grants and tax credits and abatements. Because state laws enable and regulate how local governments may provide subsidies such as property tax abatements or tax increment financing (TIF), states must amend their enabling legislation to change local practices and outcomes.

Notes

[1] See a summary of and links to all six studies at http://www.goodjobsfirst.org/smart-growth-working-families/subsidies-and-sprawl.

[2] Illinois Department of Commerce and Economic Opportunity. EDGE Program Guidelines. Available at http://www.ildceo.net/dceo/Bureaus/Business_Development/Tax+Assistance/EDGE.htm.

[3] Illinois Business Location Efficiency Incentive Act. Public Act 094-0966. http://www.ilga.gov/legislation/publicacts/94/PDF/094-0966.pdf. Applicants can also develop employee affordable housing and transportation remediation plans in conjunction with DCEO to meet location efficiency requirements.

[4] "Affordable workforce housing" means owner-occupied or rental housing that costs, based on current census data for the municipality where the project is located or any municipality within 3 miles of the municipality where the project is located, no more than 35 percent of the median salary at the project site, exclusive of the highest 10 percent of the site's salaries.

[5] Email correspondence with Frank Beal, executive director of Metropolis Strategies, May 9, 2012. Beal is also a board member of CMAP.

[6] Illinois Department of Commerce and Economic Opportunity. Economic Development for a Growing Economy (EDGE) Business Location Efficiency Report. December 30, 2010.

[7] Ibid.

[8] Illinois Senate Bill 3619. 97th General Assembly.

[9] Tax credits are also available for residential developments but have slightly different requirements.

[10] "Governor Corzine Signs New Economic Recovery Legislation." New Jersey Economic Development Authority Press Release. July 27, 2009. http://www.njeda.com/web/Aspx_pg/Templates/Press_Rls.aspx?topid=721&Doc_Id=1104&ParentDocID=164

[11] O'Dea, Colleen. "Can Urban Transit Hubs Help Revitalize New Jersey's Cities?" December 12, 2011. *NJ Spotlight.*

[12] Of this amount, $250 million is reserved for residential projects; another $100 million is assigned to off-shore wind developments.

[13] Grow New Jersey program guidelines. New Jersey Economic Development Authority website. http://www.njeda.com/web/Aspx_pg/Templates/Npic_Text.aspx?Doc_Id=1626&menuid=1529&topid=718&levelid=6&midid=1175

[14] Urban Transit Hub Tax Credit Activity Report. New Jersey Economic Development Authority. http://www.njeda.com/web/pdf/HUB_Activity.pdf

[15] Bagli, Charles. "Christie Leaning On Tax Subsidies In Hunt for Jobs." *The New York Times.* April 5, 2012.

[16] Morley, Hugh. "Tax credits could grow." *The Record (Bergen County).* February 8, 2012.

[17] Evaluated DBED programs include the Maryland Small Business Development Financing Authority, the Maryland Economic Development Assistance Authority and Fund, the Economic Development Opportunities (Sunny Day) Fund, and the Maryland Economic Adjustment Fund. Source: Maryland Department of Planning Yearbook 2012/2011. Available online at http://www.mdp.state.md.us/PDF/OUrProducts/Publications/AnnualReports/2011_AR.pdf.

[18] Maryland Department of Business and Economic Development website, guidelines for Job Creation Tax Credit. http://www.choosemaryland.org/businessresources/Pages/JobCreationTaxCredit.aspx

[19] Lewis, Rebecca, Knaap, Gerrit-Jan and Sohn, Jungyul. 'Managing Growth With Priority Funding Areas: A Good Idea Whose Time Has Yet to Come,' *Journal of the American Planning Association*, 75:4,457 — 478. (2009)

[20] Margaret Walls. *Smart Growth @10: A Critical Examination of Maryland's Landmark Land Use Program.* Resources for the Future Conference Report, January 2008. http://www.rff.org/rff/documents/sg10_final_conference_report.pdf

[21] One study conducted by the National Center for Smart Growth Research and Education at the University of Maryland found only "mild and sector-specific" impact on jobs distribution by companies eligible for Job Creation Tax Credits through 1998. More recent analyses specific to job subsidies limited to PFAs have not been conducted by the state. For more information see: Knaap, Gerrit and Jungyul Sohn. "Does Job Creation Tax Credit Program in Maryland Induce Spatial Employment Growth or Redistribution?" National Center for Smart Growth Research and Education. November 2002. http://smartgrowth.umd.edu/assets/documents/research/sohnknaap_datena.pdf

[22] California Infrastructure and Economic Development Bank. Criteria, Priorities, and Guidelines for the Infrastructure State Revolving Fund (ISRF) Program. January 29, 2008. Available online at http://www.ibank.ca.gov/res/docs/pdfs/01-29-08_BoardApprovedCriteria.pdf

[23] California Infrastructure and Economic Development Bank. Annual Activity Reports, Fiscal Years 2011 – 2006. Available at http://www.ibank.ca.gov/annualreports.htm.

[24] Shigley, Paul. "California Infrastructure Inches Toward 'Smart Growth.'" *Public Development*. Vol. 17 No. 10 Oct 2002.