DOWNTOWN
NEW JERSEY

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March 8, 2021

Assembly Speaker Coughlin, Senate President Sweeney, Assemblyman Houghtaling, Senator Singleton:

On behalf of the 100+ organization members of Downtown New Jersey, I write to you regarding our grave concern about ACS 1571/1576 and S 1956, which would impose prevailing wage requirements on private properties that receive tax exemptions or abatements. The legislation also expands the definition of properties that qualify as "public works" for which prevailing wage requirements would also apply.

For decades, New Jersey has experienced notable success with redeveloping many of its distressed areas by affording municipalities the ability to provide tax incentives (a.k.a. payments in lieu of taxes/PILOTs) to redevelopers. **By statute, tax incentives are granted only where the municipality has determined that the project would not occur but for the tax incentive.**

Tax incentives are the single-most powerful tool available to municipalities to encourage property owners and developers to make improvements or to locate a project in a distressed or blighted area**.** Tax incentives:

- Encourage developers to accept the substantial risks and additional costs that come with most redevelopment projects, including the risk factor of unknown markets and costs associated with demolition, environmental abatement, construction of structured parking, and other community benefits. **Without tax incentives, many redevelopment projects would not be economically feasible.**
- Help municipalities obtain much needed infrastructure improvements and community benefits that would not otherwise be possible given budgetary constraints and/or political capacity to raise funds through the existing tax base. These projects run the gambit of size and scale, including water and sewer upgrades, bicycle and pedestrian safety improvements, streetscape beautification, improved or new parks and open space, community centers, fire stations, and the list goes on and on. **Without tax incentives, a great many improvements driven by economic development would likely not come to fruition.**
- Are instrumental in addressing New Jersey's affordable housing crisis. A tax incentive can fill the funding gap associated with renting or selling residential units below market rate. There are hundreds of affordable housing settlements coming through the courts, many of which use tax incentives to achieve economic feasibility. It is critical that New Jersey increase its affordable housing output both to stay economically competitive and to address long standing inequities in access to quality, affordable housing. **Without tax incentives, the production of affordable housing in New Jersey will most certainly be stymied.**
- Of note, the expansion of the public work definition in the legislation also impacts the ability of municipalities to fund private entities engaged in the rehabilitation or construction of affordable housing using Affordable Housing Trust Funds. Trust Fund projects are typically smaller in nature. **The imposition of prevailing wage will mean fewer of Affordable Housing Trust Fund projects will be completed, which both impacts the overall creation of affordable housing, but also jeopardizes a municipality's ability to meet its determined need.**

Courtenay D. Mercer, PP, AICP
Executive Director

Tax incentives are not one size fits all, as the current enabling legislation acknowledges by allowing municipalities to set a broad range of time and value terms that make the most

sense to market and physical conditions of the development project. The proposed legislation would universally impose a 20 to 30 percent cost increase - through prevailing wage requirements - on all projects that receive tax incentives, regardless of the local context or economic feasibility.

Given that the intent of tax incentives is to fill a funding gap, the additional costs associated with prevailing wage will make a great many redevelopment projects economically infeasible. Large scale projects in high market value locations may be able to absorb the costs, especially those capable of coupling local incentives with more substantial state tax incentives (e.g., ERG & Grow, now Emerge and Aspire). For smaller scale projects using only local incentives, that 20 to 30 percent gap needs to be filled somehow for the project to move forward, if it can at all. It might mean that the municipality must increase the amount or extend the term of the incentive, increase the permitted density of the development, and/or eliminate or reduce infrastructure and community benefits expectations – all at the expense of property taxpayers. Even if a deal can be struck, the cost/benefit rational for the tax incentive may be politically untenable to the community's residents.

There is tremendous variability in market conditions and underlying costs that distinguish one development project from another, even within a single municipality. Towns are best suited to understand the physical barriers and financial dynamics of development within their own community; and have, thus far, used their redevelopment and tax incentive capacity to great social and economic benefit. The imposition of a staggering cost increase to the tune of 20 to 30 percent will have a significant detrimental impact on a municipality's ability to realize its economic development and revitalization goals. As a home rule state, New Jersey has already rested significant responsibility in its municipalities to shape their own economic destiny. Municipalities should, therefore, not be forced to absorb this additional cost burden that can only hamper their ability to grow and revitalize.

As the statewide organization providing education and advocacy for New Jersey's downtowns, Downtown New Jersey sees this legislation as a substantial threat to continued success in revitalizing our main streets. We are particularly dismayed at the timing of this legislation, when many of our downtowns are struggling in the wake of COVID-19 related economic upheaval. Our communities are actively engaged in strategic planning initiatives to address anticipated vacancies, shifts in market demand, and needed infrastructure improvements to better accommodate our small business needs. Stymying their ability to utilize tax incentives will only make recovery harder on these communities.

Before you take action on this legislation, **we urge you to speak with downtown managers and the mayors of main street communities** that have benefitted from the state's redevelopment process. We know that they will provide you with specific examples of projects that happened because of tax incentives, and forthcoming projects that would be at jeopardy if this legislation is enacted. We would also urge you to consider undertaking an economic impact analysis of this legislation and its effect on the post-COVID-19 economic recovery of our state and its hard-hit communities.

For all the reasons above along with the many questions that have not been considered or answered, we cannot support ACS 1571/1576 and S 1956.

Thank you for your consideration. Please feel free to contact us regarding any technical expertise related to land use, redevelopment designations and plans, and the subsequent financial negotiations that take place in our New Jersey communities.

Sincerely,

Robert Zuckerman
President

cc: Governor Phil Murphy
Senator Madden, Chair, Senate Labor Committee
Assemblyman Burzichelli, Chair, Assembly Appropriations Committee
New Jersey League of Municipalities